A week ago I came from an eight-country trip through Africa, and that trip helped drive home for me the tremendous importance of Sub-Saharan Africa, but also the enormous development challenges that that region faces. It was also another reminder that there is incredible energy and ambition among ordinary Africans, and that energy and ambition does have the potential to change the continent.

The world has seen significant progress in the last 50 years in the fight against poverty, perhaps more accurately in the last 25 years. In the past quarter century, a half-a-billion people have escaped extreme poverty, which we define as living on less than a dollar a day, less than $365 a year. There is still some 1.2 billion people in the world who live in extreme poverty, but those numbers are half-a-billion less than they were 20 years ago. And in the next decade, another 400 million people are expected to join them.

Of course most of that progress has come from East Asia, in fact, more than half of it from China alone. But it is also worth remembering that that progress was not as inevitable as it may seem to be today. Looking around this audience, I see that quite a few of you weren’t even born back in the 1960s. But I remember in the 1960s being familiar with an expression, “oriental fatalism,” which you won’t find in literature anymore. It described the attitude of people in China who basically said, look, life has been miserable for 4,000 years, and will continue being miserable for another 4,000 years; there is no point in making any great effort to change things. That expression literally is on the ash heap of history.

In the mid-1980s, when I was ambassador in Indonesia, an American expert on the Korean economy reminded me that as recently as the 1960s, you could read accounts of South Korea – South Korea, not North Korea – South Korea as being a hopeless basket case with no natural resources, riddled with corruption, and most amazingly, burdened with a Confucian ethic that teaches that gentlemen don’t work, and they express their content for manual labor, while wearing white clothes and growing long fingernails. Now that same Confucian ethic is said to explain all the spectacular success of the Asian countries. But I think while culture is important, I think unfortunately for bad, but also for good, government policy can trump culture, and again in Korea, you can see that about as dramatically as anywhere in the world, where people of the exactly the same historical background, cultural background, linguistic background, north of the demilitarized zone, live in one of the most backward, destroyed economies in the world, when south of the demilitarized zone, is one of the most successful formerly developing countries.

So it can be done, but the big region that has so far not participated in that extraordinary progress is Sub-Saharan Africa. In fact, it has been heading unfortunately in the opposite direction. In the last 20 years, the number of people in that region has nearly doubled from about 106 – people living in extreme poverty in that region has nearly doubled, from 160 million some 20 years ago, to roughly 300 million today or 50 percent of the population. And they don’t only live in extreme poverty; they live with the plague of HIV/AIDS, which has devastated Africa disproportionately. Some 60 percent of all people living with HIV/AIDS in the world live in Sub-Saharan Africa.
And another plague, which you hear less about, but which is as devastating and I think is widespread overall in the sub continent as AIDS is malaria, a killer disease that kills some million people a year. Stop and think about that number, that is 3,000 a day – one World TradeCenter a day. Most of them are children, and 90 percent of them live in Sub-Saharan Africa. And malaria is a preventable disease. I am told that in the 19th century, diplomats in Washington in D.C. got hardship pay because of the prevalence of malaria in this part of the world. Somewhere around the way, we eradicated it; it can be eradicated.

Education is another huge deficit. One-third of boys in the subcontinent and nearly half of girls don’t even complete primary school. And in my view, it is simply not a healthy world when so many of its people concentrated in such a major continent are slipping behind. And for that reason alone I felt, when I was coming into this job, that Africa had to be the first priority of the World Bank simply because of its need.

But what has been a happy discovery for me in the last 14 months is that I don’t believe Africa is a hopeless case. Some two or three years ago, The Economist has a cover story, “Africa, the Hopeless Continent.” That might have been true in the past. I think that picture is fundamentally changing.

Today, we are witnessing two important transformations taking place in the development landscape, that carry clear implications for Africa. First, Africans themselves are taking the lead in overcoming the challenges that face them. I visited Sub-Saharan Africa now twice since I have joined the World Bank group, visited 11 countries, and somewhat to my surprise, because some of these countries were basket cases only a few years ago, countries like Liberia or Sierra Leone, I have seen progress in every single one. Africa’s richest and best hope, like every other country, is its people; that is the greatest natural resource. And the challenge is how to unleash the energy of the people, how to give people the opportunity to improve their lives themselves.

Secondly, both donors and recipients are placing more emphasis than ever on using aid more effectively, and that in turn is raising the call for institutions and policies that work. When Kim mentioned the fight against corruption as one of our priorities; it’s really not separable from the priority on Africa, you can’t deal with the problems of Africa. I don’t think you can deal with the problems of development in general, if you ignore the challenge of corruption.

Some of the statistics that we’re beginning to see, though, bear out this somewhat more hopeful picture. Fifteen African countries have been able to maintain growth rates of 4 percent or better over the last 10 years, and the median of that group is better than five percent. And the top performers in that group, Rwanda, Mozambique, have actually averaged 8 percent and 10 percent, admittedly from very low levels post-war devastation. But to do that over an extended period of time from any level is remarkable.

Still, that is not going to by itself reverse the trend of poverty. But investors have increase private debt and equity flows to the continent from $10 billion just five years ago to nearly $30 billion in 2005. By some estimates, the average annual rate of return for investments in Africa is one of the highest in the world, averaging around 30 percent.

Africans are improving policies to make it easier for new businesses to take off and for businesses that are established to expand. For example, new entrepreneurs in Burkina Faso, which used to be one of the most over-regulated economies in a very over-regulated part of the world, now require fewer forms, fewer days and less money to start a new business.

I would like to take a little bit of credit there I think appropriately for the World Bank. We do a report, which I’m going to talk a little bit more about in a few minutes called the “Doing Business Report” that highlights where countries are in terms of the regulatory environment for business. And starting with my first visit to Burkina in June of last year, I gave their chapter report to the president of the country, and I think that has helped to induce change.
Policy reforms like those are among the factors that are helping to unleash the considerable talent, entrepreneurial talent and energy of Africans. One African investor, for example, launched a cell phone company in the Democratic Republic of Congo, not a place that I would have said a few years ago would be promising. Indeed, the experts said it wasn’t promising and insisted there was a market only for 10,000 cell phones in the whole country. This company reached its first 1 million customers in less than five years.

Importantly also, and very importantly, Africa is moving toward greater peace and stability. Just four years ago, there were 16 active conflicts destroying countries, families, livelihoods. Today that number is down to six, and that is still six too many, but we are seeing hope and opportunity emerge from the ashes of conflict and suffering.

Two of the countries I just visited, Sierra Leone, and Liberia seemed truly hopeless five years ago, and I remember the debate within the U.S. government over whether to send peacekeepers there back in early 2003. But that peacekeeping mission, which was followed by a successful U.N. peacekeeping mission, really has given Liberia a new chance. When the genocide in Rwanda ended 11 years ago, the genocide, remember, in which 950,000, it is estimated, were slaughtered, slaughtered by hand, by machetes. That country had little function in infrastructure and no judicial system, no financial sector, no corporate governance.

But the government in Rwanda has chosen to invest in its people to build capacity through business associations. It’s improving the infrastructure. It eased regulations to start a business and regulations to recruiting workers. In fact, it now ranks as one of our best reformers among – in that “Doing Business Report.” In the past eight years, Rwanda’s growth average – better than 7 percent, making it one of the top economic performers in Sub-Saharan Africa.

That has also helped to contribute to and benefit from a kind of reverse brain drain. When I was in Rwanda, I met some absolutely heroic Rwandans from the president on down who would come back to rebuild their country. And one that has left perhaps the deepest impression on me is a businesswoman who was successful in business here in the United States, who went back to start a flower farm near Kigali.

I asked her why did you do this when you had a comfortable life back in the United States. She said, let me tell you what I told the journalist who asked the same question. I came here to grow beautiful flowers on the ashes of genocide, and she is doing it, and she is exporting successfully to Europe.

Throughout the continent, more countries are adhering to their own constitutions, the voices of civil society and parliaments to become stronger, and people are demanding stronger public governance and government accountability. One of the most impressive examples is Liberia, which is emerging for more than 20 years in one of the worst civil wars any country could go through, a civil war, I might note also, that was in part stimulated by external interference and intervention.

And after the peacekeepers had established a degree of stability, the country had an election. Last November, the voters there elected Africa’s first woman president who ran on a platform of good government, anti-corruption, and reform, and defeated a popular soccer star. I think that says a lot about the maturity even of voters in extreme poverty, and a good deal about what the people Liberia really want. They still have incredible challenges ahead of them. Liberia is a country that needs almost everything, even desks for the schools. But Liberia now has a chance.

Just last week, parts of the Liberian capital, Monrovia, gained full access to water and electricity for the first time in 15 years. And for the first time in 25 years, Liberia has a budget, a budget that is actually drafted to meet the needs of its people.
Africans are taking governance seriously, a point that came home to me, as I admit a little bit of a surprise. Perhaps I shouldn’t have been surprise, but a very pleasant surprise when I first met with the African governors of the World Bank in April last year. They individually and together gave impressive presentations about the fight against corruption in a number of important countries, including one of the biggest Nigeria.

And they also made the point which has stuck with me, that corruption is not just a plague or a disease of developing countries, that in fact every corrupt transaction has usually – has at least two parties and often more than two. And very often the bribe giver comes from the rich countries, from the developed countries. Moreover, a lot of the stolen assets ended up in bank accounts in developed countries, and the developed countries have a responsibility to help Africans or any country recover those stolen assets.

I am happy to say that last year, the government of Switzerland cooperated with the government of Nigeria to return half a billion dollars, 500 million dollars of assets stolen by the former dictator, Abacha and returned it to the people of Nigeria.

At the summit of G-8 countries last year in Gleneagles in Scotland, those eight leaders made a commitment to double aid to Africa from 25 billion (dollars) to 50 billion (dollars) by 2010, and to provide complete debt relief to some of the poorest countries in the world, most of them in Africa, debt cancellation package to the amount of $37 billion when it is completed. But these were not one-way, one-sided commitments. As Prime Minister Tony Blair of the U.K. said at the time, it's a deal for a deal. In exchange for increased assistance, developing countries must strengthen their institutions and policies and ensure that their resources are spent wisely.

We’ve been moving, both at the World Bank and in the larger development community, toward a new paradigm that calls for mutual accountability for aid, and as a result, good governance is taking a place high on the global development agenda today. Our own research, if you need research to prove this point, shows that a country that improved its quality of governance can almost triple the income-per-capita of its population over the long term, can reduce infant mortality and illiteracy by two-thirds. And that's what some people call the triple dividend of good governance.

Commitments like the ones made at Gleneagles mean that aid is increasingly being allocated to countries that show that they have good governance, that they have good policies, but also the countries that have more severe needs. For Africa, this represents both opportunities and challenges. Surely, before Gleneagles, the U.K. Commission for Africa, a report that was jointly prepared by Africans and the U.K. government, identified poor governance as the biggest obstacle to progress in Africa. Despite the improvements that we’re seeing in some countries, weak institutions, lack of participation and accountability, and corruption continue to hold many Africans back from fulfilling their potential and building a better life for their families.

Bono, the man who has become famous not only as the lead singer of U2, but also the leader of the Live 8 Campaign to raise increased funds for development in Africa has said in a statement that deserves more attention than it has so far gotten, he said, the small c in corruption is a plague as deadly as the HIV virus, and the ones that are hurt the most are always the ones that have nothing. But when governments do take steps to control corruption, the turnaround can be dramatic. In Uganda, for example, schools are on average receiving only 13 percent of public funds to be spent on children and their education in the early '90s. The rest was obviously going somewhere else. One can only guess. To address this problem, the government of Ugandastarted disseminating their education budgets down to the district level, so parents could see exactly how much money their local schools were supposed to be receiving. Within a few years, nearly 80 percent of funds by 2001 were reaching the intended schools. A government that is transparent and accountable is a government that will make decisions in the interests of its people, that will deliver services more effectively, and fight the disease of corruption.
Good governance also builds the confidence of investors in the business climate. It ensures them that contracts will be enforced, that property rights will be respected, that corruption will be controlled. Every year for the last few years, we’ve been publishing this report I mentioned, the Doing Business Report, which identifies the regulatory obstacles facing investors, which ranks 155 countries according to ease of doing business. It will surprise you perhaps that in the 2006 report, 22 of the 30 lowest ranking countries were in sub-Saharan Africa. On an average, it takes 64 days to launch a company in Africa, compared to two in the fastest country, Australia. A new African entrepreneur needs twice the per-capita income to start a new business just to pay the licenses and fees compared to a country like Denmark where it’s zero. That’s enough to keep the poor out of the private sector, or at least out of the legal, formal private sector.

There’s clearly a lot of work to be done to encourage Africa’s entrepreneurial spirit, but the good news is I think a lot of this is low-hanging fruit. A lot of these regulations really make no sense, and only relatively small elements of the bureaucracy have a vested interest in maintaining them. When the president of Tanzania was here just two months ago, I pointed out to him that his country ranked 141 out of 155. Instead of telling me, well, this isn’t really fair, which some countries have done – rich countries, I might point out – instead of saying this isn’t fair; you don’t have your facts right; we really will have to educate you; we’re much better than that – he went back and told his government officials, we’re 141 out of 155. That’s not acceptable. We have to change.

I already mentioned Burkina, a country that’s changing. The Finance Minister of Malawi was here about eight months ago, and I told him some of the disturbing statistics about how hard it is to start a business in his country. This is a man who was impressive to me. He said we’ve got to stop blaming our problems on our history. Yes, our colonial past was terrible, but it’s not going to solve our problems to keep talking about it. We’re responsible for our future. So when I gave him these numbers, he said, shame on us. I said, no, it’s not shame on you. You didn’t know about this before. It will be shame on you if you come back two years from now and nothing has happened. Well, I’m told already, improvements are happening in Malawi. I don’t know whether it’s attributed to him directly or just more generally. But it’s interesting to me how much can be accomplished sometimes simply by putting the facts in front of governments and their people especially when the governments have some accountability to their people.

And the donor community is also taking governance seriously. We now use something called the performance-based allocation system to put more weight on the quality of governance when we allocate aid across low-income countries. And we’re pursuing efforts along several fronts to strengthen governance, first to strengthen anti-corruption efforts in our own projects, secondly, and perhaps most importantly, to help developing countries strengthen their own institutions, and third, to expand cooperation with the other multilateral development banks and other international partners so that we all put an appropriate priority and so that we can cooperate so that, for example, a company that misbehaves on an Asian development bank project can’t easily turn around and bid on a World Bank project or vice-versa.

I think we’re also learning from our experience in some other countries more about what works and what doesn’t work, and we’re using that knowledge to try to strengthen the impact of every dollar we spend in Africa. Let me briefly talk about three areas we’re focusing on in Africa – infrastructure, the private sector, and debt relief. Infrastructure is a crying need of the African countries. I was a bit surprised in that same meeting with the African governors to hear so many of them say the World Bank has got to get back into infrastructure. You made a mistake to get out of it. I hadn’t even realized that we had gotten out of it. I think part of the reason we did was because some big mistakes were made. White elephants were built. There was corruption on big infrastructure projects. There were roads that went to know where. There was environmental damage by some of the ill-conceived projects. But I think that doesn’t change at all the fact that people need electricity to run businesses. My rose farmer in Rwanda loses 5 percent of her crop, which is a lot, because if the electricity goes out, the refrigeration goes out. They need water; they need irrigation. These are things that the private sector can help with, but government has to play a critical role.
And we are increasing our investment, but we're trying to do it in a smart way. We're trying to learn from some of the mistakes of the past. And we're trying to emphasize also that building a better road, for example, as we're working with the government of Pakistan to build a better road from Lahore to Karachi. Goods that leave the factory gate in Lahore are internationally competitive and by the time they get to Karachi, they've lost their competitiveness. It's that bad. But it's not, as we pointed out, just the bad roads. It's the checkpoints along the way, some of them legal, some of them illegal. That has to be corrected as well as the concrete.

We're also focusing our support on Africa's private sector in addition to simply highlighting the obstacles. We are improving access to finance, especially for small and medium enterprises, and for women entrepreneurs. Last year, the IFC, our private sector arm, launched a global trade finance facility. They predicted at the beginning of the program that in the last fiscal year, we would do about $100 million of trade finance. And they predicted that $6 million, or 6 percent of that, would be for Africa. By the end of the year, the demand had grown to over $250 million, and the percentage to Africa was nearly half at 120 million (dollars). There is a demand for trade.

There is something happening there, in fact, something happening, I think reflected in a statistic that really surprised even me. I say even me, because I hadn't noticed that it started to become more optimistic about the subcontinent. In December of last year, Gallup took a worldwide poll asking people whether they thought 2005 would be better or worse than 2006, and Africans came out as the most optimistic people in the world – 57 percent of them thought next year would be better. Some wise guy will say, yeah, that's because last year was so bad. That doesn't explain people's expectation of improvement. The East Asians, it won't surprise you, were statistically in a dead heat at 54 percent. And you can guess some of the countries that are the most pessimistic in the world are also some of the richest; no correlation I hope.

Just to conclude, we are very conscious of the importance of what Prime Minister Blair, when he said that this increased aid has to be a deal for a deal. There has to be increased performance along with this increased assistance. And we are trying to target our assistance at countries that use it well. But they need it. A country like Liberia can use more, needs more. And they need more help, not just from the World Bank, but from the United States.

The United States is one of the largest sources of development assistance in the world today. According to the numbers produced by the OECD, U.S. official development assistance in 2005 was $27.5 billion, up from nearly $20 billion the year before. But still, as I hear endlessly, and I'm sure those of you in the development world here it, it's only barely .2 percent of our gross national income. It's also true that Americans are doing a lot with security assistance, and it's also true that Americans are doing a lot as individuals. Americans give private charitable contributions to poor countries totaling approximately $10 billion per year. And it may well be argued that some of that is more effective than official assistance. That generosity is laudable in its flowering, but I don't think it removes either the moral obligation or the necessity for the U.S. government to do more.

In 2005, the U.S. committed to doubling its aid to sub-Saharan Africa by the year 2010. That's a welcome step toward increasing overall aid and concentrating more of it in countries that need it the most. The United States continues to be an important source of funding for the World Bank, including for more than 13 percent of IDA funding. However, U.S. commitment to IDA has declined from a historical level of 20 percent to the current 13. And when the U.S. wavers in its support, that becomes deeply worrying, because other donor countries look to the U.S. for leadership and adjust their own contributions in response. The discussions for replenishing IDA, the so-called IDA 15 replenishment, will start early next year, and I hope there will be a strong and positive U.S. engagement.

To conclude, if you carry away just two messages today, I hope you'll remember these two. First, Africans are taking a lead in helping their continent turn the corner, and donors have an obligation to support their
efforts. Secondly, donors are raising the bar in development assistance to try to ensure that every dollar is used to create a healthier, better-educated, more prosperous Africa. Now, more than ever, the opportunity exists for Africans to transform Africa and determine their own future. Thank you.