Developing an African Growth Plan

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With apparent enthusiasm, the United Nations, most development aid donors and agencies, academics, politicians and journalists seem to have embraced the UN Millennium Development Goals (MDGs) as a prime tool in the global fight against poverty.

But a basic question has never been asked or answered: will the pursuit of the MDGs help or hurt development, particularly in Africa?

The rationale for setting poverty reduction goals seems simple and straightforward. The world has a predilection for making grand promises and failing to follow through on them. And a great part of development aid benefits contractors from the developed world, goes into wasteful unsustainable projects or is pilfered by recipient governments. As a result, Africa particularly has little to show for the more than $1 trillion in aid and loans it has consumed since independence. Establishing some goals and measuring countries against them is one way to try to move the aid industry beyond its focus on promises and the amount of money given in aid and actually deliver results. In this spirit, the International Monetary Fund (IMF), World Bank, UN agencies, the New Partnership for Africa's Development and many donors have embraced the MDGs as a guide to development spending and the measure of its effectiveness.

The MDGs spawn so much rhetoric today because they reflect a reaction against the perceived callousness and ineffectiveness of IMF-backed structural adjustment programmes of the 1990s. In response to runaway deficit spending and kleptocracy in the 1970s and 1980s, the IMF imposed basic fiscal disciplines and demanded that governments slash wasteful spending, stop fuelling inflation through unrestrained printing of money, privatise state-run industries and liberalise markets. While necessary, the abrupt way IMF reforms were implemented created a popular backlash among the poor. In response, the IMF and other donors began trumpeting poverty reduction as the main goal that was imposed on countries seeking aid or debt relief. The MDGs were therefore the culmination of a shift in thinking from getting fundamentals right to ameliorating the effects of poverty.

Positively, and in contrast to the Cold War era, when loyalties in the East–

West battle often determined aid flows in spite of obvious waste and corruption, the MDGs have contributed to a constructive global debate about how to make aid more effective. But in many ways, the MDGs are having a negative effect on development efforts.

The overriding problem is that MDGs provide a kind of political camouflage that diverts attention from more vital questions about why aid agencies don't deliver long-term results. Indeed, an industry has grown up around discussing and tracking the MDGs. Web sites and books are dedicated to them. Aid workers must account for them and statisticians measure them. A Google search found 7,130,000 web pages on them. All this creates a smokescreen behind which the real issues of aid and development tend to disappear.

At a political level, the MDGs are making it easier for politicians and aid agencies to dodge the hard questions. Instead of debating why agencies choose badly conceived projects or rethinking the staff incentives that lead to impulsive aid spending, the aid industry is enshrouding its works in layer upon layer of poverty reduction rhetoric.

Unfortunately, however, by asking governments to measure their success based on reducing the visible signs of poverty — low incomes, hunger, disease — the MDGs focus on symptoms rather than causes. Vast developmental efforts have been inspired to address MDG symptoms. But numerical goals always create unintended behavioural consequences.

For example, if a salesperson is given bonuses based on the number of sales regardless of their value, he will invariably seek more small orders than large ones, potentially missing higher sales revenues. If he is rewarded for revenue alone, he may just as readily ignore small customers as a waste of time. Depending on the business, either incentive could be disastrous. So it is with poverty.

In poorly managed countries whose bureaucracies have gone for generations without measuring their performance against any standard, measurement sounds intuitively like a good plan. But the MDGs oversimplify. For example, if countries succeed in getting girl children into primary school, does it mean that they have succeeded in promoting gender equality and empowering women? Such oversimplification can mean declaring victory prematurely, but it can also mean misdirection of resources.

In the case of education, for example, the goal of universal primary education is politically appealing, but does it lead to development? Could Africa not achieve more growth by diverting some primary school funding into technical schools to turn out the bricklayers, carpenters and electricians that are in chronically short supply in the continent? In a world of unlimited resources, more education is better than less. However, when resources are limited, it is necessary to balance primary education with secondary, vocational and tertiary. And by focusing on gross enrolment, Africa is also neglecting a more crucial

problem: its schools have a poor record of imparting knowledge to students.

Many factors contribute to this, including unqualified teachers, weak teacher training, low salaries, inept administration, lack of supplies, poor-quality books and teaching aids, teaching in unfamiliar colonial languages, and teaching methods based on rote learning. The situation in Zambia can be used to illustrate the problem of focusing on the wrong thing. In the colonial era, elite schools for the children of colonial administrators taught in the colonial language, while so-called native schools used indigenous languages. As a point of political symbolism, Zambia's first government decreed that all children would be taught in the colonial language. No one pointed out that there were few teachers and few rural families spoke English. Thirty years passed before a systematic effort was undertaken to measure literacy. It found that three-quarters of primary school graduates were functionally illiterate because they sat through lessons in an alien tongue.

In assessing the appropriateness of the MDGs, it is first necessary to ask what exactly the development problems are that are holding Africa back. Is the continent less competitive because it lacks money or does it lack money because it lacks products that people want to buy and the technologies needed to make more out of its natural resources? Being underdeveloped leads to maternal mortality, death by preventable childhood disease and other maladies, but curing those symptoms immediately would not give Africa the know-how needed to stand as a developed continent.

The MDGs will fail to develop Africa because they do not focus on growth and productivity. Without growth, Africa will never escape poverty. Instead, it will face an eternity of keeping the harsh effects of poverty at bay with aid handouts. That is not a recipe for successful self-reliance.

Even if one assumed that the MDGs were all met by the target date of 2015, it is quite possible, indeed probable, that Africa would be further behind economically than today. Even if Africa went beyond the MDGs and addressed its conflict, governance and educational problems, it is likely the rest of the world will move ahead at a much faster pace and steadily out-compete Africa in the few markets that the continent holds. China has the surplus capacity, low wages and stable infrastructure needed to wipe out Africa's limited manufacturing industry. And the competitive tropical agricultural producers in Latin America and South-East Asia could steal away all of the coffee, tea, cocoa, sisal and horticulture markets in which Africa has a modest foothold.

The MDGs took hold of development thinking because many assumed that the market-oriented reforms of IMF structural adjustment did not spark rapid growth and in many cases increased unemployment. Many politicians and analysts reached the wrong conclusion that Africa was a special case and that focusing on growth could not work as it has elsewhere in the world.

The structural adjustment era did not prove growth strategies wrong. Rather,

it demonstrated that structural adjustment was necessary, but insufficient. It focused on restoring fiscal sanity, but needed additional growth reforms to directly address the high costs, bureaucracy, poor infrastructure, capricious governance and skills shortages that impede African business.

Structuring African aid and government activity around the simplistic MDGs will come with a very great opportunity cost. The continent will spend the next decade and all available resources and still not fully address the health, hunger and educational symptoms of poverty. In so doing, the MDGs will divert attention from investments that can directly boost growth and jobs and thus create more resources in future for social programmes.

In fairness, criticising the MDGs for their lack of growth focus is not enough. What should a more growth-oriented set of targets look like? To spark debate, here is a first draft of such a set of African Millennium Growth Goals:

1. Strengthen commercial infrastructure:

- Double the proportion of roads that are pothole-free and up to grade A standard. Surveys of African investors repeatedly cite the poor quality and high cost of African transport as a major impediment to commercial competitiveness, both within the continent and in export markets.
- Invest in new electricity generation and distribution infrastructure to remove all blackouts and load sharing within five years. Business generally and manufacturers specifically cite the routine power outages in African countries as an impediment to business. One survey in Uganda found that 25% of investment capital went to the purchase of private generators because business could not function with the unreliable electricity provided by state-owned producers.
- Double port capacity and speed of customs clearances by 2010. African ports are chronically slow, inefficient and capricious in their management of customs. Increasing port efficiency will allow more goods to be sold in a year, cut transport costs, boost export competitiveness and lower the cost of capital tied up in goods in transit.

2. Invest in rural economies:

- Double operational expenditure and real wages in agricultural research and extension services. For many years, Africa has cut investment in agricultural research and training for farmers. With two-thirds of Africans living in rural areas, investment in research and training in new agricultural techniques and seeds can directly assist food security, boost rural incomes and increase exports.
- Double national grain storage capacity. Africa suffers chronic food insecurity, alternately allowing bumper crops to waste and paying premium prices for emergency food during droughts. Investment in well-managed food storage and security systems could stabilise prices and encourage

farm investment, because farmers would face predictable prices. More predictable incomes would allow farmers to invest more in productive farm technology.

- Subsidise the sale on a commercial basis of small-scale irrigation equipment. India, Bangladesh and Malawi, among others, have achieved dramatic increases in small farmer productivity and welfare by encouraging the commercial sale of subsidised small-scale irrigation technologies that allow production during drought years, enable multiple crops per year and produce higher yields.
- Offer tax incentives to exporters and processors using contract farming models. Many commercial crops must be centrally processed before export. While governments struggle to provide agricultural training, inputs and credit, commercial processors offer an effective one-stop shop that assists small farmers to get into commercial agriculture. The firms educate farmers, work out the right proportions of inputs, and offer credit and a ready market at agreed prices, the combination of which has produced big gains in rural incomes. This contract farming model should be encouraged with tax incentives and assistance with infrastructure. It has been used successfully in the tobacco, coffee and tea industries. South African Breweries in Uganda uses such a model to procure the grain needed for its beer. Other successful contract farm companies include Clark Cotton in Zambia, Blue Skies fresh fruit exporters in Ghana, and various horticultural processors in Kenya and South Africa.
- Invest in national dairy processing, cold storage and marketing to capture the unrealised value of Africa's large livestock herds. Africa has significant indigenous knowledge of livestock management and large herds, but realises very little of the potential profit and food value of dairy products. Investment in cooperative dairy processing societies can increase rural incomes and food security.
- Create or expand research and certification bodies to assist farmers in meeting phytosanitary, quality and packaging standards needed for agricultural exports. Africa's climate offers the potential for substantially greater agricultural, livestock and fish exports, but small farmers lack the ability to research and conduct the required tests to certify that products meet the standards of importing countries. Investing in cooperative national or even regional testing centres and member-based marketing boards could assist small farmers in learning about and accessing lucrative foreign agricultural markets. Government marketing and testing monopolies have proven unwieldy and unresponsive, but commercial associations of farmers and cooperatives, with government assistance to testing and research centres, has proven effective in harnessing the untapped potential of African farmers.

- Double investment in rural feeder roads. Small farmers can only realise the value of their crops if they can get them to market. Investment in rural feeder roads can expand market access and boost rural development.

3. Invest in skills and research: The MDG focus on primary education will do little to help Africa compete, where the far more commercially valuable skills are imparted in secondary, vocational and tertiary education. Africa can only catch up to the rest of the world and boost the competitiveness of its products if it invests in technical skills. A concerted programme to identify skills shortages and rectify them will boost growth.

- Triple the yearly output of skilled and semi-skilled workers. African businesses report severe shortages of many technical workers needed to build and expand, including electricians, carpenters, bricklayers, plumbers and mechanics. Direct investment in technical schools and tax incentives for companies to take on apprentices can boost the pool of these commercially valuable workers.
- Triple the number of university-trained accountants and project managers. The UN Millennium Project and the Commission for Africa, among others, note that there is a severe shortage of capacity in financial management, accounting and project management, among other areas. This affects Africa's capacity to digest aid and is equally an impediment to business growth.
- Enact patent sharing and royalty laws to enable universities to collaborate with the private sector on needed industrial and agricultural research. The success of electronics, chemical, pharmaceutical, agricultural and other industries in the US, Europe, Brazil and Asia was based on close collaboration between universities and industry, which were encouraged to work together through laws allowing sharing of royalties, patents and launching of joint ventures. Africa should do the same.
- Half the fees paid by students in technical, scientific and engineering disciplines. Africa produces too many graduates in humanities and social sciences, while facing a shortage of technical and scientific skills. Experimenting with incentives and differential tuition rates could encourage more students to study in commercially valuable areas.
- Boost investment in maths and science at secondary school level. The shortage of scientific graduates from university results from inadequate preparation at high school level. Greater investment in maths and science at lower levels will have commercial payoffs for Africa.

4. Increase lending and savings: An estimated 40% of African wealth is invested abroad, while African businesses cite lack of credit as a major impediment to growth. Africa can boost growth through strategies to boost the savings pool from which loans can be made and ensure that more money goes into productive lending.

- Cut interest rates to 15% or less in five years. The world over, governments cut interest rates to boost investment and growth. But African interest rates are prohibitively high because of high inflation rates, deficit spending and efforts to protect currency depreciation. A concerted programme to curtail deficits, limit inflation and cut interest rates would increase the amount of borrowing for productive industrial expansion.
- Strengthen bank regulation to write off bad loans, avoid political lending and increase commercial lending. African banks are weak, poorly regulated and often in danger of collapse because of unrecoverable loans to politically powerful people. Investing in stronger regulation would boost the amount of productive lending by writing off bad debts and ensuring sound lending practices.
- Create a computerised national identification system and registry of loan defaulters. Banks are reluctant to lend because it can be impossible to recover bad debts or determine who is a bad credit risk. Two strategies are needed to help banks with the problem. Most countries lack a computerised national identity system. They also lack a register or tracking system for loan defaulters. Both systems working together can reduce loan defaults and give banks the confidence to lend more.
- Invest national pension savings in Africa rather than the developed world. African national pension funds invest billions of dollars outside Africa that could be productively invested in the continent. By one estimate, government employee pension funds in 14 African nations had total assets of $127 billion.

5. Raise domestic revenue: Africa is chronically short of funds for development, but could do much more to increase funds available for a growth agenda.

- Tax luxury goods, including expensive cars and consumer electronics, to fund expanded investment. Does anyone really need luxury cars, home theatre systems and gourmet imported foods and alcohol? Imposing stiff taxes on such items across the continent would raise needed revenue and help direct funds into more productive efforts.
- Cut in half spending on government use of mobile telephones, vehicles and international travel. Governments spend vast sums on luxuries that could be cut.

6. Promote justice and the rule of law: The failure of African courts to deliver fair and timely justice is closely related to the unwillingness of banks to lend and the fear of foreign businesses to invest. Investing in court competence and efficiency would also pay broad political dividends to disillusioned citizens, who face demands for bribes when they seek help from police and courts.

- Double the capacity of courts and cut by two-thirds the time and cost of securing judgements in commercial matters.

7. Remove bureaucratic obstacles to business: The World Bank's annual survey of the impact of regulation on business found Africa to be the most difficult continent in which to do business. The 2005 survey found it takes an average of 433 days and 35.4 procedures to enforce a contract in sub-Saharan Africa[2]. It takes an average of 10.84 procedures and 62 days to start a business, with costs running three times the average per capita income. In China, arguably Africa's greatest competitor for investment and in manufactured goods, it takes 13 procedures and 48 days to start a business and enforce a contract and takes 25 procedures and 241 days to enforce a contract. The average for the wealthy countries of the Organisation for Economic Cooperation and Development are 6.5 procedures and 19.5 days to start a business and 19.5 procedures and 225.7 days for enforcing a contract. In East Asia, it takes 8.88 procedures and 34.5 days to start a business and 26.38 procedures and 265.5 days to enforce a contract.[3]

- Cut by two-thirds the number of steps and the amount of time needed to open a business.
- Cut by two-thirds the number of steps and the amount of time needed to obtain land for commercial purposes.
- Convert land ownership from customary to freehold title by 2015.

8. Level the commercial playing field by fighting corruption: Corruption is regularly cited as a major impediment to investment in Africa. It diverts business away from the most efficient, warps and delays government decision-making and moves money out of productive uses into private pockets.

- Double the funding and staff at anti-corruption authorities, auditors-general, tender boards and financial/audit control departments.
- Adopt model transparent tendering laws.
- Pass laws clearly defining conflict of interest for government workers and forbid the relatives of politicians and civil servants from participating in state tenders.
- Pass laws requiring the full disclosure of wealth held by parliamentarians, ministers, presidents, judges and senior civil servants. Disclosure must be open to the public and media and not sealed in a closed parliamentary register.
- Require all businesses to disclose all payments to government officials directly and through any outside agents or proxies.
- Enact freedom of information laws to enable citizens and the media to gain access to all tendering documentation in a timely manner.
- De-criminalise libel and remove licensing requirements on journalists and media establishments.
- License independent commercial radio and television to operate over the whole national territory in African states.

The MDGs have become not only a global measure of performance but increasingly a guide to aid programming. However, the goals are used as a political mantra that blocks needed examination of how aid is focused. Africa has more needs than it has funding for, given even the recent pledges to double aid. If all the new funds are diverted to the MDGs, the continent will ameliorate the worst aspects of its poverty – poor health care, inadequate education and widespread hunger. However, such an approach will do nothing to alter the underlying reasons for African poverty: The continent is poor because its industries are uncompetitive and its costs are high. Rising aid levels represent a rare opportunity for Africa to invest in things that can improve its productive capacity and competitiveness. Instead of focusing on health, education and hunger, Africa needs to pursue an alternative agenda aimed at promoting economic growth and competitiveness. This alternative recipe should focus on tangible improvements to the business environment that can directly ease entry for investors, cut costs, improve basic public utilities needed for business, fight the corruption that warps economic decision-making and improve the rule of law. Africa should not cut its social programmes but it must not pursue them to the exclusion of tangible steps that will make it a better place to do business and create employment.

Endnotes

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[2] World Bank Doing Business 2005 online database, http://www.doingbusiness.org/CustomQuery/

[3] Countries included in this average are China, Hong Kong, Malaysia, Philippines, Singapore, Thailand, Taiwan and Vietnam.