Chapter 7

Going for Growth and Poverty Reduction

Summary

Accelerating growth, and ensuring the participation of poor people in that growth, is fundamental for poverty reduction. The proposals across this Report – on infrastructure, investment climates, governance, peace and security, trade, human development, culture, the environment and the quality of aid – should both boost participation and contribute strongly to increasing sustainable growth, investment and employment. **The goal should be to increase the average growth rate to seven per cent by the end of the decade, and sustain it thereafter.** These growth rates have been attained across Asia and in parts of Africa and can be achieved across the continent – but only if the obstacles of a weak infrastructure and a discouraging investment climate are overcome, releasing Africa's entrepreneurial energies. This will require:

- Committing to **double infrastructure spending** in Africa, with an initial increase in donor funding of US$10 billion a year up to 2010 and, subject to review, a further increase to US$20 billion a year in the following five years. This will require careful management and build-up to avoid corruption and cost escalation, and should extend from rural roads, small-scale irrigation, and slum improvement to regional highways and larger power projects.
- Public and private sector working together to identify the obstacles to a favourable **investment climate,** together with outside support to fund the necessary actions.
- Fostering **small enterprises** through ensuring better access to markets, finance, and business linkages, with a particular focus on youth and women, as well as the family farms that employ so many people in Africa.
- Action by the **business community** to contribute in each of these areas and in the other areas set out in this Report, working in partnerships with each other, with donors, with national governments and with civil society, as part of a sea change in the way it engages in the development process.
- Action to ensure that **environmental sustainability** is integral to donor interventions and to manage and build Africa's resilience to climate change.

A full list of the Commission's recommendations on Growth can be found at the end of this chapter.

7.1 Introduction

"We, the Heads of State and Government of the African Union... [are] concerned that at the current growth rates, Africa is at risk of not attaining the MDGs... [We are] convinced that high and sustained economic growth is a necessary but not sufficient condition to reduce poverty".

AU Extraordinary Summit on Employment and Poverty Alleviation, Burkina Faso, September 2004[1]

"Poverty reduction is linked directly to economic growth and to enabling Africans to become agents of their own development".

Professor Wiseman Nkuhlu, Chairperson, NEPAD Steering Committee[2]

"There is no poverty of effort in Africa, there is a poverty of opportunity."

Juan Somavia, Director General, International Labour Organisation[3]

1 This chapter is about action to raise Africa's growth rate and to enable poor people to participate. The evidence – from within Africa and from other regions, including East and South Asia – is that accelerating economic growth in Africa is fundamentally important for poverty reduction. But growth will drive poverty down more rapidly if poor people are better able to participate.

2 The statements above underline the growing understanding that we must recognise and support the entrepreneurial spirit of Africa's people – from family farms and small firms to large businesses. This means creating the right climate for investment. It means removing the impediments to people's livelihoods, particularly those of poor people. For example, the inadequacy of irrigation or transport for farmers, or difficulties in accessing the finance, information and skills that small businesses need to grow. It means enabling African enterprises to break into world markets: all the more challenging when Africa's relative economic stagnation is set alongside Asia's advance. And it means empowering poor people to shape their own lives: including by investing in their health and education, tackling youth unemployment and addressing the economic obstacles and inequalities faced by women. In short, as Professor Nkuhlu of NEPAD puts it, it means "empowering Africans to become wealth generators"[4].

3 The package of proposals set out in this chapter is designed to **support the entrepreneurial spirit of Africa's people:** investing in the **infrastructure** and enabling **investment climate** needed for growth, to foster **small enterprises,** with a particular focus on youth and women. Emphasis is placed on agricultural and rural development, as well as the need to deal with the challenge of rapid urbanisation. Our proposals on infrastructure, investment climates and on agriculture and rural development are covered in section 7.3 on policies for growth, while those on small enterprises and enhancing the participation of youth and women, are covered in section 7.4 on policies for participation in growth. The importance of **environmental sustainability,** and our recommendations in this area, is looked at in section 7.5. There are practical ways the **business community** can contribute to each of these areas, as part of a sea change in the way it engages in the development process, as set out in section 7.4.3.

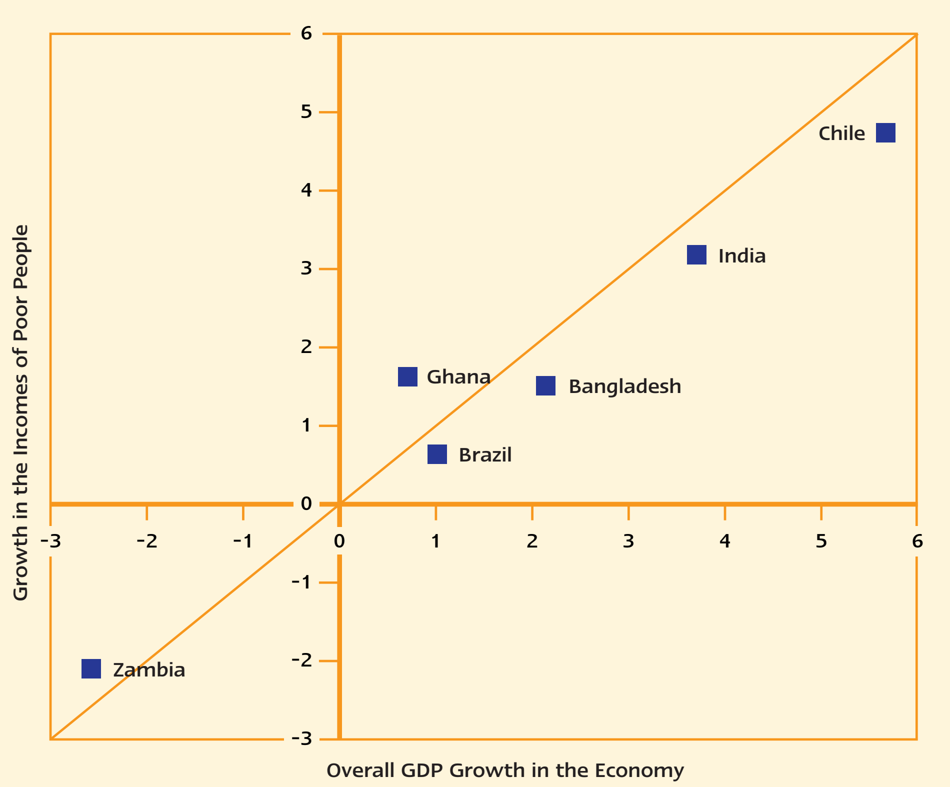
4 Together with the proposals set out in other chapters of the Report – including on trade, governance, peace and security, human development, culture and aid quality – our recommendations should enable sub-Saharan African countries **to achieve and sustain**

growth rates of seven per cent by 2010, from current levels of close to three per cent. At this rate of growth, the size of their economies will double in a decade, ensuring a powerful acceleration of progress towards the MDGs. This level of growth has been achieved and sustained by sub-Saharan Africa countries that have introduced effective growth-focused policies, such as Uganda and Mozambique. And many others are already achieving growth rates of five per cent or more: 24 in 2003[5].

Growth and poverty in sub-Saharan Africa

5 Africa is the poorest region in the world[6]. Over the last 30 years, on average, its people have seen virtually no increase in their incomes. Across countries and within countries over time the message is clear: without economic growth, Africa cannot make substantial reductions in poverty (Graph 7.1).

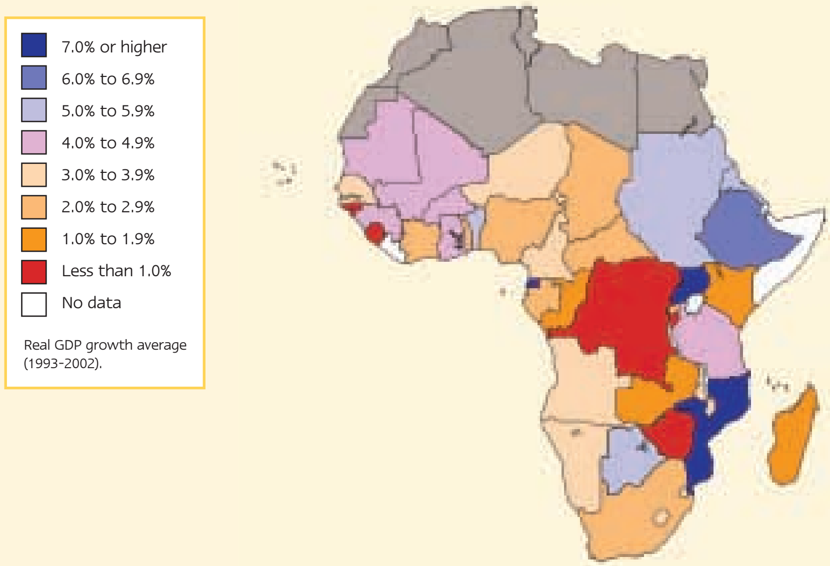
Graph 7.1 **Growth and Poverty**



Countries with higher overall growth rates also saw higher growth in incomes of poor people. Points above the 45-degree line indicate incomes of poor people rising faster than average incomes.

Source: DFID, 2004b

Figure 7.1 **Growth in Sub-Saharan African Countries**



Source: World Bank, 2004c

6 During the last ten years or so in Africa it *has* been possible to generate growth. Over the last decade[7], 16 sub-Saharan Africa countries have seen average growth rates above four per cent, including ten with rates above five per cent and three with rates above seven per cent[8] (see Figure 7.1). There are examples of strong performers from across the region – such as Mozambique in the south, Benin in the west, and Uganda in the east.

7 However, while many African countries have historically managed to generate periods of rapid growth, few have been able to sustain it for long periods at the levels needed[9]. A joint study by the African Development Bank (ADB), African Economic Research Consortium, Global Coalition for Africa, Economic Commission for Africa and World Bank warned five years ago that 'five per cent annual growth is needed simply to keep the number of poor from rising... [and that]... halving severe poverty by 2015 will require annual growth of more than seven per cent, along with a more equitable distribution of income'[10].

8 The effect of growth on poverty reduction is much greater if poor people can participate in the growth process. The evidence points to a strong association between growth and poverty reduction[11]. A number of economists have attempted to quantify this positive impact[12], with the finding that for a one per cent rise in economic growth, the proportion of people living below the poverty line (US$1 a day) should fall by between two and three per cent[13].

9 But these estimates disguise wide variations across countries[14]. For some countries, there is a stark difference between their growth performance and their broader development performance: Equatorial Guinea is ranked 103 places lower on its 2002 human development performance (based on life expectancy, adult literacy, school enrolment and average income), than it is on its growth performance – reflecting poor governance of its huge oil wealth[15]. Other poor performers in this regard include Botswana (67 places lower), South Africa (66), Gabon (50), Namibia (48) and Angola (38)[16].

10 A highly unequal distribution of income significantly reduces the positive impact of growth on poverty[17]. Inequality is particularly high in Lesotho, Botswana, Sierra Leone, the Central African Republic, Swaziland and South Africa. But it is most severe in Namibia,

which has one of the highest levels of inequality in the world[18]. Relatively equal distributions of income in Ghana and Uganda have meant that growth in these countries has been linked more strongly to poverty reduction[19].

11 In the past some have used the term 'trickle down' – to suggest that poor people will automatically benefit from growth. This was the wrong way to look at the issue. The fact is growth creates opportunities. The critical challenge is to ensure poor people are able to participate in these opportunities. That requires government action. Strengthening the assets of poor people – including their human capital, such as health and skills, physical capital, such as land and property, access to finance and their natural environment – enables them to participate more effectively in markets[20], while the economic, legal and governance environments shape the opportunities open to them[21].

12 Investing in social protection is important for reducing their level of risk and vulnerability. It includes, for example, improving women and children's rights over property, assisting poor people into employment, cash transfers such as disability allowances and pensions, free basic healthcare and education, and schemes to involve communities in the protection of vulnerable families. If a family's assets are protected by social protection, rather than eroded during a shock, a household is able to return to productive activity more quickly once the crisis has passed (see Chapter 6). Strong growth performance in Mozambique in recent years accompanied by a strong commitment by the government to social spending has dramatically reduced poverty from 80 per cent in the early 1990s to 54 per cent in 2002[22].

7.2 The drivers of growth

7.2.1 Governance and geography: the fundamental drivers of growth

13 Economists have long seen growth in terms of the accumulation of physical and human capital, on the one hand, and the productivity with which factors of production – land, labour and capital – are used, on the other. The collapse in African growth post-1973 is blamed on a collapse in both[23].

14 The last decade has seen a shift of attention towards still more fundamental questions. Why do some countries see more rapid accumulation and higher rates of productivity growth than others? What enables a country to sustain growth, once it has been ignited? The answers have focused on institutions[24] – particularly those relating to governance, including peace and security[25] and the economic framework – and on geography[26] – particularly the impact of Africa's distinctive tropical, largely land-locked, geography on agriculture and transport costs. Both governance and geography shape the incentives, opportunities and constraints on the private sector – from small farms to big firms – and the level of productivity and innovation in the economy. For reasons of both governance and geography, Africa's problems – shaped in part by its colonial history – have been severe and it is here that policy action must be focused if growth is to be accelerated and sustained.

15 Neither governance nor geography is destiny. There are many ways a nation can act to improve its governance and many ways outsiders can help, as set out in Chapter 4. Chapter 5 on peace and security looks at how governments can increase human security – importantly linked to growth and poverty[27]. Problems of geography can be overcome or reduced by investments in infrastructure, good governance and regional co-operation to stop political borders becoming economic barriers. Botswana is a good case in point: one of the fastest growing countries in the region for four decades despite being land-locked

and natural resource dependent[28]. Botswana also illustrates a fundamental threat to growth and development in sub-Saharan Africa – the impact of HIV and AIDS (Section 7.2.3.1 and Chapter 6) – with close to 40 per cent of those aged 15 to 49 infected in 2003[29].

7.2.2 Country growth strategies

16 Circumstances, geography and endowments of countries vary enormously and there is no single route to or pattern for growth (See Box 7.1). The routes, and therefore policy and investment priorities, will be different for countries with and without natural resources, and depending on whether they are coastal or landlocked[30]. Some of Africa's countries will take the manufacturing route to increased prosperity. That was the driving force for East Asia and, in Africa, for Mauritius. Others will take the natural resource route: Chile and, in Africa, Botswana have shown that this can be done. And most countries, including China in the early 1980s, and India in the 1970s, have seen increases in agricultural productivity ahead of acceleration in the growth rates of industry[31].

17 Whatever the growth engine, a long-term vision is essential[32]. In particular, promoting economic diversification within and across sectors is key for African countries to become less vulnerable to external shocks and achieve sustained growth. Equally important is for African governments to draw on best practice in promoting the participation of poor people in growth (discussed in Section 7.4. Box 7.1 gives the example of tourism in Ethiopia).

Box 7.1 **Growth Opportunities in Africa: A Sectoral Focus**

Natural Resources

The growth performance of resource-rich developing countries has generally been significantly poorer than that of non-resource-rich ones[33], because of weaker linkages to the wider economy, poor governance, corruption and conflict. Slow growth is, however, not an unavoidable outcome for developing economies with abundant natural resources. The experiences of Botswana and South Africa show that, when the right set of policies is in place, natural resources can be a source of prosperity, not necessarily a 'curse'. Other resource-rich countries in Africa could achieve similar success if they pursue prudent management of the resource flows from their wealth. This includes Nigeria, following its recent signing up to the Extractive Industries Transparency Initiative (See Chapter 4) and Chad, under its Petroleum Revenue Management programme. Hydro-and gas-powered energy could also become an important driver of growth in Africa. Hydro resources in some African countries, notably the Democratic Republic of Congo, are huge, but largely unexploited: the DRC has the third highest average potential hydropower output in the world after China and Russia, yet only two per cent of this has been developed to date. Mozambique has become a major exporter of electricity. 'Mega-projects' in the gas industry are planned in Southern and West Africa.

Agriculture

The experiences of South Asian and Latin American countries suggest that, given the right set of policies, commodity-dependent African economies have, like them, the potential to diversify and upgrade their agriculture to achieve rapid growth[34]. One possibility for these countries is to move towards commodity-based export-oriented industrialisation (as in the case of Indonesia or Malaysia) or diversify within the primary sector itself (such as in Chile, Costa Rica or Colombia). Diversification through non-traditional agricultural exports is being pursued in Kenya, Uganda, and Ethiopia; rapidly expanding cut flowers and horticulture sectors, for example. Rapid expansion of fish and fish products exports in Senegal, Tanzania, Kenya and Uganda, provides another important example of what can be done in this sector. There is also scope for regional trade. Mali, for example, could become a main rice exporter in the West African region, as a result of successful irrigation. Agriculture is discussed further in section 7.3.3 of this chapter.

Box 7.1 **Growth Opportunities in Africa: A Sectoral Focus (continued)**

Manufacturing

Natural resource-based export-oriented industrialisation in Africa has very rarely moved into higher value-adding activities. At the same time, Africa's modest import-substituting manufacturing industry has been in decline for the past two decades, because it focused on a weak internal demand and was not internationally competitive. Of course, once African economies start to grow, demand for local manufactures will revive. However, some argue that such manufacturing for the local market will be a beneficiary of growth rather than its driver. Manufacturing can, however, become a driver of growth, if Africa breaks into the global market. There is also scope for expanding regional trade in manufactured goods, although this inevitably implies that some industries will relocate between countries. But first, wages and other costs have to fall into line with main competitors in Asia and Latin America. The cost of doing business has often been too high in Africa, whether due to inadequate infrastructure, excessive regulation or corruption. Again the right mix of macroeconomic policy and structural reforms can help. Madagascar and South Africa have seen manufacturing exports grow rapidly in recent years, while Côte d'Ivoire was a major manufacturing exporter to the sub-region before the war. A strategy of expanding manufacturing will not work everywhere, but it can work in some countries. A number of countries have taken advantage of privileged access to developed country markets, such as Lesotho, which has turned out to be the largest apparel exporter to the United States under the US African Growth and Opportunity Act (AGOA)[35].

Services

The primary role of services, whether public or private, is to support activities in other sectors. Private sector growth in Africa will not accelerate unless essential services, such as banking and health, are developed. At the same time some services, like transport and trade, do particularly well when the economy is thriving – such as when countries experience bumper harvests. Telecommunication services have become a major driver of growth in many African countries, as a result of deregulation and the telecommunications revolution in OECD countries in recent years. More generally, information and communication technology (ICT) can be a powerful driver of growth: in the United States, ICTs produced an estimated one percentage point increase in annual GDP growth in the late 1990s[36]. Countries with an abundance of cheap, low skilled labour are now well placed to undertake off-shore business process services. There are more than 400 call centres in South Africa employing 80,000 people[37]. And other countries, like Senegal and Ghana, have also opened some call centres in the past year. Tourism is a major source of foreign exchange earnings in many African countries, especially in the East and South. It is also a powerful tool for poverty reduction, when linkages are built with the local economy. Yet, political instability, security concerns, and weak air transport links have greatly hindered the development of a mass tourism industry in Africa. Tourism could become a major driver of growth in peaceful African countries if infrastructure is upgraded and local enterprises – including small farms – are able to participate. In Ethiopia, the government is promoting an Ethiopian Tourism Paradigm programme as a model for poverty reduction through tourism.

7.2.3 Key challenges

18 A number of important factors threaten the development gains of growth. They also have serious implications for future growth strategies. Two are highlighted here – HIV and AIDS and urbanisation. A third, environmental degradation, is discussed in Section 7.5.

7.2.3.1 The economic impact of HIV and AIDS

19 A study for the Commission for Africa highlighted the devastating impact of HIV and AIDS for individuals, businesses and economies[38]. HIV and AIDS was also highlighted as a major challenge in our consultations with business[39] and with civil society. Chapter 6 looks at this in more detail, including the role of the private sector in the response.

20 The majority of people living with HIV and AIDS are in their economically productive years. They are often the breadwinners for large families. This means that a vast number of people who previously contributed to the economy are no longer able to do so, with severe impacts for their families. In 2003, 7.6 per cent of sub-Saharan Africa's population aged 15 to 49 was infected with HIV and AIDS, but infection rates are much higher in Southern Africa: 39 per cent in Swaziland, 37 in Botswana, 29 in Lesotho and 25 in Zimbabwe[40]. The likely negative effect on the economy is clear. A recent study estimates that in countries with adult prevalence rates over 20 per cent, GDP will be reduced by 67 per cent after 20 years due to the impacts of AIDS[41].

21 The business impacts have been illustrated across a range of firm-level studies. One conducted in South Africa, Botswana and Zambia, assessed 34 firms with 44,000 employees. 16 to 17 per cent tested positive for HIV. In a study by the South African Business Coalition on HIV and AIDS, 40 per cent of company representatives confirmed that they have already experienced reduced labour productivity or increased absenteeism among employees. And while the effect on large businesses is vast, it is even greater for small businesses, particularly those in the informal sector. Smallholder agriculture in Southern Africa has been severely affected with a decline in productivity of up to 60 per cent among households with members affected by HIV and AIDS, increasing the levels of food insecurity and poverty in the region[42].

7.2.3.2 Urban development[43]

22 Africans are on the move. Africa is the fastest urbanising continent in the world – around twice as fast as Latin America and Asia, with an annual urban growth rate of close to 5 per cent. Nearly 40 per cent – around 300 million Africans – now live in cities, compared to under 30 per cent in 1980. On current trends, this figure is expected to rise to 50 per cent in the next 25 years.

23 The future of the continent is closely linked to the development and management of its cities. In 1960, Johannesburg was the only city in sub-Saharan Africa with a population of over one million. By 2010 there could be at least 33. Whereas in the developed world, urbanisation was linked to a rise in agricultural productivity and industrialisation, unfortunately, this is not the case in Africa. Migration is fuelled by a failure of agricultural policies or regional conflict, while in the cities there are no industries to provide jobs.

24 This form of premature urbanisation means that African cities and towns do not act as engines of economic development, linking local and international markets, nor can they attract industrial investment. With municipalities hampered by a lack of trained personnel and resources, it is hardly surprising that African towns are unable to be centres of opportunity and creativity.

25 Instead, the urbanisation of poverty is becoming a major problem. Around 72 per cent of the population in African cities and towns live in slums – defined as households that lack access to improved water or sanitation, security of tenure, durability of housing and/or sufficient living space[44]. In many poorer countries this is over 80 per cent, with nearly all of the urban populations in Chad and Ethiopia considered to be living in a slum household. Constantly threatened by eviction, the living conditions are made worse for such households by a lack of access to infrastructure services. In 1998, water connections for informal settlements were 19 per cent compared to 48 per cent for urban areas as a whole. This has direct human development impacts. For example, G42the jFN"G4Nairobi slums it is estimated that there are around 90 infant deaths per 1000, compared to 76 in rural areas and 57 in the rest of urban areas. In South Africa, the

30 What is clear is that the private sector, including micro, small and medium-sized enterprises and family farms, has a central role in driving growth and poverty reduction. The challenge for sub-Saharan Africa is to unleash its entrepreneurial potential by improving its investment climate. This is how China and India have started growing faster, and there is no reason why African could not follow the same path.

31 However, it is also clear that it is the public sector that creates the enabling environment for this growth by ensuring that the governance and infrastructure that underpin the investment climate are in place. Thus, the promotion of growth is not a question of the state versus the private sector but a question of how they combine to generate growth[46].

32 If growth is to be fostered, it must be recognised that the role for the state is substantial and demands resources, including for health, education and infrastructure. A priority must be strengthening the capacity of governments to promote long-term growth; to encourage economic restructuring, diversification and technological dynamism; to develop enabling investment climates; to put in place and maintain – directly or in partnership with the private sector – the needed infrastructure; to deliver public services; and to implement integrated rural and urban planning.

33 In this section of the chapter we make three sets of proposals for action to improve the environment for growth in Africa covering: the investment climate (section 7.3.1); infrastructure (Section 7.3.2); and agriculture and rural development (section 7.3.3). These proposals will also have a positive impact on Africa's international competitiveness[47], and – alongside proposals set out in Chapter 8 – its ability to break into world markets.

7.3.1 The investment climate

34 Sub-Saharan Africa suffers from low domestic and foreign investment, high capital flight and low remittance flows, relative to other developing countries. At 18 per cent, Africa's investment-to-GDP ratio is below the average of 24 per cent for all developing countries and the lowest of any developing region[48]. Only six to seven per cent of foreign direct investment (FDI) and around five per cent of remittances flowing to developing countries go to sub-Saharan Africa[49]. It is estimated that around 40 per cent of private wealth is held outside Africa compared to three per cent for South Asia[50].

35 Africa has been an unattractive continent for investment both by Africans themselves and by outsiders. The challenge is to generate an environment where Africans want to invest in their own farms, businesses, countries and continent, and which attracts greater flows of foreign investment.

36 There has been a growing recognition of the importance of what is referred to as the 'investment climate' – and of what domestic governments, developed countries, the business community and civil society can do to enhance it. As in most developing countries, the bulk of investment in Africa is domestic: around 80 per cent against 20 per cent for foreign investment[51]. This means the focus must be on the domestic investment climate. But getting the investment climate right for domestic firms will also bring more foreign investment and remittances.

37 A commitment was made in the G8 Africa Action Plan[52], agreed at the 2002 G8 Summit in Kananaskis and reinforced at the 2004 G8 Summit in Sea Island, to supporting investment climate improvement – in recognition of its importance to growth. And this is the focus of the 2005 World Development Report, 'A Better Investment Climate For All'[53]. The report finds that enhancing the investment climate can accelerate economic growth significantly. It notes that getting the investment climate right for agriculture and in rural areas is of particular importance for many of the poorest people.

38 The benefits of an enhanced investment climate can be far-reaching: in Uganda, which underwent widespread investment climate reforms, GDP grew by around seven per cent per year during 1993-2002[54], reducing the share of the population living below the poverty line from 56 per cent in 1992 to 35 per cent in 2000[55]. In Tanzania, an improvement in the investment climate is behind the country's fastest growth in 15 years[56]. In Mozambique, investment climate improvements resulted in a doubling of private investment as a share of GDP between 1998 and 2002[57]. A study of 10 countries, including seven in sub-Saharan Africa – Ghana, Kenya, Malawi, South Africa, Tanzania, Uganda and Zambia – linked increased growth of 2.4 to 4.8 percentage points to improved property rights, commercial justice and deregulation[58].

39 This picture is reflected in other regions. A study on India concluded that "if each… state could attain the best practice in India in terms of regulation and infrastructure, the economy should grow about two percentage points faster, and 3.2 percentage points in poor climate states"[59]. In China, improving property rights, starting with agriculture 25 years ago, helped lift 400 million people out of poverty[60]. In Ukraine and elsewhere, investment climate reforms have resulted in an increase in jobs between 15 and 35 per cent[61].

40 But many barriers to investment remain in Africa, increasing the risks and costs of doing business. Issues relating to governance, including the transparency, accountability and effectiveness of governments, feature highly in surveys of investors[62]. And they were also identified as priorities by the Commission for Africa Business Contact Group, a group of investors with extensive experience of investing in Africa[63]. Policy unpredictability and macroeconomic instability are among the highest concerns[64]. Improving policy predictability can increase investment by up to 30 per cent[65].

41 Other important factors relating to governance that are identified in studies and surveys include the quality and accountability of public financial management systems, the predictability and transparency of taxation[66], the nature of business regulation, the level of corruption, and an effective and fair judiciary[67]. Robust competition laws and policies, with strong institutions to enforce them, are vital to improving productivity and to promoting innovation and better prices[68]. Political instability, conflict and crime are also key issues for investors[69]. As discussed below, these factors are exacerbated in post-conflict countries, making it difficult to attract the private investment needed. Governance is discussed further in Chapter 4, while peace and security are the subjects of Chapter 5.

42 Weak governance has also translated into poor service delivery, with weaknesses in health, education and infrastructure pinpointed as key issues in our business consultations. Given the significance of the infrastructure gap in Africa, and the scale of the challenge this represents, it is looked at separately in section 7.3.2. Proposals to strengthen health and education systems are set out in Chapter 6.

43 Weak governance matters from another perspective. In many high-growth countries – China, India, South Korea, Taiwan, Singapore and, in Africa, Botswana and Mauritius – the state has played an important and active role: in attracting investment; encouraging restructuring, diversification and technological dynamism; boosting productivity, competitiveness and exports; and securing long-term growth. While all have promoted effective property rights, contract enforcement and sound macroeconomic policy, these different countries have adopted very context-specific approaches. In all cases the state has played an important role[70], with a focus on unleashing private entrepreneurship.

44 In the case of Mauritius, an exported-oriented strategy – based on an Export Processing Zone – was combined very successfully with a high level of trade protection for domestic industry until the mid-1980s. Botswana, similarly, combined a 'market-

friendly' environment with substantial state activities in certain areas[71]. An important lesson from these cases is that the quality of government action matters, and therefore so too does its capacity. Past policies that undermined the capacity of governments must be avoided. Governments, and donors, must adopt a creative and flexible approach to promoting long-term growth, with the precise mix of policies reflecting the country-context.

45 Many barriers to investment in Africa are exaggerated due to 'Afro-pessimism'. Africa often appears to be seen as one large risky country[72], with little understanding of its diversity – driven by negative media coverage and a lack of country-specific knowledge among investors. But the perceived investment climate is as important as the actual one and so addressing negative perceptions is an important part of encouraging investment.

46 Small enterprises suffer most from a poor investment climate[73]. Access to credit and other financial services is important to growth and investment, yet few small businesses or individuals are able to get the access they need. This partly reflects a lack of access to property rights for the majority of poor people: formal legal title to homes and land are often required as collateral to obtain commercial credit[74]. More generally, effectively enforced property rights are important for reducing investment costs and risks[75]. Only one per cent of the land in sub-Saharan Africa has been officially registered with title deeds and most of this is for high-income groups[76]. An example of the failure to register land is that provided by Dar es Salaam, which received over 200,000 applications for plots between 1990 and 2001 of which only about 8,000 plots were allocated officially. The situation is aggravated by the fact that in many African countries there is no financing mechanism for housing.

47 **Recommendation: African governments must unleash the strong entrepreneurial spirit of Africa's people. To promote this, donor governments and the private sector should co-ordinate their efforts behind the proposed Investment Climate Facility (ICF) of the African Union's NEPAD programme. This requires US$550 million from donors and the private sector over seven years to identify and overcome the obstacles to doing business.**

48 It is clearly the responsibility of African governments to prioritise and take action to enhance the investment climate. Through AU/NEPAD, particularly in the context of the APRM, an African-led process is underway to identify priorities and share best practice from across the region. The ICF is an initiative supported by and in support of AU/NEPAD involving joint action by business and government working together to identify and act on key obstacles. The ICF will provide technical assistance to governments to improve the investment climate in support of AU/NEPAD's aim of 'making Africa an even better place to do business'.

49 The ICF is complementary to existing efforts in Africa, has African ownership and is able to address many barriers to investment in a dynamic way. It has the flexibility needed to reflect the country and sectoral diversity across the region, and is private sector-led. This independent, pro-active and responsive grant facility will combine resources from the private sector with the donor community: an amount of US$550 million is required over seven years. The major share of resources will need to come from donors, but it is intended that the private sector's share should be significant. Resources should be built up over time subject to review[77]. Donors should stand ready to co-ordinate their efforts behind identified actions, and many have already expressed an interest in funding the facility. Support for the ICF was recommended by the Business Contact Group and welcomed throughout our private sector consultations[78].

50 It is estimated that the facility will fund over 300 projects, mainly in the 24 African countries signed up to the APRM. It will act on issues highlighted by the APRM, the World

Bank's Investment Climate Assessments and Doing Business Reports, and other processes. It will also be informed by analysis coming out of the proposed Africa Enterprise Challenge Fund (section 7.4.1) and Growing Sustainable Business initiative (section 7.4.3).

51 The ICF will focus on: putting in place appropriate policies, legislation and regulations; ensuring more effective business friendly administration and implementation of policies; enhancing competition policy; facilitating improvement of support and services to the private sector; increasing dialogue between the private sector and government on investment climate reform, including on infrastructure priorities, by strengthening the private sector voice through mechanisms such as chambers of commerce, employer federations and investment councils[79]. The ICF will also address issues such as corporate governance, crime, security, corruption, HIV and AIDS and malaria, particularly emphasising the private sector response to these.

52 It will also support financial market strengthening and the promotion of integrated regional capital markets, including encouraging the standardisation of financial regulation and shared regulatory capacities across countries; increased access to credit information; and simplifying systems for remittance transfers. The role of credit bureaux in boosting credit supply by providing small enterprises with a financial track record was also highlighted during our consultations[80]. As part of efforts to promote enhanced access to credit and financial services the ICF will invest in better information on the demand for financial services and gaps in provision. This would help to identify new market opportunities for financial institutions, and help governments to tackle policy related barriers to widening access to formal financial services. The ICF could support, for example, the extension of Finscope[81] surveys of access and usage throughout Africa in order to address this gap.

53 The ICF will undertake major programmes to tackle issues regarding property rights, making registries more efficient and providing legislative drafting and legal expertise to government, acknowledging the governments' role in driving and owning these changes.

54 Importantly, the ICF will address negative perceptions by giving significant publicity to investment success stories, including through media campaigns to publicise African success stories. It could also complement work on sovereign ratings[82] (for example, initiatives by UNDP with Standard and Poor[83], and by the US State Department with Fitch[84]), including by supporting countries that are in the "preparation phase" for a sovereign rating.

55 These projects will take place over seven years and, based on the effect investment climate improvements have had in the past, will support poverty reduction and increased jobs, private investment and economic growth.

56 As noted above, the risks and costs of doing business are particularly high in post-conflict countries. And yet there is a critical need to re-establish growth quickly in these countries to ensure they do not regress into conflict. Private investment is key to this, and political risk insurance (PRI) provided by the Multilateral Investment Guarantee Agency (MIGA) – a part of the World Bank Group that provides insurance to private investors – can help. As its Convention presently stands, MIGA, can only provide PRI to foreign investors. Yet, in a post-conflict situation, domestic investors will normally be of particular importance. While other factors dominate, notably commercial risk, domestic investors could have a special interest in protection from expropriation risk, to which they are especially exposed. The aim would be to design a Post-Conflict Guarantee Facility to provide cover to domestic, as well as foreign, investors for political risks.

57 **Recommendation: Developed countries should support a fund of the Multilateral Investment Guarantee Agency to insure foreign and domestic investors in post-conflict countries in Africa. Support should also be extended to domestic investors across sub-Saharan Africa.**

58 MIGA would leverage an amount of US$80 million of donor contribution to create a fund of US$500 million covering the World Bank's list of 16 conflict-affected African countries[85] and with the ability to include countries that may go into conflict in the future. Official Export Credit Agencies, private insurers and MIGA would contribute to insurance along side the fund. About 60 projects of between US$5 million to US$15 million would be insured, thus enabling 60 new investments that otherwise would not have taken place. The investment projects would be carefully selected so as to have the highest developmental impact. Of course, it should be noted that providing insurance for investments is only part of a much wider effort needed to increase investment flows, including through the changes to the investment climate outlined earlier.

59 A need for such services exists in other African countries as well. Over the longer term, MIGA should work towards extending its focus beyond foreign investors to include domestic investors throughout its operations to cover all (non-conflict) African countries.

7.3.2 Infrastructure[86]

60 Poor infrastructure is a critical barrier to accelerating growth and poverty reduction[87]. In Uganda, transport costs add the equivalent of an 80 per cent tax on clothing exports[88]. In some regions of Africa, farmers lose as much as half of what they produce for lack of adequate post-harvest storage[89]. Across the region, women and girls currently walk an average of six kilometres to collect water[90]. The life of those living in urban slums is made still worse by the lack of infrastructure – only seven per cent have access to sewerage services for example[91], leading to economic costs in terms of health and lost work hours. According to some estimates, increasing the stock of infrastructure by one per cent could add one per cent to the level of GDP[92]. But in some cases the impact has been far greater: the Mozal investment in Mozambique doubled the country's exports and added seven per cent to GDP, while creating new jobs and, through its Small and Medium Enterprises Empowerment and Linkages Programme, has contracted with and trained numerous local companies[93].

61 Infrastructure is a key component of the investment climate[94], reducing the costs of doing business and enabling people to access markets; is crucial to advances in agriculture; is a key enabler of trade and integration, important for offsetting the impact of geographical dislocation and sovereign fragmentation, and critical for enabling Africa to break into world markets; and is fundamental to human development, including the delivery of health and education services to poor people. Infrastructure investments also represent an enormous untapped potential for the creation of productive employment[95].

62 There was overwhelming support during our consultations for increased investment in regional, national, urban and rural infrastructure. At a recent meeting of African Finance Ministers, infrastructure was identified as the top priority for promoting growth[96]. They also underlined the importance of information and communication technology (ICT) for competitiveness and productivity. ICT is transforming the continent[97]. In 2001, Uganda became the first African country to have more mobile phones than fixed lines. The mobile market in the region (excluding South Africa) has grown from under 20,000 users in 1993 to an estimated 18.2 million in 2003[98]. The benefits of ICT are far-reaching – connecting schools to the internet[99]; enabling remote rural communities to get urgent medical advice by phone[100]; giving farmers access to market price information[101]; potentially halving the costs of sending remittances[102].

63 Yet, despite its clear benefits, African governments and development partners sharply reduced, over the 1990s, the share of resources allocated to infrastructure[103] – reflecting its lower priority in policy discussions[104]. In retrospect, this was a serious policy mistake, driven by the international community, that undermined growth prospects and generated

a substantial backlog of investment – a backlog that will take strong action, over an extended period, to overcome.

64 This was a policy mistake founded in a new dogma of the 1980s and 1990s asserting that infrastructure would now be financed by the private sector. Throughout the developing world, and particularly in Africa, the private sector is unlikely to finance more than a quarter of the major infrastructure investment needs[105]. Between 1990 and 2002, relative to total infrastructure investment in the order of US$150 billion, private commitments for infrastructure in sub-Saharan Africa totalled only US$27.8 billion, and two-thirds of this amount (US$18.5 billion) was for telecommunications[106]. Of course, this picture applies to the large private operators in the sector: the small private operators – such as water carriers and informal water kiosk operators[107] – have *de facto* taken on a larger role as the public sector was pulling out and large private operators were not showing up.

65 A loss of focus on the importance of growth for poverty reduction, and a failure to appreciate the important complementarities between investment in infrastructure and the social sectors, have also contributed to the fall in spending on infrastructure and a lack of emphasis on it in many national poverty reduction strategies.

66 Estimates of needs over and above current expenditures depend on objectives, on assessments of the current position, and on cost assumptions. But there is no doubt that the current needs are very large. A recent World Bank research paper estimates that sub-Saharan Africa needs to spend around five per cent of its GDP between 2005 and 2015 on infrastructure investments and a further four per cent on operations and maintenance[108]. This means additional expenditure in the order of US$20 billion a year[109].

67 **Recommendation: Africa needs an additional US$20 billion a year investment in infrastructure. To support this, developed countries should provide an extra US$10 billion a year up to 2010 and, subject to review, a further increase to US$20 billion a year in the following five years. This should support African regional, national, urban and rural infrastructure priorities – ranging from rural roads and slum upgrading to ICT and the infrastructure needed to support greater integration of Africa's regions and to enable Africa to break into world markets.** This is equivalent to at least a doubling of expenditure on infrastructure[110]. It is not our view that an increase of US$20 billion could be easily absorbed effectively over the next five years. The priority is to deliver the extra US$10 billion a year – using existing institutions while improving local capacities to manage increasing resources – and then review the potential for further expansion.

68 The additional funding should support the regional, national, urban and rural priorities identified by AU/NEPAD, the Regional Economic Communities (RECs), national governments, local authorities and municipalities, the private sector and poor people – and should avoid funding prestige projects that have so often turned into white elephants in the past. A significant part of the additional funding will need to be invested in improving the capacity of the public sector (at regional, national and municipal levels) to manage larger flows effectively, including to cover recurrent expenditure.

69 Funding should be for a range of infrastructure projects, from investments that support the growth of agriculture and related agribusiness, such as rural feeder roads and irrigation, to larger projects for electric power, ports and regional infrastructure. Also important is investment in slum upgrading, energy, water resource management, water supply and sanitation, which are among the priorities of poor people in most countries, especially those of women and girls.

70 The necessary expansion is on a scale that means that in the short term only a small fraction could be funded by African public finances (see Chapter 9). Experience has told us

that only a small fraction will come from the large private sector operators unless donor countries are willing to support them through guarantees and other insurance-type schemes. Over time, and on the basis of economic growth and with improvements to investment climates, financing could increasingly come from domestic public finances, the private sector and user charges (where appropriate and equitable).

71 The magnitude of the investment needed in infrastructure and its role in fostering growth presents a strong case for front-loading resources, given the high up-front costs and large social and economic benefits that accrue over many years. It is possible to get a very tentative feel for the likely growth and poverty impacts of an infrastructure investment of this magnitude. Continuous investment over a decade, with a build-up in investment to the US$10 billion total by 2008, and to US$20 billion by 2013, could raise the level of GDP in 2015 by close to 4.5 per cent above what it would otherwise have been. This would result in, by 2015, a poverty rate that is close to 2.5 percentage points lower than would otherwise have been the case, equivalent to around 20 million people. These figures are sensitive to assumptions, including the profile of spending[111].

72 It is also possible to get a rough sense of what this resource could buy, by making assumptions about the allocation between regional and national infrastructure and between sectors. Clearly, it is for African-led processes to make these decisions at the local, sectoral, country and regional levels – the figures and the mix of investments presented here are for indicative purposes only. Assuming some additional resources could be leveraged from the private sector, total resources could, at the regional level, provide close to three quarters of the funding needed for AU/NEPAD's Short Term Action Plan (covering energy, transport, ICT, and water and sanitation)[112].

73 On top of this, at the national level, it could enable, by 2015, the creation of around 15 million electricity connections, as well as 150,000 kilometres of roads, 3,000 kilometres of railway, water supply and sanitation services for 75 million people, and around 60 million telephone connections (though clearly in the case of telecommunications the priority must be for governments to put in place the regulatory framework to attract private operators – which could vastly increase the number of connections[113]). And it would also allow a major expansion of irrigation – increasing the proportion of arable land that is irrigated by 50 per cent by 2010 on the way to doubling by 2015 (See section 7.3.3). This would leave sufficient resources to fund the UN-HABITAT's Slum Upgrading Facility, which requires US$250 million a year for five years (see Section 7.2.3.2)[114].

74 Of course, investment needs are considerably higher if we are to close Africa's infrastructure gap[115] – such as tackling more comprehensively the human suffering of those living in slum households in the context of rapid African urbanisation, the cost of which, alone, could be over US$10 billion a year[116], and the importance of which was highlighted by the African Ministerial Conference on Housing and Urban Development[117]. Or filling the gap in the provision of rural and feeder road networks: the Economic Commission for Africa estimates that the density of these needs to at least triple[118]. Or tackling the digital divide and investing the resources into ICT needed to enable Africa to participate fully in the global knowledge economy – identified as a priority in AU/NEPAD's infrastructure plans. We therefore believe it is important to move towards US$20 billion a year in the medium-term as an important contribution towards these needs.

75 The new funding must be used in a way that reflects the lessons of the past that have led to substantial improvements in the economic rate of return of infrastructure projects[119]. In particular, the funding should: support operation and maintenance costs, as well as institutional innovations such as those that involve users in maintenance and delivery; ensure good governance and transparency in procurement, to combat currently

high levels of corruption[120] (see Chapter 4); build national, municipal and regional capacity to plan and implement projects in line with economic, social and environmental[121] good practice, to deliver effective infrastructure services, and to work with the private sector, including small and medium enterprises[122]; and support access of poor people to services, including through greater application of 'output-based aid' which uses targeted subsidies to extend services into poor communities[123]. Where the public sector is directly involved in delivery, there should be investment in building the capacity of users, including poor people, to hold government to account.

76 The funding should also support a pragmatic approach to private sector participation that recognises the roles where the private sector can add most value – most often as a performance-based contractor in building, delivery and maintenance. It should also build on existing initiatives to attract much-needed private sector investment, such as the Public Private Infrastructure Advisory Facility (PPIAF)[124], the Municipal Infrastructure Investment Unit (MIIU)[125], the work of the International Finance Corporation, and the programmes of the Private Infrastructure Development Group (PIDG)[126]. These work with national and municipal governments to improve the investment climate, develop commercially viable projects, and provide funding including in the form of long-term debt finance and guarantees to cover the risks of local currency financing.

77 The importance of developing and promoting public-private partnerships for infrastructure was emphasised in the Commission's business consultations[127]. The need for governments to ensure that the regulatory environment is in place to facilitate private sector investment in ICT was also highlighted. So too was the importance of a co-ordinated, continent-wide approach to ICT that brings together donors, governments and the private sector to enhance Africa's connectivity. Innovative private sector approaches to meeting the infrastructure needs of poor people – such as rural electrification – are one focus of the Growing Sustainable Business Initiative, support for which is proposed in section 7.4.3. Involving the private sector in setting infrastructure priorities is a focus of the Investment Climate Facility.

78 A shortage in the supply of bankable projects is a critical constraint in attracting private investment. The fund should support the expansion of the NEPAD Infrastructure Project Preparation Facility[128], hosted and managed by the ADB and other such initiatives[129]. Of course this is an issue that faces public projects too: building public sector capacity is also key (See Chapter 4).

79 Alongside additional funding, there must be a change in the way donors operate, including through a new framework to enhance donor co-ordination; an improvement in the way they work at the sub-national and regional levels; a review of procurement processes to ensure they are open to local private sector participation, especially small enterprises, as part of a move away from tied aid; and more predictable financing. Funding for infrastructure should be predominantly on a grant basis, given the importance of facilities being available to poor people and the importance of avoiding the future build-up of debt. Country-level donor officials should strive to empower local actors: once mechanisms of oversight, such as regular evaluations and auditing are put in place, donors should resist micro-management in the implementation of projects given the impacts this can have on efficiency.

80 For their part, African governments must re-prioritise the importance of infrastructure in their poverty reduction strategies. They must place sufficient emphasis on the on-going maintenance of infrastructure, commit to working with the private sector and with poor people in determining infrastructure priorities, put in place the right investment climate to attract private sector investors, and take a lead in tackling corruption in procurement.

81 We suggest two options for administering the funds, though a hybrid of the two would also be possible. Option 1 is to house a new facility at the ADB[130] – the lead agency for infrastructure development in Africa and designated as the focal agency for promoting AU/NEPAD infrastructure programmes. This arrangement could be assisted by private sector participation in fund management and a Review Panel to examine large projects. Option 2 is to spread the funds across a range of institutions – the ADB, World Bank, European Investment Bank, International Finance Corporation and other multilateral and bilateral agencies, within a framework for enhanced co-ordination. Both options are discussed in the Annex.

7.3.3 Agriculture and rural development

82 Through AU/NEPAD and the RECs, African Union Heads of State and ministers have expressed their recognition of the crucial role of agriculture[131]. In sub-Saharan Africa, agriculture contributes at least 40 per cent of exports, 30 per cent of GDP[132], up to 30 per cent of foreign exchange earnings, and 70 to 80 per cent of employment[133]. Accelerating growth in agriculture is critical to sustained growth and industrial diversification in the wider economy[134]. In both rural and urban areas, poor people, particularly women, depend directly on agriculture for their livelihoods and food security[135].

83 However, Africa's agricultural potential is constrained by a wide range of obstacles and bottlenecks[136] that include climatic and very varied agro-ecological problems, and the decline post-1980s of investment in rural infrastructure and in small market towns and villages that link local markets to the global economy. Poor rural transport infrastructure and the inability of local authorities of small rural towns to provide the necessary services increases the costs of delivering inputs to growers and outputs to markets. Agricultural growth is also constrained by the international trade regime (discussed in Chapter 8)[137]. And farmers face huge burdens from pests, weeds and diseases affecting crops and livestock. In many parts of the continent, inequitable land distribution and insecurity of land tenure discourage investment and undermine the livelihoods of poor people[138].

84 Unlocking agricultural growth in Africa will require a package of actions that responds to the above problems and opportunities and builds on a range of Africa's agricultural success stories. Most such stories involve measures that both increase output and address the vulnerability, volatility and risk in the sector. For example, the development and diffusion of modern high-yielding varieties of maize[139]; the expansion of horticultural and flower production for exports to European markets[140]; the growth of smallholder dairy in Kenya, which is inspiring similar innovations in Tanzania and Uganda[141]; and improved cassava and rice production in West Africa arising from policy incentives for smallholder markets and, more recently, crossbreeding to produce the high-yielding New Rice for Africa (NERICA)[142].

85 In support of AU/NEPAD's Comprehensive African Agricultural Development Framework[143], developed countries should support measures to improve production and the efficiency of African agriculture, focusing on: irrigation and post-harvest infrastructure; research, innovation and extension; security of tenure and land rights; and a well planned strategy of urbanisation that recognises the role of small towns in encouraging growth and trade through the development of local and regional markets. Developed countries should support the capacity building of national and local governments so that they can act as efficient links between the agricultural sector and local and regional markets. Chapter 8 looks further at trade issues. The importance of investing in rural and feeder road networks has already been mentioned. So too has the need to generate an enabling investment climate for agriculture and in rural areas, to be tackled by the proposed Investment Climate Facility.

86 Rural development will also depend on effective farmer institutions owned by farmers themselves, without interference from state actors. The revival of an independent agricultural co-operative movement in Africa should be emphasised. Chapter 8 looks further at farmer organisations.

Irrigation and post-harvest infrastructure

87 Barely four per cent of arable land in sub-Saharan Africa is irrigated compared to 40 per cent in South Asia[144]. In the last decade, the amount of land under irrigation grew slowly, at a rate of between 0.5 and 0.7 per cent a year. Poverty can be as much as 20 to 30 per cent lower in areas where a higher proportion of land is irrigated[145]. Rain-fed agriculture is far more susceptible to the large climatic variability that faces the region (described in section 7.5). With irrigation, cropping intensity[146] can rise by 30 per cent.

88 **Recommendation: As part of a wider set of measures to promote agricultural and rural development, Africa must double the area of arable land under irrigation by 2015. Donors should support this, initially focusing on funding a 50 per cent increase by 2010, with an emphasis on small-scale irrigation[147].** This should bring an additional five to seven million hectares of arable land under irrigation by 2010, and would cost in the region of US$2 billion per year[148]. Based on rice productivity work in Tanzania, this would raise yields by an average of five per cent, crop prices by seven per cent and irrigated land rentals by up to 40 per cent a year.

89 Appropriate micro-irrigation systems and technologies are already in use in East and Southern Africa, and extending them to a wider area and network of producers should not be unmanageable in this time frame. Irrigation can be increased without significantly disadvantaging other users of water, as was discussed at the First Pan African Implementation and Partnership Conference on Water in Addis Ababa in 2003, through the use of integrated water resource management strategies, micro-irrigation schemes, local level water harvesting and trans-boundary water management (see Chapter 6).

90 Post-harvest infrastructure is also key. Post-harvest losses in many parts of Africa average around 50 per cent for fruits, potatoes and vegetables compared to 25 per cent for developing countries overall[149]. This undermines both food and income security for smallholders and poor people. Accordingly, we call for support to address post-harvest losses, including storage infrastructure and improved rural transport and energy infrastructure. It is estimated that for maize, for example, with a budget of between US$30 million and US$50 million over a 10-year period, potential efficiency savings of US$480 million a year[150] could be possible.

Effective research, innovation and extension

91 Effective research, innovation and extension[151], driven by the needs of farmers and owned by Africans themselves, has declined over the past two decades[152]. Rejuvenation of agriculture should include timely institutional innovations appropriate to each locality involving smallholders and other stakeholders.

92 We urge the international community to support Africa's efforts to increase investment and innovation in agriculture, by funding a major growth in research and extension services in Africa over the next ten years. The support should be channelled through regional research organisations, universities and centres of excellence. AU/NEPAD[153] estimates needs at US$1.6 billion a year, in addition to US$340 million a year for the Consultative Group on International Agricultural Research centres[154]. Chapters 3 and 4 set out related proposals on higher education and science and technology.

93 We also recommend support to enhance sharing of agricultural innovation and knowledge between Africa and Asia. Although Asia's Green Revolution experience cannot be transferred wholesale to Africa[155], recent innovative south-south research partnerships, such as those behind the New Rice for Africa, point to the benefits of such partnerships. The potential of these is not currently being fully exploited. The emphasis should be on the production and use of high yielding, stress resistant and nutritious plant varieties, such as quality protein maize and vitamin A rich yellow sweet potato.

Security of tenure and land rights

94 Land reform is intensely political and most donors have pulled back from this issue in recent decades. But, with only one per cent of land being officially registered in sub-Saharan Africa[156], it is of such fundamental importance to the lives of the majority of the poor people in Africa that it cannot be ignored. The objective should be to provide poor people, particularly women and the most vulnerable, with some sort of security in land tenure and thus the incentive to invest. In Burkina Faso where women have more secure land rights than in other African countries, female farmers' productivity is significantly higher[157]. The provision of some form of security of tenure to slum dwellers can help attract investments for infrastructure and housing from donors, the private sector and people themselves. Technological advances such as Geographical Information Systems and computerised records have reduced the technical issues, and increase transparency and accountability. But few, if any, local authorities have access to this technology.

95 Recording and security of tenure should not automatically be equated with formal titling systems common in developed countries. Generally such systems would be more appropriate for urban areas[158]. Given the strongly political nature of the issue, public dialogue is crucial. Systems should be grounded in local social and political legitimacy and provide methods, based on local culture, for dealing with conflict and dispute. The proposed Investment Climate Facility offers a way to take this forward. Donors should also support the UN's land and property administration programme.

7.4 Policies for participation in growth

96 Growth will drive poverty down more rapidly if poor people are better able to participate in society and the economy. The measures proposed on governance (Chapter 4), peace and security (Chapter 5) and human development, including health, education and social protection (Chapter 6), will have a major role in shaping the opportunities of poor people to participate. So too will the proposals above in this chapter. Supporting agriculture is key, given its importance to poor people's livelihoods, particularly women.

97 In this section we look further at the issue of participation, and set out our proposals to encourage micro, small and medium enterprises (section 7.4.1) and promote employment (section 7.4.2). Promoting opportunities for women and young people must receive special attention. Larger foreign and domestic businesses have a key role to play in supporting our priority areas for action, and this is discussed in section 7.4.3.

7.4.1 Small enterprise development

98 Poverty reduction through growth requires a focus on the indigenous private sector, which in sub-Saharan Africa is composed of a myriad of micro, small and medium enterprises, including – the most numerous – the family farm. And it depends on finding ways to help them thrive and grow. Together, they are the primary source of jobs and

economic opportunities, as the UN Commission on the Private Sector and Development, co-chaired by Paul Martin and Ernesto Zedillo, emphasised strongly[159].

99 Many of these enterprises operate informally[160]. On average, the informal economy in sub-Saharan Africa accounts for 78 per cent of non-agricultural employment, 61 per cent of urban employment and 92 per cent of new jobs[161]. While a daily reality for the majority of people, activities in the informal economy contribute to less than half of GDP[162]. This is because the majority of actors operating in the informal economy are trapped in low productivity activities, where income is low and often irregular. The cost is huge for people's livelihoods, but also for Africa's economies: a productivity cost put at one to two percentage points off growth every year[163]. Marginalised groups and individuals, including migrants, the disabled, and the urban youth, are concentrated in this unregulated part of the economy.

Creating an enabling environment for small entrepreneurs

100 Africa needs a strong and vibrant small enterprise sector that operates in the formal economy, and is heard in policy discussions. One of the key messages of the Economic Commission for Africa's Big Table meeting in Addis Ababa in October 2004 was that each government in Africa should develop a small enterprise development strategy, as part of or alongside their national poverty reduction strategies[164].

101 Because of their limited resources, small enterprises suffer more than bigger firms from a weak investment climate[165]. A key responsibility of governments in Africa is to create an enabling environment for the private sector, and we have set out a proposal to support AU/NEPAD's Investment Climate Facility to help them in this role. For the informal economy, this starts by giving small enterprises a voice in the policy process[166], and securing and extending their rights over assets (including land and commercial premises)[167].

102 African governments also need to work in close partnership with civil society, established businesses (both domestic and foreign) and the international community to develop specific actions for small enterprise development and poverty reduction. This is also one of the recommendations made by the Millennium Project in 2005[168]. The role of local authorities is also essential for guaranteeing an equitable access to goods and services in support of small enterprises in both rural and urban areas.

103 Women play a pivotal role in the informal economy, in large part because gender discrimination prevents them finding jobs in the formal sector. In some African countries, women are responsible for 80 per cent of agricultural production and close to 100 per cent of production for the household[169]. In Benin, for example, women traders represent 92 per cent of total informal employment. In slums, where women headed households predominate, it is the women who bear the burden of finding employment and raising their children under the most difficult conditions.

104 Yet women entrepreneurs in Africa face huge discrimination with regards to access to economic and social assets, including land rights, and education[170]. One priority area agreed by the AU is to empower women[171]. Recommended actions include improving women's access to training in basic business skills and market opportunities; and implementing legislation that guarantees land, property and inheritance rights for women. We strongly support these recommendations. These are essential not only for gender equality and poverty reduction, but also for the development of a diverse and vibrant private sector. Access to education for girls is discussed in Chapter 5.

Market linkages and the need for finance

105 In most African countries, domestic demand is low and market opportunities are few and far between. But even where market opportunities exist, small enterprises may

not be able to take advantage of them: constrained by a lack of access to finance, to business know-how and information, and to infrastructure and technology – what can be collectively referred to as poor 'market linkages'.

106 Small enterprises cannot grow in isolation and need access to a range of financial and non-financial services to take advantage of market opportunities. Access to credit is a constraint facing many small enterprises, especially farmers. Micro-finance institutions (MFIs), from *susus* in Ghana to *tontines* in Francophone countries like Cameroon, have grown under the pioneering work of non-government organisations[172]. But much more needs to be done in this area. Levels of financial exclusion – the number of people without access to bank accounts – can run as high as 90 per cent in some African countries[173]. The UN General Assembly has designated 2005 as the International Year of Micro-Credit[174]. The importance of microfinance was also raised in the 2004 G8 Summit in Sea Island[175]. We welcome this renewed focus and stress the importance of all aspects of finance (credit, savings, deposits, insurance services and pro-poor mortgage mechanisms) for the successful development of enterprises in Africa. Governments should encourage development of a variety of financial intermediaries that serve poor people with diverse financial services, not just loans[176].

107 MFIs alone are not the answer. Banks and other financial institutions, domestic and international, have far greater resources to take up the challenge of enterprise financing and come up with innovative financing schemes[177]. In this area, there is a need to build on existing efforts of partnership between MFIs and commercial banks, as already observed in some countries, like Guinea and Tanzania[178].

108 African countries also need a regulatory framework that supports microfinance and its integration into the financial sector[179]. The need for comprehensive reforms in the financial sector was discussed earlier, and is a focus of the proposed Investment Climate Facility.

109 Deepening financial markets is one example of how improved market linkages can help small enterprises grow. But other market linkages are equally critical to increasing opportunities for small enterprises. As discussed earlier in this chapter, infrastructure is vital for enabling enterprises to access markets and make the most of market opportunities. For agribusinesses, rural roads, irrigation and post-harvest infrastructure are particularly important. Enabling small enterprises to access markets should be a priority for the proposed additional infrastructure funding.

110 Small enterprises are also constrained by a lack of access to business services, including training in business planning. And they find it difficult to access information about market trends and opportunities. In this regard, mobile telephones have the potential to be of enormous benefit, with examples of farmers already using this technology to access market price information[180].

111 Through their trading relationships with small enterprises, larger domestic and foreign firms can play an important role in enabling them to overcome weak market linkages[181]. They open new market opportunities for small enterprises by involving them as suppliers or distributors of their products. But many also provide financial assistance, technological upgrading and business skills development[182]. The 'Partnerships for Small Enterprise Development' Resource Document commissioned by the UN[183] explores best practice, in Africa and elsewhere. The Business Contact Group has developed a welcome proposal to support small and medium enterprises (SMEs): an 'SME Passport' that will help small enterprises access finance and business knowledge[184].

112 **Recommendation: Developed countries should set up a US$100 million Africa Enterprise Challenge Fund**[185] **(AECF) to support private sector initiatives that contribute to small enterprise development by giving them better access to**

markets. The Fund will encourage new partnerships in the financial and non-financial sectors and contribute to the African Union's objectives of promoting job creation for young people and women's entrepreneurship.

113 Developed countries should support and encourage the direct involvement of domestic and foreign businesses, including banks and other financial sector institutions[186], in the challenge of small enterprise development and poverty reduction in Africa, building on commitments made at the 2004 G8 Summit in Sea Island[187]. While mutually beneficial in the long term[188], such engagement will involve initial risks that businesses may be unprepared to take.

114 Building on lessons and experiences of previous Challenge Funds[189], and other interventions in this area[190], the AECF will seek to work with businesses to accelerate the development of profitable business opportunities that contribute to small enterprise development through strengthened market linkages[191]. It will leverage private sector funding and management by providing direct support to overcome the perceived or actual risks that deter such investments. The private sector will identify, and bid for funding for, projects that have the potential to be commercially sustainable after the grant has been utilised[192].

115 This level of funding is expected to attract a further US$170 million of private sector capital across 300 projects in the first instance, with substantial follow-up investments for successful initiatives. This has the potential to impact directly upon thousands of micro, small and medium enterprises during the Fund's life. The selection of projects will be governed by their small enterprise focus and poverty impact, with a particular emphasis on women's participation and job creation for young people. The Fund will engage with a broad range of projects across sectors and types of market linkage. The AECF will work closely with the UNDP Growing Sustainable Business (GSB) Initiative (outlined in section 7.4.3), which would be an important source of potential projects for funding, and will inform the focus of the proposed Investment Climate Facility.

7.4.2 Employment promotion

116 Creating new jobs in Africa will depend primarily on accelerating economic growth. But growth alone will not always translate into employment opportunities for all. More direct actions are needed. In developed and emerging countries, the vast majority of people who escape poverty do so by taking up waged employment[193]. Yet waged workers represent a minority in Africa – from eight per cent in the Central African Republic to 25 per cent in South Africa[194]. This partly reflects low economic activity and the lack of employment opportunities in the formal sector. In addition, the majority of the domestic labour force in Africa, especially women, do not have the basic literacy and numeracy skills required for formal employment. Employers' organisations have further identified the lack of vocational (including ICT) skills as a major hindrance to employability in Africa[195]. For the many people who work in the informal economy, labour and safety regulations do not apply and work is often low paid and seasonal – providing a poor alternative to formal employment.

117 These issues call for an integrated approach to employment strategies in Africa, with an equal focus on the four priority areas of entrepreneurship, employability, equal opportunity and employment creation, which the International Labour Organisation[196] and the AU highlighted at the summit on Employment and Poverty Alleviation in 2004 in Burkina Faso.

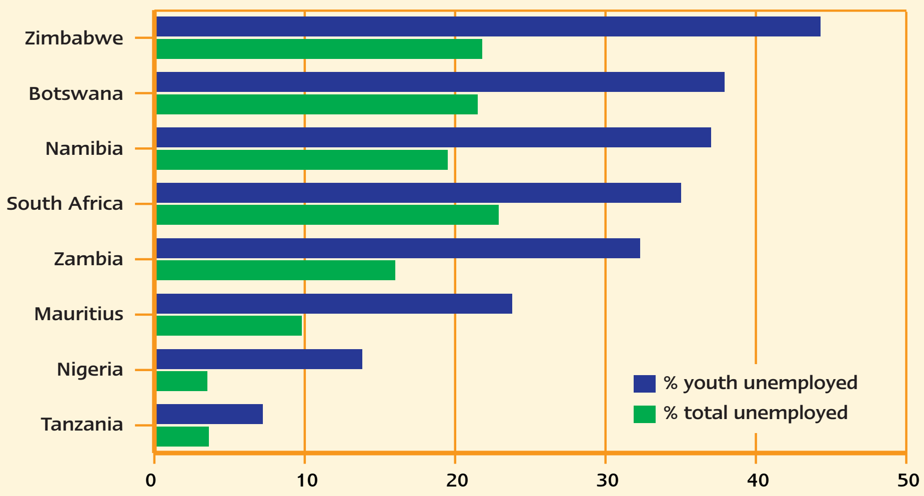
118 All African governments have committed themselves to build on existing efforts to tackle employment by signing up to the AU Action Plan in Burkina Faso. But to do this, African governments – education, labour and finance ministries in particular – need donors' assistance to undertake robust labour market analysis, building-up information on the labour market that will guide policy decisions (see Chapter 4). They also need to work in close partnership with all stakeholders, including trades unions and the private sector.

The challenge of youth employment

119 The challenge of youth employment in Africa needs urgent attention. In sub-Saharan Africa, young people aged 15 to 24 make up 36 per cent of the working age population[197]. Because of population pressure, the number of young people looking for work is expected to increase by 28 per cent in the next 15 years, equivalent to about 30 million people[198]. On average, 21 per cent of African youth are openly unemployed, a rate over three times higher than adults[199]. National rates exceeding 30 per cent are not uncommon, as illustrated in Graph 7.2[200]. But these figures capture only part of the problem. With no social protection, many young people (including graduates) cannot afford to be unemployed and, instead, survive by taking up activities in the informal economy.

120 Failure to address youth employment issues will have grave costs for the economy and society. Without opportunities to earn a living, intergenerational cycles of poverty will persist. This will reinforce the impact on youth incomes and activities, already made vulnerable by HIV and AIDS, food insecurity and violence. Young people and their employment must be seen as central for the broader development agenda. The UN Security Council has argued that youth unemployment is related to insecurity in West Africa[201]. Joblessness fuels the propensity of young people to engage in crime and violence. Post-conflict re-integration programmes in particular must respond urgently to the needs of youth and child soldiers (see Chapter 5 on employment issues in the framework of peace and security and, specifically, demobilisation).

Graph 7.2 **Youth Unemployment in Sub-Saharan Africa**



Source: ILO/SAMAT Discussion Paper No14, 2000 (latest year available)

Building on recent successes

121 Despite the scale of the challenge, many African governments have failed to address employment issues explicitly in their national poverty reduction strategies. Donors' focus on employment has also been particularly weak and erratic. Yet efforts to tackle employment issues, and youth employment in particular, have increased in recent years – spurred by commitments made under the Millennium Declaration[202], and the launch of

the Youth Employment Network (YEN) by Kofi Annan, Secretary-General of the UN. The initiative, backed by two UN resolutions, supports and promotes national-level strategies for youth employment[203].

122 Senegal, a lead country in the YEN, launched a youth employment programme in 2001. Since then, the national youth employment agency has assisted 25,000 young people in their job search; a national fund to facilitate finance for youth micro-enterprises (with a special focus on young women) has helped to create over 12,000 jobs; and public-private partnerships have improved vocational training through business internships for 600 graduates[204]. Other sub-Saharan African countries that have volunteered to prepare youth employment action plans include Mali, Rwanda, Namibia, and Nigeria.

123 As noted in the earlier section on infrastructure, public sector investment can also have a positive effect on employment. Public works in road building, slum upgrading and irrigation[205] are examples of employment-related schemes that African governments can integrate in their national poverty reduction strategies. Benefits are particularly strong when long-term employability is improved (see also employment springboards in Chapter 6).

Encouraging public-private partnerships

124 As strongly emphasised during the 2004 AU summit on Employment and Poverty Reduction and the African Social Partners Forum in Burkina Faso[206], all stakeholders – including youth, employers, civil society and trades unions – need to be involved in the process of identifying employment opportunities and matching up people's skills.

125 Through apprenticeship programmes, workplace training and input into curriculum development, employers are in a strong position to help prepare young people for jobs that are likely to be available. Successful demand-led vocational education packages include South Africa's 'employment platforms', the Nigerian National Open Apprenticeship Scheme and the introduction of enterprise skills in Malian secondary schools[207]. The Business Contact Group also identified the need for the international business community to work with local business schools, universities and colleges[208].

126 Larger domestic and foreign firms can also promote entrepreneurship by involving smaller businesses as suppliers or distributors of their products, as well as by offering mentoring support and access to start-up capital. This is the focus of the proposed Africa Enterprise Challenge Fund. An inspiring and instructive example is Youth Business International (YBI) – a private sector-led initiative that has helped 50,000 young people set up in business through 20 programmes around the world[209].

127 **Recommendation: African governments must take leadership in explicitly promoting employment for young people, both women and men, in their policies for growth. Donors should assist African governments in formulating and implementing national action plans on employment through the Youth Employment Network, as endorsed by the African Union[210].**

128 Developed countries should provide an additional US$30 million over three years to expand the work of the YEN to 25 sub-Saharan African countries[211]. The YEN aims to provide technical and financial assistance to these countries to draw up national youth action plans based on extensive consultations with youth, employers, civil society and trades unions. The countries that have already volunteered to prepare National Action Plans on youth employment would be encouraged to catalyze efforts in other countries. One third of overall funding would be for the policy, consultation and review process. The remaining US$20 million would be start-up funding for activities with the potential to be scaled-up in the future. Activities would be country-specific addressing both supply (relevant skills and training) and demand (job creation). In addition, the YEN will continue to encourage the

sharing of expertise between its members, co-ordinate donor funding, work with RECs, and build a partnership with the infrastructure fund (see section 7.3.2).

7.4.3 What business should do[212]

129 The business community's primary contribution to poverty reduction is through generating economic growth: it creates jobs and economic opportunities that lift people out of poverty, as well as tax revenues needed to fund public spending on a long-term basis. However, it is increasingly recognised that the way larger foreign and domestic businesses do business can have a further powerful impact on the extent to which poor people are able to participate in and benefit from growth.

130 These issues were put firmly on the international development agenda at the World Summit on Sustainable Development held in Johannesburg in 2002, with a business response to AU/NEPAD set out at the World Economic Forum's Africa Economic Summit 2002[213]. This year's Annual Meeting of the World Economic Forum in Davos placed a renewed emphasis on this area[214]. The work of the NEPAD Business Group, the AU's Economic, Social and Cultural Co-ordination Committee, and the King Report on Corporate Governance in South Africa, amongst others, have also raised and reflected interest in the African context.

131 The impact of business on the societies in which they operate is often discussed in the context of 'Corporate Social Responsibility' (CSR). However, the vagueness of the term and its overly-narrow misinterpretation as 'corporate philanthropy' means that some of the most important business-poverty linkages are often missed. While philanthropy – in the form of community level investments, employee volunteering programmes and product donations – does have very real benefits[215], still more important is the impact businesses have on development outcomes through their core business activities[216]. Four areas are particularly important:

- *Employment:* Job creation is clearly a central way in which businesses can be of direct benefit to society. In addition to the quantity of jobs, businesses' commitment to core labour standards[217] can contribute to poverty reduction by promoting broad-based economic and social development[218]. This is important in the face of pressures on developing countries to increase labour market flexibility and erode labour protection in the context of increased globalisation and competition[219]. Business can also support public and private sector capacity building[220].
- *Enterprise[221]:* Developing long-term business relationships with micro, small and medium enterprises is one of the most important ways in which larger companies can promote the participation of poor people in growth[222]. This is a focus of the proposed Africa Enterprise Challenge Fund. Examples of proactive support range from financial assistance and mentoring to lobbying national governments to create effective investment climates for small business[223]. Chapter 8 discusses the role of supermarkets that source products from Africa.
- *Goods:* Goods and services for poor people are often relatively expensive and of poor quality[224]. A greater choice of lower cost goods can benefit poor people, particularly if they are tailored to their needs[225]. Better management of environmental impacts of goods and services is also important (section 7.5 looks at environmental sustainability). Chapter 6 looks at pharmaceutical companies, drug pricing and research into new drugs, vaccines and diagnostics.
- *Social Services:* Paying taxes and refraining from demands for special tax treatment strengthens the government revenues, needed for sustainable, long-term provision of public services. Businesses can also directly benefit employees (and their families),

through the provision of education, housing and health services, with HIV and AIDS programmes particularly important. This is especially beneficial where it fits with and builds local capacities. Business can also be an important voice in lobbying government for public expenditure that benefits poor people[226]. The importance of private sector participation in infrastructure has already been discussed. Chapter 6 discusses this in the context of health and education services[227].

132 Business can also play an important role in promoting transparency and good governance[228]. Revenue transparency is particularly important in the extractive sectors[229]: governments in Equatorial Guinea and Angola, for example, have largely misused oil revenue inflows[230]. This contrasts with Botswana which put in place effective governance of its diamond revenues, so that resources were invested rather than squandered[231]. Chapter 4 sets out our proposals to encourage all African countries rich in extractive resources to implement the Extractive Industries Transparency Initiative (EITI). We urge businesses to apply the same principles of transparency and accountability in all sectors, including in natural resource sectors and in construction.

133 There are a number of factors that can limit the potential of business activities to provide opportunities and benefits for poor people. These include, first, a proliferation of codes and guidelines for corporate responsibility which can obscure comparability and accountability and encourage a 'box-ticking', process-driven, rather than outcome-driven, approach. Second, a lack of co-ordination and alignment with national development priorities can undermine the effectiveness of businesses' efforts. Impacts can be much larger if businesses act together and in support of national initiatives – a point made during our business consultations[232]. Third, current approaches take inadequate account of developing country perspectives: prescriptive codes – reflecting concerns of developed country stakeholders – can have unintended consequences on small-scale suppliers, excluding them from market opportunities if they are inappropriate or costly.

134 But the picture *is* a positive one. There are already numerous good examples of effective action. The International Business Leaders Forum has developed a useful framework for co-ordinating business actions in support of the MDGs[233] and is in the process of rolling this out across Africa. The Global Business Coalition on HIV and AIDS[234] brings together 180 international companies to promote best practice company anti-AIDS programmes in the workplace and communities, and to influence public policy. Many others, including the Business for Social Responsibility movement[235] and the World Business Council for Sustainable Development[236], are leading the way in business engagement in development issues. And individual companies, including members of the Commission for Africa Business Contact Group, are pioneering innovative ways of working in Africa.

135 It is time now for others to join the effort to promote development and the elimination of poverty in Africa. We call on the business community to identify actions it can take in support of the priority actions set out in this Report, not only financially, but in terms of developing innovative business models and new partnerships with each other, with donors, with national governments and with civil society, including trades unions; extending infrastructure services, housing and other basic services to poor people; promoting enabling investment climates that support all enterprises – including the very smallest; promoting good governance and transparency; supporting small enterprise development and youth employment; tackling HIV and AIDS; lobbying for Africa's interests on trade, aid and debt relief; tackling the old stereotypes of Africa – telling the positive stories of their own investment experiences.

136 This means businesses moving beyond CSR strategies that focus on philanthropy to a more fundamental look at how they do business. It means better co-ordinated, outcome-focused efforts centred around leading initiatives[237], including the UN Global

Compact[238], the OECD Guidelines for Multinational Enterprises[239], the Global Reporting Initiative[240], the ILO Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy[241] and the OECD Bribery Convention[242].

137 The UNDP Growing Sustainable Business initiative (GSB)[243], closely linked to the UN Global Compact and the report of the UN Commission on the Private Sector and Development[244], aims to promote such an approach. The initiative brokers partnerships that enable foreign and domestic companies to engage in pro-poor and sustainable investment projects, and is currently active in Tanzania, Madagascar and Ethiopia. Investments range from rural telecommunications and rural electrification to agribusiness and eco-tourism.

138 **Recommendation: The Commission calls for a sea change in the way the business community, both domestic and international, engages in the development process in Africa. Businesses must sign up to leading codes of good social and environmental conduct, including on corruption and transparency, and focus their efforts on co-ordinated action to tackle poverty. In support of this, developed countries should support the GSB in the region. For their part, donors and African governments must develop more effective partnerships with the private sector.**

139 Specifically, developed countries should provide US$20 million over five years. This level of funding will enable the GSB to broker over 100 investments, worth over US$300 million, across 20 African countries and across a range of sectors, such as infrastructure, financial services and agriculture. Activities – including brokerage, up-front feasibility and technical studies – are designed to improve the supply of bankable, pro-poor investment projects.

140 There are important synergies between the GSB, and the proposals for an Africa Enterprise Challenge Fund and an Investment Climate Facility. The GSB provides a pipeline of projects that combine commercial returns for the private sector with positive outcomes for poor people. Some of these projects may require initial risk sharing by the public sector, a proposed focus of the AECF. As such, the AECF would be one possible funding source for relevant investment projects brokered by GSB, and the GSB would be one possible source of project proposals that will be considered by the AECF. And both the AECF and the GSB will be well placed to inform, on the basis of their experience, the ICF of the systemic obstacles to doing business and to assist in promoting increased private/public dialogue to solve these issues.

141 Consumers and investors can play an important role in encouraging the business community to engage more actively in Africa. The Commission welcomes the strong growth in 'ethical trade', 'socially responsible investment' and 'sustainability investing', and calls for the principles embodied within them to be adopted across the investment and business community. Institutional investors – including African pension funds – should be encouraged to invest in Africa. Improvements to the domestic investment climate, discussed earlier, will mean that it will be easier to attract such investors.

142 The Commission urges greater participation of African countries – and their private sectors, including small enterprises, and civil societies – in the global CSR debate, including in the context of the next review of the OECD Guidelines. Specifically, we call for financial support for initiatives such as the recently launched Africa Corporate Sustainability Forum[245], and measures to enable small-scale suppliers to meet international codes and standards. African businesses, during our consultations, felt that private sector firms of developed countries should build partnerships with their African counterparts in areas of standards to raise the quality of African export commodities[246].

7.5 Environmental sustainability

143 Africa has a wealth of natural resources with the potential to drive economic growth and social development: land, minerals, biological diversity, wildlife, forests, fisheries and water, although these are unevenly distributed. In surveys, poor people consistently highlight the importance of the environment to well-being in terms of health, security, clean water, sanitation, safe energy, safe housing, food security and access to agricultural inputs[247].

144 Africa's economies and people are vulnerable to environmental hazards such as droughts and floods, the frequency and extremity of which is likely to be increased by climate change. Additionally, sub-Saharan Africa is seeing a faster degradation of many environmental resources, important to poor people, than any other region[248]. Problems include land degradation, desertification, biodiversity loss, deforestation[249], loss of arable and grazing land, declining soil productivity, pollution, and depletion of freshwater. Many of these are intertwined. Underlying causes of environmental problems include, amongst other things, rapid population growth and urbanisation, unsustainable agricultural expansion, over-exploitation of forests and ill-defined property rights. These pressures are increased by natural causes, such as highly variable rainfall, and wider pressures such as overall low economic growth, weak regulatory frameworks, the limited capacity of public institutions to respond, and collapses in governance associated with conflict.

145 Such environmental challenges can have significant impacts on economic growth and social development. Deforestation removes key sources of food, fuel and medicines for rural poor people as well as degrading biodiversity and wildlife – part of Africa's comparative advantage for tourism and pharmaceuticals. More than 70 per cent of sub-Saharan Africa's population depends in large measure upon forests and woodlands for livelihoods and 60 per cent of Africa's energy demand is met by forests[250]. The annual gross cost of environmental degradation in Ghana, including forest loss, soil erosion, health effects and land degradation, has been estimated to be US$127 million, or two per cent of GDP[251]. In Mozambique, the devastating floods in 2000 left 700 people dead and half a million people homeless. Crops were destroyed and infrastructure was severely damaged[252]. Economic growth fell from eight per cent in 1999 to two per cent in 2000[253]. In Kenya, floods in 1997-98 were immediately followed by drought in 1998-2000. Crop and livestock losses and reduced hydroelectric and industrial production resulted in an estimated cost to the economy of US$4.8 billion over the period or 22 per cent of GDP per annum. In short, the cost of inaction is high.

146 It is important to ensure that Africa's development both generates benefits for poor people and is sustainable – broadly meeting the needs of the present without compromising the ability of future generations to meet their own needs. To achieve this, it is necessary to address all three pillars of sustainable development: economic, social and environmental. Sustainable economic growth requires prudent use of natural resources and effective protection of the environment. A key challenge is to ensure this is addressed in the face of rapid urbanisation: well-planned cities offer opportunities for environmental sustainability. Sustainable environmental management requires a holistic assessment of what resources a county has and how these natural resources could contribute to poverty reduction. It also requires improved environmental governance, through transparent and participatory institutions and processes that genuinely involve those affected by change. This is required at local, national and regional levels.

147 In line with the Millennium Project's findings on progress towards environmental sustainability, the UN[254] assesses that Africa faces huge challenges in reaching the goals agreed at the 2002 World Summit on Sustainable Development (WSSD) on issues such as

access to energy, water supply and sanitation. Significant investment is required in the physical and institutional infrastructure necessary to achieve sustainable development.

148 The Commission calls on all countries to honour and implement the Multilateral Environmental Agreements to which they are party, as well as the commitments made at WSSD[255], which complement the MDGs including MDG 7 on environmental sustainability and all its constituent targets on water, sanitation and slum upgrading (see also Chapter 6). **Recommendation: In support of the Environment Initiative[256] of the African Union's NEPAD programme, donors should strengthen environmental considerations in all their programmes.** This requires screening to identify environmental opportunities and risks at an early stage and, if necessary, a full environmental assessment. Recommendations to deal with environmental issues should be built into donor plans and closely monitored during implementation. **Recommendation: Donor governments and international institutions, including the World Bank, the UN Environment Programme (UNEP) and the UN Development Programme (UNDP), should encourage the inclusion of environmental sustainability in African governments' poverty reduction strategies. These should include indicators for monitoring environmental performance.**

149 Climate change poses a major threat to Africa's future. Some rapid changes have already been observed. For example, in the Sahel there has been on average a 25 per cent decrease in rainfall over thirty years[257]. Climate variability and the frequency and intensity of severe weather events will increase[258]. Africa is likely to get drier in northern and southern latitudes and wetter in the tropics. There will be variation within regions and countries; southern Africa may be drier as a whole but some countries may be wetter than average. Rising sea levels, coastal erosion and flooding will all impact on coastal communities and economies[259]. Climate-induced changes to crop yields, ecosystem boundaries and species ranges will all dramatically affect the distribution and productivity of agriculture. Climate-related threats to food security, water and energy security and the increased incidence of vector and water-borne disease will further undermine Africa's ability to develop. Globally, an additional 80 to 125 million people will be at risk of hunger by 2080 – up to 80 per cent of whom will be in Africa because of its dependence on ecosystems that will be first to disappear[260].

150 Despite the threats, understanding of Africa's climate system is relatively limited. Much more needs to be done to improve the availability and understanding of information to inform national development planning. This requires improved capture and storage of existing data, new monitoring stations in low coverage areas and uptake and use of data by African institutions. **Recommendation: Donors should work to improve the climate observation network through the Global Climate Observation System, bilateral support, and a co-ordinated capacity building programme between donor and African research institutions.** Costs, over a 10-year period, could be in the region of US$100 million.

151 Africa is not a driver of climate change, but a victim. Without slowing global warming considerably, it is clear that the viability of millions of people's livelihoods in Africa will be undermined[261]. Mitigation of greenhouse gas emissions is therefore critical. This must be led by the developed world: in 2000, G8 countries accounted for 40 per cent of global greenhouse gas emissions[262]. It will also be important to engage countries with a large future energy demand so that they can meet their needs in a sustainable way within the framework of the UN Framework Convention on Climate Change. **Recommendation: Developed countries should set targets for greater use of new cleaner energy technologies to stimulate the global market and encourage their use in developing countries.**

152 However, climate change will continue for some time even if greenhouse gas levels are stabilised, due to the lag effect of the atmospheric system. Overall, Africa's vulnerability to climate change is high and its capacity to adapt is low. Economic growth, poverty reduction and the achievement of the MDGs in Africa are jeopardised. More needs to be done to enable Africa to manage climate-related risks and to build resilience to these risks. **Recommendation: From 2008, donors should make climate variability and climate change risk factors an integral part of their project planning and assessment. They should meet their commitments on funding to help African countries adapt to the risks and impacts of climate change[263].**

Recommendations on Growth and Poverty Reduction

153 Poverty in Africa will continue to rise unless there is greater economic growth – and of a kind in which poor people can participate. And none should be excluded. Policy makers must always consider the impact of policies on poor people. The package of proposals set out in this and other chapters should enable sub-Saharan African countries to achieve and sustain growth rates of seven per cent by 2010. And they will also boost the participation of poor people in the opportunities created by growth. In so doing they will work to reduce income inequality, which can undermine the impact of growth on poverty.

154 Our proposals here are divided in two. The first set relates primarily to promoting growth. Faster growth and greater poverty reduction require major investment in infrastructure, agriculture, urban development, the creation of a climate which fosters investment, and policies which take careful account of the environment and climate change. Growth will be driven by the private sector, but government creates the conditions for this – the challenge is to build a strong partnership.

155 The second set of proposals relates to promoting poor people's participation in that growth. In this, particular emphasis should be placed on much stronger opportunities and rights for women, who are often key to small enterprise growth. Young people need job opportunities. The business community can also play a part in these areas.

Promoting Growth

156 Africa needs an additional US$20 billion a year investment in infrastructure. To support this, developed countries should provide an extra US$10 billion a year up to 2010 and, subject to review, a further increase to US$20 billion a year in the following five years. This should support African regional, national, urban and rural infrastructure priorities – ranging from rural roads and slum upgrading to information and communication technology and the infrastructure needed to support greater integration of Africa's regions and to enable Africa to break into world markets.

157 African governments must unleash the strong entrepreneurial spirit of Africa's people. To promote this, donor governments and the private sector should co-ordinate their efforts behind the proposed Investment Climate Facility of the African Union's NEPAD programme. This requires US$550 million from donors and the private sector over seven years to identify and overcome the obstacles to doing business. In addition, developed countries should support a fund of the Multilateral Investment Guarantee Agency, the world's public agency for risk-bearing, to insure foreign and domestic investors in post-conflict countries in Africa. Support should also be extended to domestic investors across sub-Saharan Africa.

158 As part of a wider set of measures to promote agricultural and rural development, Africa must double the area of arable land under irrigation by 2015. Donors should support this, initially focusing on funding a 50 per cent increase by 2010, with an emphasis on small-scale irrigation. Other measures include improving the investment climate; rural infrastructure; research and the spread of new agricultural techniques; security of tenure and land rights, particularly for women; and investment in small towns to encourage the growth of local and regional markets.

Poor people's participation in growth

159 Developed countries should set up a US$100 million Africa Enterprise Challenge Fund to support private sector initiatives that contribute to small enterprise development by giving them better access to markets. The Fund will encourage new partnerships in the financial and non-financial sectors and contribute to the African Union's objectives of promoting job creation for young people and women's entrepreneurship.

160 African governments must take the lead in promoting employment for young people, both women and men, in their policies for growth. Donors should assist African governments in formulating and implementing national action plans on employment through the Youth Employment Network, as endorsed by the African Union.

Promoting the role of business

161 The Commission calls for a sea change in the way the business community, both domestic and international, engages in the development process in Africa. Businesses must sign up to leading codes of good social and environmental conduct, including on corruption and transparency, and focus their efforts on co-ordinated action to tackle poverty – working in partnership with each other, with donors, with national governments, and with civil society, including trades unions. In support of this, developed countries should support the UNDP Growing Sustainable Business initiative in the region. For their part, donors and African governments must develop more effective partnerships with the private sector.

The environment and climate change

162 In support of the Environment Initiative of the African Union's NEPAD programme, donors should strengthen environmental considerations in all their programmes. Donor governments and international institutions, including the World Bank, the UN Environment Programme (UNEP) and the UN Development Programme (UNDP), should encourage the inclusion of environmental sustainability in African government's poverty reduction strategies. These should include indicators for monitoring environmental performance.

163 Developed countries should set targets for greater use of new cleaner energy technologies to stimulate the global market and encourage their use in developing countries. Donors should work to improve the climate observation network through the Global Climate Observation System, bilateral support, and a co-ordinated capacity building programme between donor and African research institutions. From 2008, donors should make climate variability and climate change risk factors an integral part of their project planning and assessment. They should meet their commitments on funding to help African countries adapt to the risks and impacts of climate change.

Annex: Options for Administering Additional Infrastructure Funds

164 Our proposal on infrastructure, set out in Section 7.3.2, involves an additional US$10 billion a year, building in the medium-term to US$20 billion. We suggest two options for administering the additional funds. Clearly, a hybrid of the two would also be possible. Firm decisions are needed now to ensure that disbursements reach US$10 billion by 2008.

165 Option 1 proposes housing the facility at the African Development Bank (ADB). The ADB is the lead agency for infrastructure development in Africa, and has been designated as the focal agency for promoting AU/NEPAD infrastructure programmes. In the last five years it has scaled up its operations in this area in line with the strategic orientation of the Bank[264].

166 There are a number of governance options for managing a fund at the ADB, with one being to follow the structure of the Bank's Special/Trust Funds. Under this arrangement, the Bank would accept administration of the resources and serve as trustee to the fund. This would involve preparing a pipeline of projects and financial management of the resources.

167 Oversight of the fund would sit with the 18-member Board of Directors, and ultimately with the Board of Governors of the Bank – the highest decision-making body of the Bank with 77 Ministers of Finance/Development/Co-operation, from 53 African States and 24 non-African States.

168 To ensure a fast-track approval process, authority can be delegated to a management committee. In some cases a separate governance organ has been set up, involving donors, with an oversight committee or council to set the strategic direction of the fund, review the pipeline of projects and conduct progress reviews. Establishing a smaller, separate Board of Directors drawn from the ADB and state participants, but still reporting to the Board of Governors, is another option, as in the case of the African Development Fund.

169 ADB resources are always untied and available for use continent-wide. However, the Board may consider the earmarking of resources for specific sectors, or as appropriate, countries.

170 This arrangement could be assisted by private sector participation in fund management and a Review Panel to examine large projects. Constructing such a facility might take a year but given that a decision could be taken in 2005 and that there are projects and programmes already in preparation, notably by the ADB in the context of the AU/NEPAD Short Term Action Plan, funds should begin to flow to approved projects before the end of 2006. For 2005, the Bank is considering seven physical projects, one capacity building project, and three studies estimated at about US$500 million.

171 In addition to the experience gained by the ADB in financing infrastructure and public utilities in Africa[265], the organisation should draw on the experience of development banks such as the World Bank, Asian Development Bank and European Investment Bank, which have successful infrastructure records. Such organisations could also help with staffing.

172 Subject to progress in implementing ADB's in-house capacity building programme, resources could be transferred to core-funding either as a ring-fenced, special contribution to the African Development Fund, or in connection with the 2008 round of funding. Clearly, this must recognise that at full disbursement the new fund would represent a more than ten-fold increase in current ADB annual commitments in infrastructure sectors[266].

173 Disbursements by 2006 would be unlikely to be at the 'running level' of US$10 billion per year but the aim should be to build to that level by around 2008, subject to effective and responsible mechanisms for disbursements, procurement including from SMEs and social and environmental responsibility being in place.

174 A second possibility for implementation, Option 2, is to spread the funds across the ADB, the World Bank, the European Investment Bank, International Finance Corporation, bilateral agencies and others, within a framework of enhanced co-ordination. This framework could range from a formal co-ordinating group of donors to a series of Memoranda of Understanding, but it should be light touch. It would be important that the ADB has a role in co-ordinating such a framework.

175 This would probably allow for faster build-up and draw more effectively on existing skills, whilst overcoming the concern expressed by some over creating a single fund. On the other hand, it would be less focused on African governance and building capacity at the ADB. The World Bank and the EIB are already major lenders for African infrastructure. Some bilateral donors have extended records of successful financing for infrastructure in other regions, for example Japan in East Asia, and might be in a position to move quickly. Clearly there are a number of possible splits of the extra infrastructure financing across mechanisms, instruments and donors.

176 For both options, it is important that, to ensure accountability and efficient use of the additional resources, early investment is made in developing a more accurate and standardised baseline of existing expenditure (to ensure existing expenditure is not simply displaced) and to benchmark unit costs (to promote efficiency in the face of the wide variations across countries, and to avoid cost escalation in the face of a large injection of resources). Measures must also be put in place to ensure transparency in procurement – in light of the traditionally high levels of corruption in the sector.

177 It is also important to recognise the need to invest in implementation capacity, to ensure the funding is effectively delivered. This has implications for all key donors in terms of their own staffing: the proposed initial increase of US$10 billion compares to total global multilateral commitments for infrastructure in 2002 of around US$16 billion and bilateral commitments of US$8 million[267]. The need to promote national, municipal and regional capacity is covered in section 7.3.2.

178 Funding on an appropriate scale could be provided via the proposed International Finance Facility (see Chapter 9) or by a strong increase in Official Development Assistance. At the same time, facilities should be designed so that, over time and where appropriate and equitable, via user fees, they can make a contribution to the public finances.