Africa Task Force Meeting: Background, Themes and Agenda
July 11-12, 2007

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In collaboration with
Brooks World Poverty Institute (BWPI), Manchester University

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IPD launched a task force on Africa (referring to Sub-Saharan Africa) at a meeting in August 2006 in Manchester hosted by BWPI. A background note prepared for that meeting is attached. The highlights of the discussions are outlined below in a selective manner.[1] The focus is on issues that (a) were recurring themes running through much of the discussion and received a great deal of attention; (b) are particularly controversial and tendentious in the literature; and (c) were deemed to be highly relevant to the future directions of the task force. This note then is intended not so much to summarize the discussion as to highlight and interpret it selectively for the purpose of informing this meeting and the future work of the Task Force (TF).

This is an exciting time for a Task Force meeting. Africa's economic performance in the last few years has been impressive, with some countries doing especially well. At the same time, even those countries that have done well in macro-economics and in governance have still not managed to attract as much "non-extractive" FDI or attain as much structural transformation as had been hoped. Simultaneously, Africa has become the subject of focus for policy makers around the world. What can Africa do to sustain and enhance its recent success? To what extent is that success based on high commodity prices? In addressing these questions, we do, of course, have to bear in mind the diversity of Africa: the relevance of generalizations and of policy options depend on the specific country context.

It should be noted that the issues scantily addressed at the previous meeting (such as post-conflict reconstruction/fragile states) or neglected altogether (e.g. environment) reflected not just the need to be selective about the areas in which the TF could have the most impact but also the constraints of time and of availability of relevant expertise for the meeting. Indeed, what attention the neglected issue of the last meeting should receive in the future is a central part of the question of what should be the focus and the sequence of the TF's future tasks, to which the concluding session in the agenda proposed below, is devoted.

[1] Remarks and comments are not attributed to individuals as per Chatham House rules, with very few exceptions where they do not violate the spirit of those rules.

I. Selected Highlights of the 2006 Meeting and Implications for Future Work

The background note for the meeting had proposed that a central question for the task force to explore is that of economic growth: why had Africa lagged behind and more to the point what are the policy options for accelerating growth. In particular, the note raised the issue of whether the "state of the dominant debate" and the policy prescriptions of the past two decades or so had paid adequate attention to the lessons for Africa of the successes elsewhere, especially in East and South East Asia (henceforth E.Asia), as well as of the successes in Africa. Had the policy options or conditions presented to African policy makers been sufficiently informed by these lessons, or more to the point how might they be better informed?

The discussion in the opening session revolved around the set of issues raised by these questions with broad endorsement of the proposed focus of the TF as the central, though not necessarily exclusive, one. There was considerable emphasis on the narrowness of much of the policy debate and space in Africa. Economic theory does not provide a case for unfettered markets and recent advances in theoretical work (notably on implications of imperfections in risk markets or in information) had highlighted the fact that markets are not in general constrained Pareto efficient. At a practical level, when government programs were cut back, markets often did not arise to fill the gaps; when regulations were stripped back, market performance often did not improve in the ways predicted. In many cases, welfare was reduced, growth impeded, and poverty increased.

Whilst there has been a growing recognition that there was excessive faith in markets some 20-25 years ago, when stabilization and "structural adjustment" programs based on what came to be called the Washington Consensus [2] became the fashion, concern with government failure has often led economic policy analysis and advice to be wary of interventions. One participant observed that this has often implied economists playing the role of political scientists as much as that of economists. And while economists have developed rigorous models for analyzing the economy (models that often do not provide good descriptions of the situation in Africa), the political analysis is often rough and casual. One strand of thinking accepts an important role for governments but confines it to the realm of infrastructure – both physical and institutional (property rights etc.).

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[2] As Kwesi Botchwey has remarked, "John Williamson …… has said that he did not intend for the policy prescriptions he called the Washington consensus to become a definitive, exhaustive framework to be applied in all developing countries. But quick fixes have a universal appeal , and brilliant summaries and intuitions tend to be turned into broader formulas –often over the protests of their inventors ……….so it was that in Sub-Saharan Africa ………development strategies in the 1980s and 1990s were defined by structural adjustment programs based on the policies that came to be known as the Washington consensus." Kwesi Botchwey, "Changing Views and Approaches to Africa's Development" in Development Challenges in the 1990s: Leading Policymakers Speak From Experience, edited by Timothy Besley and Roberto Zagha, (World Bank, 2005), p.44.

Another strand seeks inspiration from the lessons of successes and finds that the role of government has invariably been more complex, more extensive and more contextual.

What is required is a comprehensive approach that focuses on key complementarities or constraints in specific country contexts. Moreover, it is not particularly helpful to lecture governments on governance. Rather, the key questions are how to increase the efficacy of the public sector and what should the public sector do in particular contexts. One participant commented that "every successful country has had active industrial policy, including the US, especially for technology".

The main themes of the subsequent discussion of relevance for the future agenda of the TF are sketched below under the following headings: 1) Growth and Geography; 2) Industrial Policies; 3) The State and Governance; 4) The International Agenda; and 4) Other Issues. Many of these themes recurred at different points over the two days and not necessarily in the order in which they are discussed below.

1. <u>Growth and Geography</u>

An important strand of research has emphasized Africa's geography as an impediment to its growth. Countries cannot, however, change their geography, and geography is not destiny. The question is, given their geography, what policies and institutions can best promote growth. Indeed, in the light of the improvement in African growth performance since the late 1990s, with a number of countries recording annual growth rates of some 5% or so, there is the question of the significance of the whole geography debate.

The sense of the meeting was that whilst this recent growth is welcome, it partly reflects the familiar African cycle of growth rising and falling with changes in the external environment, particularly commodity exports and prices, and that in any event, there is little room for complacency both on account of sustainability of the higher growth path and because 5 percent was not nearly good enough, especially in light of continuing rapid population growth in the vicinity of 3 percent per annum. The need to break out of the "low growth expectations equilibrium" was emphasized. Africa should be aiming for growth in excess of 7 percent to meet the MDGs; in the light of the standards set by the successful developing countries in recent decades, including the African star, Botswana, such aspirations were not unreasonable. The Commission for Africa (represented at the meeting in the persons of PM Meles Zenawi and Sir Nicholas Stern) speaks of growth targets of 7+ percent. The recent improvement in growth does not diminish the importance of the issue of getting serious, sustained growth going in Africa -- and relatedly of structural transformation, technological change, and formal sector employment.

The recent research project, "Explaining African Growth" of the Africa Economic Research Consortium (AERC) (represented by Paul Collier and Augustin Fosu) places considerable emphasis not only on the role of geography but also what the AERC project refers to as "syndromes" in the growth experience of African countries. Fortunately, Augustin Fosu will also be at this meeting and we will be able to benefit from his comments and clarifications. . This note focuses on the controversies and criticisms in the lively debate his presentation engendered.

Noting the stop-go history of growth in Africa, one strand of the AERC growth project seeks to look at what explains the ending and beginning of growth episodes. [3] In bald sum, the anti-growth syndrome is said to consist of some combination of (i) excessive regulation (e.g. the "bad old days" in Ghana and Tanzania); (ii) inappropriate redistributive policies (e.g. once upon a time in Burundi); (iii) sub-optimal inter-temporal allocation of natural resource rents (e.g. Nigeria); and (iv) state failure (e.g. Zaire, Liberia). Avoiding this syndrome was deemed to be a "near necessary" condition for growth and "near sufficient" for preventing a growth collapse. And it was estimated to add two percentage points to per capita growth.

Whilst this analysis was of considerable interest, its value in providing answers to how to get on the path of sustained, rapid growth was seen by several commentators as somewhat limited. One comment was that what we need is a better understanding of how to get and stay on the path of rapid growth, whilst what the anti-growth syndrome showed was that "if you stop doing stupid things you could get an extra 2% growth". Some participants expressed the view that we really need to parse the different elements of the anti-growth syndrome since in some sense many of the fastest growers in East Asia could be said to have at least some elements of the syndrome, such as "excessive regulation", to a comparable degree as African "non-growers". This was so, in this view, not only in the original four E. Asian miracle economies but subsequently in such S.E. Asian ones as Malaysia, Thailand and Indonesia. And perhaps this was the case even more so in the biggest and brightest growth star, China, and the other two great success stories of the past 25 years or so, India and Vietnam. The World Bank's business environment surveys, which focus on many aspects of the syndrome, consistently rate these countries poorly e.g. China and India were ranked 91st and 115th, out of 155 countries in 2006.

The other aspect of the AERC project that received a great deal of attention was the distinction it made among different African countries based on geography. Paul Collier's presentation on this strand of the AERC project distinguished three groups of African countries: (a) resource rich; (b) resource poor land-locked and (c) resource scarce coastal. Each of them roughly accounts for about one-third of Africa's population. For the first group, the central issue is said to be how to manage public expenditures and deal with the resource curse. The second group was said to be pretty much a distinctive African phenomenon with not particularly promising prospects ("we don't have a model of how such countries can become middle-income ones"). Their growth is especially dependent on their neighbours: "they need to get their neighbours to get their act together". The third group was deemed to be the one with the option of attempting to emulate E. Asia or pursuing "non-natural-resource-export-led" growth.

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[3] See Augustin Kwasi Fosu and Stephen O'Connell "Explaining African Growth: The Role of Anti-Growth Syndromes", August 4, 2005 (posted on the IPD website for the Africa Task Force Meetings).

This led to an extensive discussion of the role of geography. The dominant feeling about the role of geography in explaining differences within Africa paralleled that concerning the role of geography in explaining Africa's overall performance: whilst there is no gainsaying that geography matters, its importance can be quite easily exaggerated-- it is not by any means destiny

The passion generated by the debate is reflected in one African participant being moved to comment that "in the 80s we were told to get our prices right; then we were told to get our policies right; then to get our institutions right; then to get our history right; and now we are being told to get our geography right but where on earth can we move Africa to?" The example of Ethiopia was cited where the new, rapidly growing exports of flowers and leather goods were based around Addis Ababa rather than cities much nearer to the coast so that "geography doesn't even work within a country". Recourse poor, land-locked Ethiopia was attempting to emulate E. Asia with some success, and its policy makers, did not consider geography to be an insuperable or even all that important a barrier (Prime Minister Meles Zenawi and his Economic Adviser, Ato Newai Gebre-Ab were at the meeting, though not in their official capacities).

The position of the "anti-geography" school may be more precisely interpreted as follows. Geography is, of course important: it affects the availability of natural resources, transport costs, irrigation potential, infrastructure costs, disease burden and so on. Geography is multi-dimensional and simply focusing on one or other element like being land-locked is too simplistic. Geography may well be an important explanation of why some countries are poorer than others or of past growth or technical change. Indeed, there may well be some validity to the Jared Diamond view that in the distant past, the East-West Axis and contiguous land mass of Eurasia facilitated trade and knowledge flows as compared with the North-South axis and physical barriers of Africa and the Americas.

But so what in terms of policies and future growth potential in this age? Are transport costs that important and measures to reduce them that difficult or expensive? At worst, being land-locked means a somewhat higher requirement for such investments for any given growth and/or wages and land rents will be lower than they otherwise would be. It may well argue for aid donors to provide more assistance for investments in overcoming such infrastructural barriers in land-locked countries, ceteris paribus. How big a deal is that? And once these "adjustments" are made, even if levels of income are lower, why should *growth* be lower?

Perhaps the main underlying concern of the "anti-geography" school is the danger of an excessive focus on geography having the two related effects of (a) distracting attention away from the policies and institutions needed to realize a country's growth potential; and/or (b) camouflaging the past failings of policies and reform conditionalities inspired by the Washington consensus. At any rate, some combination of synthesis and research work to clarify the issues surrounding the role of geography is clearly an important task for the TF.

In a new book published a couple of months ago, Benno Ndulu also examines the role of geography amongst other factors.[4] We are fortunate to have Benno at this meeting and he is to speak for himself. That should provide an opportunity for a fuller and more nuanced discussion of geography and growth than the bald sketch here. It is hard to entirely resist the temptation of anticipating Benno Ndulu's presentation by showing the following estimates based on the data in his book.

Africa: Average Annual Growth in Real GDP Per Capita, 1961-2004 (percent)[5]

	Mean (unweighted)	Median
Coastal Resource Rich (9 countries)	0.86	0.86
Coastal Resource Poor (15 countries)	0.88	0.70
Landlocked Resource Rich (2 countries)	2.89	…
Landlocked Resource Poor (14 countries)	0.79	0.76
All Coastal (24 countries)	0.87	1.33
All Landlocked (16 countries)	1.05	1.02

On the face of it, this seems to suggest that this particular cut at geography does not make much of a difference, or at least is not the *determining* factor. If anything, the most startling and perhaps the most notable feature of these data is that the average growth rate of landlocked countries was significantly faster than that of coastal countries in Africa over the 43 years! Ndulu undertakes much more sophisticated econometric exercises to assess the impact of geography and other factors.

At any rate, no matter how, to what extent, and in what ways geography is important, it does not eliminate the need for development strategies or policies. Geography may pose special issues: what can such countries do to compensate for these disadvantages most effectively? There is ample scope for such societal choices to make a difference to the growth performance of African countries. Some of the alternatives on which the TF might focus are sketched below.

2. Industrial Policies

The neo-liberal or Washington consensus reforms have been particularly hostile to the sort of activist trade and other interventions that are the stuff of industrial policies and that were so widely used in East and South Asia. Whilst there is much to be said for

[4] Benno J. Ndulu (with L. Chakraborty, L. Lijane, V. Ramachandran, and J. Wolgin), Challenges of African Growth: Opportunities, Constraints, and Strategic Directions (World Bank, Washington, D.C., 2007)
[5] Estimated from data in Ndulu (2007), op.cit. p. 44.Here, as elsewhere in this note , Africa refers to Sub-Saharan Africa.

liberalizing trade regimes and doing away with irrational, highly distorted structures of protection, industrial polices can be very effective, including in promoting technological change and encouraging shifts in production structures in agriculture.

One comment was that the trade reforms in Africa often took away "bad" incentives for productive investment but often made things worse by replacing them with nothing. The result was not an elimination of rents but their diversion to other less useful or "growth-unfriendly" forms such as kick-backs on government contracts. The abjuring of any form or degree of industrial policy was reflected in the de-industrialization of Africa, manifested in the falling share of manufacturing in GDP that has been widespread over the past two decades or so. Concomitantly, formal sector employment has fallen as a share of total employment, often quite sharply in the face of rapid population and labor force growth.

There are many dimensions to industrial policy and it has taken on markedly different forms in different countries. One of the questions which the Task Force should address is what forms/institutional structures may be most appropriate for different African countries.

One of the important ways, in which, industrial policy is said to work, is that it can be a powerful instrument for socializing the risks of private investment. Such risk amelioration played an important part in Asia and is particularly salient in early stages of development when a nascent class of proto-capitalists has to be nurtured or created. Providing room for entrepreneurs to develop is another dimension of industrial policy This might be called the "infant capitalist" or "infant entrepreneur" argument for protection as distinct from the well-known infant industry argument and the rather less well-known "infant economy" argument of Greenwald and Stiglitz [6](also see the issues note prepared for the 2006 meeting).[7] The "infant capitalist" argument was of special significance for Africa where the organized/formal private sector is not only sparse but heavily dominated by ethnic minorities of relatively recent vintage and/or by foreign investors. On this view, there is much to be said for the creation or strengthening of a class of indigenous African entrepreneurs (in this context, Malaysia's experience was cited). And it was this absence of incentives or support rather than culture that accounted for the weakness of the African "big business" class.

One policy Instrument receiving extensive discussion because of the important role it played in China's development are special economic zones (SEZs). While there is a growing consensus that tax competition is bad, at least for developing countries, as a whole, such zones may play an important role in regulatory experimentation and in concentrating infrastructure development.

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[6] Bruce Greenwald and Joseph Stiglitz ,"Helping Infant Economies Grow: Foundations of Trade Policies for Developing Countries"

[7] Akbar Noman and Joseph Stiglitz, "IPD's Africa Task Force: Issues Note" July 2006.

There were also, of course several voices of caution on industrial policies (and one or two even on culture). Such policies can go horribly wrong; even their role in East Asia has been questioned. How does one prevent the associated rents from becoming a permanent subsidy to inefficient, uncompetitive enterprises, which become addicted to the rents rather than grow-up? Credible sunset clauses on rents are rare and difficult, on this view. Successful industrial policies are highly demanding of governance and capabilities of states.

By the same token, questions are often raised about the ability of governments to do a better job than the private sector in picking winners; but this way of putting the argument misses the point: the reason for government involvement is because of the externalities. Governments are looking for investment projects with large spillovers, which the private sector would not take into account in their decisions as to whether to enter.

On the other side, it was also argued that rents were not exclusive to industrial policy or interventionism; neo-liberal reforms -- and especially privatizations and concessions-- could also give rise to rents. The issue was not whether or not there were rents but how those rents were used or what activities did they encourage; and what institutional arrangements minimized agency costs. Markets are not “technology-friendly” (for one thing technology is a public good) and rents are essential for the acquisition or development of technology. Whilst, the degree of success achieved in the best performing, full-fledged East Asian developmental states like Korea or Taiwan was difficult to replicate, there had been some notable successes in quasi-developmental or “developmentalist states” like those in South and Southeast Asia, including the post-1980 “miracles” of China, India and Vietnam.

In Africa too, there were examples of accomplishments with industrial policies. In Ethiopia, there has been considerable success in promoting exports of leather goods, flowers and sesame via instruments of industrial policy. The leather case received particular attention. The Government banned exports of raw hides and skins[8] and took additional measures to encourage a supply response through a package of support, including access to term credit at reasonable interest rates, infrastructure, and the establishment of a leather institute to promote acquisition of technological capability and skills. The response had been very encouraging and the government was now seeking to encourage further value addition by moving up the chain from processed leather to footwear exports. Similar comprehensive packages of support had spurred rapid growth in the non-traditional exports of flowers and sesame.

There was a widely shared view that these Ethiopian and other African examples of successful industrial policies (including such as Kenya breaking into the tea market[9] or

[8] It was noted that restrictions on exports of raw materials can be used to offset the disincentive effect on processing in developing countries on account of tariff escalation in developed countries, though it can’t, of course, substitute for doing away with such tariff escalation.

[9] Industrial promotion combined with agricultural extension worked very well in Kenya, in this interpretation, as did the partnership between the public and private sectors. Smallholders were persuaded to grow tea, a long-term investment, by a combination of extension services and roads (public sector

South African breweries adapting to and encouraging local raw materials) are worthy of further study. Why did Ethiopia succeed where Ghana had once failed? Why did India's automobile industry break out from its technological paralysis? What lessons can be learnt? Under what circumstances or for what types of states, should what sort of industrial policies be put on the menu of policy options? What sort of "health warning" should they carry? How can one reduce the risks of picking losers that is inherent in "vertical" as opposed to "horizontal" industrial policies that focus, say on all new exports? Is it possible for Africa to reverse de-industrialization and increase employment opportunities in the industrial or formal sectors without some form of industrial policy? Indeed, can Africa narrow the agricultural productivity gap with the other regions without an industrial policy for agriculture?

The discussion of industrial policy inevitably intermingled with and led into consideration of the developmental or "developmentalist" state and of governance.

3. The State and Governance

The draft of Prime Minister Meles Zenawi's manuscript distributed at the meeting argued, inter alia, for the pursuit of a developmental state paradigm in Africa. That is in contrast to the neo-liberal paradigm with its limited or "nightwatchman" state. If Africa is to "catch-up", it will need to go beyond this limited vision of the State.. Whilst it is too early to declare success for Ethiopia's "developmentalist" strategy, there are encouraging signs as illustrated by the examples of successful industrial policies (leather goods, flowers) and by the fact that annual GDP and export growth had averaged about 9 percent and 25 percent, respectively in the preceding three years.

A developmental state can not, of course be imposed from outside; it has to emerge from the political economy of a country. Even in Ethiopia the project of building one had to contend with divisions amongst the political party in power. A full-fledged development state is a tall and long-term order. But the question of a state able to intervene with reasonable efficacy and to influence the use of rents in the right direction could not and should not be dismissed out of hand. Countries such as Indonesia, Malaysia and Thailand did not have as developmental a state with as much scope as Korea or Taiwan but did succeed in accomplishing rapid development with non-neo-liberal interventions. Even more messy was the "developmentalism" of South Asia: India, Pakistan and Bangladesh at various points had achieved substantial success with "developmentalist" interventions, including notably in the spread of the "green revolution". And as noted above, there were examples from Africa as well; African leaders and scholars have emphasized both the feasibility and desirability of a developmentalist state in Africa. [10]

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actions) whilst the private sector took up tea processing and marketing activities. This started in the 1960s and blossomed in the 1970s.

[10] Two of them, Meles Zenawi and Thandika Mkandiwere, were at the meeting. Meles Zenawi's manuscript was part of the package of material distributed at the last

At any rate, one clear message from the meeting was that it would be useful for the TF to explore the requirements of a developmental state in Africa. What sort of state is able to intervene and in what manner? What are the requirements and prospects of moving towards a developmental state? How can the risks of government failure be mitigated – failures that might make matters worse than market failures? How can countries ensure that they do not repeat the errors of the bad cases of failed etatism of the past? Whilst mistakes are unavoidable, it is important to emphasize the East Asian lesson of abandoning failures quickly; constantly reviewing and modifying policies. At the very least, the options for an African government wishing to pursue the developmental state paradigm should be elaborated and put on the table. For this kind of analysis, we need other typologies of African states than those based exclusively or primarily on geography, such as by regime type and size of economy.

The discussion of industrial policy was interwoven with that on governance. Mushtaq Khan argued that, if you take developed countries out of the econometric study of the relationship between growth and governance, there is no meaningful statistical relationship between governance, as measured by the standard indicators, and growth. More particularly, countries can be divided into high growth economies and low growth economies; and within each category, there is no relationship between growth and governance.

A rich discussion of the issues ensued. Some argued that good governance, as has come to be commonly defined, was impossible to achieve in low-income countries. For example, corruption-free, Weberian bureaucracies were much too expensive for poor countries. The low wages that poor country government bureaucrats inevitably receive made them especially vulnerable to bribes by rich multinationals There is no gainsaying the desirability of reducing corruption but if the absence of corruption were necessary for development, there would be no developed countries today. There is -- or at any rate, there has been -- no development without rents and corruption. The question is how the rents are used and how the corruption can be mitigated.

Climbing the productivity or technology ladder may require rents/subsidies in sectors attempting to "catch up". When they succeed in catching-up then corruption (such as the sharing of rents with public officials in Korea and China) appears as benign. If, on the other hand, the subsidized activities fail to catch up and there is permanent rent capture

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meeting and the one for this meeting includes a paper by Thandika Mkandawire that includes the following statement: "most arguments raised on the impossibility of developmental states in Africa are not firmly founded either in African historical experience or in the trajectories of the more successful 'developmental states' elsewhere. . Africa has had examples of countries whose ideological inclination was clearly 'developmentalist' and that pursued policies that produced fairly high rates of growth and significant social gains and accumulation of human capital in the post-colonial era" Thandika Mkandiwere, "Thinking about developmental states in Africa", *Cambridge Journal of Economics;* May 2002; 25,3; pp. 309-310.

by “infants” refusing to grow up, corruption appears as malign. The question is, are there systematic ways to enhance the likelihood of the former outcomes rather than the latter.

Some worry that, the pursuit of overly-ambitious and complex governance agendas risks making the best the enemy of the good. In any case, what is clear is that it is time to go beyond rhetoric and lecturing countries not to be corrupt, to the analysis of policies and institutions: what policies are corruption “resistant”? Are there systematic ways of changing the “culture of corruption”? Are there ways of designing, for instance, systems of checks and balances, of monitoring, which reduce the scope for corruption? How might they work in specific African country contexts?

4. The International Agenda

The governance and industrial policy discussion merged into that of what role the international community should play in helping Africa. As one commentator put it, whilst technological change may require rents and subsidies; we do not know in purely economic, technical terms what to subsidize and the problem is compounded by considerations of political economy. What are outsiders to do then in allocating aid? The answer suggested was to allocate aid on the basis of actual outcomes rather than ex-ante judgments on what are good or bad policies.

Whilst the failings of explicit conditionalities particularly those manifested in aid provided for adjustment/reform programs, were now widely recognized, they have not been entirely done away with. In addition, there was the implicit conditionality implied by aid allocation criteria. In this regard, the World Bank’s Country Policy and Institutional Assessment (CPIA) exercise received particular attention. A paper by Ravi Kanbur argued that the CPIA criteria implied a particular model of development. There was general agreement that this was akin to backdoor introduction of conditionality essentially based on the Washington Consensus, including many of its discredited elements. It was not clear whether the governance measures, in particular, added any predictive power to whether aid would be effective than that provided by past performance

The fact that the CPIA criteria and their application had now been made publicly available was welcomed. Here and at a subsequent meeting organized by IPD in New York, in which several World Bank staff involved with the exercise participated, it was evident that this public disclosure and debate was already having a significant impact in reducing the implied strictures and expanding the policy space for recipient countries. The TF should perhaps remain engaged in the task of monitoring and assessing what is being done on this count.

Donors do need criteria for aid allocations but they should not be used to impose ex-ante policy conditionality. The aforementioned IPD meeting on CPIA emphasized that too little emphasis was being placed on measures of need, and too much emphasis was being placed on unreliable measures of aid effectiveness. The advocacy of better and alternative criteria for aid allocation might be a task that the TF might take on.

Aid linkage (with aid allocations depending, for instance, on the approval of an IMF program) was another form of conditionality that might impair aid effectiveness and reduce the policy space of African countries. More generally, there was some concern expressed about the need to guard against forms of harmonization of aid allocations and modalities by donors that translated into "ganging up" by donors.

There has, of course, also been widespread concern about the failure of donors to deliver on their aid commitments. Thus far, progress has been disappointing and the aid figures are muddied by the inclusion of what was in effect aid to make debt repayments that would not otherwise be made rather than provide truly additional resources. There was also some concern that the write-off of multilateral debt was not being adequately financed; unless new money is provided, it will turn out that, in effect, the poor countries that are not highly indebted will be bearing much of the burden of debt forgiveness for the highly indebted poor countries. These issues are being discussed in many quarters; the TF may not have a large contribution to make in this arena. Others thought, however, that an assessment of the state of play with regard to proposals for increasing aid quality and effectiveness such as those made by the Commission for Africa and in the Paris declaration would be a worthwhile endeavor for the TF.

The question of trade measures by the international community that would be helpful to Africa, especially in the context of the failing Doha Round, was recognized as an important one. The disappointment in the benefits to African countries of the EBA and AGOA initiatives raised important issues that the TF might want to pursue, especially as linked to the earlier discussion of industrial policies and aid effectiveness. Were there policies that African countries and donors could undertake that would make these initiatives more successful? What reforms were needed in the EBA and AGOA initiatives (e.g. in rules of origin, time horizons, political conditionalities, etc?) What scope was there for aid for trade? What role could the African Development Bank and the World Bank play in providing the requisite assistance (e.g. for infrastructure)?

Other matters on the international communities' agenda of significance for Africa included the Extractive Industries Transparency Initiative (EITI) and the intellectual property rights (IPR) regime. In the case of the former, the principles were clear. But there were additional actions which the international community could take, e.g. in reducing the scope for bank secrecy and changing tax laws to encourage greater transparency.

IPRs raised more complex issues, particularly in the areas of pharmaceuticals and the support of research on crops and diseases common in Africa; but creating a development oriented IPR regime may be of first order importance for successful African development Funding such research or the acquisition of patented products and technologies also implies that aid providers need not fear an "absorptive capacity" constraint to the aid they can provide. The TF needs to consider the extent to which it wishes to engage in analytic work and advocacy in these vital areas of concern.

4. Other Issues

A host of other issues were raised at the meeting[11].

- ***Agriculture***: This is a vital sector for Africa. PM Meles Zenawi noted that this was a central concern of the developmental state paradigm that Ethiopia was pursuing. This is captured in the slogan "Agricultural Development Led Industrialization" (ADLI) that is used to encapsulate Ethiopia's development strategy. Concern was expressed at the continued widening of the large productivity gap between agriculture in Africa and elsewhere. This reflects, in part, the fact that African agriculture is in the midst of a major transition away from land abundance with many of the techniques that were suitable once, given the factor endowments at the time, increasingly becoming inappropriate and contributing to lowering soil fertility. There has been a long-standing recognition of the need for new technological packages for crops of interest to Africa but not much has happened. Liberalizing prices and markets, clearly has not been adequate. Measures to increase the supply response, especially via roads and improving markets were important. The scope for cooperatives deserves more attention. And accelerating agricultural growth was particularly important for enhancing the poverty impact of growth. [12]

- ***Financial Sector***: Its inadequacies remained a major constraint to accelerating growth in Africa. There had been a great deal of reform effort directed at liberalizing interest rates and privatizing banks but the results have been disappointing. The "reformed" financial sector was neither doing a good job of mobilizing savings nor of allocating them. Excess liquidity was common as inadequate risk-adjusted investment incentives combined with high real interest rates to dampen demand for credit and the banks' desire to supply term credit. The rural areas by and large remained starved of banking services. Is there a role for development banks or directed credit that played such a vital role in accelerating growth not only in E. Asia but also at different times in different countries of South Asia (e.g. Pakistan in the 1960s) and Latin America (e.g. Brazil in the 1950s and 1960s and again more recently). How might the details of policy design guard against relapse into the bad, old ways of state involvement in the financial sector in much of Africa and elsewhere?

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[11] Lumping them together in this section for brief remarks is not meant to be a comment on their overall importance for African development. As noted above, it reflects the fact that discussion at the last meeting on these counts did not raise issues of great controversy that led to extensive discussions, given the constraints of time and other resources. Also in some cases, it is not clear what contribution the TF can make given other ongoing exercises.

[12] The TF should collaborate with the new Alliance for a Green Revolution in Africa (AGRA) -- a foundation launched by the Rockefeller Foundation and Bill and Melinda Gates Foundation, with Kofi Annan as Chairman. We have invited, Akin Adesina, a leading figure in AGRA to the TF meeting but his participation is not yet confirmed.

- ***Managing Natural Resources:*** The importance of the "resource curse" for Africa can hardly be exaggerated. Similarly for the problem of commodity exports, especially realizing their fair market value (fair trade), the tendency for oversupply and the challenge of diversification of exports. Dutch disease was also a threat posed by aid, and macroeconomic management to deal with it a challenging task.

- ***China and India:*** The implications for Africa of the growing importance of China and India in the world economy were emphasized repeatedly as being very worthy of the TF's attention. This offered substantial challenges and opportunities; they are formidable competitors as well as large and growing markets.

- ***Poverty:*** Ensuring that the benefits of growth are shared widely via direct measures to alleviate poverty, particularly improving the delivery of social services, as well as expanding employment are also on the list of vital tasks. There was some difference of views on whether and to what degree the TF should get engaged in them, given the work that is already going on or proposed in other fora and the resource constraints of the TF.

- ***Post-conflict reconstruction and fragile states***: as well as peace-keeping were major issues in Africa. Again there was some difference of views on whether and to what extent the TF should take them on for the same reasons as noted above for poverty.

II. Proposed Agenda

We have a rather heavy agenda for this meeting. A number of contributions are still awaited as are some confirmations of participation. They are likely to arrive too late to allow fine-tuning of time allocations for the different agenda items much in advance of the meeting and we will need to play that a bit by ear. Broadly, the proposed agenda is as follows[13].

[13] In addition to these working sessions, there are dinners on July 10 and 11.

Tentative Agenda

July 11, 2007

9:00-10:00	**Introductions and Overview**
10:00-11.00	**Accelerating Growth**
11.00-11.15	*coffee break*
11.15-12.45	**Africa and the Asian Model I:** Trade and industrial policy: African experience and Asian lessons
12.45-1.15	*break to get lunch*
1.15-3.00	*working lunch* **Africa and the Asian Model II:** African and Asian Lessons; the African developmental state
3.00-3.15	*coffee break*
3.15-4.15	**Political Economy and Governance**
4.15-5.30	**Managing Resources**: Commodity exports and diversification, the resource curse, aid.

July 12, 2007

9.00-10.30	**Agriculture:** WDR implications for Africa; employment, productivity and the demographic transition; commercialization
10:30-11.30	**The African Development Bank Strategy: Proposed Reforms**
11.30-1145	*coffee break*
11.45—12.45	**The International Agenda** Policy conditionality, aid effectiveness, and trade
12.45-1.30	*break to get lunch*

1.30-2.45	**Human Development, Poverty and Conflict :** African Human Development Report; education; Post-Conflict Reconstruction
2.45-3.30	**Other Issues** Financial sector
3.30-3.45	*coffee break*
3.45-5.00	**Wrap-up and Next Steps**