

IPD's Africa Task Force: Issues Note

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I. Introduction: Motivations and Tasks of the Task Force

This is the first IPD task force with a regional rather than a thematic focus. This reflects the concern with the disappointing economic performance of Africa overall despite heavy doses of reforms, aid and policy conditionality over a quarter of a century. On each of these three counts there is a debate over whether the dose was not heavy enough or that the problem lies in the prescription.

Campaigns such as “Make Poverty History” and “Live 8” attest to the great and growing public concern with improving the dismal prospects for Africa on current trends e.g. most countries are heading to fall well short of the Millennium Development Goals (MDGs). These concerns have led to a flurry of activities, including: (a) initiatives to tackle the disease burden and provide debt relief; (b) calls for increased aid and more controversially do so with a bang in a “big push; (c) efforts to improve aid modalities to enhance its effectiveness (with increasing disenchantment with ex-ante policy conditionality); (d) more attention to post-conflict and fragile states; (e) increased emphasis on governance, especially enhancing efficacy of governments; and (f) calls to reform the reforms. This last is a matter of the policy agenda of African countries but also concerns the policies of the international community in as much as it involves changing the content of any conditionality or providing more policy space and alternatives than what has been on the agenda.

It is proposed that the last two of the above six set of issues be the main focus of the Task Force (TF). This does not imply completely ignoring the other four but focusing broadly and mainly on those dimensions that bear on policy reforms and possibly more narrowly on a few, choice items on the international community’s agenda. For example, a great deal of the aid effectiveness exercise is about better donor coordination, greater predictability of aid and other such “processes” for which the TF is not exactly an ideal forum. But enhancing aid effectiveness is also concerned with the criteria for country selectivity and that is very much a matter of the policy content of conditionality or what is considered good or bad performance or governance for determining aid allocations (e.g. in such exercises as the World Bank’s, annual Country Policy and Institutional Assessment (CPIA), which rates countries’ performance). Similarly the debate over absorptive capacity for a big increase in aid is in part about the policy environment that is adequate for absorbing increased levels of aid. A related set of issues that the TF might focus on pertain to selected policies of the international community of particular salience for Africa such as agricultural or pharmaceutical research or intellectual property rights.

The proposed focus of the TF is intended to lend itself primarily to addressing the set of issues that pertain to the question of what lessons Africa can learn from the

most successful development experiences i.e. those of East Asia above all, but also to some extent, those of South Asia and of “history”. Has policy or reform been adequately informed by these lessons? If not, how might it be better informed?

Is that the appropriate focus? What other issues might the TF also pay attention to? In particular, should the TF also focus more directly and pointedly on social and poverty issues? What about such global issues as the environment and trade negotiations? How to strike the right balance between adequate coverage of the important and too diffused a focus?

The rest of this note is concerned with the salient questions and controversies to be addressed for work on the theme proposed above i.e. the policy options for achieving sustained accelerated growth with poverty reduction. They mostly revolve around the relative roles of the state and the market or what types of interventions are appropriate in what contexts and the trade-offs involved. The generalizations about Africa are, of course, highly stylized but they hopefully serve to clarify the debate and issues and to stimulate discussion.

II. What Is To Be Done: Questions and Controversies

1. Trade and Industrial Policies

This is perhaps the area of greatest controversy even on the interpretation of the East Asian experience, let alone its implications for Africa today. The infant industry case has been extended to the economy by Stiglitz and Greenwald; whilst Hausmann and Rodrik as well as Hoff have emphasized the role of discovering costs and markets that could be aided by protection. A variant of the case for protection of particular relevance to Africa is that of “infant capitalist” i.e. protection can facilitate the creation of a class of industrial entrepreneurs/capitalists and do so very quickly (as it did, e.g., in Pakistan in the 1950s). The market failures that have been the main focus of industrial policy pertain to learning spillovers and capital constraints (Dasgupta and Stiglitz) but imperfect rural markets also provide a rationale. Protection can stimulate growth by socializing the risks of investment. That protection can be accompanied by export promotion is clear but the relationship between them remains a subject of debate.

The more orthodox view remains deeply skeptical of import substitution (ISI) pointing to the inefficiencies, rent-seeking political economy and so forth that protection generates, especially in small economies with relatively weak or incompetent governments. These are for the most part matters of political economy. Even those who acknowledge a positive role of protection in East Asia often point to the “developmental state” that made that possible and the demanding requirements of such a state that is able to combine rewards with punishments to reign in rents and inefficiencies. Can other countries learn lessons from East Asia on how to keep rent seeking in check?

The World Bank's East Asia Miracle (EAM) study emphasized the importance of socializing risks in stimulating investment and savings in East Asia. In contrast, Africa is said to be inherently, a particularly high-risk environment because of its vulnerability to exogenous shocks of weather and commodity prices. Is there a case for paying systematic attention to socializing risks? If so, what are the implications? Does that bolster the case for stylized East Asian type interventions of the trade, industry and finance variety? If so under what circumstances and in what form?

2. *Financial Sector*

Sustained and reasonably rapid growth is hardly possible without producers having adequate access to credit at reasonable real interest rates. The absence of such access to credit in Africa is in marked contrast to East Asia; and has been, arguably, one of the chief inhibitors of growth. Dysfunctional, decrepit financial sectors of the pre-reform period (roughly pre-1980) have often been the subject of protracted reforms. A high degree of financial repression often with negative real interest rates was not uncommon in the pre-reform era. Nor was the abuse of development finance and other state-owned financial institutions by the politically powerful. Invariably, the reforms have invariably been mainly about liberalization and privatization of the financial sector. Financial markets though are especially prone to failure, particularly given the salience of information asymmetries and moral hazard in such markets. At any rate, the reforms have often led to persistently high real interest rates (frequently in double digits) without a major improvement in access to credit.

What are the options for a reasonably committed and competent African government in this regard? East Asia used mild financial restraint as an instrument of development. What are the possible trade-offs involved in mild financial restraint? How and in what type of state can reversion to the stylized bad old days be avoided? What sort of regulatory regime is needed? Is there a case for a revival of Development Finance Institutions (DFIs)? What should be the policy regarding entry of foreign banks? Is there a case for such measures as requiring them to open branches outside major cities? More generally, what are the options for micro credit and improving farmers' access to credit? Is there a role for credit cooperatives?

3. *Macroeconomic Management*

There is no gainsaying the importance of macroeconomic stability for growth. But there can also be a conflict. Critics of stabilization programs have argued that they have focused excessively, if not exclusively, on price stability at the expense of output or employment. There is also some controversy on when inflation begins to be bad for growth with critics pointing to the fact that it only does so at fairly high levels (15-20%). The trade-off is not only a short-term one with growth but also, of course, with the fiscal space available for such priorities as social sector spending and infrastructure, which are vital for longer-term growth. There are also unresolved

issues about the accounting employed in measuring fiscal deficits, in particular with respect to balance-sheet effects.

Whether and to what extent do poor macroeconomic policies account for poor performance, especially after “reforms”? Has there been excessive stringency based on dubious accounting, as well as misguided monetary policies focusing excessively on inflation (arguably as in Brazil)? Does that continue to be the case? What is the appropriate measure of fiscal deficit with what implications for making a judgment on what is a sustainable level?

4. Agriculture

The observation of huge and growing disparities in agricultural productivity between Africa and Asia leads to the question of why and what can be done to overcome them. In the pre-reform period, agricultural prices were typically repressed quite severely in Africa, with negative protection often compounding overvalued exchange rates. Liberalization of agricultural prices was hence a common feature of reform programs. The criticism has been that that was almost exclusively the focus. Well functioning agricultural markets were assumed to exist or to spring up quickly and automatically.

Measures to improve markets and more generally to increase the elasticity of supply were neglected. Has that been redressed or is it a case of too little and too late? What are the policy options with respect to improving access to finance, the functioning of input and output markets, agricultural infrastructure (especially roads and irrigation)? What, if anything, needs to be done to ensure that the abolishing of agricultural marketing boards does not lead to private monopsonies or vacuums? What are the pros and cons of support prices or of insurance against weather or commodity price shocks? What are the priorities with respect to agricultural research and extension? Is there a general case for increased allocations for such expenditures, especially a “big push” on this front in the form of aid? What is happening to food aid policies, especially regarding its impact on agricultural markets?

5. Pro-poor Growth

The issue here is that for countries with low growth or falling per capita incomes, should one focus first, just on growth? Is that a challenging enough task without overburdening the agenda with also influencing the pattern of growth to ensure that it is pro-poor? A more nuanced version of the argument is that in low-income African countries, rapid growth in the initial stages, unless based on natural resources, is necessarily pro-poor in that it is not possible without healthy growth of agriculture and small-and-medium enterprises (SMEs), precisely where the jobs for the poor are. One should then worry about distributional impact of growth in low-income Africa, only where it is fuelled by natural resources. As against this, there is the more common view that one can’t worry too much about making growth pro-poor, that the elasticity of poverty reduction with respect to growth varies enormously, that “shared

growth” is essential for political sustainability of reforms, particularly the political economy of a developmental state -- or a proto developmental state. That such growth has been an essential ingredient of East Asian success. Can some African countries afford to neglect the issue of making growth pro-poor? At any rate, how does one go about ensuring that growth is widely shared in low income economies trying to break out of a low growth cycle? What scope is there for pro-poor policies other than those aimed at stimulating agriculture?

6. *Resource Curse*

The issue of how to make growth pro-poor is of particular relevance when growth is based on exploitation of natural resources. One important aspect of the resource curse is the Dutch disease syndrome, which is of relevance not only for natural resources but also resources in the form of aid. What can be done to avoid or minimize this will become a more general problem if the promised big increases in aid materialize. What are the policy options for avoiding exchange rate overvaluation? Competitive exchange rates were an essential ingredient of East Asian success, what scope is there for those countries in Africa relatively rich in natural resources or in foreign aid to emulate East Asia on this count? How might that be achieved?

7. *Social Sectors*

Health, education, human capital and poverty alleviation constitute a seamless web. There is no gainsaying their importance or of the HIV/AIDS epidemic in large parts of Africa. But these are primarily matters of service delivery, except where issues of intellectual property rights or in some instances, global public goods are involved. Are there issues to be addressed here for a task force such as this? Three areas of controversy that the task force might pay attention to are (i) the financing of recurrent costs (especially wages); (ii) intellectual property rights in medicine; and (iii) the debate on whether there has been a false trade-off in Africa between primary/basic and tertiary levels of education. The latter seems to have been largely resolved with general agreement that donors and conditionality neglected higher education in Africa during the 1980s and 1990s (arguably the estimates of the rates of return to education at different levels that led to this bias were highly dubious). Is that indeed the case? Are there lessons for Africa from the East Asian or Indian experience that have not been adequately learned? The question of recurrent cost financing is partly one of whether and in what circumstances donors should fund such costs. It is related to the wider issue of public sector reforms discussed below, and not confined to the social sectors

8. *Governance*

This is receiving great and growing attention reflected, for example, in the report of the Commission for Africa and in the NEPAD peer review mechanism (indeed, the G-8 commitment for increasing aid is supposed to be part of a compact in which,

African countries on their part improve governance). Since “governance” covers a wide variety of characteristics of governments, there are issues of prioritization, of dangers of blurring important distinctions between various aspects of governance; between means and ends; and between problems of governance and of poor policies. What aspects should the task force focus on? Would the appropriate focus be on “reinventing government” to enhance its efficacy? Is there an issue of relative priorities between building state capabilities to deliver programs and services, on the one hand, and to formulate policies and strategies and implement strategic interventions, on the other? Have capacity building efforts focused too narrowly on the former? What would constitute an agenda for “reinventing government” in Africa? What precisely should be the criteria used by donors to exercise selectivity on governance grounds?

9. Typology of countries

Clearly there are limits to how far one can get with generalizations about a region as large and diverse as Africa. In particular, what type of state intervention is appropriate depends on the context, including not only such country circumstances as stage of development, urbanization, geography and size but also importantly how developmental the government is and its capability. Should the task force attempt to come up with a typology and classification of African countries from that perspective? What about post-conflict countries?

10. International Community Agenda

The above set of issues bear on the question of what should be the policy agenda for African countries. Should the task force also examine some of the issues on the international community’s agenda? These include the amount and effectiveness of aid, including such “non-process” issues as the role and criteria for conditionality and country selectivity. Other important issues include: (a) R&D in health and agriculture, which are areas where absorptive capacity is not an issue; (b) intellectual property rights, especially with respect to pharmaceuticals; (c) trade and related policies of special significance for Africa; (d) environmental measures, such as the tropical rain forest initiative; and (e) initiatives such as the extractive industries transparency initiative (EITI) and everything but arms (EBA). Which of these should be on the agenda of the task force?

11. The end of the meeting:

This issues note aims to facilitate discussion of what tasks the task force should take on. By the conclusion of this meeting to launch the task force, we aim to agree on an agenda and time-table of work and who is to do what, including involving some of those who were unable to attend this meeting and suggestions of people to invite to participate in the task force .