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1 There is a powerful case for urgent and comprehensive action by the global community to support Africa's resurgence. Chapters 3 to 10 will set out our recommendations in each of the key areas of action, together with their analytical basis. But before forging ahead, we must look back. Effective action to eliminate poverty on a continental scale requires a clear understanding of where Africa now stands and how Africa arrived at its current position. What are Africa's most difficult problems, and what are their causes?

2.1 The meaning of poverty

2 We open by exploring the meaning and extent of poverty. The answer to this question is inevitably a complex one. But it requires, before we come to look at the causes, a careful consideration of several other questions. What does it mean to be poor? Which people are poor, and where are they? And why are they poor? The answers to these questions are not as self-evident as many suppose, but they are crucial, as they must guide us in mapping out actions against poverty.

3 Ask poor people themselves what poverty means to them and these are the answers they give. Poverty means hunger, thirst, and living without decent shelter. It means not being able to read. It means chronic sickness. Poverty means not finding any opportunities for you or your children. It is about being pushed around by those who are more powerful. It is about having little control over your own life. And it can mean living with the constant threat of personal violence[1]. That is why this report is primarily about growth in opportunities and incomes, about health, about security, about education.

4 It is this understanding of the meaning and dimensions of poverty, and the huge challenges on all its dimensions, that motivated the adoption of the Millennium Development Goals by the United Nations in September 2000 (see Annex). Africa is far off track on all of these goals; by contrast, South Asia is firmly on track to meet the goal of halving the fraction of people in poverty between 1990 and 2015, and East Asia has achieved it already. The analysis of the UN Millennium Project, which reported earlier this year, sets out the position and forecasts and demonstrates what is required to achieve them. It concludes that strong and urgent action is needed to achieve them for Africa. The report is highly consistent and complementary with ours, and the Commission welcomes both the Millennium Project's analysis and its recommendations.

5 About one-sixth of the people living in sub-Saharan Africa are chronically poor[2]. These families are known in Ethiopia as 'those who cook water'. In Ghana they are called 'those with two bags' – one for begging in the hungry season, and another for begging in the season of plenty. They are people who experience such persistent poverty that it is almost impossible to break free of it using their own resources[3]. They are reliant on day labouring. They have no education and few assets.

6 What makes people poor? The first and most important answer for Africa must be the absence of economic growth in recent decades. For most poor people in Africa,

poverty is something they are born into, with little opportunity to escape. Where the large majority of the population is poor and the economy is stagnant, individual characteristics of poor people are less important than the overall context in determining the overall incidence of poverty. And as Africa's economies stagnated while the population grew rapidly, the percentage of people living in poverty grew. This trend persisted into the 1990s, despite the stirrings of economic improvement towards the end of the decade.

7 Beyond these problems of long-term economy-wide stagnation, there are many individual and regional factors that can plunge people into poverty, or drive them deeper if they are already poor. People can become poor through a personal crisis, such as ill health, or through a more general shock, such as a drought or a drop in the prices of export crops. When only an individual or household is affected, it is easier to cope, as the community may offer support. But when whole communities are affected, as with drought, conflict, or HIV and AIDS, these mutual support systems begin to break down. Then a period of illness can mean selling the last of what they own to pay for food. Family and the community can help only for so long, before being unable to meet the constant requests for help. The ability to recover from a crisis is non-existent or painfully slow; in Ethiopia, ten years after the 1984 famine, people still owned one-tenth fewer livestock than they had before the famine[4]. Individuals and families are trapped in vicious circles of poverty, which can easily turn into downward spirals. Another African expression encapsulates these reinforcing cycles of poverty and exclusion: in Zimbabwe they speak of 'poverty that lays eggs'.

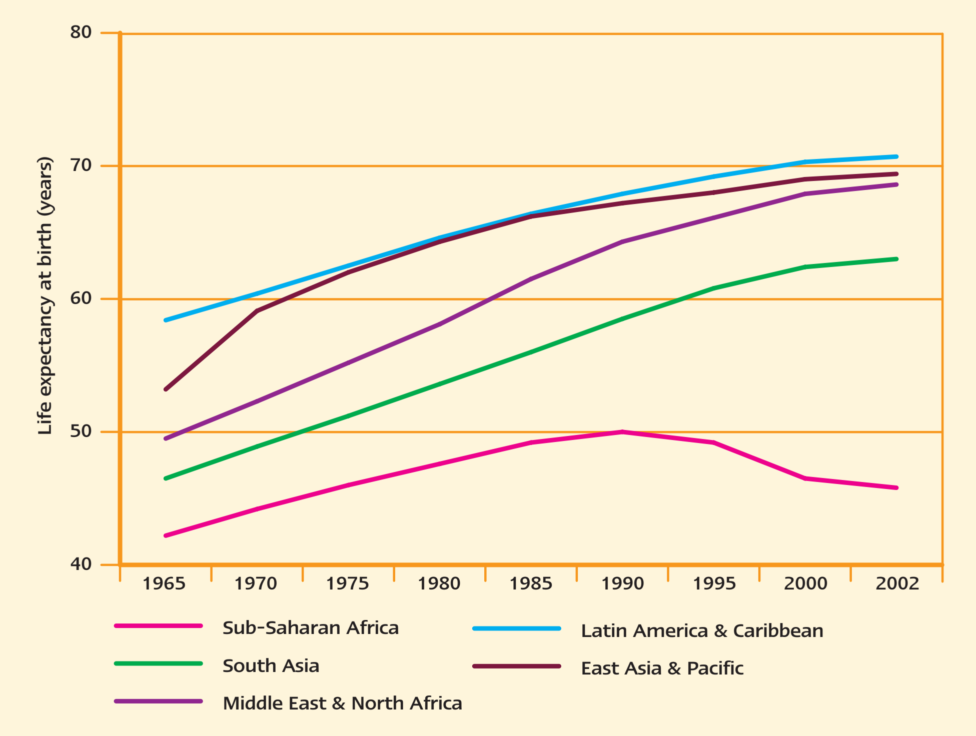
8 Who are these poor people? Again, they are, first and foremost, simply those who have the misfortune to be born into desperately poor economies-economies in which the average income is only around two US dollars per day, and the vast majority of people must live on even less. But it is not just a story about growth and income levels. Even within poor countries, the poorest people are those who are excluded from information, from government services, from full participation in society, politics and the economy and even informal community support systems. All too often the reason for the exclusion is discrimination, for example against women, disabled persons, ethnic or linguistic minorities, or persons with HIV or AIDS. Exclusion makes it especially difficult to escape from poverty; worse still, the disadvantage is transmitted from one generation to the next, as parents are unable to invest in the health, education, or nutrition of their children[5]. Poverty, as they say in Uganda, passes from one generation to the other, as if the child sucks it from her mother's breast[6]. How can we stop this intergenerational transmission of poverty? The best way to address it is to break out of the traps that have strangled growth and kept income so low, while also working to end the exclusion of particular groups.

2.2 What has been happening to poverty?

9 Poverty and hunger are deepening in sub-Saharan Africa. The number of poor people is expected to rise from 315 million in 1999 to 404 million people by 2015. Some 34 per cent of the population is undernourished – almost double the figure for the rest of the developing world. The impact of hunger upon the health of Africa's children is hard to measure. Hunger kills more than all the continent's infectious diseases – HIV and AIDS, malaria, and tuberculosis (TB) – put together[7]. Early childhood malnutrition has irreversible long-term consequences, not just in health but also in educational achievements and future earning capacity[8]. Other indicators are equally depressing. Average life expectancy (see Figure 2.1) in Africa is only 46 years, compared with 63 years in South Asia and 69 years in East Asia[9]. Access to clean water in Africa has also fallen behind the levels in the

rest of the developing world (58 per cent in Africa in 2002, compared with 84 per cent in South Asia)[10]. Only in education is the picture more encouraging, with strong increases in literacy across all developing regions over the last few decades.

Figure 2.1 **Life Expectancy in Developing Countries**



Source: World Bank, 2004a

10 The comparisons with South and East Asia are revealing (see Figure 2.2). Thirty years ago the average income in sub-Saharan Africa was twice that of both East Asia and South Asia (see Figure 2.3). Yet despite the fact that those regions hold 60 per cent of the developing world's population, the crisis of world poverty is now in Africa. Average African incomes are now well below half that of East Asia, where the number of people living on less than one dollar a day has fallen dramatically since 1981[11]. Increasingly we see a similar story in India and South Asia[12]. Incomes in Latin America are eight or nine times higher than in sub-Saharan Africa while those in the Middle East and North Africa are five times larger[13]. And Africa is the only continent where the proportion of the population in poverty is growing[14].

4

11 **A warning about diversity** Before we look at what the causes of this dramatic decline might be, we must remind ourselves – as we should throughout this report – that sub-Saharan Africa consists of 48 countries, and the variation across and within them is huge. The aggregate figures we have been using when comparing with other regions, conceal enormous diversity. Countries vary greatly in population size, population density, and natural resource wealth[15]. All have different histories, cultures, colonial experiences, and institutional structures and have had diverging experiences of growth and poverty reduction. Table 2.1 sets out a picture of poverty rates in selected African countries, to illustrate the difference in experiences. Compare, for example, Ghana's income per capita (US$2,141 in PPP-adjusted figures) to that of Zambia (US$839)[16].

12 There are also wide variations in experience within African countries, including major disparities between different regions and between rural and urban areas. For example, in Uganda 42 per cent of those in rural areas live in poverty, compared with only 12 per cent in urban areas[17].

Table 2.1: **Poverty in Selected African Countries**

	(1) Percentage of population below US$1 a day (1998 survey)	(2) GNI per capita, PPP (current international $) 2003
Burkina Faso	44.9	1,112
Burundi	54.6	635
Côte d'Ivoire	15.5	1,520
Ghana	44.8	2,141
Zambia	63.7	839

Source: (1) DFID Statistics on International Development, 99/00-03/04[18]
(2) World Bank, 2004a

13 Although stagnation in Africa has been widespread, the picture is not grim everywhere. Far from it. Many countries in Africa have taken on their problems and shown that success is possible. In 2003, 24 countries in sub-Saharan Africa had growth rates of five per cent or more[19]. And falls in poverty are demonstrably associated with economic growth. East Asia has grown faster than South Asia, and poverty has fallen faster. In contrast, output per head has declined in Africa, and poverty has risen[20]. Similarly, the African countries that have succeeded in cutting poverty in the last two decades are those that have grown most rapidly. In Mozambique, for example, the numbers living in poverty fell between 1997 and 2000, when income per capita was growing at 3.3 per cent a year[21].

14 But growth is not sufficient for poverty reduction. Countries must also strengthen the ability of poor people to participate fully in the economy and in society, for example by investing more in health and education.[22] Alongside this, the broader economic, legal, political, and governance environment shapes opportunities for poor people to participate[23]. These issues are covered in detail in later chapters.

2.3 The causes

15 Any proposals for action must be based on an understanding not only of where we are but also the causes that brought us here. The major obstacles to African development in the past several decades have been difficult geography and poor governance, by which

we mean 'the manner of governing', or how the state functions (or fails to function). Africa's developmentally unfriendly geography has been exacerbated by colonial patterns of investment and border-drawing. Poor governance too has some roots in the policies of colonisers, but governance today is in large measure made at home. Africans are taking increasingly effective action to improve governance, and the result could be a revival of the continent's development. Good governance can even overcome poor geography, if countries have the ability to manage the building of ports and transport infrastructure, to expand regional co-operation, and generally to ensure that political borders do not become economic barriers.

16 Whilst governance and geography are the headlines to describe the key causes of Africa's failure to grow, if we look into the issue in greater detail, we find that Africa's struggles have had several causes. They are complex and interlocking, and setting them out gives us some indication of the scale of the challenge Africa now faces. It is helpful if we think of them under four broad headings: *political*, including governance and conflict; *structural*, including fragmentation, transport costs, and the roles of agriculture, manufacturing, and services; *environmental and technological*, including climate, water, desertification, deforestation, and technological development; and *human*, health, education, and the growth and age structure of population.

2.3.1 Political causes

Poor governance

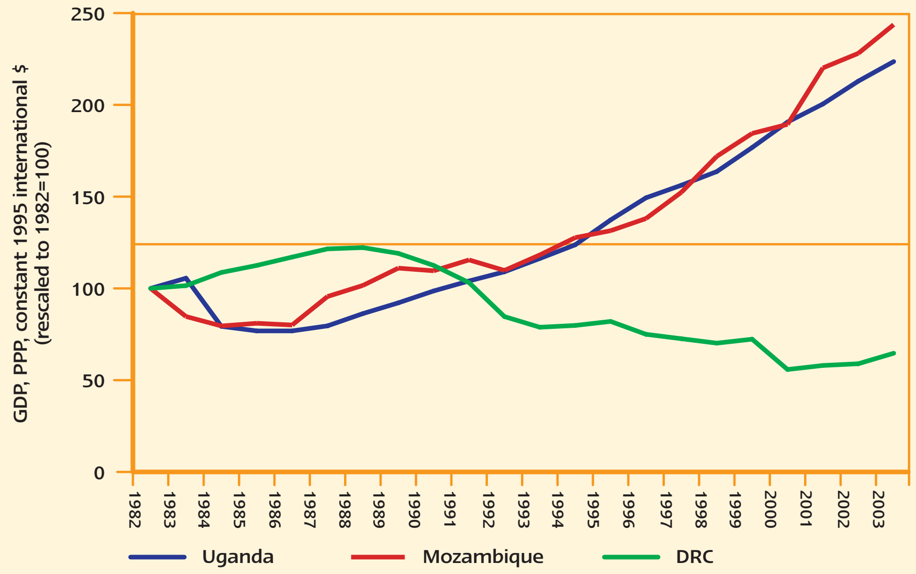
17 In the 1960s, in the early years following independence, average incomes in Africa grew. As a barrage of problems struck Africa in the 1970s and 1980s, per-capita incomes declined sharply. That period was characterised by undemocratic governments, widespread corruption, and ineffectual states.

18 To elaborate on this point: Africa has suffered from governments that have looted the resources of the state; that could not or would not deliver services to their people; that in many cases were predatory, corruptly extracting their countries' resources; that maintained control through violence and bribery; and that squandered or stole aid. At times, particularly during the Cold War, these governments received active support from donors. But governance is ultimately home-grown, and change will have to come from within Africa. The more it happens, the greater the effectiveness of external support; indeed, external support can also work to foster such change.

19 The Commission is convinced that good governance is the key to both growth and participation. Although Africa still lags far behind other regions, governance in Africa has improved significantly in recent years.[24] In the past five years, more than two-thirds of the countries in sub-Saharan Africa have had multi-party elections, with a number of examples of peaceful, democratic changes of government[25]. Not all elections involved transfers of power and there are still a number of apparently immoveable presidents in office, but in terms of political freedoms, Africa has shown strong improvement in the last 20 years.

20 Governance has improved on other fronts as well, including those more directly related to economic growth. There has been considerable progress over recent years in constructing indices for governance, and these indices show that improvements in governance in Africa are not confined to one or two countries. Nevertheless, if we examine indicators of economic governance for the continent as a whole over the past few years, we find sub-Saharan Africa continues to lag behind other regions, but the positive news is that these indicators are increasing at least as quickly in Africa as in any other region (see Figure 2.4). Thus Africa is working to create conditions where growth has a chance.

Figure 2.5 **Growth in Sub-Saharan African Post-Conflict Countries**



Source: World Bank, 2004a

24 After relative peace came to Uganda in 1986 and Mozambique in 1992, their governments substantially improved governance and policy, with strong backing from donors. Growth came quickly and has been sustained, leading to a rapid reduction in poverty. The number of Ugandans living below the poverty line of one dollar per day was reduced sharply, from 56 per cent in 1992 to 35 per cent in 2000[30]. In Mozambique, the poverty share fell from 69 per cent in 1997 to 54 per cent in 2003[31]. By comparison, in the Democratic Republic of Congo, where war and weak governance have persisted, income and living standards have continued to decline and poverty has risen.

2.3.2 Structural causes

A weak investment climate

25 What is required to drive economic growth is the individual entrepreneurship of Africans. That is true both in farming, where most African entrepreneurs work, and in business in general, on whatever scale. Yet investors, domestic or foreign, will place their money only where they feel that risks are acceptable in relation to returns. Where governance is weak, corruption is prevalent, or infrastructure is poor, investors are reluctant to risk their resources. Change this, and growth will soon be underway.

26 That is what happened in Uganda. Broad reforms to improve its investment climate provided the basis for economic growth that averaged around seven per cent annually during 1993-2002, and, as we have seen, poverty fell sharply. Improving the investment climate can bring more income to a country than is produced by all the world's aid flows[32]. In the last few years there has been a growing recognition of this fact – and of what domestic governments, developed countries and the business community can do to improve the investment climate. Measures include making taxation predictable and transparent, tackling corruption, lessening regulation on business, an effective and fair justice framework, and improving public financial management systems. For example, it

takes two days to start a business in Australia compared with 203 days to do so in the Democratic Republic of Congo, were one to do it formally[33].

27 Ofactors in improving the investment climate include tackling political instability, resolving conflict, and reducing crime[34]. Removing instability can result in a 30 p(r cent increase in investment. Perceptions are particularly important D(re; evidence from a numb(r of studies suggests that the p(rception of Africa as one large, risky region is one of the most significant barriers to investment[35]. In owords, the bad reputation of some countries has a tendency to rub off on all African nations, even those that have made great progress in improving the climate for business. Detailed discussion of investment climates and how to change them can be found in Chapt(r 7.

Dependence on primary commodities

28 Africa has also been vulnerable to declining and volatile commodity prices, esp(cially given its dependence on a narrow range of products. From 1980 to 2000, the greatest falls in prices were in cotton (47 p(r cent), coffee (64 p(r cent), cocoa (71 p(r cent) and sugar (77 p(r cent) [36]. And in a short p(riod, losses can be very severe. Between 1986-89, sub-Saharan Africa suffered losses, associated with price falls, of US$56 billion or around 15-16 p(r cent of the then GDP [37]. In the past three decades, export prices for sub-Saharan Africa were twice as volatile as those of exports from East Asia, and nearly four times more volatile than the exports of develop(d countries [38]. Reliance on primary commodities is therefore unlikely to constitute a successful long-term development strategy[39]. More on this can be found in Chapt(r 8.

Transport costs and other colonial legacies

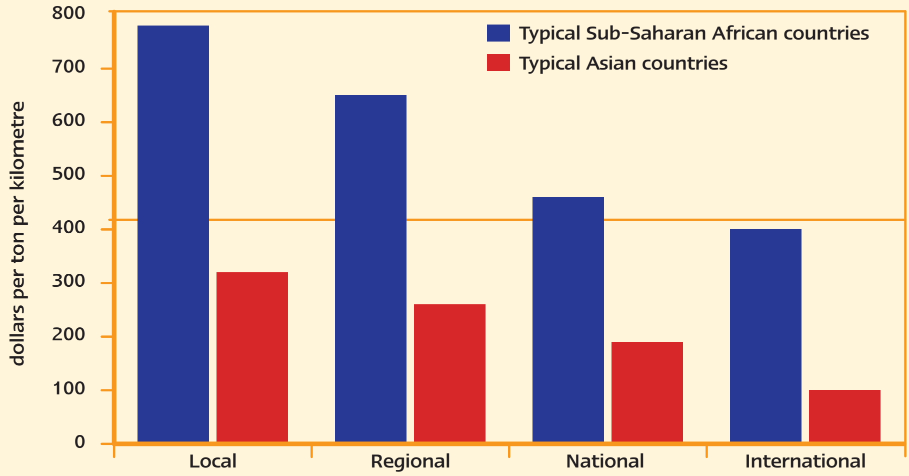
29 The colonial era was a powerful factor shaping the problems Africa now faces. Colonial powers created many of the divisions in sub-Saharan Africa's fragmented political structure, and they also built infrastructure focused on extracting Africa's natural resources rath(r than integrating the continent or generating more links to the East. In effect, Africa's history has reinforced its geographic disadvantages, rath(r than helping to overcome them. Setting a map of African railways alongside those of India makes this point clearly: while India's railways link the sub-continent, Africa's provide for extractive industries to reach ports for export to develop(d countries, particularly Europ(. Africa's transport costs – local, national, and int(rnational – are around twice as high as those for a typical Asian country (see Figure 2.6). The response to lower transport costs could be very high; by one estimate, if Africa could cut transport costs by half, it could increase transport fivefold[40].

30 Nor is the colonial story just about transportation infrastructure. By contrast to the Indian sub-continent, where the colonial power establish(d an effective administration system, Africa was poorly served. Africa emerg(d from the colonial era with a far weaker governance structure than oth(r ex-colonies, compounding the infrastructure problem. As a result, the often-illogical political borders of landlock(d countries have become economic barriers.

Late entry into manufacturing

31 The last twenty years have seen an enormous expansion of manufacturing exports from developing countries as a whole, as the proportion of manufacturing in their total exports has risen from 20 to 80 p(r cent. Asia has led the way. But as a result of all the problems we have described, Africa has fallen far behind in the diversification of exports and will find it increasingly difficult to break through into manufacturing markets.

Figure 2.6 **Transport Costs in Sub-Saharan Africa and Asia**



Source: P.Starkey et al, 2002

32 Countries in Asia and Latin America are well ahead of Africa in having developed the industrial infrastructure, skills, and learning culture needed for rapid advances. Compounding Africa's late start in manufacturing are its labour costs: contrary to what some assume, Africa does not have significantly lower labour costs than Asia. As a result, the region remains caught in the trap of dependency on primary commodities, with their wild price fluctuations. More on this topic can found in Chapters 7 and 8.

2.3.3 Environmental and technological causes

Low agricultural productivity

33 Agriculture is a key part of virtually every African economy. For the majority of the population it provides their livelihood, so that spurring African growth requires improving Africa's agricultural sector. That will not happen without investment in rural roads and power, irrigation, new crops and changes in technology. Africa has fallen behind here too. We have already emphasised transport costs, which have their severest effect on rural areas. Irrigation is another example: Africa's proportion of land irrigated has hardly changed over the last 20 years (at around four per cent), while South Asia's has risen to 40 per cent.

34 Like transport, irrigation is expensive and has been sorely neglected in Africa. To bring change will require major support from the donor community for a comprehensive package to improve the production and efficiency of agriculture. That means not only improving transport and irrigation, but also doing more research, innovation, and agricultural extension; building post-harvest infrastructure; and developing local markets and institutions. It means improving the security of land tenure and creating the better investment climate needed to induce Africa's farmers to improve their own land, methods and crops.

35 And, of great importance, it will also require developed countries to open their markets to Africa's agricultural products. More on Africa's agriculture can be found in Chapter 7 (on agriculture and growth) and Chapter 8 (on agricultural trade).

Climate change and Africa's fragile environment

36 Africa's reliance on agriculture and its very low levels of irrigation make it singularly vulnerable to the vagaries of its highly variable climate. Rainfall is erratic and natural hazards such as droughts and floods are frequent. As well as the threat to life itself, crops fail routinely, livestock is lost and housing and infrastructure is often severely damaged. Climate variability and the frequency and extremity of environmental hazards in Africa will only increase with the impacts of climate change.

37 Africa has also, over recent decades, experienced growing environmental degradation, such as deforestation, desertification, declining soil productivity, loss of biodiversity, and depletion of fresh water.

38 All these environmental challenges have implications for crop production, for security of food and water supplies, for the health and livelihoods of poor people and for the sustainability of economic growth (see Chapter 7).

2.3.4 Human causes

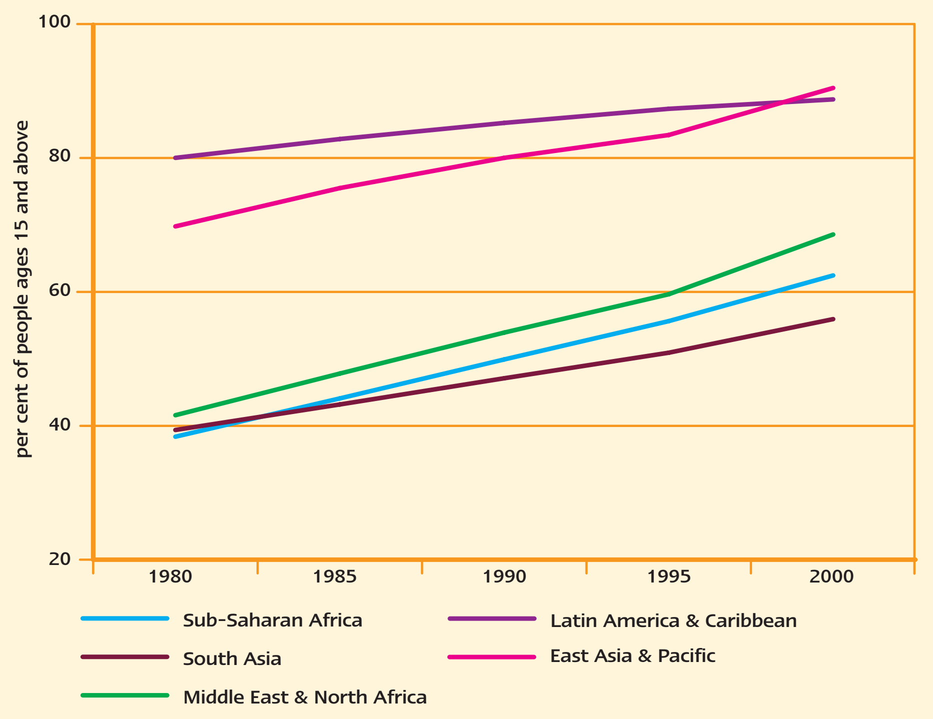
The impact of poor health and education

39 A healthy and skilled workforce is vital to the success of any economic activity. When it invests in health and education, a state is investing in the human development of the children and young people that are its future. All the evidence is that countries with poor health and low levels of education find it more difficult to achieve economic growth.

40 Here again, Africa's record is poor compared to that of East and South Asia. During the economic crises and structural adjustment years of the 1970 and 1980s, investment in health and education suffered in much of Africa. Slow growth or economic decline undermined the public finances, while populations grew very rapidly. The cost of debt servicing brought cuts to the budgets of both clinics and schools. Many health and education systems began to break down. The scythe with which HIV and AIDS cut through the population added drastically to the burden on health services in particular, which were already struggling with TB, malaria, gastrointestinal diseases, and the other diseases of poverty.

41 The picture in education is a little more encouraging. Starting from a low base, enrolment in primary schools in Africa increased by 38 per cent between 1990 and 2000. Africa's progress has been impressive, with increases in literacy as strong as have been seen in other developing regions over the last few decades (see Figure 2.7). But huge challenges remain. Overall, some 47 million African children are out of school and of those African children who start primary school, only one in three finish it. And the secondary and university systems – which are essential to improving the skills-base of government and the private sector alike – have atrophied. All of this receives detailed treatment in Chapter 6.

Figure 2.7 **Literacy Rates in Developing Countries**



Source: World Bank, 2004a

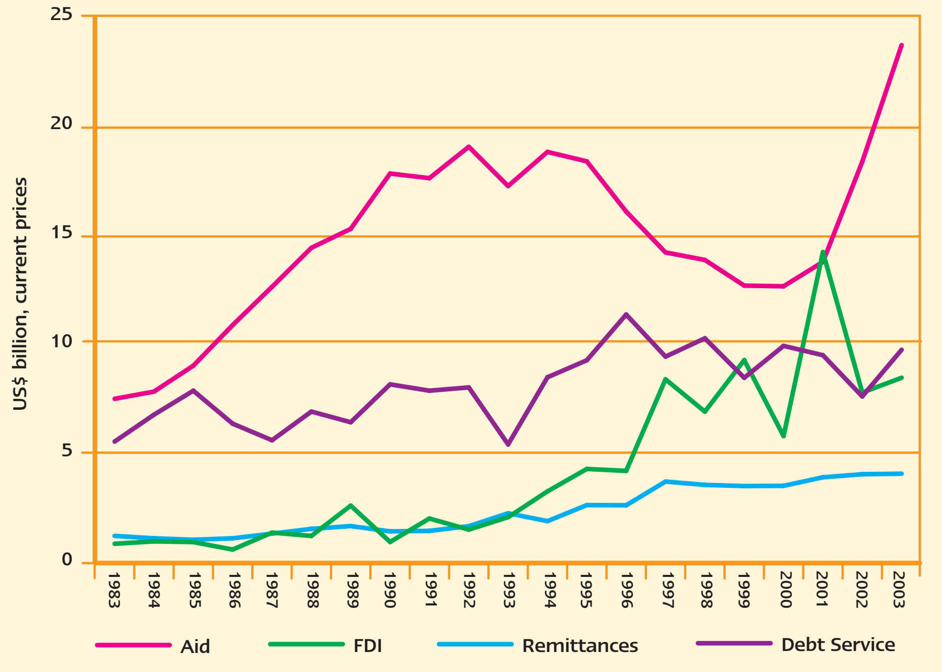
The pressures of population growth and urbanisation

42 Between 1980 and 2002, sub-Saharan Africa's population grew from 383 to 689 million people – an increase of 80 per cent. The rate of increase is 2.7 per cent every year, which is much faster than in South Asia (two per cent) and the East Asia and Pacific Region (1.4 per cent). At Africa's rate of growth, the population doubles every 25 years. High fertility rates and rapid population growth result from several factors-low incomes, economic stagnation (which lowers people's expectations of future incomes), low levels of education for women, and high child mortality. This rapid growth has had several effects. Africa's population is much younger than that of other regions: 44 per cent are under 15 years old, compared with only 34 per cent in South Asia and 26 per cent in East Asia[41].

43 This growing population is moving into towns at a very rapid rate. With low agricultural technology improving very slowly, per-hectare agricultural production has stagnated; combined with population growth, this has led to an outflow of people from rural areas. In 1980, 28 per cent lived in cities. Today, that number is estimated at 37 per cent, and it is expected to reach 50 per cent by 2020[42]. Africa is urbanising far more rapidly than the developed countries did, and nearly twice as fast as Asia and Latin America[43]. And unlike in other continents, Africa's urbanisation is occurring at a time of economic stagnation, resulting in what UN-HABITAT calls a 'premature urbanisation'. The pressures on Africa's infrastructural investment (for housing, water supply and sanitation) are intense. Some 72 per cent of Africa's urban population live in slums and squatter settlements under appalling conditions[44]. This subject is explored in Chapter 7.

44 In summary, the causes of Africa's decline over the past three decades are complex, but very broadly speaking they are about governance and geography. Many of the factors described in this section interact with one another in different ways in different African

Figure 2.8 **Debt Service, Aid, Remittances and FDI in Sub-Saharan Africa**



Note: Debt service is Public and Publicly Guaranteed Debt only

Source: World Bank, 2004e

countries. But what is clear is that the challenges facing the continent are immense. Change will not come without both commitment from African leaders and serious levels of support from the international community.

2.4 Africa's relationship with the developed world

45 If internal factors have been the primary culprit for Africa's economic stagnation or decline over the past three decades, external forces have been an important influence too. Three sets of factors are examined here: the flows of capital in and out of the continent; the flows of goods and services; and the flows of people. Of great importance also are the flows of technology and ideas, although they are less easily measurable.

46 We highlight five types of movement of capital within Africa: investment money going into the continent (known as foreign direct investment, or FDI); money leaving Africa (capital flight); money sent home by Africans living abroad (remittances); money paid by Africa to service its debts; and aid (often called Official Development Assistance, or oda). Data on how these have moved over time are presented in Figure 2.8.

Foreign direct investment (FDI)

47 Flows of investment in Africa by foreign investors are not very different from the average for all developing countries, if measured as a percentage of Africa's income. They constitute between two and three per cent of the continent's GDP, but are low in absolute terms. These investments are not spread across a broad range of industries throughout the African economy, however. Instead, they are strongly focused on high-value resource-based industries like oil and diamonds. In fact, between 1983 and 2002, 59

per cent of total FDI flowing into sub-Saharan Africa went to just three countries: Angola (13 per cent), Nigeria (23 per cent) and South Africa (23 per cent). Most of this FDI flowed into the extractive industries.

48 The bulk of investment in Africa, as in most other parts of the world, is domestic. But because FDI brings skills, know-how, and international marketing channels, Africa also needs higher levels of foreign investment as a boost to the process of 'catching up'. Attracting high levels of FDI will require a much better investment climate. If a country provides a safer environment for its people and a climate where resources can be used more productively, then inflows will be strengthened. That in large measure is a question of improving governance, as discussed earlier. This topic is treated in depth in Chapters 4, 7, and 9.

Capital flight

49 Large sums of money depart Africa in the form of capital flight, a problem that afflicts Africa much more severely than it does other developing regions. Around 40 per cent of the stock of African savings is held outside the continent, compared with just six per cent for East Asia and three per cent for South Asia[45]. By 1990, despite its scarcity of capital for productive purposes, Africa slightly exceeded even the Middle East (39 per cent) in the high proportion of private wealth held abroad.

50 While capital flight is always difficult to estimate, the outflow is apparently around US$15 billion per year (of the same order as aid flows into the continent over the past decade or so). The best mechanism to stem the outflow of money from Africa is, again, to improve the investment climate. Savers need to feel confident that the legal, banking, and regulatory frameworks are effective – and that the political and economic system is stable enough that their investments will not be stolen, confiscated, or subjected to arbitrary taxation. Only then will they feel confident about bringing their money back to invest at home in Africa.

Remittances

51 As a percentage of GDP, Africa's share of remittances is higher than that of either the East Asia and Pacific region or the Europe and Central Asia region. However, in cash terms, Africa receives less in remittances (or international transfers of funds, mainly by individuals) than does any other developing region – around US$4 billion, according to official figures[46] (see Figure 2.9). Again, the level of remittances depends partly on the investment climate – remittances represent an investment in the region by its diaspora, and they are governed by similar considerations of risk as other investments. As India's investment climate improved in the 1990s, for example, the country enjoyed a strong increase in remittances from Indians living overseas.

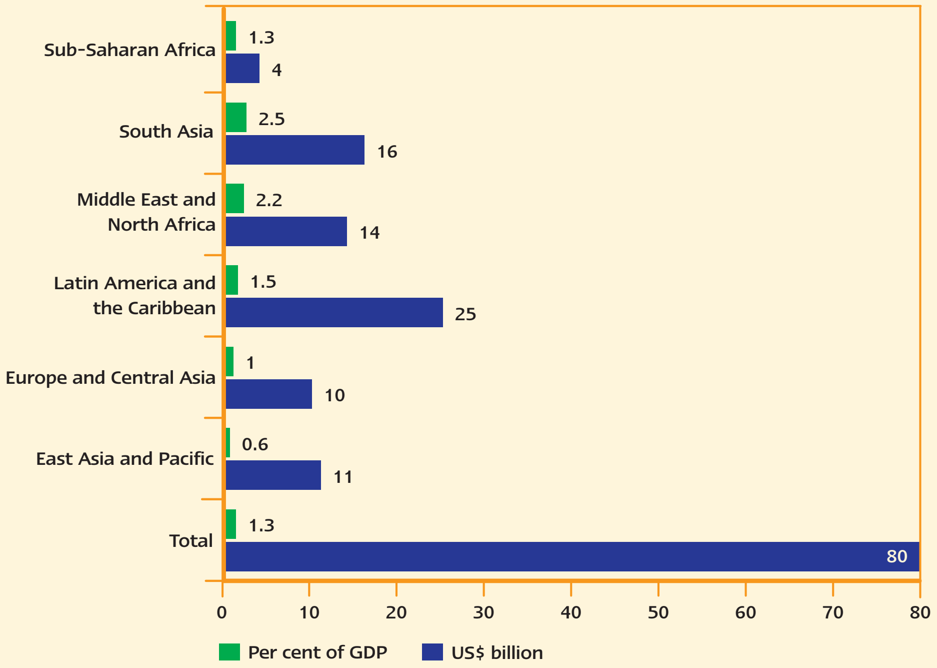
Debt service

52 The debt that African countries have incurred in the last three decades continues to cast a long shadow over the continent's development prospects. Many Africans deeply resent these debt obligations. Much of the debt was incurred by dictators who were enriching themselves through their countries' oil, diamonds and other resources and who were supported during the Cold War by the very countries now receiving debt repayment. Many of these rulers siphoned billions of dollars out of their country using the financial systems of developed countries. The issue of debt is therefore a matter of intense political sensitivity in Africa.

53 Over the years Africa has had difficulty in paying off the interest – let alone the principal – on its national debts. The region has benefited from various rounds of debt reduction, most recently through the Highly Indebted Poor Countries (HIPC) initiative, which has cut back substantially on the debt stocks of the countries that have been able

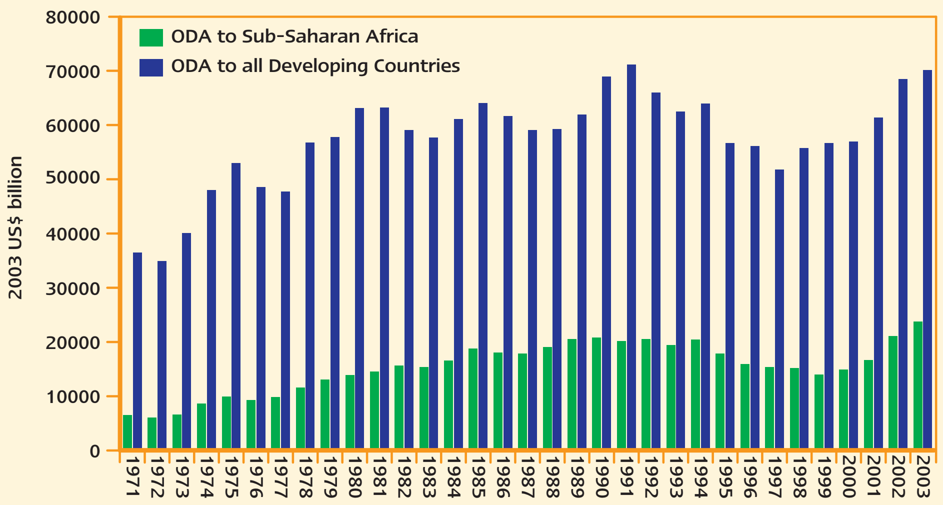
to comply with its requirements. But even after these reductions, governments in sub-Saharan Africa, on average, still pay out more on debt service than they spend on health (nearly three per cent of annual income). Over the past few years, nearly half of all aid money to Africa has returned to the developed world in debt repayments: that is to say for every dollar received in aid, nearly 50 cents has gone straight back to the developed world in debt payments. Debt relief must be a high priority.

Figure 2.9 **Remittances in Developing Countries in 2002**



Source: World Bank, 2003b

Figure 2.10 **Net Official Development Assistance (oda)**



Source: OECD Development Assistance Committee Database

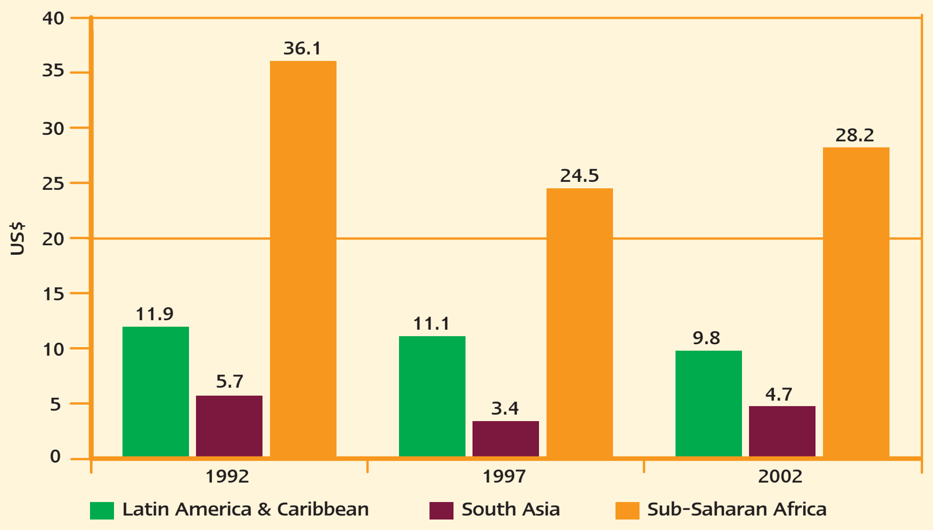
Aid

54 The flow of aid to Africa has followed a similar pattern to that of the rest of the world (see Figure 2.10). It rose during the 1970s and 1980s, in part as a result of Cold War competition, and fell back in the 1990s. It has started to rise again in the first few years of this decade with the commitment to the Millennium Development Goals at the end of 1999 and the Monterrey Conference on financing development in 2002. In dollar terms, aid to Africa has recently surpassed its previous historical high of about US$20 billion, first attained in 1990.

55 Measured as a share of donor countries' incomes, however, aid remains far below past levels. Aid as a whole now stands on average at 0.25 per cent of income of developed countries. In the early 1960s, the figure was around 0.50 per cent, meaning that the fraction has halved. The developed world is very far from the international pledge made in 1970 to pay 0.7 per cent.

56 Africa now receives around five per cent of its income from aid, which is a much bigger proportion than other developing regions get. Aid levels are also high in per capita terms, relative to what other regions receive (see Figure 2.11). But in an absolute sense, the amount is not large, at US$25-30 per person per year, and it is not yet much higher than at the end of the 1990s[47]. Rapid progress in Africa requires that the international community support African efforts with much more aid than this; as we shall argue, there should be at least a doubling of aid in the medium term.

Figure 2.11 **Aid Per Capita in Developing Countries**



Source: World Bank, 2004a

Trade

57 Over the past few decades, the association between rapid economic growth and expanding trade is clear: the developing countries that have expanded trade more rapidly have also grown more rapidly[48]. Yet while many developing countries have increased their exports dramatically in the last few decades, Africa has not. In fact, Africa has seen its share of world trade fall from six per cent in 1980 to less than two per cent in 2002. If sub-Saharan Africa could manage to increase its share of world exports by just one per cent, it would generate over US$70 billion[49] – treble the amount it gets from all its current aid flows and nearly a quarter of its total annual income[50].

58 There is no doubt that Africa has suffered because developed countries restrict Africa's ability to sell its products in their countries and that these barriers to trade must be lowered. But other developing countries also labour under this handicap, and yet they have made rapid progress in trade. Africa has not. To see why, in Chapter 8 we will look beyond the issue of the developed world's protectionism and ask what are the constraints on Africa's ability to produce and trade, or what economists call 'the supply side'.

The brain drain

59 Africa's economic links with the rest of the world involve the movement of people as well as capital and goods. Africa has suffered severely from this flight of human capital, commonly referred to as the 'brain drain'.[51] The African Capacity Building Foundation has estimated that Africa loses an average of 20,000 skilled personnel a year to developed countries. This figure does not include the sizeable number of students who leave the continent to study overseas. One of the most egregious examples of the brain drain cited by the International Organisation for Migration (IOM) is Zambia: a few years ago the country had 1,600 doctors, but many have since left the country, and now there are only 400 at work.

60 The flight of human capital is closely associated with the same conditions as flight of financial capital – conflict, weak governance, and poor investment climate. If conditions do not allow you to use your talents, whether as an entrepreneur, doctor, or engineer, you will be more likely to look elsewhere. This subject is treated in Chapters 4 and 6.

61 To conclude, external factors continue to be major influences on Africa's development, and many of them will become even more important as globalisation continues. External trade, international capital flows, and the international movement of labour will become still more important as engines of growth. That is why it is so important to dismantle the barriers that Africa faces in finding access to developed country markets in trade, capital and labour services. These issues are at the heart of Chapters 7, 8 and 9 of this report, which focus on the economy.

62 There are many other ways that developed countries have played a role in deepening Africa's problems. These include the approach of foreign companies to intellectual property rights in relation to Africa - from the pricing of drugs to the non-payment for cultural assets and ideas. Of great importance too is the weakness of science and technology in Africa, a state of affairs associated with both internal and external factors. Again governance is of central importance. People are much less likely to acquire skills and knowledge or use them within the country when conditions are hostile. We return to these issues in subsequent chapters.

2.5 Conclusion

63 The analysis – both of the causes of past failures and of the sources of some recent successes – suggests that Africa's entrepreneurial energies can be released and that growth and poverty reduction will follow. The actions to release these energies must originate in Africa and must start with much better governance. But everything will move so much faster if the developed world provides strong and sustained support. That is indeed the central subject of this report.

64 Whether external support is effective will depend crucially on both continued improvements in governance in Africa and improvements in the quality of aid from outside. What makes us optimistic is the commitment of many African governments to achieving better governance. This is manifested in the African Union's New Partnership for Africa's Development (AU/NEPAD), which is developing programmes designed to strengthen areas such as governance (through the Africa Peer Review Mechanism or

APRM) and regional co-operation. And donors are co-ordinating better with each other and giving countries room to guide the aid process, so that aid will be less likely to overburden and undermine governance. In Chapter 1, we proposed a measured build-up in aid to reflect these past and expected improvements in governance, and we set out the proposed programme in more detail in the chapters that follow.

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Goal 1: Eradicate extreme poverty and hunger

Target 1: Reduce by half the proportion of people living on less than a dollar a day

Target 2: Reduce by half the proportion of people who suffer from hunger

Goal 2: Achieve universal primary education

Target 3:Ensure that all boys and girls complete a full course of primary schooling

Goal 3: Promote gender equality and empower women

Target 4: Eliminate gender disparity in primary and secondary education preferably by 2005, and at all levels by 2015

Goal 4: Reduce child mortality

Target 5: Reduce by two thirds the mortality rate among children under five

Goal 5: Improve maternal health

Target 6: Reduce by three quarters the maternal mortality ratio

Goal 6: Combat HIV/AIDS, malaria and other diseases

Target 7: Halt and begin to reverse the spread of HIV/AIDS

Target 8: Halt and begin to reverse the incidence of malaria and other major diseases

Goal 7: Ensure environmental sustainability

Target 9: Integrate the principles of sustainable development into country policies and programmes; reverse loss of environmental resources

Target 10: Reduce by half the proportion of people without sustainable access to safe drinking water and without sanitation

Target 11: Achieve significant improvement in lives of at least 100 million slum dwellers, by 2020

Goal 8: Develop a global partnership for development

Target 12: Further develop an open trading and financial system that is rule-based, predictable and non-discriminatory. Commit to good governance, development and poverty reduction-nationally and internationally

Target 13: Address the least developed countries' special needs. This includes tariff- and quota-free access for their exports; enhanced debt relief for heavily indebted poor countries; cancellation of official bilateral debt; and more generous official development assistance for countries committed to poverty reduction

Target 14: Address the special needs of landlocked and small island developing states

Target 15: Deal comprehensively with developing countries' debt problems through national and international measures to make debt sustainable in the long term

Target 16: In cooperation with the developing countries, develop decent and productive work for youth

Target 17: In cooperation with pharmaceutical companies, provide access to affordable essential drugs in developing countries

Target 18: In cooperation with the private sector, make available the benefits of new technologies-especially information and communications technologies

Source: United Nations