THE FINANCIAL CRISIS AND SOCIAL DEVELOPMENT IN AFRICA: AN OPPORTUNITY FOR STRATEGIC CHANGE

CODA CONFERENCE ON THE IMPACT OF THE FINANCIAL CRISIS ON AFRICA
28 November, Tunis

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Extract
Being a product of multi-disciplinary interventions and strategies, social development can neither be divorced from the economic system nor succeed in an economic void. For most of Africa, the challenge of social development is the challenge of adding value in the productive sectors. Only then can decent employment be created, incomes and aggregate demand grow and government can mobilise adequate tax revenues to invest in social development.

The financial crisis and the economic recession it triggered merely exacerbated existing fragilities, much of which can be traced back to the lack of diversity, low productivity and poor value addition. After all, the state of social development in Africa was neither stable nor acceptable prior to the crisis. It will be a grave mistake therefore if the focus of policies and attention were simply to mend the wounds inflicted by the crisis. Instead, Africa's policy makers should see the crisis as an opportunity to make transformative change. This will entail calling to question the policies of the past 30 years – the same policies that brought about the financial crisis and the food crisis also undermined Africa's productive capacity.

Top among these is the need to rollback the domestic trade liberalisation agenda, crucial to the success of any industrial policy, but which is still being aggressively pursued in the on-going WTO negotiations, and in regional trade agreement, in spite of the lessons of the financial crisis. Associated with trade is the role of foreign savings in the growth process. Recent empirical findings conclude that, save very exceptional circumstances, foreign savings damage growth. A similar conclusion is that countries that grow rapidly are those that rely less not more on foreign capital. Foreign capital in turn tends to flow to countries with low, rather than high productivity growth. African leaders need to consider this evidence carefully. The strong advice derived from this finding is that governments need to pay more attention to ways to encourage the reinvestment of profits and to direct bank credit to small and medium enterprises. This is not to say that all foreign capital is damaging. Capital that is tightly channelled into investment opportunities with minimal spillage into consumption can be beneficial.

In consonance with the need to mobilise domestic resources, policy makers need to shift the attention currently focused on foreign savings (including aid) into creative means of making taxation work not just for revenue mobilisation but for redistribution and democratic accountability.

Above all, the time may be ripe to revisit the development role of the state, experimented over a short period in the 1960s and abandoned for a variety of reasons. The recent development strategies adopted by Rwanda and Ethiopia, although not entirely similar share common ingredients of a development state. Their economic and social development achievements over a relative short time frame, should put to rest the ideologically inspired view that state involvement in the economy necessarily produce worst results than economies left to the market. The one opportunity that the crisis offers is space to think afresh.

Whilst state led strategies are key to progress, civic activism in the sense of critical discourse and participation in the design and implementation of programmes and

strategies are key to making the impacts of development fair and for democracy to flourish.

THE FINANCIAL CRISIS AND SOCIAL DEVELOPMENT IN AFRICA:OPPORTUNITY FOR DRAMATIC CHANGE

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1.0 Introduction: opportunity to think afresh

Commenting on the financial crisis, Henry Paulson, the US Treasury Secretary under whose watch the crisis broke out, is quoted by the New York Times (December 26, 2008) as saying that "you don't get dramatic change, or reform or action unless there is crisis". This was in apparent defence of the Bush Administration's unprecedented decisions to rescue the banks, and nationalise some. In the face of crisis, threatening jobs, housing security and the social peace, market fundamentalism was quickly jettisoned in favour of pragmatism.

The paper makes .. main points.

1. Europe and America may be experiencing social crisis inflicted by the global financial crisis. Much of Africa has experienced a deepening of its social crisis, especially over the last 3 decades. The growing list of failed, failing and fragile states, the serious problems of unemployment and underemployment, the dire conditions of health, education and water services, the needless dying of women and children and pervasive hunger testify to this fact.
2. The state of social development in Africa, immediately prior to the banking crisis did not represent an acceptable status quo to which a post-crisis situation should revert. The crisis merely accentuated existing fragilities. This means, the challenge facing African leaders is to address the underlying fragilities and not merely how dress up the wounds. The crisis is an opportunity for transformative change not just a threat to manage. At the heart of that change agenda should be to address the continent's crisis of production and productivity and slow pace of industrialisation. This is a precondition to eradicate poverty and minimise social conflicts and inequality.
3. A starting point for such an agenda will be to review the policy consensus underlying both the financial crisis and the continent's weak productive capacities.
4. Recent empirical research findings pouring extremely cold water over the contribution of foreign savings in the growth process deserves serious attention by leaders.
5. The clarity of vision and the political analysis and conviction of political leadership make all difference between the possibilities of transformative versus palliative change. But as all political power is prone abuse an accommodating atmosphere for partnership, debate and disagreement is essential not just to avoid excesses but also to empower the poor.

The paper is divided as follows. Section 2 clarifies our meaning of social development, and highlights the fragilities which are accentuated by the bursting of the financial bubble. Section 3 undertakes a partial review of the commentaries on the causes of the crisis. We do so in search of the "deep" and to show how they impact on social development. Section 4 addresses transmission mechanisms and the applications for alternative policies. Section 5 highlights the importance of political leadership with vision and tenacity.

2.0).What we understand by social development

The concept of social development is an imprecise one, and means different things to different people. It has its history in the British Colonial Government's decision to merge the Departments of Community Development and Departments of Social Welfare, following a conference in 1954[1]. Community Development was concerned with agriculture and rural development, water, education and primary health care in rural. People's participation in the development process was later to be added. Social welfare on the other hand was concerned with housing, sanitation, food poverty and health care of urban low-income populations, especially as a response to the squalor and misery brought about by the industrial revolution.

The concept of social protection was added in the 1990s. It describes a group of policy initiatives that transfer incomes, services or assets to the poor and vulnerable. They protect vulnerable people against livelihood risks, and seek to enhance the social status and rights of the marginalised.

Social policy provides a strategic framework in which to address, both narrowly and broadly, conditions of specific social groups deemed as intolerable. Social policies may include social protection as well as policies to address gender inequality. Social policy may ne described as the scaffolding upon which social development is achieved.

Social policy is tied to economic development strategies in many ways. For example, social policies might create social capital through expenditures and policies in education, health care and general wellbeing. Social capital is thought to be important in technological innovations that drive productivity growth. Social policy also bears directly on accumulation because it impinges on savings and the functioning of financial markets. The most direct channel through which social policy affects savings and investments is through its effect on the nature and timing of the so-called demographic transition" - the dependency ratio. Social policies can also be a source of funding through various providential schemes such as pension funds. Social Policy can affect labour participation rates by removing impediments to the involvement of different groups in the labour market. Removal of ethnic, gender or religious discrimination is one example. Measures affecting care of children and the elderly can influence women's participation in the labour market.

Similarly, social policy does not operate in a political vacuum. Social policy can only be as transformative or as distributive as the political environment and the prevailing development paradigm allows. Social policy in the 1960s and 1970s in Africa was underpinned by the "nationalist project" whose objectives were to: to foster unity and social cohesion and address colonial human resource deficits through state-led and state-dominated investments. Social policy since the 1980s has on the other hand been underpinned by the neoliberal project's objectives of placing the productive and distributive responsibilities of society with the market not the state. These two dominant realities produce markedly different social outcomes and streams of entitlements as we shall demonstrate.

[1] The conference was held at Ashridge (England) which issued the famous Ashridge Report on Social development in the British Colonial Territories. This was the beginning of the institutionalisation of the concept and the establishment of government Departments of Social Development (DSD) across the British territories

Finally, the concept of social development compares favourably with the UNDP's concept of "human development", defined as 'a process of enlarging people's choices. The most critical ones are to lead a long and healthy life, to be educated, and to enjoy a decent standard of living. Additional choices include; political freedom, guaranteed human rights and self-respect' (p. 10)[2]. "Sustainable human development" adds the qualification that benefits for current generations do not diminish those available to future generations[3]..

Social development may thus be considered as the outcomes in terms of the quality of life, of the implementation of social policies, among which is social protection. Social development connotes active interaction among social groups and gives value to people's "voice" and participation in governance.

Our interest in attempting to define the slippery technology of social development is to attempt locate the ways in which the financial system may impact on the social system. These clearly are numerous and include the labour market; the rural economy, the financial market, the market for the supply of social services and the market for political bargaining, among others.

3.0 Explaining the Financial Crisis: Triggers, Accelerators and Deep Causes

The declaration of bankruptcy by the Lehman Brothers Investment Bank of the United States in September 2008 is widely held as the defining moment of the global financial meltdown. Lehman brothers was the first high profile victim of the bursting of the housing bubble – the packaging of housing loans (some of dubious quality or sub-prime) into securities that are traded and kept outside the balance sheets of banks in order to earn commissions as well as create the space (in terms of accounted for risks) to expand lending. The bursting of this bubble, of which the collapse of Lehman Brothers and others signify, is blamed for the financial crisis.

In the public mind, the financial crisis is the consequence of the greed of bankers – the bonus culture fuelling high-risk, short-term profit-taking oriented, largely speculative, investments. The cause of this bubble and how far back in history to trace it is subject to disagreement. Also disputed is the extent to which the bursting of the housing bubble can be blamed for the financial crisis i.e. whether the housing bubble and other associated factors, such as the loose monetary policy of Alan Greenspan that fed it, are "triggers and accelerators" rather than "deep causes".

Explanations of "deep causes" (as Robert Wade calls it), especially by non-monetarists converge as well as diverge. They converge in the view that to understand

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[2] The first UNDP Human Development Report in 1990.

[3] Ranis, Stewart and Samman (2005) build a list of indicators which gives a clearer – if subjective – view of the component factors of human development: The HDI [the UNDP's Human Development Index], which includes health, education and a measure of income (i.e., it broadly covers bodily health, literacy and basic aspects of material well-being); 2. Mental well-being (i.e., an individual's psychological state); 3. Empowerment (particularly of the deprived); 4. Political freedom; 5. Social relations; 6. Community well-being; 7. Inequalities; 8. Work conditions; 9. Leisure conditions; 10. Dimensions of security – political (i.e., freedom from political violence or instability); 11. Environmental conditions.

the propensity of financial crisis, one has to look outside the financial system (Wade, Patnaik)[4]. They diverge, somewhat, in terms of emphasis, of how far outside the financial system and how far back in time to look. Nevertheless the following dynamics underpin the "deep causes" perspectives:

3.1 Globalization, inequality and declining aggregate demand

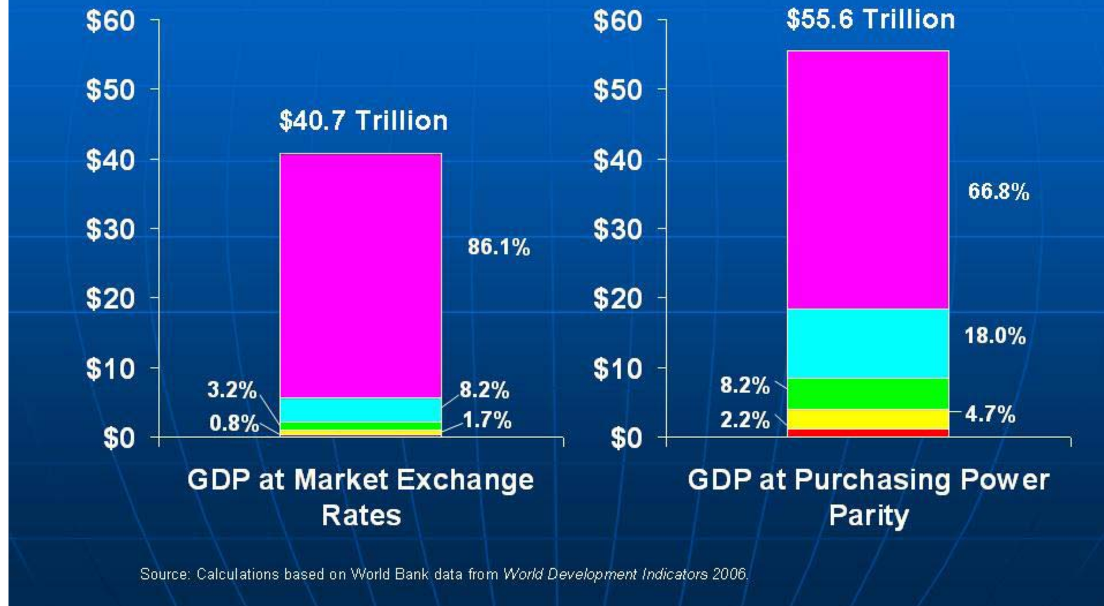
The core point is that various changes in both technology and policies in industrial countries since WWII have acted to undermine real wages and productive investments and therefore the level of aggregate demand, employment and output. For various reasons, the financial sector stepped in to compensate for declining aggregate demand only to blow up bubbles and exacerbate the problems of aggregate demand and incomes in the end, which then feed back to bursting the bubbles.

Some commentators trace this process to the post-war reconstruction of Germany and Japan and the rapid growth of industrializing economies such as Taiwan, Korea and Brazil. These developments added tremendous new productive capacities and increased global competition. This competition became aggravated with the injection of additional capacity by China and to a lesser extent India. As this process was uneven, competition has over time accentuated existing income inequalities between and within countries, limiting the scope of purchasing power and demand, thereby eroding profitability and severely disrupting the post-war world of low inflation, near-full employment conditions of industrialised countries. This is the so- called paradox of "over production". With wages in these economies rising faster than productivity or the rate of profits (as investments in the real economy yielded low profits), and rising commodity prices, inflationary pressures kicked in.

"Financialisation" i.e. the financial sector investing in itself and harvesting profits from itself rather than the real economy, became the escape route. The threat of inflation eroding the value of deposits and the banking system gave the banks and non-banking institutions the opportunity to push for deregulation in order to diversify their portfolios. This gave birth to the era of deregulation and subsequent the globalization of the deregulated model through aggressive liberalisation. In this model, profits depend on the swings in the financial assets – bonds, stocks, and derivatives etc – and 'innovation' in terms financial instruments. The sustainability of the model itself then comes to rest on the appreciation of the value of these instruments.

A variation of this narrative emphasises the concentration of the world income and expenditure at the as demonstrated by the rising share of the top few percentiles of world income and the rising share of profits relative to wages – the phenomenon of billionaires rising over a pool of the hungry and the starving. Income concentration became acute following the freeing of capital movements in the 1980s and has become acute.

[4] Prabhat Patnaik, "On the crisis of the capitalist world" in www, networkideas.org, 21/01/09



The figure above, taken from Raymond Baker (www.gfip.org) demonstrates this point. It shows that the top 20% of the world's popular command 70-90% of the world's income whilst the bottom 40% of the world's population command 3-7% of the world's income.

The entry of billions of people from china and India into the labour force contributed to strengthening the hands of owners and managers of capital relative to labour, reversing the wage: productivity relationships of the post war period, creating a tendency towards insufficient aggregate demand and an under-consumption crisis (Wade, 2009). The expansion of credit and debt became the means to sustain growth amidst declining aggregate demand.

Relevant lessons: Discussions about aggregate demand and the role of the state as key provide of aggregate demand as a growth and employment strategy, through the use of the central bank to inject liquidity, has been largely surprised by the dominance of monetarism over 3 decades. Yet the intolerable levels of unemployment especially in the middle income parts of Africa, and abysmal nature of infrastructure calls for a rethink. The second lesson is the growing level of within country inequality across the continent, with the exception of some North African countries. Sharp inequalities undermine aggregate demand strategies and the rate of poverty reduction. The fact that the issue of inequality is hashed up is concerning.

3.2. The United States and Keynesian demand management

The globalisation of 'financialisation' began in the United States, the world's largest source of global demand. Terry Mckinley[5] traced the beginning of the financial bubble – the process by which short-term profits made within the financial sector became the dominant (if not the main) stimulus for growth in the US economy – to the unusual decision by the US government to run budget surpluses immediately following the 1991-92 recession. This was unusual because, as a norm, industrial countries tend to run budget deficits in the range of 2%-4% of GDP. This opened a vacuum which the private sector filled through massive borrowing which grew from close to zero in 1990 to 14% of GDP in 2000, enabling private expenditure to exceed incomes. The US private sector had moved from a net saver t a net borrower. Whilst this provided stimulus for the growth in the 1990s it also built up a huge debt and a momentum for more debt. 50% of this debt was borrowed from foreign sources.

This debt was serviced mainly by earnings from stocks and from real estate. The stock market crisis of 2000 left only real estates to underpin the financial health of the banking system. As the private sector responded by cutting down on investment spending and creating the spectre of recession, the government responded by pumping (through deficit spending) over $700bn into the economy in the form of tax cuts and military spending. Whilst investment spending continued to decline, household spending (mainly housing and consumer goods) increased, which was later boosted by the easing of monetary policy. The increase in both private and public sector deficits translated into increasing current account deficits which were financed from foreign capital flows. 40% of these flows, according to Mckinley were invested in corporate stocks and bonds, 30% in government securities and the rest in capital stocks and bank deposits. The appreciation of real estate added to the consumption boom, without generating any real cash or adding any real value. Put in another way, households were incurring debt at levels far in excess of their ability to service. This is a typical ponzi phenomenon. To sustain this process requires that asset values continue to appreciate and foreign capital continues to flow in.

Whilst it lasted, these processes did indeed rake in supernormal profits for the financial sector. One indicator of this super-profitability is the fact that, before the crash, 40% of the total profits of US financial and non-financial corporations is accounted for by the financial sector although it accounts for only 5% of US GDP. Basically, the financial sector squeezed super-normal profits from value that is already created. Profits grew but not value which added on in the production and exchange of goods and services.

However, any sharp changes, down-turn or loss of confidence in any of these would trigger the pricking of the bubble. The housing bubble burst when it became clear that the banks were holding on to unsustainably large volumes of worthless securities – sub-prime housing loans – leading to speculative attacks on the equities of these institutions.

This narrative tells a typical story of Keynes' thesis about the tendency of the capitalist economy to move towards unemployment or instability if the financial

[5] The Monopoly of Global Capital Flows: Who Needs structural Adjustment. Working Paper, 12, March 2006, International Poverty Centre, UNDP

system were left to be the stimulators of aggregate demand. He worries that the financial system has a tendency to gravitate into speculative activities because these generate short term profits at the cost of long-term profit. The preference for short-term yields causes sharp swings in asset prices, building up bubbles, and which in turn determine the magnitude of productive investments and therefore the level of aggregate demand, employment and output. To break this link between the whims of speculators and the need for productive investments, he proposes what he calls the comprehensive "socialisation of investment" whereby the state, acting on behalf of society, will always provide a level of investment in the economy, and therefore aggregate demand that will be commensurate with the objective of full employment. For the state to have the autonomy to this financial flows across borders will have to curtailed. It this context, the financial crisis is a typical exoneration of Keynes' fears.

The decision by the United States government in the 1990s to pass over responsibility for aggregate demand stimulation to the private sector was eventually exported to the rest of world as an ideology and as a blue print for development. As a blue print for development, poor countries in particular were compelled, cajoled or convinced to discourage fiscal deficit financing; central banks were discouraged from creating liquidity in the economy and regulate lightly and focus narrowly on reducing inflation; banks were privatised and equity markets encouraged with significant freedoms and public sector debt-servicing (mainly to domestic banks and foreign creditors) was elevated to supreme priority over and above reducing poverty and deaths.

<u>Lessons:</u> African governments gave up their roles in aggregate demand stimulation long ago. Instead they have been focussing on domestic stock markets (where these are significant) and to some extent deficit financing to maintain demand. That central banks should serve the employment objective by providing liquidity (within the limits of stability) remains anathema. It will take no less than the changing of laws to achieve this.

<u>3.3 The political economy of the bold new Lords of corporate finance:</u>

From a political economy perspective, a set of chosen policies represent a resolution in favour of one set of interests over another. Even if those policies do not necessarily lead to a zero sum outcome, the balance of impacts will weigh in favour of some sets of interests over the alternative sets. Bargaining, lobbying, bullying, threatening and the congruence of interest inform how policies are actually made. Four factors play a role in explaining key decisions that spurred the financial boom: ideology, shared interests, bargaining power, especially between labour and owners/managers of capital, and the level of awareness and engagement of civil society in the political process.

The liberalisation of capital movements began in the 1980s, a unique period that brought into power conservative leaders in key centres of power: the United States, the United Kingdom, Japan and Germany. In varying degrees, the aggressive anti-communist/anti-socialist agenda they shared easily translated into policies that favoured the dismantling of workers' movements and any forms of state influence in the economy. Liberalisation and deregulation were natural steps. These ideological preferences found intellectual articulation in various academic centres especially across the Atlantic. Soon, various anti-state and pro-market theories began to pervade

various academic disciplines from management, through economics and political science. The convergence between neoclassical economics and neoliberal political theory created one of the most powerful seemingly coherent sets of theories of how societies become prosperous, at of heart of which were the liberalisation and deregulation of economic and political activities. Neoclassical economics sought prove these using models that assume away many of things that tend to matter in the real economy, e.g. full employment and presume that real life economic conditions equilibrate – presumptions which have now been shown to be highly damaging.

Todd Tucker [6] tells of the importance of individuals and time and space coincidences in terms of the positions the individual occupy in academia, politics and business in time. In his narrative he tells of the centrality of the role played by Hank Greenberg – the CEO of American International Group from the early 1960s to 2005 as far back as the early 1970s, Greenberg was frustrated with the rates of return in the property & casualty insurance business. Being an 'innovator' he expanded into other businesses which he financed using various complex reinsurance and tax-haven nations to cut corners in order to minimise tax obligations for example.

"Greenberg's genius", according to Turner, "was in realizing that not only should they look for the loopholes in the state apparatus but that they should work to reshape the state itself. Their advocacy pursued the domestic, bilateral and multilateral tracks. On the domestic front, they were able to move most quickly. The way that the financial services industry steadily broke down U.S. domestic financial regulation is fairly well-known. From the 1983 accounting rules changes which allowed off-balance sheet transactions, to thousands of mergers and acquisitions, to successfully staving off a regulatory clamp down on subprime lending or derivatives, AIG and its ilk used law campaign finance laws to buy support for all of it".

The success in dismantling regulations of all sorts gave birth to what Robert Wade[7] calls his second "deep cause", the New Wall Street System (NWSS) - the complex of investment banks, hedge funds, private equity funds, pension funds, insurance companies. These complex web of institutions created large pools of credit, from liquidity derived from various sources including, the near-zero interest rates created by the loose monetary policies of Alan Greenspan (2002-2005 especially); Middle East Oil money deposited in US banks, Chinese reserves and/or deficit financed expenditure of the government. Exposure to this vast sums of money enabled these entities to blow up bubbles by injecting vast sums into specific asset markets around the world, take the profits, burst the bubbles and move to the next, leaving the countries to deal with the mess of poverty, unemployment an indebtedness.. To be able to blow these bubbles required concerted action by giant financial firms, not the free enterprise of small firms combining as is often presented in theory.

This 'success' was extended to the international domain, especially through trade agreements to break down barriers not just to trade in goods but tellingly in services, among which financial services. Trade barriers in poor countries were dismantled through the use of aid and loan conditionalities, conveyed especially through the

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[6] The trade policy blind spot in the US financial crisis response (April, 2009) in www.networkideas.org

[7] The global Slump: Deeper Causes and Harder Lessons; in Challenge, September 2009

Washington-based financial institutions. Larry Summers who was a consultant to AIG became the World Bank's Chief Economic ideologue, later becoming the Clinton's Treasury Secretary and now a special advisor in the Obama government.

The globalization of this model also meant the globalization of the inequality generated by it and the globalization of the ideology of free markets and equilibrium economics that gave it legitimacy. Africa and Latin America received this new wisdom largely through the IMF and the World Bank but also through the key bilateral aid players, management training schools and the lecture halls of departments of economics.

The strengthening of the nexus between Walls Street, White House, Harvard Business School (and in the case of Africa, the Oxford Centre for the study of African economies) and the Washington IFIs, meant the weakening of other forces, not least labour, thus the relative success in the deregulation of the labour markets worldwide. As observed much earlier, the bargaining power of labour was further weakened with the entry into the labour market of billions of Chinese and Indian workers.

Finally, the free market project was successful in mounting a strong assault on citizenship. Citizens became consumers and stakeholders rather than rights holders with legitimate claims on the state to deliver essential services and discipline the market for society. As consumers, they were told that they had the power to influence by what they chose to consume. Those who were unable to exercise this power of consumption were ultimately and effectively disenfranchised, leading to the gradual decay of democracy and civic activism.

The point here is that the weak regulatory regime and the "right" to free movement acquired by finance over the past 3 decades are the result of relationships of power in a specific period of time. It is entirely possible therefore that a strong regulatory regime with controlled movement of finance can emerge at different time.

Lesson: The key lesson here is the fact that interest-motivated policies are often touted as evidence-based. Liberalisation and deregulation were sold devoid of the dynamics of special interest politics. One way to mitigate against this is for leaders to consciously encourage local think tanks coming from different foundations of economic thought and encourage open debates.

3.4 The link with trade liberalisation

The negotiations for the Uruguay Round Agreement that gave birth to the World Trade Organisation presented itself as a unique opportunity to export the deregulated model world-wide. According to Turner, the goal was not just to secure national treatment for American companies but something more far reaching - the establishment of a regulatory ceiling globally. The General Agreement in trade in Services (GATS) was the main vehicle for pushing the financial interests but within the framework of a single undertaking. The resistance by developing countries, especially the bigger ones, including India, China and Brazil ensured that the market opening commitments under GATS were modest, allowing these countries to continue to control penetration by foreign banks and to continue a large state ownership of their banking sectors.

Financial services liberalization has also been aggressively pursued in bilateral and regional trade agreements both by the United States and the European Union. These liberalisation talks have advanced much more rapidly than talks on prudential regulation, and most cases have undermined prudential regulation.

In most African countries, pressures to liberalise trade including the services sector have tended to come from the IMF and the World Bank. They have pursued these relative effectively through a combinations of measures: direct pressure; technical assistance provided mainly neoclassical trade economists and as conditions for extending loans and grants. These liberalisation measures in Africa have often tended to be deeper than, and run ahead of, those secured under multilateral talks.

These liberalisation measures unleashed the free movement of capital across the globe on the back of poorly developed or weak regulatory systems. With an integrated system, crisis at one location is quickly transmitted across the whole.

3.5 Debt and the International Monetary System

The international monetary system is based on the US dollar, which a purely paper currency whose supply is unrestrained. As we observed earlier, thanks to the free movement of capital across borders and the pumping of liquidity by the US monetary authorities especially between 2002-2005 a mountain of debt and imbalances of debtor-creditor relations between countries – the US and UK in particular (new debtors), and current account surplus countries in the middle East, Asia and Latin America in particular (as the creditors) was built up. Even some African countries got into the act as capital exporters. This provided the liquidity for the New Wall Street system to create and expand the web of complex and opaque instruments, which in turn exacerbate the debt-creditor relations. The unwinding of this debtor-creditor relations was a key driver of the crisis. UNCTAD has long argued for an independent source of liquidity.

3.6 Transmission mechanisms and systemic Failures

The financial crisis led to systemic failures in 3 markets:

1. **The Commodities Market**: like most markets operate on a spot and futures pricing systems. In theory, speculators play a key role in stabilising prices over time by predicting future market patterns and thereby reduce volatility. In line with this commodity futures markets are supposed to reduce risk for cultivators and purchasers by allowing better risk management through hedging , enabling open-market price discovery of commodities through buying and selling on the exchanges and in this process lower transaction costs

In 2000, the Commodity Futures Modernization Act in US deregulated commodity trading, by allowing commodities to be traded outside of the regulated exchanges. It allowed all investors, including hedge funds, pension funds and investment banks, to trade commodity futures contracts without any position limits, disclosure requirements, or regulatory oversight. These developments led to an explosion of unregulated trading in the commodity market. These developments exacerbated the volatilities and id blamed for the excessive price volatility of commodities in 2008 , including food with adverse effects for both cultivators and consumers. The

magnitude of the impact on countries depends on the importance of commodities in the economy.

Lesson: Africa has an excessive dependence on primary commodities. Price and terms of trade decline and volatility has long been identified as a persistent drag on Africa's progress. Unfortunately no mechanisms currently exist to help stabilize prices or revenues. In this context the closure by the IMF of the Compensatory Finance Facility is inexplicable.

2.: **Currencies and exchange rates:** Financial crisis impact on the value of one currency relative to other in terms of exchange value. The magnitude impact on currencies of financial crisis on the value of a currency depends on a number of factors: the convertibility of the currency, whether there is a speculative attack; perceived exposure; and impact on economic fundamentals and magnitude of reserves available to defend the currency. Whereas most African currencies are not convertible, financial crisis affect the real exchange rates, to magnitude of which depends on the exchange rate regime and the degree of openness of the capital account. Countries with open capital account regimes tend to be impact more heavily. The decline of the value of the US dollar also devalued reserve assets, relative to other

3, **Finance:** The financial crisis was not limited to mortgage or even Wall Street but affecting the banking sector around the world. This was not expected for 2 reasons: the banks were more regulated than other segments of the financial system Deregulation was expected to result in credit-risk transfer practices, reducing exposure of banks to impaired or worthless assets It was banks afterall who were carrying an inventory of such assets that were yet to be marketed
Banks became sucked into the speculative business in order to share in the high returns earlier associated with those assets. Consequently, many set up special purpose vehicles for creating and distributing such assets. Banks had also lent to institutions that had leveraged small volumes of equity to make huge investments in these kinds of assets. Banks were also afflicted by losses on derivatives of various kinds, resulting in write-downs that are wiping out their base capital.

These developments within the banking sector were in line with the general trend where banks sought to increase profits outside the real economy – the financial sector seizing become the scaffolding for the real economy. This is one of the seeds of the financial crisis.

This model of profit making divorced from the real economy equally pervades the financial sectors where profit is made through fees of sorts and where lending occurs it is to consumer goods or real estate financing, overnight or extremely short-term trade financing to extremely secure customers leaving the productive sectors starved of investment capital.

4.0 Impacts on Social Development in Africa

The impact of the financial crisis on social development in Africa should be assessed at 3 levels:

1. The pre-crisis (boom) period.
2. The transmission mechanisms
3. Political responses

4.1 The tragedy of boom

. "Just as things were looking good on the continent, the global economy started to collapse, foreign investment poured out of Africa's exchanges and sent share prices plummeting".

This opening sentence in an article on the impact of the financial crisis in the Africa Investor magazine captures the mood of the investment community[8] but reflects a general tendency of various analysts to assume that Africa's pre-crisis situation was in a good and steady state and all it needs is to return to that steady state. They point to progress in GDP growth (especially over the past 5 years), expansion of exports, increase in FDI and portfolio inflows as well as remittances and significant advances towards the attainment of the MDGs.

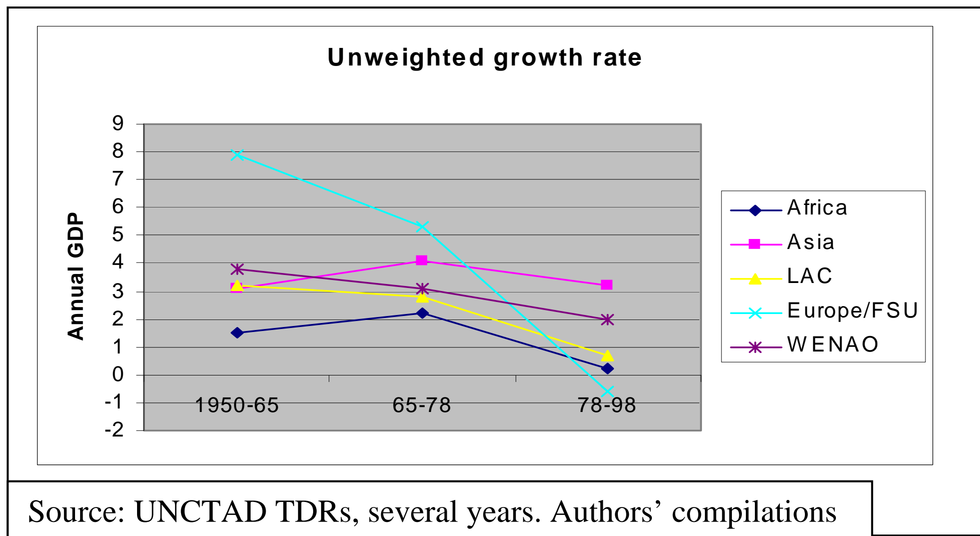
And indeed this is so, to some extent. Compared to the decades of the 1980s and 1990s, average incomes have grown steadily since 2000 with average growth rates averaging over 5% over the past 5 years. More than one-third of Africans live in countries that had grown by more than 4% year-on-year for ten years and 18 countries are classified by the World Bank as "diversified and sustained growers". Per capita incomes grew by an average of 1.9% year on year, over the period 1995-2005, compared to –0.1% over 1975-1995 period. Exports grew on average by 12 % (2003-2006) although by much less than the growth in imports, leaving the current account balance in growing deficit.

In terms the MDGs, extreme income ($1.25 a day) has declined steadily, primary school enrolment over the same period has increased (from 79% to 92%), child mortality has declined significantly in most countries and HIV/AIDS treatment is now widely available.

However, these were jobless growths, growth based on commodity price boom and consumption financed by foreign transfers. Even then the continent suffered 2 decades of zero or negative growth .Figure 2 below shows that although Africa entered into independent nation-hood at a relatively low rate of growth compared to the rest of the developing world, it made rapid progress, catching up with Latin America and South Asia towards the mid 1970s. The growth trajectories, especially in relation to Asia began to diverge in the lat 70s.

Figure 2: **Historical comparative growth performance 1950-1998**

[8] Tom Brown "Bowed but not out" Africa Investor, September-October 2009 Vol 7 Issue 4. P18



Source: UNCTAD TDRs, several years. Authors' compilations

*I*n relation to social development the continent actually experienced major reversals beginning the late 70s, as a result of the combined effects of the fall in commodity prices, petroleum price hikes, droughts in many countries and poor domestic adjustment responses. But the decline accelerated towards following the free-market liberalisation policies promoted by the Bretton-Woods Institutions'

This observation is important for social development because social development is very much a product of policy regimes. Africa has gone through three distinct policy/ideas paradigms since independence[9], each with distinct implications for social policy. The nationalists period of the1960s focused on building developmental states, with much attention to the manufacturing sector. Education, health care, and infrastructure were seen as necessary ingredients for an industrial society. In comparison, the dominant ideas of the last 2 decades, sought to shrink the state in favour of the market. The comparative results in social development terms are striking:

Table 1 below presents a striking historical picture of progress and retrogression in the areas of life expectancy at birth, child mortality and adult literacy. The remarkable progress made in the 1970s in all these areas of social development are contrasted with the current (2006). From the sample countries, compared to 1982 (the dawn of structural adjustment programs), life expectancy at birth declined in Botswana, Congo, Gabon, Kenya, Nigeria and Zambia . These include countries that have a low HIV prevalence rate. Child mortality worsened in almost all countries, and adult literacy has improved at a slower rate than the decades of the 1960s and 1970s[10].

Table1. **Selected Social well-being indicators**

	Life Expectancy at birth	Child Mortality(per 1000LB)	Adult Literacy rates

[9] Africa has passed through three distinct paradigms of dominant ideas: the nationalist, Keynesian and neoliberal; and 4 distinct phases of ruling policy advice between 1950s and 1990s and explanations of policy diagnoses: from market failure to government failure, policy failure, and now institution failure. Each policy regime promoted associated policy agency: from state to the vilification of state.

[10] A note should be made on problems of data comparability. Nevertheless, the differences are striking.

	1960	1982	2006	1960	1982	2006	1960	1985	2006
Botswana	40	60	49.8	23	13	38.8	33	72	82.1
Cameroun	37	53	50.3	28	16	126.5	56	65	67.9
Congo	37	60	54.8	23	10	123	16	63	86
Gabon	36	49	56.7	34	22	74.9	12	62	85.4
Ghana	40	55	59.7	27	15	90.7	30	53	64.2
Kenya	41	57	53.4	21	13	95.4	20	59	73.6
Nigeria	39	50	46.8	50	20	193.1	15	42	71
Niger	37	45	56.4	45	27	205.3	1	14	29.8
Zambia	40	51	41.7	38	20	163.6	47	76	68

Sources: The Mo Ibrahim Index, 2008 and Adesina, 2006

Table 2 below presents another way to compare the situations, although care must be exercised as the two sets of data sets are not fully comparable. Nevertheless, whereas by 1982 70% of basic needs were satisfied in the selected countries, (Niger being an exception), in 2006 fewer people had their basic needs satisfied according to the income poverty measure.

Table 2. Composite Indicators for selected countries

	Poverty Rate (National Poverty Line)	Basic Needs Index	
	2006	1960	1982
Botswana	30.3	48	80
Cameroun	402	48	73
Congo	50.1	52	78
Gabon	33	54	72
Ghana	28.5	45	66
Kenya	45	47	76
Nigeria	54.4	35	68
Niger	70	22	34
Zambia	37.7	48	76

Source: Ibid

Therefore, whereas the improvements in economic and social indicators in the past few years should be celebrated, it needs to be remembered that this only represents a recovery from a steep decline compared to the nationalist era. The more important lesson is in the comparison of social policy ideas underpinning the two distinct phases of African social development as presented above.

Even then, the quality of the growth process leaves much for concern. For example, 20 countries or so have experienced ups and downs with their growth performance in the past 5 years. This is important for progress in social development because, the evidence shows that social conditions are pro-cyclical. Life expectancy is lower in bad times and infant and child mortality and school completion rates are worst in bad times than in good times. The cyclicality of growth in Africa is tied to key external factors – aid flows, commodity prices, and food and petroleum prices – as well as political stability. These factors (domestic governance excepting) are also cyclical, meaning that unless the African economy is structurally transformed away from dependence on highly cyclical sources of finance, social development will also be hostage to cyclicality.

Table 4 presents a sample of per capita expenditure in the health sector for a selection of countries. Similar data on education and water suggests a very low per capita expenditure by international comparison.

Table 3. Per capita expenditure in Health in US$ (at average exchange rates)

	1998	2000	2002
Kenya	9	8	8
Tanzania	6	6	7
Uganda	4	4	5
Botswana	73	78	106
South Africa	117	103	84
Zimbabwe	33	24	61
Nigeria	4	6	5
Ghana	9	6	7

Source: WHO, 2005

This low level of per capita spending can only be boosted when the populations become wealthy, which is not necessarily the same as when GDP grows further. The difference is in the source of growth. Growth that is driven by natural resources do not automatically distribute income often does not boost aggregate demand. It takes a level of political commitment to do so. The evidence so far of natural resource intensive economies, does not inspire much hope of a redistributive agenda.

Growth has also been uneven between countries and has averaged higher in oil exporting countries and negative growth in others. Growth varied from -5.3% to 20.6% over the period 2000-2006, exacerbating stratification within the African economy. The richer countries grew richer and the poorer countries became progressively poorer. The richer 10% of countries had 10.5 times the GDP per capita of the poorest 10% in 1975. This increased to 18.5 times in 2005 (World Bank, 2005).[11] This stratification is replicated at the intra-country level in almost all African countries, except perhaps Ethiopia. The data seems to show that inequality increases with growth in post conflict countries. This may be because gains of peace benefit those with skills, have access to the political elite or were already relatively wealthy and initial accumulation. Whether this will reduce in time depends on the political economy.

This is important for social development in several ways. First, high inequality is itself a proxy for bad governance (Mo Ibrahim Index, 2008). Second, in situations of high inequality, growth has minimal impact in pulling the poor out of poverty. Countries with high initial inequality will need more growth to reduce poverty per additional income. Thirdly, initial inequality can transmit poverty and inequality into generations. Also when inequality at the national level takes horizontal dimensions (i.e. inequality between culturally distinct groups – race, ethnicity, caste in particular) these can affect social development directly and may even threaten peace and social harmony.

[11] See also: “Income inequalities in the age of globalizations, ILO, ILS, 2008

In all, the pre-crisis situation did not leave it with much to celebrate. Not only will many countries not achieve many of the MDGs, the economic structure upon which future progress can be made in reducing poverty is one dominated by diminishing returns.

There are reasons to believe that the economic slow down may have accentuated an already bad situation.. Given that the status is not an acceptable state to return to, the core of the post-crisis response will need to focus on those fundamentals necessary to revive the productive sectors whose health is essential for governments to raise the revenues to fulfil the social development obligations.

4.2 Channels of impact – Exacerbating existing fragilities

The initial prediction of the impact of the crisis on Africa's development were particularly dire, being the most vulnerable to external shocks of any kind – highly exposed to the market with the least diversified products, most dependent on foreign transfers and tourism in comparison with average incomes and being largely a policy taker. Predictions, especially by the IMF and repeated in many places told of return to negative per-capita growth, massive current account and fiscal deficits as commodity prices (especially minerals and oil) plummet, large reverses in capital flows and , relating to the told dram declined in growth, trade, capital flows, public finance, debt – were dramatic and dire. In a note to the G20 meeting, African Finance Ministers claimed that the "crisis was sweeping away firms, mines, jobs, revenues and livelihoods" and threatening efforts to achieve the Millennium Development Goals

The Economic Intelligence Unit (EIU) went one step further, forecasting civil chaos, and state fracture claiming that "as people lose confidence in the ability of the government to restore economic stability, protests look increasingly likely. There is a growing concern about a possible global pandemic for unrest especially for post-conflict or fragile states. Tensions from the crisis may ignite or exacerbate pre-existing sources of instability in many African countries, including on-going or recently resolved conflicts, xenophobia and income inequality"

One year down the line, growth scenarios are being revised up, oil and other commodity prices have rebounded, gold prices stayed close to their historical highs throughout the recession; global food prices have not declined with declining inflation and stock market conditions and investments in roads, telecommunications and real estate have remained robust, stock markets are on the up-turn and there are no widespread protests and state collapse attributable to the financial crisis. In a sense, the status quo is returning

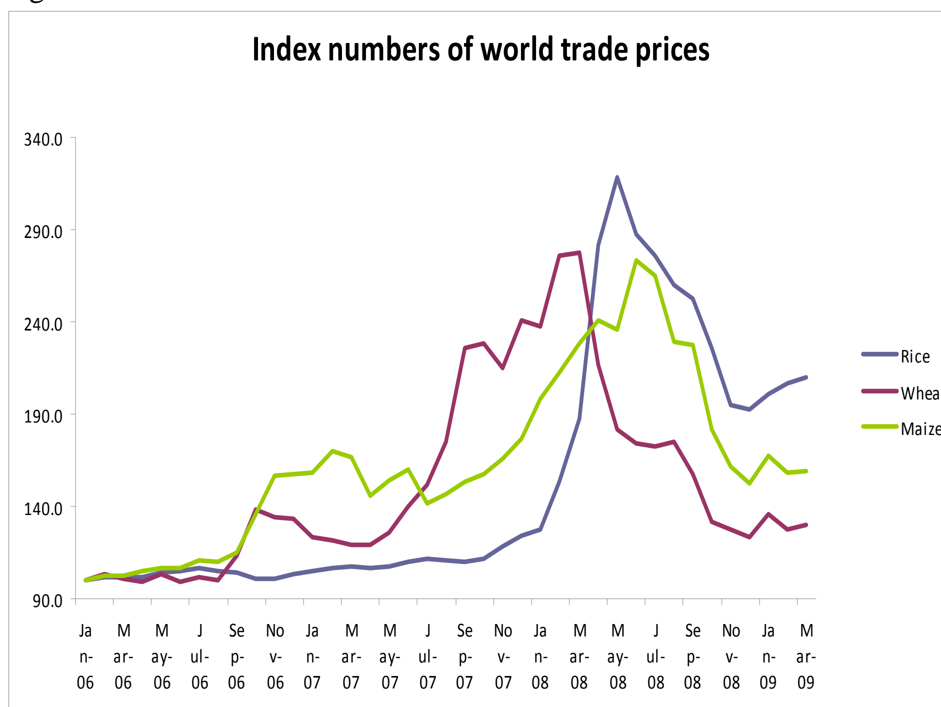
Even if there has been a recovery the impacts of the a shock this magnitude would have exacerbated existing fragilities. These include:

1.Employment incomes and wages: stories about job losses are widespread, relating to specific niche sectors, especially but not limited to the extractive sectors and agricultural commodities. The ILO estimated that the crisis could put an additional 3 million people out of work and 28 million people into insecure work. The Zambian labour movement reported the loss of 10,000 jobs as copper prices plummeted to half their pre-crisis levels. The Central African Republic reported 1300 job losses from the timber industry. Similar reports spread from Ethiopia to South Africa. However job

losses from the extractive sectors have been growing at steady rate since the privatization of the mines. Moreover, some commodities, such as gold actually benefitted from the crisis as investors took refuge. Yet, there no notices of increased hiring of workers in the gold industry from Ghana to south Africa. The underlying level of employment and under-employment is so dire that the reported job losses pail into insignificance. The key problem remains a fixation with growth strategies that do not generate jobs. Not until recently did employment make it into MDGs as a priority. The problem employment is also exacerbated by income concentration and trade policies.

ii. Food fragilities and agrarian crisis: The financial crisis occurred on the back of hikes in global food prices as evidenced by the graph below, and may have exacerbated the existing fragilities in the food system.

Figure 2



Source: Taken from Jayati Gosh(200): www.networkideas.org

The food crisis were a result of a combination of factors, among which are; low/falling viability of farming, which has persisted through period of falling and rising world prices; falling land productivity in many countries along with pincer movements of relative prices of inputs and output; increasing concentration of global agribusiness, reflected in dramatic increases in marketing margins in almost all countries, the withdrawal or reduction of important public provision and protection related to agriculture and cultivators, even in countries with apparently high government subsidy like US. These factors were made worse by the diversion of land and resources to growing biofuels , and speculation in the commodity markets. Add to these apparently increased occurrences of extreme weather – both droughts and floods across the continent.

In April 2009 the FAO estimated that 33 countries were experiencing severe or moderate food crises, most of them in Africa being highly import dependent, with conditions in at least 17 countries worse compared to October 2008.
Countries in which widespread and persistent hunger was already a problem, have experienced significant increases in the prices of staple foods in the past two years, and there has been hardly any decline even after global trade prices started falling. Average maize price in Ethiopia was 31% higher than a year earlier. In Burkina, millet was 25% more expensive. Wheat prices were higher in Sudan in December 2008 compared to a year before. These stories are repeated across the continent. Whilst the impacts are generally harsh, they are even more on those on low incomes, especially women and children. Indications are that many countries in Africa will not achieve their MDG targets and hunger and nutrition, based on current policies..

The critical response is domestic food production, neglected and undermined over several years. Countries with high import propensity for food have been very badly affected, especially if they export cash crops. The key lesson is that NO country, however small and open, can afford to neglect domestic food production and must ensure at least some domestic supplies or regional/other arrangements to ensure food, if it does not want to get caught in a vortex of price volatility that can dramatically affect national food security.

National food security is crucial, because food has been and will be a weapon in strategic and geopolitical terms. Recent moves to secure food/farmland in Africa etc. through long terms contracts and leases by some chronic importing countries (Saudi Arabia, Kuwait) as well as others (companies in China, India). Food conflicts and strategic arrangements are closely related to water resources as well

The prognosis is that increase in global food prices are likely occur once more, given climate and technology-related stresses in agriculture. If this happens, speculative capital movements will occur, causing prices to rise further because required financial regulation is remains inadequate. However resolving food crisis requires concerted public action by governments in Africa and a shift a shift away from the export-obsessed and market-oriented neoliberal policy model.

4.3 Fragilities in trade and finance

The African Development Bank and the IMF have estimated losses from export revenues of $250bn for 2009 alone – much of it based on projections of commodity price movements and volumes of exports and sharply deteriorated current account balance representing an overall shift negatively equivalent of 7% of GDP compared a year before. These losses affect access to foreign exchange, the ability to service debts and exert pressure on the fiscal balance.

The estimates in relation to financial flows and the values of stocks and assets are equally grim. However, the domestic banking sectors are said to be relatively insulated.

The major source of the fragilities in the trade system lies in 3 related factors: reckless trade openness; the neglect of strategic planning and industrial policy and the dependence on primary commodities. Primary commodity markets are known to be the most volatile. Trade openness without a reasonably matured manufacturing sector

to benefit through competition curtails the possibility of a manufacturing sector ever emerging. Yet all early economic writers from Antonia Serra to Hamilton, are united in the view that what all wealthy nations have in common is a large number of manufacturing industries, all subject to increasing returns. In the same way, the characteristic that all middle income economies have is a large and growing manufacturing sector in a diversified economy.

At the on-going WTO trade talks, Turner reports that, the OECD countries are pushing an aggressive agenda of further liberalisation in the GATS, which suggests that few lessons have been learnt from the crisis and that we are back to status quo. They are demanding that:

- Countries in the OECD is demanding that developing countries commit to the Understanding to liberalise, open up commercial presence restrictions over a phase in period, bind the regulatory status quo, and pre-commit to additional de-regulation. They are suggesting a mechanism where any voluntary liberalization would be automatically locked in via trade commitments.

- The International Chamber of Commerce is demanding no supervision of branches, no limits on repatriation of earnings, and no limits on the types of services offered.

- The United States is offering to allow interstate branch expansion through mergers. It is requesting that countries impose no limits on equity requirements for branches and subsidiaries; rollback of economic needs tests; allowing derivatives and other products to be traded across borders; and transparency requirements that would allow U.S .firms to have more influence over the domestic policy formation process.

- Europe is demanding that mutual funds be allowed to service domestic markets without a commercial presence, and market-country regulation; and for elimination of asset requirements for foreign branches.

Unless this agenda is rolled back it will spill over into any re-opening for negotiations of the EPAs agreements or will find their way into bilateral agreements, making it impossible to use banks operating in the domestic economy to promote productive investments.

In relation to domestic finance, whilst they be relatively insulated from the financial crisis by virtue of their limited integration, their major malaise lies in growing divergence between the profits made by the banking sector and the performance of the real economy. In effect the banks mobilize financial savings and divert them in support of consumer imports or speculative ventures. This leaves only microfinance to serve the needs of economy – albeit microenterprises which are incapable of benefiting from the economies of scale.

Two lessons stand out. The first is that governments need to be able to use the banking industry as a lever to advance the development effort and achieve broad-based growth. The second is that for the banking sector needs to subordinate the profit motive to social objectives, and allow the system to exploit the potential for cross

subsidization and to direct credit, despite higher costs, to targeted sectors and disadvantaged sections, if it is to serve social development needs. These are the challenges for public policy.

4.3. The special case of foreign savings

The attraction of foreign capital (or foreign savings) in particular foreign direct investment, but also foreign loans, foreign aid and remittances have an exalted place in the strategies and mines of African leaders. The popularity of foreign savings as a development tool began in the 40s and 50s. The basic starting point is a growth model that says that given a level of technical progress (taking the technology as a given) the higher the savings and investment rates, the higher the growth rates. As the level of savings in developing countries will by definition be low, foreign savings will be necessary to fill the gap between savings and necessary investment and jump-sstart development. In the 1990s, with the liberalisation of finance came the view it was natural for rich countries to transfer capital to poor ones. It was assumed that foreign savings, once transferred will go into investment thereby increasing the growth rate.

Given this growth effect it made sense for poor countries to open their capital accounts. It was further believed that capital will naturally flow from rich to poor in order to take advantage of the higher returns to capital in the poor countries. These higher returns will allow the receiving country to pay its debt to the capital exporting country. Both will benefit from welfare gains: the rich from higher returns compared to the domestic, and the poor from higher growth. This suggests that it is normal, and even advisable, for the poor countries to permanently maintain current account deficits and appreciated exchange rates. The added advantage of foreign savings if they come in the form of FDI is increased integration into the global market and technology transfer. These have been the main theoretical justification and excitement for foreign capital.

However recent research[12] has demonstrated that increased foreign inflows do not contribute positively to growth for the ff reasons: the flows do not necessarily go into investments but rather largely into consumption; the foreign savings substitute (in varying degrees) for domestic savings; the abuse of foreign savings cause indebtedness and balance of payment crisis, financial weakening, increased dependency and loss of policy space because a substantial part of the flows go into consumption. Foreign savings may also simply channelled into increasing international reserves.

Foreign flows contribute to growth only in exceptional situations. This applies to a a highly limited conditions where there are high growth rates and differential between the expected profit rates and long term interest rate is high. In this situation the increase in consumption will be small since the middle incomes may be encouraged to channel their real salary increases into investment rather than consumption. \in the absence of these special conditions, foreign savings are damaging.

Foreign savings are also damaging through their effects on the real exchange rates. Appreciated exchange rates tend to reduce exports, encourage imports, reduce

[12] See Luize Carlos Bresser, Pereira and Paulos Gala, (January 2007) why Foreign Savings Fail to Cause growth: www.networkideas.org; www.othercanon.org

investments and domestic savings. Recent studies also find that a competitive exchange rate is a key factor for achieving growth and aggregate demand in the short run and employment in the long run. The conclusion from the above is that short of the exceptional condition mentioned above it is better for countries to make their capital at home.

Moreover, empirical evidence also shows that countries that grow rapidly are those that rely less , rather than more on foreign capital. Foreign capital intend tends to flow to countries with low, rather than high productivity growth.

In relation to capital formation at home, UNCTAD's TDR (2008) observes that increasing household savings to raise investment rates. What is needed is to: use market incentives (e.g. tax) to encourage the reinvestment of profits; channel bank credit to new businesses, especially small and medium sized firms; use liquidity provided by the central bank to encourage bank lending whilst putting institutional arrangements in place to maintain price stability. UNCTAD recommends a stronger role for government in influencing the direction of credit; stricter controls in leding for consumption and speculative purposes, and pro-active policies to over segmentation in financial markets.

4.4 Revenue Fragilities

Tax revenues are by far the most reliable source of income to spend on poverty reduction and yet taxation has not received the attention that aid and FDI have. Moreover taxation also plays 3 other important roles: as a tool for redistribution, redirection of economic incentives (such as to encourage re-investment of profits or to combat climate change), and for deepening the accountability re4lationships between governments and citizens (tax payers). Also successful tax regimes enable governments to reduce aid dependency and the political costs of dependency. By far the greatest are of tax reforms are the introduction of value added tax (VAT). Short of that, tax reforms concentrate on making tax collection efficient.

Unfortunate there has been little attention to the part of taxation system that relate to the financial crisis, which is the mechanisms that facilitate the transfer of wealth illegally so as to deliberately avoid tax or transfer wealth abroad or conceal other forms of financial information. The system that permits this involves the gross abuse of transfer pricing and deliberate misquotation of import and exports. Tax havens provide the dark sink into which the information goes and where profits are netted especially companies,

A study supported by Christian Aid (UK) estimates that developing countries lose **US$160 billion** a year in tax revenues due to the profit-shifting practices through trade alone- than one and a half times the total of international aid flows.[i] Our latest estimates (see table) suggest that the Sub-Saharan African countries alone have lost almost **US$26.9bn** between 2005 and 2007, on profit-shifting via their trade with the European Union members and the United States.[ii] If tax was levied on this capital, an additional **US$4.34bn** could have been collected. If capital flight to tax havens were included, this figure is likely to be much higher.

Lost Tax Revenue from African Countries to EU and US (million USD)**

Sub-Saharan Africa Greatest Tax Losses	**2005**	**2006**	**2007**	**3 Year Total**
South Africa	305.03	671.67	740.58	1717.28
Nigeria	325.11	186.59	444.59	956.29
Angola	128.35	64.31	142.07	334.73
Ivory Coast	65.66	66.07	174.75	306.48
Cameroon	28.82	40.73	172.82	242.37
Ghana	21.39	55.30	64.09	140.78
Gabon	38.82	13.91	61.34	114.07
Kenya	19.23	21.46	18.13	58.82
Chad	8.72	20.64	28.32	57.68
Senegal	18.36	16.42	18.26	53.03
TOTAL	**959.49**	**1157.12**	**1864.94**	**3981.54**

To end this transfer of income from poor to rich requires greater transparency from business,[iii] , an accounting standard that compels companies to declare their profits on a country by country basis, but also the free exchange of tax information between all jurisdictions. This information if provided in the proper format and accompanied by technical assistance would equip developing countries

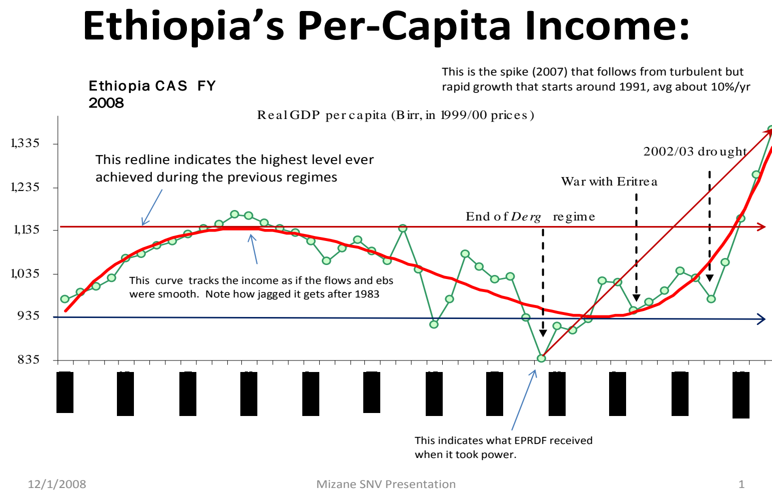
Also countries like Rwanda, Kenya and Ethiopia have demonstrated that when governments are determined to maximise tax revenue, they can. The Rwandan tax authorities conduct public forums across the country explaining why taxation is important and organises special awards to reward tax paying units. In return for increased tax collection Rwanda provides information through the web and takes anti-corruption serious. When Ghana introduced a 2.5% VAT dedicated to health insurance, it raised an mount equivalent to the health sector budget. Ethiopia has designed an ingenious system of tax collection using specially designed cash machines that transmit copies of transaction straight to the revenue authorities on a daily basis. For countries where telecommunications are privatised, a serious investment in tracking the tax obligations of telecom companies will yield significant sums as owning telephony in Africa is tantamount to owning a mint.

Given the slow pace of progress to achieve the MDGs, governments ought to show urgency in resource mobilisation.

5.0 Political will and clear thinking matters.

The pace and quality of development depend in a large measure to the clarity of thought of leadership, careful planning, resilience in holding the general course in the face of pressures and demonstrating integrity, not least being non-corrupt. In their different ways, the strategies pursued by Rwanda and Ethiopia, adopt a developmental state approach where the state actively intervenes in the economy to redirect economic rents into value-added activities. The integrity of this approach rests in part, on the separation between the government and the private sector, the domain where the competition for rents takes place. Where government individuals are at the same time business people, the conflict of interests undermines the integrity behind the strategy to capture and redirect economic rents. These factors distinguish Rwanda and Ethiopia from the rest, perhaps excepting Botswana.

Figure 3



The results of this approach are beginning to show. Both countries are high-growth. Both countries are making steady progress to diversify their economies and accelerate the provision of essential services, including agricultural extension services. Both countries use information technology reasonably creatively to deliver services and enhance value addition.

Ethiopia's economic growth is particularly admirable in view of its complexity and the exposure to repeated weather-related (and some times conflict related) shocks. The sharp growth trajectory, starting from 2003 is also significant because it marked the beginning of Ethiopia's decision to jettison some of the neoliberal policies it had adopted, like all other African countries in the 90s. The growth performance cannot be explained away by aid receipts. The average per capita aid received by Ethiopia over the past six years of $17 falls far short of the Sub-Saharan African average of $28 per capita.

Box 1

Ethiopia: A Growth strategy that is public-sector driven
Despite much touting of private sector as engine of growth, Ethiopia's economic expansion has been driven largely by pro-poor Public Sector (Gov't) investment, with a boom in opportunities for private sector in construction, transport, SME services, and finance (bank, insurance)
Roads: over 16,000km completed in just 2009
Electricity: From around 700mw available to the country, current projects nearing completion are expected to yield over 4000 mw with 2000 mw to be fully commissioned by early 2010
Public-owned Fibreoptic and telecom: Broadband connectivity over fibreoptic backbone is connecting all parts of the country supplemented by 3rd generation wireless providing both highspeed data and 100% rural voice coverage
Education: now over 16 million in school, with primary (1-8) almost universal and 50/50 parity
Farmer extension: 68,000 extension workers deployed (4 per kebele) while challenge in agriculture and food insecurity still persists due to the low base
Housing: Massive public housing projects for low income urban dwellers to fill a deficit of 500,000 units.
Rural water and sanitation: Exemplary for UNICEF as Ethiopia is approaching 100% coverage in safe drinking water access and household laterine coverage.
Decentralization: Genuine devolution of fiscal power at the Woreda level including full computerization and connectivity of budget offices (for monthly accounting
Health: There are now some 16,000 health posts (one per Kebele) with two Health Extension Workers in each (32,000) trained in delivery of a package of 16 primary health services emphasizing Mother and Child Health.

Box 2 shows the social development outcomes and the scale of investment that is taking place to advance social development. Although early days yet, the development performance of Ethiopia and Rwanda should put to rest the ideologically-minded view "private sector good and public sector bad". It is about pragmatic, determined and vision driven development governance.

The cases may be similar in some respects but are different in others. For example whereas foreign companies operate Rwanda's banks and telecommunications, banks in Ethiopia are only locally owned and the telecommunications company is state owned. Where Rwanda maintains a significant degree of capital account openness, Ethiopia operates strong capital controls and so on. These two cases merit deeper comparative research, in the interest of social development.

[i] A. Hogg et al. (2008) *Death and Taxes: the true toll of tax dodging,* London: Christian Aid. http://christianaid.org.uk/images/deathandtaxes.pdf
[ii] D. McNair, et al. (2009) *False Profits: robbing the poor to keep the rich tax free,* London: Christian Aid. Forthcoming.
[iii] R. Murphy (2008) *Country by country reporting: How to make multinational companies more transparent, Tax Justice Briefing* http://www.taxjustice.net/cms/upload/pdf/Country-by-country_reporting_-_080322.pdf