OPINION
BY INVITATION

Developing Africa's economy

Doing the sums on Africa

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Small amounts spent on promoting Africa's economy can save billions and make the West more secure

AFRICA'S importance for global security has risen dramatically in recent years. Africa has served as a staging-post for terrorist attacks both within the continent and in the Middle East. West Africa's development prospects have brightened with the discoveries of offshore oil and gas reserves that could supply perhaps 25% of America's hydrocarbon imports within a decade, yet the orderly and transparent development of these reserves is threatened by violence and instability. Al-Qaeda has reportedly tapped into the illicit diamond trade in west Africa and has promoted insurgencies across the Sahel (the border region between desert and savannah). Governments in countries such as Ethiopia, Kenya, Tanzania and Uganda are co-operating closely with America to fight these threats. But poverty, hunger and disease leave the region vulnerable to security and humanitarian disasters.

In every aspect of Africa's complex plight an ounce of prevention will be worth a ton of treatment. In recent years America gave a negligible $4m a year to Ethiopia to boost agricultural productivity, but then responded with around $500m in emergency food aid in 2003 when the crops failed. In the 1990s America gave less than $50m a year for Africa to prevent AIDS, so now will spend $3 billion per year to treat the disease after it has spread to more than 50m Africans—20m dead and 30m currently infected (see article).

America's security outlays in Africa have shot up by $100m in the new East Africa Counterterrorism Initiative, and could soon dwarf economic development assistance. America recently committed almost 2,000 troops in the Combined Joint Task Force Horn of Africa, based in

Djibouti, and is providing security and intelligence training in the Sahel. But direct military efforts will not achieve long-term security when Africa's underlying crises of hunger, disease, poverty and bulging youth populations remain unaddressed. Indeed, under today's conditions, a growing American troop presence in Africa could easily provoke a backlash.

American strategic planners generally recognise the value of economic development assistance in the aftermath of wars, as in the case of $20 billion that America will spend in Iraq and the $2.3 billion committed to Afghanistan. Yet when it comes to development assistance to prevent conflict there is almost no money to be found. America's foreign policy is strikingly out of kilter, allocating $450 billion per year for the military and a meagre $15 billion (at most) for development assistance.

Strip out sums for emergencies such as food aid and anti-retroviral medicines, military assistance, debt service, as well as sums paid to American consultants rather than to African countries, and total American development assistance for Africa will be less than $1 billion this year for more than 700m Africans. What about America's new Millennium Challenge Account, budgeted this year at $1 billion, but to be scaled up to $5 billion per year by 2006? This sum is distributed throughout the developing world, and in any case will be much too small to address Africa's financing needs for roads, power, clean water, sanitation, children's health, schools, fertilisers and irrigation, and other specific investments that could unlock the continent's economic growth.

A much smarter plan for Africa would save a fortune in the future by ending Africa's trap of poverty, disease, hunger and violence and bolstering Africa against the virus of terror. America and its allies need to appreciate that there are several well-governed African countries in which investments on a meaningful scale would fuel regional economic development rather than corruption and misrule. Specific and well-targeted investments over the coming decade would provide the foundation for self-sustained growth. And donor countries need to realise that they are sitting on under-utilised systems that could deliver that aid effectively.

Find your partners

The first step is to identify plausible African partners. In Afghanistan and Iraq America has not withheld development assistance pending "good governance". It has ploughed ahead with development spending even in the midst of extreme violence and even though the respective American-backed governments in Baghdad and Kabul barely have a writ of authority that runs beyond (or even within) their respective capitals. In Africa, the options are vastly better. At an over-arching level, the new African Union, with its development flagship, the New Partnership for African Development (NEPAD), has launched an enormously valuable process of "peer review". So far, 16 African governments have signed up.

Strong national leadership backed by regional peer review offers a powerful combination to improve the performance of governments. In west Africa, at least two strategically positioned countries stand out for their exceptionally good governance: Ghana and Senegal. Both are multi-party democracies. Both are led by impressive and popular elected leaders, Presidents John Agyekum Kufuor and Abdoulaye Wade. Both countries have an educated cadre that can lead a bold strategy. Both have acceded to peer review. Yet both are mired in poverty because of the lack of key infrastructure and because of unabated disease, especially malaria.

Other impressively governed yet impoverished countries in the region include Mali and Benin. Nigeria too could turn the corner on governance. President Olusegun Obasanjo inherited a corrupt governance mess when he came to power in 1999, but he has worked hard and against the odds to improve the situation. His new and widely admired finance minister, Ngozi Okonjo-Iweala, has recently tabled an impressive poverty-reduction strategy backed by much more rigorous systems of public administration and accountability.

Mind the gap

Infrastructure in Africa and other developing regions

	Average for six African countries*	Average for non-African developing world
Paved roads per person, km	0.01	4.49
Electricity consumption per person, KwH	118.5	1,227.9
Public health spending per person, $	6.2	87.5
Primary education pupil-teacher ratio	44.7	27.6

*Ethiopia, Ghana, Kenya, Senegal, Tanzania and Uganda

Source: World Bank World Development Indicators 2003

In east Africa, there are also several outstanding partners. Effective leaders in Ethiopia and Uganda have taken two seemingly hopeless countries and set them on a path of development despite desperate initial conditions. Meles Zenawi, the prime minister of Ethiopia, has the most insightful, indeed ingenious, ideas about rural development of any leader in that country's modern history. President Yoweri Museveni of Uganda has fashioned the fastest-growing economy in east Africa, and the only country in all of Africa to have turned the corner on AIDS. All of this is despite Uganda being landlocked and victimised by an insurgency in the north backed by Sudan's Islamist forces. Both Messrs Meles and Museveni have been staunch and unstinting supporters of America's anti-terrorism efforts, and both have also acceded to African peer review.

To the east and south, Kenya and Tanzania have democratic and development-minded governments, but are under extreme stress from pervasive poverty and disease. Well-governed poor countries farther south include Botswana and Mozambique, among others. The situation in Kenya is especially poignant. A bold democratic opposition united to unseat the deeply entrenched and corrupt ruling party in the 2002 elections. But just as this government came to power, Kenya was hit by an American State Department travel advisory warning of potential terrorist threats. Tourism fell off and the government was immediately on the ropes.

On anybody's list—the World Bank, Freedom House, Transparency International—a growing and significant number of African countries has the quality of leadership and governance to achieve economic development and to fight terrorism. But these countries lack the means. Consider the dire infrastructure situation in six of these well-governed countries (see table). They lack the roads, electricity, health care and teachers needed to break out of poverty. Without this basic infrastructure, these countries cannot reliably feed themselves, much less attract investors for long-term growth.

Even Uganda, with its impressive record of economic growth in the 1990s, has experienced an upturn of poverty. Without a multi-lane highway from Kampala, the capital, to the port of Mombasa in Kenya, and without a network of roads connecting villages to such a highway, the economy is trapped in a straitjacket.

Needs to know

The first step to help these countries is a detailed "needs assessment" of the kind that the UN and World Bank carried out last summer for Iraq at America's request. The assessment in Iraq was a joint product of the World Bank, the International Monetary Fund and about a dozen specialised UN agencies. These agencies identified Iraq's infrastructure-investment needs on a sector-by-sector basis. The results showed that Iraq would need around $36 billion over four years for roads, power, water and other priorities. Another $20 billion was needed for targeted spending in "softer" areas like human rights and culture. The total assessment therefore came to $56 billion over four years. America has so far pledged around $20 billion of that. In the case of Afghanistan, a similar exercise in April identified $27.5 billion in investment needs over the next seven years, and the plan was backed by pledges of $8.2 billion during the coming three years.

This kind of needs assessment has never been done for Africa. In recent years, African countries have been told by the rich world simply to "live within their means", however meagre those means might be. The IMF and World Bank have had to deliver this painful donor message. "Belt tightening" for people who cannot afford belts became the order of the day. The professional staffs of the Bretton Woods institutions know full well that their programmes lack adequate donor financing. But since these agencies are run by the same donor governments that are withholding adequate aid, deep frustrations are rarely expressed in public.

As special adviser to the UN secretary general, Kofi Annan, I asked my colleagues in the Millennium Project to undertake a needs assessment in order to assay what a more detailed study might show. Our much smaller team undertook a process very similar to the multi-agency study for Iraq, looking sector by sector at the gaps in infrastructure, social-service provision and human resources, and the costs of filling them in relatively well-governed countries. With only a small portion of what America is now spending on military and reconstruction outlays in Afghanistan and Iraq, it would be possible to enable hundreds of millions of people to break out of poverty. The average annual financing needs for the period 2005 to 2015 are roughly as follows.

Basic infrastructure—roads, investments in soil health, water harvesting for crops, drinking water and sanitation, modern cooking fuels, electricity—would cost around $45 per person per year between now and 2015 (using an average of the per-capita costs identified for Ghana, Tanzania and Uganda). Basic health care—for control of malaria, AIDS, TB, childhood diseases, safe childbirth, nutrition and family planning—would be another $30. Upgrading primary and secondary education would add another $15 per person per year. Other high-priority items would add roughly another $10, bringing the total needed investments to around $100 per person per year.

Some of these needs are, of course, covered by domestic budgets, while a small part comes from the out-of-pocket spending of the extremely poor. In total, domestic outlays might cover as much as $40 per person per year, if these poor countries push hard (but not punitively hard) on mobilising local resources. The remaining $60 gap would require international help. These countries already receive around $10 per person per year in aid that is directed at these priorities (additional aid is directed at other purposes). The unmet need is therefore around $50 per person per year. Applying these results to six countries—Ethiopia, Ghana, Kenya, Senegal, Tanzania and Uganda—with a combined population of 180m, this amounts to only $9 billion per year in addition to current aid flows, far less than what was targeted for Iraq alone with its 24m people.

Beacons of stability

Could this money be well absorbed? The answer is a decisive "yes". In the six countries, the governments are stable. Bridges, pipelines and power pylons are not being blown up each day. All six countries have already prepared detailed, often ingenious, plans for scaling up their investments in the key infrastructure sectors. Ghana has its Ghana Poverty Reduction Strategy (GPRS), Ethiopia its Sustainable Development and Poverty Reduction Programme, and so forth. Indeed, these plans reveal a powerful and poignant truth.

Ever since the UN Millennium Assembly in September 2000, the low-income countries were told to "scale up" their ambitions in order to meet the poverty-reduction targets summarised in the Millennium Development Goals. They were told to make plans for Education for All (EFA), to Roll Back Malaria (RBM), to treat AIDS patients on the scale of 3-by-5 (3m patients in poor countries on anti-retroviral treatment by the end of 2005, covering half of all those who would need such treatment), and so forth. The well-governed countries took these initiatives seriously, making detailed plans and submitting them to the donors. But the donors got sidetracked by the September 11th attacks. Africa's plans are on the table, but the financing is not.

Ghana's GPRS, to name just one example, brilliantly identified the sources of rural poverty. It systematically laid out the case for a five-year investment programme, identifying regional needs and timetables for filling them. It produced, in short, a first-rate analytical effort. But the donors said that it was "unrealistic"—not in terms of Ghana's needs, potential, goals, or plans, but in terms of what the donors were prepared to fund. The GPRS went through four drafts as it was beaten down to "realism" by the donors. In consequence, the plan addresses only a fraction of the country's real needs.

With strategic and well-governed countries identified, with plans of action in place, and with relatively modest financing needs, the last remaining step is to set in motion a process in which the elements are combined. Such a process is surprisingly close at hand, if America can rouse itself even briefly from its election-year and Middle East preoccupations. The key lies in a multilateral approach to helping Africa, and America is the biggest missing element for greater multilateral assistance.

The International Development Association (IDA) of the World Bank is the right focal point for revamping and expanding the aid flows. IDA provides the most successful form of development assistance in the world today, and it can be made even better. It does five important things. First, it provides the world's single largest flow of low-cost development assistance to poor countries, though not enough of it and not at low enough cost. IDA currently makes commitments of around $8 billion per year, of which 80% is low-interest long-term loans and the remainder outright grants. Second, it directs its outlays towards the priorities identified by the recipient countries.

Third, IDA harmonises donor resources. Typically, the 22 rich-country donors torment recipient governments by insisting on separate aid projects that allow each donor to "show the flag". In the case of IDA, however, the donor governments agree, wisely, to pool their resources into a single basket that can back the specific strategy of the recipient country. Fourth, IDA commits its resources over a three-year time horizon rather than a one-year donor budget cycle typical of bilateral aid. Fifth, it aims to base its allocations on good performance, using indicators for governance and economic management.

Bigger is better

Still, IDA needs to be strengthened in four ways for it to play a breakthrough role in Africa. Most important by far, instead of $8 billion, IDA's annual programmes should be up to $25 billion, with around half of that going to Africa. Second, IDA needs to make grants rather than loans to the poorest recipients, which would include almost all of the countries in sub-Saharan Africa. The American government called for grants rather than loans to finance Iraq's recovery so as not to encumber future Iraqi generations, and the same principle applies even more emphatically for impoverished Africa. Third, IDA should work with the aid recipients on strategies that have a time horizon long enough to carry them from today to 2015 when they are supposed to meet the Millennium Development Goals. Fourth, IDA can and should focus even more on measurable, monitorable and proven interventions—roads, soil nutrients, anti-malaria bednets, to name a few—which in combination enable a country to break free of poverty.

In fact, the timing for introducing properly ambitious programmes could not be better. The next three-year round of IDA financing (IDA-14, covering fiscal years 2006-08) is currently under negotiation among donors. The African Union's peer-review mechanism is getting under way. Next year, Britain hosts the G8 Summit, and Tony Blair's government has made clear that a doubling of development assistance will be at the core of the agenda. Mr Blair's Africa Commission is due to report in spring 2005. And in September 2005, the world's leaders will gather at the UN to review progress in the five years since the Millennium Assembly. Will they still be enmeshed in bitter controversy over a highly contested war? Or will they say with confidence that well-governed developing countries will finally find a partnership with their rich counterparts to help the world escape from violence, terror, disease and extreme poverty?

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