

The African Development Bank Group



THE AFRICAN ECONOMY: FIFTY YEARS AFTER INDEPENDENCE

2007 Joseph Mubiru Memorial Lecture

**Dr. Donald Kaberuka
President
African Development Bank Group**

Bank of Uganda

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1. It is an honour and a privilege for me and the African Development Bank to join the list of eminent speakers for the Joseph Mubiru Memorial Lecture. I wish to thank Governor Mutebile and the Bank of Uganda for this invitation.

2. In 1966, at only 37 years of age, Joseph Mubiru ascended to the heavy responsibilities to lead the Bank of Uganda. What is not widely known is that a few years earlier, he had been instrumental in the work of the “Committee of Nine”, tasked by African leaders to establish the African Development Bank in 1964. Governor Mubiru laid strong foundations of a Central Bank, which today, continues to preserve and indeed enhance the very high standards in the conduct of monetary policy, and the regulation of the financial sector. These are policies which have anchored macroeconomic stability, consistency and economic growth, for which the Bank should be commended.

3. At the dawn of independence in the 1960s, Africa’s founding fathers and the intelligentsia, such as Governor Mubiru, and their contemporaries, set as their goal; the elimination of poverty, ignorance and disease from the continent in their lifetime: a challenge which has proved to be quite elusive – even though, there is strong reason today to be cautiously optimistic that, finally, Africa may be turning the corner.

4. Let me, at the outset, recall that Africa is a very diverse, heterogeneous region. Countries' fortunes, even those with similar endowments, have differed considerably. This said, Africa, generically speaking is, today, experiencing its period of unprecedented sustainable growth which for the last five years has exceeded population increase. There are several internal and external explanatory factors: peace and stability, improved governance, economic reforms, and stronger donor support, in particular debt relief. All these are factors which have inspired greater confidence, stimulated investment flows, reversed capital flight and beefed up remittances. Nonetheless, viewed from core fundamentals, this emerging landscape is largely, and essentially, due to a booming world demand for commodities; hard and soft as well as fossil fuels. It is, a result of price effects, not a change in economic structure. The implication is that the situation remains fragile, vulnerable to price swings and commodity booms and busts.

5. This would, of course, not be the first time Africa has seen a growth-driven commodity boom – it happened in the 1950s and the 1970s. Africa has, in the past, experienced “episodes” of both growth and decline, swings of optimism and pessimism, periods of booms and busts. We have seen cases of consistent good performance, such as Botswana, Tunisia and Mauritius and, until the political crisis, Cote d'Ivoire; we have seen dramatic post-conflict recovery in Uganda, Mozambique and

Rwanda, as we have also witnessed the descent into mayhem and decline of some of Africa's hitherto success stories. Today the list of countries performing reasonably well is longer; over a dozen economies are registering credible growth in real per capita incomes. Indeed, some, such as Ghana, which has succeeded in reducing income poverty by half, in the last ten years, is, in all probabilities, on the way to Middle Income country status – that will have taken Ghana 50 years, but the goal is in sight.

6. Recently, while visiting Washington, I walked into my favourite bookshop to take a look at recent publications on Africa. To my disappointment in front of me was a rather dispiriting list “A Continent for the taking: the tragedy and hope of Africa”; “The White Man’s burden”; “The trouble with Africa – Why foreign aid is not working”, etc. Finally, there was another book with a more upbeat title “Africa on the move”; only to realize that the “move” in question was the unprecedented massive rural-urban migration!! Yet another of the new emerging major continental challenges.

7. The African Economy at Fifty

My purpose, today, is to firstly, reflect with you, on why the noble ambition of transforming the African economy has proven so elusive. Secondly, what is it, that can be done to prevent reversals of the current gains? Thirdly, what I see as the major

challenges the continent faces, and finally the role of the African Development Bank forty four years after its creation.

Early this year, Ghana, Africa's "black star" celebrated its Golden Jubilee. Incidentally, so did Malaysia, two months ago. Over the next five years, most African countries, including Uganda, will be celebrating 50 years of independence. There is much to celebrate; decolonization, the demise of apartheid, the end of the cold war and its ramifications into the African theatre. On the contrary, the economic front – will present a mixed but largely, disappointing picture.

8. Let me digress to the 1960s. In the first decade of independence, average real GDP per capita was growing quite respectably. It then turned quickly negative in the late seventies and 1980s "the lost decade" in the aftermath of the two "oil price shocks", and the effect of perverse state intervention. There followed two decades of painful but necessary reforms and adjustment. Today, inflation and deficits are contained and economies are once again on a growth path. The improving investment climate has stimulated FDI inflows. Africa's share in total FDI to developing countries in the last five years has tripled, and now stands at US\$ 30 billion. As one might expect, there is a significant bias in favour of natural-resource rich countries, concentration in the extractive industry, and telecommunication – which has lower costs of entry and tends to be less risky. As for the rest of the countries which are poorly

- endowed, attracting meaningful levels of FDI remains a challenge, even with an improved investment climate.
9. For the first time in years capital flight is being reversed and diaspora remittances are on the increase. Two weeks ago, I was on official visit to Mali. I was pleased to learn that the 4 million Malian immigrants (by the way, 3 million of whom are in Africa!) those in France alone send back each year US\$ 250 million through the official channels. I was not surprised to learn that given the dissuasive transactions costs (€19 per €100) another US\$ 250 million came in via informal channels.
 10. There is little doubt; decades of reforms and adjustment have paid off with major policy gains, leading to many countries in Africa attaining the stage of “mature stabilizers”. I would like to illustrate this with reference to our own AfDB Country Performance and Institutional Assessment (CPIA) framework – a tool to assess the policy stance and institutions of our member countries. This is done on the basis of several criteria; economic policies, equity and governance issues, etc. The results are quite interesting. On a scale of one to six, the latter being the highest, twenty (20) out of fifty two (52) countries score comfortably above 3.5 indicating strengthening policies and institutions. Sixteen (16) countries have intermediate scores, while another sixteen (16) still have ratings which suggest persistence of poor policies and institutions; results, which are, by the way, consistent with those of sister

institutions. The results indicate, among other things that significant progress is underway even though the continent has some ground to cover. But, what is certain, Africa is in a much better shape than it has been in generations.

11. I am certain that many of you will have been confronted with the question from the man or woman in the street, which is usually quite simply this: “If the economy is growing, where is the shilling in my pocket?” Part of the answer I imagine is straightforward; we begin from a very low base, population is increasing and there is need to sustain growth over many years. This said, it is patently clear that without sustained economic growth, poverty reduction is not possible. It is a necessary, but insufficient condition. The pattern and composition of growth matters enormously. Tunisia, Mauritius, Cape Verde and to an extent Botswana provide examples of growth accompanied by rapid decline in poverty and inequality, essentially due to an early attention to education, gender equality, and sound governance. Evidence is now compelling that in order to ensure growth that is equitable and MDG-compatible, deliberate and proactive policies are needed. I am told, here in Uganda, the poverty head-count has declined from 56% in 1991 to below 31% in 2006, which is commendable performance but that inequality (as measured by the Gini coefficient) has increased from 0.36 (1992) to 0.43 today; a phenomenon being observed in some of Asia’s fast growing economies as well.

12. Comparisons of post-independent Africa to Asia have been a growth industry for some time. I will not resist temptation of my own! In 1957, Ghana with a GNI per capita of US\$ 220 (1965) was considered one of the stronger economies in the developing world. Malaysia's was about the same. Both countries were challenged by multi-ethnicity and had roughly similar economic structure, dependent on a narrow range of commodities. You may recall that one eminent economist in the late 1950s, asked to pick the two countries in Africa with the best chance, for quick take off, cited Uganda and the then Gold Coast. Since then the greatest transformation has occurred, not in Africa; which accounts for less than 2% of world trade (including oil and minerals) but Asia which now accounts for nearly 30% of world trade.

13. The search for causal factors: what is it that went wrong?

This audience will be familiar with the considerable literature and documentation – both technical and political – attempting to explain Africa's failure to prosper and to converge with the rest of the world. Two sets of explanations are often advanced: Firstly, the structural factors, over which Africa is said to have no control. Secondly, the so called "choice factors" over which Africa had some degree of control but often made wrong choices. In the first category would feature elements such as history, geography and ecology, Africa's arbitrary boundaries, the high concentration of landlocked countries, tropical soils

and epidemics! There is no doubt these are major obstacles. Yet evidence elsewhere, including Asia, would indicate that geography and ecology may indeed be an impediment but cannot be a destiny; Otherwise how could we explain Malaysia's spectacular performance or a land-locked country (Botswana) performing better than coastal countries? Mauritius and Comoros are neighbouring Indian Ocean Islands, which have taken very divergent paths, one to stability and prosperity, the other to chronic instability and poverty. Clearly, initial conditions are important and cannot be underestimated. But, in all probabilities, they might explain delayed take-off but not a persistent stagnation.

14. The second set of explanations relates to the so called "choice factors" simply put – policies, governance and institutions – a domain, which of late, has been the subject of considerable debate and discourse. There can be little doubt that bad governance impacted seriously Africa's fortunes. It is true that some poorly governed Asian countries have made good economic progress, but the question always arises as to how sustainable that is and the interplay between politics and economics over the longer term. In any case, as an eminent politician put it to me, "good governance is in itself important even if it does not bring about immediate rapid growth"! Today, via the Alliance for the "Green Revolution" for Africa initiative, attempts have been made for a "green revolution" in Africa. We are still to understand why the "green revolution" in Africa has

been so elusive for so long: was it structural factors? Choice factors or the interplay between the two?

The way forward

15. Roll back the state: Build a capable State!!!

The first challenge we must overcome relates to institutions that function. Let me take you 30 years back to the path breaking Berg Report (1981), which correctly posited that there was, the urgent need to roll back the State. It was, indeed, time to roll back the State. Its interventions in the 1960s, and 1970s was suffocating the economy. As for the social sector, attempts to take on a large agenda of a welfare state were showing all signs of a “compassionate but clearly inefficient” State! Today, 35 years later the laggard performance of Africa’s economies cannot therefore be explained by the “excessive intervention of the State”. Its role in the economy is at its lowest ever!

16. In the search for a possible explanation I would like to refer to Francis Fukuyama, author of “The End of History” in an article entitled “State Building: Governance and World Order in the Twenty First Century”. He argues convincingly that the agenda of state building as opposed to limiting or cutting back the State across the Board should now be at the top of our agenda. This may strike some people as perverse after a generation of rolling back the State, but it is now, self evident, that one of the fundamental flaws has been inability to “unbundle” the State

into that part which must be rolled back and another part which had to be built and streamlined from scratch.

17. The enigma of the African State

After the decades of adjustment, State intervention in the economy is minimal. That was necessary. Yet the “overloaded and often frontloaded” agenda of second generation reforms require a capable State and strong institutions. There is the paradox, of a State effective at the authoritative manifestation of its power but incapable of issuing a business license inside 100 days! or providing even the most basic service. We even see cases of what some have labeled “State deficit syndrome”, inability of the State to project its power beyond the capital city, and even to be challenged by rebel groups such as we saw in Sierra Leone in the 1990s. In contrast, in many of the Asian countries, the State seems to have accomplished the “unbundling function” rather successfully. A State that ensures peace and stability, sound macroeconomic policies, friend to the private sector, not predatory but are partners.

18. We begin from the premise that institutions, unlike budget or balance of payments support, cannot be exported. They have to emerge endogenously. There is today reasonable knowledge of how, goods, capital, technology and labour move across boundaries, much less about how institutions do so. There is strong reason to believe much of Asia’s institutional framework is homogeneous; institutions that generate Lee Kuan Yew, and

not Idi Amin Dada! In the 1980s and 1990s there was a strong case for rolling back the State, for normative and economic reasons. It was all for the good but again as Fukuyama puts it; did we mix up the issue of the scope and that of the strength? Across Africa today we see proliferation of capacity building programs-with varying degree of success. These programs are useful but cannot be a substitute to the tedious process of building institutions.

Maintain economic reforms but carve out a policy space

19. The second challenge is that of ensuring predictability of policies. Throughout the last three decades, Africa has witnessed cases of countries which were excellent performers, who subsequently, abruptly, changed policies with significant damage and loss of production. There is need to maintain stability. Stability and predictability create confidence and provides a horizon. The task of reforms is a long term continuous process. It is critical to maintain stamina.

20. This said, it is important that beyond the fundamentals, the basics, which are now subject to a wide consensus, countries must have leeway to pursue different paths, consistent with the resource endowment, the specific historical and geographical circumstances in terms of timing, phasing and sequencing of other reforms. The lessons of India, China, Malaysia and even Mauritius show the limits of prescriptive policies. This is not about pros and cons of conditionalities. The argument is

different. It posits that from the shared basic objectives, countries search for economic prosperity, take different paths. The notion is that individual countries should have the leeway to evaluate trade-offs between prescriptive policies, and the constraints posed by the loss of policy space, and the premium put on the ability to choose a set of optimal combinations within a wide array of what are globally sensible policies.

21. Natural Resources – Avoid errors of the past

The third point relates to natural resource management. Today's booming world economy is, in part, supported by Africa's commodities. Africa supplies 30% of China's oil. That, in the 1970s and 1980s, oil was a curse and not a blessing is no longer contested. Yet, as Botswana's case shows, it is possible to avoid errors of the first generation where natural resources generated poverty, debt and democratic deficits.

22. Today, we now know slightly better how to meet the macroeconomic challenges of managing large sudden inflows. Today, Africans want greater transparency and accountability. The many countries that have adhered to the Extractive Industries Transparency Initiative (EITI) and are crafting macroeconomic policy choices that avoid the Dutch disease, anchor governance are to be commended. This is extremely encouraging. The challenge now is to expand the range of stakeholders to ensure greater horizontal integration into the local economy, expand opportunities for participation in the

supply chain for small and medium businesses thereby contributing to greater empowerment and by extension economic and political sustainability.

23. Demography, urbanisation and Climate Change

There are three challenges which in the coming three decades Africa must be adequately prepared to deal with; climate change, unprecedented Urbanisation, and a growing young population. In 2030, Africa's population will be close to 1.5 billion and twenty years later (2050), at 1.9 billion or thereabout, it will total more than either China or India. Africa will be the most youthful and populous continent. This young population, if skilled can be turned into a major opportunity. According to UN Habitat, most Africans at that time will be living in urban areas; already in some countries more than 50% of Africans live in cities, 230 millions in slums or bidonvilles. Today Cairo has 11.1 million inhabitants and Lagos probably 13 millions. This unique phenomenon has two faces, that of urbanization without industrialization and that of rural-urban migration without depopulation of rural areas. This increasing urbanized population is a phenomenon with far reaching social, economic and even political implications.

24. Finally, Climate Change; evidence is now overwhelming, that even though Africa has been the least contributor to climate change it is the continent that will be most impacted – its agriculture – its cities, its migration patterns, its lakes and

rivers, its livelihood, and its infrastructure. With all that it implies in terms of the risk of competition for rare resources and governance. Action to mitigate and adapt to that impact is something which many countries are at this stage least prepared and for which external support and common action is much needed.

25. The role of the African Development Bank

In 1964, the founding fathers, including Governor Mubiru created AfDB to contribute to the socio-economic development of Africa. Since its inception, AfDB has carried on its mandate reasonably well in a complex environment. Here in Uganda, we have financed infrastructure, education, health, agriculture and now increasingly the private sector. We have supported Uganda to the tune of more than 1.5 billion dollars. Today, we have an active portfolio of around 500 million dollars. We are Africa's Bank and at the same time an excellent example of partnership between Africa and the rest of the world. We have special responsibilities for realization of the NEPAD. I look forward to consolidating what is financially a very strong organization in terms of delivery and results. Our intention is to focus and do fewer things, but do them well. We aim to emphasize those domains in which we are able to deliver excellence and superior results, to develop synergies with other partners, and exploit as much as possible our 'comparative advantage.' We aim to be a voice for Africa and to enable the continent exploit fully the emerging opportunities, by being a

provider of resources but also knowledge and advice. On my assumption of office, I decided to set up a panel of eminent persons to advise us on what could be the strategic role of the Bank in the decades to come taking into account changes taking place in Africa and in the world. I am indebted to Governor Mutebile and his colleagues for having agreed, in spite of competitive demands on their time, to participate in this task and I look forward to their recommendations.

27. Four decades after the creation of the AfDB, the international aid architecture is much more complex, with many more donors. We, nonetheless, see the Bank mission as relevant as ever, Africa's own instrument for social, and economic transformation, as well as an interface between Africa and its partners, both traditional and non-traditional. We do not see the Bank simply as a conveyor of resources but also an institution able to deploy its convening power, its catalytic role and synergy with other partners to leverage its own resources and franchise value for the elimination of poverty in Africa, and excessive dependence on the external world.
28. Today, poverty is being vanquished, in Asia, by way of trade and investment. We are convinced that Africa can do the same. We see our role as supporting our countries reduce costs, risks of doing business, and improving the investment climate. That is why we put emphasis at this time on closing the infrastructure gap, and promoting regional integration. Africa

has 35 currencies, 30% of Africans live in landlocked countries, only 11 countries with GDP in excess of USD 10 billion. The integration of the economies is more compelling than ever.

29. The second domain of emphasis is rebuilding Africa' skills base especially scientific and technical. The neglect of our Higher Education and Technical institutions over the last 4 decades is beginning to show. Under pressure of demand, our institutions of higher training have deteriorated. In the meantime we continue to import expensive TA which is useful in the short term but does not enable the continent to build its capacity and skills base. We cannot do so in every country, we thus aim to do so mainly with a regional focus-regional centres of excellence especially in science and technology.
30. With more than fifty highly diverse clientele countries facing varying challenges, we seek to customize our response. We aim to be a Bank that is relevant to the whole of Africa, Middle Income Countries, low income countries, as well as Fragile States including those emerging from conflict.
31. We are at this stage engaged in negotiations with partners of the Bank for the three-year cycle replenishment of our concessional window, the ADF, on which many low income countries such as Uganda depend and we are appealing to donors to be ambitious, given the unique opportunity Africa has

today and the international commitments which have been made. I remain optimistic that we shall succeed.

32. Role of the International Community

In the 1970s the then Canadian Premier Pearson set in motion the process to provide a more consistent framework of support to low income countries. The result was the 0.7% GDP target, an objective already attained by Scandinavian countries as well as the Netherlands. Subsequently we had the Brandt Commission, and more recently the Blair Commission, and the Gleneagles G8 Summit commitment to double aid to Africa, open up markets and greater voice for developing countries.

33. These efforts by the international community have provided a reference for advocacy around the doctrine of “mutual accountability”. It is critical that political will is deployed to ensure commitments-on both sides- are met, on debt, aid, trade, governance, and coherence. In this respect, we place much emphasis on the success of the Doha Round that creates a level playing field for all. We see our role at the Bank as preparing our countries to take advantage of that level playing field, hence our growing interest in trade related infrastructure, regional integration, institutions and Governance. Asia has been showing the way, that it is possible to achieve economic transformation-via the private sector, trade and investment. That is how we see our long term objective.

34. I am convinced, this century is Africa's century, the new frontier. Nothing can stand in the way of this "historical" reality. Who could have imagined today's transformation of China at the height of the Cultural Revolution? Only 30 years ago experts were describing the Asian Drama and the Hindu Rate of growth!! At the African Development Bank we see our role, in synergy with partners, as preparing Africa for its new place at the frontier.

Let me once again thank Governor Mutebile and the Bank of Uganda for inviting me and thank you for your attention.