



## THE GROWING THREAT OF GLOBAL POVERTY: The Case of Africa\*

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*(This draft version is circulated for the sole purpose of stimulating discussion)*

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## THE GROWING THREAT OF GLOBAL POVERTY: The Case of Africa

### FOREWORD/ABSTRACT

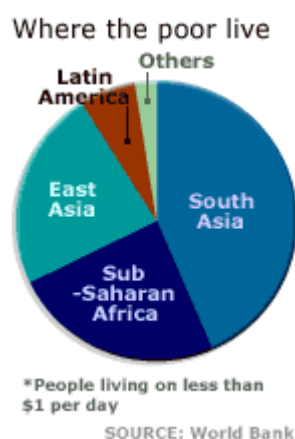
The goal is to try to give inputs on a global problem: eradicating poverty on a global scale. That is, to find evidence and discuss complex problems regarding chronic poverty, a major source of instability in our world today, and to put forward what could be some possible solutions.

The aim of this endeavour is to further sensitize public opinion to a major, chronic and exponential problem that is affecting an increasing number of the population world wide.

The focus is on (sub-Saharan) Africa and its (past and present) problems. Sub-Saharan Africa is the region which has the greatest percentage of its population in poverty and also the greatest depth of poverty. Questions that will be explored and addressed are, among others, related to agriculture, water management, education, health, the role of woman in society, and especially *micro credits and micro lending* – all questions related to how the threat of global poverty can be averted, and how the world can be shaped for the benefit of future generations.

## I. INTRODUCTION

The economic consequences of problems related to poverty are clearly identified. The International Development Community (IDC) has spent more than \$1 trillion since 1950 trying to solve the poverty problem<sup>2</sup>. Inequality, social exclusion, high and fast population growth, low savings rates, high cost of living (low standards of living), lack of prosperity (declining average incomes per capita), reduced life expectancy (high disease mortality rate), and inadequate economic growth (especially, slow diffusion of technology from abroad, low productivity agricultural sectors and high transportation cost) – all attributes which are closely interlinked. In our globalized world, where both the rich and the poor worlds are more closely linked than ever before in the history of mankind, the fight against poverty must be tied to the fight for multicultural policies, respect of peoples' ethnicity, religion, political and economic stability and peace<sup>3</sup>.



Let us start with some cruel global facts: Six billion people live in our world today. About half of them (three billion) are under 24 years of age, ninety percent of them live in developing countries. At least one billion of them will need jobs in the next ten years. Many of them will leave their home countries to find jobs elsewhere (which adds to the brain drain). One sixth of the total world population owns approximately 80 per cent of global wealth. Income in many Sub-Saharan African countries is only two per cent of what it is in the world's rich countries, one billion can hardly survive on less than a dollar per day. Overall, four billion earn less than \$2,000 each per year. Even worse, two billion have no access to water, more than one hundred million people will never get the chance to go to school. Seven million infants die each year, mostly in the developing world, and half those deaths could be prevented with vaccines that exist in rich nations<sup>4</sup>. The number of HIV-positive people in less developed countries approaches 50 million, a figure that is still on the rise. In Africa, more than 12 million children are currently orphaned by AIDS.

Prospects are dull: Over the next 25 years the world population will grow by approximately two billion (to a total of eight billion). Out of these 2000 million more people only 50 million will be born in developed (richer) countries. The rest (especially the Sub-Saharan African region) will face chronic poverty and will be disillusioned with a world that they will inevitably view as inequitable and unjust. Justice and freedom find their counterpart in terrorism and – not surprisingly – there is suspicion that terror is bred in places where a fast-growing youth population is raised in an environment without hope<sup>5</sup>.

Given these hard facts and given that we are all globally linked by economics and trade, migration, climate change, disease (HIV), drugs, catastrophic events (tsunami), conflict and terror, one fact is obvious: *We have to act*<sup>6</sup>. But how? What actions can be taken? What

<sup>2</sup> See interview with the Shell Foundation's Kurt Hoffmann on [http://www.shellfoundation.org/articles\\_speeches/ending\\_poverty.html](http://www.shellfoundation.org/articles_speeches/ending_poverty.html)

<sup>3</sup> Jeffrey Sachs et al, "Ending Africa's Poverty Trap", Brookings Paper on Economic Activity, (2004): 117-240

<sup>4</sup> <http://knowledge.wharton.upenn.edu/index.cfm?fa=printArticle&ID=1160>

<sup>5</sup> See the recent study by A. Abadie, Poverty, Political Freedom, and the Roots of Terrorism, NBER Working Paper No. 10859, May 2005

<sup>6</sup> See recent events (earthquakes and tsunamis) in Asia that have led to a flood donations (in excess of \$ 3 bio.) and shared global humanity. See also HBS case 9-704-006 "The New Partnership for Africa's Development".

measures must be implemented? Who pays for them? How should aid be allocated? Possible solutions – based on (selected) UN Millennium Development Goals - are discussed hereafter.

## II. MILLENIUM DEVELOPMENT GOALS (MDGS)

In September 2000 the member states of the United Nations unanimously adopted the Millennium Declaration. Following consultations among international agencies, including the World Bank, the IMF, the OECD, and the specialized agencies of the United Nations, the UN General Assembly recognized the Millennium Development Goals as part of the road map for implementing the Millennium Declaration<sup>7</sup>. These encompass eighteen ambitious targets arranged under eight broad categories, especially for the poorest regions in the world (i.e., sub-Saharan Africa).<sup>8</sup> These categories are:

- Goal 1: Eradicate extreme poverty and hunger
- Goal 2: Achieve universal primary education
- Goal 3: Promote gender equality and empower women
- Goal 4: Reduce child mortality
- Goal 5: Improve maternal health
- Goal 6: Combat HIV/AIDS, malaria and other diseases
- Goal 7: Ensure environmental sustainability
- Goal 8: A global partnership for development.

These goals should be reached by 2015.

### Ad. Goal 1: Eradicate extreme poverty and hunger

The Millennium Development Goals call for reducing the proportion of people living on less than one dollar a day (called the *absolute poverty line*) to half the 1990 level by 2015 - from 27.9 percent of all people in low and middle income economies to 14.0 percent. The Goals also call for halving the proportion of people who suffer from hunger between 1990 and 2015. <sup>9</sup> “*Hunger*” is related to the proportion of the population below the minimum level of dietary energy consumption; this is the percentage of the population whose food intake falls below the minimum level of dietary energy requirements. This is also referred to as the prevalence of under-nourishment, which is the percentage of the population that is undernourished.

The problem of hunger and food emergencies is topical. Food emergencies refer to an exceptional shortfall in aggregate supplies or a localised deficit as a result of crop failures, natural disasters, interruption of imports, disruption of distribution, excessive post-harvest losses, other supply bottlenecks and/or an increased demand for food arising from population movements within the country or an influx of refugees. In the case of an exceptional shortfall in aggregate food supplies, emergency food aid may be required to cover all or part of the deficit.<sup>10</sup> FAO currently lists 23 sub-Saharan African countries facing food emergencies (because of droughts, refugees, civil strife, and economic disruption).

### Ad. Goal 2: Achieve universal primary education

<sup>7</sup> See the World Bank “World Development Goals” website at <http://ddp-ext.worldbank.org/ext/MDG/homePages.do>

<sup>8</sup> “Recasting the case for aid”, *The Economist*, January 22, 2005, p. 67f.

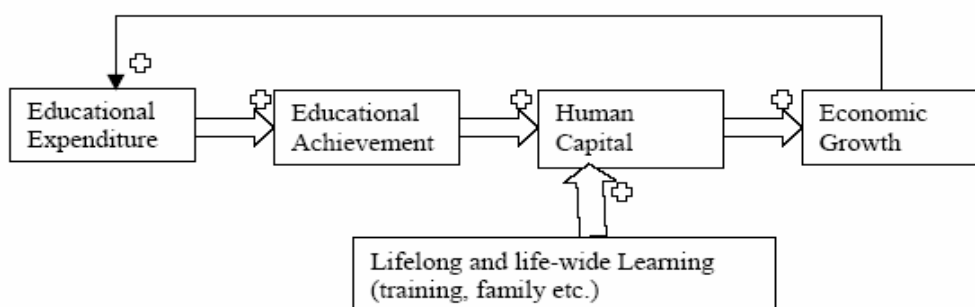
<sup>9</sup> See: <http://ddp-ext.worldbank.org/ext/MDG/gdmis.do>; “Poverty and the ballot box”, *The Economist*, May 14, 2005, p. 76; see also: <http://nutrition.tufts.edu/academic/hungerweb/overview/world/>

<sup>10</sup> For more information see the United Nations, Food and Agriculture Organization website [http://www.fao.org/documents/show\\_cdr.asp?url\\_file=/docrep/007/J4758e/J4758e00.htm](http://www.fao.org/documents/show_cdr.asp?url_file=/docrep/007/J4758e/J4758e00.htm)

Education is one of the most powerful weapons in the battle against poverty. It is the one thing that offers people the necessary skills to help themselves out of poverty and into a better way of life. Children are the future. Investing in education creates a positive domino effect that enhances the world around us. For example, with education comes awareness of health issues and services needed to prevent diseases; it creates the fundamental foundations for growth in public services and democracy, and it allows people to understand their rights and how to exercise them. These things create pillars for political and social stability, which leads to greater economic growth and a higher standard of living. Statistically human capital and formal education relate closely to national rates of economic growth.

The World Bank is credited for popularizing the term “human capital” in its relation to education and economic growth. It is capable of generating high returns for economic growth.” This notion has proven to be true in western countries. The high education levels and high literacy rates indicate that investments in human capital contribute to economic growth by increasing labor productivity. This creates a productive cycle. Higher investments in education leads to more growth and to further expenditure, especially in the case of developing countries.<sup>11</sup>

The chart below illustrates this cycle.



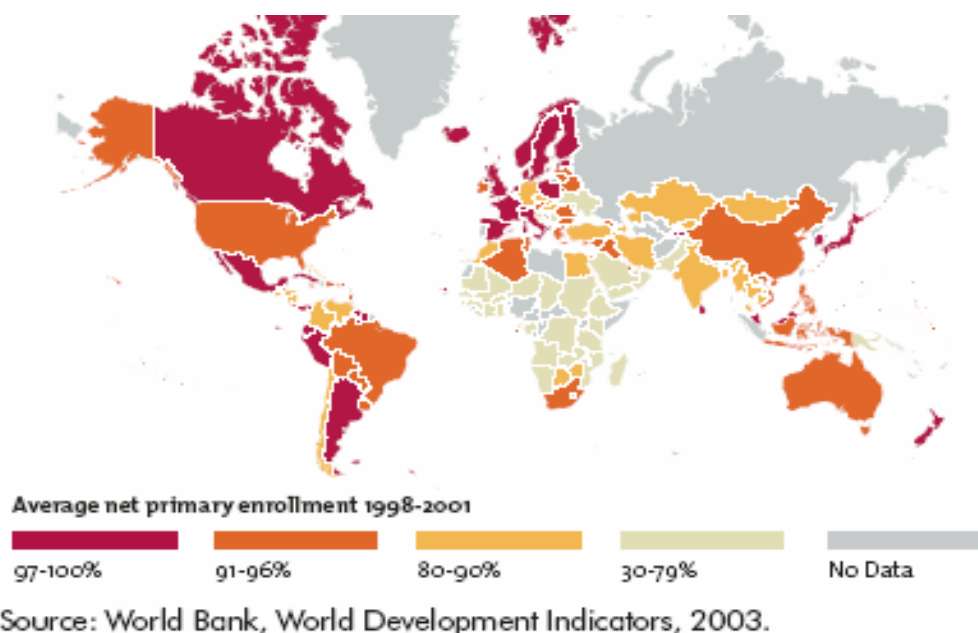
However, while most nations around the world recognize the benefits of education in the eradication of global poverty, the current state of developing nations remains plagued by a lack of funding, qualified teachers, classrooms, textbooks, and strong curricula .

The statistics speak for themselves: according to UNICEF more than 130 million children have no access to education on the primary school level. In developing countries, 25% of all children entering schools are expected to drop out before completing a primary education.<sup>12</sup>

The map below shows the average net enrollment statistics in primary schools around the globe. As one can see, the countries and regions with the highest rates of out-of-school children are some of the poorest in the world; and the continent that stands out the most is Africa.

<sup>11</sup> “Economic Growth and Human Resources”, *World Bank Staff Working Paper*, 2004

<sup>12</sup> World Bank, *World Development Indicators*, 2003”



Primary school enrollments and literacy rates in Africa are among the lowest in the world. Consider the following: 42 million school children in sub-Saharan Africa are not enrolled in school. Many children cannot afford to go or stay in primary school. Of those that do have access to school, the schooling they receive is often of such poor quality that they are not able to acquire even the most basic skills of reading and writing.

In 1999, more than 860,000 children in sub-Saharan Africa lost teachers to AIDS. In fact, by 2005, 15 to 20 percent of teachers in sub-Saharan Africa will have died from AIDS.<sup>13</sup>

What could be possible solutions?

## 2.1 Universal Education

Create a structure of funding for all boys and girls in sub-Saharan Africa to receive free basic education which can provide them with skills for contemporary Africa. Secondary, higher, vocational education, adult learning, and teacher training should receive appropriate emphasis within the overall education system.<sup>14</sup> African governments should remove school fees for basic education, and donors should fund this until countries can afford these costs themselves. The impacts will benefit all children and will be especially strong for girls. For example, in Uganda, when user fees were removed, enrolment of the poorest girls doubled.<sup>15</sup>

## 2.2. Quality of Education

We need to see higher commitments from African governments to provide quality educational services. Increases in funding will make only small strides unless the incentives work to improve the intended outcome: better education. While more and more countries are committed to universal primary education, there is a great need for better quality in education.

<sup>13</sup> The World Bank Group, "Poverty in Africa" <http://www4.worldbank.org/afr/poverty/default.cfm>

<sup>14</sup> Submission to: Commission for Africa received from "Save the Children", October 2004.

<sup>15</sup> UNESCO (2004) "EFA Global Monitoring Report: The Quality Imperative," Paris

Statistics show many students go from primary to secondary without reading at the adequate level. As they go on to the next level, they get lost, and eventually drop out. Making services accountable to communities either through their participation in design and delivery or through politicians is essential to improve the quality of those services and the effectiveness of investments.<sup>16</sup>

### 2.3. Combat Teacher Shortage

Qualified teachers are the key to any good education system. However in many developing countries the ratio of students to teachers is very unbalanced. The growing rate of new teachers is not keeping up with the rapid pace of new students. In sub-Saharan Africa it is very common for one teacher to be teaching a class of more than 100 students. To combat this problem and to ensure quality education, African governments must invest in teacher training, retention of staff and professional development. According to a Commission for Africa report, “teacher-child ratios should be brought under 1:40 in basic education, and donors should commit to predictable long-term funding to enable this.”<sup>17</sup>

## Ad. Goal 3: Promote gender equality and empower women

This concerns girls’ equal enrolment in primary and secondary school, the literacy parity between young men and women and women’s equal representation in national parliaments.

### 3.1. Gender Equality

Girls have the same fundamental right to an education that boys do. In fact studies show there are great benefits to educating girls in developing countries. For example a World Bank study in seventeen sub-Saharan African countries shows a clear correlation between the education of girls and lower HIV and AIDS infection rates.<sup>18</sup>

Other statistics show how educating girls can benefit entire communities and the society at large: Women who have six years of education are more likely to seek prenatal care, assisted childbirth and postnatal care, reducing the risk of maternal and child mortality and illness. Educated mothers are 50% more likely to immunize their children. The majority of farmers in the developing world are women. Greater female education leads to more productive farming and accounts for more than 40% of the decline in malnutrition achieved over the past several decades.<sup>19</sup> Educating girls is also an indirect investment in the education of the following generation. However, even with these proven statistics, gender equality in education is still lagging far behind. Of the 130 million + children that are not in school in developing countries, three fifths of them are girls. This is unacceptable and must be changed if there is to be any success in reducing global poverty.

The following chart confirms that there are still big gender disparities in selected sub-Saharan African countries.<sup>20</sup>

<sup>16</sup> World Bank (2004), “*World Development Report 2004: Making Services Work for Poor People*”, Washington DC.

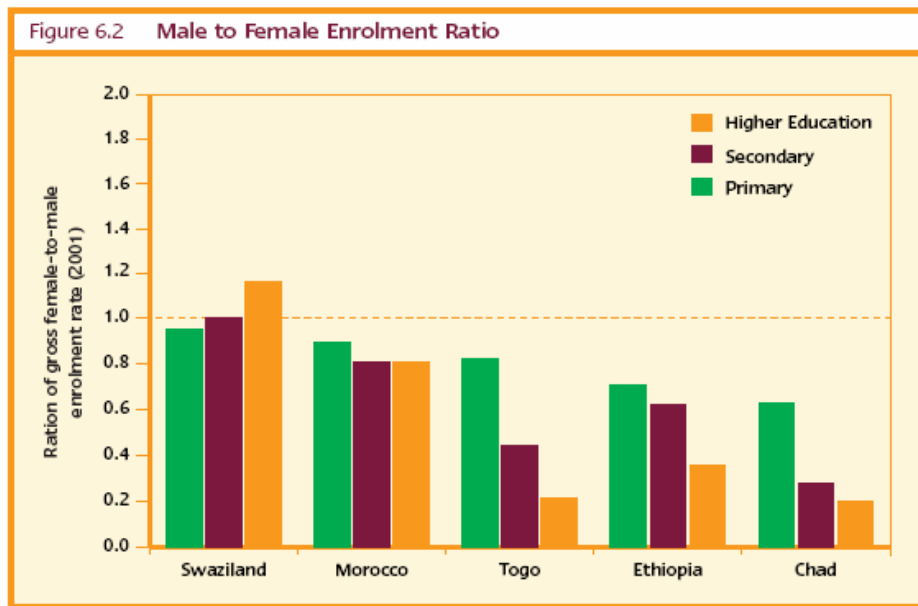
<sup>17</sup> See for ex. UNESCO’s “*Education for All*”-efforts in Burundi, Kenya, Rwanda and Uganda.

<sup>18</sup> The World Bank Group, “*Poverty in Africa*” <http://www4.worldbank.org/afr/poverty/default.cfm>

<sup>19</sup> Center for Global Development, Washington D.C. <http://www.cgdev.org>

<sup>20</sup> Ibid.





Enrolment ratios above 1 indicate greater female than male enrolment.  
Enrolment ratios below 1 indicate greater male than female enrolment.

Sources: Global Monitoring Report, UNESCO, 2004.

## Ad. Goal 6: Combat HIV/AIDS, malaria and other diseases (tuberculosis)

### HIV/AIDS

HIV/AIDS is the number one cause of death in Africa. An estimated 25.4 million people are carrying the HIV virus and approximately 3.1 million new infections occurred in 2004. HIV/AIDS has the ability to annihilate decades of investments in education and in human development, particularly in large parts of sub-Saharan Africa. Every minute 11 people worldwide are infected with HIV, and 10 of them live in sub-Saharan Africa.<sup>21</sup> UNESCO studies show the deadly disease will claim the lives of 10 per cent of teachers within the coming five years, and will leave 20 per cent of school-age children AIDS orphans.

HIV/AIDS is the crushing blow to African school systems, its impact on the demand for education, on its availability and quality is immense. It is one of the biggest obstacles to achieving education goals. Protecting upcoming generations from contracting the virus is vital to the future of education systems in developing countries.

## Ad. Goal 7: Ensure environmental sustainability

Agriculture is of particular importance because 75% of the people living on less than \$1 a day live in rural areas, with livelihoods dependent on mostly subsistence production. In Africa, agriculture supports more than 70% of the population, contributing an average of 30% of GDP. The critical importance of agriculture in alleviating poverty reinforces the need for

<sup>21</sup> Regional overview on sub-Saharan Africa, EFA Global Monitoring Report 2003/04

urgent progress on eliminating subsidies for producers in developed markets, and on trade reform. Furthermore, the loss of forests must be reversed, drinking water supply as well as sanitation in rural and urban areas must be improved.

### 7.1. A “green revolution”

Africa needs to embark on a serious, continued and assisted “green revolution”<sup>22</sup>. Only by producing basic food items can the population start to see light at the end of the tunnel. Africa is blessed with immense areas of fertile soil that is waiting to be exploited. Of all of the scarce resources, water is the most important. As it is now, less than 5% of arable land in Sub Saharan Africa is irrigated, growing only at an annual rate of between 0.5 - 0.7%. Estimates state that poverty can be reduced by up to 30% in an area where a higher percent of the land is irrigated. As agriculture accounts for 30% of the GDP in sub- Saharan Africa and accounts for 70-80% of employment, the positive economic effect in increasing irrigation could be enormous. Because many of Africa's successful businesses are small-scale farms, focusing on improving output to improve economic conditions is welfare enhancing.

Projects for water irrigation systems, small artificial water basins, education on better farming approaches which yield more products should be implemented as a matter of urgency. But the approach must be on a micro scale. It is the macro scale that keeps not addressing the real issues and hurting the continent.

Africans are hard working, intelligent and resourceful entrepreneurs. Moreover, the developed countries need to change their perception of Africans as victims in need of huge chunks of aid. For as long as Africa is not treated like an equal partner it will not be able to take control of its destiny and carry out the change program that is fundamentally necessary.

## Ad. Goal 8: A global partnership for development.

“For long-term, sustainable poverty reduction, poor people must be able to participate more effectively in growth, utilising their own assets and capabilities. This is especially true in societies where poor people make up a major proportion of the overall population. Changing the pattern of growth is difficult, but can be achieved by tackling the inequalities of opportunity that prevent poor people from contributing to growth. These include access to education, health, information, transport and financial services. Over the long term, this will reduce income inequality. Direct measures to redistribute income and assets can, in some circumstances, also reduce income inequality, notably through land tenure reform and pro-poor public expenditure strategies”<sup>23</sup>. We look into the special role that *micro credits* play .

### 8.1. Micro credits in agriculture

Micro programs and micro credit operations must be implemented on a far larger scale to allocate enough areas of soil to each of the potential and willing developers, to allow them to plant and harvest, to create micro zones of crop collections and exchanges (markets), to organize a system of basic infrastructure and transport to ease exchange and trading. Up until now, rural populations have never had adequate access to formal financial services, despite

<sup>22</sup> Note *The Green Belt Movement*, initiated by Wangari Maathai (who was the first African woman to receive the Nobel Peace Prize in 2004). See also [http://gwpforum.netmasters05.netmasters.nl/en/content/whyandhow\\_understanding\\_en.html](http://gwpforum.netmasters05.netmasters.nl/en/content/whyandhow_understanding_en.html).

<sup>23</sup> <http://www.dfid.gov.uk/pubs/files/tspeconomic.pdf>

their legitimate demands for various kinds of loans, deposit facilities and other financial products, yet the largest incidence and depth of poverty is found in the rural areas of developing countries.

The majority of successful microfinance programs have been urban-based, and the challenges of transferring the new lending technologies to rural areas are not trivial. However, they have to be implemented for financial deepening in agriculture to occur.<sup>24</sup>

## 8.2. Micro credits and women

In a world where most poor people are women, studies have shown that access to financial services has improved the status of women within the family and the community. Women have become more assertive and confident. Furthermore, as a result of microfinance, women own assets, including land and housing, play a stronger role in decision-making, and take on leadership roles within their communities.

Many micro credit programs have proven to be successful, particularly in empowering women. From personal lending by Dr Yunus to Women in Bangladesh, this out-of-pocket activity was transformed into the “*Grameen Bank*” (Grameen stands for village or rural). No collateral is required for the micro loans; the repayment rate is 98%, and 96% of loans are granted to women. Once again this illustrates the findings of impact studies which show that loans made to the poor are usually repaid, and that microfinance clients often return to borrow again, whereas “soft” government money is too often seen as a grant or gift.<sup>25</sup> In practice, women were found to deal with debt issues in a more responsible way than men. Repayment is also encouraged by “social control” in the community; failure to pay back could result in the rest of the community being excluded from new loans. A very strong “social control” incentive keeps loans current.

In Bangladesh additional “promises” when accepting micro loans are made, such as birth control (limiting the amount of children women have), growing food, drinking only clean water and education for all children.<sup>26</sup>

This type of activity also promotes democratic action and helps avoid corruption. Civic involvement - helping out your neighbors - also results in consultation within communities.

Recently in Afghanistan an institution called “*Parwaz Microfinance*” helped hundreds of Afghan women rebuild their lives by means of micro lending. Dealing with cultural reality in Afghanistan, men are required to co-sign loans making them feel “invested in” women’s

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<sup>24</sup> See Gonzalez-Vega, Claudio, “*Deepening Rural Financial Markets: Macroeconomic Policy and Political Dimensions*”, BASIS, 2003. See also Duval, A, “*The Impact of Interest rate Ceilings on Microfinance*”, Donor Brief no. 18, May 2004, CGAP; Faris, Stephen, “*The road to recovery*”, in TIME, March 14, 2004, pp. 44-45; French, James, “*Africa can jump-start its own revival*”, in Herald Tribune, March 19-20, 2005; Otero, Maria, “*Bringing Development back into Microfinance*”, Journal of Microfinance, 2004, vol. 1, no 1, 8-19; “*Why the private sector is so important in alleviating poverty*”, in: Unleashing Entrepreneurship: making business work for the poor, Commission on the Private Sector and Development, 2004.

<sup>25</sup> See Helms, B. and Reille, X, “*Interest Rate Ceilings and Microfinance: The Story so Far*”, Occasional Paper no. 9, CGAP, September 2004

<sup>26</sup> These are known as the *Sixteen Decisions* and comprise the following: the *four principles* of the “Grameen Bank” - *discipline, unity, courage and hard work*, prosperity for the families not to live in dilapidated houses, grow vegetables all the year around during the planting seasons, plant as many seedlings as possible, plan to keep families small and minimize expenditures, educate children and ensure that they can earn to pay for their education, always keep children and the environment clean, build and use pit-latrines, drink tube-well water, do not take any dowry in sons' weddings, neither give any dowry in daughters' weddings and keep the center free from the curse of dowry, do not practice child marriage, do not inflict any injustice on anyone or allow anyone to do so collectively, undertake bigger investments for higher income, always be ready to help each other. If anyone is in difficulty then all help them, if there is any breach of discipline in any center then help restore discipline, introduce physical exercise in all centers and take part in all social activities collectively.

business. These loans bear no interest in order to comply with Islamic law but an application fee is charged spread over the term of the loan. Similar to track records in other parts of the world, 98% of repayments are on time and in full.

*FINCA* is a microlending organization which originated in 1985 in Latin and Central America. It started its activities in Uganda in 1992 - originally as a microlending institution with a grant of US\$ 100.000 - and has received further grants to the tune of US\$ 4.5 million from a variety of sources (USA, UK and Austria). *FINCA* has been able to rotate its loan portfolio three times a year, generating \$ 32 Million in loans, while only losing \$ 15,000 as a result of defaults (a very low < 1/2%). Moreover, it should be borne in mind that the average loan size is \$ 70. *FINCA* has 32,000 families as clients, reaching 190,000 family members; 99% of the clients are women.

### 8.3 Micro credits in other countries

Many politicians in poor countries seem to criticize this type of program; according to them, micro lending conspires to plant capitalism among the masses. Some Muslim clerics seem to have problems with the empowerment of women. Some government officials feel that they will lose their influence (which could be due to the loss of corruption funds). Nevertheless, the success record is undisputed up until now.

*Africa needs to embark, on a commercial basis, on such programs on a scale as large as possible.* Support should not be too difficult: micro credit for the poor attracts both “liberals” as well as “conservatives”. Having access to capital will allow for the poor to invest and save. For the liberals this allows for redistribution of wealth, and for the conservatives it is seen as being entrepreneurial. Africa (Uganda, for instance) has applied micro lending facilities as a way of improving lives and economies. While micro lending creates many improvements, for example, self reliance, education, the growing of crops, etc., its scale is still small and larger massive efforts will be required for Africa to develop its full potential.

The US (as well as other countries) copied the “*Grameen Bank* concept”<sup>27</sup>. Similar programs have been successful in China and Malaysia. In Latin America one organization, ACCION, not only lends to individuals but also to so-called “solidarity groups” of three to five people. In practice, however, 60% of loans are allocated to individuals<sup>28</sup>. In Bolivia, “*BANCOSOL*” was formed in 1992 in order to lend to the poorest.

The *World Bank Consultative Group* has also expressed concerns about microlending in the past, saying that it is not the most appropriate thing for all poor people. Some people, in their opinion, are so poor that they will not be able to generate income from the loan they take. They suggest giving grants with training to the poor who are not able to use credit constructively.<sup>29</sup>

At the end of 2002 on a world-wide scale, the following figures are illustrative: \$ 41.6 Million loans outstanding to the world's poorest families; the goal for 2005: \$ 100 million (approx. 80 percent given to women, assuming five members per family). These loans affect nearly 210 million family members. The growth rate (since 1997) of 40% is being maintained.

<sup>27</sup> In the USA, Accion has not been very successful; the availability of credit card facilities was singled out as the main reason. Moreover it had no public support.

<sup>28</sup> Accion International: [www.accion.org](http://www.accion.org)

<sup>29</sup> “How can \$100 change a community?”, UN Department of Public Information, August 2004

## 8.4 Macroeconomic effects of micro credit

Reports show that in Bangladesh over 200,000 people per month are moving out of poverty (this is 5% of participating households); microcredit programs can have a macroeconomic impact on countries throughout the world. We should bear in mind that *poverty is a relative issue*: In Bangladesh having more than 1 (one) US\$ a day brings people above the poverty level; these people are not participating in large scale trade, agriculture or industry. However their lives have changed for the better and continue to do so.<sup>30</sup>

The United Nations has proclaimed 2005 “*The Year of Microcredit*”. Unfortunately, *Micro Finance Institutions* (MFI’s) suffer from a lack of funding. In July 2004, the *Women’s Equity Fund* invested in the first securitization by *Blue Orchard Finance* in Geneva of 9 MFIs for a total of \$ 42 Million. These MFIs are based in Central and South America, Southeast Asia and Eastern Europe. The US government is guaranteeing 71% of this issue by means of OPIC, which allows for liquidity to flow back to the MFIs, in turn allowing for new micro loans to be granted. The *Women’s Equity Fund* further committed to enhance the balance sheet of *Blue Orchard Finance* by purchasing subordinated notes. This can be seen as a first step in integrating microfinance into international capital markets.

## 8.5. General support allocation must be improved

Better general support allocation is required. Developing countries spend more than 250 billion annually to build schools, pay teachers and provide textbooks. However, as many as 88 countries are at risk of not reaching the education and gender equality goals by 2015 unless progress is accelerated.<sup>31</sup> Support must be directed at these countries. For example, in countries such as Niger and Angola, the average expected number of years of formal schooling is less than five years; and over 60 per cent of children drop out of school in Chad, Equatorial Guinea, Madagascar and Rwanda. The Commission on Africa therefore suggests<sup>32</sup>: strengthen the processes of accountability to citizens in aid-recipient countries; allocate aid to countries where poverty is deepest and where aid can be best used; provide much stronger support to advancing governance where conditions foreffective use of aid is currently weak; channel more aid through grants, to avoid the build-up of debt; align more closely with country priorities, procedures, systems, and practices; provide aid more predictably and flexibly over the longer term; protect countries better against unanticipated shocks.

In addition to encouraging national leadership and a coordinated donor approach, we need to rely more strongly on involvement by development partners such as civil society groups (such as Oxfam, Action Aid), religious charities and missionary efforts, humanitarian groups and other educational programs. Such programs that have had success on all levels and have demonstrated what works and what does not work can be of great value to contributing to the success of education in developing countries. We must take full advantage by working more cooperatively with these groups.

<sup>30</sup> C. K. Prahalad and A. Hammond, *Serving the World’s Poor, Profitably*, Harvard Business Review, September 2002, 4-11; see also <http://www.oecd.org/dataoecd/57/59/34908457.pdf> on Financing SMEs in Africa.

<sup>31</sup> UN Millennium Project (2005), *Investing in Development: A practical Plan to Achieve the Millennium Development Goals: Overview*, Washington D.C.

<sup>32</sup> “*Our Common Interest Report*”, The Commission For Africa” March 2005

### III. RECOMMENDATIONS FOR AFRICA

#### 1 General

Africa needs to develop its resources: both funding and training are paramount in achieving this. Microlending adds the increased involvement of women, civic participation and the advantages of the so called “Sixteen Decisions” regarding health, education, the growing of food, civic involvement, community assistance and family planning. We see no reason why both strategies cannot be simultaneously applied; in fact, we believe they can reinforce each other. Regretfully, however, we also believe that some institutions will be reluctant to participate, as this would mean “reduced” influence for some.

#### 2. Recommendations for action

Differentiate the mono-crop philosophy, by introducing a more diversified idea about products to plant and harvest. “For each season there is a product”. Create incentives for those producing more and differentiate crops as much as possible. Help to develop a demand for new agricultural products. Most African countries are dependant on imports of basic agricultural products such as rice, flour, salt, sugar. This should not be necessary. All of these products can be produced locally, at low cost and in great quantities. In addition, apply the economic theory of comparative advantage: the surplus should be exported, as the yield in major tropical countries has been proved to be enormous. Africa can and must feed itself by removing lobbies, self-interest and corrupt politics. Africa has to build institutions that guarantee political stability, effective and honest administration, secure property rights and basic education and health.<sup>33</sup> FAO must do more to address this situation. FAO should be internationally awarded the task across borders to implement the “green revolution” with stringent obligations on individual nations to deliver. The UN must have a directive countersigned by all African nations to abide by these efforts that will help millions of people to survive, make a living, grow and progress. This revolution, in addition will fight and contain one of the major problems of Africa: desertification. Historical crop harvesting must be revived, exports should be un-taxed (no barriers between African nations, especially those very needy) and FAO must be responsible for transaction transparency.

As a very important complement, and still falling into the agricultural sector, is animal breeding and husbandry: live stock and fish farming must be implemented along with more traditional crops. There are endemic fish species that can double their sizes, if not triple or quadruple in one year. The good thing is that they do not need sophisticated systems and the yield is enormous. On the other hand, Africa has become the emerging market for tobacco companies: factories have been built, where tobacco is planted and harvested for exportation. Whether this should be encouraged in the light of developments in the US and elsewhere remains to be an open question. History has proven that foreign aid is not the solution to Africa’s problems.<sup>34</sup> Africa must find the power within to revitalize. It has the strength, the power, the wisdom and the energy to succeed provided the priorities are reset, maintained, checked, and successfully implemented.

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<sup>33</sup> M. Wolf, The curse of global inequality, Financial Times, January 24, 2000

<sup>34</sup> N. Sanandaji and T. Brandberg, Saving Africa, Tech Central Station, May 25, 2005 [www.techcentralstation.com](http://www.techcentralstation.com)

### 3. Implementing these recommendations

All these recommendations require finance, and the best form of finance would seem to be in the form of *microcredits and microlending*. Contrary to a common impression, poor people need and use a variety of financial services, including deposits, loans and other services.<sup>35</sup>

Up until now, the financial services available to the poor have been limited in terms of cost, risk and convenience. The past three decades have seen the emergence of Micro Finance Institutions (MFIs) which aim at addressing this market failure by providing financial services to low-income clients. Practice has shown that the poor have proved to be reliable at repaying uncollateralized loans and moreover, they are willing to pay the full cost of providing them. It is clear that, for the poor, access is more important than cost<sup>36</sup>.

It is important to note that the top-performing MFIs in some countries are more profitable than the top-performing local commercial bank, and if they are well run, MFIs can outperform mainstream commercial banks in portfolio quality.<sup>37</sup>

Yet despite this, microfinance is still only reaching a small fraction of the estimated demand for financial services by poor households. To achieve its full potential, microfinance must become a fully-integrated part of a developing country's mainstream financial system rather than being confined to a niche of the development community.

Twenty years ago, one of the main challenges facing microfinance was methodological: finding techniques to deliver and collect uncollateralized loans to microentrepreneurs and poor households. The challenge today is *system-related* in nature – how to develop better ways of integrating a full range of microfinance services with mainstream financial systems and markets. For microfinance to continue its path toward becoming a successful development strategy, it must display a relationship to the poor, a reliance on permanent institutions, a firm connection to the financial system of a country, and sound economic viability. It must move away from the perception that it is a donor dependent and localized form of aid to the recognition that it is a service provider for a potential market of 4 to 5 billion underserved consumers and an economy of more than \$13 trillion PPP.<sup>38</sup>

In order for this to occur, the private sector must learn to innovate and to move away from traditional products, services and management processes. If the private sector can meet this challenge, the prospects for Africa could be heartening indeed. The private sector is critical to addressing the insecurity of the poor--especially in Africa, where poor economies dependent on one commodity are permanently vulnerable. These economies must diversify.<sup>39</sup>

<sup>35</sup> See Prahalad and Hammond, *ibid.*, p. 11

<sup>36</sup> See Honohan, Patrick, *Measuring microfinance access : building on existing cross-country data*, World Bank Policy Research Paper, 2005

<sup>37</sup> See Littlefield, Elizabeth and Rosenberg, Richard, "*Microfinance and the Poor*", in *Finance and Development*, June 2004, pp.38-40. See also the recent World Bank policy research paper "Comparative review of microfinance regulatory framework issues in Benin, Ghana, and Tanzania" by J. Gallardo et al., 2005 as well as The Shell Foundation's piloting projects described in: *Enterprise Solutions to Poverty* ([www.shellfoundation.com](http://www.shellfoundation.com)) and in K. Hoffman's articles : "Lack of investment is the real tragedy in Africa", *Financial Times*, June 10, 2005, p. 13

<sup>38</sup> See, Prahalad, C.K., *The Fortune at the Bottom of the Pyramid: Eradicating Poverty through Profits*, Wharton School Publishing/Pearson, 2004., p. 22

<sup>39</sup> See the recent World Bank "ABCDE"- Conference (May 2005) on "Securing Development in an Unstable World". See also the new book "Growth and Empowerment: Making Development Happen" by N. Stern, J.-J. Dethier and F.H. Rogers, MIT Press, 2005.

## Epilogue

“On June 11, 2005 the world's wealthiest nations agreed to cancel more than \$40 billion in debts that some of the world's poorest nations owe to international lenders -- a move inspired by the belief that full debt forgiveness is necessary to give those countries a chance to escape the trap of hunger, disease and economic stagnation.

The agreement, struck at a meeting in London of finance ministers from the Group of Eight major industrial nations, is the most significant debt-relief measure yet for poor countries because it cancels the debts that the eligible countries owe to the World Bank, International Monetary Fund and other multilateral lenders such as the African Development Bank.

Previous plans offering partial relief have led to disappointment and criticism from aid activists, who said many poor countries are forced to spend more on debt service -- paying principal and interest on international loans -- than on health and education.

Under the agreement, 18 countries would receive immediate forgiveness on more than \$40 billion that they owe in coming years, a combined savings for those countries estimated at \$1.5 billion a year. Most (14 countries) are in Africa: Benin, Burkina Faso, Ethiopia, Ghana, Madagascar, Mali, Mauritania, Mozambique, Niger, Rwanda, Senegal, Tanzania, Uganda and Zambia. Four others -- Bolivia, Guyana, Honduras and Nicaragua -- are in Latin America. Another nine African nations are likely to qualify soon, once they satisfy IMF and World Bank requirements for improving their governance and economic policies. Another 11 countries could also benefit eventually<sup>40</sup>.

### **G8 leaders agree on €41.9 billion package for Africa<sup>41</sup>**

G8 leaders brought the G8 Summit to a close on 8 July with a pledge to help end extreme poverty in Africa by doubling aid donations to €41.9 billion per year by 2010. The two-day summit - overshadowed by the London bombings - saw the world's most powerful men sign an Africa plan that, in Prime Minister Tony Blair's words, would not mean "the end of poverty in Africa, but is hope that it can be ended." "Today Africa can look into the future with more confidence and optimism than ever before," declared José Manuel Barroso, President of the European Commission, adding that the EU has recently showed the way, committing to double its development aid by 2010, increasing it by €5 billion per year. "Trade and aid are essential," he added. "It is not a question of choosing one or the other. We must give Africans the opportunity to turn their market access opportunities into reality." President Barroso also drew the G8 assembly's attention to the EU's "Everything But Arms"-initiative<sup>42</sup>, which provides the least developing countries - most of them being African - with the opportunity to export to the EU duty free.

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<sup>40</sup> Debt Cut Is Set for Poorest Nations, Washington Post, June 12, 2005

<sup>41</sup> [http://europa.eu.int/newsletter/index\\_en.htm#g8](http://europa.eu.int/newsletter/index_en.htm#g8)

<sup>42</sup> [http://europa.eu.int/comm/trade/issues/global/gsp/eba/index\\_en.htm](http://europa.eu.int/comm/trade/issues/global/gsp/eba/index_en.htm)