Development policy in Africa: Public and Private Perspectives

Report by J Boima Rogers, April 2001

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This conference was convened in Oxford on 29-31 March by Oxford University's Centre for the study of African Economics (CSAE), bringing together leading players in business, academia and government. Professor John Toye, Director of CSAE, Sir Tim Lankester, President of Corpus Christi College, Oxford and the Rt Hon Claire Short MP, Secretary for International Development, UK, opened the conference. President Mogae of Botswana, whose recipe for a conducive business climate was "stable, balanced and predictable", spelled out the challenge facing the continent at the conference dinner. The salient issues and speakers were as follows:

Africa's Opportunities: Assessment of Prospects

In his opening remarks, the Chairman, Mr Alistair Boyd, Chairman of **South Africa Business Association** noted that there had been some very positive moves on the continent that had largely escaped the western media. Six percent growth in the economy was less interesting than a mass of carcasses. Little attention had been paid to the fact that without the floods Mozambique was one of the fastest growing economies in the world. Mr Boyd said money can be made in Africa, assets were relatively cheap and the continent was well placed to make use of modern technology such as mobile phones.

Professor Jean-Claude Berthelemy of University of Paris in his paper titled "**Will there be new emerging countries in Africa in the year 2020**" highlighted the relatively high rate of economic growth on the continent in the 1990's, 5% a year. However this growth rate had a high degree of variability. Major factors influencing productivity were investment and capital flows and of these two investments in education were of particular importance to economic growth. African countries had to face the challenge of diversification and he cited Mauritius as the country with the most impressive record in this area largely because of its emphasis on the private sector as the engine for growth. Ghana and Uganda were also cited as countries that had impressive records in diversification recently.

Chief Asiedu, Chief Economic Adviser to President Obasanjo of **Nigeria** noted that the poverty reduction policies of many African countries had not significantly affected the average citizen. He highlighted the lack of cooperation within ECOWAS, the West African grouping of states, with only one of 22 treaties being ratified by all member states. His government had set a rather ambitious target of 10% growth per annum in the plan made out in 1999, he did not elaborate on how close the economy had been to that target subsequently. Economic liberalisation was facing strong resistance from bureaucrats and politicians.

Ms Kristina Outtek, co-author of the ING Barring report titled "**the economic impact of AIDS in South Africa"** noted that with 24.5% of mothers testing positive and between 4.5 to 5.5 million people with the disease in South Africa a nightmare scenario was in the making. There was a vacuum in South African AIDS policy. Population was forecasted to stagnate and productivity would be adversely affected through absenteeism, staff replacement, training and insurance cost. GDP was estimated to be ½ % lower because of the disease and this relatively benign effect on the economy was because of efforts by South African industry to reduce its dependence on labour.

Public and Private Interface

Tony Addison from the World Institute for Development addressed what LogAfrica considers the biggest obstacle to sustainable economic development on the continent, namely, conflict. In his paper titled "**Reconstruction from war in Africa**: communities, entrepreneurs and states," Mr Addison noted that Africa had become synonymous with war, with 16 of the 54 countries at war in 1999. The continent needed to reconstruct communities and livelihood and after that process private investment could then recreate markets and employment. A democratically accountable government, dedicated to poverty reduction would bolster this transition. He reviewed the transition in Angola, Eritrea, Ethiopia and Mozambique. In the absence of peace, entrepreneurs were disposed to investments with immediate and high returns that required limited physical capital to ensure fast exit – the quick buck. He highlighted the need for close attention being paid to the regulatory framework in the post privatisation situation, noting that donors must press governments to set up effective and transparent systems in the newly privatised industries. Neva Makgetla of COSATU, the South African Trade Union speaking on "**Sector Job Summit**" stressed the need for a new growth path to ensure more equitable income and wealth and generate jobs. She called for expanded collective ownership through the state sector and cooperatives.

Democracy and the rule of law

Lawrence Cockroft of Transparency International, in his paper titled "**Corruption as a threat to reform of public institutions and corporate behaviour"** referred to recent reports by the Commonwealth Business Council and the World Bank, which cited corruption as the prime disincentive for businesses doing or expressing an interest in undertaking business in Africa. Scams included corrupt officials taking over the tax function, tax breaks being less than those specified in regulations because of bribes to officials, import substitution rackets, lack of transparency in the sale of state companies, land being sold more than once, state owned companies in joint ventures having incomes redirected to private use, leaks in revenue streams because of transfer pricing and smuggling. There were a number of policy initiatives in OECD (the rich wo/man's club) countries to ensure that companies from those countries desist from paying bribes. Private companies should, he proposed, act in concert to resist paying bribes or if they are forced to do so, record and publicise such payment. African Governments were for the most part nominally or effectively committed to good governance and should be held accountable and pressed into taking effective steps in this direction.

Speech by the President of Botswana

The presentation by the President of **Botswana**, (full speech available on the site) a former student of Oxford University, reviewed the humble birth of that nation with apparently few resources and few trained citizens to a one of the most stable, business friendly and open society. The country had been blessed with diamonds and other minerals but income from these were being spent wisely on the infrastructure and savings. In the words of President Mogae, a "stable, balanced and predictable economic environment had been a critical tenet of Botswana's economic management." The policies adopted by the country had seen its credit rating upgraded by Moody's recently to A2 Prime, the top rating for Africa. The President noted that the job was not complete and the Government was implementing measures to diversify the economy.

Stock exchanges and capital markets

In his presentation on a paper titled "**Strategic alliances and mergers**" Sir Michael Okeahalam noted that stock markets in the SADC region were segmented and had relatively low liquidity. A significant proportion – 32% - of South African companies had de-listed and many of those that remain had dual listing in South Africa and other stock exchanges outside the country. He concluded that there was a strong case for the merger of stock markets in SADC although he acknowledged that there would be winners and losers.

Tara O'Connor of Control Risk Group in a presentation on "**Politics, Risk and investment"** noted that the African experience had been a rule by the elite for the elite, developments in Congo DRC and other states had put a question mark on the notion of the nation state. She highlighted the sudden deterioration of conditions in Cote d'Ivoire. There had been improvements on the continent, with 17 of the 44 states in the Sub-Saharan region being classified in the low to medium risk groups and only two in the extreme risk group. The trend in the west of naming and shaming companies involved in corruption had improved transparency in the region.

In a review of the work of **CDC Capital markets**, Paul Fletcher, its Managing Director for Africa and Industries noted that his corporation currently invested 70% of its capital in agricultural and infrastructure projects countries in low-income countries. The move to 60% ownership by the private sector – currently owned by the British Government – would bring a change in emphasis because the 25% rate of return that the private sector was likely to require. This meant that there had been a shift from low yielding agricultural projects to a range of other sectors. Recent investment and negotiations currently underway included a power plants, pipeline, telecom, mining, rail-freight, health care. The emphasis would be on medium term projects.

Dr Kofi Boateng, First Africa, a subsidiary of **UBS** reported that his company had been involved in mergers and acquisitions in 30 countries in the last 18 years. Deregulations were going on across the continent, which should no doubt bring more business to First Africa. Conditions on the continent meant that investors heavily discounted investments in the region. There had been little research on the use of venture capital on the continent.

Foreign Exchange and Currency Markets

Dr Cathy Portillo of the IMF in her presentation on **"Early Warning systems – Emerging markets**" pointed out that countries had to weigh the costs and benefits of devaluation. High interest rates, which develop in countries with collapsing currencies, were unsustainable if the financial system was weak as is often the case in emerging markets. She reviewed a number of models used by the private sector and the IMF but noted that these needed to be used in conjunction with other vulnerability analysis. She admitted that in many African countries, Zimbabwe being a classic case, these models could not be used because of unreliable data.

Dr Brian Kahn of the South African Reserve Bank on the topic, "**Inflation targeting and exchange**" reported that inflation was within the band they had targeted. Inflation in the SADC region varied enormously and the regulatory environment was complicated by the lack of independence of central banks and currencies that were not freely convertible. He was not sure whether the South African model was right for the rest of Africa. He noted that there was no regulatory framework to protect emerging markets from the external shocks from international capital markets.

Industrial Competitiveness

Dr Iragi Abedian of Standard Investment bank speaking on "**Challenges for doing business – globalisation**" noted that globalisation had introduced structural changes in South Africa with a move to the tertiary sector, which now represented 60% of economic activity. Globalisation had resulted in industry substituting capital for labour with technology costing 30,000 jobs recently which meant that for the economy to create more jobs, it needed to grow much more than the current 3-4%. In the South African case a further complication was that faster economic growth would increase income disparity in society already polarised by racial, ethnic and income levels. He noted that globalisation was resulting in a skills shortage and called for a relaxation of immigration for skilled workers. The educational system should be reviewed to ensure that it meets the needs of industry.

Mr David L Kibikyo of the Centre for Basic Research in his paper on **Privatisation: de-industrialisation and politics in Uganda** compared output of companies before and after privatisation and tried to argue that because a significant number of companies in his sample had seen a reduction in production after privatisation the benefits of this policy was not as positive as some commentators had noted. According to this analysis privatisation had resulted in the significant loss of industrial production and jobs.

Dr Remco Oostendorp of Free University Amsterdam in a paper titled "**Are larger firms really more successful at exporting**" looked at industry in Zimbabwe. It was revealed that there were a number of other factors such as ownership - state owned firms had a relatively low propensity to export, and type of industry, garment manufacturers had a high propensity to export – and type of industry that were significant in determining export success.

Mr Bisrat Nigatu, Chief Executive of **Ethiopian Airlines** traced the history of the African skies starting from when virtually all newly independent countries set up their own airlines to the current situation when many were having to let go of this prohibitively expensive status symbol. In the new more liberalized market there would be industry consolidation. He noted that African airlines if owned by Governments should be given autonomy; they should be more effective businesses and should maintain sustainable human resource programmes.

The paper on the oil boom in Chad looked at the likely scenario of the impending oil boom in that country and the beneficiaries. A paper by Mr Daniel Zerfu of Addis Abba University titled "**Determinants of private investment in Ethiopia**" noted that the major stumbling block to investment was that country's low savings rate.

New trade liberalisation

Dr Rubens Ricupero, Sectary General of **UNCTAD** noted that there was need for further reforms of the WTO and that African governments were understandably distrustful of the body. They feared it would be used to set unnecessarily high standards and that their economies were not prepared for the changes WTO would bring. This attitude may have been partly because of an abysmal trade record, which saw Africa's share of world trade shrink from 5.3% and 5.7% of exports and imports respectively in 1950 to 1.6% of exports and 1.9% of exports in 1998. Even the preferential treatment given by the European Union to African countries had not increased the share of trade to that region. On the plus side, the value of trade among African countries had doubled between 1980 and 1998 to US$ 6 Billion.

Although structural adjustment had been implemented in most African governments resulting in more liberalized markets the economies had not responded significantly enough to this stimulus. Market access was a necessary but not sufficient condition. Africa still attracted a relatively small share of foreign direct investment, only 1.2% of the world total and limited to a few sectors, most countries had not diversified their economies and relied on a few primary commodities. Recent issues which the WTO had to resolve that were of particular relevance to Africa included the significant export subsidies still in place in rich countries, hazardous waste had still to be banned and food safety regulations in place in western countries were being used as barriers to African exports when all scientific evidence suggested that the risks to consumers were miniscule. Mr Ricupero felt that with all these misgivings African countries must try and work for reform within WTO and do so with carefully prepared and properly presented arguments.

Mr Robert Kirk of **SADC** noted that open trade policy benefits countries with the lowest incomes and that the WTO was vital for SADC although there were gaps. An issue that needed to be resolved related to the anti dumping proviso, which allows countries to take contingencies to protect their markets. South Africa and other countries were using this provision to set up trade protective barriers.

LogAfrica's commentary

LogAfrica's positions is that African Governments and the multinational organisations and donor governments need to highlight the improvements made on the continent relating to recent economic growth prospects and in the political and business climate so that the outside world can know that many African countries are conducive to foreign investment. Organisations like the IMF and the Control Risk Group should take a lead in this, regular economic and political health checks by these organisations should highlight improvements in political, economic and financial areas.

The two biggest issues were discussed but the whole conference could have been devoted to them, namely conflict and corruption. As one academic put it,

"You guys are only going to attract foreign investment when you stop killing each other."

Conflict resolution or prevention is largely a result of a transparent and prosperous society. Government's efforts to stifle dissent or prevent constructive criticism, the breakdown of due process, the failure of the state to deliver even the most basic services and lack of a conducive climate for investment and economic growth are all directly responsible for conflicts. Corruption is the cancer on the continent, which all governments need to address as it is cited as the main deterrent to private capital inflows. As most governments throughout the continent are "nominally or effectively" committed to good governance they should be pressed to do so.

Privatisation of state enterprises must go ahead to ensure that income is earned from operations and companies do not exist to primarily accumulate of rent income. Privatisation if done transparently will result in more efficient use of resources as well as benefiting consumers. The continent needs to move away from a situation where the income accruing to one State mainline telephone operator was twenty times the average for operators in Asia. The regulatory framework for operators must be in the words of President Mogae of Botswana "stable, balanced and predictable". Only then can Africa attract foreign investment to spur economic growth. At the moment foreign capital flows are largely humanitarian and government-to-government. While this form of capital and management plays and will continue to play an important role on the continent they must be viewed as short-term solutions, ultimately private capital inflows must take over as the primary vehicle of sustainable economic development.

Education stands out as a most significant factor. Primary education and tailoring post-primary education to the needs of productive sectors and in particular, to meet the challenges of globalisation needs to be emphasized. The South African case is a sad one where there are skills shortages but where the government, industry and labour are not doing enough to address this issue. Tax breaks for company training programmes and more involvement by the private sector in the curricula of technical colleges; apprenticeship schemes and universities would help to produce skill required.

Regional trade has increased significantly and was cited as a good prospect for the continent yet Chief Asiedu's report showed how little progress had been made in ECOWAS. The same could be said for stock markets. There is need for country stock markets to be merged to form viable regional markets because small segmented lack the critical mass to ensure liquidity and operating costs can be prohibitively high, a deterrent to potential investors. We must move away from the position where stock markets are seen as status symbols to one where they are effective machinery for mobilising capital for regions and even the whole continent. Admittedly there are concerns, which must be addressed, notably domination by South Africa. With regards to the haemorrhaging of the South African stock markets as companies de-list, the government should consider incentives as well as punitive measures such as including a positive weight to South African listed companies in bids for government contracts. The problem of de-listing is also linked to political developments in the region. So long as South Africa does not take a firm opposing line to the breakdown of law and order in neighbouring countries investors will feel jittery and the Rand will continue to come under pressure.

Dr Brian Kahn's view that the South African model targeting inflation and exchange rates, which had worked according to plan was not necessarily appropriate for rest Africa was rather misleading. Why should African countries not prepare and implement tried and tested macro-economic policies such as low and stable inflation rates. This view is akin to the one that states that African countries should not strive for open and democratic governments but should rather concentrate on the economy. These commentators it seems, must wake up to the fact that Africa is part of the global village and the "Africa solution" cannot be divorced from the mainstream, whatever that is.

Although the presentation on Aids in South Africa gave a good insight in this tragedy, noting that the economic impact was for the time being benign, the human suffering suggests urgent solutions. Much time could have been spent on discussing effective programmes and the solutions can be found on the continent. Uganda has implemented probably the most effective aids reduction programme in the world, other countries in the region should try to replicate that model, learn from your brother.

In the presentation on globalisation, Dr Abedian highlighted the substitution of capital for labour in South Africa, a country with high unemployment levels. Dr Aberdian intimated that businesses would like to see improvements in the regulatory environment. The message here is that the general positive macro economic policy that the South African and other governments on the continent have recently being credited with must be supplemented by effective and efficient policy implementation – unnecessary red tape is often synonymous with corruption.

Interestingly, Neva Makgetla of COSATU the trade union organisation did not address the issue of globalisation or how the Unions are responding to the challenges posed by this scenario. Industry and organised labour appeared to be speaking different languages, while the former talked at length about the short term solution of relaxation of immigration the only reference to the medium to long term skilled labour shortage solution was that the Government's punitive levy was bureaucratic, it did not suggest how this levy could be improved or suggest how tax exemptions for staff training could be used. Organized labour did not also address this critical issue, instead stressing "collective ownership", a model that is being dismantled or discarded in the former USSR, China, Vietnam just to name a few.

The papers on the oil boom in Chad, the export performance of large firms and determinants of private investments in Ethiopia were interesting academic pieces but the presenters would need to add more realism to the models to help policy makers. Mr Oostendop should extend his model to highlight the sectors and products with high export potentials to assist policy makers to maximise export earnings, as we all know, size matters but rarely is it the defining factor. Mr Zerfu should incorporate the effect of wars, corruption and other negative factors on private investment into his model.

Trade liberalisation under the WTO is a process that the continent cannot run away from. Implementing appropriate policies should making the continent more attractive to domestic businesses and encourage capital inflows, only then will Africa will become more competitive, as it must do. In negotiations within the WTO African countries need to prepare a thorough case and send its best negotiators to battle it out in such forums to fight against protectionist policies in rich countries. Globalisation cannot be wished away and the continent must put its house in order.