Setting the Agenda for Africa's Economic Recovery and Long-Term Growth

Report of the Fifth African Economic Conference

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Tunis, Tunisia

Acronyms and Abbreviations

ACP	Africa, Caribbean and the Pacific
AERC	African Economic Research Consortium
AGOA	Africa Growth and Opportunity Act
AfDB	African Development Bank
AIGA	African Investment Guarantee Agency
AEC	African Economic Conference
BRIC	Brazil, Russia, India, China
BITs	Bilateral Investment Treaties
CAEMC	Central African Economic and Monetary Community
CECAFA	Clean Energy and Climate Adaptation Facility for Africa
CEMAC	Communauté Economique et Monétaire de l'Afrique Centrale (Economic and Monetary Community of Central Africa)
DBSA	Development Bank of Southern Africa
EBA	Everything but Arms
EDA	Effective Development Assistance
EKC	Environmental Kuznets Curve
EPA	Economic Partnership Agreements
EU	European Union
FDI	Foreign Direct Investment
G20	Includes OECD countries and South Africa, Argentina, Brazil, China, India, Indonesia, Saudi Arabia, Russia, European Union
GDP	Gross Domestic Product
GSP	Generalised System of Preference
GTAP	Global Trade Analysis Project
IACO	Inter-African Coffee Organisation
ICT	Information and Communication Technology
IDEP	African Institute for Economic Development and Planning
IFPRI	International Food Policy Research Institute
IMF	International Monetary Fund
LCFIs	Large and Conglomerate Financial Institutions
LFS	Labour Force Survey
MDBs	Multilateral Development Banks

MDGs	Millennium Development Goals
MDI	Multidimensional Deprivation Index
MFN	Most Favoured Nation
NEPAD	The New Partnership for Africa's Development
ODA	Official Development Assistance
OECD	Organisation for Economic Cooperation and Development
OVC	Orphans and Vulnerable Children
PBA	Performance Based Allocation
PMT	Proxy Means Test
PTIAs	Preferential Trade and Investment Agreements
RBA	Regional Bureau for Africa
RMCs	Regional Member Countries
ROSCAs	Rotating Savings and Credit Associations
SSA	sub-Saharan Africa
TFP	Total Factor Productivity
UEMOA	West African Economic and Monetary Union (WAEMU)
UN	United Nations
UNDP	United Nation Development Programme
UNECA	United Nations Economic Commission for Africa
WTO	World Trade Organisation

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This report summarises key messages of the articles and keynote addresses discussed at the 2010 African Economic Conference in Tunis, Tunisia, under the theme: "Setting the Agenda for Africa's Economic Recovery and Long-term Growth". The report was drafted by the lead rapporteur, Professor Sylvain Dessy of the University of Laval, Canada, with the assistance of Audrey Verdier-Chouchane, who is also the coordinator of the report at the African Development Bank, Tunisia. The inputs by many discussants and other rapporteurs who summarised the main issues raised during the discussions are greatly acknowledged. For the French version of the report, the translation was done by Architexte (Paris, France).

The 2010 AEC provided a unique opportunity for policymakers and researchers, including the Diaspora, to interact and debate the critical policy issues affecting Africa. The report highlights the main policy recommendations emerging from the deliberations.

This conference would not have been possible without the full support and the leadership of the African Development Bank's President, the Executive Secretary of the Economic Commission for Africa, the Administrator of the United Nations Development Programme and the Director and Chief Executive Officer of the Development Bank of Southern Africa. Many staff members of these institutions dedicated their time and energy to make the conference a success. Their significant contributions are appreciated.

We are grateful for the contribution by the keynote speakers and the various professionals who wrote papers and made presentations that stimulated the debates at the conference. They made this forum a valuable learning experience for all participants.

Finally, we would like to thank the entire policy research network and policy-making community for the enthusiastic support to the conference. We are looking forward to meeting them again at the 2011 conference.

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Executive Summary

The Fifth Edition of the African Economic Conference (AEC), jointly organised by the African Development Bank Group (AfDB), the United Nations Economic Commission for Africa (UNECA), the United Nations Development Programme (UNDP), and the Development Bank of Southern Africa (DBSA) was held in Tunis, Tunisia, on October 27-29, 2010.

The AEC provides a venue for sharing knowledge about operations, public policies and actions that are shaping social change and development in Africa. The Fifth Edition brought together economists, experts from leading international organisations focusing on development, African policymakers, and members of the African business community for direct exchanges on challenges and opportunities facing the continent. Participants also included one delegate from the Ministry of Finance and one from the Central Bank of each Regional Member Country (RMC). Including senior management and staff of organising institutions (AfDB, UNECA, UNDP and DBSA), the total number of participants was about 360.

The broad theme for the Fifth AEC was: "*Setting the agenda for Africa's Economic Recovery and Long-term Growth*". The Conference comprised three Plenary Sessions with keynote presentations, a Round Table discussion, a Conference dinner, 15 Break-Out Sessions, four Special sessions and the launch of a joint UNDP/IDEP/AfDB initiative on Gender and Economic Policy Management.

The Tunisian Prime Minister, **H.E. Mohammed Ghannouchi,** officially opened the Conference in the presence of representatives of organising institutions, namely, UNECA Executive Secretary, **Abdoulie Janneh**, UNDP Assistant Secretary General and Director of the Regional Bureau for Africa, **Tegegnework Gettu**, and AfDB President, **Donald Kaberuka**. WTO Director General, **Pascal Lamy**, gave a keynote address at the opening ceremony.

The AEC 2010 also benefited from the participation of prominent communication experts, who moderated panel sessions and the round table. They included: **Jeff Koinange** (TV Station K24); **Buchizya Mseteka** (Leriba Risk Services); **Lerato Mbele** (CNBC Africa); and **James Makawa** (The Africa Channel). The moderators were effective in guiding discussions that led to valuable insights and policy recommendations.

Africa's recovery from the effects of the 2008 food crisis and 2009 global financial crisis provided a fitting impetus to this fifth edition of the AEC, as academics, development practitioners and African policymakers went beyond the initial economic shock to establish whether there were signs of resilience to the recovery. This report summarises the conference proceedings by highlighting the issues discussed and by relating them to public policy actions, strategies, and operations likely to further African development. From a programmatic viewpoint, the conference proceedings contribute to achieving the AEC's aim of establishing a bridge between knowledge and policy making.

The topics were very timely and pertinent to the real issues and problems confronting African countries. This also injected more energy into the discussions as RMC participants could relate the discussions to their daily work. Plenary panels, special sessions, and concurrent sessions explored a variety of issues, including: (i) Strategies for breaking Africa's isolation from the global economy;

(ii) growing ties with the BRIC (Brazil, Russia, India and China) countries; (iii) vulnerability to food insecurity and deprivations in human development; (iv) the transition in many countries from state-led to private sector-led growth; (v) the case for green growth, and; (vi) the creation of an enabling environment for doing business and private sector development.

The papers presented at the conference were authored by Africanists, members of the African Diaspora, and a growing number of African researchers[1]. These papers provided a balanced mix of empirical and theoretical methods of investigation. While most of the papers contain arguments with policy implications, this report should not be regarded as a validation of their policy recommendations. The AEC report only summarises the conference proceedings in a way that provides valuable information about both the achievements of various partnerships for Africa's development and the challenges confronting their operations.

[1] Papers can be downloaded at http://www.afdb.org/en/aec/papers/

Introduction

In 2009, Africa, like the rest of the world, was hit by the global economic crisis that threatened to overturn its take off. After experiencing spectacular growth by its own standard at nearly six percent between 2006 - 2008 (*African Economic Outlook* 2010), Africa could not escape the damaging effects of the global downturn, which saw its average growth rate for the previous three years slashed by more than half in 2009, to settled at 2.5 percent.

Southern Africa, with a low growth rate of about one percent, Central Africa with an average growth rate of two percent, and West Africa at three percent, contributed the most to this low figure. East and North Africa were the least vulnerable, with respective growth rates of 3.8 percent and 5.8 percent in 2009. These were lower than their previous three-year average (*African Economic Outlook* 2010).

While the more advanced economies have been recovering rather tepidly from the effects of the 2009 global crisis, Africa's recovery, by contrast, has been unexpectedly spectacular, with average growth rates estimated at 4.5 percent for 2010 and 5.2 percent for 2011 (*African Economic Outlook* 2010). These remarkable figures placed the continent as one of the fastest-growing regions in the world, just behind the emerging economies of Asia, whose average growth was projected at 8.7 percent for both 2010 and 2011 (IMF, *World Economic Outlook* 2010).

However, similar to the varying effects of the 2009 global crisis, Africa's recovery is taking place at various speeds. For the 2010/11 period, Eastern Africa was projected to be the fastest growing sub-region with a growth rate above six percent, followed by North and West Africa at five percent, and Central Africa at slightly above four percent. Southern African had a growth rate of below four percent during the forecasting period (*African Economic Outlook* 2010)[2]. With

[2] Available at : http://www.africaneconomicoutlook.org/en/outlook/macroeconomic-situation-and-prospects/african-economies-will-gain-strength/economic-growth-remains/

these sensational even though varying regional figures, development experts, Africanists, the African business community, and the continent's policy makers have found themselves confronted with unusual questions: Has Africa finally turned the corner? If so, what are the sources of its growth's resilience? How can these sources be strengthened?

It is against this backdrop that the Fifth Edition of the African Economic Conference (AEC), jointly organised by the African Development Bank Group (AfDB), the United Nations Economic Commission for Africa (UNECA), the United Nations Development Programme (UNDP), and the Development Bank of Southern Africa (DBSA), opened its official ceremonies in Tunis, Tunisia, on October 27-29, 2010. Indeed, the broad theme of the conference, "Setting the Agenda for Africa's Economic Recovery and Long-Term Growth", was, by itself, a fitting testimony to the paramount importance of the questions raised above. It therefore came as no surprise that the AEC Tunis 2010 was touted by organisers as a forum where members of the African diaspora, Africanists, and the African business community could join efforts in exploring the range and nature of operations likely to lay down the foundations of Africa's long-term prosperity.

In addition to the opening ceremony, three Plenary Sessions with keynote presentations, a Round Table, a Conference dinner, 15 Break-Out Sessions, four Special sessions, and the launch of a joint UNDP/IDEP/AfDB initiative on Gender and Economic Policy Management, formed the structure of the AEC 2010. About 35 reviewed papers were presented. Plenary panels and concurrent sessions were designed to harness linkages between academics, development practitioners and institutions providing financial and logistic support for Africa's development.

Opening remarks and the keynote addresses set the pace for the three days of intensive debates and discussions. In his opening remarks, the AfDB President, **Donald Kaberuka**, mindful of the fact that previous growth take-offs in Africa had been reversed, emphasised the need to anchor discussions of growth sustainability around a pragmatic policy agenda. He was critical of one-size-fits-all approaches to policy design and implementation, which in the past had been derived from imported consensus. He argued that such approaches were impervious to marked differences between African countries. To illustrate his case, **Kaberuka** pointed to the dichotomy in Africa between deficit-energy countries and surplus-energy countries. His point echoed historical evidence linking a successful development experience to the existence of a nationally-owned consensus, not only on how strong growth was to be achieved, but also on how it could be made more inclusive — a necessary condition for its sustainability.

UNECA's Executive Secretary, **Abdoulie Janneh**, followed up with a warning that, although impressive, current rates of growth in Africa were not high enough to significantly reduce poverty in the short-term. He outlined four key factors for Africa's long-term development.

First, there is an urgent need to achieve diversification of economic activities. This may require fostering the manufacturing sector, which still accounts for only about 10 percent of GDP in many African countries. Second, there is an urgent need for domestic financial resources mobilisation, given the uncertain prospects for post-crisis global finance. Third is the need to promote integration of African economies in order to generate economies of size, as in the case of China and India. Finally, achieving economic diversification and structural transformation are critical for the integration of African countries into the global economy.

The Director of UNDP's Regional Bureau for Africa, **Tegegnework Gettu**, emphasised a series of measures needed to speed-up recovery, sustain economic growth in Africa, and accelerate progress towards the Millennium Development Goals. These measures include the continuation of economic and political reforms, investing in the productive capacity of African economies — which includes addressing backlogs in both social sectors and economic infrastructure — and promoting comprehensive systems of social protection for those that are most vulnerable to risk. **Gettu** emphasised that in order to make future growth in Africa more pro-poor, the growth process would need to be more responsive to the skills that the poor possess, the sectors they occupy, and the geographical regions they live in. He also called for an inclusive agenda that prioritises job creation, boosts agricultural productivity and empowers women.

In his welcome address, the Prime Minister of Tunisia, **H.E. Mohammed Ghannouchi,** praised the organisers' efforts to set up a resourceful forum for discussing critical issues relating to Africa's development. He urged participants to challenge the old preconception that underdevelopment was a fatality, arguing that East-Asian countries proved this wrong. He also encouraged participants to explore five potential pillars of Africa's long-term prosperity, these being political will to set up an enabling business environment; financial development to better mobilise domestic resources; investment in youth to enhance the development of a skilled labour force; infrastructure development to attract FDI; and integration to the world economy.

Finally, in his keynote address, the Director-General of the WTO, **Pascal Lamy**, echoed previous speakers by stressing concentration of export markets and over-reliance on a small basket of export goods as the main culprit of Africa's vulnerability to crises. He also joined previous speakers in advocating for infrastructure development and investment in skills as vital for the building of a dynamic supply-side capacity in Africa, capable of supporting efficient diversification and structural transformation.

The fruitful debates and discussions that followed these opening remarks are summarised in this report. It is divided into eight sections highlighting the main themes discussed at the conference. In relation to the broad theme of the conference, plenary panels, special sessions, and concurrent sessions explored a variety of issues, including strategies for breaking Africa's isolation from the global economy, the continent's growing ties with the BRIC countries, its vulnerability to food insecurity and human development deficits, its transition from state-led to private sector-led growth, the case for green growth, and the creation of an enabling environment for doing business.

The papers presented at the conference were authored by Africanists, members of the African Diaspora as well as a growing number of African researchers. These papers provided a good mix of empirical and theoretical methods of investigation. They had all been selected and reviewed by a team of specialists from the organising institutions. While most of the papers contain results that have policy implications, this report should not be regarded as a validation of their policy recommendations. Its aim is to summarise conference proceedings, highlight the main themes discussed, and identify avenues for future research.

The eight themes covered in this report are as follows:

1. Africa's path to the Global Economy
2. Poverty, Food Insecurity, and Cash Transfer Programmes
3. Financial Development
4. Private Sector Development

5. Human Capital and Growth
6. Development Financing: What Prospects for Africa?
7. The Role of Governance
8. Reconciling Growth and Environmental Sustainability

1. Africa's Path to the Global Economy

Three main challenges undermine the prospects for Africa's integration in the global economy. First, with the G20 now controlling about 85 percent of world financial resources[3], Africa's effort to get a share of the global wealth needs a complete overhaul if the continent is to avoid becoming permanently marginalised in the global economy. Second, evidence provided by UNECA[4] reveals that intra-Africa trade still accounts for only three percent of cross-border trade, while the corresponding figure for the EU is around 66 percent. Third, Africa has been mostly a commodity exporter, and, despite benefiting from several preferential trade agreements, the continent is yet to muster a sustained push towards export diversification. It therefore comes as no surprise that the Fifth AEC dedicated two plenary sessions to discuss how to clear the road to its successful integration into the global economy. They were a special session on Vision Africa 2050, and three concurrent sessions to the exploration of strategies likely to help Africa overcome these challenges.

The World in 2050 and Beyond: What Prospects and Challenges for Africa?

Despite posting relatively high growth rates during the three years leading to the 2009 global crisis and showing spectacular recovery speed in the aftermath of the crisis, Africa only accounts for three of the thirteen new economies projected to emerge by 2050. They are Egypt, Nigeria and South Africa[5]. An

[3] *Financial Times*, available online at http://www.ft.com/reports/africa-china-trade-2010.
[4] UNECA (2010), Economic Report on Africa: Promoting High-level Sustainable Growth to Reduce Unemployment in Africa, Economic Commission for Africa, Addis Ababa.
[5] John Hawksworth and Gordon Cookson 2008. The World in 2050, available online at http://www.pwc.com/gx/en/world-2050/pdf/world_2050_brics.pdf

emerging economy can be defined as one that is rapidly catching up in size with the advanced economies, driven primarily by a process of market-led structural transformation, including the injection of greater transparency and efficiency in the capital market. The challenge for Africa therefore, is to overturn its under-representation in the elite group of 30 economies (including emerging and advanced economies) projected to control more than 85 percent of the World output[6]. It is against this backdrop that the AEC 2010 dedicated a special session on the Africa Vision 2050. The session had five presentations.

Robert Okello argued that by 2050, Africa would face a transformed world. In view of its slow transformation relative to similar regions in Asia in the past 50 years since independence, the continent would need to adapt to global changes far more rapidly than its norm to date. In particular, the predominant sectors of peasant agriculture and natural resource extraction, with little industrial production, must be transformed. Okello envisioned that by 2050, Africa's economies would be more integrated and increasingly urbanised, and that a large proportion of the labour force would be in formal wage employment in industry and services. But this, he clarified, was only a vision. For it to be become reality, Africa would have to manage urbanisation and migration, adapt agricultural technology, and deal with the resource curse. Actions that would require collective responses at regional and international levels include regional integration, trade preferences, and management of aid.

John Page gave an overview of how projected changes around the world might shape Africa's future. He identified some of the critical issues, both from country and collective (regional and global) perspectives, which must be tackled through changes in public policies and actions. In particular, he echoed Okello's view that African countries should invest in their cities, manage migration, transform agriculture, improve management of natural resources, and break in through the bottom of the global market in goods and services. He called for deeper regional integration, and urged the international community to work to improve trade access for African countries as well as aid performance.

Uri Dadush presented long-term growth projections for the G-20 economies and four large countries in Sub-Saharan Africa, based on a Cobb-Douglas production function. These projections feature growth acceleration in developing countries hosting the vast majority of the world's population, and

[6] Again, see John Hawksworth and Gordon Cookson 2008.

increased integration of these countries into global markets. He argued that these future developments at the global level would offer potential growth opportunities even to the poorest countries, provided that they met a certain number of conditions, including the adoption of sound domestic policies - viewed as those that favoured integration into global markets - and the creation of an enabling environment essential for sustained flow of trade, capital, people and technology.

Oyelaran Oyeyinka built his presentation on the idea that the long-term prospects for Africa's industrialisation and development should focus on knowledge accumulation and building of technology capabilities. Such capabilities were not an end in themselves, but would be needed to foster innovations in different sectors of the economy that contributed to economic development. Crucial to the transformation of capabilities into real opportunities for catching up and forging ahead, he argued, was the need to overcome economic development challenges at all levels.

Franklyn Lisk's presentation highlighted one of these challenges, namely the incidence of HIV/AIDS in SSA. He stressed the importance of responding effectively to the threat posed by the epidemic to livelihoods and development prospects in the region. He pointed out that the range of issues generated by HIV/AIDS and its impact in Africa extended beyond the health domain to include and threaten economic, social, political, and security objectives of Africa's development at both national and regional levels. The way forward, he argued, thus required vital insights into the multi-dimensional characteristics of the epidemic, as well as the creation of a multi-sectoral institutional environment at national and sub-national levels in which HIV/AIDS response could thrive.

What Trade Partnerships for Africa?

The 1st plenary session of the Fifth African Economic Conference brought together a panel of African experts to discuss the pillars of the continent's successful engagement with global trade partners, both old and new. Which partnerships can allow Africa to achieve growth with resilience? Where do old trade-partnerships factor in, and what can be expected of new ones? These were some of the questions panelists and participants discussed during the session. Just to recall, old partnerships include Bretton Woods institutions, former colonising powers and OECD countries, while new partnerships essentially involve the BRICs.

The AfDB chief economist, **Mthuli Ncube,** outlined five pillars on which engagement in partnerships must be based. First, he stressed the urgent need for infrastructure development, both at the national level to attract FDI, and at the regional level to foster intra-Africa trade. Second, he advocated for the strengthening of local capacities to manage development projects. Third, he underscored the value of developing a competitive private sector through improvements in governance and regulatory environment. Fourth, he echoed views of speakers in the opening session by underscoring the importance of public investment in education as a means to foster the development of a skilled labour force. Finally, **Ncube** stressed that to benefit Africa, partnerships should promote knowledge-sharing. He cited the case of Brazil's engagement with Africa as a good example. Indeed in early 2010, Brazil launched its *Africa-Brazil Agricultural Innovation Marketplace Initiative,* whose aim was to enhance South–South knowledge and technology transfer and stimulate policy dialogue between the two regions[7]. Buoyed by the growing number of such initiatives aimed at Africa, **Ncube** concluded that when it came to drawing a new map for productive partnerships, norms of engagement, more than the identity of the partners, could take Africa to the next level.

Kenya's Central Bank governor, **Njuguna Ndungu**, acknowledged that global partnerships (old and new) had an important role to play in helping Africa consolidate its recent successes. He pointed specifically to the challenges of building regional infrastructures as well as achieving a much needed diversification of the continent's exports markets, both of which might require engagements in new partnerships. First, the building of regional infrastructure raises coordination challenges due to externalities that any individual country may fail to internalise. Resolving this coordination problem requires closer regional partnerships. Second, market access is crucial for Africa to achieve diversification of its exports and structural transformation. But improving market access involves the participation of other countries that must be engaged in partnerships (either multilaterally or bilaterally) to ensure success. **Ndungu** concluded that engagement strategies must be guided by such binding constraints if they were to bear fruits.

[7] See details of the initiative on : http://www.africa-brazil.org/

Zephirin Diabre, who is Chairman of the Africa and Middle East Regions of Areva, emphasised the development of a dynamic private sector as a goal of any successful partnership engagement (old or new). He expressed preference for FDI inflows as opposed to aid inflows, as the outcome of any new partnership engagement. He advanced the idea that promoting a European Union's type regional integration in Africa would likely be a force in harnessing new partnerships into a harbinger of the continent's private sector development.

The Research Director of the Nordic Africa Institute, **Fantu Cheru**, highlighted the foundations of a mutually beneficial partnership, and asked whether Africa's proposed new partnerships with emerging economies — including China and India — could be said to rest on such foundations. He advanced the idea that foundations of a successful partnership required mutual, in-depth, historical knowledge of partners. He warned that successful engagement of emerging economies might require adequate preparation in order to abate risks arising from asymmetric relationships and maximise the benefits for Africa. Like his fellow panellists, **Cheru** concluded that in Africa's search for productive partnerships, the main issue was not really what partners (old or new) to engage with, but the type of partnership. This would help to avoid inviting neo-colonialism.

The Prospects for Regional Integration

The concurrent session on regional integration in Africa was the first opportunity for participants to look at the prospects for intra-Africa trade. It is important to point out that throughout the conference, some speakers actively advocated for regional trade as an integral part of Africa's strategy for penetrating the global economy. Others emphasised its many challenges, while some discussed its desirable form.

The session involved presentations about some of the key issues confronting regional integration in Africa. **Nora Dihel**, **Ana M. Fernandes**, **and Aaditya Mattoo** presented an investigation of problems constraining the development of professional services in eastern and southern Africa in the context of regional integration. **Inutu Lukonga** and **Kay Chung** then looked at the regional stability implications of the expansion of African Large and Conglomerate Financial Institutions' (LCFIs). However, given the high interest generated by regional integration in Africa, efforts must be made to invite analytical contributions to the debate to ensure that policy in this area does not move ahead of research.

Are there Gains from Africa's Trade with China?

The issue of China's engagement with Africa was also a salient feature of the Fifth AEC. It dominated both informal and formal discussions. It is important to note that this topic has received worldwide attention, including a series of reports on China-Africa trade by the *Financial Times* posted online in June 2010[8]. According to these reports, commodities such as oil, copper, cobalt and other raw materials have been the core of China-Africa trade. Critics view this trade pattern as reminiscent of Africa's past relations with Europe. Proponents revel in China's contribution to the reduction of Africa's infrastructure gap that could, if unaddressed, threaten to check the resilience of its growth process. Looking beyond just trade, they also pointed to the opportunity that China's engagement with Africa provides. It makes African governments to relax their budget constraints through fiscal rewards from competitive bidding for public tenders on natural resources extraction and infrastructure building projects.

Therefore, at a time when the debate on the growing ties between China and Africa is reaching global proportions, Africa's own perspective on the issue is conspicuously missing. Is China's engagement with Africa a lever for structural transformation, a catalyst for better governance, and a basis for the consolidation of democratic institutions? Or is it merely a second coming of the mercantilist tendencies that have characterised European trade with Africa? In other words, what does Africa gain from trading with China? The two papers presented in the concurrent session on China-Africa trade addressed aspects of these questions.

Xiao Ye examined whether the drivers of China's patterns of trade with Africa differed from those of China's trade with other countries such as Brazil, Canada, and Russia. She found that China's trade and investment relationship with Africa was clearly determined by comparative advantages in the context of globalisation. Her conclusion was that in that sense, China's trade engagement with Africa was no different than its trade relationship with Brazil, Canada and Russia. She also advanced the idea that China's engagement with Africa could provide the latter with a lever to industrialisation, arguing that the continent would reap from the benefits of China's endeavour to move up the value chain in the international market. Sceptics might argue, however, that market access for new Africa's exports would not necessarily be guaranteed as a result of

[8] Available online at http://www.ft.com/reports/africa-china-trade-2010

China's purported vacation of previously held market niches, unless it provided such access through diversification of its imports from Africa.

Mina Baliamoune-Lutz's paper presented in the same session was unsupportive of **Ye**'s assertion that in the medium term, China's engagement of Africa would provide a lever to African exports diversification. Using a comparative analysis of the growth effects of trade by destination, her empirical analysis found no evidence that African exports to China enhanced its growth unconditionally, but uncovered strong evidence that exporting to the rest of the world had had a more positive impact on the continent's growth. However, consistent with the predictions of traditional trade theory, she found that the share of China in an African country's total imports had a robust positive effect on the importing country's growth. Her paper suggested that public discussions of China's engagement of Africa that focus on the need to redress trade imbalances might be misplaced. Instead, she pointed to the need to harness the growth potential of Africa's imports from China.

Market Access and Export Diversification

Public discussions of market access, including the Uruguay and the Doha rounds, tend to focus on developed countries' trade barriers in the context of multilateral trade negotiations. The third concurrent session on trade issues, by contrast, emphasised internal challenges to market access, mindful of the existence of several preferential trade agreements granted to African countries. Examples include the "*Everything But Arms*" (EBA) scheme between the EU and least developing countries, and the African Growth Opportunity Acts (AGOA) initiated by the United States in favour of eligible African countries. By looking inside instead of outside to identify the main challenges of Africa's integration in the global economy, both papers presented in this session attempted to address the following question: Is Africa's secular under-representation in the global economy a trade policy problem or a high-trade costs problem?

Stephen Karingi and **Vincent Leyaro** provided quantitative empirical evidence on the impact of aid for trade. Their motivation arose from the idea that Africa's low share of global trade, its failure to take full advantage of preferential trade agreements, and its failure to integrate its economies, were evidence of the high-trade costs it faced. Further evidence, they argued, was the observation that trade liberalisation had failed to wean Africa from dependence on natural resources and exports of minimally processed products as a source of foreign exchange.

They related Africa's attempt to build a lasting capability to trade to the implementation of the Aid-for-Trade scheme. The presenters found that Aid-for-Trade reduced the costs of trading, promoted export diversification and improved the continent's trade competitiveness. The authors argued that calls for a discontinuation of aid to Africa must not be heeded, at least when it came to Aid-for-Trade. However, lack of a thorough discussion of potential feedbacks between Aid-for-Trade and other forms of aid and their impacts as well as of other types of constraints to trade capacity such as being landlocked, might limit the validity of this prescription. The paper highlighted the building of trade capability in Africa as an operation likely to enhance its integration in the global economy.

The paper by **Laura Páez, Stephen Karingi, Mwangi Kimenyi,** and **Mekalia Paulos** offered a thorough review of the challenges constraining the ability of African countries' to reap the rewards of the US trade engagement under AGOA. They identified four key challenges yet to be properly addressed by African beneficiaries.

First, these beneficiaries lacked the technical capability to comply with administrative as well as standard sanitary and phytosanitary requirements for access to the US market. Critical to addressing this challenge was the issue of how Africa should organise to meet it. Should each beneficiary country strive to builds its own capability, or should such endeavours be undertaken at the regional or sub-regional level in order to take advantage of potential economies of scale?

The second challenge pertains to Africa's persistent lack of adequate trade-related infrastructure, which is being blamed for the high concentration of US imports from Africa. The third challenge arises from the lack of substantial value addition from US-sourced FDIs in beneficiary countries. The fourth and last challenge stems from the transient nature of eligibility for preferential treatment under AGOA, with the burden falling on beneficiaries to continually demonstrate proof of eligibility. This contrasts with the more permanent nature of eligibility in other preferential schemes, such as the EU-ACP. It adds uncertainty, which may prevent the private sector of beneficiary countries from devising long term strategies for taking advantage of the vast US market.

The authors of the paper concluded that a thorough reform of the AGOA framework could help Africa achieve its much awaited diversification of both exports markets and exported products.

2. Poverty, Food Insecurity, and Cash Transfer Programmes

Despite significant improvements, poverty, hunger and health hazards remain constant and serious threats in Africa. They require urgent action. The emphasis on poverty, agriculture, food security, and social protection was prompted by concerns about the diminishing importance of agriculture in Africa, despite its comparative advantage, as well as about the effects of the recent food and global financial crises on vulnerable groups. Has Africa got its priorities all wrong? Is over-emphasis on industrialisation the main culprit of Africa's continued vulnerability to food crises?

A plenary session on Global Economy, Commodities, and Africa, as well as a number of papers presented at this conference, focused on various aspects of this issue. Some emphasised the relationship between agricultural development and food security, while others focused on the growth and poverty linkages. Others stressed the importance of social protection, including cash transfer programmes.

Global Economy, Commodities, and Africa

Many agree that Africa is a continent of paradoxes – rich in arable land for the most part, yet most vulnerable to food crises. It is blessed with abundant resources, yet plagued by fragile institutions inhibiting its prosperity. In the plenary session on Global Economy, Commodities, and Africa, a panel of experts discussed the role of commodities, agriculture, and trade in Africa's development process.

Kwaku Owusu-Baah of the Inter-African Coffee Organisation (IACO) anchored his contribution on agricultural development. He stressed the importance of agriculture for Africa's economic growth, and issued a warning that a secular decline in agriculture meant an increase in poverty and a high incidence of vulnerability to food insecurity. With respect to export crops, in particular, he pointed out that the observed steady decline in Africa's share of coffee trade was worrisome. He criticised the enthusiasm surrounding Africa's much improved growth record, arguing instead that the observed coexistence between high growth and low agricultural productivity and competitiveness was an African puzzle researchers ought to focus on so as to inform policy on the nature of the corrective actions needed. He proposed that agricultural development be brought back to the forefront of the development debate in light of the ageing rural population in the continent, and the youth's apparent lack of interest in agricultural activities.

Shenggen Fan of the International Food Policy Research Institute (IFPRI) discussed agricultural development in relation to food security. He pointed out that global food security was under stress and that there had been a substantial increase in the number of hungry people, with 239 million being in Africa out of the reported 925 million worldwide. Population growth and demographic changes, land and water constraints, and climate change, he stressed, were some of the factors explaining the high number of Africans in the sub-set of the world's hungry people. He identified five main pillars of food security. First, countries must reinvest in agriculture, with emphasis on smallholder production. Investment, he argued, should be targeted at improving smallholders' access to inputs such as fertilizer, seeds, extension services, etc. Second, new actors in global development — the BRIC countries in particular — can play a major role in transforming agriculture in Africa through investment and development assistance. Third, countries should institutionalise bottom-up approaches and harness community-based initiatives. Fourth, policy design should be improved, based on new research techniques, including randomised experiments, but with impartial monitoring. Finally, **Fan** stressed the need to establish mutual accountability relationships at the global, regional, national, and local levels.

Mthuli Ncube, Chief Economist of the AfDB Group, discussed the paradox of hard commodities. With upward pressures on prices of hard commodities' as fuelled by increased demand from emerging markets (China and India, in particular), the resulting commodity windfall should provide resource-rich African countries with money to spend on development programmes, particularly infrastructure development. But **Ncube** noted instead that hard commodities had been a source of fragility (civil wars etc.) undermining their beneficial effects. He stressed the importance of African governments to improve their management of resource windfalls, for example, by institutionalising transparency and accountability.

Amany Asfour of Egyptian Business Women raised three related issues during the plenary. First, she expressed concerns about Africa's continued reliance on exports of minimally processed products, and stressed the importance of adding value to commodities. Second, she emphasised the need for regional integration to empower Africa in the management and pricing of commodities. Third, she pointed out that adding value to African commodities required investing in human resources and technologies, creating an enabling environment for entrepreneurship to flourish as well as developing a regional market to harness economies of size.

André Roux of Investec Asset Management focused on commodity trade. He echoed **Mthuli Ncube**'s concerns about failure of African countries' to take full advantage of commodity booms, arguing that such booms provided Africa with a unique opportunity to finance infrastructure development needed to support the development of a dynamic private sector.

Eyesus Zafu of the Ethiopian Chamber of Commerce and Sectoral Associations discussed agricultural development, and noted that 65 percent of Africans worked in the agricultural sector. He argued that improving living standards in Africa therefore involved developing agriculture by creating proper incentives, privatising research and extension services, and attracting private equity in agriculture. He also advanced the idea that agricultural development was more viable option for the development of Africa than its purported engagement in partnerships that did not produce equity, nor transfer technology.

Growth and the Poor

Even as Africa recovers from the effects of the global economic crisis with growth rates nearing those of the emerging Asian economies, doubts remain about the sustainability of its recovery. A considerable body of evidence suggests that to be resilient, growth must be inclusive. This raises the question of whether Africa's recovery from the aftermath of the global crisis has benefited vulnerable groups or not. Addressing this issue raises a number of important questions, including how to distinguish a pro-poor growth regime from one that is not; how to measure poverty; and how to measure its impacts. The concurrent session on Poverty Analysis provided participants with interesting insights on this issue.

Jean-Yves Duclos and **Audrey Verdier-Chouchane** proposed a comparative analysis of poverty, inequality and growth between South Africa and Mauritius over the periods 1995-2005 and 2001-2006 respectively. The relevance of this comparative analysis was reinforced by the observation that while both South Africa and Mauritius had experienced high rates of growth, they constituted a striking case of contrasting inequality outcomes. Based on well-documented methodologies and household survey data, the authors argued that the two countries had experienced very different growth paths. South Africa recorded a more anti-poor growth for the period considered. The reverse was experienced in Mauritius, also for the period considered.

The central message of the paper was that growth was not necessarily inclusive, and that deliberate action was needed to induce a trickle down to most vulnerable groups. Since inequality might be an endogenous problem, the paper could open the door for further research to explore the root-causes of the contrasting outcomes, and to better inform the debate on appropriate policy actions.

In his paper, **Abebe Shimeles** used data from the 2005 *International Comparison Programme* to generate complete own and cross-price and income elasticity estimates for the African continent using an Extended Linear Expenditure System for 12 broadly defined commodities. The results can be used for aggregate welfare comparison in such global models as GTAP (Global Trade Analysis Project), as well as for inferences on the welfare impact of price shocks at the continental level. To be a useful guide for policy action, however, these results might need to be supplemented with relevant country level studies to control for idiosyncratic characteristics among African countries, and ensure rigour in their interpretation.

Finally, **Sebastian Levine** presented a paper analysing the incidence of poverty in Uganda since the early 1990s, for two alternative measures of poverty. Specifically, the paper contrasted the performances of the Uganda Bureau of Statistics' national poverty line with the World Bank's "dollar a day" international poverty line. The author found that while both measures pointed to a declining trend in poverty over time, there were important differences in the levels of poverty, the speed of the decline and the direction of change in the late 1990s. Conceptual and methodological differences relating to the way the underlying welfare measures and the poverty lines were specified explained part of this ambiguity, but not all of it.

The Challenges Facing Social Protection in Africa

Social protection is an important constituent of development. It is often defined as the set of policies and programmes designed to reduce poverty and vulnerability to health hazards and loss of income. Given the purported dwindling of both domestic and external financial resources as a result of the global financial crisis, it is crucial that limited resources for targeted social protection programmes be spent well and reach those who need them the most, and lessen their future dependence on social assistance.

Wei Ha, Jingqing Chai, and **Carlos Alviar'**s provided a comparative assessment of cash transfer programmes in terms of coverage and targeting of the intended beneficiaries. The authors based their analysis on a case study on Orphans and Vulnerable Children (OVC) in Kenya. For this cash transfer programme, they simulated the performance of the Proxy Means Test (PMT) approach against that of the Multidimensional Deprivation Index (MDI) approach previously used by Kenyan authorities. They found no significant difference in performance between the two targeting mechanisms. They therefore suggested in their paper that in looking for ways to improve the effectiveness of social protection programs, the main challenge might be for African governments to raise their administrative capacity so as to cut down the costs, and to design and implement appropriate accompanying policies aimed at lessening recipients' dependence on cash transfer programmes.

Another challenge facing social protection programmes stems from concerns about the medium-term fiscal sustainability of these programmes, given the risk of recipient dependency. In relation to this issue, **Alberto Zezza**, **Bénédicte de la Brière**, and **Benjamin Davis** examined the ability of cash transfer programmes to enhance strategies of recipient households for weaning themselves from dependence on social assistance programmes. Their analysis was based on panel data constructed using quasi experimental impact evaluation data from Kenya and Malawi. They showed that social cash transfer programmes that help relax recipients' liquidity constraints might generate significant positive economic changes, enabling recipients to develop more sustainable income-generating strategies. They established stronger positive impacts in Malawi, and moderate impacts in Kenya. These differential impacts, they explained, were partly because of cross-country differences in the size of the cash transfers. Bigger amounts resulted in stronger impacts. The paper suggested that limited resources created a trade-off between the width of the coverage (number of people covered) and its depth (how well each recipient was covered). The most important policy lesson derived from this study stemmed from that trade-off. In particular, the paper suggested that to the extent that cash transfer programmes stimulated the economy of the communities in which recipient lives, effectiveness of these programmes could be maximised through biasing coverage towards depth, so as to harness the dynamic effects in the community.

Sudhanshu Handa, **Carolyn Huang**, **Nicola Hypher**, **Clarissa Texeira**, **Fabio Veras**, and **Benjamin Davis** confirmed the findings by ***Zezza et al***, arguing that programme implementation was a stronger predictor of cash transfer performance than choice of targeting instruments. They derived these results from a quantitative analysis of the targeting performance of three African social cash transfer programmes that implemented some form of Community Based Targeting. Their analysis suggested that policy actions to improve the performance of cash transfer programmes should focus on establishing best practice with respect to the implementation of the selected programme.

Food Security

The global financial crisis, and just before it the food price crisis, pushed food security at the forefront of the development debate. There are at least two important reasons for this. First, economic crises tend to have disproportionate impact on the poor. Second, they may adversely affect the sustainability of poverty alleviation programmes as well as the attainment of the MDGs. It is therefore important to understand the root-causes of individuals' vulnerability to food insecurity.

Zerihun G. Alemu proposed a spatial study of food insecurity to determine which areas, populations, and households were food insecure in South Africa. Two related questions guided this analysis: Where do food insecure households live? And what are their socioeconomic characteristics?

Alemu addressed these questions by producing a geo-referenced food insecurity map for South Africa obtained using a modified version of the small area estimation methodology associated with poverty mapping. The food insecurity map highlights the high degree of heterogeneity of food insecure areas in terms of their socioeconomic characteristics. **Alemu's** analysis revealed an important puzzle: That as a nation, South Africa is food secure, yet 64 percent of South African households are food insecure. Moreover, **Alemu** found that food insecurity in South Africa had a spatial dimension, with the provinces bearing the bulk of it, while only a relatively small proportion of food insecure households lived in the metro areas, Johannesburg, Pretoria, Cape Town, and Durban. He also found that the demographic characteristics of households were major determinants of food security. The presentation posted important implications for effective policy planning and the design of effective targeting programmes.

Pedro Conceição, **Leo Horn-Phathanothai** and **Anthony Ngororano** provided an overview of the situation and key trends with regard to food security and human development in sub-Saharan Africa. The paper was based on a survey of recent research on various aspects of the linkages between food security and human development prepared in connection with the 2011 Africa Human Development Report. The authors adopted the entitlement approach pioneered by Amartya Sen, and emphasised that food insecurity was less a result of shortage of food than limitations in access. They provided a range of examples that showed how food security and human development were intricately linked. The authors emphasised that increasing food production, efficient market and adequate social protection would be important prerequisites to addressing food insecurity in the 21st century in Africa. An important policy lesson of the paper was that fighting food insecurity could improve various dimensions of human development, including education and health.

3. Financial Development

As African countries aim to achieve resilience in their growth, a consensus has emerged among development experts and scholars around the pivotal role of financial development. The *World Economic Forum* defines financial development as "the factors, policies, and institutions that lead to effective financial intermediation and markets, and deep and broad access to capital and financial services."[9]

In its 2008 inaugural ranking of 52 most important financial systems in the world, remarkably only three African countries made the cut, with South Africa ranking 25th, Egypt 37th, and Nigeria 50th. This under-representation of Africa among the group of countries with efficient financial systems underscores the need to identify constraints and challenges to the adoption of institutions and policies that foster financial development.

Indeed, evidence of large financial infrastructure gap pervades Africa. Despite recent improvements, Africa's financial infrastructure remains an arena for the enfoldment of major challenges, including limited financial capacity due to narrowness, high exposures to socio-political shocks, high incidence of informal intermediation, inadequate governance and regulatory frameworks. Two concurrent sessions were dedicated to the important topic of financial development.

The Challenge of Developing New Financial Instruments

To enhance financial development, both the quantity and quality of financial services must increase. In the first concurrent session on financial development, all three presenters emphasised new strategies for improving access to financial products.

Mihasonirina Andrianaivo and **Kangni Kpodar** examined financial inclusion in the context of Information and Communication Technologies (ICT). The paper relates the recent surge in mobile telephony in Africa to the expansion of branchless banking services to explain cross-country differences in economic growth performance. Based on a sample of 44 African countries, **Andrianaivo** and **Kpodar** found the joint impact of financial inclusion and ICT on growth to be stronger in countries where branchless financial services were available. The paper underlined the ICT's potential to improve financial inclusion, which the authors viewed as a lever to Africa's sustained growth.

[9] See the *Financial Development Report 2008*, available at http://www.weforum.org/pdf/FinancialDevelopmentReport/2008.pdf

Joseph Atta-Mensah anchored his contribution around the viewpoint that under-developed financial systems were the main cause of the underdeveloped nature of Africa's infrastructure. He proposed two avenues for relaxing the financial constraint undermining African governments' capacity to provide growth-enhancing infrastructures. One is the potential role of financing Africa's infrastructure projects with bonds indexed to the project. The other is the creation of an African Investment Guarantee Agency (AIGA) to support and strengthen the financing of infrastructure projects. It was however noted that the theoretical analysis underlying the case for these two financial instruments relied on strong assumptions, hence the need for research.

Gabriel Negatu presented a report on the African Development Bank Group financial sector strategy and action plan in regional member countries (RMCs). The report highlighted AfDB Group's commitment to take on its role as Africa's premier development finance institution by intensifying its interventions so as to enhance financial inclusion in member countries. The document further outlined nine important pillars of the AfDB's action plan reflecting the Paris declaration. They included, among others, member countries' ownership of their financial sector objectives, relevance and synergy in partnerships with member countries, and focus on achievement of results and effectiveness.

Enhancing Financial Deepening and Broadening in Africa

What are the main challenges to the emergence of dynamic formal banking systems in Africa? How important is financial development in delinking individuals' economic opportunities from family wealth? Africa is home to some of the highest levels of income inequality in the world. Yet because income inequality might be an endogenous phenomenon, redistributive policies aimed at abating it often end up increasing the tension between equity and efficiency, as they tend to generate disincentive to work and save. But if nothing is done to untie individuals' economic opportunities from family wealth, growth is likely to be non-inclusive, which in turn may undermine its sustainability. Can financial broadening effectively substitute for redistributive policies? Financial deepening is yet another challenge confronting Africa, given the high incidence of shallow informal financial intermediation. This puts the development of an efficient and dynamic formal banking system at the centre of a long-term strategy for financial development.

Michael Enowbi Batuo, **Francesco Guidi**, and **Kupukile Mlambo** explored the impact of financial development on income inequality, using panel data built from a sample of African countries for the period spanning 1980 to 2004. Their analysis included two contrasting observations regarding the financial sector in African countries. On the one hand, they argued, the main inputs of financial development were already in place in Africa, owing to two past waves of reforms in the financial sector. The reforms had eliminated financial repression and improved the legal, supervisory and regulatory environment. On the other hand, its output (especially access to credit) failed to track improvements in inputs. The paper sought to explain this discrepancy.

Consistent with the existing literature on the impact of financial development, **Batuo, Guidi**, and **Mlambo** found that financial development indeed reduced income inequality. Important policy lessons could be derived from this paper. First, it suggested that in countries facing political hurdles in the implementation of redistributive policies, financial development could ably substitute for these policies by effectively reducing income inequality. Second, as imperfect credit markets tend to link an individual's economic opportunities to family wealth, this paper also suggested that financial development brought about by policy measures aimed at increasing the functioning of credit markets could break this bond and enhance social mobility.

Tianshu Zhao, Victor Murinde, and Kupukile Mlambo developed a microeconomic model of banks' asset portfolio choice in an environment characterised by loan default risks to explore the impact of property-rights on financial deepening. In their model, commercial banks allocated their loanable funds between two competing usages: Loans to private agents and investment in other income-generating assets. They used this model to explore the nature of institutions likely to induce banks to raise the proportion of funds allocated to loans — a measure of financial deepening. They emphasised three important institutions, namely provision of legal rights to creditors, enforcement of creditors' legal rights, and legalisation of information sharing between banks. The model was then empirically tested using panel data from a sample of 20 African countries during the period 2005-2008. Empirical results confirmed the important role these three institutions played in enhancing financial deepening, highlighting the different channels through which they worked.

4. Private sector Development

No country has developed without expanding its private sector. Countries with narrow and shallow private sectors are the majority among low-income countries. A few exceptions notwithstanding, Africa still belongs to the latter group. It therefore comes as no surprise that throughout the AEC 2010, private sector development was not only cast as an important pillar of growth resilience in Africa, but also as a challenge Africa would have to take on urgently in the aftermath of the global financial crisis. As far as private sector development and structural transformation are concerned, what do we know about what works and what doesn't for African countries? Speakers at plenary and special sessions, the round table discussion as well as a number of papers presented at the Tunis AEC sought to shed light on this issue.

The Challenges of Private Development in Africa

In the round-table discussion "From Recovery to High-Sustainable Growth", **Mthuli Ncube**, discussed strategies for a private sector-led growth in Africa. He emphasised investment in infrastructure and flexible macroeconomic management as catalysts of a dynamic private sector, along with the creation of an eco-system of entrepreneurs who are able to transform risks into opportunities. He also called for the reform of pension systems to ensure that individuals did not stay in economic activities beyond their productive years.

Also speaking at the round-table, **Emmanuel Nnadozié**, Director of UNECA's Economic Development and NEPAD Division saw absorption of youth in the production sector as a major challenge in the private sector. He pointed out that country-specific plans were required to make growth pro-poor. He advanced the idea that promoting economic diversification and striking the right balance between government intervention and market autonomy could usher in a growth regime that would create jobs while providing social protection.

Enhancing an Enabling Business Environment

Historically, the business environment in many African economies has deterred firms from investing. Despite recent progress, Africa still has the least attractive environment for long term business success, by most international standards. The Tunis AEC featured presentations analysing the effects of barriers to doing business in Africa.

Nancy C. Benjamin and **Ahmadou Aly Mbaye** proposed a firm-level empirical analysis of factors responsible for the prevalence of a large informal sector in West-Africa. Their analysis rejected the preconception that the informal sector was simply a get-away for small, low-productivity firms, and uncovered multiple dimensions of firm heterogeneity as an enduring feature of the informal sector. They noted that not all informal sector firms were small, and that the productivity gap between informal and formal firms was found to decrease with firm size. The paper confirmed the importance of distinguishing the large informal firms from the small informal firms in describing behaviour and identifying impediments to formalisation. In particular, the paper suggested that government policies and institutions, and their failures were among factors accounting for the persistence of a large informal sector in West-Africa.

El-hadj Bah looked at the factors that influence technology adoption by firms in Africa. He emphasised six dimensions of the business environment namely, entry barriers, access to finance, regulatory environment, crime, corruption, and access to infrastructure. His calibrated general equilibrium model uncovered large quantitative effects associated with these dimensions of the business environment. **Bah** found that for 30 African countries, the dimensions could explain about 80 percent of the variation in income per capita, relative to the US. He concluded that improving these dimensions of the business environment was paramount to the long-term prosperity of the continent.

5. Human Capital and Growth

Historical evidence underscores the value of education to growth and development. No country with a large skilled labour force is poor. Indeed, poor countries are the majority among those with low human development indices. The AEC 2010 made resilient growth a prominent topic at the conference, challenging participants to help set the agenda for Africa's long term growth. Two special and two concurrent sessions were dedicated to discussions of growth issues confronting Africa. Specific emphasis was on the role of human capital.

Human Capital and the Process of Development

The AEC 2010 provided a timely venue for assessing the benefits Africa has reaped from the steady improvements in educational attainments.

Ronald Leung, Marco Stampini and **Désiré Vencatachellum** explored the impact of education and work experience on the likelihood of being unemployed in South Africa. Their study covered a period before and during the crisis. Their empirical analysis used Labour Force Survey (LFS) data for South Africa. The results indicated that while the crisis reduced the likelihood of being employed by 3.8 percent, it was unevenly distributed across workers, with both education and experience acting as a buffer against the crisis-induced negative shock. Indeed, they found that the probability of losing a job was reduced by up to 100 percent for the group of workers with either significant years of experience or higher levels of human capital. Further underscoring the importance of education and experience was their finding that the large informal sector in South Africa did not provide a buffer against the crisis. From a policy point of view, this paper cast skill-imparting education as a lever to growth with resilience, suggesting that there was a case for public investment in education.

However, scholarly debates of public investment in education are often impervious to the sequential nature of education involving three related stages, namely, primary, secondary and tertiary. In the current context of budgetary austerity and ever expanding competing demands on public funds, a timely question is: Which one of these three tiers should receive priority in government funding?

Kwabena Gyimah-Brempong gave useful insights into the issue. The paper investigated the effects of education on a number of development outcomes, such as economic growth, a range of health outcomes, political stability, and participation of women in national politics. His empirical strategy consisted of a disaggregation of the effects of education by distinguishing three levels of education, including primary, secondary, and tertiary. The paper found evidence that education had significant non-linear effects on development outcomes. More importantly, **Gyimah-Brempong** found that different levels of education affected development outcomes differently. For some, both primary and secondary education levels appeared to have stronger effects than tertiary education, while for other outcomes, such as income growth rate, the reverse was true. **Gyimah-Brempong** thus suggested that in designing education policies to foster development, the level of education that received priority in government funding mattered.

Operations' Evaluation as a Driver of Economic Recovery and Sustained Growth

As a continent still at the early stages of its development, Africa has been the scene of many development projects, including agricultural, infrastructure, and social. At the continental level, results for these projects are mixed, with a few successes overshadowed by many failures and prompting calls for better management of development results. Historically, development projects in Africa have been initiated either by multilateral development institutions, bilateral institutions, or jointly by recipient countries and their partners, both at the multilateral and bilateral levels. In either case, development experts agree that monitoring and evaluating the implementation of development operations is paramount to Africa's long-term economic prospects.

Recognised as a leading development finance institution in Africa, the AfDB finances many projects and operations in the continent, including infrastructure, agricultural and rural development, industry and mining, urban development, environmental, and social projects. As part of its internal organisation, the AfDB hosts an Operations Evaluation Department (OPEV) whose main role is to provide a comprehensive and objective assessment of the development effectiveness of the Bank Group assistance strategies, policies, operations, processes, and procedures.

At the AEC 2010, OPEV hosted a special panel discussion under the theme "*Evaluation as a Driver of Recovery and Long-Term Growth: Patterns and Direction for Africa*". Four panellists spoke on the current context, theoretical and empirical evaluation results, and drew conclusions for strengthening the role of evaluation in economic development in Africa.

Benoit Chervalier, DG Trésor, France, discussed the Political Economy of Evaluation, focusing on the Aid Effectiveness Agenda and Recent Developments in Evaluation. Although Africa had been a heavy recipient of ODA, he warned that additional aid resources might not be coming from OECD countries unless there was greater accountability and supporting evidence on the effectiveness of aid. The implication was a greater role for evaluation in demonstrating value for money, efficiency, and results of aid expenditure. He argued that national parliaments had recognised this role and were taking greater interest in evaluation as a tool for decision support. However, evaluation was only one factor among others that could serve the decision-maker. On its own, it would not provide all the answers, as attribution and causality were sometimes difficult to prove.

In his intervention, **Guy-Blaise Nkamleu** of the AfDB underscored the importance of lessons learned from the evaluation of agriculture and rural development in Africa in improving the effectiveness of the Bank Group operations. The Bank's activities in support of agriculture and rural development comprise lending, analytical work, and policy advice. In his assessment of the Bank Group operations, **Nkamleu** indicated that recent evaluations of its interventions in the agricultural sector of African countries would prove instrumental in helping the Bank Group not only to do the right thing, but also the right way.

Albert-Eneas Gakusi, also of the AfDB, discussed lessons learned from evaluations of the effectiveness of international assistance for the development of human capital in Africa. According to OPEV's case studies for the evaluation of the education sector in Africa, international assistance represents as much as 50 percent of the education financing of several African countries, including Benin 50.4 percent (for 1996-2006) and Mozambique 50 percent (for 2004). OPEV's evaluations highlight the fact that aid in the education and health sectors is characterised by weak country ownership, compounded by problems related to incoherence and inconsistency in international assistance. **Gakusi**'s main point was therefore that addressing these issues would improve aid effectiveness in the context of education and health.

Colin Kirk, the Director of OPEV at the AfDB, discussed the role of evaluation in Africa's development process. First, he stressed that if Africa were to resume a path of sustainable, long-term growth, its decision makers needed to know what was effective, and what needed to be improved, both for policy and for operations. Evaluation, he argued led to the knowledge about what worked and what didn't. Systematic evaluation can examine the assumptions underpinning development initiatives, and assess their relevance, clarity and coherence. This makes it a "driver of economic recovery and growth". So why is evaluation not driving Africa's economic recovery and growth? A major hurdle **Kirk** argued, was the capacity constraints that inhibited both the demand and the supply of quality evaluation. He called for initiatives aimed at establishing a network of support for evaluation in African countries.

Enhancing Economic Growth

The recent growth sprouts in Africa, and the continent's recovery from the effects of the recent financial crisis motivated a number of papers presented in the AEC 2010. Some of them shared the common goal of looking for signs of resilience in the African growth performance. These papers relied on both macro-level and sector-level studies to uncover factors constraining the resilience of African growth.

Using data from Penn World Tables, **Oleg Badunenko, Daniel J. Henderson**, and **Romain Houssa** provided a comprehensive analysis of the African growth performance over the 1970 to 2007 period. Their analysis compared performances on the basis of four factors affecting total factor productivity, namely, changes in efficiency, changes in technology, in physical capital as well as human capital accumulation. They found that good performers were those with growth regimes driven mostly by changes in efficiency and in technology, while poor performers were those where the remaining two factors were the main drivers of growth. They concluded that the striking contrasts were the result of cross-country differences in the quality of governance, institutions, and policies. But governance, institutions and policies were endogenous to the country that adopted them. Therefore, cross-country differences in the quality of governance, institutions and policies needed to be explained, so as to improve the picture of cross-country differences in growth performances.

Arne Bigsten and **Måns Söderbom** explored signs of resilience in growth among African economies by examining the performance of the manufacturing sector.

They pointed out that domestic markets were typically small in Africa, implying that the performance of the continent's manufacturing sector could be measured simply on the basis of its ability to capture a significant share of the international market. They uncovered factors that undermined the comparative advantages of African manufacturing firms. Some of those factors stemmed from poor investment climates. Others however, arose out of coordination failures and high-entry costs. The authors saw the latter as providing a case for countries to adopt industrial policies. However, they noted, the strength of the case relied on countries' ability to strengthen their institutional environment so as to avoid the recurrence of the failed import-substitution industrialisation.

Participants at the Tunis AEC also concurred that government spending had an important role in enhancing growth with resilience. The provision of growth-enhancing infrastructure was seen by many as a major function of African governments. However, to find reliable sources of public funds to support the role was still considered a major challenge for resource-poor, debt-ridden countries.

Samir Abdelhafidh proposed an analysis highlighting the importance of that challenge. Using panel data, he examined the effect of partial debt-relief on economic growth in a sample of 26 low-income African countries during the 1989-2008 period. His analysis uncovered the existence of a threshold debt-relief level above which growth would be enhanced in the recipient country, and below which there would be no significant effect on growth. **Abdelhafidh** concluded that two conditions were necessary and sufficient for debt relief to enhance growth in a poor country. One, it must be made conditional on the adoption of sound policies by the recipient, and its level must pass a country-specific threshold above which it becomes effective. The validity of this policy recommendation, however, depends on whether debt-relief can effectively help the recipient country government relax the constraints on the adoption of sound policies.

Gender Equality and Development

Development scholars agree that gender equality and women's empowerment are not just covered under MDG3, but are critical prerequisites to the achievement of all the eight MDGs. Indeed, where development progress is lagging, that's the very place the needs and status of women and girls are given low priority. Due to gender inequality in access to and control over social, economic and political resources, women and girls are more affected by poverty than men and boys. They also find it difficult to escape poverty. For instance, despite progress in reducing maternal mortality and toward achievement of universal access to reproductive health care, 1,000 women died every day in 2008 from complications of pregnancy, childbirth and unsafe abortion. About 99 percent of them were in developing countries.

Investing in women's empowerment and gender equality therefore not only aims to improve the lives of individual women and girls themselves, but might also yield high economic returns and lead to greater development progress. A study published in 2000 by the World Bank and co-signed by four other institutions working extensively on Africa (The Economic Commission for Africa, the African Development Bank, the African Economic Research Consortium and the Global Coalition for Africa) supports this conclusion[10]. Abu-Ghaida, and Klasen (2004) estimate that missing the target for gender parity in primary and secondary education could lower a country's annual per capita growth rates by 0.1- 0.3 percentage points.[11]

As Africa aims to achieve growth with resilience, the above findings suggest that mainstreaming gender parity must be considered as an important pillar of sustained growth. Underscoring the value of gender equality to Africa's growth prospects was the launch of a strategic partnership between the AfDB and UNDP at the AEC 2010. The main objective of the partnership is to expand and sustain the implementation of UNDP's Global Gender and Economic Policy Management Initiative (GEPMI)[12] in Africa. The initiative includes a graduate degree training at Makerere University in Kampala, shorter training programmes, and dedicated country support. The unveiling of the partnership at the AEC aimed to introduce GEPMI-Africa to African economic policy development decision makers, to discuss the added value of gender equality to economic

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[10] World Bank, 2000. *Can Africa Claim the 21st Century?*, Washington, D.C.

[11] Abu-Ghaida, Dina and Stephan Klasen, 2004. "The Costs of Missing the Millennium Development Goal on Gender Equity", *World Development*, Elsevier, vol. 32(7), pages 1075-1107.

[12] GEPMI is a comprehensive capacity development and advisory services programme whose overarching objective is to contribute to the achievement of MDGs and other internationally agreed development goals by making economic policies and poverty reduction strategies deliver equitably to women and men, boys and girls.

policy management, and to share with senior African policy makers and development partners the implementation plan of GEPMI-Africa and invite their support.

6. Development Financing: What prospects for Africa?

As a result of a global financial crisis they didn't cause, African countries found themselves with a large list of challenges to address, even as they strived to meet the deadline for the attainment of the MDGs. For instance, in the case of countries that benefited from debt-relief initiatives, their main challenge has been to ensure that they did not fall back into debt distress as a result of the global crisis. Moreover, development economists concur that African countries have economic structures that make them less capable of absorbing external shocks. For these countries, setting up an effective counter-cyclical macroeconomic policy framework is paramount to their long-term prosperity. While this is understood, available evidence, however, points to the prevalence, in most African countries, of highly pro-cyclical fiscal accounts.[13] Given the limitations of fiscal policy in African countries, an important issue is whether there is a case for African countries to adopt macroeconomic policy framework emphasising a multi-objective monetary policy. Such a framework would be a deviation from the existing single-objective central banking orthodoxy, and a mutation toward a multi-objective heterodoxy emphasising both employment stimulation and inflation control as the objective of monetary policy. Can the pursuit of monetary policy heterodoxy work for Africa? Or, should African countries remain loyal to conservative central banking, and instead focus on the pursuit of productive partnerships with development agencies for the financing of their development projects? What does the post-crisis era hold for Africa in terms of financing options for its long-term growth? Has Africa's recovery from the effects of the global crisis given it the tools with which to wean its economies from chronic dependence on foreign aid? In other words, has Africa's growth finally produced the sort of resilience that has come to characterise the growth

[13] See Stiglitz, Joseph E. *et al*. 2006. *Stability with Growth: Macroeconomics, Liberalisation, and Development*. Oxford University Press.

experience of the emerging economies? The Tunis AEC dedicated a plenary session, a dinner talk with the Governor of the Nigeria Central Bank, and two concurrent sessions to address these issues.

Rethinking Development Financing Options for Africa in the Post-Crisis Era

The plenary session dedicated to this topic brought together four eminent development experts to discuss the financial options available to Africa in the aftermath of the global crisis, mindful of the uncertain picture of the post-crisis global financial prospects.

François Bourguignon of the Paris School of Economics and ex-chief economist at the World Bank Group, started his intervention by pointing out that emerging signs from Africa suggested that growth sustainability was far from guaranteed. Sustainability, he argued, was founded on the soundness and resilience of the growth engine. The soundness and resilience of a growth engine in turn were measured by supply-side (rather than demand-side) factors. Yet evidence, he noted, indicated that demand-side factors such as improvements in terms of trade and remittance inflows had outweighed supply-side factors (such as better governance and more FDIs) in Africa's growth accounting. In addition, most investments tended to occur in the resource-extraction sector, leaving manufacturing financially constrained. Because terms of trade and remittances were subject to cycles, African growth might still be vulnerable to the uncertain pace of the global recovery. **Bourguignon** concluded that diversification and structural transformation were the main pillars of Africa's much awaited independence from foreign aid.

Pierre Jacquet of the "*Agence Française de Développement*" observed that the global crisis was salutary for governance in Africa, as it forced the African leadership to mainstream public actions aimed at improving the business and regulatory environment. However, this was toned down by his subsequent observation that budget deficit had been a driver of Africa's recovery, with little or no change to the structure of the continent's economies. He identified two important pillars of growth with resilience. First, he noted, agricultural and industrial development were critical for job-creation, needed to absorb the emerging youth. The population in Africa had been forecasted to reach 1.7 billion by 2050. Second, social policy, he argued, should mix with financial sector reforms so as to promote an inclusive growth and wean Africa from chronic dependence on aid.

The Director of the Global Development Centre based in Washington DC, **Nancy Birdsall,** stressed that size mattered for growth resilience. She emphasised two main pillars of growth with resilience. First, she stressed, regional integration was needed to abate transaction costs linked to small size of individual African economies. She argued that Africa could draw from two successful examples of large economic and monetary unions, namely, the United States of America and the European Union. Second, she continued, Africa needed to solve the "missing middle" problem by promoting the emergence of a middle class. She argued that tax reforms were needed to grow the missing middle group. **Birdsall** concluded that foreign aid might be needed to help solve the under-funding problem associated with the provision of regional infrastructures.

Olu Ajakaiye of the African Economic Research Consortium (AERC) anchored his intervention on capital flight. As reliance on ODA was not sustainable, he called for measures to eliminate capital flight and boost domestic savings. All panellists concurred that dependence on aid must be curtailed, and that deep efforts must be deployed to uncover better alternatives than aid for financing African development.

The Microfinance Promise

While support for aid is dwindling, excitement has been building around the world about the prospects for poverty alleviation through microfinance --- understood as a set of financial institutions formal or informal, that mobilise credits among low-income households. The excitement stems from these institutions' commitment to extend credits to clients excluded from the formal banking system, with only a few of them requiring borrowers to put up collateral.[14] So, what promise does microfinance hold for the development of Africa?

Eric Kehinde Ogunleye and **Desire Adebimpe Fashina** used panel data based upon a sample of 38 SSA countries to compare the impact of savings instruments and tax revenue on economic growth. They found that savings and investment were the only domestic resource mobilisation variables that contributed positively and significantly to economic growth, while all the tax revenue variables were insignificant. The paper suggested that as an instrument

[14] See Jonathan Morduch (1999). The Microfinance Promise. *Journal of Economic Literature, Vol. XXXVII, pp. 1569–1614*

of domestic resources mobilisation, microfinance might be an important catalyst of a bottom-up development process in Africa.

In a roundtable discussion on the role of microfinance in development, **Willene A. Johnson** noted that microfinance was not alien to Africa; that in Africa there were more savers than borrowers, owing to the traditional culture of rotating savings and credit associations (ROSCAs), as in Kenya and Ghana. In discussing the role of microfinance in development, **Johnson** warned that microfinance was sustainable only in a free market. She identified key conditions for microfinance to succeed in enhancing development. First, microfinance, she observed, should be deposit-friendly. Second, she argued, clients should be encouraged to graduate from microfinance to banks. Third, continued Johnson, the government should provide a supportive regulatory environment with some prudential elements so as to eliminate the risk of overburdening clients. Her final advice was that microfinance should make effective use of technology (including ICT and mobile banking services) to increase its productivity. She concluded that only if these conditions were met would microfinance become a driver of development.

The Role of Remittances

Like microfinance, remittances are also considered catalyst for a bottom-up development process. Comparisons with other international solutions to under-development indeed invite optimism. Unlike food-for-education programmes and other income-support schemes for the poor, migrant remittances put no burden on rich countries' taxpayers. Unlike foreign aid, which often falls in the hands of the elite with extensive economic and political power and little accountability to the poor, migrant remittances go directly to their intended recipients. But how do remittances impact development? What are the mediators of this impact? How does emigration that precedes remittances factor in? A special session on migration and remittance and a concurrent session on remittances underscore the importance of this topic to the AEC 2010.

The concurrent session on migration only included one presentation. **Yéro Baldé** examined the comparative impact of remittances and foreign aid on savings and investments in Sub-Saharan Africa (SSA). He found that remittances had more impact on savings and investments than foreign aid, and that the impact was higher in countries with good institutions and economic management because only in such an environment could vulnerable households meet their basic needs and be in a better position to use part of remittances to save and/or invest. While remittances could indeed have salutary effects as **Baldé** argued, critics might counter that their lack of immunity from shock-induced volatility undermined their potential role as an engine of sustained growth.

Remittances are important to development, but there are no remittances without emigration. Whether emigration and remittances together can be a catalyst of development remains an open question in the development literature. At the AEC 2010, a special panel session was dedicated to the discussion on the impact of migrations and remittances on development in Africa. The panel included **Dilip Ratha** and **Sonia Plaza,** both of the Development Research Group at the World Bank, and **Abebe Shimeles** of the AfDB. The key messages derived from the special session are summarised below:

- Official emigration rate from Africa in 2010 is estimated to be about three percent of the total population, implying that around 30 million people live outside of their home country. While conflicts, internal instability and natural disasters are important drivers, African migrations appear to be driven mostly by the search for better employment opportunities.

- Africa has one of the highest rates of skilled emigration in the world, raising concern that this may undermine the effort to build human capital.

- To balance this human resource drain, available evidence indicates that remittances by African migrants have quadrupled since the 1990s, helping raise foreign exchange reserve, improve household welfare and in some cases, increase investment.

From a policy perspective, the overriding issue is whether the gains from emigration (as measured by remittances) outweigh its costs (as measured by the human resource drain) for Africa. The relevance of this issue stems from existing labour force projections suggesting that there will be serious imbalance in the global labour market across regions for the years ahead. While the West will continue to face labour market deficits, Africa, by contrast, is projected to experience huge labour market surpluses, increasing the pressure to migrate to richer countries.

Rethinking the Role of National Central Banks

There is a growing controversy over the IMF-led truism that the main role of a central bank is to maintain price stability. The 2008-2009 global financial crisis added substance to the rising voices questioning this orthodoxy, even as development experts strive to improve knowledge on how best to place employment at the centre of economic and social policies. Critics of the IMF argue that conservative central banking has overemphasised the fear of inflation and failed to strike the right balance between the risks of inflation and the risks of unemployment. Recently, some experts have called for monetary policy objective to be expanded to consider employment creation along with inflation control, particularly in those countries where unemployment and underemployment are a cause of concern.

H.E. Sanusi Lamido of the Central Bank of Nigeria lent his voice to this chorus. He did so during the conference dinner in which he was the guest speaker. In his statement, he noted that Africa was a continent of paradoxes, with great but unfulfilled potential, and growth processes driven for the most part by external forces. The pillar of Africa's sustained growth, he argued, was the development of a value-adding chain to wean the continent from its excessive dependence on commodity trade. He saw structural transformation away from minimally processed products as key to development, noting that no country had developed on the basis of comparative advantage in minimally processed products. So what should be the role of the central banking system in the context of Africa? Should convention be the overriding principle of a successful central banking strategy in the continent?

In addressing these questions, **H.E. Sanusi Lamido** admitted that setting up a development-enhancing central banking strategy was a real conundrum in Africa. For one, most African countries harboured narrow and shallow capital markets. Total capitalisation of the main African stock exchanges remains insignificant compared to world standards. Moreover, commercial banks suffer from a huge concentration of assets, lacking portfolio diversification.

H.E. Lamido thus stressed the importance for the central bank to enhance savings mobilisation, albeit mindful of the need to strike the right balance between convention and common sense. While praising the virtues of conventional central banking with its focus on inflation control, he advocated for common sense in enabling the central bank to fulfil its role of promoting savings, not just for a select few, but also for the majority of small investors who need it. The challenge at this level, he pointed out, was the setting up of new or the consolidation of existing institutions needed to ensure an efficient and inclusive financial development, including institutions enforcing lending agreements (e.g. commercial courts, bankruptcy laws, etc.).

Monetary and Fiscal Policies

A successful macroeconomic stabilization framework underlies a growth regime that in turn generates the financial resources needed to ensure its resilience. Throughout the conference proceedings, participating experts emphasised regional integration as a pillar of sustained growth. But how does regional integration affect the domestic macroeconomic stabilisation framework? Can regional integration help member states overcome shortage of stabilisation instruments? The above notwithstanding, not all African countries are affiliated with a monetary union. For these unaffiliated countries (Uganda, for example), the main challenge is to overcome constraints limiting the scope of macroeconomic stabilisation policies. The three papers presented in the concurrent session on monetary and fiscal policies provided participants with interesting insights about these issues.

S. Guillaumont Jeanneney and Sampawende J-A Tapsoba examined the implications of fiscal rules in monetary unions on domestic fiscal policy. Based on a sample of 41 African countries, they contrasted the pattern of fiscal policy response of monetary union members with that of non-union members. Their results showed that compared to non-union members, the imposition of a permanent fiscal balance rule in the CEMAC and UEMOA monetary unions creates a pro-cyclical bias in public expenditures during recessions. This pro-cyclical bias was reflected by the coexistence of spending cuts and a rise in the fiscal burden during recessions. On the basis of their comparative analysis, **Jeanneney** and **Tapsoba** concluded that in monetary unions, fiscal policy was likely to be a lever to effective recovery from economic downturn, only if a common rule prescribing a fiscal surplus during expansions and a fiscal balance during recession was imposed. Their paper also underscored the importance of a monetary union as a mechanism for committing countries to fiscal discipline, without undermining the use of fiscal policy as a lever to economic recovery. The attractiveness of the fiscal rule stems from the evidence that economic cycles are not predictable. In particular, in the event that downturns are longer and expansions shorter, this prescription may prove critical in allowing monetary unions to guard against the risk of members' debt distress in the course of implementing counter-cyclical fiscal policy.

Kathie Krumm and **Chandana Kularatne** examined the fiscal response of low income SSA countries' to the external shock caused by the global financial crisis. They defined a successful post-crisis fiscal policy as one that increased growth-oriented public expenditures, such as those expanding infrastructures. They found that successful countries were those that had built up fiscal space during earlier periods of stronger growth, providing them with scope for counter-cyclical fiscal policy. These countries were able to use a number of fiscal instruments to protect growth-enhancing public investment programmes. By contrast, unsuccessful countries were those that faced pre-existing macroeconomic tensions and high risks of debt distress, forcing them to adopt a rather contradictory fiscal stance. The authors raised concern about the ability of successful countries to preserve the transitory nature of fiscal intervention without which debt distress will settle in, undermining the sustainability of recovery. Their results suggested that most of them still lacked the capacity to endow their fiscal policy with the power to stabilise the economy in the aftermath of an exogenous shock.

Louis Kasekende and **Martin Brownbridge** explored the case for reforming existing monetary policy frameworks in SSA, so as to improve the performance of macroeconomic stabilisation policies in a post-crisis environment characterised by high volatility and vulnerability to shocks. They focused on countries with a domestic anchor for monetary policy. They pointed out that most of these countries used monetary targeting regimes that strongly directed monetary policy towards price stabilisation at the expense of output growth. A critical issue for such countries would be how to support growth of aggregate demand while maintaining price stability. The paper highlighted the inadequacy of prevailing regimes, emphasising their inability to fully drive the recovery of the affected economies from the global crisis. Echoing H.E. Governor **Lamido**'s remarks made at the Conference dinner, **Kasekende** and **Brownbridge** argued that the conservative central banking strategy, although useful in reducing inflation in SSA, was ill-suited to provide these countries with the required response to the global economic crisis. They called for the adoption of monetary policy frameworks that included a broader set of policy objectives in addition to inflation, replacing broad money as the intermediate target with a more sophisticated set of indicators and forecasts. Critics of the proposed heterodoxy however, might counter that policy is most effective when aimed at achieving a single objective rather than many. Since each policy always has a trade-off, the issue left open by the paper was whether the trade-off was lower when the central bank was allowed to target both unemployment and inflation, or when allowed only to focus on the former while leaving the latter to a specialised development bank. Examples of development banks include DBSA and the AfDB Group.

7. The Role of Governance

Public governance is usually defined as the act of exercising political, economic, legal, and administrative authority in the management of a nation's affairs. Public governance is often divided in two categories: One focusing on political aspects of governance and the other on its economic aspects. Papers presented in the concurrent session on "*Governance Issues*" broadly covered both aspects of public governance.

John Karikari examined the independent effects of financial liberalisation and governance on financial development. He incorporated in the analysis all aspects of institutions, including political, economic and legal, in order to gain a better assessment of their individual effects, and identify the dimensions of governance most likely to influence financial development. His empirical analysis was based on the most recent data on financial development, financial liberalisation, and institutions from 1996 to 2008 for 37 SSA countries. He found that unlike financial liberalisation variables, governance variables had an independent effect on financial development, as did legal institutions. He also found that some aspects of governance, such as credibility of the government and the extent of the rule of law, enhanced the impact of financial liberalisation on financial development. His analysis underscored the importance of governance and institutions in fostering financial development in Africa.

Douzounet Mallaye analysed the potential role of public governance as a mediator of the growth effects of foreign aid. The study focused on both the direct and indirect growth effects of foreign aid, contrasting democratic aspects of governance with its administrative or technical aspects. On the basis of a panel data empirical analysis covering the 1995-2005 period, the paper found that unlike administrative governance, democratic governance constituted a valid transmission channel for the growth effects of foreign aid. The paper had potential implications for aid-selectivity.

8. Reconciling Growth with Environmental Sustainability

Are economic development and environmental quality conflicting goals for African economies? With Africa finally showing signs of rapid growth, environmental problems that have been the natural consequence of economic development are now being brought to the forefront of the African development debate. On the one hand, there are those who believe that environmental degradation need not arise if environmental considerations are deliberately incorporated into development planning. This view is known as the integration theory.

On the other hand, there is a section of the growth and development literature that advances the idea that the relationship between indicators of environmental degradation and per capita income has an inverted-U shape. This theory is encapsulated in controversial environmental Kuznets curve (EKC). Applied to Africa, the EKC theory implies that in order to enhance sustained growth, African policy makers may have to decouple job creation from environmental concerns. But, proponents of the integration theory counter that the evidence for the inverted U-shape is not conclusive. For instance, the EKC has never been shown to apply to all pollutants (Perman and Stern 2003)[15], some of which might only appear as the country becomes richer. Further weakening the EKC theory is the argument that environmental damage may

[15] Perman, R. and Stern, D. I., 2003. Evidence from panel unit root and cointegration tests that the environmental Kuznets curve does not exist. *Australian Journal of Agricultural and Resource Economics*, Vol. 47.

feedback to economic activities (Arrow *et al*. 1995)[16], as documented in Malaysia, for example, where failure to mainstream environmental concerns ended up creating social problems through the loss of employment as a result of the destruction of fisheries, forest resources and farmland.[17]

While this debate is ongoing, research grounded in the African experience, by contrast, is still in its infancy. Can Africa afford to pair job-creation imperatives with environmental concerns? How can African countries strike the right balance between green growth and pro-poor growth? And, from a practical point of view, is the case for a green economy in Africa empirically grounded? Some aspects of these questions were addressed during the round table discussion on the prospects for Africa's sustained growth, and during the concurrent session on environmental issues.

As a guest speaker during the round table discussion on the prospects for Africa's sustained growth **Samson Muradzikwa**, Chief Economist at DBSA argued that the green economy was both an opportunity and a constraint for Africa. He suggested that clean technology might lead to employment gains. He offered solar energy as an example, although he also recognised that both policy and financing seemed to be lagging behind.

Although green growth was a prominent theme during the conference, only one paper on this issue was presented. **Mercyline W. Kamande** used time series data from World Development Indicators for Kenya for the 1960 -2006 period to estimate a quadratic EKC between per capita carbon emissions and per capita GDP. She found no evidence of the inverted-U relationship. However, a cyclical relationship was observed. The conclusion was that the EKC was not relevant for policy formulation in Kenya. The implication for the country, she stated, was that the responsibility of environmental conservation could not be passively left to economic growth. Instead, deliberate efforts must be made to create an enabling environment for green growth. Kamande asserted it would be possible by pursuing a vigorous environmental policy alongside economic development policy. An important and related issue that needs to be addressed is how the

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[16] Arrow, K., Bolin, B., Costanza, R., Dasgupta, P., Folke, C., Holling, C. S., Jansson, B-O., Levin, S., Mäler, K-G., Perrings, C., and D. Pimentel, 1995. Economic growth, carrying capacity, and the environment. *Science*, 268: 520-521.

[17] See ESCAP (1991) available at :
http://www.unescap.org/drpad/vc/conference/bg_my_14_iec.htm

Kenya government can pursue the concomitant goals of stimulating job creation and caring for the environment, in the context where there are externalities tied to both pro and anti-environmental actions.

Conclusion

The 2008-2009 global crisis provided the Fifth African Economic Conference with a range of socio-economic issues to debate on in relation to Africa's long-term economic prospects. This report has offered the main highlights of three full days of debates and discussions that brought together Africanists, experts from leading international organisations focusing on development, the African diaspora, and African experts and policymakers in Tunis.

In his closing remarks, the Chief Economist of UNDP's Regional Bureau for Africa, **Pedro Conceição**, referred back to the opening words of the President of AfDB by suggesting that there was a growing consensus on the aspirations of development, but no longer a 'consensus' list of externally prescribed remedies that countries need to adhere to in order to spur development. Instead, he said, it was up to countries to chart their own course and develop policies that fit their specific development context. This also implies that there is a greater demand for country-specific analysis and research, as well as a greater sharing of experiences between countries to provide policy makers with real evidence of what works and what doesn't.

The RBA Chief Economist went on to suggest a need for policy-oriented research in three broad areas critical to spur strong, sustained and shared growth. These areas cover Agricultural Development, Resilience and Social Protection, and Climate Change.

In his closing statement, the Chief Economist of the AfDB Group, **Mthuli Ncube**, advanced the idea that the AEC was an excellent forum for crafting Africa's own consensus on its sustainable development, in the face of enormous challenges that include ending poverty, expanding life-expectancy, and caring for the environment. He expressed the belief, however, that the consensus must be consistent with the MDGs. The main ingredients of this African consensus are:

a) Infrastructure development
b) Building capacity at local, national, and regional levels

c) Private sector development
d) Promoting entrepreneurship and skill investment
e) Striking the right balance between conservative central banking and job creation.

From the viewpoint of **Emmanuel Nnadozié**, the Director of UNECA's Economic Development and NEPAD Division, the intense discussions that marked the AEC 2010 were bound to benefit Africa. He praised participants' energy, intelligence and dedication as well as the logistic and financial support of the conference organisers, including the AfDB Group, UNECA, UNDP, and DBSA. He called for such fruitful discussions to continue beyond the conference venue, so as to harness synergies between the African diaspora and African professionals, and experts in addressing new challenges facing the continent. He also warned that while short-term focus was on recovery from the effects of the global crisis, it should not divert from the long-term focus on restructuration and structural transformation, which were paramount to Africa's prosperity.

Nnadozié reassured participants that the AEC, then in its fifth edition, was deeply anchored on the African economic development debate and that efforts would be made to keep the debate going forward. Finally, while not singling out any particular theme for special treatment, he re-emphasized the need for domestic resource mobilisation in the financing of Africa's development. To wean Africa from chronic dependence on external donors, he noted, was paramount to the continent's long-term prospects.

To sum up, participants at the AEC 2010 engaged in a dynamic exchange of ideas and information using empirical or theoretical methods on various issues relevant to Africa's development. Looking back at the proceedings, there is a general feeling that a lot is now known about what African countries must do to make the leap to long-term prosperity. But some crucial issues, though discussed in the conference, still cannot be cast aside as resolved. Take the issue of green growth, for example. While there are historical antecedents to sustained growth from which Africa can build (India, the East Asian Tigers are some of these antecedents), with respect to green growth however, there are no existing blueprints to guide policy action in Africa. Is there a lever to Africa's green growth? If so, how can it be used?

Next is the issue of reconciling inflation control and job creation within the monetary policy framework. It is easy to understand why this idea might look attractive. Narrow and shallow capital markets combined with fear of debt distress can reduce the scope of counter-cyclical fiscal policy during economic downturns. This presumably provides a case for monetary policy to step in and kill two birds (inflation and unemployment) with one stone. But like all policies, this policy prescription may have trade-offs. One such trade-off pertains to the stability of private agents' expectations, given the high vulnerability of African economies to external disturbances.

The induced volatility of interest rates may affect expectations, which in turn may affect the economy's response to the monetary policy. This puts a demand on future research to adequately measure the trade-offs associated with the concomitant pursuit of price stability and job creation through monetary policy alone.

The other issue that remains a target of future research is intra-Africa trade and regional integration. No plenary session at the AEC 2010 sidestepped the issue. Yet only two papers proposed analyses relevant to the subject. What do we know about the mechanics of regional integration in Africa? Should such integration occur at the sub-regional or the regional levels? Should it be a free trade area or a monetary union? What is the scope for macroeconomic stabilisation policy within the union? Clearly, these are questions still begging for answers. Future AEC may gain from inviting contributions to these open issues so as to advance knowledge about the mechanics of Africa's development.