Towards Enhancing Employment in Africa

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You have asked me to share with you our assessment of the African economic situation, prospects for job incomes and employment. I am happy to do so, although I have an inkling that this may be what the English call "taking coal to Newcastle". There are probably more things to learn from you on the question of jobs and employment creation. I thank you, nonetheless, for the opportunity as, like you, I believe this is the biggest challenge facing all African countries today.

In the past decade African countries have demonstrated a new growth momentum and barring unforeseen events, we believe that Sub-Saharan African countries outside South Africa will grow at 6.5% next year. The North African Region, as you know, is still navigating the transition – and indeed there are now fewer jobs than before the revolution. It is therefore legitimate to ask the question: why is it that rapid growth has not created as many jobs and poverty decline has not been commensurate with strong economic performance? Indeed, in some countries large sections of the population feel excluded from the benefits. This is a source of socio-political tension and a seed of unsustainability.

The new dynamism of African economies is now a well-established fact. Contrary to what is often suggested, this is not simply about commodities. It is also about internal demand, drive by demographics and urbanization. That is why you will find that the fastest growing sectors outside the extractive industry are construction and services, to respond to Africa’s need for infrastructure and the demands of the fast urbanizing population. A contrario, growth in manufacturing is still limited by poor infrastructure, logistics, lack of cluster industries, although that is slowly changing.

Therefore, to answer your question as to why job growth is not commensurate with economic growth, there are two related reasons: limited economic transformation and lack of active inclusive policies – and the two are somehow related. I will in turn want to stress the role of agriculture and education. I will then share with you what the AfDB is doing and how together we can craft some of the solutions.

The decade of the 1960s, the period of independence which many countries in Africa are now celebrating, was one of high hopes, high expectations and a generally bullish period in Africa. Those hopes were however soon dashed by worsening socioeconomic conditions, military takeovers and political upheavals. I need not to mention the horrendous civil wars in the Congo and Nigeria.

By the 1970s, the crisis had deepened, worsened by successive external shocks, two oil shocks in particular, debt accumulation, macro-economic policies that defied common sense and to cap it all, confiscation policies by a "predatory state" – what in Uganda they called “Mafuta Mingi" or “Zairanization" (its equivalent in the Congo) and lesser versions of the same in other countries.
By the 1980s, prodded along by the Bretton Woods Institutions, the process of economic reform began. This process anchored in neoliberal policies was to take about a decade and a half. Steadily, macroeconomic stability was restored, so was the balance between the state and the markets. I will leave aside for the moment, the argument that there might even have been a period of “over correction” in the enthusiastic pursuit of the neo-liberal agenda.

By the mid-1990s, those reforms were beginning to yield results. The international initiatives to cancel debt came to complete the process. It had been two decades of tough structural adjustment – indeed “sweat and tears”. As the new millennium was ushered in, the growth pulses across Africa picked up quite rapidly. Spurred by favourable commodity prices and internal dynamics the 21st century opened with promise. While progress has not been universal or linear, millions of Africans are being lifted out of poverty and large gains have been made in the human development area, of which the most dramatic have been:

- Reduction in infant mortality;
- Progress vis-à-vis HIV/AIDS, TB and malaria; and
- School enrolment, of both genders.

By the time of the 2009 financial crisis the lexicon about Africa had changed dramatically. From a “hopeless” continent it was now broadly labeled a continent of the future. The McKinsey Report – “African Lions on the Move” – came to complete this seal of approval. Needless to say, the mayhem on Wall Street and its global repercussions was a source of apprehension: was the African momentum to be reversed? In the event of the first round, effects turned out to be minimal:

- Our banks had limited exposure to toxic products and there was limited integration into the global financial system;
- Macroeconomic foundations were relatively good;
- Regulators (Central Banks, that is) had done a good job on the prudential side, on such issues as capital adequacy, etc.

In short, as far as African banking systems were concerned, regulations were in place, supervision was robust, sanctions regime applied when necessary and resolution mechanisms in place if things went wrong, which could not be said for Wall Street. There was, however, that lingering view that the second round effects were likely to be quite severe on exports, investment flows, remittances, etc.
In the event, Sub-Saharan Africa, to use the now commonly accepted terminology, emerged with minimal damage and it resumed its growth path. Obviously, while the shock absorbing capacity was weakened, counter cyclical measures adopted in different countries had been reasonably effective. In the words of the IMF: “The impact of the global economic crisis on Africa was brutal but mercifully brief.”

In short, as far as “crisis management” is concerned, our economic managers can be said to have scored a credible B+. However, having demonstrated strong reform credentials, the ability to correct the errors of the first 25 years of independence, a credible crisis management record and a certain resilience to external shocks, three big interrelated questions remain: first, how sustainable the momentum was; second, whether the strong growth was inclusive enough; third, how and under what conditions economic transformation would take place.

Please allow me to digress. In the same period we are examining, that is, the 1980s and 1990s, another country was undergoing perhaps the most dramatic transformation of our time which changed the whole landscape of employment, jobs and income – and that is China. For those of you who may be interested in that process, publications abound, but I would like to recommend one: Ezra Vogel’s excellent book entitled Deng Xiaoping and the Transformation of China. He recalls among other things that 80% of China’s 900 million people in 1980 were peasants. There was not enough food to eat, not enough clothing and widespread poverty. That is only 30 years ago! The rest, as they say, is history. It is still too early perhaps, to come to definitive conclusions, as to what worked so well for China. Many things were taking place at the same time including the special economic zones and the broad opening up of the economy. However, there is no doubt that in term of lifting millions out of poverty in a short period of time, this must be one of the most radical and successful transformations of our time.

So, what could be some of the elements of that successful process? I would like to pick up just three: agriculture, education and the role of the state, itself in the process of development and enterprise. Let us look at agriculture first.

Between 1980 and 1984, Deng and his colleagues began a limited liberalization of agriculture, with farmers enjoying greater degrees of freedom of exchange and ownership, fertilizer utilization doubled, so did farmer incomes. An irreversible process and a dynamic change process began. This is exactly what had happened in Japan and Korea years before, confirming thereby what we have always known: that no country has ever undergone such a process of transformation without beginning with agriculture, which raises farm incomes, accelerates non-agricultural growth and eventually structural transformation.
The second major supporting element of transformation was the rapid spread of quality education at all level. It is not surprising therefore that the first loan taken by China when it joined the World Bank in 1980 was for higher education. I am told that in the past 20 years alone, over one million Chinese have studied and graduated at foreign universities.

I am not by any means making a simplistic comparison between China and Africa. Remember, China is an old empire dating back to pre-Roman times, which was economically powerful at some point. Along the way it was weakened by successive civil wars, occupation and defective economic policies under Communist rule. I am only saying that transformation was possible within 30 years.

However – and this is the third point – all this process of change makes some assumptions about the nature of the state and its role. It is evident that the role of the state in the planning process, sequencing the investments needed to kick-start the process such as removing the infrastructure, setting priorities, is fundamental.

If I am emphasizing the role of the state, it is not to ignore the damage done in Africa by the predatory state, nor its failures. To the contrary, the state I am referring to must have a number of characteristics that distinguish it from the predatory states Africa experienced in the 1970s and 1980s. The late Meles Zenawi has spoken and written extensively on what he called the “developmental state”. I share that view. This is not to negate aspects of the neoliberal agenda which are critical. This is only to posit that at the base of the transformation process there must be a state that sets priorities, acts as the guiding hand, that is not predatory and, to quote Meles Zenawi, a state that is not simply “the night watchman.”

Someone has said that the two biggest events in world history in the past 50 years were the collapse of the Berlin Wall and the collapse of Lehman Brothers. The collapse of the Berlin Wall put to an end to the socialist path, which turned out to be a dead end. Professor Fukuyama asserted that it was the end of history. On the other hand the collapse of Lehman brothers, brought to the fore the fact that the forces of capitalism themselves, left on their own, unfettered and unregulated, would not provide the solution and would impose very high social costs, as they have done.

If you look at the G20, what do you see? Countries that have made it through different routes and experience, from China, to Korea, to Turkey, to Brazil and Indonesia. While we know what can kill development, our knowledge of what makes development is less comprehensive.
Let me now conclude with what we are doing at the African Development Bank to support the transformation agenda. When I came to office in 2005 I decided, following the advice of a High Level Panel, to emphasize four core activities of the Bank: infrastructure; regional Integration; the private sector; and higher education and skills. We agreed also on the need to promote strong institutions, governance and support the fragile states. I believe this is the best way, to promote growth and jobs. I am fully aware that for growth to translate into jobs and incomes, deliberate policies are needed such as targeted safety nets to ensure no one is left behind. This is what the Bank has done in the past seven years: infrastructure now accounts for 60% of all our operations and private sector activities now represent 30% of all Bank activities. I believe the discovery of natural resources and associated developments, as well as strong urbanization and growth in services, are all game changers in job creation, provided the basics are in place.

Now as we enter the next decade, a decisive decade for Africa, we have concluded that our focus areas are still the right ones. However, we are going to place emphasis on ensuring that the benefits of the interventions are broadly shared among the population by promoting inclusive policies, creating jobs and bringing about shared prosperity. This is vital. Sustainable economic development is that which leaves no one behind. Otherwise, as we saw in Tunisia, one is building a house of cards.

The second element of sustainability we are focusing on, relates to natural capital and opportunities offered by greening the economies. For a continent like Africa, which is very much dependent on nature, our chances for development are diminished if that is not done.

After decades of stagnation, Africa is on the verge of a new era. Despite the dark clouds in the global economy, the internal and external dynamics contain elements favourable to transformation, provided we get it right. Too much time was wasted on futile ideological economic battles, from Marxist economics, neo-liberal paradigms and, above all, predatory states that led to dead ends. As a continent, we now know what to do. We know there is no model off the shelf, there is no escalator.

I would like to thank you for inviting me, although I think you have heard nothing new. Thank you all for being here with us.

Thank you.