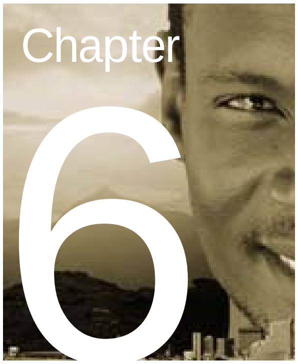

Chapter 6

Setting the development agenda for the 21st century

The challenges to Africa's development do not preclude rapid and sustained growth. Instead they point to the tasks ahead for Africa to develop and eradicate poverty. Growth and development can happen if African governments and their development partners work hard to reverse the long-term constraints and structural factors behind the continent's poor economic performance.

"Interventions should benefit all segments of a society's growth, employment, and poverty reduction"

The development challenges facing most African countries at the dawn of the new century are complex and multidimensional—involving economic, sociocultural, political, and environmental factors that cannot be adequately addressed through separate and isolated interventions. In human development, socio-economic indicators have worsened, reflecting greater numbers of people in poverty and higher inequality than in other regions. Compounding this are high population growth rates, which combine with low incomes to lower per capita income growth rates and create high dependency ratios (World Bank 2000b).

An important consideration in formulating a development strategy for Africa is adopting a comprehensive approach that addresses all the key issues in a coordinated manner. The goals of development must go beyond the relatively narrow objective of increasing per capita income to include poverty reduction, equity, and social development. Every African country will need a strategy that suits its sociopolitical and economic circumstances.

The national goals and objectives are clearly identifiable:

- Reduce poverty.
- Increase incomes and reduce income inequalities.
- Substantially increase investment in human and physical capital.
- Diversify the economic structure.
- Create an environment for growth and development by strengthening governance, economic management, and conflict resolution.

Interventions should benefit all segments of a society's growth, employment, and poverty reduction. There should also be an appropriate mix of government and private interventions in areas where, due to market imperfections and failures, the state needs to intervene.

Growth must be broad-based and equitable

To make a significant reduction in poverty by 2015, Africa needs to sustain growth of at least 7% annually, far higher than the 2% growth attained by many African countries in the 1990s (Economic Commission for Africa 1999c). Estimates show that 43.5% of Africans live below the $39 a month poverty line (table 6.1). And inequality is high. What policies can achieve more dynamic, equitable, and sustainable growth?

"To make a significant reduction in poverty Africa needs to sustain growth of at least 7% annually"

Fostering private sector development as the principal engine of growth is important. But high transaction costs and the perceived uncertainties of doing business on the continent have constrained private investment. To reverse this, Africa must promote an enabling environment for private sector development that would:

Table 6.1
Nutrition-based poverty in seven African countries, various years (percent)

		Share of population below the national poverty line[a]	
Country and years[b]	Area	First year	Second year
Burkina Faso	Rural	51.1	50.7
1994, 1998	Urban	10.4	15.8
	Total	44.5	45.3
Ghana	Rural	47.2	34.4
1991/92, 1998/99	Urban	15.1	11.6
	Total	36.5	26.8
Mauritania	Rural	72.1	58.9
1987, 1996	Urban	43.5	19.0
	Total	59.5	41.3
Nigeria	Rural	45.1	67.8
1992, 1996	Urban	29.6	57.5
	Total	42.8	65.6
Uganda	Rural	59.4	48.2
1992, 1997	Urban	29.4	16.3
	Total	55.6	44.0
Zambia	Rural	79.6	74.9
1991, 1996	Urban	31.0	34.0
	Total	57.0	60.0
Zimbabwe	Rural	51.5	62.8
1991, 1996	Urban	6.2	14.9
	Total	37.5	47.2

a. Nutrition-based poverty lines. Comparisons between countries are not valid.

b. The dates in this column correspond to the first and second years.

***Source:** Demery 1999; Ghana Statistical Service 2000.*

- Engender confidence in the sustainability of appropriate macroeconomic policies.
- Create and maintain a transparent, even-handed, and efficient legal environment for enforcing contracts, competition, and bankruptcy and commercial laws.
- Protect property rights and ensure that the necessary infrastructure and qualified labour are available.
- Create a regulatory framework to promote competition and prevent monopolistic practices.

It will take time to mobilize resources while engaging all the key players. And given the resource endowments of African economies, countries will inevitably continue to depend on the expansion of resource-based production in the near future.

Primary production and manufacturing exports have unexploited potential (Wood and Mayer forthcoming). This means that export production and growth can be increased relatively quickly if African countries remove the constraints that impede the exploitation of this potential—by upgrading infrastructure and allowing economic agents to operate efficiently and competitively. Increasing output in the primary sector and in manufacturing would increase the surplus for more investment by generating more output.

The strategy should be to maximize growth in the short to medium terms while laying the foundation for long-term sustainable growth—such as by investing in education and skills development.

Reforms can boost savings and investment

> *"Raising domestic savings must be seen in the broader perspective of increasing incomes"*

Increasing investment is important for productivity growth because investment can bring more productive technologies and higher skill levels, usually embodied in new plants and equipment. Both private and public investment will have to increase to exploit the complementarities and synergies important for growth. According to estimates of the Economic Commission for Africa (1999c), Sub-Saharan Africa's investment gap is 23%.

Raising domestic savings, a critical component of Africa's development strategy, must be seen in the broader perspective of increasing incomes. There must be mechanisms to ensure that the mobilized savings are used where they yield the most growth benefits to the economy—such as investing in plants and equipment, not in real estate and idle land.

The unavailability of financing will continue to constrain higher investment in the short and medium terms. And attaining the needed investment rates will initially require measures to attract foreign savings—both public and private.

Of all regions Africa has the largest share of its wealth held overseas by its residents. Repatriating these resources can substantially add to the financing available and reduce the reliance on foreign financing. Countries must thus undertake measures to stem and reverse capital flight. Institutional, economic, and political reforms that reduce risk and increase the returns on savings and investment are essential.

Human capital development should focus on quantity and quality

Low investments in education and health are major impediments to growth and development. A first step to modernize investments in human capital is to increase the shares of government budgets targeted to these sectors, complemented by private investment. Investing in education will enable Africa to attract private investment, to adopt and develop modern technologies, and more important, to learn, accept, and engender the change that must come with development. Investing in health will ensure a productive labour force.

An important consideration in human capital development will be to balance investment at all levels—primary, secondary, and tertiary. That will lay a strong foundation for economic and social transformation and help prepare for competition in knowledge-intensive sectors. The emphasis should be on increasing the quantity and quality of health and education services—and on the efficiency of resource use and the equity of provision.

"African manufacturing firms can become competitive in a more liberalized trade and exchange environment"

Equity is particularly important because inequitable distribution of these services leaves a lot of human potential undeveloped. Equitable provision of health and education will enable Africa to tap this great potential for development (box 6.1). But simply increasing the share of the budget allocated to social sectors is insufficient. It is important that expenditures within the social sectors are targeted to projects and programmes—and not to wages and salaries (table 6.2).

Resource-based industrialization will enable competition in the global economy

The continent must break out of its vicious circle of dependence on the production and export of primary commodities and on its traditional comparative advantage in raw materials and unskilled labour (table 6.3). These are all much less important in today's competitive and knowledge-based global economy. The challenge is to identify, support, and expand activities where value added is greater, productivity growth faster, and demand elasticities in world markets higher.

Globalization opens the world economy, making it more difficult for African countries to protect their domestic markets for infant-industry learning. Africa's industrialization strategy thus needs to be largely outward oriented. Microeconomic evidence shows that African manufacturing firms can become competitive in a more liberalized trade and exchange environment. The key to industrialization in Africa is to address the costs of poor and inefficient infrastructure, high transaction costs, and a risky business environment (Collier and Gunning 1999). And to overcome the problem of small domestic markets, industrialization will need to take a regional approach—so investors can benefit from wider investment and trading environments that provide a basis for breaking into the global markets.

Box 6.1

Some progress made—and more still to go—in reaching gender equity in education

Becoming a male or a female is a biological process, but becoming a man or a woman is a cultural process related to socially learned behaviours and expectations associated with males and females. Like race and class, gender is a social category that largely establishes people's opportunities and directs their social relations with others. Universal primary education was enshrined as a human right in the United Nation's Universal Declaration of Human Rights in 1948. Forty years later the goal was not yet in sight. So in 1990 the World Declaration on Education in Jomtien, Thailand, called on donors and governments to reaffirm their commitment to universal primary education. The target for achieving this goal was 2000. How close is Africa?

A study based on internationally comparable household data sets (Demographic and Health Surveys) from 41 countries concludes that while Africa has made some progress it still perpetuates disparities in gender, household wealth, adult education, and access to schools (see table).

Gender gaps in enrolment of 6–11 years olds, various years in the 1990s

Country	Girls enroled in school (percent)	Male-female gap (percent)	Male-female ratio
Benin, 1996	34.1	18.0	1.53
Burkina Faso, 1992–93	23.2	8.3	1.36
Cameroon, 1991	61.4	8.5	1.14
Central African Republic, 1994–95	49.9	13.9	1.28
Chad, 1998	23.7	12.5	1.53
Comoros, 1996	43.4	5.3	1.12
Côte d'Ivoire, 1994	42.6	12.4	1.29
Egypt, Arab Rep., 1992	77.4	11.3	1.15
Egypt, Arab Rep., 1995–96	79.2	9.9	1.13
Ghana, 1993	75.2	2.6	1.03
Kenya, 1993	70.5	1.0	1.01
Kenya, 1998	86.0	–0.3	1.00
Madagascar, 1997	62.1	–2.5	0.96
Malawi, 1992	55.8	–2.5	0.96
Malawi, 1996	91.4	–0.8	0.99
Mali, 1995–96	22.6	6.5	1.29
Morocco, 1992	50.8	17.4	1.34
Mozambique, 1997	49.5	6.4	1.13
Namibia, 1992	84.4	–4.3	0.95
Niger, 1992	11.3	6.6	1.58
Rwanda, 1992	51.6	0.6	1.01
Senegal, 1992–93	27.0	6.5	1.24
Tanzania, 1991–92	34.6	–3.6	0.89
Tanzania, 1996	35.2	–4.1	0.88
Togo, 1998	64.9	9.7	1.15
Uganda, 1995	65.3	2.5	1.04
Zambia, 1992	69.0	–3.5	0.95
Zimbabwe, 1994	82.7	0.8	1.01

Source: *Filmer 1999.*

Table 6.2
Quantitatively important changes in the distribution of expenditure in seven African countries, various years

Country	Years[a]	Gini coefficient: First year	Gini coefficient: Second year	Change in Gini from first to second year (percentage points)	Annual rate of change in Gini (percent)
Côte d'Ivoire	1985, 1988	41.22	36.89	–4.33	–3.63
Ghana	1988, 1992	35.90	33.91	–1.99	–1.42
Mauritius	1986, 1991	39.63	36.69	–2.94	–1.53
Nigeria	1986, 1992	37.02	41.55	4.53	1.94
Tunisia	1985, 1990	43.00	40.24	–2.76	–1.32
Ethiopia	1994, 1997	39.00	43.00	4.00	3.30
Zambia	1991, 1996	43.51	52.40	8.49	3.63

a. The dates in this column correspond to the first and second years.
Source: *Deininger and Squire 1998. For Ethiopia, see Shimeles and Kebede (1998).*

Table 6.3
Changes in world commodity prices, 1996–99 (percent)

Commodity	1996	1997	1998	1999
Non-fuel commodities				
Food	12.2	–12.2	–12.5	–15.2
Beverages	–17.4	32.6	–15.2	–21.3
Agricultural raw materials	–2.7	–6.8	–16.3	1.9
Metals	–11.9	3.0	–16.3	–1.1
Gold	1.0	–14.7	–11.1	–5.2
Average	–1.2	–3.2	–14.8	–7.0
Petroleum (average crude price)	**18.4**	**–5.4**	**–32.1**	**38.7**
World Bank LMICs[a]	**–5.9**	**2.2**	**–15.7**	**–11.0**

a. Based on the World Bank price index for primary commodities for low- and middle-income countries.
Source: *IMF various years.*

Africa's industrialization will not be complete without a policy focus on the development of microenterprise. Although not always competitive, especially in the initial phase, microenterprises contribute much to GDP, employment generation, regional development, and satisfaction of consumer needs. An "investment neutral" environment has for the most part been an impediment to the growth of microenterprises because of their inability to compete in a fully liberalized world. So business development services are needed to foster an enabling environment and enhance microenterprise competitiveness. Also important is promoting collective efficiency in clusters and networks for production and marketing (UNIDO 1999).

Agriculture and rural development will benefit from targeted investments and fewer constraints

Over the past 15 years agricultural development in Africa has focused largely on removing distortions in incentive structures, which were seen as the main cause of poor performance.

Input and output prices were liberalized to align them with their international counterparts. Market-determined exchange rates were established. Marketing institutions were deregulated, with marketing of inputs and outputs left to the private sector.

“Agricultural development should focus more on increasing productivity”

Despite these efforts the reforms did not elicit the expected supply response, so the agricultural sector in most African countries is not growing at the rate required for rapid economic growth. Agricultural development should therefore go beyond “getting the prices right” and focus more on increasing productivity by removing the institutional and structural constraints responsible for poor performance. This calls for greater public investment in agricultural research and infrastructure and for increasing farmers’ skills and access to credit. Research investment should focus on developing technologies appropriate to the natural conditions of different regions.

Agro-ecological conditions in Africa are not uniform, blunting the power of green revolution technology, which worked well in Asia. That makes it important to develop region-specific technologies to increase yields and the likelihood of adoption by local farmers. African farmers have shown that they have the capacity to adopt new technologies and appropriate inputs if they suit the farmers’ needs and conditions (Voortman, Sonneveld, and Keyzer 2000).

Environmental protection is part of sustainable development

African governments have to address the underlying causes of environmental degradation, including market failures, poor information, and pernicious incentives. Governments also need to promote local solutions to environmental problems based on analysis of costs and benefits and consultations with stakeholders. Only that will provide a sound basis for cost-effective resource use and local ownership of the solutions.

Official development assistance is essential for the effective implementation in Africa of Agenda 21 on the environment and development. Given the declining levels of official development assistance throughout the 1990s, the challenges remain daunting. Even so, many countries have recognized the need to deal with the intertwined challenges of economic recovery, poverty reduction, and sustainable development. This will require major changes in policies, laws, and institutional arrangements in and outside of environmental protection.

The challenges of a global trading system are significant—but surmountable

Most global trade issues will continue to be addressed in the context of the World Trade Organization, where African countries have not benefited significantly. Ensuring that the multilateral trading system benefits Africa means addressing Africa’s constraints. These include problems of access to markets and technology and obstacles to trade and investment—

all intensified by international labour, environmental, and trade-related intellectual property and investment standards (box 6.2).

Tariffs in the global trading regime have been significantly reduced and replaced with new forms of protection that are harder to assess and quantify and thus difficult to contest. These include "fair trade laws," such as antidumping and countervailing laws, as well as labour and environmental standards. Technological advances in areas where there are no agreed standards, such as genetically engineered foods, have compounded such fungibility of protection across different trade regimes.

"Ensuring that the multilateral trading system benefits Africa means addressing Africa's constraints"

Further liberalization, as advocated by developed countries, will increase the costs of trading to African countries. First, liberalization in the absence of complete markets does not guarantee that resources released in the affected sectors will find employment elsewhere. In Africa this translates into unemployment and poverty because social safety nets are missing. Second, liberalization often requires institutional set-ups that increase the costs of

Box 6.2
Should Africa go regional or multilateral?

In recent years policy-makers and economists have explored the relationship between regionalism and multilateralism. Are regional trading blocks "building blocks" or "stumbling blocks" to the multilateral trading system? Regionalism can promote multilateralism in four ways:

- By acting as an agency of restraint that locks in welfare-enhancing trade reforms.
- By creating larger political-economic units that can bargain effectively in international forums.
- By building pro-export constituencies to counter domestic protectionist constituencies.
- By encouraging increased competition in domestic markets to lower prices and create better quality products.

Regionalism can inhibit multilateralism by:

- Encouraging incentives to protect domestic industries.
- Manipulating through special interest groups.
- Diverting scarce trade negotiators' resources away from multilateral efforts.

African countries should promote open regionalism to enlarge market size and exploit economies of scale. This will reduce production costs while boosting international competitiveness. Africa also needs to form trade arrangements with the advanced economies to guarantee policy credibility, access to developed country markets, and foreign investment. Africa needs both regionalism and multilateralism to overcome its development challenges.

Even more important than regional trading arrangements are regional integration initiatives. A broad range of policies has been proposed to reduce trade barriers and foster regional integration. These include:

- Developing regional ports to help countries use modern shipping technologies and realize economies of scale in transport.
- Constructing regional road and rail systems to move goods and people across national frontiers.
- Using joint tenders to secure imports at more favourable prices.
- Cooperating on monetary and financial matters (including export credit guarantees).

Source: *Economic Commission for Africa.*

Regional integration is one way to help countries diversify their economies

implementation. African countries need to address these constraints as they develop a strategy to benefit from the multilateral trading system (box 6.3).

Regional integration before global integration

A key factor that has constrained Africa's integration into the global economy is the continent's small markets, which do not permit the economies of scale that allow an economy to be competitive. Regional integration is one way to help these countries diversify their economies and reverse deindustrialization and marginalization. As observed from the Asian

Box 6.3 *Improving Africa's opportunities in the World Trade Organization*

African countries need to participate in the global trading system on the best possible terms. With the goal of eradicating poverty, countries have agreed to pursue actions in the following areas:

- *Agricultural exports.* Seek preferential market access for agricultural products.
- *Clothing and textile exports.* Insist on unhindered market access for least developed countries' clothing and textile exports.
- *Trade-related intellectual property.* Ensure that African countries with few resources can participate in trade-related intellectual property agreements. Actions range from reviewing the procedures for technology transfer to least developed countries to making essential drugs available at reasonable prices.
- *Trade-related investment measures.* Make these measures flexible to sustain reform efforts and ensure balanced growth. Retain the special and differential treatment measures already accorded to least developed countries.
- *General agreement on trade in services.* Incorporate special and differential treatment measures in the development of new rules, including a built-in agenda (subsidies, emergency safeguard measures, and government procurement).
- *Technical barriers to trade and sanitary and phytosanitary measures.* Change rules so that compensation is provided when the measures fail. Review agreements, keeping in mind Africa's need for technical assistance and funding programs to help build supply capacity for production, packaging, and marketing of tradable goods and services.
- *Customs valuation.* Obtain a five-year transitional period to remedy human and institutional constraints. Use technical assistance to standardize, harmonize, and simplify tariffs to guarantee transparency and predictability for traders.
- *Accession to the World Trade Organization.* Provide fast track to accession. Grant automatic special and differential treatment provisions to acceding African countries.
- *Technical assistance.* Increase Africa's budget share in dispute settlement and information technology.

Source: *Economic Commission for Africa 1999a.*

financial crisis, economies that depend on the production and export of a few primary commodities can be hit hard by the shocks of globalization. African countries need to diversify their economies to minimize these negative effects, and regional integration is one way to do that.

How can regional integration help Africa diversify its economies? By providing access to a wider trading and investment environment permitting economies of scale (box 6.4). Regional integration also induces backward and forward links and thus contributes to regional value added. More important, regional integration promotes the diversification of exports to regional markets, which builds experience before entering global markets. An integrated market also provides a framework for African countries to cooperate in developing common infrastructure, such as in financial services, transport and communications, and mechanisms for joint exploitation of natural resources. Efficient regional integration would allow many countries to surmount the obstacles posed by their relatively small size, permit greater economies of scale, and strengthen their ability to trade on a global scale.

> *"Regional integration promotes the diversification of exports to regional markets, which builds experience before entering global markets"*

Box 6.4
Regional approaches in air transport will improve competitiveness

Improving air infrastructure is a critical step towards Africa's integration into the world economy. Aviation increases trade, attracts investment, and boosts the tourism industry. Globalization, coupled with a reduction in transaction costs, could shift the comparative advantage towards manufacturing, raise output, and diversify the region's economy. International competitiveness in manufactures and such fresh perishables as cut flowers, fresh fish, and beef requires effective institutions linking the domestic economy with world markets.

Although the African air transport market has grown considerably since the mid-1980s, its market share of world traffic has diminished over the past decade. Absence of competition, poor management and monitoring, and a maze of anticompetitive arrangements in air infrastructure have bred corruption, fares and costs higher than the world norm, poor financial results, and unsafe airlines and airports. The percentage of planes leased is much lower in Africa (5%) than in North America (10%), Europe (15%), and Central and South America (39%). But not all African airlines are inefficient. For example, state-owned Ethiopian Airlines has made net profits for the past 14 years.

Regional approaches are a natural way to overcome many of the airlines' problems, including high fixed indivisible costs. Airports serving less than 1.5–3 million passengers operate with increasing long-term average costs. Some governments began gradually liberalizing traffic rights in 1988, calling for integration though mergers, shared exploitation, and consortia to strengthen cooperation, coordination, and integration of air services. The results have been discouraging. The 1997 task force of the African Civil Aviation Commission suggested a shift in focus to integration within Africa.

Some progress has been made in privatization, liberalization, and liquidation. Kenya privatized its state-owned airline, which is now the only Sub-Saharan African carrier fully integrated into one of the global alliances poised to dominate the air transport industry. Zambia decided to liquidate its loss-making national airline and allow private airlines. Four private companies now operate without government subsidies or financing.

Source: *ICAO 1984, 1999.*

The regional integration agenda should therefore be broad and outward-oriented. The recent liberalization and reform efforts in Africa are an indication that regional integration is moving away from the inward-looking and centrally planned approach. Governments now view regional integration as a way to penetrate international markets and promote foreign direct investment. But this will require broadening integration beyond macroeconomic policy coordination, trade liberalization, and a common external tariff.

“The regional integration agenda should be broad and outward-oriented”

Although most of the obstacles to regional integration in Africa appear to have been eliminated, some outstanding issues remain. Distributional considerations still pose a major challenge. One or more members dominate most regional groups. States need to identify the economic and distributional consequences, then choose appropriate and equitable compensatory mechanisms. This will require political will and commitment.

Public-private partnerships will speed science and technology development

To develop an educational and scientific base for harnessing technology, African governments need to establish the incentive structures for firms to adopt and master new technologies and other modern practices. And governments need to do this for entrepreneurship, innovation, and learning, too (box 6.5). This will entail a strong relationship among government, the private sector, and institutions of higher learning.

Thus governments need to establish the tax, credit, and labour policies, as well as an efficient and transparent legal and regulatory framework. Government-business relationships will support private sector efforts to learn about and master technologies and new practices. Highly trained technical personnel have to be available outside government bureaucracies so that their skills contribute to development. Impediments that inhibit investment in and flow of information—such as poor infrastructure and restrictive laws and regulations—should be removed.

Successful development requires more aid—and more effective aid

Aid and debt will continue to dominate Africa’s development (World Bank 2000b). Past aid has accumulated into a largely unsustainable debt stock, and the debt burden has meant low growth. High indebtedness has discouraged investment, especially foreign investment. It has also reduced the financial assistance available to fund new projects because a large proportion of new aid services past debts.

Given the low savings rates in Africa, development in the 21st century will require substantial aid flows. Yet between 1990 and 1996 official development assistance to Africa declined by 24% in real terms, a trend expected to continue (O’Connell and Soludo forthcoming). A key factor is donor fatigue, the result of the ineffectiveness of past official development

The gap between rich and poor nations in advanced information communication technology—the "digital divide"—is growing. Africa has 739 million people and 14 million phone lines—fewer than in Manhattan or Tokyo. In 1999, 1 million Africans had access to the Internet, compared with 15 million in the United Kingdom. And Africa generates only 0.4 percent of Internet content; excluding South Africa, a mere 0.02%.

This is especially troubling as information communication technology becomes more important in the fight against poverty—generating revenue, providing income improving services, and avoiding poverty traps. Recent studies have found a link between telecommunications and economic development, especially through cost savings for industry and increased transport efficiency. Country studies, micro studies, and cost-benefit analyses support this finding, showing high returns to investment in the sector. And the Internet, by leveraging the potential value of computers and a telephone connection, suggests that the economic effects of networking will be far greater in the future.

Telecommunications has a direct impact on the poor. For example, employment opportunities at public call centres are enormous. The literate poor can benefit from opportunities to provide out-sourced information processing services to businesses in the Organisation for Economic Co-operation and Development countries. Information technology–enabled services, such as processing insurance claims for General Electric and transferring information from hand-written airline tickets for British Airways, already employ about 41,000 people in India.

The Internet provides an even greater opportunity for firms, farms, and entrepreneurs to reduce costs, increase market coverage, and achieve economies of scale. Villagers in central Peru are using the Internet to market organically grown oranges. Small manufacturers of traditional handicrafts are already discovering how information communication technology can be a tool for marketing and distributing their wares across the world. In Kenya the Naushad Trading Company, which sells locally produced wooden artifacts, pottery, and baskets, has seen its revenue grow from $10,000 to more than $2 million in the two years since it went on-line. These opportunities will only expand, allowing developing countries to trade and compete within an increasing range of industries and services and to access resources from anywhere in the world.

Source: *Wheeler 2000.*

Box 6.5

Telecommunication's link to poverty makes it critical to development

assistance. Past assistance was not always well managed, and donors did not base it entirely on economic criteria. And despite the vast literature on the ineffectiveness of much official development assistance, there is a strong case for greater assistance to Africa. The conditions that were largely responsible for the ineffectiveness are improving, and development challenges remain great (World Bank 2000b).

"Development in the 21st century will require substantial aid flows"

What is the government's role in managing institutions and the economy?

Markets cannot function without an effective and efficient institutional framework. The required institutional infrastructure includes the rules and regulations of a market economy, such as property rights, contract enforcement, and a regulatory apparatus for anticompetitive behaviour. It also includes social and political systems that mitigate risk and manage social conflicts through good governance and the rule of law.

Africa made significant improvements in political and civil liberties in the 1990s as more and more countries became democracies. But radical social and economic transformations are weakening some institutional arrangements while creating the need for new ones. Managing the change that will come with development will require strengthening the institutional infrastructure and establishing new institutions. As the African economies move more and more to a full market economy, one area where new institutions may be necessary is in managing competition policy.

At the core of a market economy are transactions, which involve the exchange of goods and services and are governed by property rights, contracts, as well as the rules and regulations that specify these contracts and rights. So, even in a completely private market economy governments have to manage the rules and regulations that govern the economy. To ensure an even playing field governments must monitor and enforce these rules and regulations effectively and equitably. Governments also need to manage institutions that facilitate specification, enforcement, and monitoring of economic transactions. In Africa this will require strengthening the administrative and managerial capacity of the public sector, which must clearly define the government's role.

While there is no clear-cut way to determine the depth and extent of state intervention in the economy, the lessons of development experience provide important guidelines. Unfortunately, the success stories have been ignored and minimized while the failures have been well articulated, particularly by the World Bank and the International Monetary Fund. Revisiting the success stories can reveal where state intervention can contribute to development.

Strong leaders and key stakeholders will set the right priorities

"The development strategy must be guided by strong leadership with a vision, national commitment, and political will"

What are the broad features and the fundamentals of Africa's development strategy for the 21st century? First, all key stakeholders should be involved in creating the strategy and identifying necessary actions. Their participation will permit ownership of the development strategy and help mobilize all stakeholders to realize the goals. Broad participation will also help policy-makers identify incentives.

Second, the development strategy must be guided by strong leadership with a vision, national commitment, and political will to mobilize society for development. Leaders should outline this vision in terms understandable to the people and devise mechanisms to influence and mobilize the people to attain the goals.

Third, there must be a clear set of priorities and an appropriate sequence of actions. In addition to setting a vision, the strategy should indicate what to do first, second, third, and so on to ensure that resources go to priority areas.

Improving the political and economic environment for growth and development should be the first order of business. Africa needs better political and economic governance and new efforts to resolve conflicts. A strong state with the capacity to provide the leadership and vision to address the complex development problems facing Africa is part of this environment. A key requirement: strengthen administrative, legislative, judicial, and political institutions. For this a competent, well-remunerated, and autonomous civil service must be insulated from political influence to identify policies and interventions and advise political authorities accordingly.

"A competent, well-remunerated, and autonomous civil service must be insulated from political influence"

With a strong and efficient state the next priority is identifying how to mobilize investment and resources. Given Africa's low income and high inequality, accumulation and allocation of productive assets will be the foundation for growth. Attention should go to human and physical capital—health, education, and such infrastructure as transport, communications, and energy. Resources must be allocated to activities that will yield the maximum benefit.

Investing in human and physical capital, while important, does not guarantee that the benefits are shared broadly across society. So it is important to ensure broad-based and equitable growth by investing in areas that benefit most people and by devising mechanisms to ensure that growth is shared. Investing in agriculture and rural development is one way to increase income and benefit most Africans, particularly in the short run.

For the long run it will be important to strategically identify high-technology sectors that could form the industrial base of African countries—and then promote them through state interventions. Human capital development, particularly education and training, should also be geared to these sectors.