Accelerating Africa's Transformation to Unlock Africa's Potential

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Overview

1. What African policymakers already know? (and have been knowing for a long time)
2. Why policy making in Africa has not delivered and is not delivering structural transformation?
3. What have we, Africans, been missing?
4. African Policy Making Needs a Reboot & Development Finance is the Perfect Example: Debt Management vs Illicit Flows.

Previous Note: I will approach these questions from an African policy making standpoint …. since I have been in the policy making field for more than 20 years …

What have we been knowing for a long time?

1. **The conventional "Africa Rising" story in the past 20 years has been a very optimistic one, as a result of high economic growth.** By today, we all know that Africa Rising is mostly a story of economic growth based on GDP which is an overly one-dimensional.
2. In fact, despite strong economic growth:
   I. Poverty levels, while declining, remain extremely high and inclusive socioeconomic development continues to be elusive;
   II. Structural change remains limited and low productivity agriculture continues to dominate employment even as agriculture's share in GDP falls;
   III. Fragmented markets have dominated the intra Africa trade;
   IV. Physical and institutional infrastructural deficits still hamper manufacturing development;
   V. The majority of countries remain characterized by overdependence on a few commodity exports, weak competitive capacity, and low levels of human development.
3. Africa is a rich continent that is deeply trapped in a vicious cycle of poverty. **It is clear from the experience of the last 20 years that high economic growth is not enough to end the vicious cycle of poverty or to ensure inclusive prosperity.** Even in a high economic growth scenario (around 6-7% for 15 years), the number of people in absolute poverty in Africa will only slightly decrease from 417 million in 2015 to 406 million by 2030. Africa now accounts for more than 50% of the world's population in absolute poverty.
4. The Region is currently adding about 30 million people a year to its population. With population projected to grow at 2.6% a year, the United Nations (UN) puts the African population at about 1.64 billion by 2030 – an increase of about 460 million during 2017-30.
5. The gap is huge!!!! On a "business as usual basis" …. **It is very unlikely that absolute poverty in Africa can be eliminated by 2030 … as aimed per the SDGs.** And according to the Global Economic Outlook, things do not look and will look better for 2019/2020 … "High trade tensions and policy uncertainty continue to damage prospects for economic growth. Across both developed and developing countries, growth projections for 2019 have been downgraded …"
6. **Believe me … we all know that <u>to bridge the gap … African policy making should deliver high-productivity labor-intensive economies</u>** to be able to absorb the growing labor force … otherwise peace and stability will continue to be a mirage.
7. So … we have a great knowledge of the problems and challenges we face . … if this is the case … the next question must be ..

Why policy making in Africa has not delivered and is not delivering structural transformation?

- **For us Africans**, the growth model has failed and is failing … based on a simple test: economic growth has not deliver the required structural transformation for development. It might has delivered for others!
- 15 years of better good governance, particularly better macro-economic management, booming commodities prices as a result of strong global demand, and the adoption of expansionist policies have not prevented, for example, Cote d'Ivoire, from asking support from France in the amount approximately 65 million FCFA following the fall in the price of cocoa to finance its budget deficit.
- Most of the recent literature blames the policy mix adopted by African policymakers as the main reason for not delivering structural transformation: wrong debt & financing strategy , poor quality of public expenditures, unappropriated FX regimes and monetary policies, etc… …
- But the wrong policy mix, the debt's maturity and currency mismatch, are not the diseases. They are the symptoms.
- I strongly believe that the real problem lies much … much deeper.
- Africa has been in a trap in the past centuries and this same trap has just been evolving. The most recent version of this trap goes back to the 60s. Right after the "death" of the independence vision, policy-making in Africa has been equating the business of managing poverty to development.
- **Africa is a rich continent, but policy making in Africa is focus on managing poverty. This is a paradox.**
- The reality is that managing poverty has been the "comfort zone" of African policy making. African policymaking over the decades have become comfortable with managing poverty with support of their AID providers. The result is that the focus on managing poverty has not left the space for "public policy" to focus on growing and retaining Africa's wealth.

Why policy making in Africa has not delivered and is not delivering structural transformation? (2)

- This “comfort zone” results from the rent seeking mind set that has been indeed African policy making paradigm. Which has prevented the adoption of a long term and committed vision and consequently prevented the delivery of structural transformation.
- The short term, rent seeking mind set was “aligned” with Washington consensus short term structural adjustment programs. We all know that the principle of the more economic growth the less poverty under strict macroeconomic stability parameters, advocated loudly the principle of “unfetter the market and roll back the state”.
- Less state and consequently less institutions, where the compression of the budget expenditures, particularly the wage bill, was a sort of flagship item. In fact, most of the adjustment programs produced the opposite results, high inflation, wage depreciation, unbalanced exchange rates, low economic growth, eroding the credibility of the state and consequently creating space for even more rent seeking policy making.
- Twenty years later and despite this obvious picture, African policymakers still have some difficulty in accepting that for economic growth to deliver structural transformation, sustainable and inclusive development, **institutional infrastructure must be part of the equation**.
- African policy making needs to lead the crafting of the post-Washington consensus, where the state building, based on an ambitious long term vision leads the structural transformation of the continent. Is this new? No … this is what Europe did during the 30 glorious years after the WWII.
- It is no longer “unfetter the market and roll back the state” …. But rather …. “unfettered the state for a fair market” … otherwise, Africa’s growing middle class consumption will feed balance of payments imports instead of feeding economic diversification and job creation.

What have we Africans been missing?

- At this stage, with Africa's state building process highly incomplete, we need to ask ourselves: Do African states control/own their natural resources flows, financial flows, and fiscal flows?
  - But if African States do not control the flows, do they control the stock? If African States do not control the natural resource flows do they control/own the natural resource stock?
- What have we been missing? Ownership. Not the correct policy mix or a more appropriate debt strategy! We have been missing the "exercise of ownership" as an important intangible asset of the sustainable development process.
- Policy making in Africa needs to get out of their "comfort zone" and end equating the business of managing poverty to development. It is time to start the business of managing wealth for structural transformation and inclusive societies.
- A simple question: How African policy makers exercise ownership? A simple answer: By setting up (strong) institutions.
- Ownership can not be exercised in empty-organizational frameworks. The exercise of ownership requires institutions : rule of the law, planning & budgeting systems that deliver transparency & accountability, regulatory systems, tax administration systems, education systems, health systems, etc… All these are intangible assets. But they are strong assets. And in most of the situations, they are much more important than a doubtable highway financed through the 20-year pledge of future oil receivables and maybe in 5 years time this same highway might not be there because the associated institutional framework required to manage the highway has not been put in place.
  - An example to make this idea more clear : most of the African countries have Revenue Authorities. Most of them are weak. They do have the organization but they do not have the institution.
- It is time for African policy making to place "institutional infrastructure" at a higher level of strategic importance than "physical infrastructure". Because, "the reality is that institutions continue to be critical constraints for Africa's transformation, with deep implications for governance, competitiveness and control of value chains, natural resource management and infrastructure management"
- As Wohlgemuth, Carlsson and Kifle acknowledged at the end of 1990s:
  - "The failure of institutions in Africa, encompassing those of the state and civil society, has been an important theme in much of the debate on African Development in recent years. **In a fundamental sense, the crisis of African development can be said to be a crisis of its institutions.** It needs to be recalled, in this connection, however, that most African countries inherited a model of a strong and centralized state that was essentially created to fulfil two functions: upholding law and order, and collecting taxes. The experience of a large number of countries has shown the inadequacy of this model from both political and economic perspectives. It has proved incapable of providing political stability and protecting the welfare of citizens, and it has also failed to promote economic development and growth. Clearly, African countries will need to develop and nurture - as some have already started to do - new institutions of government. They will also need to create the necessary space for the evolution and development of the institutions of civil society as these are essential for both social and economic development"

What have we Africans been missing? (2)

- It is imperative to provide policy-making in Africa with an institutional dimension in order to ensure that economic growth delivers development, despite the fact that from an electoral standpoint these intangible outcomes are not duly processed as political achievements in young African democracies.
- To set up institutions for the exercise of ownership, there are two important ingredients that constitute the 2 sides of the same coin: 1) leadership and 2) skilled and assertive civil societies able to put in place its own institutions in partnership with citizen-centered and outward-looking state institutions.
- If African young democracies are not in the path of delivering check and balances, they will essentially fail in serving inclusive & sustainable development, despite the fact, that from a formal standpoint, every 5 years elections will happen.
- Without putting in place the right policies and institutions, a number of obstacles will not be overcome. Among these are the challenge of:
  - I. sustainable infrastructure (a binding constraint to Africa's competitiveness),
  - II. demographic transition, now that the population of Africa has surpassed 1 billion people,
  - III. building high-productive labor-intensive African economies;
  - IV. climate change;
  - V. getting access to technology to better position Africa in the global value chains; and the most important …
  - VI. investing in skills and human development to be able to absorb the growing labor force by building assertive civil societies.
  - **VII. shifting the focus from economic growth to income distribution.** Higher levels of income distribution will deliver economic growth. Demographics are on our side.
- This brings us to the strategic importance of SDG 16. "SDG 16 is a game-changing feature of the SDGs in as much as it prominently features institutions, both as a cross-cutting issue in many of the goals and as a standalone goal, not as an afterthought or as part of an "enabling environment" for the goals".

African policy making needs a reboot! Development Finance is the Perfect Example: Debt Management vs Illicit flows

- Implementing the SDGs in Africa requires scaling up financial resources in a dramatic way, in a context where:
    1. global economy still searching for an exit out from the international crisis;
    2. many African countries have limited macroeconomic policy space to keep coping, in the short term, with the international crisis and climate change and in the medium term to finance the SDGs;
    3. commodity prices down turn as a result of trade tensions has intensified;
    4. declines in ODA and weaknesses in domestic revenue mobilization have pushed countries towards higher levels of debt, fueling concerns about a new debt crisis for SSA.
    5. easing of monetary policies may pave the way to increase debt, but still in tough conditions despite the high level of international liquidity.
    6. most of the African countries face a risk premium in the international finance markets.
- These are bad news, but maybe this adverse scenario is what it is needed to reboot African policy making.
- And as far as development finance is concerned and thanks to the "squeeze", we do have an opportunity to tackle the paradox debt management vs illicit flows:
    - With our left hand we loose approx. 50 billion USD in IFF and we place most of our savings pension funds, reserves, out of the continent
    - With our right hand we beg for AID and if AID does not come, we contract debt in doubtable conditions: currency, maturity and purpose mismatch by pledging future receivables from extractive and non extractive commodities.
- Since most of Africa's liquidity is outside … Africa is lending its own money … and paying interests on its money!

African policy making needs a reboot! Development Finance is the Perfect Example: Debt Management vs Illicit flows (2)

- According to GFI 10-year period study, as a region, Sub-Saharan African countries had the highest propensity for trade mis-invoicing at 32.6% of total trade with advanced economies on average (33.9 percent in 2015). For 2015 this equates to an estimated $84 billion in illicit flows due to mis-invoicing.
- According to UNECA, Africa loses on annual basis about 50 billion USD to illicit flows.
- AfDB indicates that the continent needs US$24 billion annually to implement universal access to reliable energy and cleaner power.
- So … and we go back to the issue of exercising of ownership and better control our flows :
  - Natural Resources Flows: This will require African policy making to solve the problems of mispricing, rent seeking, ineffective mineral property rights, and the opaqueness surrounding the management of our natural resources.
  - **Fiscal Flows**: Africa policy making must enhance the capacity to capture and manage fiscal resources and ending tax avoidance and evasion and seriously fight illicit flows.
  - **Financial Flows:** Africa policy making must better deploy and manage its financial resources. What Africa is not losing to illicit flows, funds are "officially" kept out of the continent in form of international reserves, pension funds and others.
- It is time for Africa to end the leakages and to deploy its resources for development.

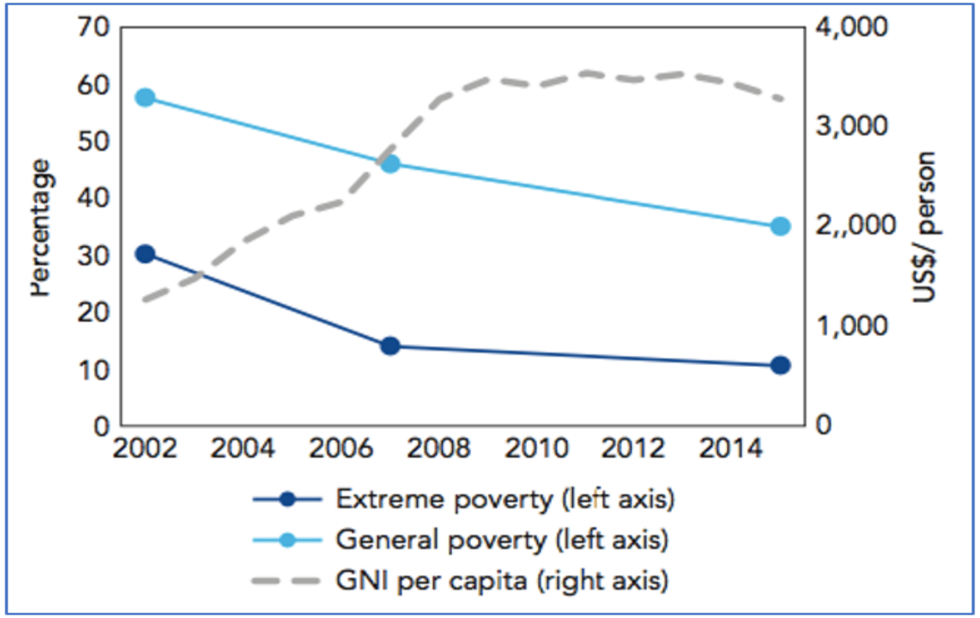
The Case of Cape Verde

- The research project “Policies, Institutions & Development: The Case of Cape Verde”, intends to present the experience of a country where the last 40 years are living proof of how institutions can impact the development process.
  - Cape Verde is a clear example of where development has been possible despite its high vulnerability and lack of natural resources.
  - At the time of its independence in 1975, Cape Verde’s per capita GDP was around US$ 190. In 2008, Cape Verde graduated to a middle-income country with a per capita GDP of US$3,692
- The graduation from a LDC to a MIC has been essentially a policy & institutional driven process in which enlightened leadership, effective governance and strong attention to institutional capacity building have played a central role.
- It is an example of a country where the leadership understood, from as early as 1975, that to overcome adversity and vulnerability priority had to be given to intangible dimension (institutions) in the effort to ensure social development. Essentially, “institutional infrastructure” was placed at a higher level of strategic importance than “physical infrastructure”.
- The World Bank (SCD, 2018) acknowledges the development achievements of Cape Verde in a very clear way:
- Cape Verde’s “… gross national income (GNI) per capita has grown six-fold from around US$500 in 1986 to more than US$ 3,000 in 2008 (Chart 2b). In 2007 it advanced to lower- middle-income status, becoming the only non-extractive economy in sub-Saharan Africa to do so in such a relatively short time.
- This fast economic growth has translated into substantial welfare improvements for its population. Using a national poverty benchmark of PPP US$5.60 per day (and not $1.25), the incidence of poverty fell from 58% in 2001 … to 35% in 2015, while extreme poverty, using the national food poverty line of PPP US$2.90 per day, dropped by two-thirds to 10% during this period (Chart 2a). Inequality fell, and the consumption-based Gini index dropped from 53 to 42.

The Case of Cape Verde

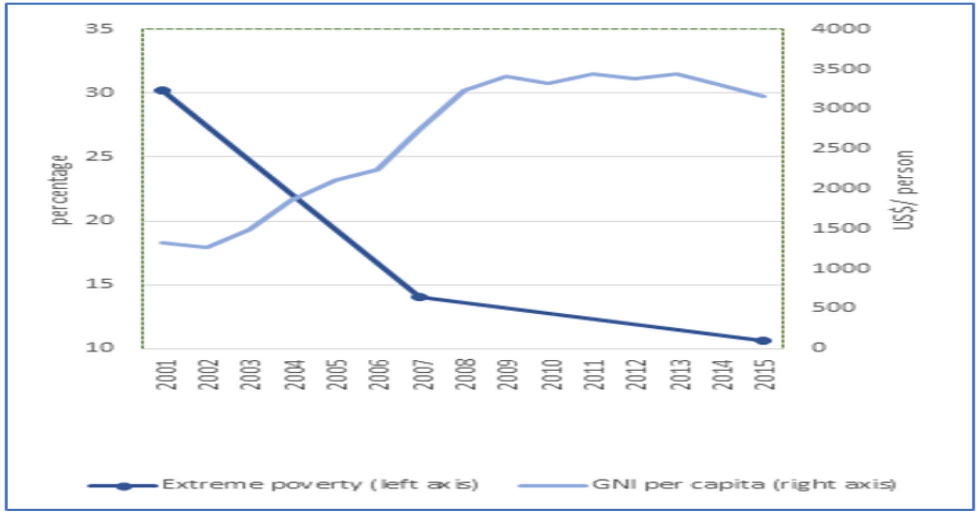
- Human capital achievements have been equally impressive:
  - At 73, life expectancy is the second highest in Africa after Mauritius.
  - In the global gender gap index, Cape Verde ranks among the world's best in terms of health and survival and school enrolment.
  - It is among the 30 best performing countries in terms of achievement of the MDGs

Chart 2a: Poverty incidence and GNI/capita 2001–2015



Sources: Based on IDRF 2001, QUIBB 2007, and IDRF 2015 surveys

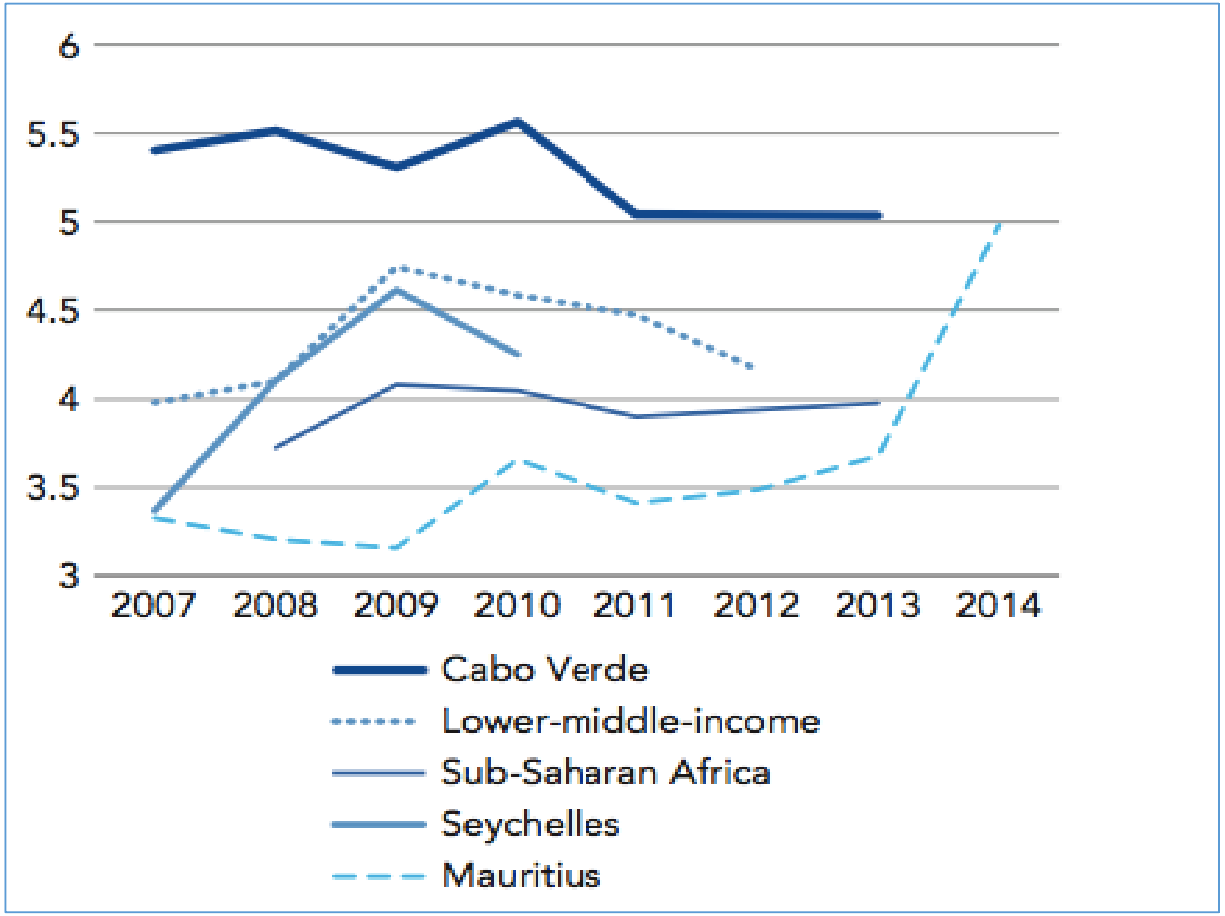
Chart 2b: Extreme Poverty rate (at US$ 2.9 PPP) and GNI per capita 2001-2015 (in current US$)



Source: National Statistics Institute (INE). Right chart - WDI

The Case of Cape Verde (Government Expenditures on Education, % of GDP)

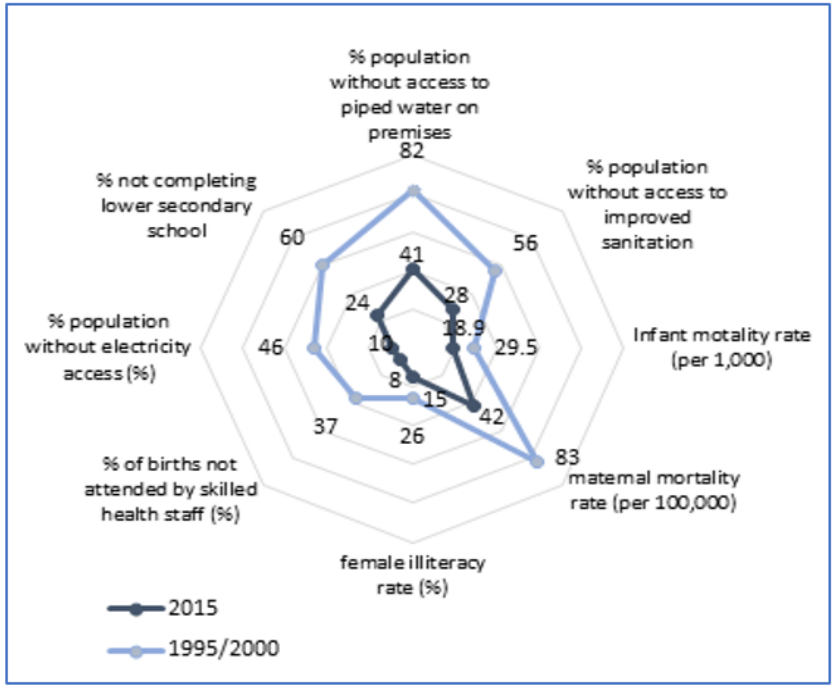
- To achieve such results, 22% of the budget, approximately 5% of GDP, was invested in education in the first 40 years, towards universal access to primary school education, secondary-level schooling and vocational training, which were above the levels of peer countries in the period from 2007 to 2014.



The Case of Cape Verde

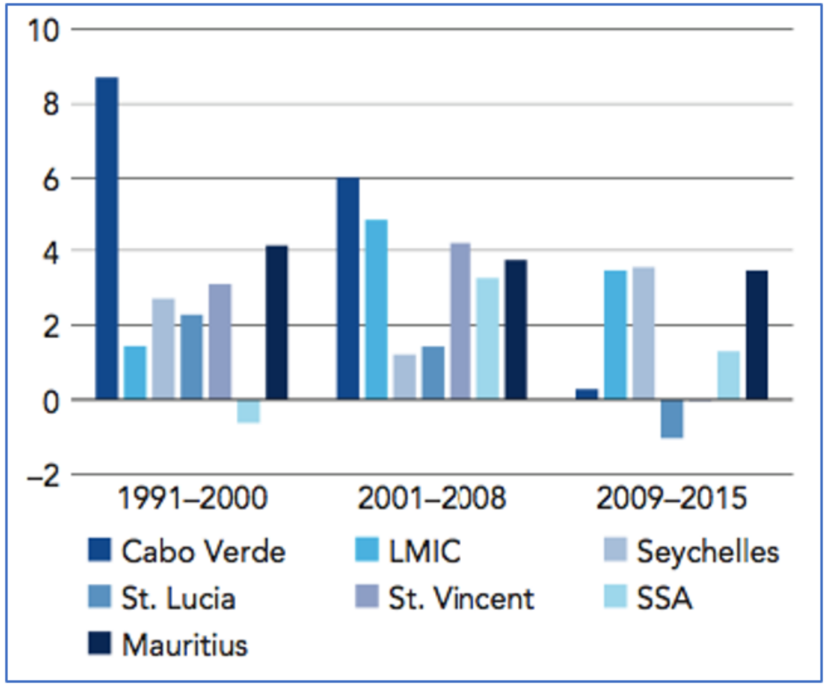
- The explanation for Cape Verde's success since independence in 1975, comes from several factors:
- (i) **strong institutions that maintained the rule of law, underpinned its open democracy, kept corruption under control,** promoted transparency and accountability, consolidated international credibility, promoted an assertive civil society and a favorable business environment**;**
- (ii) strong investment in human capital (education & health, non-monetary poverty) on a consistent basis since independence (Chart 3);
- (iii) effective governance and sound economic management: market reforms and privatizations in the 1990s; efficient aid and remittance management
- (iv) political and social stability,

Chart 3: Non-monetary Poverty



Source: World Development Indicators

Chart 4: Real GDP Per Capita Growth (%)



Source: World Development Indicators and country authorities

The Case of Cape Verde

- The history of Cape Verde cannot be told without reference to major famines caused by severe droughts. According to Patterson (1988), the worst killed about 40% of the population in the 1860s. The last famines occurred in the 1940s and 1950s, causing the death of about 15% and 18% of the population respectively. Confidence was low for centuries
- At independence, in 1975, the main challenge was to build Cape Verdean society’s confidence in the state-building process, its institutions and leadership, as well as in the future.
- To build it, education, health and fighting poverty have been the primary tool (Table).
- Adult literacy rates increased from 62.8% in 1990 to 86.7 % in 2015 growing at an average annual rate of 12.5%. Despite a lower starting point in 1975, in 1990, it was already much above the Low Income Countries’ rate of 46.37%.
- Based on the monetary-poverty indicator of the World Bank (below US$1.25/day) the percentage of the population living in poverty decreased from 50% in 1990 to 21% in 2010. The increase in 2015 to 25% reflects the negative impact of the international crisis

	1975	1990	2000	2005	2010	2015
Cape Verde						
% Population in Poverty (1)	> 70 h)	50	39	26,6 b)	21,0	25 d)
% Population in Extreme Poverty	> 30 h)	n/a	20,50	n/a	12 d)	n/a
Literacy Rate 15-24 years (%)	< 60 h)	88,2	88	94	95,0	98,1
Literacy Rate > 15 yrs (%)	36 a)	62,8	75	81 c)	85,3 e)	86,7
Life Expectancy at Birth (Years)	57,8	64,8	69,7	70.45	71,9	72,6
Mortality Rate, < 5yrs (per 1,000 live birth)	115,4	62,7	35,5	26,3	25,1	19,7
Literacy rate > 15 yrs (%)						
Low Income Countries	43,41 f)	46,37	50,67	53,26	54,76	59,75
Low Middle Income Countries	49,85	57,8	66,68	69,41	72,71	75,84
Middle Income Countries	60,75	70,86	79,31	81,38	83,59	85,35
Sub Saharan Countries	48,73 g)	52,03	56,01	58,65	59,36	63,83

Source: World Bank, Unesco, Unicef, Education Statistics-Knoema.com (assessed 9/2/19), Indexmundi.com (assessed 9/2/19), nationencyclopedia.com (assessed 9/2/19)

a) 1970, b) 2007, c) 2004, d) 2011, e) 2012, f) 1980, g) 1984, h) author's estimates

(1) > $US 1.25

Thank You