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Presentation by Kamran Kousari to the Panel Session on NEPAD
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Thank you very much Mr. Chairman,

It is a pleasure for me to be participating in this discussion as a former Head of the Africa Programme in UNCTAD. I will concentrate my contribution on the first issue for discussion, i.e. Challenges, opportunities and lessons learned in the implementation of NEPAD.

A decade has passed since the adoption of the NEPAD and indeed it is time to take stock of how the Continent has fared during this period. But before doing so, perhaps it would be relevant to our discussion to place it briefly in an historical perspective. The NEPAD was a sequel two major UN initiatives the United Nations Programme of Action for Africa's Economic Recovery and Development (UN-PAAERD) in the 80's and the United Nations New Agenda for the Development of Africa (UN-NADAF) in the 90's. The 80's and the 90's were witness to a regression in Africa's economic performance. These decades were marked by a secular decline in the prices of commodities, deterioration in the terms of trade of African countries, increased indebtedness, structural adjustment programmes applied intensively and repeatedly with no apparent success, increased poverty, and diminishing aid flows to the continent.

The repeated failure of structural adjustment programmes to revive growth and development was explained by the lack of ownership of the programmes by the African countries themselves. This of course follows the old adage of blaming the victim. The basic tenets of the adjustment programmes were trade liberalization and the liberalization of the capital account, reduction of the role of the State and privatization, deregulation, adoption of market friendly policies to attract foreign investment including through the reduction of taxes and royalties in the extractive sector, and more generally what came to be coined as "good governance" in the Washington consensus parlance. In short, the promise was that by the adoption of these policies the magic hand of the market would ensure the most optimum and efficient distribution of resources, pushing towards comparative advantage and as a result raising all boats.

At the same time provision of aid by donors and renegotiation of Paris Club debt was made contingent on the seal of "good housekeeping" of the multilateral financial institutions. By the end of the 90's, the recognition that SAPs had not had the desired outcome, pressure from civil society about the debt burden and increasing levels of poverty in Africa led to a change of heart (if not a change of mind) through the introduction of PRSPs or the poverty reduction strategies. The novelty in the PRSPs was that these programmes were to be drawn up by the beneficiary countries themselves, thus assuming full ownership of the programmes with staff of MFIs playing only a supportive role, and that there would be a shift in spending towards areas which would benefit the poor such as health, education and rural infrastructure. This was followed by the HIPCs initiative a debt reduction strategy centred on performance under the PRSPs. A study conducted by UNCTAD in 2002 in its series on Economic Development in Africa, entitled "From Adjustment to Poverty Reduction: What is New?" found an uncanny resemblance in the poverty reduction strategy papers of 27 African countries studied as to the macroeconomic policy frameworks of the national programmes which were supposed to be drawn up in consultation with the poor and civil society in the countries concerned. Indeed the contents of the macroeconomic policies followed generally those of the SAPs. To quote an issues paper prepared for the IMF/World Bank Review of the PRSP Experience in 2002: Some ..NGOs argue that PRSPs incorporate adjustment policies that.. have consistently failed.. and this reflects the pressures on governments to conform to the expectations of the Bank and the Fund .. and Governments write into the PRSPs what they already know donors want to hear .. and such will be the case as long as long as the strategy must be endorsed as a condition for concessional assistance.

The turn of the century was also an occasion for the international community to adopt the Millennium Development Goals which recognized that in a globalizing world economy, while tremendous wealth was being created in some parts of the world, it coexisted with vast pockets of poverty where millions still lived under a dollar day, thus setting the goal of reducing poverty by half by 2015 and adopting a set of related social development goals which would help to reduce the impact of poverty on the less fortunate. Subsequently the NEPAD incorporated these goals in its own programme of priority actions as it did the PRSP process.

However, addressing the issue of poverty and all the attendant social ills it represents is not something that the international community discovered at the turn of the century. Raul Prebisch, the first Secretary-General of UNCTAD in remarks he made in a keynote address in 1979, twenty years before the adoption of the MDGs said and I quote: “Another idea has now appeared which fires the enthusiasm of some Northern economists, that of eradicating poverty – a phenomenon which, apparently, they have just discovered. Who could refuse to fight against poverty? .. But, is this possible outside the context of development and an enlightened international cooperation policy ?” end of quote.

I would suggest Mr. Chairman that the answer to the above question is negative. The Millennium Development Goals address the outward expression of underdevelopment, in other words the symptoms rather than the aetiology of the malaise. In the absence of developmental states it is indeed hard to conceive how Africa can fare any better than it has in achieving the MDGs or indeed the goals set out in the NEPAD. In the Programme of Action and the Strategy for Achieving Sustainable Development in the 21st century, the following expected outcomes were envisaged:

- Economic growth (at 7% annually) and development and increased employment;
- Reduction in poverty and inequality ;
- Diversification of productive activities, enhanced international competitiveness and increased exports;
- Increased African integration.

Without in any way underestimating the tremendous efforts made by the African countries as outlined by the previous speakers and successes achieved in political governance, it would behove us to take stock of where Africa stands in relation to the above expected outcomes.

Let me begin by indicating that average growth rates in Africa in the past decade, although below the 7% target established by NEPAD have doubled to 5.1% in comparison to the previous two decades when GDP growth was stagnant or even negative in a certain number of countries. Fuel exporting countries followed by minerals and metals exporters marked the highest growth rates. With the contraction in demand for commodities during the beginning of the current crisis, 2009 was witness to a sharp decline in growth to below 1% followed by stabilization in 2010 at around 4% for North Africa and Sub-Saharan Africa.

This having been said, most observers, including African institutions, agree that this has been a jobless growth; it has not made a dent into poverty where half of the continent still lives with incomes below $1.25 per day, and that apart from some success in primary school enrolment, the chances of achieving the MDGs and NEPAD's own goals seem remote. It might be explained by the fact that the additional income has not been reinvested. Gross fixed capital formation as a percentage of GDP has only risen by 1.6 percentage points when comparing the last two decades. According to UNCTAD's Commodities and Development Report 2012, the additional income went into building up reserves and into foreign wealth funds.

FDI was and is seen as a potential source of financing for development. The biggest share of FDI has been concentrated in the extractive sector where the promise of FDI for the creation of backward and forward linkages with the rest of the economy has not materialized. Owing to the enclave and capital intensive nature of the industry, jobs have not been created and there has been no transfer of technology. In this context, it should be noted that in a drive to attract FDI in the extractive sector, policy advice to African countries was to privatize the sector, de-regulate, and reduce taxes and royalties to a minimum. Therefore the lion's share of the benefits in the commodity boom has gone to the corporations which invested in these sectors. In addition, African countries are locked into long-term agreements with TNCs in the extractive sector with some agreements extending to 30 years. Other forms of FDI have been market seeking such as in wireless telecommunications where they have benefited from a captive market. Attracting FDI cannot be an end in itself. It can play a constructive role, but whether it contributes to development depends on macroeconomic and structural conditions of the host economy, as well their policy approaches to foreign investment. African countries must be selective and ensure that not only a fair share of the profits are accrued to them, but also that benefits are accrued through linkages with the domestic economy and the transfer of know-how and technology is assured.

The situation in the non-extractive sectors is not a bright spot either. It is no secret that policy advice for the liberalization of agricultural commodities called for the dismantling of State institutions such as commodity boards and caisses de stabilization which provided farmers with guaranteed prices for their output and provided relevant extension services to them. As a result small farmers were left to fend for themselves in relation to industries which have become increasingly vertically integrated and concentrated while farmers have become atomized, and therefore not in a position to negotiate higher prices for their goods. As a result the share of producers has become a paltry sum in the value chain.

Insofar as agriculture is concerned, it is good news that the Comprehensive African Agriculture Development Programme (CAADP) has reported that some ten African countries have made an effort to reach the target of devoting 10% of their budgetary allocation to agriculture. However, agriculture has in the past decades been woefully neglected while it can indeed be a driving force for getting people out of poverty, as the percentage of the labour force in agriculture in the continent is the highest in the world. According to UNCTAD's recent publication on the State of Commodity Dependence 2012, world average of the work force in Agriculture is 24% while in Eastern Africa it is close to 75% , Middle Africa 57%, Western Africa 45%, North Africa 28% with only Southern Africa being some 10%, with a percentage of women being even higher than the general averages. Nevertheless, this has been the most neglected sector in terms of both national resource allocation and ODA. According to 2010 figures, only 3% of total aid flows went to agriculture in Africa. It is obvious that Africa's food security and poverty reduction as well as the empowerment of women cannot be successfully addressed without a major effort in reviving the agricultural sector. This involves extension services to farmers, feeder roads, warehousing, transport and distribution, none of which interests private investors without State support. International trade policy also matters as the competitiveness of African producers are taken to task in the light of heavy agricultural subsidies provided by the North to its farmers.

On the other hand, it is indeed a worrisome development that manufactures output has actually declined in the continent, which while reinforcing commodity dependence, has led to de-industrialization. The share of manufacturing in Africa's GDP fell from 15% in 1990 to 10% in 2008. Apparently, the most significant decline was observed in West Africa, where it fell from 13% to 5% over the same period. In Eastern Africa, the share fell from 13% to 10% and, in Central Africa, it fell from about 13% to 11% . In Southern Africa, it fell from 23% to 18%. Regretfully this situation does not bode well for the third expected outcome.
Here again policy advice centred around rapid trade liberalization with the promised effect that resources would flow into areas of comparative advantage, reduce the cost of inputs and make the African economies more competitive. The difference with their developing country counterparts in Asia, however, was that the Asian countries gradually liberalized as they became competitive while the Africa countries were told to liberalize in order to become competitive.

Undoubtedly, any structural transformation of African economies requires industrial policy, a concept that has been absent from the development lexicon for years. It is through industry and its inter-linkages with the rest of the economy that jobs are created. Historically, the development of manufacturing sector has enabled countries to achieve structural transformation and it has been the main force behind the creation of higher-paid jobs and the main engine of high, rapid and sustained economic growth. The history of industrialization of both advanced economies and emerging economies clearly shows that in addition to factor endowments, policies matter. It is not sufficient for governments to create an enabling environment. Experience in other developing regions demonstrates that governments can be actively involved in supporting industry through credits, subsidies, R&D, and investment. International trade rules should not hamper the ability of African countries to employ such policies in a drive for industrial development.

Africa's recent growth performance thanks to the commodity boom can be easily reversed with another slow-down in the world economy as it did 2009. And, historically, commodity booms have lasted much shorter than slumps. The commodities boom of the seventies was followed by a secular decline in the prices of commodities for a quarter of a century. At the time many developing country governments did not seek the opportunity to diversify their economic base and went through two lost decades for development under a heavy debt burden and suffered loss of policy autonomy as they bent to the exigencies of creditors. The fact that commodity dependence has in fact increased rather than diminished speaks volumes of policy failure. Hopefully the errors of the past will not be repeated.

Fiscal spending on education, primary health care, reducing child and maternal mortality, as important as they are, needs to be balanced with spending on increasing productive capacity so as to enable the poor to work their way out of poverty. Therefore it is necessary to scrutinize the trade-offs between poverty reduction spending and spending on creating conditions for sustained growth and job creation.

The NEPAD set forth a challenging agenda for itself premised on the belief that the ownership of the policies will elicit a favourable response in terms of support from the donors. While the initial boost in the provision of ODA in middle of the decade was welcome, as was some debt relief through the HIPCs initiative, the donor community failed to meet the obligations it had undertaken to substantially increase aid to Africa. And, under current circumstances, it is highly unlikely that those obligations shall be met in the near future, as advanced countries grapple with the fallout of the financial crisis bedevilling their economies. This means that African countries will have to increasingly rely on domestic resource mobilization.

The market based policies pursued in Africa have meant a diminishing role for the State (which was branded as inefficient and corrupt). Thus through the years of repeated adjustment programmes institutions of the State were weakened and as a result the capacity to influence the course of economic development and the expertise for guiding the economy was lost owing to retrenchment. The idea that States fail but market failure is ultimately self-correcting has yet again proven to be woefully misguided, as the recent financial crisis has demonstrated. Perhaps it is time to rethink the developmental state, rebuild State institutions and strike a balance between the role of the market and that of the State. When problems of governance are traceable to flaws in the overall social fabric, there are no quick fixes by shifting power and responsibility from one section of the society to another. Such a move can be counterproductive, and is often a poor substitute for strengthening the State apparatus. Perhaps it is time to do some soul searching with respect to the balance between the role of the State and that of the market.

Africa countries have made great progress in pushing forward democratic reforms and greater transparency and accountability. It is perhaps time to empower these States to take on the challenge of economic transformation. This is also the challenge that NEPAD and their development partners must address in the next decade.