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PART THREE: ECONOMIC AND SOCIAL STATISTICS ON AFRICA

SUMMARY

African Development Report 2002

Introduction

The *African Development Report 2002* reviews Africa's current socioeconomic performance and prospects, and examines in-depth the issues and elements of rural development and poverty reduction in Africa. The issues and elements of rural development and poverty reduction in Africa examined include why focus on rural poverty; empowerment and resources to help the rural poor; making globalization, markets and institutions work for the poor; and the Bank Group's Rural Poverty Reduction Strategy. The Report also provides the main economic and social statistics on Africa. The Summary highlights the main aspects of the Report.

The African Economy in 2001

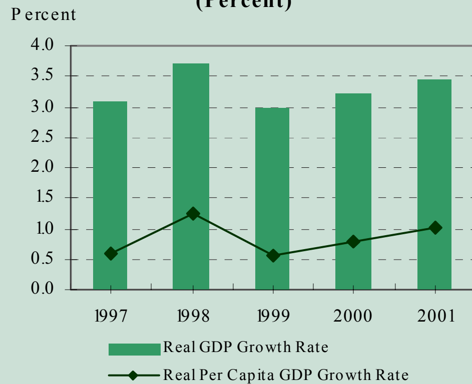
The African economy continued to grow moderately in 2001, with real GDP growth estimated to average 3.4 percent as compared to 3.2 percent in 2000 (Table 1, Figure 1). The average outcome for the continent was largely influenced by

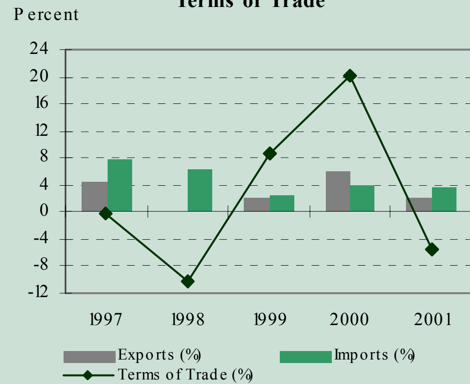
Table 1: Africa: Macroeconomic Indicators, 1997- 2002

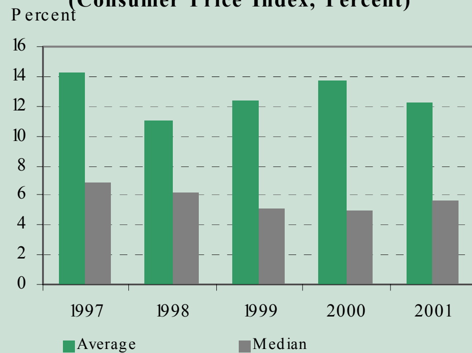
Indicators	1997	1998	1999	2000	2001[a/]	2002[b/]
1. Real GDP Growth Rate	3.1	3.7	3.0	3.2	3.4	3.5
2. Real Per Capita GDP Growth Rate	0.6	1.2	0.5	0.8	1.0	1.2
3. Inflation (%)	14.2	11.0	12.4	13.7	12.2	8.8
4. Investment Ratio (% of GDP)	19.3	20.9	20.8	20.2	20.8	22.5
5. Fiscal Balance (% of GDP)	-2.5	-3.6	-2.8	-1.7	-2.5	-2.8
6. Growth of Money Supply (%)	16.7	15.0	18.1	17.2	15.0	11.2
7. Export Growth, volume (%)	4.7	0.1	2.3	6.0	2.3	0.1
8. Import Growth, volume (%)	7.7	6.3	2.5	3.9	3.5	2.1
9. Terms of Trade (%)	-0.2	-10.2	8.7	20.0	-5.4	-7.8
10. Trade Balance ($ billion)	1.9	-17.5	-8.8	19.1	10.2	-3.8
11. Current Account ($ billion)	-5.6	-24.0	-16.5	6.9	-1.1	-15.3
12. Current Account (% of GDP)	-1.0	-4.4	-3.0	1.2	-0.2	-2.7
13. Debt Service (% of Exports)	19.6	20.3	19.0	16.1	15.9	17.7
14. National Savings (% of GDP)	17.6	17.1	15.8	16.6	20.0	19.5
15. Net Capital Inflows ($ billion)	24.02	23.72	21.13	14.35	…	…
16. FDI ($ billion)	11.03	8.73	10.47	9.08	…	…
17. FDI (% to developing countries)	5.88	4.63	4.72	3.78	…	…

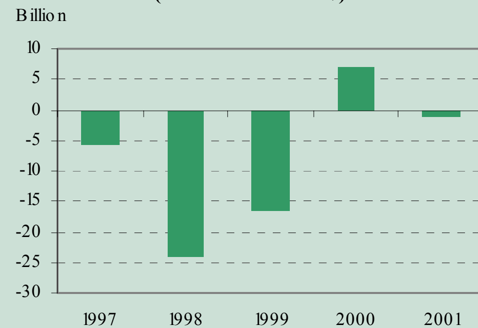
Notes: a/ Preliminary estimates
b/ Forecast
... Not available
Source: ADB Statistics Division and IMF.

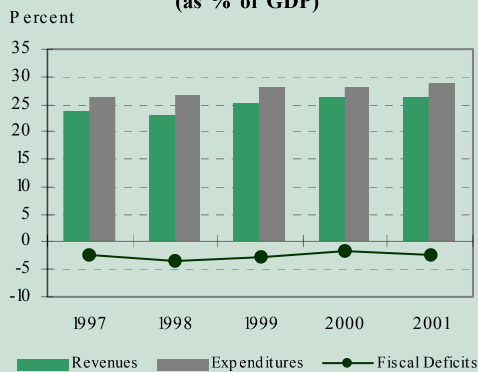
Figure 1: Africa's Major Performance Indicators, 1997-2001

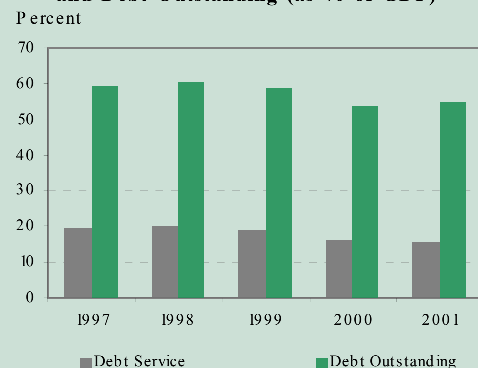












modest growth performance of Africa's Ten Largest Economies (ATLE) which together account for about 80 percent of Africa's GDP (Table 2). The factors responsible for the modest growth in 2001 are, in large part, due to the global economic slowdown, which was exacerbated by the September 11 attacks in the United States (see Box 1). Deteriorating global demand led to the collapse of most primary commodity exports in terms of both volume and prices. Consequently, African countries with very high concentrations in non-oil primary commodity exports experienced huge losses. Furthermore, countries such as Egypt, Morocco, Tunisia, Kenya, Uganda, and Tanzania, where tourism is a significant source of foreign exchange, were seriously affected.

Despite the modest performance of the African economy, as a whole, seventeen African countries achieved rates of growth in excess of 5 percent, with sixteen other countries registering growth rates of between 3 and 5 percent. The number of countries recording negative growth also declined from nine to five. Africa's real per capita GDP growth in 2001 remained basically unchanged from its 2000 level. Overall, the median African country's real per capita growth rate falls within 0—1.5 percent range, with the number of countries (just 5 in 2001 as in 2000) able to achieve more than 5 percent gain in real per capita GDP growth. Thus, both aggregate and real per capita growth rates are far below what is required (7 percent growth and 4.5 percent per capita

Table 2: Africa's Ten Largest Economies (ATLE), 2001

Country	GDP at current US$ (Billions)	Population (Millions)	GDP Growth Rate	Country Weight in total African GDP (%)
1. South Africa	112.9	43.8	2.2	20.7
2. Egypt	93.5	69.1	3.3	17.1
3. Algeria	54.6	30.8	3.5	10.0
4. Nigeria	41.5	116.9	4.0	7.6
5. Morocco	34.0	30.4	6.0	6.2
6. Libya	33.4	5.4	2.5	6.1
7. Tunisia	20.1	9.6	5.2	3.7
8. Sudan	12.6	31.8	6.0	2.3
9. Kenya	10.4	31.3	1.0	1.9
10. Angola	9.3	13.5	3.2	1.7
TOTAL ATLE	422.2	382.7	3.4	77.3

Source: ADB Statistics Division, UN and IMF.

Box 1: Impacts of the September 11 Attacks on African Economies

Evaluating the precise impacts of the September 11 attacks on African economies is fraught with high degree of uncertainty because the full ramifications depend on the unpredictable responses of investors and consumers (especially in the US and industrial countries) as well as the extent of linkages between the industrial countries and African economies. Also, there is a more fundamental methodological problem of disentangling the effects of the attacks from what would have happened given the weak global economic fundamentals. More generally, the terrorist attacks affected economic outcomes through four major channels—the direct impact through the destruction of life and property; dampened confidence about future prospects and hence negative impacts on investment and consumption; deterioration in financial market conditions and capital flows; and fall in traded commodity volumes and prices as a result of dampened demand in industrial countries. All these channels worked to worsen an already weakened industrialized economies, with various estimates inferring that the short-run output loss in the US following the attacks is in the range of US$16 and 35 billion, and the medium to longer term impacts on the global economy much higher. These have wide-ranging consequences for the developing regions. Asian and Latin American developing countries were the worst hit because of their stronger linkages to the US and Japanese economies, as well as the high composition of their exports related to the high technology and manufactures sector. In many emerging markets (middle to high income developing countries), the aftermath of the terrorist attack reverberated with falling stock prices, widening bond spreads, and weakening currencies. Countries with substantial external financing requirements remain vulnerable to potential reassessments of global or domestic economic prospects and to further shocks to international financial markets. For countries in Latin America, especially Argentina which experienced financial turbulence, these concerns are very strong, and also for other economies with persistently high current account deficits and large external debts.

Overall, the downturn in the global economy led to the record sharpest deceleration of world trade—from 13.3 percent advance in 2000 to just 0.2 percent in 2001. U.S. investment in equipment declined by 4.5 percent, after growing by 11 percent in 2000. Given that almost 30 percent of US investment is imported, and 40 percent of total investment consisting of high-tech products, the collapse of investment demand in the US was the major force behind the slowdown of world trade and the semiconductor market. In the first half of 2001, the US imports of capital goods had dropped at an annual rate of 32 percent, and this was worsened by the terrorist attacks. Consequently, growth in exports from developing countries dropped from 15 percent in 2000 to just 2 percent in 2001, and non-oil commodity prices fell by about 9 percent in 2001, compared to a 1.3 percent decline in 2000.

Even with Africa's relatively lower linkages with the US economy, the region was also badly hit by the spillover effects of the attacks, and the overall effect on individual countries depends on the structure of the economy and the previous stance of policies. For example, the Brent Blend oil prices temporarily jumped above $30 immediately after the attack and this benefited Nigeria and Angola, and less so to Cameroon, Chad, Congo (Brazzaville), Cote d'Ivoire, Equatorial Guinea and Gabon. Since November 2001, oil price has plummeted given the dampened global demand, and is expected to settle around $15-20 per barrel in 2002 and 2003, thereby putting immense pressures for macroeconomic adjustments on oil exporters. Already, the falling oil prices imply terms of trade losses equivalent to around 5 – 10 percent of GDP in most of the main oil exporting countries. For oil exporting countries in North Africa, the impact of the falling oil prices will be cushioned because of the conservative policies (oil stabilization funds) followed during the boom era. Nigeria will be hard hit by the falling prices as no discernible conservation policy was in place during the period of higher oil prices. During the temporary oil price boom, the oil importing countries (majority of African countries) suffered a terms of trade loss especially since the surging energy import costs coincided with declining prices for their primary commodity exports. The deteriorating oil prices since November 2001 will benefit the oil importers, and except this positive development is offset by the falling commodity prices, these economies would sustain their growth momentum. Indeed, the net impact of the price changes on the non-fuel exporting countries is much lower than on the oil exporters-— generally in the range of –1 to 1 percent of GDP.

(box continues on next page)

Box 1: Impacts of the September 11 Attacks on African Economies (continued)

Gold prices also experienced a temporary surge as investors substituted away from weakening currencies and into 'solid' assets (especially gold) as a store of value. With gold prices soaring to $300 per ounce, gold producing countries of South Africa, Ghana, Mali, Tanzania, and Zimbabwe reaped the gains. This is unlikely to be sustained in the medium to longer terms.

Capital flows into Africa are affected by the global slowdown and terrorist attacks. The UNCTAD had predicted a 40 percent slump in global foreign investment flows (largely the result of a slowdown in cross-border mergers and acquisitions in the industrialized countries). Aid flows also slowed down as the US and other industrialized countries stepped up security spending and allocation of aid to strategic allies (in the fight of global terrorism) rather than to countries in need. It is too early to find definite evidence of this aid 'diversion' but analysts believe that the full impact will be felt from 2002 as domestic constituencies in advanced economies insist on increased security and defense spending rather than aid.

The global downturn and the collapse of primary commodity prices have affected the major regional currencies—reinforcing the existing downward (depreciated) trend for the currencies. For the CFA franc, which is pegged to the Euro, the concern is that the appreciation of the Euro will be accompanied by weaker commodity prices, denominated in a depreciating US dollar. Such a combination may force a devaluation of the CFA franc if the zone is to maintain competitiveness.

Commodity prices fell drastically, and this had immense impacts on poverty. The falling agricultural prices impacted on the poverty status of the rural peasant farmers. The overall growth impact is muted—with the boom in oil exporting countries and the more diversified economies of North Africa offsetting the devastating effects of commodity price collapse.

Source: ADB Research Division.

growth rate) to effect a significant reduction in poverty, and attain the international development goals (IDGs) by 2015.

Fiscal performance worsened somewhat in 2001, as the overall fiscal deficit as percentage of GDP rose from -1.7 percent in 2000 to –2.5 percent in 2001. On the aggregate, monetary policy stance was moderately tight in 2001, with broad money supply growth down to 15 percent from 17.2 percent in 2000. These outcomes helped to rein in inflation and moderated exchange rate fluctuations and huge depreciations. Inflation for example fell marginally to 12.1 percent in 2001 from 13.7 percent in 2000. However, the median inflation was only 6 percent.

The external sector weakened in 2001 relative to 2000, with terms of trade, trade balance and current account—all worse than in the previous year. Terms of trade went down from an improvement of 20 percent in 2000 to –5.4 percent in 2001 while the trade balance deteriorated by about US$9 billion relative to 2000. Africa's export growth fell from 6 percent in 2000 to 2.3 percent in 2001 while its import growth only declined marginally to 3.5 percent from 3.9 percent recorded in the previous year. Consequently, the continent's current account balance as a percentage of GDP worsened from a surplus of 1.2 percent in 2000 to a deficit of 0.2 percent in 2001.

In 2001, agriculture made some significant recovery, growing at 4.5 percent from 1.4 percent in 2000. There are however mixed outcomes across countries and sub-regions with growing food insecurity in parts of Eastern and Southern Africa. The industrial growth fell from 4.2 percent in 2000 to 3.5 percent in 2001, with its major component – manufacturing – declining to 3.7 percent in 2001 from 4.4 percent the previous year. The global economic downturn and hence tumbling prices adversely affected Africa's min-

ing sector in 2001. This led African miners to embark on restructuring, consolidation, and diversification. The global energy market in 2001 witnessed extreme volatility, with high prices for oil and natural gas and concerns for energy shortages earlier in the year giving way to an economic slowdown, and lower prices in the last quarter following the September 11 attacks in the United States. During the year, the service sector growth rate was 3 percent, down from 3.4 percent attained in 2000 and 3.7 percent in 1999. Tourism, a major contributor to the African services sector, grew by only 3 percent in 2001 against 4.3 percent attained in the previous year, with most of the gain coming from the North African countries.

Diverse Economic Performance

Economic performance differed markedly across countries and regions, and many factors contributed to the cyclical swings—external environment, policy stance, production structure, and diverse sectoral performances. As oil prices soared for most of the year, the oil importing countries in Africa suffered greater terms of trade losses particularly as commodity prices also fell precipitously. Out of about 44 primary commodities, only 13 experienced slight price increases in 2001, while the prices for the rest tumbled for the most part. The prices of most primary commodity exports from Africa fell considerably—agricultural raw materials such as tropical hardwoods, cotton, and natural rubber fell by 40 percent relative to the 1997 level. Overall, however, net oil importers in Africa had real GDP growth rate of 3.3 percent in 2001 against 2.7 percent in 2000.

At an average of $24.4 per barrel, oil prices were lower than in 2000 but definitely high compared to the decade average. Consequently, the oil exporters (Algeria, Angola, Cameroon, Congo Brazzaville, Egypt, Equatorial Guinea, Gabon, Libya, Sudan, Nigeria and Tunisia) outperformed the continent with an average growth rate of 3.7% (down from 3.9 percent in 2000, but higher than the continent's average of 3.4 percent).

While most sub-regions in Africa experienced a slowdown in economic activity for a number of reasons, the more diversified and to some extent, oil producing North African economies posted a more robust performance, with a growth rate of 3.4 percent, while other sub-regions had lower growth performance. Despite the decline in remittances and tourism for these economies, the rebound in agricultural output in Morocco and other parts of the region following the end of the severe drought added another impetus to growth.

Africa's ten largest economies (ATLE) account for nearly 80 percent of Africa's GDP and about 55 percent of the population. In 2001, Africa's economic growth performance mirrored the outcomes in those 10 countries, reflecting a diversity of peculiar circumstances, the policy and institutional stance, the diversification of production and export structure and hence the capacity to deal with the external shocks. Coincidentally, about half of the countries belong to the North African region and are also oil exporters. Thus, while some countries in the group (such as South Africa and Kenya) continue to have poor performance, the others posted more robust outcomes and ensured higher average performance for the continent. South Africa, with Africa's largest and most globally integrated stock market, often gets badly hit by any major global crisis. Gyrations in global stock markets led to cyclical swings in the portfolio flows and together with inadequate rains, which affected maize harvest, dissipated the recovery, which began in 2000. Output fell in South

Africa (Africa's second largest economy after Egypt) from 3.4 percent in 2000 to 2.2 percent in 2001.

Historically, Africa's best performers have been the small economies of Botswana and Mauritius—the only two countries that have graduated from the list of least developed countries in the past 30 years. As indicated earlier, the ATLE countries are still largely sleeping giants although they hold the greatest prospects for pulling the continent out of the low equilibrium growth traps into which they seem to be currently mired, because of their interlinks with small economies.

With the average performance among the ATLE countries faltering around 3 percent since 1997, the much smaller economies are the fastest growers, with Equatorial Guinea leading with a five-year average growth rate of over 30 percent. The other star performers include Mozambique, Guinea-Bissau (since 1991), Mauritius, and Botswana. One feature of these economies is that they cannot be distinguished by their sterling policy stance. Rather, these are mostly economies emerging out of conflict or with extra-ordinary primary commodity boom (e.g. Equatorial Guinea). Although the better managed economies, as shown by their Country Policy and Institutional Assessment (CPIA) scores, outperform the other group of countries on the average. A careful evaluation of the country performances might not find a one-to-one correspondence between good policy stance and performance. For Africa, therefore, the external drivers of growth could be as equally important as the domestic policy stance.

Regional Economic Trends

Economic growth in the Central African sub-region increased to 3.2 percent in 2001, above the trend of 0.8 percent over the 1997-2000 period. The recovery was due to a combination of factors including high FDI in Chad, the return of relative peace to DRC and Congo, and better-than-anticipated weather conditions that led to improved agricultural performance in Rwanda and Burundi. On the other hand, the slight decline in oil prices adversely affected growth performance in Gabon. The sub-region's current account deficit as a percentage of GDP increased from 6.1 percent in 1997-2000 to 7.4 percent in 2001 but its fiscal balance improved significantly to a surplus of 3.1 percent of GDP in 2001 from a yearly average deficit of 3.2 percent in 1997-2000. There was however an increase in its external debt from $33.40 billion in 2000 to $37.44 billion (or 121.5 percent of GDP) in 2001. The money supply growth fell sharply from 14.9 percent in 2000 to 2.3 percent in 2001 hence inflation was subdued at 6.2 percent compared with 7.7 percent in the 1997-2000 period.

Eastern Africa recorded the highest economic growth rate (among the five sub-regions) at 4.6 percent in 2001, which improved on the sub-regional average growth rate of 3.7 percent during 1997-2000. In 2001, although growth in the biggest economy in the sub-region – Kenya- remained sluggish, improved performance in other countries notably Ethiopia, Madagascar and Mauritius spurred the sub-regional growth. The Kenyan economy continued to under-perform due to problems related to economic management and poor weather condition. Agricultural production improved due to good weather in Tanzania, Uganda, Mauritius and Madagascar to spur on growth. The current account deficit as a percentage of GDP fell marginally from yearly average of 5.1 percent during 1997-2000 to 4.7 percent in 2001. The continued depression in the price of coffee, the major export commodity in Ethiopia, Uganda, Tanzania and Kenya contrib-

uted to stagnation in export performance and widening trade deficit that was behind the poor current account position. However, as a result of the positive effects of HIPC, the external debt burden of the sub-region fell marginally with 8 of the 11 countries receiving debt relief under the initiative. The total debt stock of the sub-region fell from $30.80 billion (75.1 percent of GDP) in 2000 to $28.97 billion (70 percent of GDP) in 2001. While money supply fell sharply from 11.2 percent in 2000 to only 1.8 percent in 2001, the inflation rate was subdued at 6 percent from 6.5 percent yearly average over 1997-2000. Budget deficit remained modest, averaging 3.0 percent of GDP in 2001 – roughly the same in 2000.

In 2001, Northern Africa at 4.0 percent maintained the economic growth performance it had attained since 1997. Several factors – including macroeconomic stability in Tunisia and Mauritania; fiscal stimulus in Morocco and Algeria; good weather and agricultural recovery in Morocco; and increased FDI in Sudan - combined to ensure growth stability in the sub-region. On the down side, growth in Egypt was particularly constrained by the difficult regional security environment and the effects of the September 11 attacks in the United States, which adversely affected tourism that is a major driver of growth in that country. Northern Africa's current account balance swung from a deficit of 0.2 percent of GDP in 1997-2000 to a surplus of 2.5 percent of GDP in 2001. Its foreign debt stood at $110 billion in 2001 or 42 percent of the GDP, down from 44 percent in 2000. With money supply decelerating from 11.8 percent in 2000 to 6.1 percent in 2001, the inflation rate, which was averaged 7.3 percent during 1997-2000 declined to 4.5 percent in 2001. North Africa's fiscal deficit as a percent age of GDP marginally worsened from an average of 1.9 percent during 1997-2000 to 2.4 percent in 2001.

Southern Africa recorded a growth of 2.2 percent in 2001, down slightly from an annual average of 2.6 percent recorded in 1997-2000. The slow down was due mainly to the sluggish performance of the biggest economy – South Africa, which continued to be affected by the crisis in Zimbabwe and the September 11 attacks on the United States. The sub-region's current account balance improved marginally from an average annual deficit of 1.9 percent of GDP) during 1997-2000 to 0.4 percent of GDP in 2001. However, the sub-region's external debt fell from $65.38 billion (40.4 percent of the GDP) in 2000 to $61.60 billion (38.6 percent of the GDP) in 2001, reflecting the impact of the HIPC operations as well as the reduced inflows, especially to Zimbabwe. Though money supply fell from 11.7 percent in 2000 to 4.7 percent in 2001, inflation remained virtually unchanged at 15 percent being the average annual rate attained during the period, 1997-2000. Fiscal reforms and increased fiscal discipline (except in Zimbabwe) paid off as budget deficit declined slightly from an average of 3.1 percent of GDP experienced in 1997-2000 to 2.6 percent of GDP in 2000 in Southern Africa.

Western Africa maintained a moderate increase in economic growth from an annual average of 3.2 percent in 1997-2000 to 3.5 percent in 2001 as a result of steady economic and structural reforms and improvements in agricultural production due to good weather. Growth in Nigeria – the biggest economy in the sub region - was strong in 2001 to spur the sub-regional growth. The current account deficit as a percent of GDP fell marginally from 3.9 percent in 1997-2000 to 3.4 percent in 2001. The sub-region's external debt at $71.27 billion (87.1 percent of GDP) in 2001

from $67.52 billion (89.1 percent of GDP) in 2000, remains very high. Primarily due to rising food prices, inflation rose from a yearly average of 6.3 percent in 1997-2000 to 7.7 percent in 2001. However, money supply growth fell significantly from 32.2 percent in 2000 to only 9.6 percent in 2001. Also, the fiscal situation in the sub-region improved in 2001, with the fiscal deficit falling from an average yearly 4 percent of GDP during 1997-2000 to 2.4 percent of GDP in 2001.

External Trade and Finance

The weakened global economy, made worse by the September 11 attacks, slightly dampened aggregate economic activities in Africa but the impacts differed significantly across countries and regions. This was due to the production structure, composition of trade of individual countries, and the existing economic policy stance, which in some cases cushioned the effects of the shocks. The deteriorating global demand led to the collapse of most primary commodity prices, and African countries with very high concentration in primary commodities (except oil and gold) suffered greater loss, and more diversified economies escaped the volatility inherent in the commodity trade and thus cushioned the effects of the shock. However, the external sector weakened in 2001 relative to 2000, with terms of trade, trade balance and current account—all worse than in the previous year. Terms of trade went down from an improvement of 20 percent in 2000 to –5.4 percent in 2001; trade balance deteriorated by about US$9 billion relative to 2000, while current account as a percentage of GDP went into negative after a modest surplus in 2000. Indeed, Africa's export growth fell from 6 percent in 2000 to 2.3 percent in 2001 while its import growth only declined marginally to 3.5 percent from 3.9 percent recorded in the previous year. As a result, the continent's current account balance as a percentage of GDP worsened from a surplus of 1.2 percent in 2000 to a deficit of 0.2 percent in 2001.

In 2001, FDI inflows to Africa increased from US$9 billion to US$11 billion due to a rise in investments in Morocco and South Africa, though with a downward trend in Egypt. While aggregate inflows increased, Africa experienced a $1.3 billion outflow of FDI, with South Africa accounting for 43 percent of that. The overall debt situation in 2001 improved as 20 countries reached the decision point under the Enhanced HIPC while debt service to exports maintained its 2000 level of about 16 percent.

Furthermore, cumulatively, 20 countries have reached decision points under the Enhanced HIPC initiative, thus relaxing the pressures on balance of payments and budgets. This was complemented by the drastic reductions in international interest rates—led by the U.S. Federal Reserve's lowest interest rates cut in over four decades—down by more than 400 basis points in a series of 11 cuts in 2001. For the African countries whose external debt is dominated by those contracted at market interest rates, there was some relief from the low rates. This might have contributed to the maintaining of the debt service to export ratio (even with falling exports) at its 2000 level of 16 percent.

Macroeconomic Policy Developments

Most African countries are implementing economic reforms and are committed to fully execute agreed macroeconomic, structural and institutional reforms. Also, with the cessation of conflicts in many countries and the process of reconstruction underway, the overall policy envi-

ronment has improved. In 2001, the overall fiscal deficit as percentage of GDP rose from -1.7 percent in 2000 to –2.5 percent in 2001. This is, however, impressive given the immense pressure on public finance caused by the deterioration in trade volumes and prices (since trade taxes constitute a major source of revenue for many African governments). However, a trend of fiscal consolidation observed for the past few years since the mid-1990s, helped to curb further fiscal deterioration in 2001.

Broad money supply growth slowed to 15 percent in 2001 from 17.2 percent in 2000. The CFA franc zone maintained tight monetary policy, and this moderated inflation and pressures on the exchange rate while in the other countries, particularly the ATLE, monetary policy stance remained moderately tight. Thus, aside from the Democratic Republic of Congo, and Angola, which posted inflation in excess of 100 percent, inflation in most of the economies – 39 — remained in the single digit, hence the aggregate inflation figure fell marginally to 12.1 percent in 2001 from 13.4 percent in 2000. The median inflation, however, was only 6 percent.

The year 2001 proved to be another difficult year for most African currencies, which experienced huge depreciations. The weakness of the Euro relative to the US dollar means that the CFA will have lost 22 percent of its value against the US dollar since January 1999, when the Euro was launched. In Egypt, the unexpected 6.4 percent devaluation of the Egyptian pounds in August 2001, together with the widening of the trading band to 3 percent either side of the central rate, up from 1.5 percent—marked the first time the currency has been allowed to fall below the prevailing parallel market rates. This was aimed at eliminating the parallel market.

The Nigerian currency had a bumpy ride in the first half of 2001 before stabilizing. The exchange rate in the parallel market tumbled with high volatility especially in March - April 2001, peaking to N140 to US$1, up from about N115 at the end of 2000. The Central Bank intervened strongly with all manners of regulations and stringent monetary policy to reverse the trend, and the consequence is a very wide gap between the IFEM rate and the parallel market rate (with official IFEM rate at N112 compared to the parallel market rate of about N135).

In South Africa, the Rand increasingly came under pressure, depreciating by 40 percent in 2001. The Rand is likely to remain vulnerable to external shocks due to South Africa's well developed financial market (which is integrated into the global market), its low level of foreign reserves and substantial portfolio flows. The Sudanese currency is basically fixed at $D257 to US$1 since mid 1999, while the Libyan currency appreciated in the parallel market, following the easing of sanctions and economic liberalization. Morocco had 5 percent devaluation, while Kenya had modest depreciation of the shillings.

Sectoral Developments

Africa's four main economic sectors - agriculture, industry (manufacturing and mining), energy, and services - continued to be prime determinants of economic performance in 2001. However, agriculture holds the key to the continent's short and medium term economic prospects as it accounts for a third of GDP, employs about half the labor force, and provides the means of livelihood for about 70 percent of the poor. Thus, the performance of the sector is a key barometer for measuring the qualitative performance of key in-

dices—income, employment, and poverty. In 2001, agriculture made some significant recovery, growing at 4.5 percent from 1.4 percent in 2000.

In 2001, the overall food sub-sector, which dominates the agricultural sector, was generally better than it was in 2000, with improved harvests in North Africa, the Horn of Africa, and bumper crops in the Sahel in West Africa. However, many countries still faced serious food shortages due to natural and/or man-made disasters and need food assistance. In fact, within sub-Saharan Africa, West Africa had a modestly positive outcome, while the East and Southern Africa had very unfavorable outcome due to the lingering effects of the 2000 drought, prolonged mid-season dry spells and subsequent floods in Southern Africa. Overall, there was a marginal increase in estimated cereal production, from 111.5 million tonnes in 2000 to 116.7 million tonnes in 2001. Estimated cereal imports were therefore marginally down from 47.6 million tonnes in 2000 to 44.4 million tonnes in 2001 and valued at US$4.1 billion. While cereal exports were slightly down to 3.2 million tonnes from 3.3 million tonnes the previous year, food aid shipments to Africa stood at 3.1 million tonnes. The FAO estimates that some 28 million people in Africa faced severe food shortages in 2001, of whom 18 million or 64 percent were in Eastern Africa.

The industrial sector growth fell from 4.2 percent in 2000 to 3.5 percent in 2001, with its major component – manufacturing – declining to 3.7 percent in 2001 from 4.4 percent the previous year. For Africa's biggest economy, South Africa, manufacturing output slowed to 3.4 percent in 2001 from 4.5 percent in 2000 due mainly to the weak Rand and interest rate hikes. In Egypt, another big African economy, manufacturing output represented about 20 percent of GDP in 2001, with manufacturing employment standing at 20 percent of the labor force. The manufacturing value-added represented 12 percent of the GDP, with private sector share of 87.9 percent and public sector share of only 12.1 percent. In terms of period average, UNIDO estimates show that the growth rate of total manufacturing value added (MVA) for Africa fell from 3.9 percent in 1980-1990 period to 2.9 percent for the 1990-2000 period – compared to least developed countries' growth from 2.2 percent to 4.3 percent during the same period. The growth rate in per capita MVA exhibited a similar pattern with a continental decline from 1 percent in the 1980-1990 period to 0.4 percent in the 1990-2000 period. To revitalize industrial growth in Africa, the orientation of African firms should be tilted toward being inward looking for the supply of their important inputs through the development of science and technology and through the removal of unnecessary barriers against local African manufacturing.

Africa is a major producer of several (over 60) of the world's most important minerals and metals such as gold, platinum group estimates, diamonds, uranium, manganese, chromium, nickel, bauxite, and cobalt. However, Africa's contribution to the world's major metals (copper, lead, and zinc) is less than 7 percent. Currently, Africa hosts about 30 percent of the world's mineral reserves, including 90 percent of platinum group metals, 60 percent of cobalt, and 40 percent of gold. While a number of African countries such as Angola, Sierra Leone, Namibia, Zambia, and Botswana rely heavily on the mining industry as a major foreign exchange earner, the African mining industry is presently dominated by South Africa, Ghana, Zimbabwe, Tanzania, Zambia, and the Democratic Republic of Congo. In 2001, Africa's mining sector was marked by several no-

table events, including: (a) downward trend in global demand for metals and minerals and hence general fall in prices; (b) the development of some new and existing mining operations in some countries such as Ghana, Mali, Zambia, Tanzania, and Mozambique; (c) lull in countries considered politically risky (especially in Zimbabwe); (d) some increase in exploration activities, and (e) the opening of and ongoing development of many world class facilities throughout the continent. Thus, as the world economy slide towards recession, African miners were restructuring, consolidating, and diversifying. A significant feature of the mining sector was that global output continued to exceed demand, worsened by the global recession and the events of September 11, 2001. Consequently, inventories rose – for some by more than 60 percent while those of aluminum and copper more than doubled – and prices slumped. For example, the index of metals and minerals prices fell 15 percent during the first three-quarters of the year, with copper prices down by 13 percent in the full year, in spite of production cuts, especially for aluminum.

The global gold demand amounted to 3,235.1 tonnes in 2001, representing a 2 percent fall from 2000's 3,287.9 tons. The price per ounce averaged US$286.7 during the year. In 2001, the continent remained one of the largest producers of diamonds, with Botswana, the Democratic Republic of Congo, South Africa, and Namibia leading the way. With respect to base metals, 2001 was a bad year for producers given that the price of base metals touched historical lows resulting in the shelving of many projects. Things were made worse by major investors' write down of their investments, especially in the Zambian copper mines. While copper prices fell by 13 percent during the year due to weak demand and rising stocks, aluminum prices declined 7 percent just as nickel prices fell 32 percent as demand exceeded supply. Lead appeared to have made the greatest price gains in 2001, with price increases standing at 5.3 percent.

The global energy market in 2001 witnessed extreme volatility, with high prices for oil and natural gas and concerns for energy shortages earlier in the year (especially in the US) giving way to an economic slowdown, and lower prices in the last quarter following the September 11 attacks on the US. Total global oil supply in 2001 was 76.9 million barrels per day compared with 76.8 million barrels per day supplied in 2000. Africa's supply in 2001 stood at 2.81 million barrels a day, down from 2.85 million barrels a day in 2000. Thus, estimated total African oil supply fell from 301.36 million metric tonnes in 2000 to 266 million metric tonnes in 2001. Global oil demand was lower in 2001, at 75.8 million barrels per day against 75.7 million barrels per day in the previous year. Africa's demand increased marginally from 2.35 million barrels per day in 2000 to 2.37 million barrels per day in 2001. World oil prices remained relatively high through most of 2001, averaging about US$24.4 (against US$28.2 in 2000) per barrel, due largely to the actions led by OPEC and some non-OPEC countries to restrain oil production. Oil prices, however, began to decline later in 2001 (after surging immediately after the events of September 11) in response to the slowing world economy. The relatively high oil and gas prices benefited net exporters such as Nigeria, Algeria, Angola, and Equatorial Guinea, who collectively achieved an economic growth rate of 3.7 percent in 2001 against net oil importers' 3.3 percent.

In 2001, the services sector growth rate was 3 percent, down from 3.4 percent attained in 2000 and 3.7 percent in 1999. However, between 1997 and 2001, the services sector grew at an average

rate of 3.3 percent compared with 2.7 percent for agriculture, and 3.5 percent for the industrial sector. The tourism sub-sector has been a significant contributor to the growth of the services sector over the years. However, in 2001, the growth in this normally buoyant sub-sector slowed down globally by 1.3 percent due largely to the 11 September attacks on the United States and the weakening economies of major tourism generating markets. International tourist arrivals totaled 689 million in 2001 against 697 million in 2000. During the first eight months of 2001, tourist arrivals worldwide grew by 3 percent but the last four months suffered a drop of 11 percent, with substantial decreases in most regions: Middle East (-30 percent), South Asia (-24 percent), Americas (-24 percent), East Asia/Pacific (-10 percent), Europe (-6 percent), and Africa (-3.5 percent). Consequently, tourist arrivals in Africa in 2001 were 28.5 million compared with 27.6 million in 2000. This represented a growth rate of 3 percent against 4.3 percent attained in the previous year, with most of the gain coming from the North African countries of Tunisia and Morocco, which showed strong growth of 10 percent and 8 percent, respectively, for the first eight months of the year.

For the transport sub-sector generally, the year 2001 was characterized by volatility with the growing volumes and high freight rates initially recorded replaced by declining volumes and rates. Information and communication technology (ICT), on the other hand, has increasingly become an instrument for promoting growth and development worldwide. Fifty-six countries and territories are now online, compared with 11 in 1996. The number of computers permanently connected to the Internet passed the 10,000 mark two years ago, but most are in cities. Estimates put the number of Internet subscribers in Africa at 1.3 million, with 750,000 of them in South Africa and 250,000 in North Africa, leaving 300,000 for the rest of Africa. Also, the growth of mobile cellular and other wireless technologies in Africa in the past couple of years has been exponential. The number of mobile phone users in the continent was estimated to have risen to 28 million in 2001 from just two million in 1998. This compares to 22 million fixed-line users. To bridge the digital divide, efforts must focus on infrastructural development, policy incentives, education and training, local relevance, and entrepreneurship.

The Medium-Term Outlook

In 2002, the African economy is forecast to grow by 3.5 percent, while real per capita income is to increase by 1.2 percent, following the gradual recovery in the US and Euro Area and moderate oil prices. Growth in the world economy and Africa is expected to accelerate towards the end of 2002 and into 2003. In particular, greater prospects await 2003 as non-oil exporters are expected to see a significant improvement in performance, as commodity markets firm and prices stabilize or even moderately increase in real terms. Expected rebound in commodity prices later in 2002 will be due mainly to currency movements. These forecasts are based on assumptions of unchanged weather and hence good agricultural performance as well as unchanged political and policy stance.

But things could be dramatically different, depending on the nature and size of changes in weather/agriculture and/or policies. In 2001, for example, Morocco and some parts of North African countries recovered from long standing drought, and agriculture is expected to continue to spur the growth of these economies in 2002-2003. Also, drought hit the Southern African economies, especially South Africa in 2001 and if

this eases in 2002-2003, bumper harvests could significantly improve the outlook for the country and the sub-region. Falling inflation and increasing current account surplus should enhance South African economic growth. Though the Rand weakened in 2001 due to regional and global factors, the country's vulnerability to external shocks appears generally diminished due to stronger macroeconomic fundamentals, continuing reductions in the central bank's open forward position, and a healthy banking system. In other economies – Mozambique, Uganda, Tanzania, Ghana, and Cameroon - where macroeconomic and structural policies are generally sound, relatively healthy growth is expected in 2002 and beyond. On the other hand, weaker growth is predicted for economies still in political conflict, those with poor policy implementation and governance problems, including Zimbabwe. Manufactured export prices are expected to increase by 4 – 4.5 percent per year, in the light of anticipated depreciation of the dollar. This would, however, worsen the terms of trade for primary commodity exporters—reducing their import purchasing power and hence somewhat constrain consumption and investment in these countries.

Although the external environment, especially the depressed aggregate demand in industrial countries, will continue to constrain Africa's trade, a number of concessional trade arrangements could also provide a positive impetus for growth. The United States' Africa Growth and Opportunity Act (AGOA), the European Union's 'Everything But Arms' (EBA), the recent EU-ACP-Cotonou agreement, the possible Regional Economic Partnership Agreement (REPA) between African countries and/or sub-regions and the EU to be negotiated beginning in 2002 - could have far reaching positive impacts on growth prospects. Despite the inelastic export demands facing much of Africa's exports and the lack of diversification, evidence indicates that about 13 African countries exported $3 billion worth of goods under the AGOA preferences within the first half of 2001.

On the other hand, though oil exporters will face weaker export prices and falling terms of trade, significant new capacity, especially in offshore development will assist in offsetting this negative impact by allowing production and exports to rise. Terms of trade losses will cost these countries some GDP growth loss, with their real GDP growth down from 3.7 percent in 2001 to 3.4 percent in 2002. However, Nigeria, for example, plans to increase capacity over the next few years and a second liquefied natural gas plant at Bonny Island will boost production by 50 percent beginning in 2002. Also, recent offshore discoveries could significantly increase medium term production for non-OPEC Angola and Equatorial Guinea. Exploration and development activities, including the Chad-Cameroon pipeline project would offset terms of trade losses thereby keeping real growth higher than would have been the case. In particular, Angola's economic growth is expected to accelerate in 2002 due to increase in oil production from new offshore fields.

Ultimately, the medium term performance will depend on the deepening of reforms – economic and political governance, structural transformation, institutional, and sound macroeconomic policy stance. One obvious implication of this is that for medium to longer-term sustainability, effort should be devoted to strengthening domestic policies and institutions for handling external shocks, diversification of export baskets as well as partnership with the international community on ways to ameliorate the ef-

fects of the adverse external shocks. As the number of countries in conflict continues to decline, and economic reconstruction and policy reforms deepen, a better environment for sustainable growth and development would increasingly emerge.

But the challenges and risks to the medium term performance remain— disease (especially the HIV/AIDS pandemic and malaria), civil strife, poor governance in several countries, erratic weather conditions, lack of economic diversification and terms of trade shocks, low savings and investment, and dependence on foreign aid. These problems are not likely to go away soon. At present, a growth rate of 3.5 percent remains the most optimistic forecast for Africa in the medium term. But a growth rate of 5 percent is required just to prevent poverty from worsening in the region, and 7 percent or more needed to effect a significant reduction in poverty (to halve the incidence of poverty by 2015 according to the international development goals). Thus, the challenge is not so much how to overcome the present short-run cyclical trends, as it is how to chart the long run trajectory, especially dealing with Africa's structural vulnerability. The New Partnership for African Development (NEPAD) (see Box 2) launched by the African leaders in 2001, as an agenda for the renewal of the continent could well be one of the key instruments in this direction. The next years would provide the litmus test as to whether NEPAD is the long awaited visionary plan to be actively supported by the international community for Africa's renewal or yet another of the long list of unfulfilled promises and unimplemented plans.

Box 2: Major Elements of the NEPAD

The NEPAD is envisaged as a long-term vision of African development based on Africans' option for a good mastery and application of the rules of the game of economics. The program of action underpinning this vision has nine top priorities structured in the same way as the strategy outlined. Some of the program areas include:

- Peace, security, democracy, human rights and political governance

- Regional and continental approach—focusing on the provision of essential regional public goods (such as transport, energy, water, ICT, disease eradication, environmental preservation, and provision of regional research capacity) as well as the promotion of intra-African trade and investments.

Sectoral priorities, including:

- Bridging the infrastructural gap, especially regional roads linking up two capital cities of two countries in the region, and continental highways crossing several regions. This would also woo private foreign finance to complement the two traditional funding methods—credit and aid.

- Bridging the education gap, especially to work with donors to ensure that the international development goals of achieving universal primary education by 2015 is realized; curriculum development, quality improvements and access to ICT; promote networks of specialized research and higher education institutions. This requires action plans in terms of regional needs assessment for educational reforms, review levels of expenditure on education by African countries, and lead the process of developing norms and standards for government expenditure on education; set up a task force to accelerate the introduction of ICT in primary schools; set up a task force to review and put forward proposals for the research capacity needed in each region of the continent.

- Appropriate and urgent attention to the health sector, water and sanitation, including the tackling of HIV/AIDS, disease prevention, vaccines against communicable diseases.

- Ensuring an agrarian revolution for sustainable development.
- Bridging the digital gap, especially in the area of

(box continues on next page)

Box 2: Major Elements of the NEPAD (continued)

the ICT with the goal of doubling the teledensity to two lines per 100 people by 2005, with an adequate level of access for households, improve reliability, and improve the ICT competence of the productive population.

- Developing the energy sector and strive for abundant and cheap energy by exploiting all possibilities and rationalizing the territorial distribution of existing but unevenly allocated energy resources, as well as develop the solar energy resources.
- Comprehensive agenda for production diversification, export promotion, and access to industrial country markets.
- Program for promotion and protection of culture, and the environment.
- An agenda of resource mobilization through increasing domestic savings and a comprehensive plan for increasing private capital inflows, new debt and aid reform initiatives.
- Also, NEPAD articulates a comprehensive agenda for a new global partnership, which recognizes the centuries-old historical injustice and the need to correct it. Hence, the central injunction of the new partnership is for combined efforts to improve the quality of life of Africa's people as rapidly as possible with a sense of shared responsibilities and mutual benefits between Africa and her partners.
- To ensure the effective implementation of the NEPAD, the initiating Presidents propose that the following programs be fast-tracked, in collaboration with development partners.
- The programs to be tackled immediately include communicable diseases such as HIV/AIDS, malaria and tuberculosis; information and communication technology; debt reduction; market access
- In addition, some specific projects are proposed to not only strengthen country and regional development programs, but will also go a long way in kick-starting the regeneration of the continent. Three illustrative projects include: a) agriculture: This aims to expand the ambit and operation of the integrated land and water management action plan for Africa. The project addresses the maintenance and upgrading of Africa's fragile agricultural natural resource base. Many African governments are already implementing these initiatives as part of this program. Partners include the Global Environment Facility (GEF), the World Bank, the FAO and other bilateral donor agencies. Also the project would strengthen and refocus the capacity of Africa's agricultural research and extension systems; b) promotion of the private sector through the National Business Incubators (NBI). International experience suggests that one of the best practices in promoting enterprises in highly innovative areas is through the establishment of business incubators. This project will formulate the required guidelines and policies for the establishment of such incubators at the national level, drawing on international experience and established best practice, tailored to African needs and conditions; and c) Infrastructure and regional integration. The African initiative process has identified many energy, transport, telecommunications and water projects that are crucial to Africa's integrated development. The projects are at various stages of development and require funding and in collaboration with the African Development Bank, the World Bank, and other multilateral institutions, the NEPAD hopes to accelerate their further development. It is the view of the initiating Presidents that, unless infrastructure is addressed on a planned basis—that is, linked to regional integrated development—the renewal process of the continent will not take off.
- NEPAD proposes a needs assessment action for the priority sectors, progressing from the national level, to the sub-regional, to the continental level. The point is to assess the needs in the five priority sectors in terms of structures and staff.
- NEPAD is to be managed at both the continental, sub-regional and national levels—with the Heads of State Implementation Committee at the helm, and also supported with a core technical support for the implementing mechanism in the areas of research and policy formulation.

Source: NEPAD (The New Partnership for African Development), (2001).

Rural Development for Poverty Reduction in Africa

At the dawn of the new century, Africa more than any other region of the world faces some of the most difficult development challenges. Close to half of the region's population still lives in absolute poverty and the continent remains the least developed region as evidenced by such indicators of well being as literacy, nutrition, health, and life expectancy. Poverty is deeply rooted in rural areas. The poor face more difficult problems with access to food, water supply, primary health care and primary education today than they did 30 years ago. There is therefore a near-universal consensus that the central development challenge that confronts African countries today is the reduction of poverty, and particularly improving the well being of the rural poor.

Why Focus on Rural Poverty?

Six major factors underline the recent focus on the rural poor:

- Poverty is growing in Africa compared to other regions;
- About 70 percent of Africans live in rural areas;
- Poverty in rural areas is not only widespread but it is also deep and severe;
- Overwhelming numbers of the rural poor are vulnerable to external shocks, natural disasters, conflicts, and the spread of diseases including HIV/AIDS;
- New initiatives bring the rural poor to the center of development dialogue;
- Few countries will be able to meet the agreed International Development Goals, particularly in the rural areas.

The focus on rural poverty is also important because the international community's commitment to cutting the global incidence of absolute poverty in half by 2015 implies a massive effort in rural Africa. In addition, an understanding of the extent, nature and causes of rural poverty is a precondition for effective public action to reduce deprivation in rural areas of the Continent.

Poverty is Widespread in Africa

Recent evidence shows that at a poverty line of one US dollar per person per day, Sub-Saharan Africa had the highest head-count ratio (close to 50 percent) among all world regions for all the years surveyed between 1987 and 1998. Head-count ratios in excess of 40 percent of the population are recorded only for the South Asia sub-region, ranking second to SSA in terms of high incidence of poverty at the international poverty line of $1 per person per day. At the other extreme, the North African sub-region had the lowest poverty rate among all developing regions in the world between 1993 and 1998. Prior to that, it was only the Eastern Europe and Central Asia region that had a lower head-count ratio. However, when the poverty line is increased to $2.15 per person per day both the ranking and the magnitudes of the poverty results change with Sub-Saharan Africa (76 percent) ranking second to South Asia (84 percent) as the highest poverty incidence region. North Africa (22 percent) also ranks second to East Europe as the lowest poverty incidence sub-region.

Most of the Poor Live in Rural Areas

Poverty in many African countries is predominantly a rural phenomenon. The rural population represents an average of 60 percent of the total popu-

lation on the continent; about 90 percent of the rural labor force engage directly or indirectly in agricultural activities. Agricultural development and rural development are crucial for the structural transformation and development of Africa. Agriculture contributes 20 percent of GDP in North Africa and 30 percent of GDP in Sub-Saharan Africa.

Rural poverty in Africa is embedded in an overall poverty context at the national level. Rural poverty in Sub-Saharan Africa contributes more than 60 percent of the incidence of total poverty as measured by the head-count ratio. The contribution of rural poverty is in excess of 90 percent of total poverty in Burkina Faso, Mali, Niger and Uganda. The contribution of rural poverty is in excess of 80 percent of total poverty in Ethiopia, Gambia, Kenya, Madagascar, and Swaziland.

Rural people are not only income-poor, but they are also deprived from the substantive "capabilities" necessary to lead a decent and meaningful life. Deprivation of elementary capabilities can be reflected in, among other things, premature mortality, undernourishment, morbidity and illiteracy. For primary education indicators the picture is such that not only is the rural deprivation on account of this indicator higher but also the differences between countries are large. Detailed information shows relatively high net primary school enrolment ratios in the rural sector for Kenya, Ghana, Zambia and Nigeria, with an enrolment ratio of between 50 and 75 percent. The most deprived rural sectors are to be found in Ethiopia, Niger, Mali, and Senegal with a ratio of between 13 and 22 percent. For the secondary school enrolment ratio the level of deprivation of the rural sector is much deeper compared to the primary school indicator.

The deprivation of rural sectors is not only apparent in education but also in access to basic health-related services such as sanitation and piped water. The overall national averages are 51.4 percent for access to sanitation and 29.1 percent for access to piped water. Within the context of this overall deprivation the rural sector is much more deprived than the urban sector. Access to sanitation in the rural sector averaged 41 percent compared to about 81 percent for the urban sector. Countries with relatively high rural access to sanitation include Tanzania, Kenya and Uganda with an access rate of between 92 and 56 percent. At the other end, the most deprived rural populations on account of this indicator are to be found in Ethiopia, Nigeria, Burkina Faso and Niger, and Ghana with access of between 5 to 17 percent. Similar differential deprivation between the rural and urban sectors is observed for the indicator of access to piped water. Thus, compared with the urban sector, which is also poor and deprived, the rural sector is poorer and more deprived in terms of capabilities.

Rural Poverty is Widespread, Deep and Severe

The state of rural poverty in Sub-Saharan Africa is not only widespread, but it is also deep and severe, varying among countries. For example, for the three poverty measures (headcount ratio, poverty-gap ratio, and squared poverty-gap ratio), Ghana emerged as a low rural poverty country where the spread of poverty is 34 percent, while its depth and severity are 8 and 2.4 percent, respectively. At the other extreme, Zambia is a high rural poverty country with about 81 percent of its rural population living below a poverty line of about US$25 per person per month.

In terms of depth of poverty, Central African Republic (CAR) is clearly a high rural poverty country with a poverty-gap ratio of 46.4 percent while in terms of severity Guinea Bissau is the country with the highest squared poverty-gap ratio of about 35 percent. To further appreciate the extent of the depth of rural poverty, it is to be noted that the mean expenditure of the rural poor in Guinea Bissau, Ethiopia and CAR is only about 32 US cents per person per day. For Ghana, at the other extreme, the mean expenditure of the rural poor is 81 cents per person per day. These are indeed dramatic figures reflecting the depth of poverty in rural Africa.

In the majority of Sub-Saharan countries the contribution of rural poverty to the depth of poverty at the national level is in excess of 70 percent. Rural poverty contributes more than 90 percent of the depth of poverty at the national level in Burkina Faso, Madagascar, Uganda, Mali, and Niger. Similar observations can be made about the contribution of rural poverty to the severity of poverty at the national level.

Poor, unskilled, and uneducated people in rural areas are also most vulnerable and suffer disproportionately from multiple risks, shocks and volatility, and they have few instruments for mitigating these adverse events. Poor rural Africans have become vulnerable to risks emanating from globalization and external shocks, conflicts, HIV/AIDS and natural disasters.

Bringing the Rural Poor to the Center of the Development Agenda

African leaders have in various fora – such as the Summit in Libreville in 2000 and the OAU Summit in 2001 – reaffirmed that this is indeed their primary goal. The leaders of the industrial countries have also pledged to assist developing countries in this critical endeavor. This commitment was re-affirmed last year by the adoption of the UN Millennium Development Goals (MDGs) by virtually all countries. Multilateral financial institutions and other donors have stressed the importance of refocusing on the rural poor. The important initiatives that have emerged from the consensus on the need to reduce poverty include debt relief initiatives, the New Economic Partnership for Africa's Development (NEPAD), and the New Vision of the African Development Bank Group.

Few Countries Will Meet the International Development Goals

Despite the apparent commitment of African leaders, and the donor community to poverty reduction, it is clear that more would need to be done to realize this objective. It has been more than a decade since the adoption of the International Development Goals (IDGs). Yet, it is evident that, at the pace of current economic and social trends, the majority of African countries would not be able to achieve these goals. It might be recalled, in this respect, that the commitment of the international community to poverty reduction culminated in six goals set in clear quantitative terms (the seventh goal involves strategies to reverse loss of environmental resources through implementing sustainable development strategies). These included a poverty reduction target and five other social development goals. Assessing the progress made so far towards the realization of these goals, and weighing up the challenges that lie ahead, should provide the justification for continued and intensified efforts to fighting poverty. What follows is an assessment of the performance of African countries against the IDG goals related to poverty and social development.

Goal 1: "Reduce the proportion of people living in extreme poverty by half between 1990 and 2015"

Reducing poverty by half by the year 2015, starting in 2001 as a base year, would require a reduction in the head-count ratio by an annual rate of 4.83 percent. Such a rate of decline of the head-count ratio would require an increase in per capita consumption given by 0.0483 divided by the elasticity of poverty with respect to consumption expenditure. This elasticity measures the percentage reduction in poverty (as defined by the head-count ratio) as a result of a one percent increase in consumption expenditure.

For a sample of 19 Sub-Saharan African countries the absolute value of the elasticity of the head-count ratio ranges from a low of 0.43 (for Ethiopia) to a high of 2.2 (for Ghana) with an average of 1.03. That is, a one percent increase in consumption expenditure reduces poverty by about 0.43 percent in Ethiopia while it reduces poverty by 2.2 percent in Ghana. For the sample as a whole, a one percent increase in consumption expenditure reduces poverty by 1.03 percent. Thus, achieving the IDG of poverty reduction by half by year 2015 for this sample of countries would require per capita consumption expenditure to grow by an annual rate of 4.71 percent. With an average population growth rate of 2.7 percent, the achievement of the IDG of poverty reduction would require a GDP growth rate of about 7.41 percent per annum. Given the historical record of growth in the continent, and given the rate of savings and the magnitude and rates of flow of foreign aid, such a growth target is clearly not feasible.

To further appreciate the unfeasibility of achieving the IDG of poverty reduction goal one should note that the incremental capital-output ratio for Sub-Saharan Africa for the period 1995-1999 averaged 5.47. This implies that to achieve the IDG goal of poverty reduction, African countries would need an annual investment rate of about 40.53 percent of GDP. This is clearly beyond the saving capacity of the African economies where the savings rate averaged 22.9 percent of GDP for the period 1975-1984, 19 percent for the period 1985-1989 and 16 percent for the 1990s.

By contrast, for a sample of four North African countries the absolute value of the elasticity of the head-count ratio ranges from a low of 1.87 (for Algeria) to a high of 3.33 (for Egypt) with an average of 2.30. Thus, achieving the IDG of halving poverty by year 2015 would require mean per capita consumption expenditure to grow by an annual rate of 2.1 per cent. With an average population growth rate of 2.0 per cent, the achievement of the IDG of poverty reduction would require a GDP growth rate of about 4.1 per cent per annum. Given the historical record of growth in this sub-region, and given the rate of savings achieved in the past, such a growth target is clearly feasible. To further appreciate the feasibility of achieving the IDG of poverty reduction goal note that the incremental capital-output ratio for North Africa for the period 1995-1999 averaged 5.59. This implies that to achieve the IDG goal of poverty reduction North African countries would need an annual investment rate of about 22.9 percent of GDP. This is clearly achievable given the historical record of the saving capacity of the North African economies where the savings rate averaged 32.1 percent of GDP for the period 1975-1984, 24 percent for the period 1985-1989 and 19.8 percent for the 1990s.

From the above, it should be clear that while the North African sub-region is poised to achieve

the agreed IDG of reducing poverty by half by the year 2015, there are major difficulties facing Sub-Saharan Africa in doing so. What is true for the poverty reduction target is also true for the other social indicators given the close relationship between poverty and its other social correlates such as education and health indicators.

Sub-Saharan countries are expected to face difficulties in attaining their other social targets in education and health. A study of individual Sub-Saharan countries confirms this conclusion and suggests that there are large variations across countries and between rural and urban areas.

Goal 2: "Enroll all children in primary school by 2015"

The possibility of achieving the social goal of enrolling all children in primary school by 2015, was examined for ten Sub-Saharan countries comprising Burkina Faso, Cameroon, Ghana, Kenya, Madagascar, Niger, Nigeria, Tanzania, Zambia, and Zimbabwe. It was found that Kenya is the only country, which is more likely to realize the goal of 100 percent enrolment in urban as well as rural areas. In Cameroon, progress in enrolment in urban areas might also be consistent with the target-achieving path, but rural areas are unlikely to achieve the desired goal.

Goal 3: "Make progress toward gender equality and empowering women by eliminating gender disparities in primary and secondary education by 2005

Progress toward the target of eliminating gender disparities in primary and secondary school by 2015 was examined for the same ten countries considered above. It was found that only rural Madagascar and Tanzania are on target to meet the goal of gender equality in primary and secondary education, though this only holds for Madagascar if the observed rates of change persist to the year 2015 in a linear fashion. This is also the case in urban areas of Burkina Faso, Tanzania and Zimbabwe. In rural Niger and Nigeria, there has been progress as measured by increasing ratios of girls-to-boys enrolled in primary and secondary school, but the pace of change – whether one assumes linear or log-linear changes – in each of these countries is below the linear target path. In a few countries, worsening performances in terms of gender equity in enrolments are observed. This is most pronounced in urban areas of Madagascar (where overall enrolments are also falling), Nigeria and Zambia, as well as both urban and rural Kenya. In all of these cases the rates of decline in the ratios are sufficiently large to be a cause of serious concern.

Goal 4: "Reduce infant and child mortality rates by two-thirds between 1990 and 2015"

For health indicators, 24 Sub-Saharan countries were covered. For the two health indicators, infant mortality and chronic child malnutrition, it was found that although the evidence for both of these indicators is mixed, the common feature of urban areas being better off than rural areas generally applies here as well. In terms of targets, although 23 of the 24 countries witnessed declines in infant mortality rates in rural areas, only 11 are poised to realize the goal of reducing infant mortality by two-thirds by 2015. Also, of the 15 countries in which infant mortality rates were observed to fall in urban areas, only in Côte d'Ivoire, Ghana, Mali, and Namibia are the changes rapid enough to meet the target.

Goal 5: "Reduce maternal mortality ratios by three-quarters between 1990 and 2015"

In the case of maternal mortality, the number of births attended by skilled health personnel is used as a proxy. It is found that the only cases where there are improvements consistent with the linear rates of progress required for realizing the targets are urban areas in Mozambique, Senegal and Togo. Furthermore, while there are other examples of urban populations within striking distance of the goal of 90 percent, there is virtually no realistic hope for rural areas in any of the countries to meet the maternal mortality goal.

Goal 6: "Provide access for all who need reproductive health services by 2015"

More disappointing results are also found with regard to the target of providing access for all who need reproductive health services. There is no case in either urban or rural areas, where the percent of women using modern methods of contraception increases (as a proxy for access to health services) at a rate that even comes close to following the target path. With the sole exceptions of Kenya and Zimbabwe, only 10 percent of rural women are found to use modern contraceptives. The picture is not much better in urban areas.

Towards a Framework for Poverty Reduction

It is clear from the above results that with the current development strategies, most African countries in Sub-Saharan Africa would not be able to achieve the IDGs on poverty reduction and other social development targets. This calls for a new but a holistic strategy in a globalized world to rural development. This new focus on the rural sector and on growth of the rural economy will require both governments and donors to improve the climate for investment and growth in the rural areas, and to enable and empower the rural poor to share in growth. Thus, while rapid economic growth is necessary, it is not sufficient for reducing rural poverty and alleviating rural deprivation. Rural poverty reduction requires broad-based economic growth, which can transform the rural sector and make the rural poor the main focus of development management.

Empowerment and Resources for the Rural Poor

One of the principal lessons of recent experience in Africa is that rural people require new kinds of empowerment if they are to harness their available resources so as to improve their well being. Such empowerment would be significantly assisted by the widespread sharing of knowledge and experience, by generally improved access to the most appropriate technologies and by the enhancement of rural peoples' legal and financial status.

The Agricultural Sector and Productivity

Agriculture remains important in rural Africa, and indicators of rural well being are closely correlated with agricultural performance. According to available information for 48 countries the agricultural sector continued to dominate African economies in terms of labor force, employing about 62 percent of the total. In 36 countries, representing four-fifths of the rural population of the continent, the agricultural sector accounts

for the employment of half or more of the total labor force. Real value-added in the agricultural sector registered an average growth rate of 2.3 percent per annum in the 1990s, half the rate for the late 1980s, though with wide disparity among countries.

African countries are widely diverse in their resource and factor endowments and in their ability to commit policy actions to increasing growth and reducing poverty. During the 1990s 12 of the 48 countries of Sub-Saharan Africa (SSA) were able to maintain agricultural growth rates of 4 percent or better. Agricultural growth in a second group of countries has been positive, but less than 4 percent per year on average, and in many cases less than population growth. Rural poverty is gradually worsening in these countries, and about half the African nations fall into this category.

A third group of countries is still immersed in civil conflicts with sharply rising poverty, particularly of the rural people displaced by fighting. About 20 percent of the total population of the continent – over 100 million people – live in these countries. More than four million Africans are currently refugees, displaced from their homes and deprived of their livelihoods hence poor agricultural productivity.

Sub-Saharan Africa is the only region in the world which both the number and the proportion of malnourished children have been consistently rising in recent years. At the current pace, the number of malnourished children in the region is forecast to increase by 6 million, or 18 percent, in 2020 compared with 1997. Food insecurity in rural Africa is closely related to agricultural production and productivity.

Although African farmers have increased production at even more rapid rates during the past decade, they have done so mainly by cultivating more land and not, for the most part, by using more fertilizer, better practices, or improved varieties of crops. Consequently, although crop yields in SSA were nearly equal to those in South Asia in the 1960s, they are now far lower, and the gap is even greater between SSA and other developing regions. Thus, while agricultural output is growing in Africa, productivity is not. Agricultural productivity per worker for the region as a whole has stagnated during the past ten years at an estimated $365 per worker (constant 1995 US$), also reflecting low investment in factors contributing to productivity. This is 12 percent lower than in 1980, when value-added per worker was $424. A major result of this low agricultural productivity has been the serious erosion of the competitiveness of African agricultural products on world markets. For example, Africa's share of total world agricultural trade fell from 8 percent in 1965 to about 2 percent in 2000.

Apart from low investment, other endogenous constraints to African agriculture include inappropriate policy environment for agricultural investment, the complicated land tenure systems in Africa, limited participation of end-users in policy articulation and formulation, high level of post-harvest losses, and the inadequate adoption of available technology. The exogenous factors inhibiting agricultural productivity in Africa are varied and numerous, including high population growth which contributes to the degradation of the environment; poor state of basic infrastructure for delivery of social services; absence of good physical infrastructure; poor international prices for most primary agricultural commodity exports; persistent instability, wars and civil unrest in some countries; and the presence of endemic diseases such as malaria and HIV/AIDS. Increased agricultural productivity will therefore require increased mobilization of farmer capacity to serve their own needs and the improvement of the

physical and organizational conditions of market access to farmers and the empowerment of African rural farmers in developing their capacity to respond to their own rural financial needs and interfacing with up-stream financial institutions. Other measures are the organizational and knowledge empowerment of rural farmers with respect to rural agricultural technology; changing land legislation in favor of titling rural farmers and the promotion of independent access by women to land; and more intensive cultivation of existing land, accompanied by measures to maintain and replenish the soil so as to avoid degradation and loss.

The Rural Non-Agricultural Economy

The rural non-agricultural economy plays a significant positive role in promoting growth and welfare in Africa (see Box 3) and hence serves as a strong vehicle for rural poverty reduction. A virtuous cycle also exists between the agricultural and rural non-agricultural economies, whereby, due to emerging green revolution technologies, increases in rural agricultural productivity (agricultural intensification) – and thus the incomes of farmers – are magnified by multiple linkages with the rural non-agricultural economy. However, the rural poor have special problems in exploiting non-agricultural employment opportunities. A combination of limited human and social capital, insufficient access to markets, and lack of credit results in higher barriers to entry to remunerative rural non-agricultural employment opportunities. Thus, promoting the rural non-agricultural sector would require action on the following key areas: investing in primary schooling as a long-term strategy; an increase in rural public; increased investment and links to external markets, collection of market information, development of rural infrastructure, and the empowerment of rural enterprises to compete in non-local markets; and the establishment of specialized rural financial institu-

Box 3: The Role of Rural Non-Agricultural Economy in Africa

Survey results have shown that in Africa, rural non-agricultural employment ranges from a low of 6 percent in Mali to a high of 60 percent in Nigeria. In the same vein, the percentage of rural income from non-agricultural activities ranges from 23 percent in Tanzania to 52 percent in Burkina Faso. Results from Reardon *et al* (1998) indicate that rural non-agricultural income and employment account for 36 percent of total rural income and employment in West Africa. In Africa as a whole, the study not only finds that non-agricultural income shares have been rising but also that they are greater in the continent (42 percent) than either in Latin America (40 percent) or Asia (32 percent). The reason for this high rural non-agricultural income in Africa is that, though African households are poorer, the incentive to diversify their incomes is strong (due to low agricultural incomes, risks, etc). The greater portion of rural income comes from the service sector. Also, a recent study by Barrett et al (2000) shows that there is high incidence of African households earning incomes from multiple sources – 33 percent in Cote d'Ivoire, 94 percent in Kenya, and 37 percent in Rwanda – principally to diversify their livelihoods. Adams (2001) finds that over 55 percent of the total income of rural dwellers in Egypt comes from non-agricultural sources, including non-agricultural labor, government and private sector employment plus net revenues from non-farm enterprises. In addition, in Egypt, non-agricultural income represents an inequality-decreasing source of income in the rural areas. This particularly because inadequate land access "pushes" poorer households out of agriculture and into the non-agricultural sector.

Sources: Adapted from Reardon et al (1998), Barrett et al (2000) and Adams (2001).

tions that lend to the rural poor for use in micro-enterprise development.

Human and Social Capital

A key factor that traps the poor in poverty is the low level of human capital. Although the last 30 years have witnessed impressive progress in human capital development, huge challenges remain, especially in Sub-Saharan Africa (SSA) with serious human capital deprivation as evidenced by the following statistics:

- In 2000, the population of Africa reached 799.3 million, growing at about 2.5 percent each year, the highest rate of growth of any continent;
- The gross primary school enrolment rate in SSA stood at 78 percent in 1996 against the developing countries' average of 107 percent;
- In 1999, the adult literacy rate in SSA was 59.6 percent against the developing countries' average of 72.9 percent;
- Access to improved water source in SSA at the end of 2000 was 55 percent compared with 79 percent in all developing countries;
- In 2000, about half of the population of SSA still lacked adequate sanitation;
- Life expectancy at birth in SSA is the lowest among all the regions of the world at only 47 years, compared with more than 60 years in other regions and 78 years in OECD countries;
- Infant mortality in SSA is the highest in the world at 92 per 1,000 live births compared with developing countries' and OECD averages of 59 and 6 per 1,000 live births respectively;
- SSA has the highest under-five mortality rate of 161 per 1,000 live births, compared with the developing countries' and OECD averages of 85 and 6 per 1,000 live births respectively;
- African countries have the highest maternal mortality rates, reaching up to 2,300 women who die for each 100,000 live births in Rwanda;
- Undernourished people in SSA constituted 34 percent of its total population in 1996-1998, compared with the developing countries' average of 18 percent. In 1995-2000, children under-weight for age in SSA stood at 30 percent while those under-height for age stood at 37 percent, compared with 24 and 28 percent respectively for the entire world;
- Out of 40 million people living with HIV/AIDS in the world in 2001, 28.1 million or over 70 percent live in SSA while out of the 5 million newly infected with HIV, 3.4 million or 68 percent are in the region. Also, out of 3 million who died of the disease in 2001, 2.3 million or 77 percent were in SSA, which also has the highest adult prevalence rate of 8.4 percent (UNAIDS, 2001)(see Table 3);
- Annually, there are an estimated 300-500 million clinical cases of malaria, with 90 percent of them occurring in SSA. The disease kills more than one million people each year in Africa, the vast majority of whom are young children, especially in remote rural areas with poor access to health services. Malaria is endemic in a total of 101 countries and territories 45 of which are in Africa; and
- SSA had the lowest human development index of 0.467 in 1999, compared with

Table 3: Regional HIV/AIDS Statistics and Features, end of 2001

Region	Epidemic started	Adults and children living with HIV/AIDS	Adults and children newly infected withHIV	Adult prevalence rate (*)	% of HIV-positive adults who are women	Main mode(s) of transmission (#) for adults living with HIV/AIDS
Sub-Saharan Africa	late' 70s early '80s	28.1 million	3.4 million	8.40%	55%	Hetero
North Africa & Middle East	late' 80s	440 000	80 000	0.20%	40%	Hetero, IDU
South & South-East Asia	late' 80s	6.1 million	800 000	0.60%	35%	Hetero, IDU
East Asia & Pacific	late' 80s	1 million	270 000	0.10%	20%	IDU, hetero, MSM
Latin America	late' 70s early' 80s	1.4 million	130 000	0.50%	30%	MSM, IDU, hetero
Caribbean	late' 70s early' 80s	420 000	60 000	2.20%	50%	Hetero, MSM
Eastern Europe & Central Asia	early' 90s	1 million	250 000	0.50%	20%	IDU
Western Europe	late' 70s early' 80s	560 000	30 000	0.30%	25%	MSM, IDU
North America	late' 70s early' 80s	940 000	45 000	0.60%	20%	MSM, IDU, hetero
Australia & New Zealand	late' 70s early' 80s	15 000	500	0.10%	10%	MSM
TOTAL		**40 million**	**5 million**	**1.20%**	**48%**	

Notes: * The proportion of adults (15 to 49 years of age) living with HIV/AIDS in 2001, using 2001 population numbers.
Hetero (heterosexual transmission), IDU (transmission through injecting drug use), MSM (sexual transmission among men who have sex with men).
Source: UNAIDS (2001).

0.564 in South Asia, 0.719 in East Asia and the Pacific, 0.760 in Latin America and the Caribbean, and 0.900 in OECD – far below the global average of 0.716 (UNDP, 2001).

Thus, Africa is not only characterised by high population growth and poor education but is also confronted by a health crisis that has been much aggravated by the spread of HIV/AIDS and by the continuing heavy cost of malaria to human and social well being. New and effective mea-

sures, accompanied by substantial international financing, are needed to combat these threats.

Social capital - the relationships, institutions, networks and norms that enable collective action and shape the quality and quantity of a society's social interactions - has important implications for poverty reduction. Social capital reduces the probability of being poor and the returns to household investment in social capital have been shown, empirically, to be higher for the poor than for the population at large. Also, social capital among the poor is critical to their short-term survival. Evidence in parts of Africa shows that poor people use social capital as an insurance mechanism which enables them to survive day-to-day when individually they cannot, for example, feed their children during the dry season, pay all their school fees, access formal credit services for their small enterprises, police their neighborhood or maintain a local well.

In spite of the benefits of social capital, a number of barriers inhibit its development in Africa. These include the segmentation of information and social exclusion, language, ethnicity, and political repression. Thus, the promotion of social capital in Africa is largely a matter of lowering costs, including those of the telephone system and transport. While information technology holds enormous potential for generating social capital, the poor are excluded from access, making the gap between the rich and poor wider. Governments, the private sector and international organizations need to focus their efforts on helping people in rural areas to set up multipurpose telecenters equipped with telephones, faxes, email and the internet, while offering requisite training and capacity building.

Governments have tended to retard the development of social capital by penalizing free association because it sees it as a threat to government control. Apart from improving institutions, public sector performance, and communications, a fairer judicial system can foster the conditions that make it possible for the poor to organize in their collective interest and to enhance their bargaining power.

Promoting Appropriate Technology

Technology, like education, enables people to lift themselves out of poverty. Rural regions of Africa have seen few if any benefits from the technological advances of the 20th century although it has been demonstrated elsewhere that the adoption of new agricultural technologies can have numerous and significant benefits for farmers and farming communities. Agricultural revolutions in Asia, Latin America and the Arab states have already eliminated under-nutrition and chronic famine and have led to substantial declines in income poverty. In particular, if Africans living in the technologically excluded countries are to join in the benefits of globalisation, action must be taken on a number of fronts through an inclusive technology policy:

- The new technologically driven character of the global economy must be properly thought through: geography, ecology, and public health must be brought into the analysis of technological change and economic growth;
- Both advanced and developing country governments need to change their approach to aid, by spending more, and more wisely;
- Participation in international assistance needs to be broadened and recast. Multinational firms and first-world universities and scientific establishments need to be engaged, and the official agencies charged

with global development would need to be enhanced;
- Institutional reforms for improving extension services must include decentralization, privatization, and separation of funding from execution;
- Location-specific technologies for African countries will require public intervention and local research and adaptation and also addressing intellectual property rights, agricultural research institutions, and competitive grants and negotiated contracts;
- There should be increased dissemination and use of improved agricultural inputs and practices. In the area of crops, the focus should shift to the use of high-yielding inputs that increase factor productivity. Technological change will involve more efficient use of chemical, biological, and organic inputs, introduction of high-value crops, use of improved farm implements and small-scale irrigation;
- In the livestock sector, husbandry techniques will have to be updated while transhumance production is gradually abandoned due to its low productivity and its adverse ecological impact. There is need to intensify efforts to diversify beyond cattle production into the production of small ruminants and poultry, which offer opportunities for increasing rural income; and
- There must be a renewal of focus on rural-based processing of Africa's main cereals, legumes, and roots and tubers. The increased pursuit of upstream activities in the production of seeds, planting materials, farm implements, and tools as part of the strategy for rural poverty reduction will also provide the push for agro-industrialization to increase value-added in agriculture.

The Consultative Group on International Agricultural Research (CGIAR), working in more than 100 countries world-wide, including those in Africa, is contributing to food security and poverty eradication in developing countries through research, partnerships, capacity building, policy support, and promotion of sustainable agricultural development based on the environmentally sound management of natural resources (see Box 4).

Box 4: CGIAR and Sustainable Agriculture

Over the 30 years of its existence, CGIAR scientists have consistently demonstrated that sustainable agriculture and its driving force – agricultural research – can be a powerful force for achieving sustainable development. Its research – both strategic and applied – focuses on higher-yielding food crops, more productive livestock, fish and trees; improved farming systems; better policies; and enhanced scientific capacity in developing countries. Some of the major achievements of the CGIAR system include:

- Farmers in Africa and other developing countries are now growing more than 300 varieties of wheat and rice as well as more than 200 varieties of maize developed through CGIAR-supported research. The new maize varieties, for example, have 30-50 percent higher yields even when grown in difficult drought and low-fertility soil conditions. Apart from earlier maturity than traditional maize varieties, they can be eaten green, making a vital difference in the economic and social well-being of poor farm families. This is especially important in SSA where maize accounts for almost 40 percent of all cereal production. Thus, food production has doubled, improving health and nutrition for millions. Golden rice, rich in beta carotene and other carotenoids, promises to be more effective in

(box continues on next page)

Box 4: CGIAR and Sustainable Agriculture (continued)

combating Vitamin A deficiency, a condition estimated to cause half a million cases of irreversible blindness, and up to one million deaths, worldwide annually;

- Integrated pest management, the biological control of pests, and the development of disease-resistant plant varieties have helped to reduce pesticide use in Africa and other developing countries. For example, control of cassava pests alone has increased the value of annual production in SSA by $400 million (CGIAR, 2001). In Nigeria (through its work with the International Institute for Tropical Agriculture – IITA), for instance, new intercropping practices have reduced Striga attacks (a parasitic weed) by 63 percent, greatly improving maize harvests. Also, in Kenya, farmers participating in a pilot project have increased their maize yields by 20 percent through intercropping and habitat management. A vaccine is also being developed for East Coast Fever, a cattle disease that causes losses of $200 million each year in Africa. The vaccine promises spillover benefits for cancer and malaria research;
- CGIAR's research into community-based forest management has resulted in the development of environmental indicators for tropical forests. These help scientists to monitor the environmental effects of reduced-impact logging while helping the utilization of non-timber forest products and improving the sustainable productivity of plantation forestry;
- The intensive use of CGIAR's new technologies has led to saving of land from cultivation, globally equivalent to the total arable land of the US, Canada, and Brazil. At the same time, the biodivesrity of the "saved" lands was conserved;
- Research on water management has also generated knowledge on how more sustainable farm production can be achieved in irrigated areas;
- Some 75,000 developing country scientists have been trained at CGIAR centers;
- CGIAR promotes participatory research with a bottom-up approach and collaboration with national agricultural research systems; and
- Research by CGIAR has enabled local communities to undertake their own initiatives to conserve and protect marine resources, including the protection of mangrove forests and the prevention of destructive fishing practices.

Source: Adapted from CGIAR (2001).

Natural Resources

There is ample evidence that rural households in Africa depend heavily on natural resources. Indeed, about 70 percent of Africans rely directly on natural resources for a part or all of their incomes, hence improved natural resource management can lead to higher incomes and reduce risk. Unfortunately, rural poverty in the continent is exacerbated by deterioration of natural resources, as soils are under stress from poor cropping practices and over-exposure to wind and water. Also, a substantial proportion of Africa's poor people is concentrated on low-potential and fragile lands. Better natural resource management requires a learning and partnership approach involving the rural people, extension agents, researchers and policy-makers. In the area of water access, apart from promoting increased investments in the exploitation of irrigation potential, rural farmers need

to be organized for effective bargaining in obtaining access to critical agricultural water resources. In all these, however, there is need for forging strategic partnerships to ensure that donor resources are focused on solving the bottlenecks facing the rural poor in developing their own social and economic strategies.

Thus, any program to reduce the widespread poverty in rural areas of Africa must require an effective combination of strategies to promote growth in both agricultural and non-agricultural activities, to develop the human and social capital of the rural poor, to promote appropriate technologies and to ensure productive and sustainable use of natural resources.

Making Globalization, Markets, and Institutions Work for the Poor

Poverty outcomes are closely related to the functioning of markets and institutions. For the poor whose principal asset is labor, which can be hired for a wage or used for own production, both internal and external markets determine the value of their labor and output. Institutions, on the other hand, have the potential to correct market outcomes, and can empower the poor, whether through increasing their capacity to produce goods with high internal and external demand or through enhancing their ability to access markets. It is through the conduits of trade that the positive and negative forces of the global market are transmitted and the economic prospects of countries and the people that work and live in those countries are determined. It is, therefore, important to explore how globalization and markets impact the poor and what can be done to make markets (internal and external) and institutions work for the rural poor.

Globalization, Trade and Growth

In economic terms, globalization represents the integration of national markets, as impediments to cross-border transactions are reduced and international flows of ideas, capital, goods, services and people increase. Trade is one of the most important and most visible aspects of globalization with the potential to make an immediate and direct impact on poverty. The effects of trade liberalization on poverty are through distributional consequences of liberalization. Similarly, the effect of economic growth on the poor will depend on how the increments are distributed. Thus, in highly unequal societies, a given rate of growth will be translated into less poverty reduction, all other things being equal. Similarly, fewer poor will gain from growth that is associated with a widening of the income distribution, although the pro-poor state transfers that growth makes possible may improve this outcome. With regard to globalization and rural poverty reduction, policy makers would need to ascertain, given their individual country circumstances, that, first, opening up will stimulate trade and growth, and, second, that growth will benefit the rural poor. For this to be the case, rural activities ought to be directly or indirectly related to the processes of trade and growth. This requires a careful examination of the macro-micro linkages of trade liberalization and poverty.

Micro Linkages of Macroeconomic Policies

Macroeconomic policies affects the household level, and hence poverty, through various channels including the effect of the policies on the income-earning capacity of households; the prices of various commodities that affect the cost of

basic needs; and the state of distribution of household expenditure in the society and the socio-cultural factors affecting it. The findings of country case studies on the impact of macroeconomic policies suggest that macroeconomic policies embodied in adjustment programs had a negative impact on the poor and vulnerable sections of society. This conclusion was the basis of the proposal by UNICEF that called for "adjustment with a human face". A recent cross-country study on 16 sub-Saharan African countries concluded that increases in inflation increases poverty, suggesting the importance of stabilization policies for poverty reduction. The study also reveals that both income per capita and the share of transfers and subsidies in total government expenditure affect significantly poverty along with inflation. A study especially conducted for this Report reveals that an increase in government expenditure as a ratio of GDP seems to reduce the spread of poverty in a significant way but not the depth or the severity of poverty.

Globalization and Income Distribution at the Global Level

The effects of globalization on the rural poor through the conduit of trade are also influenced by the globalization-induced distribution of income at the international level. An important determinant of the distribution of income at the global level is the share of international trade. A country's share in global income is closely related to its share in international trade. Indeed, Africa's average export growth during the last two decades, which witnessed increasing liberalization, was only 6 percent per year, which is less than half that of other developing countries as a whole. Consequently, Africa's share in world trade declined from about 5 percent in the early 1980s to 2 percent currently. In considering the distribution of the gains from trade, the problem for many African countries is that the nature of the goods they export have characteristics which may cause both the terms of trade to deteriorate and resources to remain unemployed. The quest for accelerating growth and reducing rural poverty is, thus, closely linked to the ability of African countries to adopt specific policies to reverse their increasing marginalization in world trade. African countries would need, first, to maintain or increase the competitive advantage they have historically enjoyed in primary commodities and, secondly, shift gradually to the production of goods that are attractive to the world market. To connect the rural poor with international markets, efforts should be directed not only at removing the constraints on output supply response, but also at establishing export promotion organizations and improving export servicing facilities. Box 5 provides an example of the opportunities and challenges of linking African small farmers with supermarkets in developed countries.

Financial Services for Poverty Reduction

Market reforms for rural poverty reduction cannot work effectively without microfinance institutions that provide not only credit but a complete set of financial services including deposits as well as insurance. Micro deposit services are needed to encourage the poor to accumulate their small savings, while micro credit services are required to allow the poor to purchase the inputs of goods and services that facilitate the production process. Insurance services permit them to enjoy social security and loan protection. In designing rural micro-finance services, recent research has shown that there is no single best type

Box 5: Linking Rural Producers to International Supermarkets

During the 1990s, overseas supermarket groups became increasingly important for the diversification of agriculture in some African countries (Dolan and Humphrey, 2001). In addition to providing new external markets for a variety of agricultural produce, they also began to create new off-farm employment opportunities such as washing, wrapping and labelling, activities that are all carried out domestically.

Smallholders are less able to benefit from such supplier-driven value chains since they are unlikely to meet supermarket quality standards, at least on a consistent basis. They are also at a disadvantage in meeting demands such as the reliability of supply and the extensive range of regulatory requirements, including health, safety and ethical assurances. (Dolan and Humphrey, 2001).

However, given the evidence that small farms are more efficient in terms of resource use in land- or capital-scarce and labor-rich economies, it seems that both they and the agricultural sector would benefit from their inclusion. In Zimbabwe, around 3,000 smallholders are being contracted to produce for larger farms that are involved in packing (Oxfam-IDS, 1999; IFAD, 2001), yet only 6 percent of total export produce is being sourced from them (Dolan and Humphrey, 2001). As well as being less able to satisfy export criteria, small farmers are faced with the challenge of poor infrastructure. However, global chains involve risk for all kinds of domestic producers. Supermarkets have the power to alternate suppliers quickly, leaving even large exporters vulnerable (IFAD, 2001).

Source: Adapted from Lipton et al (2001).

of micro-finance institutions and that different types of micro-finance institutions and strategies are required depending on the initial conditions of the rural location. Institutions must be tailored to the potential of the area, the cultural environment and the requirements of the clients.

Prospects for Market access and Agricultural Commercialization

Once a food surplus is achieved, cash crop production may be the only way to achieve broad-based economic growth in agrarian economies and thus to sustain rural poverty reduction. Before liberalization, many farmers were dependent on parastatal organizations that bought at predetermined prices. Therefore, with liberalization it is necessary to support market intermediaries and promote competition, transparency and market access, if the transition to unregulated markets of poor farmers is to be facilitated. One way to help smallholders realize their market potential is to advocate collective organizations such as marketing cooperatives. They may enable the poor to enhance their bargaining power and gain economies of scale in transportation and storage, as well as aid the dissemination of information on market situations. The expansion of cash cropping in remote rural communities requires smallholders to have access to markets for assets (including land and water) and credit, as well as improved access to labor and technology. Policy must also challenge social norms and attitudes to risk, often perpetuated by inequities in access to assets such as land and water. African studies have shown that few households, even those with spare land, will increase cash crop production without first maintaining a food surplus. Other studies have emphasized the importance of services in enabling poor farmers to benefit from commercialization. For example, access to extension services is found to raise the average value of crop production by 15 percent in resettlement areas of Zimbabwe. Evidence from Zambia and Zimbabwe confirms the critical role of market structure in determining the effects of liberalization on poverty. Also, land redistribution enables small farms to diver-

sify as their land-holdings increase, but they will need market access, often for new products and with new information and systems, to do this.

Market Liberalization and the Six Ins

Many African countries have embarked upon structural adjustment programs that, *inter alia*, have aimed to stimulate growth by removing artificial controls on markets. However, macroeconomic policies that have large effects on price incentives can be ineffective or even counterproductive if they are not accompanied by appropriate measures to improve supply response and increase market access for the rural poor. Constraints to market access can impede the success of the adjustment sequence by:

- *preventing incentives from reaching the point of delivery*
- *reducing the growth impacts of improvements*
- *reducing the poverty impact of agricultural growth*

There are six instruments or *Ins* that are required to stimulate the supply of output. Market liberalization and access, which lead to higher producers' price, offer the first (*In*) or incentives. The other five Ins comprise inputs, institutions, infrastructure, information, and innovation or technology. For rural poverty reduction, the provision of these *Ins* should be seen in the context of rural conditions.

Rural Infrastructure and Institutions

In the majority of African countries which implemented macroeconomic reforms, actions on the price incentive front were not sufficient to accelerate growth and development essentially because non-price factors such as inputs; institutions; infrastructure; innovations; and information were either lacking or inadequate. The incentive that liberalization is designed to achieve may not reach the real producer in rural areas if there are inefficient marketing boards or if there is a large body of middlemen that reap the benefits of higher prices. The supply of output might not come by if inputs necessary for production are not available; if there is inadequate transport to ensure a timely delivery of both inputs and outputs or; if appropriate technologies and products that call for more labor employment are scare or do not exist altogether. The provision of such non-price factors reduces poverty through increasing the productive capacity and the incomes of the rural poor as well as through directly affecting their social well-being.

Infrastructure for Poverty Reduction

There are two possible routes by which new or improved infrastructure activity can help reduce poverty. First there is the link between infrastructure and poverty reduction through economic growth. To the extent that the building of infrastructure simulates the growth of GDP, it can also reduce poverty, given income distribution. The second link between infrastructure activity and poverty reduction arises through the contribution of infrastructure to the process of pro-poor growth. Three components of infrastructure activity that are among the most likely to help in this process of pro-poor growth are irrigation, water supply and sanitation and rural transportation projects.

Rural Transport

Improvements in rural roads and paths have the potential to improve the position of the poor in several ways, although they will generally have to

be provided as part of a package of measures that include credit, extension services and other investments, for example in irrigation and water. African villages with better physical infrastructures are estimated to have crop production per acre 32 percent higher, wages per person per year 12 percent higher, and 14 percent lower fertilizer costs per kilogram of area than those with poor infrastructures. Improvements in rural transport can raise incomes of the poor through several mechanisms including:

- *Reduction in time spent on water and firewood collection.*
- *Increase in crop production.*
- *Improvement in marketing opportunities.*
- *Access to social services and non-agricultural income generating activities*

Water Supply and Sanitation

It is widely accepted that the primary causes of disease and poor health amongst the poor in Africa are water-related. Benefits to the poor from improved water supplies arise not just through improvements in health, which are of course desirable in their own right, but also through the impact of improved health on higher productivity and output. Benefits from improved availability of water can also be viewed as savings in collection time, of which some portion may be used for leisure and the rest for productive activity. A policy of cost recovery is frequently advocated for the water sector, both to ensure adequate funds for maintenance and also as means of allocating a scarce resource and deterring wasteful use. However, there is strong argument that in the case of water delivery for rural households which aims at rural poverty reduction, government with the support of the donor community must take the lead. In this respect, useful recommendations that emerge from a joint study by the UNDP-World Bank are discussed in Box 6.

Box 6: Recommendations for Making Rural Water Supply Sustainable

A study conducted under the UNDP-World Bank Water and Sanitation Program, provides the following useful recommendations for making rural water supply sustainable:

- *Adopting a demand-responsive approach will improve the sustainability of water systems.* The study provides evidence that better results are achieved when preferences for service levels, technology and siting are obtained directly from well-informed households, rather than from traditional leaders or water committees.

- *Training for household members and for water committees improves sustainability by building capacity and commitment.* Training should include the provision of knowledge on how to operate and maintain systems, as well as about the potential health benefits of an improved supply. It was found that the latter affects the way households value the service and thereby their willingness to sustain the system.

- *Designated and accountable community organizations are necessary components of success.* Giving clear responsibilities for management, operations, maintenance and fee collection to community organizations increases the sustainability of projects. Such organizations should be transparent, accountable, and trusted by community members.

Source: ADB (2000b).

Decentralization and the Paradox of Institutional Change

The relevance of local institutions for socio-economic progress stems from the need for local economic development, improved service delivery, increased popular participation in governance, and the desire to bring governments closer to the people. Local institutions in Africa are highly inadequate with regard to development planning, financing, and administration. Effective local institutions, which are capable of facilitating rural development, will require real decentralization. However, decentralization must not be used by the central governments as a way to shake off their responsibilities. The real challenge, therefore is how to design and implement institutional change that enables the poor and weak to use and benefit from those institutions, which were hitherto controlled by the rich and powerful.

The Bank Group's Rural Poverty Reduction Strategy

Overview of Past Efforts

Since it started operations in 1967, the main objective of the Bank has been the enhancement of economic and social development in its RMCs. The ADF was established to address poverty in low-income African countries with the focus on the poor fully initiated under the ADF V (1988-1990). Under ADF VI, (1991-1993) poverty alleviation was explicitly stated as the main aim of development activities in borrowing countries. The approaches towards poverty reduction were sharpened further under ADF VII (1996-1998). Under ADF VIII (1999-2001), the Bank has further emphasized the importance of poverty reduction in all its lending and non-lending activities. The focus on poverty reduction under ADF VIII was expanded by emphasizing the importance of participatory approaches involving all stakeholders. In principle, therefore, all activities financed out of ADF VIII resources are expected to adequately reflect poverty reduction considerations.

Major Elements of the Bank's Existing Poverty Reduction Strategy

The Bank's current poverty reduction strategy was articulated in the document entitled *Poverty Alleviation and Action Program* prepared in 1992 . The main components of the strategy are: an enabling policy framework, a focus on priority sectors (e.g. agriculture, rural infrastructure, education, health and clean water supply) and a recognition of the important role of women in development. Other elements encompass cross-cutting issues such as the protection of the environment, promotion of the private sector, coordination of poverty reduction efforts with development partners, provision of targeted programs for vulnerable groups and facilitation of the involvement of beneficiaries and NGOs in the development process.

The Bank's poverty reduction strategy, based on the recognition of the primacy of economic growth for poverty reduction, is guided by the principle that the achievement of sustainable growth requires a prudent macro-economic environment, appropriate sectoral policies and structural as well as institutional reforms.

The focus on agricultural and rural development continues to be at the center of the growth aspects of the Bank's poverty reduction strategy. The Bank's lending program for infrastructure projects is based on the ground that investments in infrastructure such as rural roads can reduce transport costs and travel time, and can improve

markets for agricultural inputs and outputs. In the past few years, Bank lending has also focused on the development of the human capital of the poor. The allocation of public resources in favor of primary education, especially girl's education , preventive health care and nutritional programs plays an important role in this respect.

Cross-Cutting Issues

The existing poverty reduction strategy recognizes the importance of considering cross-cutting issues such as gender, the environment, private sector development and the involvement of non-government organizations (NGOs) as integral parts of the poverty reduction effort. The Bank's policy on poverty reduction is also based on the recognition of the strong relationship between poverty and environmental degradation. Another important feature of the Bank's poverty reduction strategy is the significant role of the private sector in facilitating the creation of employment, economic growth and poverty reduction. In 1997, the Bank transformed the Private Sector Unit (established in 1991) to a fully-fledged Department in order to encourage private sector initiatives within RMCs. In 1994, guidelines for the implementation of the poverty alleviation strategy and action program were prepared to assist staff to translate the Bank's poverty reduction policies into programs and projects.

Poverty Reduction in Sector Policy Papers

The Bank's poverty reduction strategy is also supported by several sector policies and guidelines. Since 1992, a number of sector policy papers have been prepared and updated. These include the Health Policy Paper (1996), the Policy Paper on Good Governance (1999), the Agricultural Policy Paper (2000), the Education Policy Paper (2000), the Integrated Water Resources Management Policy (2000), Economic Cooperation and Regional Integration Policy (2000) and Policy on Civil Society Organizations (2000). In each of these policy papers, poverty reduction considerations are incorporated in order to enhance the contribution of the sector to poverty reduction. A number of guidelines are also at an advanced stage of preparation. These include the HIV/AIDS Strategy, Malaria Control Strategy and Operational Guidelines and Guidelines on Project Design, Analysis and Management. In the past few years, the Bank has joined the international community in acknowledging the strong links between governance and development. In particular, the Bank recognizes that without good governance, the efficiency of its investments in RMCs and the success of its poverty reduction efforts will be undermined.

Project Lending

The Bank lends for important sectors in ADF countries with an emphasis on the agricultural and the social sectors on the grounds that the majority of Africa's poor live in rural areas. In ADF lending by sectors during 1998-2000 priority was given to agricultural and rural development and the social sectors which together accounted for 64, 62 and 42 percent of total ADF loan and grant approvals in 1998, 1999 and 2000 respectively.

Social sector lending for 1998, 1999, and 2000 amounted to $327.23 million, $190.67 million, and $185.77 million, respectively. Social sector activities focused on improving the access and quality of education and health services, particularly basic education and primary health care. Support to the social sector also focused on improving ac-

cess to micro-finance, especially for women, and building institutional and income generating capacities of target populations.

ADF operations during the period under review also included public utilities projects, transport infrastructure and services that are important for the economic and social development of African countries. Support to public utilities were in the amount of $27.96 million, $41.90 million, and $92.77 million, in 1998, 1999 and 2000, respectively.

In the transport sector, ADF operations focused primarily on improving the efficiency of the transport infrastructure and services to spur the economic and social development of African countries.

ADF also provided support to stand-alone poverty operations that are, by their nature, grassroots -oriented. ADF financing for stand-alone poverty projects in 1999, amounted to $53.73 million for three countries: Uganda ($20.48 million), Mali ($17.14 million), and Senegal ($16.11 million). In 2000, one stand-alone poverty project amounting to $26.06 million was approved for Nigeria and one for Cape Verde ($6.51million).

Technical Assistance Grants

Technical assistance grants continue to be an important component of ADF operations. They are used to enhance the capabilities of regional member countries in designing, developing, and implementing development projects and programs. A total of 66 technical assistance grants, amounting to $85.65 million were approved in 1998; in 1999 a total of 26 technical assistance amounting to $46.06 million were approved; and in 2000, 45 technical assistance grants with an amount of $68.59 million were approved.

Future Bank Objectives in Lending to the Rural Sector

Bank's lending for the rural sector will pursue four key developmental objectives:

- *Accelerated Economic Growth with Equity*

The Bank aims to promote broad-based economic growth as a crucial component of its poverty reduction strategy. This will be achieved through assistance to: promote an enabling policy, institutional and legal environment; develop and adopt an investment code that attracts private domestic and foreign capital flows into Africa; develop agri-business and agro-industries; promote exports; and assist RMCs in their regional cooperation and integration efforts(Box 7).

Box 7: Reducing Poverty through Agriculture and Rural Development

Agricultural and rural development are crucial for the structural transformation and development of RMCs. Agriculture contributes 20 percent of GDP in North Africa and 30 percent of GDP in Sub-Saharan Africa. The rural population represents an average of 60 percent of the total population on the continent, and about 90 percent of the rural labor force engage directly or indirectly in agricultural activities. For the continent's rural people and economies, agricultural development could help raise efficiency, increase household income, improve standards of living, and reduce poverty.

Poverty is deeply rooted in rural areas. The poor face more difficult problems with access to food, water supply, primary health care and primary education today than they did 30 years ago. To arrest and reverse the spread of poverty requires achieving and sustaining economic growth of 7-8 percent per annum. This would require real agricultural GDP growth of at least 4 percent per annum.

(box continues on next page)

Box 7: Reducing Poverty through Agriculture and Rural Development (continued)

Over the next decade the Bank Group assistance strategy will focus on supporting the technological, institutional, and policy changes that would trigger a lasting transformation of the rural economies of RMCs by empowering their rural populations to improve their productivity and real incomes in an equitable and environmentally sustainable manner. Bank strategy is articulated around three key development objectives:

1. More operations will directly target poverty reduction and food security. The Bank will thus support (i) the participation of stakeholders, including the poor, in investment planning and decision making; (ii) the formulation and implementation of comprehensive development policies and strategies, where investments in social services complement the agricultural activities of the poor; (iii) national food security strategies; and, (iv) labor-intensive, non-farm activities, targeting the poor more effectively.

2. The Bank's interventions aim at improving natural resource management and environmental protection by supporting: (i) activities that increase agricultural productivity while restoring and protecting the regenerative capacity of the natural resource base; (ii) institutional capacity to conceive and implement legal frameworks and land tenure systems, which provide incentives for long-term investments in resource-use systems; (iii) investment in cost-effective and socially acceptable irrigation technology; and, (iv) developing water-use plans which recognize the rights of all end-users.

3. The Bank will support human and institutional capacity building through assistance to: (i) building the capacity of grassroots rural institutions and associations; (ii) broad-based education, basic-skills training for youth, and adult literacy; and, (iii) primary health care and preventive health, with special attention to HIV/AIDS and waterborne diseases.

Source: ADB (2000a).

- *Poverty Reduction and Food Security*

Involving the poor in the development effort will entail the establishment of mechanisms and processes that give them a voice in the investment planning and decision making process as well as the means (via fiscal decentralization) through which they can effectively participate as economic agents. Thus, participatory development, involving the poor and other stakeholders, is crucial to the sustainable alleviation of poverty in Africa, and would serve as the underlying principle the Bank would adopt to address poverty issues. To this end, the Bank will collaborate closely with multilateral development finance institutions like IFAD, FAO and the World Bank.

- *Natural Resource Management*

To sustain the productivity of the natural resource base, Bank lending will be directed toward interventions that increase agricultural productivity per unit of resource used and halt practices that are "mining" the resource base beyond its regenerative capacity.

- *Human and Institutional Capacity Building*

The Bank will, therefore, collaborate with RMCs and other donor agencies to increase grassroots capacity building to enable rural populations set their own priorities and access assistance relevant to their needs. Capacity building would also focus on training in income producing activities, group mobilization, financial management and marketing. This would enable rural women to develop decision-making and management skills that can improve their income earning potential.

Complementary Investments in Social Services and Rural Infrastructure

For the education sector, the Bank will work with RMCs to identify the appropriate balance between primary, secondary, technical, and tertiary levels, in relation to demand on the ground and other supply factors. For the health sector, special emphasis will be placed on the provision of primary health care services, delivery of preventive health programs to rural areas, and provision of basic medical care through local dispensaries. Given that HIV/AIDS needs urgent attention to save the human capital of the continent, efforts will be intensified to mainstream preventive and coping measures into agriculture training programs and rural extension services to reach the rural population. To improve access of rural people to markets, the Bank will promote expansion of road networks to open up rural areas of high agricultural production potential to facilitate development of market centers and to improve linkages between collection points, terminal markets and agro-industry. The Bank will work with RMCs to identify their overall rural energy needs and promote technological solutions that take into account renewable sources of energy that are cost-efficient and environmentally friendly.