

# AFRICAN DEVELOPMENT BANK GROUP



## GOVERNING DEVELOPMENT IN AFRICA The Limits of Ideological Economics

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Good morning Excellencies, Ladies and Gentlemen,

As always it is a pleasure to be back in Addis and at this conference, among so many friends and eminent personalities.

My thanks to the African Union and Economic Commission for Africa for the work they have done, for bringing ministers and so many distinguished experts together.

The subject of this conference, which I understand to be “*the role of the Development State in economic transformation in the Africa of today*”, is timely. Events in North Africa are indeed an urgent reminder of the challenges of inclusive growth, of job creation, of opportunities for the young, of leaving no one behind, and, by extension, the role of both the state and of markets.

With this in mind, allow me to share a few remarks and some ideas for your consideration. Over the last fifty years, and especially over the last 10, Africa has made significant progress. But we have also witnessed major disappointments and even reversals of fortunes for some. I am sure that the balance between states and markets has sometimes been pivotal here, but we must remember, as the current issue of the Economist<sup>1</sup> Leader Taming Leviathan rightly points out: “states and governments come in all shapes.”

So what have we learned? What are some of the enduring lessons in this quest for “governing development?” I see four lessons:

First, every country is different. There is not just one path to development. Each country must be free to search for solutions that work for that particular country. Certainly, looking at the composition of the G20 and the different paths that its members have taken, to where they are today, it is so clear they have come from different directions, and their “development states” have come in all shapes.

Second, dogmatic or doctrinaire approaches have had their day, from Marxist centrally planned economies to free market fundamentalism. They have both proven their limits. The recent financial crisis and the collapse of East European economies in the 1980s was eloquent testimony to the fallibility of *ideological economics*.

Third, every country on planet Earth was at some point poor. Irrespective of what was the relative role of the state and markets, poverty was overcome only by an effective participation in global trade and markets for capital. Africa will not be different. For now, external aid still plays a role, but in the end, it is access to trade and capital that will deliver.

Fourth, we all know very well that growth which is not inclusive, or which leaves some behind—as we can see from North Africa—is neither economically nor politically, sustainable and will only lead to frustrations and social explosion.

Let me pick up these points one by one. At the last G20 Summit in Korea, the Seoul Consensus was born. It made clear that every country must be allowed to fully exercise its

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<sup>1</sup> Economist; March 19<sup>th</sup>, 2011; Taming Leviathan

policy space and its policy autonomy, including making and learning from its own mistakes. There is no model out there to learn from. There are only many experiences to draw upon. There are sequencing issues, phasing and timing issues, which can only be country-specific.

Let me quickly add though, that this is not to condone “wrong” policies. We all know how bad policies can easily destroy development and defy common sense—unbalanced public finances, hyperinflation, absence of property rights definition, exclusion etc. However, we may not necessarily always agree on what constitutes good policies. Perhaps, this has been one of our weaknesses in Africa over the last 50 years. Our policies have been very much externally driven—externally shaped and financed—rather than endogenous. Worse, they were often based on frequently shifting trends in development thinking and practice, rather than our own internally generated consensuses.

It follows, therefore, that governing development must begin with a search for endogenous solutions, but solutions which find consensus in the general populace.

Governing development implies that there is no manual, it implies learning by doing in the search for what works. For the first three decades of independence, too much time was lost in what I referred to a moment ago as “ideological economics”, of both left and right, including shifting positions on the relative balance between the state and the market.

I believe though that since the mid-1990s, we have come back to a broad acceptance that both the state and markets are essential. Indeed, they reinforce each other. Recent trajectories of countries as different as China, Vietnam, India and Brazil are a manifestation of that reality.

But irrespective of which direction the pendulum swings, locking countries into global trade and capital markets, eventually, is what allows them to grow out of poverty. Aid is certainly needed for some countries for some time. However, a successful aid programme is one that eventually gets itself out of business.

Mr. Chairman, Ladies and Gentlemen,

Helping to bring about those preconditions—the ones that enable Africa to lock into trade and markets for capital—is where the work of the African Development Bank is focused. We have five areas of focus and they are as follows:

- Reducing the risks of doing business on the continent by building institutions and promoting good governance and economic stability.
- Reducing the costs of doing business by removing physical as well as man-made barriers to trade, especially infrastructure development—both hard and soft—at both the national and regional levels.
- Promoting private sector development, crowding in investments and creating conditions for world class African companies and entrepreneurship.
- Promoting high level skills, especially in science and technology.

- Promoting economic integration and thus unlocking Africa's own potential and its market diversity.

In all the above, we do at all times emphasize the partnership of the state and markets.

At this time, it should not surprise you that we are giving a new strategic rethink to the economic challenges in North Africa and the type of support we should provide. This is a region in which we and many other bilateral and multilateral partners have been active. Our commitments to the region are in the neighborhood of USD7 billion. But what have we learned?

- Before the revolution and uprisings, the region was on course for 4.8 to 5 percent real GDP growth.
- Economic activity had bounced back following the financial crisis.
- Some of the countries were on course to meeting most Millennium Development Goals.
- Egypt and Tunisia were quite successful in attracting foreign direct investment.
- Tunisia, in particular, had become an enormous success in outsourcing: textiles, car assembly, food processing, information technology, even aeronautics.
- There has been reasonably good infrastructure, a well-trained, low cost labour force and proximity to Europe, a key element in increased market share.
- We have also always known that the region was dealing with three intractable structural problems. There has been considerable dependence on hydrocarbons – except one or two countries. Growth was uneven—with insufficient job creation—and consequently, many graduates were either unemployed or in low paying or low productivity jobs.
- In addition, high levels of consumption subsidies were not always well targeted, thus straining public finances and the financial sector, with little effect, if any, on the poor.

We fully understood these issues and the fact that labour market dynamics were not right and that on voice and accountability, the region was trailing other middle income countries.

Mr. Chairman, Ladies and Gentlemen,

Why am I emphasizing these particular issues? Here, it was not so much the balance between the state and markets, but something else:

I know many of you agree with me that it was the *predatory, dynastic* nature of the state, which not only delayed the resolution of those issues, but led to large parts of the population feeling disenfranchised, opportunities being closed off, and which sparked the revolution in southern Tunisia. This is a familiar story known to you all.

The youth of North Africa has now spoken. They have clearly articulated their aspirations.

The first responsibility of any developing state, in a young continent like ours, is therefore, to attempt to meet those aspirations, and you can see that they have a lot to do with economic welfare, economic opportunities. But they go beyond bread and butter issues.

As I said earlier, we at the African Development Bank are engaged in a strategic rethinking on this region and we are determined to provide the right response for the medium term, within our mandate, mission and means.

At the moment, as one would expect, the economies of North Africa are still reeling under the short-term effects of the revolutions. We see:

- lower economic activity
- regional spillovers such as refugees move across borders
- financial and stock markets which have come under stress
- fiscal balances under pressure in an environment of higher expectations
- re-pricing of risk by the international markets and inevitably higher borrowing costs

These effects, in the immediate aftermath of a revolution, are to be expected. Nonetheless, we all have reason to be more optimistic for North Africa in the medium to longer term if the political transitions proceed successfully. It is important to pave the way for an open society, able to deal with the structural issues noted earlier, and of course manage the expectations of the young.

At this time, North Africa is one of our largest areas of operations. Our total commitments in North Africa—all five countries of the region—amount to roughly USD 7.5 billion. We envisage new commitments in the form of budget support, line of credits for small and medium-scale enterprises, special support programs for disenfranchised areas and broad reforms of the public sector, which would enable youth employment. We are engaging the emerging leaders, still aware this has to be *“thinking out of the box.”*

Let me Conclude.

I know these are issues close to your attention at this conference – broad based agriculture, small and medium enterprises, gender empowerment, skills development, dealing with climate change.

There is little doubt that Governing development in Africa will have a complex and interlocking set of prerequisites. However, two of these stand out particularly. First, governing for all and not for some is a platform that only broad-based growth and sound institutions that nurture inclusion can bring about. Governing for development should be based on an endogenous and autonomous agenda and not an externally driven one.

As we gather here today, I remain optimistic for the African economy. Of course, there are still several elements of considerable uncertainty, which may have an impact on Africa. The global economy is still struggling to fully recover. There is the Japanese Tsunami and its aftermath. There are raised expectations from the political upheavals in North Africa and the wider Arab World.

This year will see over a dozen elections in Africa. They hold promise but also risks when they are abortive, as has been the case in Côte d'Ivoire, the headquarters of the Bank.

This said, I remain highly optimistic about Africa in 2011. I have a high sense of enthusiasm that Sub-Saharan Africa will still register a rate of growth of 5.5 percent in 2011. The behavior of oil and food markets and state economic buffers overall will be key. Needless to say, North Africa projections in 2011 are much more mixed and much will depend on the nature of the political transitions.

I would like to assure you, once again, of the enduring partnership of the African Development Bank, as we embark on this debate and seek, together, to raise the bar in the new global landscape that clearly requires all hands on deck.

I thank you.