Africa Makes Progress, but Risk of Reversal is Real: Interview with Donald Kaberuka

Charles Onyango-Obbo, Nation Media Group, Nairobi, interviews Donald Kaberuka, President, African Development Bank Group.

COO: To start looking at the last 40–50 years of Africa, what would you say were the big mistakes made by leaders, and the things that they got right?

DK: At the Dawn of independence in the 1960s, Africa's founding fathers set as their goal the elimination of poverty, ignorance disease colonial rule and apartheid from the continent in their lifetime. Fifty years on, there is significant progress, but also major setbacks.

The continent could have moved faster if greater attention had been given to issues of economic integration, investing in people and natural resources management.

COO: Your optimism regarding Africa's potential for transformation is on the record severally. Would you say that what many people see as an 'African economic surge' is indeed underlined by strong, long-term growth aspects?

DK: There are of course risks on the horizon, Africa cannot be an island amidst global turbulence. That said yesterday, Zambia raised 750 million dollars in its Eurobond debut issue. It was oversubscribed. That is one evidence of what capital markets now think of Africa risk. A number of other countries will be doing the same. In the face of global turbulence, Africa has remained resilient. Growth over the medium term is estimated robust.

The second-generation resource boom, favourable demographic dynamics and risk re-profiling for Africa's assets has improved the business climate.

However, and this is the most important distinction; we should not confuse 'economic growth' with 'economic transformation'. Much of recent growth has been driven by a narrow range of commodities and to an extent private consumption. Otherwise, the structure of the economies have barely changed. The two big challenges going forward are 'transformation and inclusion' reconciling this growth story with pervasive poverty, misery and instability that still exist in many parts of the continent.

COO: In your speech at the Official Opening of the 2012 AfDB Annual Meetings in Arusha, Tanzania, you reflected on concerns about risks and internal socio-political setbacks in Africa today. Could you elaborate on these and what factors you believe are necessary to mitigate them?

DK: I was referring to the situation in Mali, hitherto a stable country, now threatened by partition, fundamentalism, the return of the military, I was also referring to; the chronic instability in Guinea Bissau; the 22-year mayhem in Somalia; and the desolation in the Sahel and the Horn.

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The risks of democratic reversal – war and conflict, prolonged fragility, economic deterioration – are costly to the countries concerned as well as the neighbourhood.

I see two imperatives here: First, promoting strong, lasting, accountable institutions, and, second, managing diversity. With such strong foundations, it is possible to pursue social economic policies that leave 'no one behind'. You can trace nearly all the conflicts to botched up management of diversity, exclusion and absence of strong institutions that build in checks and balances.

COO: Rising joblessness, inequalities of various types, the youth bulge and what it already portends in terms of high rates of youth unemployment pose serious challenges. Why is Africa in this situation and what needs to be done?

DK: Compared to the rapidly aging populations of the rest of the world, the youth bulge potentially portends many opportunities if necessary investments are made in quality education and skills training. But it could also be a source of social instability if not tackled properly.

I must emphasize here the role of quality in education, otherwise as we saw in Tunisia you generate a second problem, which is the unemployable young due to the mismatch in training within the mushrooming 'universities'.

COO: What does the mismatch between skills and needs of the emerging new economies in Africa mean in terms of public policies and the role of private enterprise?

DK: A recent report by McKinsey reports that only 28 percent of Africa's labour force are in stable wage-paying jobs (McKinsey Global Institute, 2012). The sector that has driven much of the growth in many economies the extractive industry- creates very few jobs- about 1 percent- and worse, often the resource curse lays to waste, that sector which creates jobs and income- agriculture.

Thus, while sound quality education and skills development is the starting point, the other component must be:

- (i) Promoting higher value agriculture
- (ii) Addressing the infrastructure bottlenecks.

In this way, I am convinced that with the 'Africa wage' competitiveness *vis-à-vis* other global centres

of labour intensing production, Africa can add 'a productivity differential' that would inevitably attract manufacturing from Asia to Africa in labour absorbing sectors.

COO: Africa's fast-paced urbanization manifests a 'farm to factory' shift. Is Africa sufficiently prepared for this shift? What do you see as the downsides of the shift in terms of addressing the poverty crisis?

DK: The facts are well known:

- (i) A third of Africans today live in urban centres
- (ii) By 2025, the share will be 45 percent;
- (iii) Of those urban dwellers, 200 million of them live in slums.

Few countries have been prepared for urbanization in its raw sense – i.e., millions of people moving to urban areas in a mere matter of years as the rural poor move to urban areas in search of better opportunities. However, examples from Latin America and Asia especially the former shows that a number of measures can be undertaken to ameliorate the lot of poor urban dwellers – though improvement of slum areas, provision of basic services, infrastructure and job opportunities.

One important lesson we have learnt, especially from Brazil, is the vital importance of well-targeted safety nets. The concept of 'one dollar a day' as the poverty cut-off point is not meaningful for poor urban dwellers who have lost social welfare network of rural areas.

COO: Professor Paul Collier has argued that 'romantic populism' against commercial agriculture and application of science and biotechnology to boost agricultural productivity is a recipe for serious food insecurity in Africa. What is your view?

DK: Someone has said maybe Professor Collier himself, I don't recall exactly that the Asian green revolution was a 'chemical revolution', i.e., a more intensive use of fertilizers and that the African green revolution will be 'biological'. There is no escaping the application of science and biotechnology, *provided the right safeguards and regulations are in place.*

Peasant farming by hoe will not generate the necessary incomes to end rural poverty. It is moving up the value chain and greater investments into farming that will do so. It is clear of course

that for some time, small and commercial farmers will co-exist. They might even develop symbiotic relationships, as in contract farmers.

Agriculture, according to Nigerian Minister for Agriculture, has to be a 'business' and not only something which poor people do. I agree.

COO: Connected to this, how has the AfDB positioned itself in working with African Governments to address the adversities of climate change especially in the context of food security? What is it that holds the continent back in terms of attaining food security?

DK: As a continent whose fortunes are very closely tied to the natural environment, climate change can't be but a major priority for us. Adaptation and mitigation measures are integrated in all Bank Group Operations. Greening our own investments and helping countries develop green strategies, and national adaptation plans, is at the centre of our action.

As for food security, the continent has paid a high price for bad policies of the past. In the 1970s and 1980s, agriculture policies were highly constrained by policies of 'urban bias'; macroeconomic and other policies had shifted terms of trade against farmers. Example on exchange rates made it cheaper to import rice while implicitly taxing farmers.

Those policies were corrected in the 1990s. Now the biggest obstacle to reducing post harvest losses, moving up the value chain and allowing price discovery and markets to function is *poor infrastructure*.

The Bank has made this its priority. Fifty-five percent of all our investments are in infrastructure.

COO: The 'Arab Spring' is becoming almost a 'winter' in terms of the uncertainties it is manifesting politically and economically. Whilst it could be too early to draw firm judgments, what are your views about its context and emerging lessons in the broader African perspective?

DK: The Arab Spring, a volatile mix of youth unemployment, social exclusion, kleptocracy and crony capitalism has opened a new chapter in the region. It is, I think, too early to write off its gains. Like all revolutions, they are rarely linear – and transitions can be quite long. The challenge for

the new leaders is *growth with jobs*. That can only come from confidence that attracts investments. That climate of confidence is vital. What are the lessons for the rest of Africa? Principally, that economic growth without inclusion, voice and accountability is unsustainable. That is true for every single African and even non-African countries.

COO: Africa is experiencing a rising and passionate intensity in what is described as 'resource nationalism'. It ranges from issues of 'land grabbing', nationalization of mining companies or drastic review of mining rights and interests to failed economic empowerment of indigenous citizens. In your view, what underlies these strong sentiments?

DK: Bank Staff calculate that Africa has in excess of 122 billion barrels of proven oil reserves, and deposits of natural gas equal to 500 trillion cu.ft. In net present terms, the potential revenue stream is said to be around US\$ 605 billion. The challenge is familiar: How to avoid the resource curse, enclave economies etc. The Management models are well known, it is the political will that must be galvanized.

That political will to well managed must be combined with generating capacities to negotiate balanced mining contracts and concession agreements which can stand the test of time, which indeed are seen to benefit the country and its people, while of course providing a proper return to investors.

In some countries, the mining model is antiquated and not sustainable. The African Development Bank has put in place a Legal Support Facility to help countries negotiate robust contracts with multinationals. We also firmly support the National Resource Charter promoted by Professor Collier.

COO: AfDB is working closely with Regional Economic Communities in Africa. What is your assessment of integration in Africa so far? What can be done to bolster deeper integration?

DK: Variable progress. Faster in some regions and slower in others such as North Africa, Central Africa and the Mano River countries.

Much has been achieved, but opportunities too have been lost. There is often too much 'zero sum calculus', which have hindered free circulation of goods, capital and talent.

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I believe this should be the number one item on the agenda of this generation of Africa's leaders. The alternative, slower, progress fritters away Africa's internal potential, delays the unlocking of its promise. Economic Integration is the number one mission for the African Development Bank, from institutions, facilitation, infrastructure both hard and soft, and regional public goods.

COO: At the SID Congress in Washington in 2011, you suggested that, either by accident or deliberate policy choice, Africa had avoided some of the worst mistakes that led to the global financial crisis – and that the continent might have some lessons to offer the world. That was bold, but you didn't go into much detail. Can you elaborate?

DK: You know that a banking system, anywhere, thrives on sound macroeconomics. Africa in the 1980s and 1990s cleaned its house. It was painful but it worked. Some of the countries in the peripheries of the Eurozone are now going through the crunch.

In addition to that, a banking system depends on four interrelated elements:

1. Strong regulation
2. Robust supervision
3. A credible sanctions regime
4. Resolution mechanisms when things go wrong.

In almost every country in Africa, all these elements were in place. That is one of the reasons Africa did not embark on the purchase of the 'toxic' assets that pushed the world of banking to the brink of catastrophe.

COO: On a couple of occasions you have argued that the East Asian authoritarian development, what you called the 'authoritarian bargain', has really not worked in Africa, and by implication that the continent is better served by a more liberal model. While the authoritarian path has not worked, there is also a lot of disillusionment with and a trail of failure with the more conventional multiparty alternative. How would you make your case?

DK: Social development models cannot be 'picked from the shelf'; endogenous they need to be. At the heart of any model though must be *inclusion*, *voice* and *accountability*. Citizens must expect Governments to be clean, to deliver, to be accountable and offer citizens a voice. The authoritarian bargain models fail on three of these and that is why even in Asia, places such as South Korea they lasted for only two decades, up to end 1970s. Beyond that general principle models will be different, Good Governments came in different forms and shapes.

References

McKinsey Global Institute (2012) 'Africa at work: Job creation and inclusive growth', accessed at, <http://www.mckinsey.com/insights/mgi/research/africa.europe.middle.east/africa.at.work>, accessed August 2012.