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TICAD III

United Nations University's Policy Brief

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United Nations University
5-53-70, Jingumae, Shibuya-ku
Tokyo 150-8925, Japan
Tel: (03) 3499-2811 / Fax: (03) 3499-2828
E-mail: mbox@hq.unu.edu
http://www.unu.edu

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The policy brief is the product of research conducted by the Nations University (UNU).

Over the last two years, the UNU, in good cooperation with the African Diplomatic Corps (ADC) in Tokyo, has been preparing its contribution to the Third Tokyo International Conference on African Development (TICAD III). In a recently held workshop of experts in Tokyo a number of conclusions were drawn.

This work has been organized around priorities identified by the New Partnership for Africa's Development (NEPAD), namely the triangle "infrastructure, regional integration and capital flows" and the possible synergies between the NEPAD and TICAD III.

UNU ~ TICAD III
Policy Brief

How can TICAD III contribute to support the grand design for Africa?

UNITED NATIONS UNIVERSITY

United Nations University
53-70, Jingumae 5-chome,
Shibuya-ku, Tokyo, 150-8925, Japan
Tel: +81-3-3499-2811 Fax: +81-3-3406-7345
E-mail: mbox@hq.unu.edu
http://www.unu.edu

United Nations University Office in North America
2 United Nations Plaza, Room DC2-2062, New York, NY 10017, USA
Tel: +1-212-963-6387 Fax: +1-212-371-9454
E-mail: unuona@ony.unu.edu

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Part I Policy brief

TICAD III: UNU policy brief — Policy considerations and suggestions

Over the last two years, the United Nations University (UNU), in cooperation with the African Diplomatic Corps (ADC) in Tokyo, has been preparing its contribution to TICAD III.[1] In a recently held workshop of experts in Tokyo, a number of conclusions were drawn.[2] The main conclusions are summarized in the following sections on policy considerations and policy suggestions.

Policy considerations

◆Since TICAD II, two major initiatives have radically changed the African landscape: first, the formal adoption of the New Partnership for Africa's Development (NEPAD) by the African heads of state in July 2001 and, second, the creation of the African Union (AU) in July 2002. The latter aims to strengthen coordinated action in Africa, whereas the former gradually provides a roadmap for such coordinated action. NEPAD provides Africa with a "grand design" and gives a perspective on where Africa should be 15 to 20 years from now. TICAD III might provide the support needed to implement the ambitions and plans developed in the NEPAD process.

- Develop a "grand design" for Africa: look at the global level as compared with the local level, linking together micro and macro aspects.
- Further strengthen synergy between NEPAD and TICAD.

◆Also since TICAD II, a number of world summits and conferences have taken place that are relevant for the future of Africa, such as the Millennium Summit, the UN conference on "Financing for Development" in Monterrey, Mexico (2002), the fourth WTO ministerial conference in Doha, Qatar (in November 2001, soon to be continued in Cancun, Mexico), and the World Summit on Sustainable Development in Johannesburg, South Africa (August-September 2002). The Monterrey conference aimed at identifying ways to mobilize the financial resources needed to achieve the Millennium Development Goals, and especially the goal "to halve poverty by 2015", while the Doha round placed at the heart of the negotiations development issues and the concerns of developing countries. The Johannesburg summit tried to put "words in action", in particular by stimulating a large number of partnerships with the participation of civil society and private enterprises. TICAD III can draw the balance and target the action.

- Place the concerns of developing countries at the heart of negotiations, and guarantee access to world markets for the goods they produce.
- Put "words in action."

◆In the preparations for TICAD II, UNU and the African Economic Research Consortium (AERC) prepared a policy brief on "Strengthening Africa's Participation in the Global Economy"[3], which can be summarized as follows:

- Participating in the global economy provides immense opportunities, but it also entails significant risks.
- Successful participation entails a strategic approach that is actively pursued.
- A successful, outward-oriented development strategy must:
  - ensure a stable macro-economic environment,
  - liberalize trade, but with care,
  - realize the opportunities of regional dynamism,
  - focus on the primary sector, and
  - offer some protection and selective promotion policies that are helpful;
  - but, these can be dangerous if the institutional preconditions are weak.
- Therefore, it is essential to reinforce the institutional preconditions for outward orientation and growth at the political level, at the public level and at the level of private agents.
- Developed countries can help by radically transforming aid, reducing the debt burden and guaranteeing open markets.

Even though some progress has been made in all these areas since TICAD II, these recommendations are still as relevant now as they were five years ago.

- Develop strategic approaches.
- Enhance African institutions as a way to enable business, domestic or international, to flourish.
- Transform aid and reduce the debt burden.

◆The primary sector remains of crucial importance in Africa. Most African economies rely, to a large extent, on their primary sector - hence, the importance of removing all obstacles that hinder African trade development. Tariff barriers on agricultural goods as well as subsidies in developing countries are harming farmers in Africa; about two-thirds of the Sub-Saharan population lives in rural areas, and 70 per cent of the rural population consists of small holders farmers.[4]

The issue of food security remains a daunting challenge for both African governments and local communities. The priorities for the African continent are to fight hunger and to ensure self-reliance in food production; Africa has the natural and human resources to feed itself. Furthermore, it is possible for Africa's primary sector to create more capital, and this capital can be invested in other sectors, such as health and education. But, as long as the hunger issue remains unsolved, the whole African continent's development is jeopardized or put under threat.

The Asian experience showed that once production and productivity of the agricultural sector are raised, growth becomes sustainable. It is possible to reduce poverty in Africa: African governments, with the support of the international community, must champion comprehensive rural community-based development schemes. They must also enhance extension services, such as credit, marketing and distribution. Governments must also promote reforms that actively encourage small farmers' entrepreneurship.

- Focus on the primary sector; enhance the processing industry and the marketing chain.
- Fight hunger: it is a priority for Africa to be able to feed itself.
- Support community-based rural development with strong governmental support.

◆The HIV/AIDS crisis presents a threat to human health and social and economic progress. In Africa, the disease is already having a major impact on nutrition, food security, agricultural production and rural societies. HIV/AIDS impacts on the labour force are causing great alarm: it is estimated that the HIV/AIDS pandemic will reduce the labour force by as much as 26 per cent by 2020. It is also estimated that since 1985, some 7 million agricultural workers have died from AIDS-related diseases in 27 severely affected African countries.[5]

As a direct consequence, agricultural skills may be lost, since children are unable to observe their parents working.[6] Besides, land rights may not enable widows and children to stay and cultivate the land after the death of the head of the family. Moreover, the disease commonly strikes the most economically productive members of society; HIV/AIDS is a problem of critical importance for agricultural, economic and social development. The loss of able-bodied adults and experienced workers such as farmers, teachers, engineers and doctors affects the entire society's ability to maintain and reproduce itself. This loss, combined with the entry into the labour market of orphaned children who have to support themselves, is a daunting challenge for African development. The new generation entering the labour markets is characterized by both a lower average age and a lower average level of skills and experience. Clearly, Africa is in the process of losing its prime labour force to HIV/AIDS.

- Place education at the core of the fight against HIV/AIDS.
- Combat the spread of HIV/AIDS by supporting prevention campaigns.
- Address the issue of land access and land rights to protect the widows and children of HIV/AIDS victims.
- Reverse the impact of HIV/AIDS on the labour force by setting up systems that support affected and contaminated working populations.

◆With an urban growth rate of 4.87 per cent, Africa is the continent with the fastest rate of urbanization.[7] In the least developed countries, among which 34 are in Africa, the population increase in urban areas will be from 0.2 billion to 0.6 billion, three times as many, in only thirty years. African cities are not able, anymore, to absorb recently urbanized populations; they have the least capacity to cope with the problem, but they are most directly confronted with it. As a direct consequence, slum areas are growing in Africa. Slum areas are characterized by the lack, or poor quality, of basic infrastructures such as health and education. Slum residents are left behind without any hope for their future. The Millennium Development Goal number seven, Target 11, aims to achieve a significant improvement in the lives of 100 million slum dwellers by the year 2020. In order to have productive and healthy cities in Africa, a strong partnership between African governments, donor countries and UN agencies (such as the UN HABITAT) is necessary.

African countries must be supported in their efforts to develop healthy cities, where non-agricultural activities can generate income (including services) that benefit the population. These healthy cities can be developed as small cities within large urban regions. It is important for the African continent to develop an "urbanization strategy" that will enable the continent to address the issue of rapidly growing urbanized populations.

- Take account of the fast urbanization of the continent and its implications.
- Achieve improvement in the life of slum residents by mobilizing them and creating an enabling environment.
- Develop urbanization strategies that enable the development of productive and healthy cities.

◆ Although the pace of globalization has been accelerating over the past five years, most of the African continent has not benefited from the process: "Most of Africa is not in the main stream."[8] Enabling the African continent to participate in and benefit from the global economy must be a priority. Measures such as subsidies, high tariffs and export dumping have to be reviewed in order to strengthen the participation of developing countries in the global economy.

However, it is not only international rules that need to be reviewed, as the Doha Round intended to do with the international trade system. The internal organization of African countries also needs reviewing, especially at the interface between the public and private sectors. African countries must, individually and collectively, strengthen their institutions. African countries must support "branding" and the development of institutions that will enable African goods to directly access world markets. It is important for African countries to become the ones who profit from trading the goods they are producing, rather than having intermediaries keep most of the benefits.

- Enable African countries to benefit from globalization by enhancing their position in world markets; support profitable access to world markets for African producers.
- Improve access to the world market and relieve the debt burden.
- Strengthen internal organization in African countries, with a focus on the interface between the public and private sectors.

Policy suggestions for TICAD III

Taking account of NEPAD's priorities and its recommendations for TICAD III, UNU - in cooperation with African Diplomatic Corps participants in Japan - has been focusing on the triangle of "infrastructure, regional integration and capital flows." In May 2003, the annual Africa Day[9] symposium elaborated these themes and their interlinkages.

Building on the success of this symposium, UNU organized a workshop in July 2003 centred on the preparations for TICAD III. A group of experts was brought together with members from the African Diplomatic Corps in Japan (ADC), the international research community and UNU. Discussions focused on four main themes: (1) infrastructure, (2) regional integration and institutions development, (3) capital flows and risk management, and (4) the possible synergies between NEPAD and TICAD III.

◆***Focusing on the triangle of "infrastructure, regional integration and capital flows"***

Infrastructure, regional integration and capital flows are all important elements of the African development equation, as highlighted by NEPAD. Their importance must be further emphasized.

The fact that infrastructures and poverty reduction are closely interlinked stresses the importance of having an accurate definition of infrastructure. In such a definition, infrastructure includes not only hard infrastructure, such as railways, roads and bridges, but also soft infrastructure, such as education, health, information and communication technology (ICT), organization and good governance. The adoption of such a definition can help reverse the tendency to allocate very low budgets to sectors such as education and health.

The importance of good governance must be highlighted. Good governance is not exclusively a government's responsibility; civil society and the private sector are important stakeholders and can make important contributions, too. At the political level, good governance calls for effective states: states that are democratic, legitimate and able to deliver basic services, such as health and education. Effective states can play the role of a driving engine in order to sustain development. Education and organization, including appropriate and strong institutions, are crucial for good governance and development. Strengthening of the institutions needed for good governance and participation in the global economy must receive the highest priority. To achieve this, a well-educated population, at all levels and in all relevant sectors, is needed.

- Adopt a clear definition for infrastructure, stressing that infrastructures are "pro-poor" and that "soft" infrastructures such as education, health, ICT, good governance, organization, etc. are important components.
- Pursue a policy of balanced development of hard and soft infrastructures in relation to the growth of economic activities.
- Strengthen good governance (governance as an international responsibility).

The development of both hard and soft infrastructure is closely related to regional integration and institutional enhancement. The size of most African economies makes regional integration a priority - in different forms, and on different scales for different issues, to start with. In Africa, regional integration and inter-country collaboration offer opportunities to overcome weaknesses that can be found at the national level. African countries must place a high priority on trying to generate dynamism with their neighbouring countries. Developed countries, such as Japan, must support existing regional institutions to overcome their weaknesses.

NEPAD must be viewed as a framework within which African integration, at different levels for different purposes, can take place. It is important to note that integration can take different forms and processes, as for example:

◇integration of Africa in "one bloc," i.e., in its relations with the WTO;

◇integration that focuses on "rims," according to geographical locations (for example, Northern Africa with the Mediterranean region, or Eastern Africa with India and Asia, etc.); or

◇integration that focuses on river basins, where most of the African population is concentrated (Nile, Niger, etc.).

Regional integration is a process, not a static concept, and, as such, alternatives must be considered with their possible benefits. In the integration process, attention must also be given to the roles of different actors, such as the private sector, professional associations, civil society, NGOs, etc.

- Enhance the capacity, quality and credibility of African institutions.
- Promote regional cooperation and integration in different sectors, and at various geographical scales.
- Promote institution building that supports successful participation in globalization.

Capital flows are necessary to finance infrastructure development. Lessons must be learned from previous experiences to avoid the replication of inadequate financing that led to poor quality infrastructure. Infrastructure development requires vast financial resources and, in order to attract capital flows, a new marketing approach must be adopted. The creation of an African Multilateral Investment Guarantee Agency (AMIGA), along the lines of the Multilateral Investment Guarantee Agency (MIGA) of the World Bank, can contribute to addressing the issue of risk management. Such an agency can make a significant contribution to the promotion of the African market.

It is also of crucial importance to promote the development of sound financial institutions that can support private sector entrepreneurship in Africa. Financial institutions will play an important role in making Africa a more reliable partner for both African and non-African partners. They can also facilitate the mobilization of private resources. Aid is important, too. Technical cooperation can contribute to building fertile ground for large-sized ODA projects, focusing both on hard and soft infrastructure, that in turn can attract foreign direct investment (FDI). AMIGA would be an essential tool in creating that virtuous circle.

- Establish AMIGA (for risk management).
- Develop sound financial infrastructures, such as banks, financial markets, etc.

◆***Strengthening partnerships***

Partnerships and the concept of solidarity have to be promoted as guiding principles for South-North cooperation, but also for South-South cooperation. The latter may be even more crucial than the former. Within the African continent, African countries must enhance collaboration and go beyond the concept of national interest.

The TICAD process focuses on the importance of South-South cooperation, especially Asia-Africa cooperation. The Ministry of Foreign Affairs of Japan announced its intention with TICAD III to promote these approaches to give dynamism and diversity to the African development process. This is a very important decision. Partnerships can take different forms and contribute to original and creative solutions to the challenges of African development.

Moreover, in Africa the dimension of intra-partnerships must be strengthened. The interactions among domestic stakeholders (political elites, judiciary, legislature, the executive branch, civic organizations, religious organizations, the business community, farmers, mass media and NGOs) tend to be neglected. In this respect, NEPAD could play a leading role in enhancing such partnerships among Africans.

- Promote South-South partnerships.
- Strengthen intra-partnerships within the NEPAD framework.

◆***Fostering social and cultural capital***

The rapid urbanization of Africa is placing its traditions and cultures under new constraints. African social capital (i.e., the informal rules, norms and long-term relationships that facilitate coordinated actions and enable people to undertake cooperative ventures for mutual advantages[10]) must not be neglected and destroyed in the process. Increasing evidence shows that social cohesion is critical for societies to prosper economically and for development to be sustainable. It is a shared responsibility for African governments, regional institutions and donor countries to support the community-based initiatives that tend to generate social and cultural capital. The identification and mobilization of cultural and social capital are crucial to the success of the development strategies of African countries.

- Strengthen social capital as well as cultural capital at the local, national and regional levels.

◆***Establishing new forms of aid***

Different dimensions of aid, such as humanitarian and project-type assistance, must not be confused. Official Development Assistance (ODA) has an important role to play in financing both hard and soft infrastructure, and its effectiveness should be strengthened. If aid were more stable and predictable, this would help recipient countries to undertake sound budget policy planning and priority settings.

Moreover, it is a serious responsibility for both donor and recipient countries to look for new forms of aid. Some creative suggestions must be developed; for example, to think of schemes that combine several priorities, such as: first, to develop sustainable hard and soft infrastructure and, second, to strengthen regional integration in Africa. In this hypothesis, aid is to be allocated to a group of countries that implement a common project, rather than to an individual country. To cultivate partnerships within a group of recipient countries will add value to the project by further enhancing integration and cooperation among the partners.

It is also possible to reduce the gap between demand- and supply-driven projects; it must be possible to combine them and to create "win-win" solutions.

Supply-driven projects focus on the interests of donor countries, which sometimes are not compatible with the recipient country's own needs (but, in other instances, are). It is necessary to look at the possibilities of combining donor and recipient country interests.

Furthermore, some thinking must be given to the concept of ODA itself. It is absolutely essential to move from a "development assistance" concept to a "solidarity for development" concept that encourages the idea of "partnership."

- Clarify the distinction between humanitarian and project-type assistance, and close the gap between the two.
- Experiment with and promote new forms of development assistance for Africa.
- Promote projects that enhance regional integration (such as, for example, when a group of countries receive development assistance for a common project).
- Support "true" partnerships based on "win-win" principles that overcome the gap between demand- and supply-driven projects.
- Promote a concept of solidarity.

◆***Taking Africa seriously and building constituencies***

"African pessimism" that reduces Africa to a hopeless continent must be reversed. Africa has much to offer in terms of a cheap labour force, natural resources, unexploited markets and a possible production base. In the twenty-first century, the concept of transnational production is becoming more relevant. Africa can become a new alternative production base for private companies from Japan and other developed countries. Developed country governments have an incentive role to play: they must induce private companies to consider Africa as a production base.

Developed and developing countries must show political will and undertake a long-term vision that take the African continent seriously and focus on its potential. To take Africa seriously means to "develop confidence in the capacity of African nations to manage their economies successfully."[11] Such achievements and new initiatives as NEPAD pave the way for a change in the mentality of both African and non-African actors. For Africa to be considered as a reliable partner, it is of crucial importance that African governments promote good governance, enhance trustworthy institutions and accelerate the integration of the continent, with the support of developed countries.

- Identify and advocate African's strategic "value" in order for developed countries, such as Japan, to consider Africa as a reliable partner as well as a potential market.
- Take Africa seriously: develop confidence in true partnerships between African and donor countries.

◆***A concrete measure: Launching of the Africa-Japan-Asia Centre for Economic, Trade and Cultural Exchanges (AJAC) in Tokyo, in 2003***

UNU and ADC strongly believe that adoption of a new marketing approach towards Africa's promotion will help to reverse the impediments to trade and investment in Africa. In past years, constituencies have been developed in Japan, such as: the yearly celebration of Africa Day, the organization of the Africa Festa and the organization of an African movie festival. For Japan to consider Africa as a more natural partner, more constituencies in Japan must be developed.

In line with the need to strengthen constituencies between Japan, Asia and Africa, ADC and UNU have decided to launch an Africa-Japan-Asia Centre for Economic, Trade and Cultural Exchanges (AJAC) in Tokyo before the end of the year 2003. The AJAC will contribute to furthering African awareness within Japan and the Asian community, particularly within the business community.

The centre will promote the provision of information to investors, since we believe that accurate information is vital to encourage investment in Africa. The AJAC can play an important role in disseminating information, data and investment opportunities in specific African countries and sub-regions. The centre will also aim to facilitate communication between Africa and Japan in the context of ODA and investment projects.

The main missions of the centre will be to:

- Encourage trade and investment missions to

Africa;
- Enhance Asia-Africa cooperation through various schemes, including the formation of investment agreements and the improvement of economic infrastructure as well as the exchange of human resources;
- Eliminate trade barriers in order to promote African products in Japan and other markets; and
- Promote transfer of technology that is well adapted to the African context.

A great asset for the partnership between UNU and ADC is the dynamism of the African Diplomats in Japan. AJAC should be based, primarily, on networking of their capacities and activities to provide a more comprehensive promotion of Africa. It is to be noted that most African Ambassadors to Japan also represent their countries in other Asian nations, such as China, the Republic of Korea, etc. Thus, it appears possible for the AJAC to develop its network beyond Japan.

- Develop constituencies (in regards to TICAD and African constituencies in Japan). It is important to expand constituencies for Africa in Japan if Japan is to take significant steps towards Africa. TICAD has an important objective to cultivate Japanese interests in Africa, for which the proposed centre (AJAC) should be able to play an important role.
- Establish the AJAC.

Conclusion

NEPAD and the African Union raise some hope, both in Africa and other parts of the world. It is a shared responsibility for advanced and developing countries to take advantage of this situation. Investing in Africa's future by supporting its infrastructure development (in a broad sense), promoting sustainable development, and believing in African capacities and in the vision offered by NEPAD is an imperative that cannot be delayed further.

Here in Japan, UNU and ADC are strongly committed to supporting the dissemination of a positive image of Africa. Africa has to be seen as a continent with great potential that has remained, for too long, underestimated. In this sense, we believe the AJAC can play a major role in projecting Africa as a continent of opportunity.

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1 A number of projects and activities were undertaken, as reflected in the list of publications in Annex 1.

2 Participants in and contributors to this workshop can be found in Annex 2.

3 For the recommendations made at that time, see Annex 3.

4 International Fund for Agricultural Development, 1993-96.

5 "The Impact of HIV/AIDS on Food Security," Report for Committee on World Food Security, Twenty-seventh Session, Rome, 28 May - 1 June 2001; http://www.fao.org/docrep/meeting/003/Y0310E.htm.

6 Ibid.

7 "Facts and Figures about Conditions in Human Settlements," from UN-HABITAT's *State of the World's Cities: 2001*; see http://www.unchs.org/mediacentre/documents/backgrounder5.doc.

8 "Agriculture, Development and Human Rights in the Future of Africa," Former-President Jimmy Carter, 6th U Thant Distinguished Lecture at UNU, 5 September 2003.

9 Jointly co-organized by the United Nations University and African Diplomatic Corps in Japan.

10 Desai and Potter (eds.), 2002, *The Companion to Development Studies*, London: Arnold, p. 139.

11 Ernest Aryeetey, 2002, "A Case for Enhanced Resource Flow to Facilitate Development and Reduce Poverty," in the "Taking Africa Seriously" Feature, *Journal of African Economies*, Vol. 11, No. 2, p. 286.

Part II Expert workshop working materials

Infrastructures and development in Africa: Issues and agenda for action[1]

Tony Addison and George Mavrotas

UNU/WIDER

Conceptual issues

The traditional approach to the concept of infrastructure is related to economic or physical infrastructure, which includes public utilities (power, telecommunications, piped water supply, sanitation and sewerage, solid waste collection and disposal, and piped gas), public works (roads, and major dam and canal works for irrigation and drainage) and other transport sectors (urban and inter-urban railways, urban transport, ports and waterways, and airports). In view of this traditional definition, infrastructure is regarded as an umbrella for many activities referred to as "social overhead capital"- a term associated with the works of Nurkse, Rosenstein-Rodan and Hirschman (World Bank 1994).

However, there is a clear need to move towards a much broader definition of infrastructure, one that goes beyond "economic infrastructure" (public utilities, public works and other transport sectors) to include "soft infrastructure", such as information and communication technology (ICT)[2], education, health and governance. This is crucial in view of the internationally agreed-upon Millennium Development Goals (MDGs). Regarding the concept of "soft infrastructure", it is important to emphasize the distinction between inputs and outputs in certain categories of soft infrastructure, such as health and education, since it is questionable whether education and health can be classified as "infrastructure" in terms of outputs.[3]

A relevant issue is a tendency in the literature to focus too narrowly on the extension of physical networks, without looking at the broader picture. Within the social sectors (e.g., health and education), there is also a tendency to regard infrastructure services as given, and thus there is no effort to explore the value of integrating infrastructure improvements either as complements or as substitutes for more traditional models of service delivery. This seems to suggest that there is a need to try and work backwards from development objectives to infrastructure requirements - an approach that has been adopted recently in the context of the Poverty Reduction Strategy Paper for Malawi (UNCTAD 2001, Koljonen et al. 2001).

Why a focus on infrastructure?

Infrastructure is pro-poor. The intrinsic link between infrastructure and poverty reduction is demonstrated by the fact that access to basic infrastructure services is one of the essential criteria for defining welfare (Hirose 2003). Furthermore, improved infrastructure can help create jobs and raise worker productivity. It can also save time (and human effort) in transporting water, crops, wood and other commodities. Finally, it can substantially improve health (by reducing indoor air pollution and emissions in urban areas, and making clean water available) and education (by expanding access to schools, ICT, etc.) (World Bank 2001).

Infrastructure is a crucial determinant of FDI and portfolio flows. A vast literature on the determinants of foreign direct investment (FDI) in developing countries clearly suggests the centrality of infrastructure, skills, macroeconomic stability and sound institutions for attracting FDI flows. The importance of ICT has also been documented in recent empirical work (see Addison and Heshmati 2003). A recent United Nations Conference on Trade and Development survey of the executives of multinational corporations (UNCTAD 2000) also suggests that the state of (physical) infrastructure is one of the key inhibiting factors for undertaking FDI projects in Africa.[4] Causality issues are also important in the sense that the direction of causation may run from FDI to infrastructure, and not just the other way round. Finally, investment in infrastructure sends the right signal to foreign investors for mobilizing private capital in the form of portfolio flows.

Infrastructure is a key determinant of the overall growth process. Recent research suggests that the impact of infrastructure investments (physical infrastructure) on growth generates very high rates of return, at least as far as the industrial countries are concerned (up to 60 per cent in some cases, e.g., the United States; see Aschauer 1989, Easterley and Rebelo 1993). Other studies have reported different results, though, in the case of developing countries regarding the relationship between transport and communication expenditures and per capita real gross domestic product (GDP) growth (see Devarajan et al. 1996, Miller and Russek 1997). These conflicting results have been explained recently in terms of the rather inappropriate econometric methodologies adopted in most of the above studies, and neglect of the significant heterogeneity across countries (Haque and Kim 2003). The neglect of the policy dimension in the empirical analysis may be also responsible for this conflicting evidence.

Infrastructure development (broadly defined to include investment in skills) may affect significantly the overall international competitiveness prospects of the Africa region. The level (and quality) of skills is of paramount importance for attracting foreign investors and large amounts of private capital in the form of FDI and portfolio flows. Countries with a high degree of concentration in private capital flows have invested heavily in education and skill creation, thus substantially reducing skill shortages which are usually associated with low levels of private capital flows (e.g., the "East Asian Miracle" example of the 1980s). Africa's investment in skills through education and training programmes, however, is very low. (Education/GDP spending ratios do not exceed 3 to 4 per cent, on average, in many African countries.)

This situation calls for massive investment in education and training to improve the human capital base of the region, with important implications for private capital flows and capital flight reversal. Investment in education may also have important positive implications for investment in health, since schools may become centres for a variety of programme interventions such as HIV/AIDS awareness, food-for-work and feeding programmes, as well as health interventions (Koo 2003). At the same time, repatriating the African talent of the "diaspora" would further strengthen the prospects for growth in the region.

Africa's suffers from a **"deadly triad of interlinked crises,"** i.e., HIV/AIDS, food security and governance (see the UN Secretary-General's speech at the G8 Meeting in Evian, June 2003), that requires international action in the areas of aid flows and infrastructure investment (broadly defined to cover health and education).

Infrastructure is one of eight priority sectors identified in the New Partnership for Africa's Development (NEPAD), along with education, health, agriculture, new information and communication technologies, the environment, energy and access to the markets of developed countries (Wade 2003).

High-quality infrastructure (particularly soft infrastructure, such as education, health, and clean water supply and sanitation) **is essential for attaining many of the Millennium Development Goals.** Substantial improvement of the volume as well as the quality of soft infrastructure in Africa will have significant implications for achieving many of the MDGs in the region (Yuge 2003). It is notable that in developing countries as a whole, 20 per cent of the burden of disease is attributable to environmental factors (such as water-related diseases, malaria, and indoor and urban air pollution), which in turn reflect inadequate infrastructure (UNCTAD 2001).

Recent evidence regarding progress in achieving the MDGs towards the implementation of the Monterrey Consensus strongly suggests that:

- The proportion of people living in extreme poverty has increased in sub-Saharan Africa.
- Africa needs to accelerate progress to achieve universal primary education.
- Sub-Saharan Africa lags behind other developing regions regarding progress in promoting gender equality and empowering women
- Only one country in Africa (Uganda) has managed to reverse the spread of AIDS once it reached crisis proportions.
- According to the recently released "Human Development Report" (UNDP 2003), of the 31 top priority countries - i.e., countries where urgent action is needed to meet the goals - 25 are in Sub-Saharan Africa.

Furthermore, **Africa lags behind the rest of the world in**

almost all aspects of infrastructure. Indeed, a series of World Bank reports on infrastructure seems to suggest that Africa is well behind other developing regions regarding infrastructure investment. The quality of infrastructure services in Africa is also very low compared with other regions (see World Bank reports, Obame 2003). Africa's telecommunications infrastructure, for example, is the least developed in the world; in 1999, Africa had less than 2 per cent of the world's telephone mainlines and only about 10 million telephones (Mugabe 2003, World Bank 2000). The transport problem is also severe in the case of landlocked African economies, where freight expenses can absorb as much as 40 per cent of the value of traded goods, compared with 4 per cent in the industrialized world (UNCTAD 2001).

At the same time, **the relationship between public and private investment (domestic) is of crucial importance,** particularly in terms of potential crowding-in and crowding-out effects. The issue of infrastructure development is also related to the relationship between public investment (through which most infrastructure projects have been funded, at least until very recently, in the case of developing countries) and domestic private investment. High-quality infrastructure services may encourage (crowd-in) private investment projects, thus strengthening the partnership between the public and private sectors in developing countries. On the other hand, lack of infrastructure or infrastructure services of low quality discourage domestic private investors, with significant negative implications for private investment in the region.

Causality issues are also of relevance. The direction of causation regarding the infrastructure-growth relationship may also run from growth to infrastructure. On the infrastructure-growth nexus, it is worth emphasizing that infrastructure investment is not sufficient on its own to generate sustained increases in economic growth - in the sense that the demand for infrastructure services is itself sensitive to economic growth, which is difficult to predict (particularly in the case of developing countries). Furthermore, the economic impact of infrastructure varies substantially, not only by sector but also in its design, location and timeliness (World Bank 1994).

Infrastructure in post-conflict scenarios is an issue that is very relevant to Africa, since many war-torn economies can be found in the African region. Indeed, the period 1990-2000 witnessed 19 major armed conflicts in Africa, ranging from civil wars to the 1998-2000 war between Eritrea and Ethiopia (Addison 2003).

Infrastructure can play an important role in the overall transformation process for broad-based recovery (i.e., that which is not simply of benefit to a narrow elite). Provided that resources are available following the end of the conflict, rebuilding shattered infrastructure is a rather straightforward task. The same holds for reassembling pre-war institutions. The real challenge, however, is how to transform institutions and policies, since in many cases these favour one social group over another. Thus, transformation, rather than reconstruction, is the watchword for broad-based recovery in post-conflict countries in Africa (Addison 2003).

Even in the case of non-conflict scenarios, **improving institutions as well as governance may have a strong impact on the volume and quality of infrastructure.** A new modus operandi is needed in Africa for the public sector to deliver on infrastructure development. Obviously, a number of issues related to policy reform and the strengthening of institutions in Africa - such as political economy aspects of institutional reforms, ownership and incentives, among others - need to be re-examined in this case (see Kayizzi-Mugerwa 2003). At the same time, improving governance in the region means more active involvement of multiple stakeholders in the management of public affairs (see recent initiatives in the area of governance and globalization, such as the "Helsinki Process" 2002/03).

Financing infrastructure development: Issues and policy challenges

Major improvement and investment in infrastructures implies vast financial resources. These may come from different sources, such as aid flows, private capital flows in the form of FDI and portfolio flows, domestic resource mobilization in terms of savings and domestic investment, tax revenue and public borrowing.

For various reasons, the potential of tax revenue and public borrowing is considered to be rather limited in Africa (although in the case of tax revenue, a number of fiscal reforms can be undertaken by African governments to expand the tax base in the region). Consequently, the focus should be on aid, private capital flows and domestic resource mobilization.

Infrastructure development requires substantial resources in terms of **aid flows and private capital.** Aid remains an important source for infrastructure development (although during the 1990s, private capital flows increased substantially in share regarding the funding of infrastructure projects in the developing world). There is a growing concern in the international community in the aftermath of the Monterrey Consensus regarding the need to raise the additional US$50 billion a year that will be required to meet the MDGs by the year 2015 (some of them strongly linked to infrastructure development, if we adopt a much broader definition of infrastructures to include health and education). A number of innovative proposals and ideas are on the table for discussion at the moment, such as Tobin's tax, creation of new Special Drawing Rights, a global lottery, global environmental taxes, the International Finance Facility, increased private donations for development and increased remittances from emigrants, among others.[5]

At the same time, it is becoming increasingly recognized that what is required is not just more resources for development and infrastructure, but also more effective use of aid in view of the rather overall modest performance of aid in the African region so far. In particular:

- **Enhancing aid effectiveness and harmonizing aid efforts** (see the recent Rome Declaration on Aid Harmonization, Feb. 2003) by understanding how different types of aid operate in aid-recipient countries (the aid heterogeneity issue), studying the response to aid flows of the public sector of aid-recipient African governments (fiscal response) and delving deeper into the institutional constraints on aid effectiveness in aid-dependent African economies (the institutional framework in which aid operates) would substantially help to improve the impact of aid on infrastructure in Africa (Mavrotas 2000).
- **Making aid more stable** (i.e., more predictable and less volatile; reducing uncertainty regarding aid) is crucial for designing and implementing infrastructure projects in Africa. Unstable and unpredictable aid flows can undermine the whole effort to upgrade the level of infrastructure in the region. Increasing the stability of aid calls for new forms of development cooperation among donors regarding infrastructure development in the region.
- For aid-recipient African governments, the challenge is to **make aid more efficient** by achieving substantial progress in governance and reducing aid fungibility for infrastructure investment.

In the 1990s, infrastructure for the developing world as a whole attracted substantial **private capital flows,** reaching a peak of over US$120 billion in 1997 (and, thus, exceeding ODA flows to infrastructure that year). The Asian financial crisis of 1997, however, had a dramatic effect on private capital flows to infrastructure during the period 1997-99, reducing them by almost 50 per cent. For the whole decade, however, total private investment in infrastructure (US$550 billion) was more than three times as much as total ODA flows (UNCTAD 2001, PPI Database 2000).

Africa was not, however, the main recipient of this spectacular increase in private sector financing of infrastructure; 80 per cent of private capital flows (in the form of FDI and portfolio flows) channeling to infrastructure sectors went to just six upper-middle income countries (Brazil, which received almost one-third of the total, Argentina, Mexico, the Republic of Korea, Malaysia and Hungary). This means that ODA flows remain the principal source of financing infrastructure in developing countries and, in particular, in the Africa region (UNCTAD 2001).

FDI in Africa is concentrated mostly in the minerals sector. It is notable that ICT or other soft infrastructure can diversify FDI to other non-mineral sectors in the region. Note, also, that FDI has potentially desirable features that affect the quality of growth, with significant implications for poverty reduction. It may reduce adverse shocks to the poor stemming from financial instability and help to improve corporate governance. Furthermore, FDI generates revenues that may support the development of a safety net for the poor (Klein et al. 2001).

Domestic resource mobilization is equally important. Policies that strengthen financial sector development by improving the efficiency of the banking system as well as sequencing and deepening financial sector reforms in the region may have a strong impact on savings mobilization (Kelly and Mavrotas 2003), which in turn raises domestic private investment essential for infrastructure projects. Needless to say, the legal framework has an important role to play in the overall financial sector development process.

There is a need to **strengthen the public-private sector partnership**, going beyond traditional approaches in funding infrastructure projects through the public sector. A new paradigm emerged in the 1990s regarding the financing of infrastructure in developing countries. It called for market liberalization, private sector participation and a radical redefinition of the role of the state concerning the provision of infrastructure services (UNCTAD 2001).

Financing infrastructure development is also relevant to the expansion of public-private partnerships by using both traditional approaches as well as innovative schemes (including private financing of public facilities, joint ventures, an "output-based aid approach" (World Bank 2002) and privatization, among others). West Africa, meanwhile, has considerable experience with the use of lease contracts or partial concessions for privates sector participation in water and sanitation services. In this case, the private sector takes full responsibility for operating the service while the public sector continues to finance major investments, either partially or wholey. Countries adopting this approach (Senegal, Cote d'Ivoire, Gambia, Guinea and, most recently, Niger) have managed to attract private operators into high-risk environments (UNCTAD 2001).

Bond markets can attract infrastructure financing by pension funds and insurance companies seeking long-term, stable returns - an established practice in industrial countries and in certain countries in Latin America and Asia, but not in Africa. Accelerating the development of "municipal bond markets" (i.e., long-term bonds sold by local governments and local government-owned enterprises) has also been an established practice in the provision of infrastructure in emerging markets in Asia and Latin America, but not in Africa (the only exception being South Africa) (Leigland 1997).

Involving local communities (particularly in rural areas), **small-scale local providers and entrepreneurs** in the infrastructure process may be very rewarding. Involving the poor in crafting and implementing infrastructure solutions has been a successful practice in many developing countries. Poor households in rural and semi-urban areas are primarily dependent on small-scale informal sector providers for basic infrastructure services. The traditional approach to infrastructure provision that gives a prominent role to state-owned enterprises neglects the significant contribution of small-scale providers in rural areas to poverty reduction and infrastructure improvement. This clearly needs to be reconsidered.

Ghana offers an excellent example. In Accra, about 25 per cent of residents have no access to piped water and, thus, must rely on tankers. Under a recent initiative, informal tanker suppliers were legalized, and consolidated themselves into three associations. The agreement requires that tankers must submit themselves to quality and hygiene inspections and agree to publicly display information on agreed water prices (UNCTAD 2001). Emphasis on infrastructure development in the rural areas of Africa has also been given recently by the Japan International Cooperation Agency (JICA), in view of its significance for pro-poor growth in the region (Azuma 2003).

Dealing with **the exchange rate risk** involved in infrastructure projects is a crucial issue that needs to be borne in mind when designing and implementing infrastructure development policies in the region. Indeed, over the life of a typical contract for an infrastructure project (e.g., 20 to 25 years), the value of African country currencies is likely to fall substantially. This inevitably raises an important issue, namely, who should bear the exchange rate risk: the private investors (who can be local or foreign), the host country government, or the customers of the service?

It could be argued that the private investors should bear the risk because they can diversify away country-specific exchange rate risk. Alternatively, it could also be argued that it is the host country government who should bear the risk, since it is responsible for the macroeconomic policies that determine changes in the exchange rate. Finally, it may be customers who should bear the risk, since they must ultimately pay for the cost of the service. Recent work on this important issue seems to suggest that the investors should finally bear the risks created by the use of foreign currency financing in infrastructure projects; however, not protecting investors from exchange rate risk may well imply a need for higher tariffs, which in turn may result in debt volumes which will be lower than in the boom years (Gray and Irwin 2003).

African governments can play a central role by creating policy and regulatory frameworks that safeguard the interests of the poor, improve environmental conditions and coordinate cross-sectoral interactions - whether the services are provided by public or private providers.

Furthermore, **improving governance and reducing corruption in infrastructure** remains an important challenge. Infrastructure sectors are particularly vulnerable to corruption in view of the large volume of resources involved in these sectors and their traditional organization as state-owned monopolies. However, corruption has huge implications for infrastructure development, since it increases the cost of operations and reduces the rate of revenue collection (Lovei and McKechnie 2000). International action is also needed to reduce the "supply" of corruption (e.g., by ending the tax deductable status of "payments").

Regional initiatives have an important role to play, too, in promoting regional approaches to infrastructure development (e.g., NEPAD). Linking up Africa with the global economy requires infrastructure investment that goes beyond the individual capacity of most African countries; regional or sub-regional approaches to the development of such infrastructure seem to be the right response in this case.

Recent years have witnessed some progress in Africa towards regional coordination in infrastructure projects. A Transport Protocol was signed recently in southern Africa to promote harmonization of transport policies between countries in the region; 23 states in West Africa agreed to liberalize air transport in the region. breaking up the 40 year monopoly of Air Afrique: and a project adopted under the auspices of the UNU Transport Decade (1990-2000) is currently linking nine trans-African highways with a view to connecting major cities in the region, including Cairo to Cape Town on the north-south axis and Lagos to Mombassa on the east-west axis (UNCTAD 2001).

The NEPAD Secretariat is currently trying to secure funding for two or three key infrastructure projects for each of the five African regions. Possible candidates are a West African electric grid and power pool, regional gas pipelines and transport corridors (Herbert 2003). NEPAD urgently needs to gain momentum by improving the quality of infrastructure as well as services and government management in Africa. This would involve, inter alia, development of the necessary institutions for designing, implementing and monitoring infrastructure projects, adjusting trade and industrial policies, and involving the local community, business and academia in the whole process.

There is a need to **"take Africa seriously."**[6] Even when Africa governments do "everything right" they often fail to attract foreign and domestic investment because of a strong negative perception (Aryeetey 2002). Not taking Africa seriously has important negative implications for the continent: the virtual absence of foreign private investment, and failure overall of development aid to achieve tangible results in terms of sustainable growth. At the same time, the emergence of the developmental state has been stifled in Africa (Fafchamps 2002). Furthermore, massive losses in terms of invaluable human capital (the "brain drain" issue) and financial wealth (the capital flight issue) has further undermined growth prospects in the region (Aryeetey 2002).

Recent years have witnessed significant policy reforms as well as initiatives undertaken by many countries in Africa. At the same time, new international initiatives (e.g., Highly Indebted Poor Countries) have been embraced by many African governments, and a high degree of collaboration has been achieved between donors and recipient governments in the region. Finally, the Monterrey Consensus reflects inter alia a growing recognition in the developed world that its future is increasingly tied to the fortunes of the poorest part of the world. These new positive developments seem to suggest that Africa needs now to be taken seriously by both Africans and the donor community, with important implications for the development prospects of the region. This is an opportunity that must not be missed.

Concluding remarks — key messages

What are the key messages arising from the previous discussion? It is becoming increasingly clear that:

- infrastructure (broadly defined to include soft infrastructure) is pro-poor;
- is a crucial determinant of FDI and portfolio flows;
- has an important impact on the overall growth process;
- is essential for attaining the MDGs; and
- has important implications for the international competitiveness prospects of the region.

At the same time, a number of key challenges seem to be emerging in the area of infrastructure development. These include, inter alia:

- There is a need for additional resources (both aid and private capital flows) to support major infrastructure projects in the region.
- Resources directed to infrastructure development must be made more stable and predictable, and at the same time more effective and harmonized.
- Mobilization of domestic resources (savings, private investors, local communities and local talent) can help improve dramatically the quality of infrastructure in Africa.
- Strengthening of the public-private sector partnership by developing and undertaking new funding schemes in infrastructure could be very rewarding.
- Addressing issues related to the exchange rate risk involved in infrastructure projects is of crucial importance for designing and implementing infrastructure development policies in the region.
- Building the right institutions and making significant progress on the governance front are prerequisites for infrastructure development.
- Linking together the micro and macro aspects of infrastructure is crucial for building the right infrastructure in Africa. This calls for a "grand design approach" regarding infrastructure development in the case of Africa - i.e., looking at the global picture as compared to local infrastructure.[7]
- Recent regional initiatives have an important role to play in the development of a high-quality infrastructure for the region.
- There is a need to take Africa seriously.

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[2] ICT can play a vital role for infrastructure development and growth in Africa, since the ICT revolution is related to productivity investment, increased knowledge-sharing, new ways of learning, information-driven economies with increased services of research institutions, business start-ups, venture capital mobilization, etc. Passive postures towards ICT (which is the case with Sub-Saharan Africa) are likely to lead to erosion of competitiveness and increased economic marginalization.

[3] We are grateful to UNU Rector Prof. Hans van Ginkel regarding this point.

[4] Along with limited access to finance, other key inhibiting factors are high administrative costs, the tax regime, poor access to global markets, a low level of skills, and the regulatory and legal framework governing FDI, among others.

[5] There is an ongoing UNU/WIDER-DESA project on "Innovative Sources for Development Finance." directed by Sir Anthony Atkinson, Nuffield College, Oxford.

[6] See *Journal of African Economies*, special issue, vol. 11, No. 2, 2002

[7] We thank Prof. Hans van Ginkel on this point.

Comments on "Infrastructures and development in Africa: Issues and agenda for action"

Wafula Masai

African Centre for Economic Growth and University of Nairobi

Introduction

The paper is intense and well focused, and provides a lot of useful information on the subject of infrastructure. I was greatly privileged to read it and also to listen to the presentation. In my comments, I will avoid repeating what the authors have ably presented, and mostly concentrate on improving our understanding of the issues.

The paper contains four sections that focus, respectively, on conceptual issues, a justification for focusing on infrastructure, the issues and policy challenges of financing infrastructure development in Africa, and a concluding set of key messages. The authors correctly observe that:

- both physical and social infrastructures have a pervasive impact on economic and human development;
- there is an urgent need to improve their provision and quality; and
- good government policies and a multiplicity of financial arrangements (aid, FDI, portfolio flows, domestic savings and investment, tax revenues and public borrowing) can promote efficient and responsive service delivery that involves commercial management, competition and users.

As is evident from the title of the paper, the authors seek to identify leading issues and a possible agenda for action.

Conceptual issues

Infrastructure - just like capital, institutions, technology and entrepreneurship - is a critical factor in the growth and development of nations. A lack of infrastructure explains Africa's poor economic performance in the course of the past four decades. A variety of eclectic views are presented in economic literature that imply evolving conceptualizations of the nature of these factors and modified perceptions of their underlying dialects, especially in relation to low-income developing countries.

In this first section, information and communication technology (ICT) and governance are mentioned as aspects of "soft technology." These, together with the traditional economic and social infrastructure, cover (hopefully) the full range of the stock of infrastructure at the national level. There is no doubt that ICT and governance are important, and one wishes to hear a lot more about them in the paper.

ICT refers to technology that facilitates communication and the capture, processing and transmission of information by electronic means. The full range of ICT includes modern applications of radios, televisions, telephones, computers and the Internet. All these aspects are becoming increasingly interfaced and networked. There are many ways in which this ICT is likely to affect social and economic development.

The ICT revolution is associated with productivity improvement, increased knowledge-sharing, new ways of learning, information-driven economies with increased services of research institutions, business start-ups, venture capital mobilization, etc. Passive postures towards ICT (which is the case with Sub-Saharan Africa) are likely to lead to erosion of competitiveness and increased economic marginalization. It is in such a context that a spotlight needs to be pointed at this aspect of infrastructure, in terms of more research on the role ICT can play and for purposes of avoiding inactive, reactive or sceptical approaches to ICT.

There is also a need to understand the winning policies and strategies for the Internet in Africa: enabling regulatory environments, rural and marginalized area coverage, increasing awareness and computer literacy, engaging of countries in an information technology agenda, piloting technologies, inter-connecting institutions and so on.

In addition to ICT, biotechnology seems to hold a key to solving the continent's food-shortage problem, despite a rising backlash against genetically modified organisms.

The mention of governance also calls attention to the need to clarify issues of "global governance" and political, national economic, corporate and civil society governance. Such governance may be reflected upon in terms of accountability, participation, predictability, transparency and so on. Global governance is associated with looking at the world in a more integral manner, in terms of interdependence and assertion of the values of internationalism and the global neighbourhood. Good global governance calls for better management of survival, better ways of sharing diversity, organization of international civil society, and collective responsibility to ensure security and the protection of the rights of people.

Governance is the sum of the many ways in which individuals, institutions, public and private organizations, and civil society organizations manage their common affairs, both formally and informally. Issues of governance exist at many levels, including political, national, economic, corporate, civil society and global (involving international authorities and global corporate alliances). At all these levels, there are many voices and institutions that advance agenda with considerable local, national, regional and global impacts. Good governance helps to broaden democracy, avoids nepotism, eliminates pervasive corruption, is committed to peace and social justice, and creates an environment conducive to investment and business.

Unfortunately, good governance in Sub-Saharan Africa is the exception rather than the rule. Where governance is poor, economic performance has also tended to be poor. The introduction of governance as soft infrastructure offers an opportunity to explore new ideas, to develop new visions, and to devise new governance arrangements such as NEPAD and regional integration, in the context of globalization.

The focus on economic and social infrastructures

Traditional economic and social infrastructures have become increasingly deficient for meeting economic and social needs. In many African countries, former colonial powers built the economic infrastructure to facilitate exportation of raw materials from Africa and importation of manufactured goods into Africa. The post-independence governments inherited functional roads, railway lines, airports and harbours in most of Sub-Saharan Africa.

A combination of population pressure, poor maintenance (due to inadequate budgetary outlays) and ineffective macroeconomic policies, among other reasons, helped to erode the quality and adequacy of infrastructure provision. Starting from the late 1970s, governments became increasingly unable to meet infrastructure needs, and a sharp regression in infrastructure service delivery and quality set in.

When the public sector fails to provide an adequate level of services, private businesses devise coping mechanisms, such as changing production techniques or supplying their own infrastructure aggregates. Such self-provisioning for water, energy and security, among others, ensures a regular supply of the services but also increases production costs for the businesses. Self-provision also is not possible for infrastructures such as roads, railways, harbours and (until recently) telephones. For these, firms are unable to safeguard against malfunctioning infrastructure.

Classified roads are few, have heavy traffic, and require frequent costly repair and rehabilitation. There are no meaningful highways in most parts of Sub-Saharan Africa. Unclassified roads often fall under control of local authorities that lack revenue, and so end up being in very poor state.

Very few **railway lines** have been built in the post-independence years. With serious lapses in maintenance, railway transport is prone to frequent accidents, and the services are inefficient compared to those offered by privately owned transport companies. Railway services could soon cease to exist in many African countries.

Most **seaport facilities** suffer from inadequacy of existing capacity to handle and clear cargo. The quality of services is low, with high pilferage and long turn-around rates.

Air transport, where it still exists, is subject to privatization or amalgamation with better performing (often foreign) companies, or is under foreign management.

Traditional postal and telecommunication services for many years failed to innovate, and continued to rely on fairly old and inefficient technology. The general picture was one of a lot of laxity in maintenance, high fault occurrence and low fault clearance rates. New technology products associated with wireless and open source software (the Internet, electronic mail and cellular phones) are helping to introduce competition, to broaden the choice of services for consumers, and to lower costs of accessing the services.

The provision of **water and related sanitary services** has been severely affected by the rapid expansion of the urban population, as well as of the overall population. This has created high levels of unmet demand, a backlog of repairs, a shortage of new investments, and so on.

The **supply of energy** offers another pathetic picture. In East Africa, 70 per cent of households' fuel needs are met using wood. This has severe environmental implications for the countryside. Petroleum products help to meet about 80 per cent of commercial needs of transport, industry and agriculture. Hydroelectric power remains inadequate and expensive. Part of the solution is in the privatization and increasing the number of power producers and distributors.

At the **social infrastructure** level, a lack of amenities for education contributes to low enrolment, high dropout rates, low completion rates and poor transition rates. Access, retention, equity and quality, therefore, remain compromised. The priority in this area is to improve access to basic education by ensuring affordable and equitable access as well as improving attendance and retention. Underlying this is training of teachers, availability of in-service courses, school inspection activities and ensuring supporting facilities and services.

Current trends in **health** indicators are less than promising. Mortality rates and life expectancy, for example, imply a major decline in health standards in the recent past. Past policies and resources focused on curative health and neglected preventive and, especially, rural health. The key issues include enhancing equity, quality, accessibility and affordability. Shifting resources from curative towards preventive and rural heath care may constitute better targeting of resources.

AIDS is a major health problem and is the number one time bomb of the continent. African communities need to do more to prevent the epidemic from spreading further. The private sector, civil society and governments, as well as the international community, need to join forces in fighting the epidemic.

Based on the above, there is no doubt that Africa lags behind the rest of the world in almost all aspects of infrastructure, in terms of both volume and quality of infrastructure services. Poor infrastructure implies a legacy of weakened, highly disarticulated, undercapitalized and uncompetitive economies. If Africa had the same basic infrastructure as developed countries, it would be in a more favourable position to focus on production and on improving productivity for international competition. The structural gap in infrastructure, therefore, constitutes a serious handicap to economic growth and poverty reduction. Investors prefer (when other factors are equal) to invest in countries where the supply of infrastructure services is good.

Issues and policy challenges of financing infrastructure development

The approaches discussed in this section - concerning aid flows, FDI, portfolio flows, domestic savings and investment, and tax revenues and public borrowing - can go a long way in financing the maintenance and expansion of infrastructures in Africa.

In terms of the way forward, a lot of attention needs to be paid to mastery of the fundamentals of infrastructure project financing, as well as development and management. The changing face of infrastructure service provision demands increased understanding - by host governments, project promoters and creditors - of the roles of competition and choice, regulatory structures, modes of financing and new technologies in shaping the evolution of markets for infrastructure services.

Increased knowledge and capacity building are required at the levels of:

- regulatory frameworks for private sector participation (including private sector provision of public services);
- policy frameworks associated with fiscal costs (tax incentives, direct financing, and guarantees in face of issues of credit worthiness and risk return profiles);
- use of bank loans, syndication, securitized financing, cross-border leasing, etc.
- strategies for risk mitigation in connection with regulatory and currency risks, and mechanisms

for risk management (including derivatives such as swaps and forwards);

- roles of multi-lateral development agencies for guaranteeing, financing (loans and bonds) and insuring against risk;
- capital market financing opportunities for economically sound infrastructure projects;
- strategies for concession awards that include transparent competitive bidding; and
- government incentives.

In addition to the above, several comments (highlighted below) are worthy noting.

Excessive **dependence on donors** should not be encouraged. Africa has experienced more than a decade of less-than-harmonious relations with donors that have meant delays in many projects, including major road and water project rehabilitation.

At the level of global trends, it is important to understand where **FDI** is flowing to, and why. There always are (primary) factors that attract foreign investments towards particular regions, and towards particular types of infrastructure. What concrete steps can be taken by business and governments to increase FDI flows to infrastructure in Africa?

Blueprints exist for developing an integrated **energy plan** for the southern Africa region with private sector involvement. The potential of the Congo, Nile, Zambezi and Limpopo Rivers, and of other smaller rivers, has been assessed and is deemed to be great. Success, however, will depend on agreements (often tripartite) concerning pricing or tariffs, the structure of the grid, and the rational use of energy that excludes pilferage. It will also depend on institutional capacity building that allows training and retention of competent technical personnel to manage production and distribution.

Urbanization in Africa, with large proportions of the population living in high-density slums, creates an urgent need to develop new infrastructure and to improve security in affected urban areas. It is my view that investment in such areas has a high impact on the economy.

In the case of **utilities**, consumers are often willing to pay tariffs at levels that ensure they will continue to have services now and in the future. Such tariffs should be set to meet current costs of supplying the service and requirements for expansion to meet higher future demand. If this is done carefully, excellent utility-related services could continue to exist.

Cost-sharing possibilities need to be explored, especially in the provision of **road, education and health services.** Communities and consumers are often able and willing to pay substantially for improvements in service provision. Free-rider problems are formidable only among the poorest when it comes to implementing cost sharing.

The need for **regulation of telecommunication and energy sectors** arises because investments in production capacities are difficult to unbundled, and privatization still accords a monopoly to the purchaser. Regulations then take care of service standards, tariffs (which favour cost minimization and price discipline), competition and the long-term needs of both consumers and the industry.

Some of the problems faced at levels of water supply, electricity supply, road transport maintenance, irrigation projects and disruption of human settlements can be associated with changing climate patterns. It is, indeed, true that climate patterns are changing. There is a need to understand and better track these changes. Infrastructure providers need to integrate this new factor into corporate strategy. (Centres of Environmental Studies and Inter-governmental Panels on Climate Change need to be called upon to provide more technical information on this.)

Discussion of "Infrastructure and development in Africa: Issues and agenda for action"

In "Infrastructure and development in Africa: Issues and agenda for action," Drs. Addison and Mavrotas highlight the importance of infrastructure with regard to the development and integration of Africa. They emphasize the need for a broader definition of infrastructure that includes both "hard" and "soft" infrastructures (public utilities and works as well as education, health, governance, etc.). They also emphasize that infrastructures are "pro-poor" and are of crucial importance in regards to eradicating poverty and achieving the Millennium Development Goals (MDGs).

Infrastructures are also a crucial determinant of FDI, capital flows and, more generally, economic growth. But Africa lags behind the rest of the world on almost all aspects of infrastructure (low quality and quantity), which affects the overall competitiveness of the African continent.

Infrastructure development and maintenance require vast financial resources. Taking account of the lack of reliability of tax revenues and public borrowing in Africa enforces the importance of external financing sources, such as aid, private capital flows, domestic resource mobilization and the public-private partnership. Innovative approaches are also needed to strengthen aid effectiveness and avoid its "disintegration."

Looking at the aid heterogeneity issue - i.e., how different types of aid (project aid, programme aid, technical assistance and food aid) affect key macroeconomic variables in aid-recipient countries in Africa – is crucial for our better understanding of aid effectiveness and for improving further the effectiveness of aid in the region. This will have significant implications for infrastructure development in Africa.

The authors also underline the challenges faced by African governments (namely, corruption and fraud), the role to be played by regional frameworks (regional integration), the need to link Africa to the global level and, most of all, the need to take Africa seriously.

The discussion that followed the presentation stressed the following issues:

Infrastructure: definition, nature and African reality

A broader definition of infrastructure

Workshop participants stressed the importance of having "a clear, comprehensive concept of infrastructure," one that includes both hard and soft infrastructures rather than considering exclusively the economic and physical infrastructure aspects (hard infrastructure). The definition of infrastructure should include not only hard-type projects, such as railways, roads, bridges and the like, but also soft-type infrastructure or (social) institutions, such as education, health, organization, ICT (i.e., technologies that facilitate communication) and "global governance" (governance at all levels, including civil society, NGOs and the private sector (corporate responsibility)). Furthermore, infrastructures have to be considered in their political, economic, physical and social dimensions.

NEPAD identifies infrastructure as one of its eight priority sectors. The adoption of a broad definition of infrastructure can help reverse the tendency to allocate very low budgets to sectors such as education and health (which dangerously impedes African development).

The nature of infrastructure

Four main characteristics define infrastructure projects: they are "pro-poor," they are set up to last on a long-term basis and, therefore, require maintenance, and the building and development of infrastructure require vast financial resources.

- "Pro-poor": Infrastructure and poverty reduction are closely interlinked; basic infrastructure service is an essential criterion for defining welfare. Furthermore, access to basic infrastructure appears as a sine qua non condition for production to become competitive.
- Long term: Infrastructures are established with provision for their continuing existence.
- Maintenance: Infrastructure sustainability requires maintenance.
- Vast financial resources: To set up and maintain infrastructure requires vast financial resources, while the infrastructure itself does not necessarily lead to rapid growth delivery

following on investment.

African infrastructure

African infrastructure is of poor condition in both quality and quantity. There was a broad consensus among participants to acknowledge the fact that African infrastructure lags behind the rest of the world. At both the economic and social levels, there are serious problems of infrastructure adequacy. Hard infrastructure (such as motorways, railways and sea harbors) as well as soft infrastructure (such as health, education, communication and global governance) are barely satisfactory or sufficient. Furthermore, poor maintenance of existing infrastructure results in its rapid erosion. Building, developing and maintaining infrastructure are priorities that can stimulate African development.

Challenges for developing African infrastructure: Financial resources?

The issue of financing infrastructure is central. African governments cannot presently provide the finances needed to build and maintain African infrastructure. In Africa, the weakness of both tax revenue and public borrowing capacities tend to exclude the public sector as a major source of investment. Therefore, the most important sources of financing for infrastructure are external donors (aid), the private sector and possible private-public partnerships.

The role of aid in regard to infrastructure development: strengths and weaknesses

Aid has an important role to play in financing infrastructure. Its effectiveness should be strengthened to make it more stable and predictable.

The issue remains that donor countries allocate ODA according to their national interest(s) or agenda. Hence, it is difficult for recipient countries to undertake sound budgetary policy planning and priority setting. The versatility of aid highlights the responsibility for donor countries to assert their political will and commitment to support African development. When donor countries allocate aid, priority must be given to the sectors that do not attract the interest of the private sector (as, for example, health and education).

In addition, new forms of aid must be developed that support sustainable infrastructure development and integration. For example, aid might be allocated to a group of countries that implement a common infrastructure project.

Recipient countries also have responsibilities: African governments must attract other investments, such as FDI and private savings, in order to finance infrastructure development. And, Africa has to overcome the dependency syndrome associated with aid: infrastructures are neither "given" nor "due.”

The role of the private sector, and possible partnership with the public sector

Sound financial infrastructures, such as banks, bond markets and stock exchanges, have to be developed for the private sector to actively participate in the development and financing of infrastructure in Africa.

Public-private sector partnership is another potential source of financing for infrastructure. However, workshop participants voiced their concerns regarding the consequences of infrastructure's privatization. The effects of privatization will have to be closely monitored to limit the negative aspects: the poor being dropped out, price increases, poor maintenance due to the absence of long-term policy, etc. For the costs and benefits of infrastructure's privatization to be better balanced, some efficient regulatory frameworks must be set up to limit these negative impacts. Private companies are profit driven; therefore, their involvement in public utilities financing shall be closely monitored.

It was generally agreed that people are eager to pay for the use of functioning infrastructure, as long as the price is fixed on the basis of the infrastructure's real cost, including maintenance. Prices fixed by the private sector tend to reflect their interest in rapid profit, and thus to be rejected by users.

Regarding the case of people who can not afford to pay for basic infrastructure - the poorest of the poor - suggestions were made about setting up systems that would enable them to have free access to infrastructure in order to cover their basic needs. For example, in the case of fresh water, they would have free access to the number of liters required on sustain human life on a daily basis. The implication of involvement of the private sector in investment in or financing of infrastructure projects requires a strategy and mechanism for risk hedging and management.

The role of African governments

The fact that African governments do not possess the resources needed to finance infrastructure does not mean that they should not actively participate in building and developing infrastructure. On the contrary, they must look actively at how they can integrate infrastructure in order to maximize efficiency and benefits for all.

Besides, central governments must promote a sense of ownership within society. Local communities should become more involved, both at the implementation and maintenance stages of infrastructure. Their involvement in the infrastructure process may be very rewarding.

New challenges and reasons for optimism

Urbanization and slums

Workshop participants pointed out the dramatic acceleration of urbanization in Africa. Its implications are grave: within the growing slum areas that absorb a large part of the new "urbanized" population, the absence of basic infrastructure must be addressed as a first priority. People living in these areas must not be forgotten, nor must we forget that they do not have access to the most basic infrastructure of fresh water, basic health care, education, etc. Finally, the privatization of infrastructure in slum areas must be conducted with extreme care, so as to limit its negative impacts on the poorest and more vulnerable population.

Grand design for Africa, and the necessity to take Africa seriously

Workshop participants stressed the importance of having a "grand design" for Africa that goes beyond the project level and takes into consideration global-scale issues. Linking together the micro and macro aspects of infrastructure is crucial for building the right infrastructure in Africa.

The negative perception of Africa must be reversed; both Africans and the rest of the world share the responsibility of taking Africa seriously. As Dr. Aryeetey wrote, taking Africa seriously means "developing confidence in the capacity of African nations to manage their economies successfully."[1] Recent achievements and new initiatives such as NEPAD pave the way to such a change of mentality.

Furthermore, the workshop participants stressed the necessity to explore Africa's unused possibilities and capacities. For example, Africa is a great reserve of an inexpensive work force that remains largely underexploited. Other assets that remain underexploited are the possibility for the African continent to strengthen its relations with other continents or regions. The example of Mauritius, which has developed relations with the Asian continent, and most notably with India, has the potential of being replicated with other countries and regions.

[1] Ernest Aryeetey, 2002, "A Case for Enhanced Resource Flow to Facilitate Development and Reduce Poverty," in the "Taking Africa Seriously" feature of *Journal of African Economies*, vol. 11, No. 2, p. 286

African institutions building and regional integration: Lessons from experience

Steve Kayizzi-Mugerwa

International Monetary Fund

Introduction

Since the era of independence in the 1960s, regional integration has been the "big idea" in African development. Over 100 regional organizations have been initiated since the 1960s, with the goal of promoting regional cooperation and establishing the institutions required for rapid economic development.

Instead of movement towards economic and political unity, however, the proliferation of regional integration projects has led to the balkanization of Africa. Today, many regional organizations are poorly funded by member states and must depend on donor support to meet operational needs. The goals of regional integration, including achieving self-reliance and raising the welfare of the population, have not been achieved.

The past five years, however, have seen a revival of the drive for African integration, exemplified most recently in the presentation of NEPAD as a strategic blueprint for African development - advocating a more open and inclusive process and introducing the idea of peer review. The economic and political environment is decidedly different from when integration was first embarked upon, four decades ago, and there is optimism that the economic and institutional impacts will be more beneficial.

This paper discusses institutions building and regional integration in Africa on the basis of recent experience. Following recent work on Africa's institutions (see Kayizzi-Mugerwa 1999, 2003), the paper touches on the issues of ownership, incentives and institutional capabilities as they relate to regional integration. The discussion is grouped under the following headings:

- African integration: Too big a concept, or too little commitment?
- Do African regional institutions measure up?
- Institutional demands on African integration
- Future prospects
- Conclusions.

African integration: Too big a concept, or too little commitment?

Since this discussion is about African integration, let me begin with an African saying: *"If you want to catch a creature that dwells in the skies, lay the trap on the ground, because even the great eagle does not eat clouds - it must come down to earth to look for food."* The moral of this saying is twofold: first, that simplicity and innovation are often more effective than grand schemes and, second, that goals which ultimately cannot be grasped or found useful by ordinary people are of little use.

Seek ye first the political kingdom

Like all great ideas, African integration was, in the first instance, promoted by a learned elite. Until recently, it has been seen as the preserve of government bureaucrats, with little participation of civil society in decision-making and strategy formulation. Regional integration was, initially, not an expression of the desire for economic prosperity and improved welfare (for example, via enhancement of the economies of scale and pooling of resources for development); the focus was on political union. In Dr. Kwame Nkrumah's famous expression, the goal was: "Seek ye first the political kingdom, and all other things shall be added unto you."

African integration was born of the pan-Africanist movement, already active in the 1950s, which, while giving African integration a global following, also made it difficult for post-independence African governments to build a national consensus for integration. Political unity was, thus, the institutional point of departure for African integration. Though exciting for the new African countries, it proved elusive.

Temptations of nationhood: some examples

National politics were to become the most serious impediment to African integration. Mwalimu Julius Nyerere of Tanzania referred to this as the "temptations of nationhood." In East Africa, Tanganyika was the very first country to gain independence (1961). In the hope of taking a unified East Africa to independence (that is, along with Kenya and Uganda), Nyerere had offered to delay Tanganyika's independence by a few years, if necessary, fully knowing that power and the politics of patronage would dissuade even the most fervent post-independence leader and put national politics and interests ahead of regional unity. Thus, from the very beginning, the "big idea" of regional integration was circumscribed by national politics and the rivalry of the emerging leaders.

The subsequent history of regional integration in East Africa is illustrative. Under the East African Community, launched in 1967, Tanzania, Kenya and Uganda retained most of the regional institutions established in the colonial era - including transport and communications, broad collaboration at university level (via the Inter-University Council of East Africa), a central bank, a regional parliament, the East African Development Bank and a Court of Appeal, among others. However, the East African Community had no mechanism for resolving political misunderstandings. Political differences that had set in the early 1970s made it almost impossible for the highest authority (the three presidents) to meet. The economic basis for collaboration, a common currency, had long been abandoned, while the idea of free movement of factors, goods and services was severely constrained.

With three members, and none seeming to agree with the others on the goals of cooperation, breaking up the community and dividing the assets among the members seemed to be the only remaining option. This was done in 1977.

Many regional organizations in other parts of the continent have collapsed or turned moribund under similar political pressures. Notably, the "temptations of nationhood" have been much more of a problem for the smaller regional organizations, while the bigger groups have been more resilient. The establishment of the African Union (AU) and adoption of NEPAD are thus important steps in overcoming the parochial tendencies of the past.

Do African regional institutions measure up?

In this section, we assess the degree to which African regional institutions and their bureaucracies are able to address the challenges confronting institutions in the era of globalization and economic reform.

Policy ownership

In recent studies of reform in Africa, policy ownership has been identified as key to successful programme implementation. Policies have tended to fail because they were imposed by donor or multilateral agencies, with a number of conditions but with little real participation by domestic stakeholders. It is only when leaders and bureaucrats are in a position to defend their policies, in public debate, that they will generate the support required from their constituencies (sometimes, even for painful measures).

To what extent have the policies adopted at the regional level been owned by African member governments, let alone their populations? Regional organizations have been constrained in their policy-making by the failure of member countries to agree on minimum conditions for cooperation. Even where such conditions exist, lack of member discipline makes it difficult to implement them. In turn, regional organizations have failed to impose sanctions for non-compliance. They are thus forced to inhabit an institutional vacuum, where little real power is exercised.

Credibility

This lack of ownership and of the power to formulate and implement policies raises the issue of credibility. The credibility of an institution arises from the belief that its promises and commitments will be met. Where individual member countries have pursued non-credible policies in the past - typically failing to pursue reform programmes or domestically pursuing restrictive economic policies, and generally not encouraging domestic participation - they will not necessarily achieve credibility by joining a regional body.

In turn, the regional body will fail to enjoy credibility among regional populations and the international community. Thus, ironically, successful African regional projects such as the African Development Bank have succeeded by preserving an arm's-length relationship with their founding member states and, crucially, by encouraging membership from beyond the continent.

Incentives and behaviour of institutional bureaucracies

Governments have sometimes demanded that civil servants should show patriotism by working for lower pay than their colleagues in the private sector. However, civil servants and other institutional bureaucracies soon find ways to compensate themselves - by indulging in rent-seeking activities. The remedy is often said to be better remuneration and increased supervision.

However, at the regional level, other incentives might be at work: bureaucrats might see themselves as principally there to meet the goals of their political principals back home (for example, by maximizing benefits derived by the home country). Thus, while the problems of integration are always seen from the more abstract view of countries trying to cooperate and maximize benefits for the region, how bureaucracies of the regional organization perform and the incentives required to maintain their efficiency are important factors as well.

The role of international partners

Donors have played a very prominent role in funding African regional organizations. More recently, multilateral agencies are beginning to offer aid at the regional level (for example, the Lake Victoria Basin initiative). In the case of the West African Economic and Monetary Union, France, the former colonial power, has helped in maintaining the convertibility of the regional currency, the CFA franc. Donors thus help countries to maintain a level of credibility on the market that they would not have had otherwise.

In some cases, however, donor dependence has gone too far: donors are now routinely requested to beef up the budgets of regional organizations (since members are invariably in arrears with their payments to the organizations, while it is politically difficult to exclude them from the proceedings). Donor dependence has come at a cost. While aid is known to be temporary, organizations and member states do not behave as if it is. There is very little preparation for the day when donor assistance will end.

Agents of restraint

It can also be argued that the most important service that regional organizations can provide to regional governments is to act as "agents of restraint" and as umpires in resolving the frictions that are inevitable in regional cooperation. To do this properly demands that some sovereign powers be surrendered to the regional organization (for example, that the regional body be in a position to impose sanctions on errant members).

The political (as opposed to the economic) focus of African integration, where the sensibilities of individual countries are paramount, precludes any form of sanction, however. Indeed, because of this, conflicts have been difficult to resolve regionally, and help is invariably sought from outside the region. Thus, ironically, the weaknesses of individual member states make the regional organization unable to perform the role of agent of restraint.

Institutional demands on African integration

The above discussion can leave no doubt that African integration is a complex subject. However, it also indicates that African countries will continue to strive after regional integration. In this section, we discuss briefly a number of institutional demands on African regional integration.

Democracy and popular participation

Most African governments now emphasize the need for democratic governance. It is seen as the basis for broadening popular participation and ensuring that citizens take part in making decisions about issues that affect them. In this regard, many countries in Sub-Saharan Africa have embarked on programmes linked to the Poverty Reduction Strategy Papers, whose formulation and implementation are premised on broad participation. The ideas of popular participation and democracy have also been underlined in the New Partnership for Africa's Development (NEPAD), which is seen by many as a new and more authoritative beginning for African regional integration.

However, with regard to implementation, the reality on the ground shows a different picture. The establishment of democratic institutions, once seen as having taken root in many African countries, has suffered considerable setbacks in recent years. Participation has also had a hollow ring, especially when those expected to participate lack the means to do so. There is also the dilemma that democracy, on its own, in no way guarantees that regional integration will flourish.

The new East African Community, however, has been established through a more democratic process. Hearings and debates were held in each country with the participation of a broad range of stakeholders, and subsequent debates have been held between similar groups, such as businessmen, on the merits (and demerits) of renewed cooperation. Via this more participatory process, the product seems to be on more solid ground.

Regional security

Civil strife is one of the most serious impediments to regional integration in Africa. As previously noted, many regional development projects have been disrupted or populations displaced, and investors have withdrawn their capital and postponed their investment. Above all, regional conflicts have had serious impacts, via contagion effects, on the whole region. Investors, even domestic ones, sometimes find it difficult to distinguish between the policies of Zimbabwe or Zambia. The Great Lakes crisis has had effects that have been felt all over the continent, while the Zimbabwe crisis has affected all the other SADC countries.

However, while African countries have been willing to intervene on opposite sides of the conflict in the Democratic Republic of the Congo, for example, to "protect their interests," they loathe having to discipline a neighbour or attempt to stop a civil war in a neighbouring country. An important part of the international relations of African countries is based on the principle of non-interference in each other's internal affairs. It is only the bigger countries like Nigeria and South Africa that have the resources and the political muscle to enforce their will on neighbours, or to attempt to quell regional disturbances (although this is not always successful).

Trade policy

The expansion of regional trade is a key factor in regional integration. However, African economies lack synergies, and trade between them remains small. In the Economic Community of West African States (ECOWAS), for example, it is estimated that less than 10 per cent of total trade is within the region.

Still, Africa's share of international trade has been falling since the 1960s. Overall, lack of policy harmonization, in areas such as infrastructure development and telecommunications as well as the development of roads and utilities, has, until very recently, not been given the emphasis it deserves.

Education and skills development

African integration has focused on the "commanding heights," and not much emphasis has been put on regional collaboration for enhancing technical and administrative skills in the region. At the university level, there has not been much attempt to unify curriculums or to conduct student exchanges. In the 1960s and 1970s, student exchanges between the universities of the East African countries were important in cementing a sense of "East Africaness," which was crucial for the integration of the region. When the student exchange ended, the countries drew further apart. The resumption of student exchanges in the 1990s, now also including private universities in the region, is proving to be a crucial input in the new collaboration.

In this regard, two institutions are pointing the way forward: the African Capacity Building Foundation (ACBF), based in Harare, and the African Economic Research Consortium (AERC), in Nairobi - both embarked on in the 1980s. ACBF funds many research organizations in Sub-Saharan Africa, while AERC focuses on training of economists. Apart from training, the organizations have held (or financed) meetings of African academics from various parts of the continent, thus raising the understanding of Africa's development challenges. As a result of the work of these two institutions, integration projects will no longer be embarked on in the abstract. A future challenge will be to ensure that the approach enabled by the two institutions will endure even when donor funding has ceased.

International banking and finance

In the area of banking and finance, African countries have managed to establish strong institutions that have been able to make a strong impact on regional economies. Examples include the African Development Bank, the PTA Bank, the Southern African Development Bank and the East African Development Bank. It is significant that the success the organizations have had is because they operate at arm's-length from the regional organizations. They are able to operate on the basis of international business norms, and can solicit capital from the international markets on the basis of their own reputations (partly thanks to capital subscriptions from rich countries).

Future prospects[1]

In contrast to past decades, the pressures for economic and political integration in Africa are decidedly different today. Many countries are now concerned about the effects of "poor neighbourhoods" (note, for example, the situation in the Great Lakes region, where they would like to have "safer addresses"). In light of this, many West African states have, for example, been willing to support military intervention in countries such as Liberia, Sierra Leone and Cote d'Ivoire, in order to ensure that they do not sink into political anarchy with serious consequences for the region.

In terms of regional economic integration, many countries have been willing to give up some sovereignty in key areas in order to ensure more effective institutional collaboration. There are also a number of examples from East and West Africa, where countries have undertaken regional investment ventures, including the Chad-Cameroon oil pipeline.

The creation of the African Union can also be seen in a new light. It has been demonstrated, over and over again, that approaching international negotiations as a regional block, notably on trade issues, is more effective than when issues are negotiated bilaterally or on an individual basis. However, in a recent paper, Murithi (2003) argues that the AU's most important contribution to African development will be peace promotion. Since the past has shown that lack of peace is Africa's biggest development challenge, the Peace and Security Council established by the AU's inaugural meeting in Durban, South Africa, in July 2002 might well be among the most important initiatives undertaken so far by the continent's leaders in efforts to erase past trends.

Conclusions

Why did this "big idea" for African development bear so little fruit? The failure has been blamed on poor political commitment on the part of African governments as well as on entrenched colonial legacies: the division of countries into small, nonviable entities, and a lack of economic diversification. However, the policies pursued by African governments must also bear some of the blame. Rigid controls made it difficult for economies to adjust to shocks, while failure to contain the internal pressures arising from shrinking economies often led to civil war. Countries that focused on resolving domestic problems tended to adopt insular policies.

In more recent years, however, regional institutions have undergone a number of reforms, institutional accountability and good governance, and there are signs of attempts to return to the earlier goals of creating regional prosperity. The "big idea" of the past needs to be transformed into a "grand design" of the future so as to guide countries towards viable institutional development and regional integration.

Let us end with some points of emphasis:

Gaps

- Not enough emphasis was put on creating mechanisms for conflict resolution.
- Integration projects were not sufficiently inclusive of the views of domestic groups.
- Regional organizations have little prestige (and credibility).
- Poorly developed infrastructure prohibits the movement of people and goods, and raises the cost of production.
- Parochial politics impede unity.
- Efforts at harmonizing the macroeconomic framework were weak.
- Weak members make for weaker institutions; collective weakness leads to conflict.

Promising changes

- Integration is no longer seen as a preserve of the public sector.
- Private sector initiatives (for example, stock exchange collaboration in East Africa) are bound to put the process on a more sustainable basis.
- Following reforms, policies are better aligned in member countries.
- Some regional institutions have real power in regional policy (SADC, EAC).
- Interregional trade is increasing in some regions.
- We can expect results from NEPAD and a more aggressive UNECA.

Threats

- Contagion effects (Great Lakes, for example)
- Donor dependence by regional members (for example, conditionality might not tally: Tanzania agreed with IMF/World Bank to lower its highest external tariff from 25 percent, but agreed with Uganda and Kenya to keep it there)
- Asymmetry in economic recovery and development
- Discovery of natural resources

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[1] Workshop participants noted that it is necessary to put Africa's integration problems in proper context - that is, to take account of the adverse international political economy, and to also look at the future.

Comments on "African institutions building and regional integration: Lessons from experience"

Jean Monnet vs. Kwame Nkruma

Kazuo Takahashi

United Nations University and International Christian University

Regional integration is basically a political process wherein political games are gradually overtaken by cooperative relations (although political considerations never disappear completely). This process has been studied intensively by international relations experts and international organization scholars since the 1960s, in the wake of the progress of West European integration. Regional integration has become an important subject for political leaders and scholars in recent years yet again, in the context of globalization, which has become a predominant feature in the past two decades. Steve Kayizzi-Mugerwa's paper is an important contribution to the understanding of African experiences in integration attempts in the light of the recent interests.

There have been thee major approaches to regional integration.

- political approaches,
- communication approaches, and
- phased approaches emphasizing economic cooperation at initial stages.

Political approaches have been attempted mainly in the security area. Strategic considerations were expected to be important enough to integrate a certain number of countries. In the context of the cold war, we witnessed such attempts as SEATO and ANZUS. In the context of regional politics, cooperation of countries against a regional super power has often been promoted by security considerations, including in such regions as South Asia and southern Africa.

Political approaches have been characterized by high-profile initial stages and by low levels of sustainability. Security being always a top priority for political leaders, these attempts are important political gestures that are aimed at domestic consumptions as well as at the international community. However, these approaches find it difficult to continue to provide tangible materials for political leaders who need to use them constantly for domestic political purposes. Therefore, political approaches, when taken alone, have problems with sustainability.

Communication approaches have been conceptualized as such by scholars rather than by political actors. When analyzing NATO, Karl Deutsch thought it useful to apply cybernetics to the complex processes of the Western alliance. He suggested that the NATO framework contributed to enhancing communication across the Atlantic Ocean so significantly that a security community emerged in this region over time. He analysed it in the early 1960s and foresaw sustainability of NATO beyond the cold war. The major parameters of the communication approaches to regional integration were cultural proximity and communication infrastructure.

Phased approaches have been taken in a number of cases, with the most prominent one being the European Union. The starting point was the initiatives taken by Jean Monnet in the early 1950s. His assumption in overcoming the rivalry between France and Germany was that it was best to develop a community of common economic interests among stakeholders in Western Europe.

Putting together bright whiz-kids from around Europe, Jean Monnet worked out a plan to start with pooling of coal and steel between West Germany and France, with a vision of creating a European Community. Each step of European integration has been promoted by material needs and economic interests since then. Thus the process was, while often turbulent, sustainable and progressive.

It is clear from Steve Kayizzi-Mugerwa's paper that the African experiences are based on political approaches. Against the background of powerful market-based globalization, which is characterized by dramatically opposing forces of integration into and marginalization from the world economy, it is essential for the integration attempts in Africa to compensate the political approaches with the phased approaches.

The Kwame Nkruma approach cannot be sustainable when standing alone. It needs to be supported by a Jean

Monnet approach. While NEPA and TICAD should be useful to provide a political highlight to the challenges of African development, a strategic approach based on phased actions for regional integration as an integral part of African innovation should be attempted in order to strengthen these efforts further. A Jean Monnet should emerge in Africa to compensate for Kwame Nkruma - a combination that would invite a Karl Duetsch to apply his communication approach to the African experience in due course.

Jean Monnet's approach was based on social democracy, in which significant roles of government in the management of national economies were assumed. This approach was highly relevant in the 1950s. At a time of market-based globalization, though, the ideological persuasion of Jean Monnet cannot be an effective basis for regional integration. Expansion of market forces, however, may not be a good basis of regional integration either, due to the powerful forces of market integration into the world economy neglecting regional frameworks when they are weak.

A sophisticated and highly strategic approach is required in order to promote regional integration. Can we find a Jean Monnet of Africa for the twenty-first century, when the forces of market-based globalization will be strengthened further? Or is it more pragmatic to organize African task forces for a number of sub-regions, to articulate phased approaches to regional integration as a major instrument for African development?

Discussion of "African institutions building and regional integration: Lessons from experience"

This presentation was meant to stimulate debate with a focus on African institutions and regional integration. More specifically, the paper tackles three questions:

- Is African integration too big of a concept?
- Do African regional institutions measure up?
- What are the institutional demands on African integration?

The presenter pointed out that African unity was based on an idealistic political economy which does not work for the purpose of integration. He stressed the issues of "policy ownership" by member states; stakeholders' participation; and the credibility of regional institutions, both regionally and internationally. He also discussed the role of donors and incentives to inspire regional loyalty. He finished by arguing that maybe Africa needs a country to do for it what Japan did for Asian countries.

The discussion that ensued emphasized the following major points.

The role of institutions

Looking at institutions may help us to understand regional integration (and why it did or did not work). Much of the export sector is in the hands of non-Africans, who also do the "branding." So, profits of such exports go outside Africa.

The extent of integration is often decided from outside the continent. An illustrative example from another region is that of Costa Rica, where United Fruit Company owned banana plantations (export sector). When faced with union strikes, United Fruit decided to leave the country. Costa Rica struggled for several years to restructure the banana plantations and ensure access to world markets.

It was suggested that countries may benefit from setting up private-public partnerships to guarantee branding and market access. NEPAD may be the framework within which African integration at different levels could take place.

On the issue of institutional development, it is important to note a number of quite recent developments. For example, today we see West African countries getting together to intervene in regional conflicts. In addition, the role of private initiative (NGOs) has become increasingly important. Some NGOs participate and make significant changes in business law (for example, in terms of leading the fight against child labour). The different associations (engineers associations, business associations, etc.) that already exist are perhaps institutions that could help achieve progress towards more integration.

Institutions include financial institutions, which are vital to the success of regional integration. The lack of strong financial institutions can explain, to a great extent, why Africa is an unattractive place for portfolio investments. Moreover, the volatility of the exchange rate is a big challenge for African economies. Who will bear the exchange rate risk under trade integration (export or import)? Integration is seen to require financing, and it seems that no matter how strong African institutions are, they will not be able to lead to a successful integration. In the case of Africa, there will still be need for FDI and ODA.

There are plans to have a central bank and a stock exchange. In the central African region, countries have started institutions leading to stock exchange creation with the help of Mauritius. Could African stock list in African stock markets? (Kenya Airlines has listed its shares in Dar Salam (Tanzania) and in Uganda). But for Tanzania, now, there is fear of "Dutch disease" and exchange rate appreciation.

Form and process of regional integration

There is debate as to whether it would be pragmatic for Africa to go the EU way. Would a strategy such as the one articulated by Jean Monnet at the inception of the European Community work in Africa in current times? Or, is it more practical to set up task forces for sub-regions in order to "articulate phased approaches to regional integration"? There seems to be agreement that a united Africa does not intend to be like the EU.

Still, being united will allow Africa to negotiate as one bloc with, for example, WTO. This seems to be an interesting area to look at. We can take what has worked in the EU and see if we can adapt it to Africa, similar to what Japan has done with different institutions. It may be more practical to start like the EU started, instead of starting with 53 countries all at once and with political union. This would require a grand design, and a country to lead the movement.

The Millennium Development Goals can be linked to this grand design. Can South Africa become what Japan has become for Asia? Does it have the resources? A very interesting scenario for enhancing integration in the world economy would be to focus on the different rims according to geographical locations. For example, some African countries might focus on the Atlantic rim, others on the Indian Ocean rim, and yet others may want to look towards Australia.

It is important to keep in mind that river-based development is very relevant. It is important to cite case studies to show what is happening around rivers. Some 80 per cent of Africa's population lives along international rivers; if we target river areas, we would cover four-fifths of the population.

Furthermore, most of the regional entities are dictated by geographical characteristics. There is need to enter a grouping because of small markets. A country is faced with the question of how best to proceed. What does belonging to different organizations mean for an individual country? Some of these organizations are ad hoc; is the substance there? What is the organizational architecture?

The partnership between Africa and donors is just words so far. We should insist on giving this concept "content." It should be complemented with the concept of solidarity, and TICAD should add to the concept of solidarity. It was suggested that the introduction of a credit line - one that would require the recipient country to buy from a third country in Africa, for example - would be one way to encourage regional integration.

Finally, it was noted that there are five main groupings in Africa: ECAS, COMESA, ECOWAS, AMU and SADC. These groupings will constitute the foundations of the African Union. TICAD should help these groupings to strengthen what they are doing.

The issue of migration

The movement of people from country to country within Africa is becoming very difficult. (Visas are now required for most inter-country travel within Africa). The existence of borders is one of the main reasons for smuggling. However, some regions (e.g., ECOWAS) are trying to abolish intra-region visas.

Another type of migration that needs addressing is that of the brain drain that many African countries are facing. Ghana, for example, loses about 80 per cent of its highly educated population to other countries (according to Prof. Aryeetey). Remittances do not compensate for the brain drain. It has been suggested that those countries (in the North) which benefit from "Africa’s brains" should bear the cost of education and training that were subsidized by the countries of origin.

Study/working groups

Several suggestions were made regarding the organization of a series of regional meetings and setting up an independent study group on the issue of regional integration. This group might look at past and present attempts at integration, and look at other experiences in Europe, East Asia and so on. It was noted that putting in place a group is a good idea, but we already have the UN commission on Africa.

However, one could identify a fairly large number of issues that need tackling, so an independent study group should not be viewed as a hindrance to the UN commission on Africa or other groups. There is a need for an action plan. Perhaps a good start would be to look at the NEPAD action plan, and examine the question of how to implement what has been set out sector-by-sector.

Enhancing capital flows, trade and cultural exchanges between Africa, Japan and Asia: The launching of an Africa-Japan-Asia Centre

Jean-Christian Obame

Ambassador of Gabon to Japan

Preamble

It is, again, my great honour and pleasure to participate in this workshop at the United Nations University, in connection with the preparation for the forthcoming Summit of the Tokyo International Conference on African Development (TICAD III), to be held here in Tokyo, during the period from 28 September through 1 October 2003.

My presentation will center on three main areas:

- **First,** I will give an overview of investment and trade flows in the world and towards Africa.
- **Second,** I will present some of the main perceived impediments to investment and trade flows to Africa.
- **Third,** I will propose two initiatives that appear to be missing links for the promotion of investment, trade and cultural exchanges between Africa, Japan and Asia. Those initiatives are the African Multilateral Investment Guarantee Agency (AMIGA) and the Africa-Japan-Asia Centre (AJAC).

(For tables and figures, please refer to pp. 39-44)

Overview of investment and trade flows in the world and towards Africa

Capital flows are important for financing development.

The important contribution that capital flows - both public (aid flows, namely ODA) and private (investment flows) - can play in financing development and accelerating growth on the African continent cannot be overemphasized. It has been widely recognized that both types of these financial resources, which have helped finance economic and social infrastructure in Asian countries, have indeed been instrumental in accelerating growth in this part of world. With such an economic infrastructure in place, the expansion of trade, in turn, was facilitated owing also to the export-oriented strategies followed by these countries.

Inadequate financing has contributed to poor infrastructure in Africa.

Africa lags behind the rest of the world in all most important aspects of infrastructure, as can be seen from tables 1 and 2.

Africa needs both hard and soft infrastructure. Recent estimates from multilateral institutions indicate that in the period 1980-2000, investment collapsed in most African countries. In aggregate numbers, investment to GDP has been reduced by half, from about 13 per cent of GDP in the 1970s to about 6 per cent of GDP in late 1990s. (By comparison, the investment rate in Europe and Central Asia has averaged 30 per cent of GDP.) This decline resulted mainly from a combination of several factors, including the reduction in both Official Development Assistance (namely, the share devoted to infrastructure) and Foreign Direct Investment (FDI).

Africa receives less FDI compared with other regions.

The distribution of the world's Foreign Direct Investment flows by region/country, as indicated in figures 1 and 2 and table 3, shows, unfortunately, that Africa is a region receiving very little. In 2001, according to OECD data, FDI to Africa represented 2.3 per cent of the world total, compared with 12 per cent in the Latin America/Caribbean region, 14 per cent in Asia and 46 per cent in Western Europe.

Japanese FDI inflows to Africa have remained, so far, marginal.

Two periods have to be considered in assessing Japanese FDI inflows to Africa:

- the period up to 1993, corresponding to the launching of the TICAD process (TICAD I), and
- the period from 1998 up to 2003, corresponding to TICAD II.

Available data point out that in the period 1989 to 1993 (as shown in figure 3), Japanese FDI inflows to Africa were rather limited (negligible) compared to those to other regions. The average percentage of FDI outflows to Africa during that period was 1.9 per cent. Then, from

1997 to 2000, there was a drastic decline in FDI outflows (as shown in figure 4).

More recent data do not point to any drastic improvement. As can be seen from figure 5, total FDI from Japan to Africa did not exceed 21 billion yen (or about US$200 million) in 2001. The share of Japanese FDI inflows to Africa by sector shows that transportation and mining are the more important recipients.

From the evidence of figures 6, 7 and 8, one can only conclude that:

- Japanese share of ODA is the most important among major DAC countries, and Asian countries are the largest recipients (more than 50 per cent) while Africa receives, on average, 10 per cent of Japanese ODA.
- The current investment relationships between Africa and Japan are still in an infant stage.
- FDI is important because, together with domestic savings, it can promote economic growth and social development, thereby reducing poverty in Africa.

Africa's ranks near the bottom in world trade.

Foreign trade and FDI are complementary. In the longer run, increasing inward investment boosts exports as well as imports. The benefits of FDI are, therefore, equivalent to those that arise from increased openness to trade.

Unfortunately, as for FDI, trade flows between Africa and the rest of the world (including Japan) are still very limited, as shown in figures 9 and 10. In a broader perspective, the African share in both world exports and imports has been less than 2.5 per cent.

Trade flows between Africa and Japan are still limited.

In connection with the TICAD process, which started in 1993, two periods have to be examined for assessing trade flows between Africa and Japan: the period before TICAD, and the period after the launching of the TICAD process. Available data indicate that from 1960 to 1996, trade flows between Japan and Africa had been on a constant downward trend (see figure 11). In 1996, Japanese exports to and imports from Africa represented around 1 per cent of the total Japanese international trade flows.

More recent data, corresponding to the period of TICAD II (1998-2003), show that the declining trend has continued.

Trade flows between Africa and Asia need to be enhanced.

While Africa's share in world (including Japan) exports is declining, Asia remains, nonetheless, a fast-growing market for African exports. According to the IMF, in 2001 Asian imports from Africa represented 1.4 per cent of total Asian imports (US$1,434 billion), while African exports to Asia for the same year represented 13.4 per cent (US$17 billion) of total African exports (US$126 billion) (see figures 12, 13, and 14). Thus, Africa may be small for Asia, but Asia is large for Africa, and the trade relationships between them need to be enhanced.

Impediments to trade and investment to Africa, and the new "marketing approach" towards Africa's promotion

What are the reasons behind the presence of impediments to investment and trade?

Several reasons are typically put forward to justify why Africa does not attract enough FDI and why trade flows are still limited. Most of these reasons are related to the lack of a conducive environment to promote investment in Africa. The main impediments include:

- political instability in some African countries;
- lack of good governance (political, economical and institutional);
- lack of information on Africa and the distance (for some investors, including Japanese, Africa is too far away); and
- the high economic and financial risks attached to investments in Africa.

While some of these reasons are valid, they sometimes simply constitute excuses for the so-called "afro-pessimists" and others.

A new marketing approach for the promotion of Africa is needed.

What should be known about Africa in order to promote trade and investment? Africa is endowed with:

- vast resources (minerals, crude oil, natural gas, hydropower, agriculture, etc.);
- abundant human resources, ready to be trained and utilized;

- a large potential market (With some 800 million consumers, Africa is a big market, and a potential niche for the development of small and medium-size enterprises.); and
- a vast demand for infrastructure projects (which can easily accommodate the excess capacity of Japanese construction and engineering companies. These companies should be encouraged, outside of ODA schemes, to participate in bidding on infrastructure projects (roads, ICT, etc.) in Africa and contribute to the transfer of technology).

The road map for promoting investment to Africa and mobilizing financial resources shows several challenges ahead.

African countries are aiming to make the following efforts to attract foreign investment:

- ensure political and social stability;
- improve legal frameworks;
- upgrade socio-economic infrastructure at the sub-regional and regional levels (roads, energy, telecommunications, ICT, ports), which is vital for economic development and regional integration in Africa; and
- strengthen financial systems to promote domestic savings and alleviate funding constraints for local businesses.

Japan can contribute a lot to this process. As we are preparing for TICAD III, which is the Tokyo International Conference on African Development, what Africa expects to achieve in partnership with Japan for encouraging investments to the continent are the following:

- Promoting the provision of information to investors through the creation of an "Africa-Japan-Asia Centre for Economic, Trade and Cultural Exchanges" (AJAC). Information is vital to encourage investment to Africa. JETRO, JBIC, JICA, the chambers of commerce and Keidanren can be sponsors of such a centre, which can play an important role in disseminating (in Japanese) information, data and investment opportunities in specific countries and sub-regions. It is becoming obvious that the main problem with Japan's Official Development Assistance lies not in its quantity, but in its lack of expertise (namely, a lack of effort by the Japanese to communicate in the language of the recipient countries and a lack of overall knowledge about the needs of the local people). The Africa-Japan-Asia Centre would have to facilitate communications between Africans and Japanese, in the context of ODA or investment projects.
- Encouraging trade and investment missions to Africa.
- Enhancing Asia-Africa cooperation through various schemes, including the formation of investment agreements and improvement of economic infrastructure as well as exchange of human resources.
- Eliminating trade barriers to promote the sale of African products in Japan and other markets.
- Promoting transfer of technology that is well adapted to the African context.

Moreover, in the areas of resource mobilization, NEPAD identifies as a critically important action the urgent alleviation of Africa's debt, as most of Africa's scarce financial resources are still largely devoted to repaying this debt. Given the scarcity of domestic resources and the easy borrowing mechanisms prevailing in capital markets in the 1970s, debt financing was the major tool used by most African countries for investment and consumption. This process has led to unbearable debt burdens for which, unfortunately, the current debt alleviation schemes, including the so-called "Highly Indebted Poor Countries (HIPC)" initiative, have not produced tangible results. Only 6 out of about 40 eligible countries have so far received debt relief.

Road map for risk management of investment in Africa.

What are the investment risks perceived in Africa? From the viewpoint of investors, three potential risks are usually perceived in Africa:

- the risk of political instability or unrest, which can well affect ownership and lead to expropriation or nationalization, and (in some cases) to contract or debt repudiation;
- the risk of non-transferability of funds generated locally - namely, when the central bank refuses to or cannot convert and transfer funds in local currency into foreign exchanges (dollars, euro,

yen); and
- the risk of non-payment of a legitimate debt to a creditor by the government or a state-owned company.

There are different schemes that actually exist to cover such risks, which are known as sovereign risks. They have been applied to many syndicated loans extended to African countries. For export credit, some countries - such as France (through "COFACE"), the USA (through "EXIMBANK") and Japan (through "JBIC") - have developed schemes to deal with the risks associated with commercial contracts and investment in developing countries, including Africa.

Moreover, multilateral institutions such as the World Bank have set up an institution called the Multilateral Investment Guarantee Agency (MIGA), which deals with various country risks associated with investments in member countries.

MIGA provides the following guarantees to developing countries:
- insurance for investment;
- protection for investors against the risks of transfer restriction; and
- further protection against the risks of expropriation, war or civil disturbance, and breach of contract.

MIGA does not seem to be well known by investors, perhaps including those in Japan. Through its website,[1] one can notice that 161 countries are now members of MIGA - the latest being, ironically, Gabon, my own country, which became a full member on 8 April 2003 after completion of its membership requirements.

Japan is also member of MIGA, among the 22 industrialized countries.

Two new initiatives for promoting investment and trade between Africa, Japan and Asia

The African Multilateral Investment Guarantee Agency (AMIGA)

For many potential investors to Africa, it seems that besides the risks indicated above, which are already covered by existing institutions, there may be another risk dealing with the problem of good governance. Weaknesses in the administrative, legal and judiciary systems, as well as corruption, are perceived as impediments to the relationship between the private sector and public authorities.

To address these problems, NEPAD's plan of action has placed the establishment of a credible and effective African Peer Review Mechanism (APRM) as a top priority in the agenda. African leaders have already adopted the APRM, which includes the implementation of principles for good political governance as well as codes and standards for economic and corporate governance. Presently, it is being ratified by the individual countries.

Strengthening of the human, legal and institutional capacities in Africa emphasized in the APRM is indeed to be viewed as an additional tool for promoting investment towards Africa, both in quality and quantity. As such, it could well be conceived that the APRM be supported by a MIGA-type insurance institution, which would become its backbone. This African Multilateral Investment Guarantee Agency (AMIGA) could be a subsidiary of the current MIGA of the World Bank or of the African Development Bank, one especially designed for promoting investment in Africa. It would have agencies in the headquarters of all the African economic groupings, with its main correspondents being the investment promotion agencies in individual country.

The main missions of AMIGA would be (1) promoting investment in Africa (investment guarantee services and marketing of investment opportunities) and (2) promoting and covering various commercial and non-commercial risks.

The Africa-Japan-Asia Centre for Investment, Trade and Cultural Exchanges (AJAC)

Promoting economic, trade and cultural exchanges between Japan and Africa. as well as with Asia as a whole, is one of the key objectives to be achieved under the expected synergy between TICAD III and NEPAD. The proposed Africa-Japan-Asia Center aims at achieving the three main objectives shown in figure 15.

Japanese policy towards Africa
- Food, agriculture and rural development; and
- Infrastructure for boosting regional cooperation,

promotion of trade and investment (for which US$300 million has been committed).

Enhancing mechanisms for Japanese initiatives towards Africa

As we are preparing for TICAD, the current proposal for establishing an Africa-Japan-Asia Center for economic, trade and cultural exchanges is aimed at helping in:

- providing useful information through an up-to-date database on African countries and investment opportunities;
- facilitating market access information on African products, and the Japanese market requirements; and
- promoting cultural exchanges, tourism and improvement of the communication channels between Africa and Japan, with emphasis on language facilities, and enhancing positively the image of Africa in Japanese society.

Context for the implementation process of the centre

There is a general consensus among the African diplomatic corps and Japanese on a missing link for better and more efficient cooperation between Africa, Japan and Asia. This missing link appears to be the need to create the proposed investment, trade and cultural exchanges centre.

TICAD III is the appropriate framework for implementing such an initiative, which will enhance the synergy between TICAD and NEPAD. The political consensus for such an undertaking is being built among African leaders, both in Japan and in Africa, within the framework of the preparatory sub-regional meetings in Africa. While a feasibility study is being conducted, it is expected that this initiative will be launched during the TICAD III Summit in September/October 2003.

Management of the centre

Consultative Council: The centre shall have a Consultative Council consisting of representatives of the African-Japan Parliamentary League.

Executive Board: The Executive Board shall consist of representatives of national partners appointed by members. It shall supervise the activities of the centre, which will be carried out by the Director General and his staff.

Composition of the staff

African: Former Students in Japan and professionals

Japanese: Former staff of agencies and NGOs

Funding of the centre

A menu of various options for financing the center is indeed possible to put in place. The financing issue hinges only on the political will for setting up such a centre. For instance, from this menu of options, five main sources can be contemplated:

1. Government of Japan;
2. African Countries (through Embassies in Japan);
3. Asian Countries;
4. Sponsors (Japanese companies established or having business interests in Africa);
5. Others (donations).

In a spirit of partnership, an equitable burden-sharing mechanism could be applied to the three main partners by which each of the said partners could bear 1/3 of the operating costs of the Center.

Conclusion

To conclude, let me say that strong economic growth is essential for ensuring sustainable development in Africa, and invigorated investment is critical to achieve this objective.

It is our strong view that the proposed centre will be instrumental in enhancing the synergy between TICAD and NEPAD and a contributing factor to the mutually beneficial partnership between Africa and Japan and their respective peoples.

[1] http://www.miga.org

Table 1. Position of Africa's infrastructure development in the world (part I)

Countrygroup/region	Electric Power cons Kw/Per capita	acces to improved water Source (% Pop)	Fixed Lines and Phones Per 1000 People	Paved roads (% of Total)
World	**2,084.7**	**80.7**	**328.7**	**43.4**
East Asia and Pacific	787.1	75.9	207.4	17.4
Europe & Central. Asia	2,652.4	91.0	375.0	91.3
Latin America & Caribbean	1,452.1	86.4	326.3	22.4
Middle East & North Africa	1,263.0	88.2	153.2	54.6
Sub-Saharan Africa	**453.6**	**58.1**	**40.6**	**16.3**
South Asia	341.0	84.4	38.1	44.0

(Source: The World Bank, « World Development Indicators database », April 2003.)

Source: The World Bank, "World Development Indicators database," April 2003.

Table 2. Position of Africa's infrastructure development in the world (Part II)

Countrygroup/region	Personal Computers per 1000	Foreign Diret Investment US$Billion	Doctor per 1000 People	Hospital beds per 1000 people
World	**86.2**	**745.5**	**1.5**	**3.3**
East Asia and Pacific	19.1	48.9	1.5	2.5
Europe & Central. Asia	52.1	30.1	3.3	8.8
Latin America & Caribbean	59.3	69.3	1.6	2.2
Middle East & North Africa	32.0	5.5	1.0	1.8
Sub-Saharan Africa	**9.9**	**13.8**	**0.1**	**1.1**
South Asia	5.3	4.1	0.4	0.7

(Source: The World Bank, « World Development Indicators database », April 2003.)

Source: The World Bank, "World Development Indicators database," April 2003.

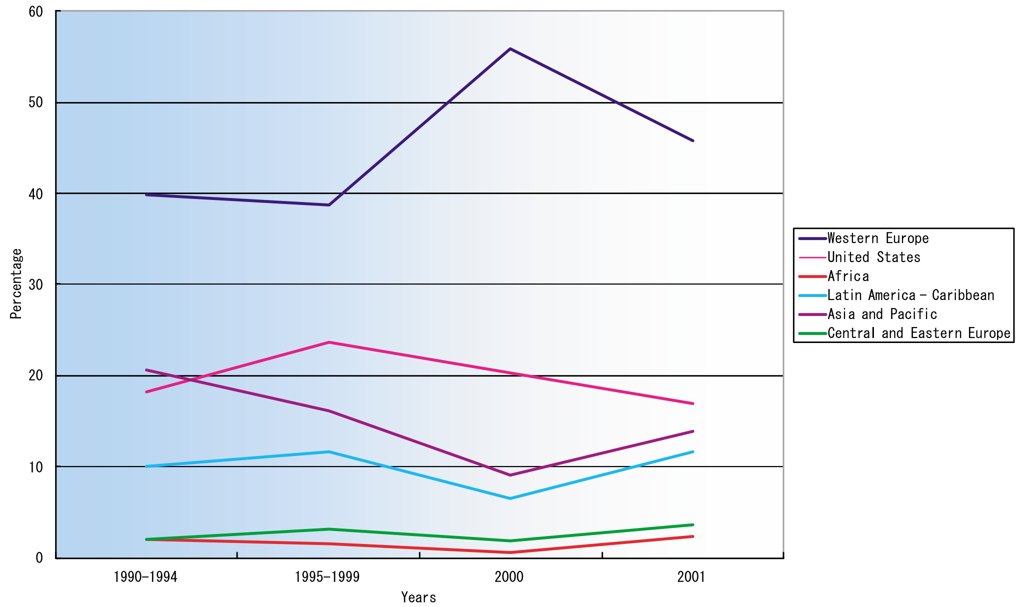

Figure 1. Distribution of world FDI flows by region/country（1990-2001）
Source: UNCTAD

Table 3. Trends of global investment inflows

(a) Region/country as a percentage of world total

	Inflows				Outflows			
Region/country	1990-1994	1995-1999	2000	2001	1990-1994	1995-1999	2000	2001
Developed countries	65.3	67.5	82.3	68.4	87.8	89.1	92.2	93.5
Western Europe	39.8	38.7	55.8	45.7	50.6	61.4	73.8	61.3
European Union	38.2	37.0	54.2	43.9	46.8	57.4	70.2	58.8
Other Western Europe	1.5	1.7	1.6	1.8	3.8	4.0	3.7	2.5
Japan	0.7	0.7	0.6	0.8	11.0	4.0	2.3	6.1
United States	18.2	23.6	20.2	16.9	22.1	19.6	12.0	18.4
Developing countries	32.6	29.3	15.9	27.9	12.1	10.6	7.6	5.9
Africa	2.0	1.5	0.8	2.3	0.8	0.4	0.1	-0.4
Latin America and the Caribbean	10.1	11.7	6.4	11.6	2.0	3.0	1.6	1.2
Asia and the Pacific	20.6	16.1	9.0	13.9	9.3	7.1	5.9	5.1
Asia	20.4	16.1	9.0	13.9	9.3	7.1	5.9	5.1
West Asia	1.2	0.5	-	0.6	-	0.1	0.1	0.2
Central Asia	0.2	0.5	0.1	0.5	-	-	-	-
South, East and South-East Asia	18.9	15.1	8.8	12.8	9.2	7.0	5.8	4.9
The Pacific	0.2	0.1	-	-	-	-	-	-
Central and Eastern Europe	2.1	3.2	1.8	3.7	0.1	0.4	0.3	0.6
World	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: UNCTAD, based on UNCTAD FDI/TNC database (for FDI), UNCTAD secretariat (for GDP) and United Nations Population Division (for population).

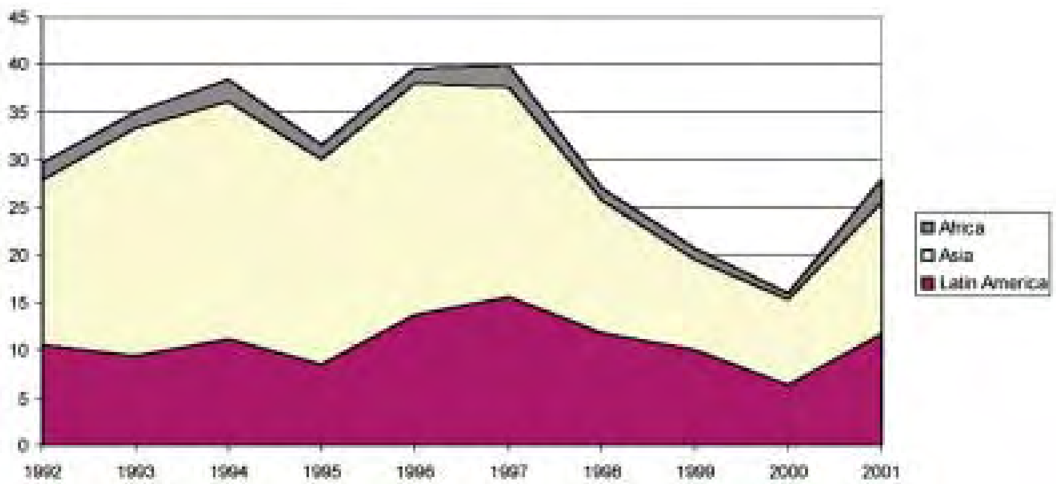

Figure 2. Africa's share of total FDI, 1992-2001 (US$ billion by region)
Source: OECD/OCDE

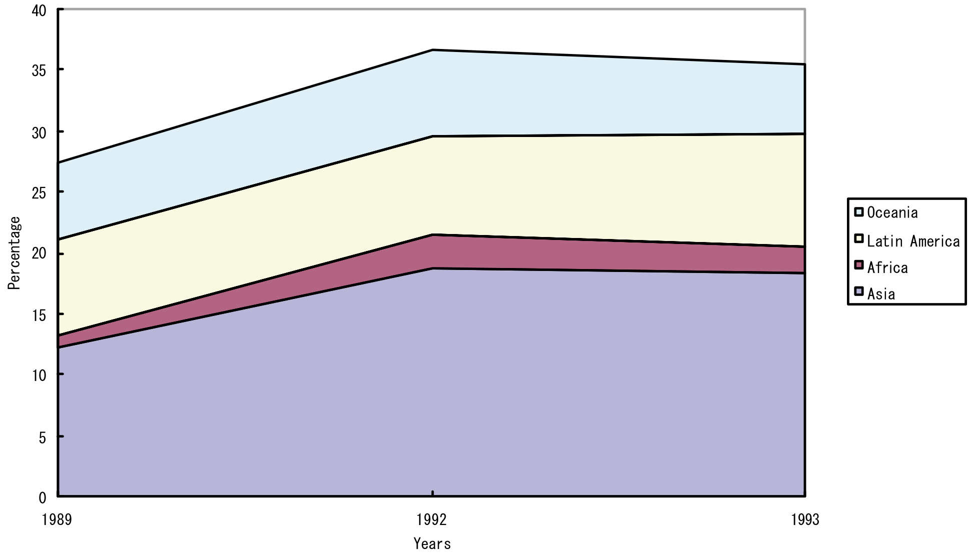

Figure 3. Trends in Japan's FDI outflow,1989 to 1993 (%)
Source: JETRO, 2003

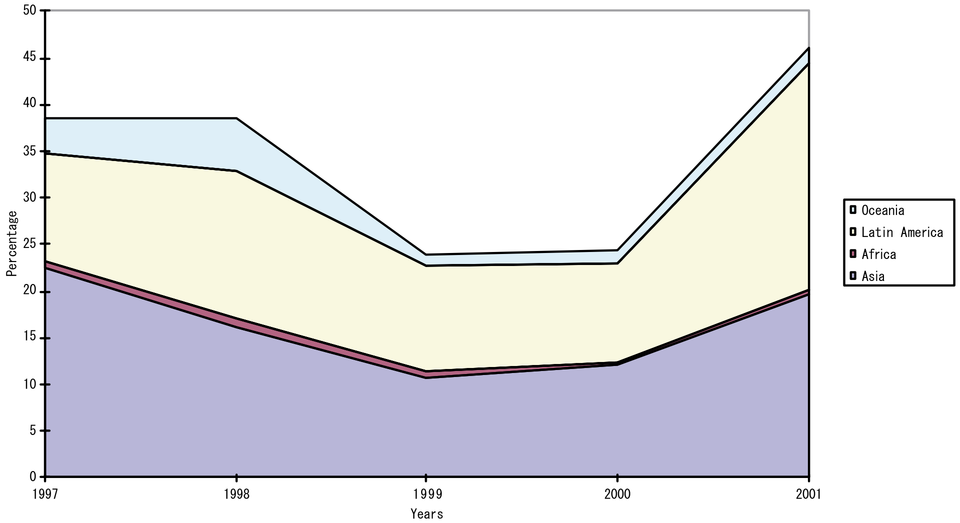

Figure 4. Trends in Japan's FDI outflow, 1997 to 2001 (%)
Source: JETRO, 2003

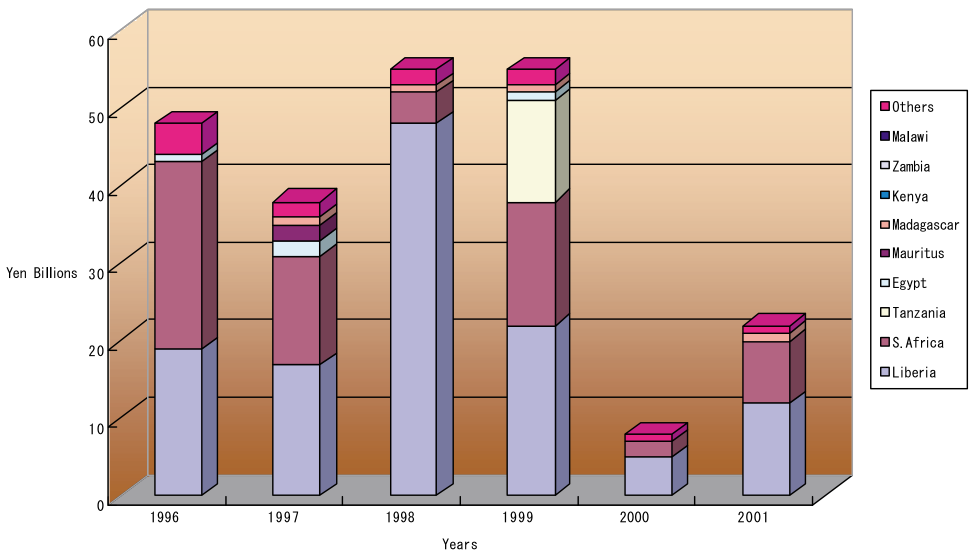

Figure 5. Inflows from Japan to Africa (by country)
Source: UNCTAD

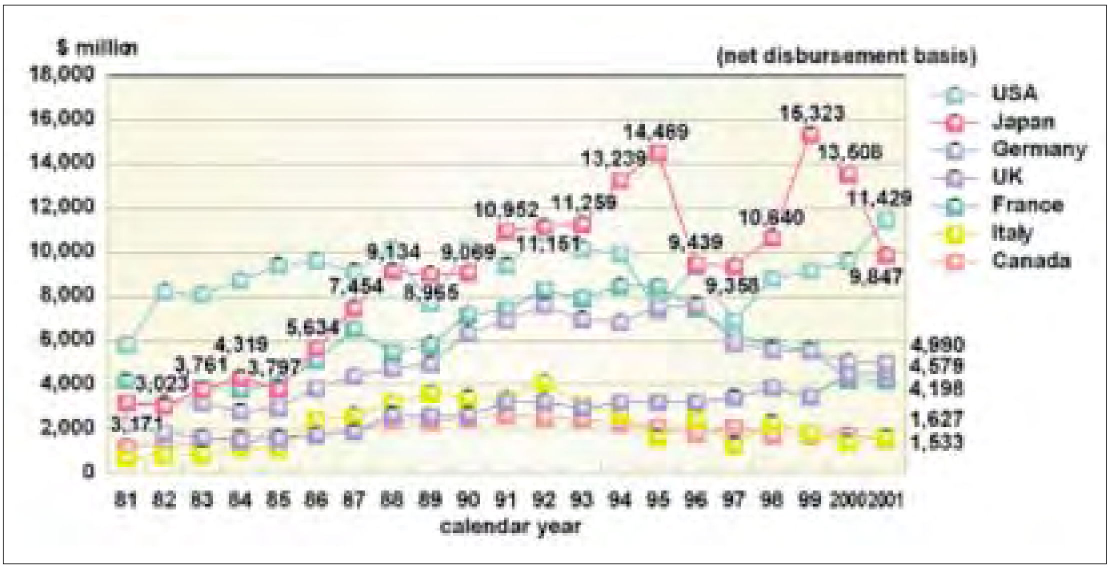

Figure 6. Trends in major DAC countries' bilateral ODA, by region

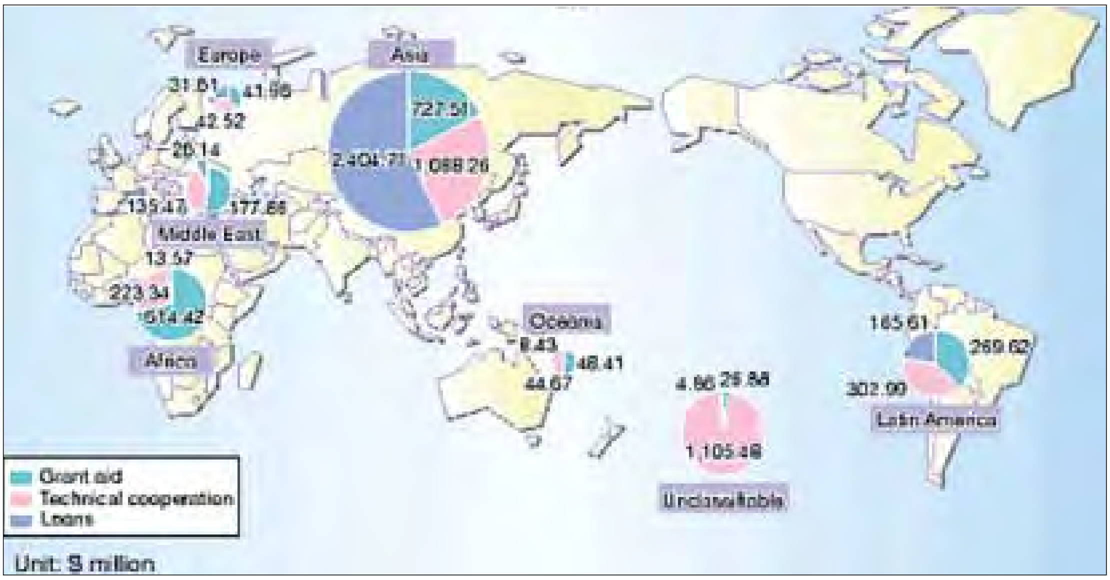

Figure 7. Trends in the distribution of Japan's bilateral ODA, by region

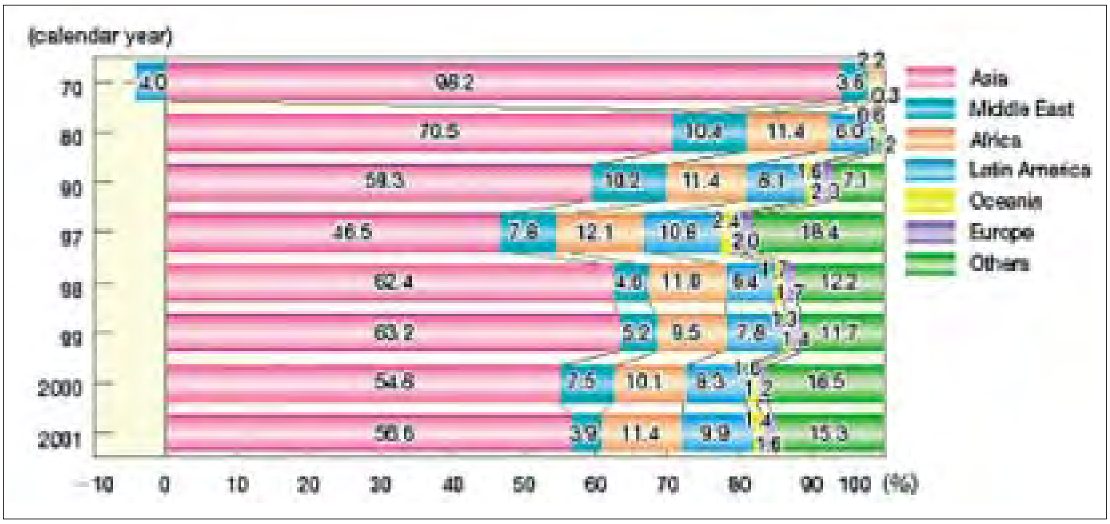

Figure 8. Distribution of Japan's bilateral ODA, by region

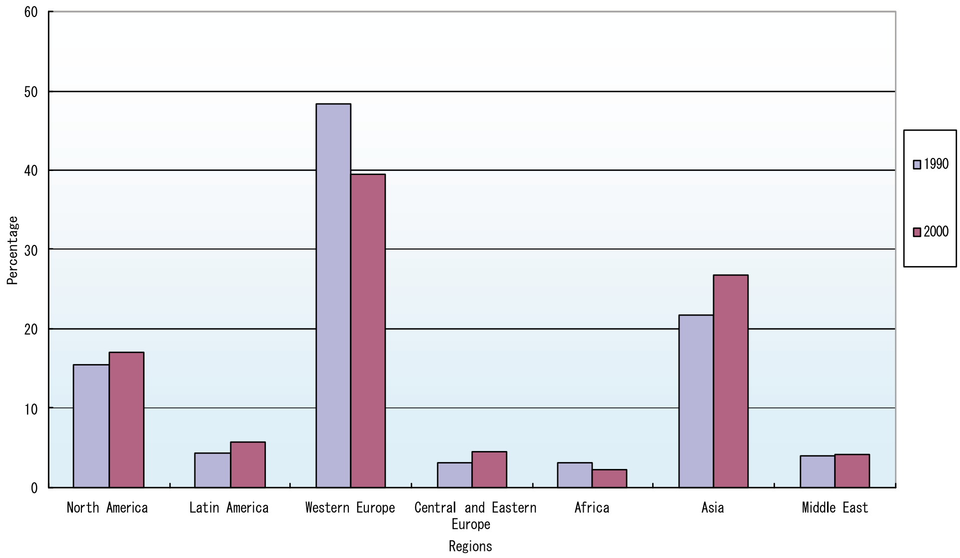

Figure 9. Africa's share in world exports, 1990 to 2000 (%)
Source: WTO, 2000.

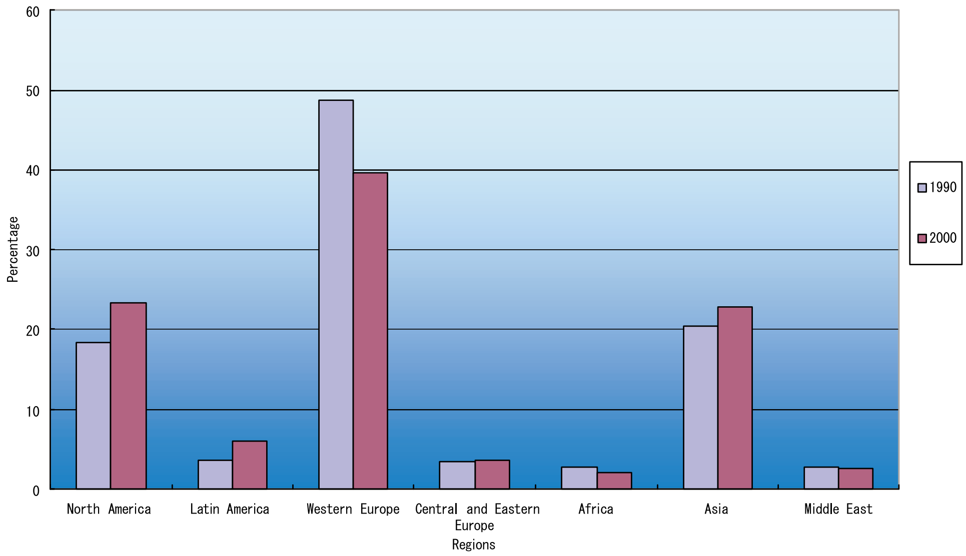

Figure 10. Africa's share in world imports,1990 to 2000 (%)
Source: WTO, 2000.

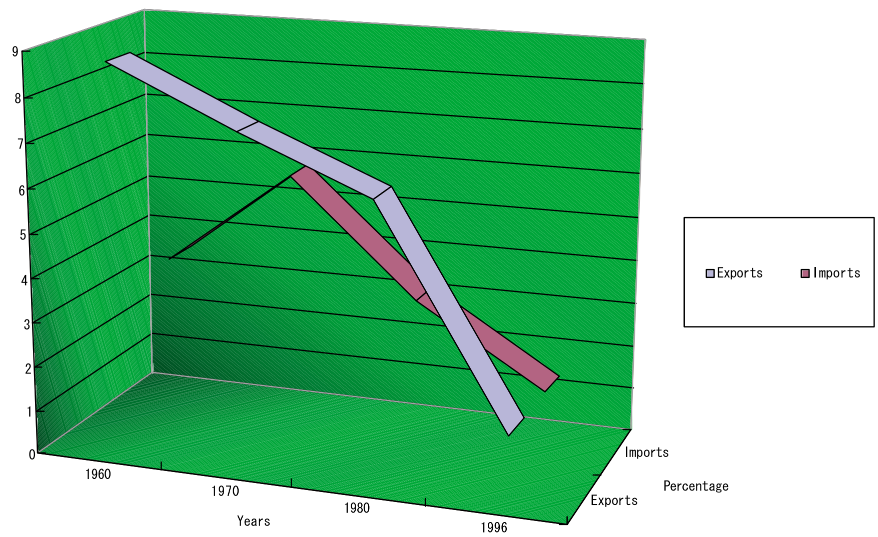

Figure 11. Japan-Africa trade, 1960 to 1996 (% of total exports - imports markets)
Source: Ministry of International Trade and Industry.

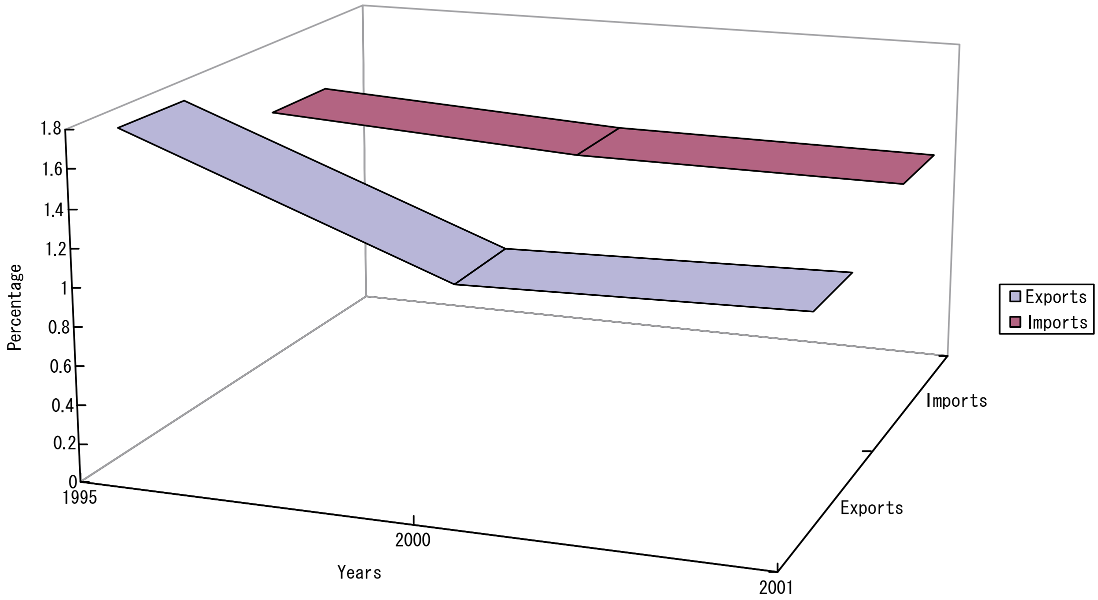

Figure 12. Value of Japan's exports to and imports from Africa
Ministry of Public management, Home Affairs, 2003.

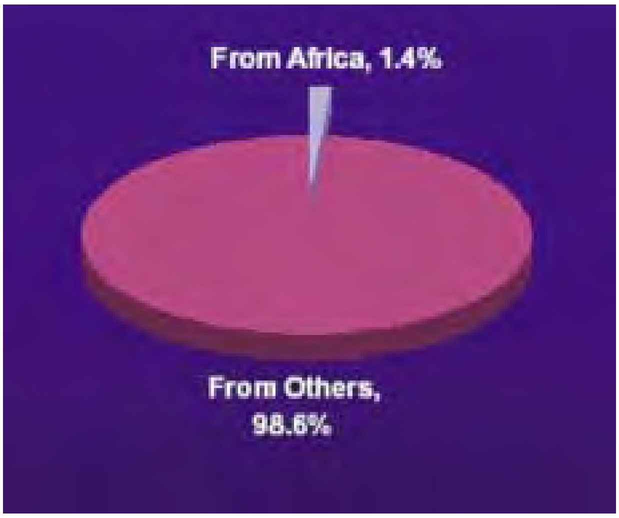

Figure 13. Value of Asia's imports from Africa

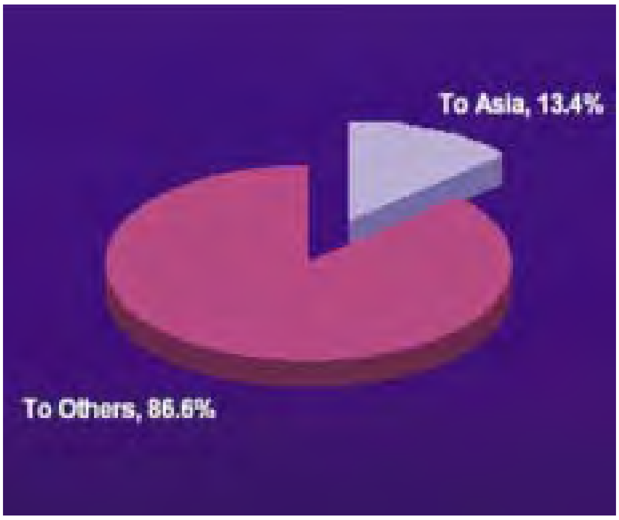

Figure 14. Imports from Africa among total Asia imports

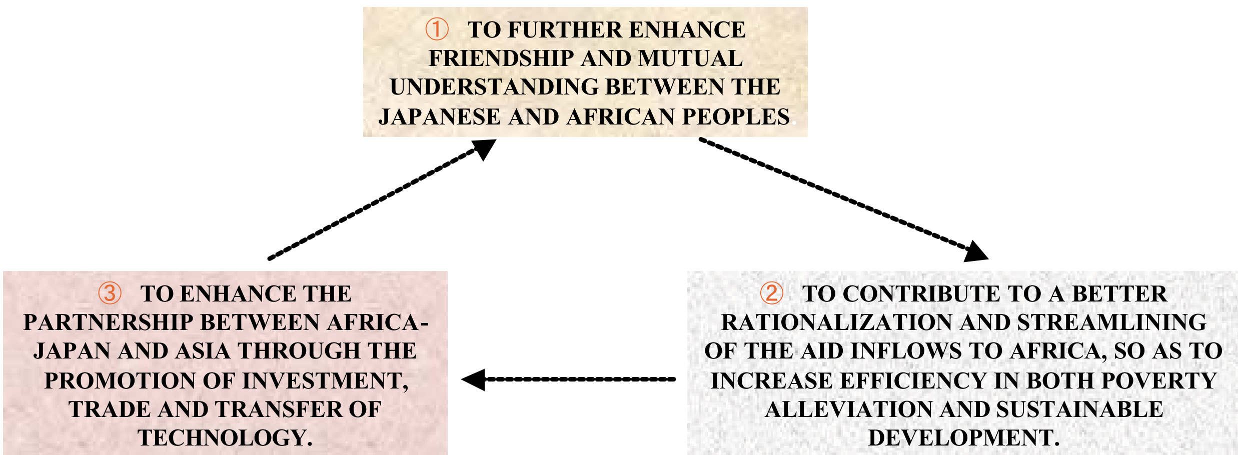

Figure 15. The main objectives of AJAC

Discussion of "Enhancing capital flows, trade and cultural exchanges between Africa, Japan and Asia: The launching of an Africa-Japan-Asia Centre"

The session began with a presentation by Dr. Jean Christian Obame, Ambassador to Japan of the Gabonese Republic. Initially, he emphasized the importance of capital flows for financing development, and noted that inadequate financing has contributed to poor infrastructure in Africa. This was documented by a series of tables and figures based on recent data in the region. The Ambassador also discussed in detail the inflows from Japan to Africa, as well as Africa's place in world trade. The overall conclusion of this very interesting first part of the presentation was that:

- The Japanese share of ODA to Africa is the most important among major DAC countries.
- The current investment relationships between Africa and Japan are still at an infantile stage.
- FDI flows and foreign trade are complementary.
- However, regarding FDI flows, trade flows between Africa and the rest of the world (including Japan) are still limited.
- Africa may be small for Asia in terms of imports, but Asia is large for Africa in terms of exports; thus, the trade relationships between the two regions need to be enhanced.

In the second part of his presentation, Dr. Obame focused on impediments to trade and investment in Africa and the need to adopt a new "marketing approach" towards Africa's promotion. He explained the reasons for the low levels of both FDI and trade flows to the region (i.e., political instability, lack of good governance, lack of information on Africa, location factors and the high economic and financial risks associated with investments in the region). He underlined that although some of the above reasons may be true, they sometimes constitute only excuses for the so-called "Afro-pessimists."

Building on this observation, the Ambassador emphasized the need to take a fresh look to Africa by introducing a new "marketing approach" to promote Africa in the world markets in view of the region's vast resources, human capital base, large potential market and vast demand in infrastructure projects. He subsequently suggested the following policy guidelines for promoting investment to the region. More precisely, and as far as African countries are concerned, the key challenges according to Dr. Obame are related to:

- ensuring political and social stability,
- improving legal frameworks,
- upgrading socio-economic infrastructure at the sub-regional and regional levels, and
- strengthening financial sector development to mobilize domestic savings and alleviate funding constraints for local businesses.

In addition to the above, the Ambassador strongly suggested that Africa's debt should be urgently alleviated, and that Japan can contribute in a number of ways to the promotion of Africa in the world markets - most importantly, through the creation of an Africa-Japan-Asia Centre for Economic, Trade and Cultural Exchanges (AJAC). He also indicated that the investment risks perceived in Africa need to be taken into account in the new marketing approach by creating an African Multilateral Investment Guarantee Agency (AMIGA), along the lines of the Multilateral Investment Guarantee Agency (MIGA) of the World Bank.

In the remaining part of his presentation, Dr. Obame presented in detail the structure of both the AJAC and AMIGA (with detailed organization charts for both). Regarding AMIGA, he emphasized that the African Peer Review Mechanism (APRM) recently adopted by NEPAD needs to be supported by AMIGA, so that investment is promoted in the region and the various commercial and non-commercial risks are covered. On the AJAC front, he suggested that promoting economic, trade and cultural exchanges between Japan and Africa, as well as with Asia as a whole, should be one of the key objectives to be achieved under the expected synergy between TICAD III and NEPAD.

Along these lines, Dr. Obame underlined that the proposed centre can contribute substantially to the promotion of the region by:

- providing information through an updated database on African countries and investment opportunities,
- facilitating market access information on African products and Japanese market requirements, and

- promoting cultural exchanges and tourism, as well as improving the communication channels between Africa and Japan.

Finally, he suggested that there is a clear need for creation of the above centre, and that TICAD III is the appropriate framework for implementing such an initiative - which, in turn, will enhance the synergy between TICAD and NEPAD. The Ambassador recommended that the above initiative could be launched during the TICAD III Summit in September 2003.

Comments by commentator 1
(Prof. Ernest Aryeetey)

Prof. Aryeetey welcomed the paper as an important contribution to the workshop and the overall TICAD III process. He focused on the new marketing approach suggested by Dr. Obame, and on his proposal for the new initiatives. He emphasized the need to distinguish between issues related to marketing and structural issues as well as the role of institutions in Africa.

Moreover, he pointed out that there is a clear need to deal directly with a number of structural issues in the region (such as malaria, AIDS/HIV and the low level of skills), and not necessarily indirectly through a marketing approach. Having said this, the commentator concluded that the two proposals presented by Dr. Obame need to be considered seriously in view of their importance.

Comments by commentator 2
(Dr. Steve Kayizzi-Mugerwa)

The paper was also very well received by Dr. Kayizzi-Mugerwa, who found both the paper and the presentation very interesting and stimulating. He welcomed Dr. Obame's suggestions of the need to adopt a new marketing approach for Africa's promotion in world markets.

He structured his comments on "the four Ps," to use marketing terminology: namely, price, place, packaging and promotion. He talked about the need to place particular emphasis on the role of institutions in Africa, in view of the importance of institutions for the adoption of a new marketing approach in the region. He expressed some reservations regarding the data figures on investment in Africa, which according to the paper has collapsed to the level of 6 per cent of GDP in recent years.

Summary of the discussion

The Ambassador's paper was received extremely well by all the workshop participants. Part of the discussion focused on the two proposals presented by Dr. Obame during his presentation - namely, AJAC and AMIGA - but a number of related issues (see below) were also discussed.

One issue that attracted much attention was related to the recent and current focus of Africa on exporting primary commodity products. One of the participants stated that Africa should focus on manufacturing products in view of the deteriorating situation in primary commodity markets in recent years. The participant also commented that an analysis by product would be more revealing and particularly rewarding regarding the precise structure of the trade relationship between Africa and Japan, and he suggested that we need to address the issue of the particular types of FDI which are appropriate for Africa.

Another participant raised the issue of public vis-a-vis private provision of infrastructure in Africa (also discussed in detail in previous sections); it was argued that certain types of investment (e.g., education, health) should be provided by the public sector. The same participant also underlined the need to deal directly with structural issues in the region. Finally, it was argued that the issue of residual risks (i.e., risks that cannot be covered by MIGA or other bodies) needs to be addressed, too.

An important observation by one of the participants was related to the fact that the existence of too much diversity in Africa makes the establishment of a political/economic union difficult. Such a union seems to be much more feasible at a regional level within Africa (East Africa region, West Africa region, etc.). The need to focus also on domestic resource mobilization (boosting domestic savings and domestic private investment) beyond external financing was a key comment by the same participant. The centrality of geography was also emphasized.

Furthermore, it was argued that there seems to be a clear need to develop new forms of development cooperation in the case of Africa. These may take the form of joint ventures among donors (i.e., group(s) of donors acting together by harmonizing aid in the region, thus improving substantially aid effectiveness. Finally, it was argued that it is important to realize that the African market is a "new market" for Japan, compared to an "existing market" as it is the case in Asia. This may have significant implications for the design and implementation of export promotion policies in the region.

Yet another participant pointed out that ODA and private capital flows can undoubtedly play an important role for the region, but not necessarily a key role - not without a strategy in place that can justify more ODA and private capital flows from Japan to Africa. The issue of strategic considerations in the area of capital flows and trade was emphasized by other participants. It was argued that, in many cases this is also related to the role of institutions in the region.

The issue of primary commodity markets was also picked up by another participant, who referred to the collapse of coffee prices in recent years to illustrate the need for Africa to diversify in order to compete in international markets. The same participant also raised the issue of aid allocation in Africa and the problems related to the rather restrictive analysis of the determinants of aid flows to the region, which focuses on either donor interests or recipient needs. He argued that an eclectic approach - which would link together aid effectiveness and aid selectivity by focusing also on the important issue of aid heterogeneity (that is, different types of aid may have different impacts) - would be essential for a better understanding of aid issues in the region.

Some of the participants expressed doubts regarding the role of openness in the overall growth process, arguing that the available empirical literature on the subject is far from conclusive. Another participant argued that Japan is currently focusing on aid allocation issues, and the current trend is to mobilize more aid to Asia but not to Africa. Opening up markets in the region, it was observed, may crucially affect the above trend.

The centrality of national export strategies for promotion of the region in the world markets was also underlined by one participant. The same participant also raised the issue of standards in exports from the region, and of the need to promote new products.

Overall, it was felt that both of the initiatives proposed by the session speaker are of paramount importance for promotion of the African region in international markets. Some of the participants underlined the need to undertake further work towards the establishment of the proposed new centre in terms of feasibility studies.

The speaker, Dr. Obame, thanked the participants for their useful and constructive comments, and he expressed his overall agreement with most of the suggestions made by the participants. Finally, he emphasised the need to promote financial intermediaries in Africa, since they are crucial for the proposed AMIGA.

The chairperson of the session, Prof. Takahashi, epitomized the very interesting and stimulating discussion by concluding the following:

- We need to be extremely careful in our effort to understand a rapidly changing reality in the case of Africa.
- FDI needs to take into account the investors' concerns.
- The region is characterized by extreme diversity; the positive as well as negative implications of this diversity for the region's prospects need to be further analysed.
- Export diversification is important; this seems to pose a significant challenge for the region.
- Understanding the overall ODA-FDI-export promotion nexus is equally important.
- The aid question is absolutely central to the discussion; however, there does not seem to exist a clear consensus regarding aid allocation issues at the moment.
- Structural and institutional issues need to be handled and analysed both separately and effectively; different approaches need to be adopted for different problems.
- The two proposed initiatives are extremely promising; however, implementation issues are crucial and will need further discussion.

Africa is big enough for both NEPAD and TICAD

Shinsuke Horiuchi

Japan Institute of International Affairs

Since announcement of "The United Nations Development Decade: Proposals for Action" in 1962, a host of development proposals has been presented by many international organizations, regional organizations, and bi- and multi-lateral cooperation organizations, including the Tokyo International Conference on African Development (TICAD). Since its announcement, the New Partnership for Africa's Development (NEPAD) has received unprecedented attention from African politicians, businessmen, academics, civil organizations and mass media, as well as from G8 and other donors and international organizations. In general, it has received overwhelming support from official and business organizations, but mixed reactions from labor unions, civic organizations and academic circles.

The main ideas of the Millennium Partnership for African Recovery Programme (MAP), which is one of two basic documents of NEPAD, were presented by President Mbeki of South Africa at the Davos Conference (World Economic Forum) in January 2001, where they received favourable responses from the participants. MAP was not shown to any African organizations before the Davos Conference, however. While this may be a minor incident, it seems to me that it is indicative of the nature of NEPAD.

A number of reasons for favourable global responses could be pointed out. ***First***, economic stagnation and political instability in many African countries are sources of great concern for the world, to which NEPAD responded. After half a century of independence, many African countries are still not able to solve the very basic problems of survival of their people. Per capita income has declined, the proportion of population in dire poverty has increased, and the gap between the "haves" and the "have-nots" has widened. Extensive assistance efforts by donors to the region have not shown an impact. African pessimism is openly discussed. So, the international community realizes that it has to squarely cope with African issues.

Second, political leaders in Africa have launched the African Union and, concomitantly, have prepared NEPAD to contain their vision for sustainable development and strategies. A development plan prepared and owned by them has been a long-time wish for African politicians, bureaucrats and intellectuals. Donors certainly welcome the initiative, since it is a demand-driven plan and not a supply-driven plan prepared by donors.

Independence was expected to bring about political and economic reforms, which would be beneficial to the general African population. Instead, it turned out to be a "revolution without reforms." In addition, Africa has had a number of developmental proposals, including the Lagos Plan of Action, but they have not brought about the reforms that the African people have longed for. In some quarter of the population, though, there is earnest hope that this time things may change.

Third, the strategies and goals of NEPAD are nothing new; they have been extensively discussed in many international forums and are the accepted goals of international conferences, including MDG and TICAD. Essentially, the strategies and central concepts of NEPAD coincide with those promoted by donor countries, the World Bank and the IMF since the 1980s. This probably is the main reason why donors enthusiastically welcome NEPAD: that is to say, NEPAD does not propose to alter the existing economic system or the donor-recipient relationship.

Fourth, five presidents of major African countries have personally endorsed NEPAD. Especially, President Mubeki of South Africa is the original architect of MAP, and the success of NEPAD is essential for demonstrating political leadership among African countries. Given the political dynamics in Africa, NEPAD is at a diplomatic stake for South Africa.

NEPAD is welcome by donors as a development initiative by Africans themselves, but it is not the first initiative prepared by Africans. There have been others:

- the Lagos Plan of Action for the Economic Development of Africa, the Final Act of Lagos (1980),
- Africa's Priority Programme for Economic

Recovery 1986-1990 (APPER),
- the African Alternative Framework to Structural Adjustment Programme for Socio-Economic Recovery and Transformation (AAF-SAP) (1989),
- the African Charter for Popular Participation for Development (1990), and
- the United Nations New Agenda for the Development of Africa in the 1990s (UN-NADAF, 1991).

The Lagos Plan was a detailed elaboration of principles for promoting economic and social integration of African economies to enhance self-reliant and sustainable development; to create national, sub-regional and regional institutions in pursuit of self-reliance; to ensure self-reliance in food production; to guarantee the African people fair distribution of income though the reduction of unemployment and poverty; and to promise a democratic process of development. According to Mr. Adedeji, who was the head of UN Economic Commission for Africa until 1991:

> "All of these (plans) were opposed, undermined and jettisoned by the Bretton Woods institutions, and Africans were thus impeded from exercising the basic and fundamental right to make decisions about their future. This denial would have been ameliorated if African leaders have shown the commitment to carry out their own development agenda. But given their excessive external dependence, their narrow political base and their perennial failure to put their money where their mouth is, the implementation of these plans has suffered from benign neglect." [1]

It seems that the acceptance and strong endorsement of NEPAD by donors and international organizations is not necessarily due to the fact that it was prepared by Africans. Rather, the principles and strategies in NEPAD are congruent with their idea of the world economic order, and their principles and strategies of development.

The 207 paragraphs of NEPAD offer political and economic analyses of African situations, an overall strategy centred around poverty elimination and good governance, sectoral objectives and strategies, and a mechanism of monitoring (the Peer Review). It became an amalgam of different ideas, analyses, facts, strategies and - occasionally - contradictory statements. But it is clear that the basic economic strategies and political framework are neo-classical economics and liberal democracy. Individual freedom and human rights are protected. Under a democratic system, transparency in decision-making, accountability in implementation of policies and the rule of law are guaranteed. The right of engaging freely in economic activities is assured, and economic competition based on individual property and open markets will decide value and distribute resources most efficiently. The fittest in competition survives, and efficient production will enable the accumulation of wealth and capital.

The idea that Africa must be an active participant in globalization is strongly reflected throughout NEPAD. The Plan of Action adopted at TICAD II shares goals and strategies with NEPAD.

In sum, NEPAD is the expression of collective political will for development by African political leaders. A vision, goals and strategies are presented to eliminate poverty, to launch African economies on a sustainable growth path and to contribute positively to the process of globalization. This political will must be respected and supported by the international community.

Let me make a few comments about the major strategies of NEPAD, and explore the possibility of TICAD being complementary.

First, poverty reduction: The proportion of population in poverty exceeds 50 per cent in Sub-Saharan Africa, and is concentrated in rural areas, where 60 to 80 per cent of the population could be classified as "in poverty." In general, small holders and households headed by a woman in rural areas constitute the majority of the population in poverty. But poverty does not stand only for lack of available goods and services and low income; the other side of poverty involves isolation, prejudices, dependency, discrimination, alienation, and non-participation in community decision-making and other social relations. Poor people have little opportunity to participate in the market system, and I would say that they are an "uncaptured population" of the market system. In other words, they are outside of the market system, or their voice in the market system does not count for much.

In a social sense, poverty should be recognized as a serious human rights issue. NEPAD proposes to use the Poverty

Reduction Strategy Papers (PRSP) framework to grapple with the poverty issue. This is no place to discuss the validity of PRSP programmes tailored to each country, but it is obvious that the market system in Africa would be unable to cope with poverty, which is an economic and social issue. In the case of Asian experiences, rural economic development preceded industrialization and general economic growth, not vice versa.

Learning from Asian experiences is one of TICAD's main features. When the production and productivity of the agricultural sector are raised, and the growth becomes sustainable, that is a definite trigger for reduction of poverty. I believe that a comprehensive rural community-based development scheme is the key to poverty reduction in Sub-Saharan Africa. It has to be comprehensive, involving revival of extension services, rural small credit facilities, marketing information and facilities, rural roads and transportation facilities, crop diversification, new livestock, additional classrooms for primary schools, and simple clinics to provide basic health care.

It must be community based, because the traditional community retains a sense of cooperation, initiatives and leadership in Sub-Saharan Africa. When the opportunity is given, the traditional community could be the centre of self-reliance and sustainable development. Instead of a top-down approach, an approach that encourages community-based initiatives will lead to poverty reduction with economic growth.

A community-based rural development scheme does not require a huge amount of resources, simply mobilization of community leadership and community resources, including manpower. Instead of supply-driven assistance schemes, demand-driven approaches could be formulated through direct dialogue with donors and people in the community. (One caveat is that the relationship should not degenerate into a patron-client relationship that will not be associated with productive activities, as we have observed on so many occasions.) Unless the rural sector becomes an independent primary mover of the economy, instead of a secondary dependent sector, sustainable growth in Sub-Saharan Africa is a remote possibility.

The agricultural sector is, by its nature, not a sector for which a 7 or 8 per cent annual growth rate can be expected over an extended period. But meeting precise numerical targets is not an important aspect of poverty reduction. The central concern of poverty reduction efforts is that farmers are able to perceive that this year was better than the last year, and that next year could be better than this year. I believe that NEPAD and TICAD can be effectively complementary in poverty reduction, emphasizing rural community development.

Second, development resource flow and governance: NEPAD states that "Africans are appealing neither for the further entrenchment of dependency through aid, nor for marginal concessions" (paragraph 5), but "Africa needs to fill an annual resource gap of 12 per cent of its GDP, or US $64 billion... [and] the bulk of the needed resources will have to be obtained from outside the continent" (paragraph 147).

Where do these figures come from? ODA from all sources amounted to $16 billion in 2001. It is hard to expect that $64 billion could be annually financed. Does NEPAD take the position that the input produces the proportional output? I am quite sure that authors of NEPAD realize that the enormous amount of ODA reaching 10 per cent of GDP was supplied for Africa (whereas other developing regions received around 1 per cent), under various aid schemes including the structural adjustment policy programme. Yet, sustainable growth was not materialized. In fact, negative growth was registered for Africa.

It is evident that we cannot assume a linear positive relationship between the resources inputs and the outputs. Why is this so? There is a plethora of analysis and recommendations, and both donors and recipients have to share the blame.

It is too simple to place all the blame on "bad governance," including leadership quality and ineffective bureaucracy, but this is an issue that must be dealt with squarely. It seems that the root cause of the governance issue is the neo-patrimonial political and economic system, which is the combined product of pre-colonial traditions, colonial administrations and nationalist governments after independence. Unless the issue of governance is resolved, no amount of resource flow nor any series of economic policies will be effective.

NEPAD is quite right to state that good governance, peace and security are preconditions of development. Although TICAD, in its Plan of Action, indicates the importance of democracy and good governance, actual cooperation in this area has been severely limited. TICAD III is the time when good governance, in various forms of programmes, should be vigorously promoted.

No government has as much resources as it wishes to spend. The authors of NEPAD do not have the view that, if the $64 billion is not available annually, nothing will work. The crux of the matter is the priorities on the expenditure side and on the supply side; the mobilization of domestic resources and foreign investments in various forms are essential, in addition to ODA. NEPAD expects a significant flow of foreign investments in industrialization and infrastructure.

I am not going to go into the merits and demerits of foreign investments here. But it is indispensable to have the domestic capacity to utilize foreign investments; otherwise, introduction of foreign investments may lead to domination by foreign firms, and the benefit to host countries could be very limited. Again, Asian experiences, including those of Japan, and various policies related to foreign investments would be useful for implementation of NEPAD, and under the TICAD framework they can be made available.

Third, the African economy: Let me revisit a very classic issue of African economy, focusing on a dependence on exports of primary commodities. After 1974, the terms of trade of primary commodities deteriorated and, concomitantly, many African economies suffered. Since then, the trend has not been reversed. The majority of African countries have been exporters of one or two primary commodities, a pattern that has not changed from the colonial era. Why so? Why can they not add higher value to their commodities?

Some may dismiss this subject as an old, much-discussed and defunct thesis. I do not intend to repeat the endless discussion on the subject, but it is obvious that the manufacturers of these primary commodities in advanced countries are not willing to transfer their production bases to African countries. You may argue that manufacturing technologies, small markets and the lack of infrastructures have been impediments for African countries to engage in their own manufacturing. That is partially true, but the reality is that - intentionally or unintentionally - the policies of developed countries and commercial policies of multi-national corporations are in favour of not changing present pattern of production. It is the way they can have higher returns on their investments and, accordingly, accumulate further capital.

Under various schemes of economic reforms, policy measures such as trade liberalization, open markets and removal of subsidies in African countries have been adversely affecting African economies. Less expensive imports are replacing domestically manufactures goods. Since the market is small, one multinational corporation can easily dominate the market. Or, since the number of enterprises in a sector is small, competition among them is not realized as expected, and they go for restricting trade practices. African economies have not essentially changed since the colonial times. As long as African countries depend heavily on exports of primary commodities, the system does not allow any alternative growth path.

It is not the global economic system alone that is responsible for African situations; the political elites in African countries also gain benefits from maintaining the current system. This pattern of governance has deep roots in the neo-patrimonial system. Although NEPAD analyses and criticizes the global system, the various proposals do not go beyond the famous framework of the Washington Consensus.

I would hasten to add that there is nothing wrong with the Washington Consensus, neo-classical economics, market mechanisms and competition, trade liberalization, removal of various restrictions, etc. We have seen the other side of the coin, and a huge wastage of resources under government control, in many African countries. But these rules of the game must be applied among economies of equal strength, not among economies standing on a steep slope. What I am suggesting here is that the issue cannot be resolved by government policies of developed countries; resolution rests on the corporate policies and behaviours in which so-called liberal market economies have their roots, and on which the livelihoods of millions of people in developed countries depend.

The system will not change overnight. But when the community-based economies of African countries become self-supporting, sustainable economic units, then dependency on exports of primary commodities can be reduced (and, accordingly, dependency on advanced economies). Here, TICAD proposals on community-based rural development and Asian experiences of diversification of production and economies could complement NEPAD proposals.

Fourth, ownership and partnership: Since TICAD I in 1993, the expressions of ownership and partnership have been so well received by the international community that a wide variety of meanings are given to them. I believe that these two words underscore the proper ways and means of domestic and international development efforts. No international assistance can develop Africa; only Africans can achieve African development.

Africans must own the development efforts, i.e., the visions, plans, policies, implementations and commitments to stakeholders. This much is obvious. But what do we see in the field? Bi-lateral aid agencies, multi-lateral organizations, NGOs and "development merchants" who are literally "peddling" hundreds of projects. No developing country has enough resources to properly examine those proposed projects and monitor their implementations. For obvious reasons, the dependency syndrome has been formed in the minds of politicians, administrators and the people. Assistance becomes an easy way out of immediate difficulties.

No one questions that African countries need assistance - additional resources, technology and manpower, at this stage. But no matter how good the intention, supply-driven aid is no aid as long as the dependency syndrome dictates. Aid becomes "consumption," not investment. It may give you a strange impression, but I say that the mind-set of the political leadership and the people of Africa must be clear of the dependency syndrome. Only then can ownership of the development process truly belong to Africans.

The term "partnership" is often used to describe to the relationship between African countries and donors. But the vital partnership in African development is the relationship among domestic stakeholders: the political elite, judiciary, legislative and executive branches, civic organizations, religious organizations, the business community, farmers, mass media and NGOs. Nation-building is not an endeavour by the political elite and governments alone; it must be a national effort. The responsibilities of each stakeholder are different, but all sections of the nation must be involved as equal partners. And such a partnership is only possible under a democratic system. So, again, good governance is the issue here.

The partnership between African countries and the international community must be a relationship of demand-driven cooperation. African countries must decide on the plans, and implement them by their own resources, (which may not be sufficient). When serious commitments by owners are demonstrated, then it is the role of partners to extend a hand. Donors should not pull recipients forward, but rather push their backs as they advance.

In conclusion, NEPAD and TICAD are both frameworks of African development. The goals are clear: to reduce poverty, to diversify economic activities and to reduce dependency on exports of primary commodities. There are many areas in which NEPAD and TICAD could complement each other. The Plan of Action of TICAD II does not limit TICAD activities as a developmental framework for Africa. TICAD III must go beyond TICAD II.

We have not yet seen the implementation of NEPAD at national, sub-regional and regional levels, which will not be an easy task. In the framework of TICAD, there are many schemes being implemented, and I hope that TICAD III will add new schemes of cooperation that have already been suggested by African countries at the TICAD preparatory meetings.

Sharing and learning from Asian experiences could be the activity which would render rich returns. Community-based rural development is another area. And governance is an area that has not been much exploited in TICAD, yet it offers plenty of scope for cooperation. NEPAD and TICAD, together, could reexamine the way in which assistance is rendered for establishing true ownership and partnership.

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[1] "The Lagos Plan of Action to the New Partnership for Africa's Development and from the Final Act of Lagos to the Constitutive Act: Wither Africa?," in Peter Anyang' Nyong'o, A Ghirmazion and D. Lamba (eds.), *NEPAD, a New Path?*, Heinrich Boel Foundation, 2002, pp. 35-6.

Comments on "Africa is big enough for both NAPAD and TICAD"

Machiko Nissanke

School of Oriental and African Studies, University of London

NEPAD is widely seen as an exciting initiative taken by key African leaders in appealing for a genuine partnership with the developed world (in particular, the G8) for Africa's future. As Schmidt suggests, the key to this new partnership is Africa's assertion of responsibility for its own development, and its determination to set the development agenda.[1] According to the documents posted on its official web site, NEPAD is defined in the following terms:

- NEPAD is a vision and a programme of action for the redevelopment of the African continent.
- NEPAD is a plan that has been conceived and developed by African leaders.
- NEPAD is a commitment that African leaders are making to the African people and to the international community to place Africa on a path of sustainable growth.
- NEPAD is a commitment that African leaders are making to the African people and to the international community to accelerate integration of the African continent into the global economy.
- NEPAD is a framework for a new partnership with the rest of the world.

Furthermore, NEPAD is also claimed to be:

- a comprehensive, integrated development plan that addresses key social, economic and political priorities in a coherent and balanced manner, and
- a call to the rest of the world to partner with Africa in its own development on the basis of its own agenda and programme of action.

The goals of NEPAD in these documents are set as promoting accelerated growth and sustainable development, eradicating widespread and severe poverty, and halting the marginalization of Africa in the globalization process.

Indeed, NEPAD is clearly an initiative that spells out a vision and aspiration on the basis of commitments on the part of African political leaders to achieve good political governance (democracy, peace, political stability, a constitutional state, human rights and sound management of public affairs) and good economic governance (good public and private governance with an emphasis on private-sector development by providing secure investment environments and eliminating corruption). On the basis of these commitments, it calls for partnership and more resources, both official aid and private investment.

However, NEPAD is not yet a coherent development strategy or policy programme. While the goals are clearly spelled out, not addressed is the critical issue of how best to achieve these objectives in light of the reality Africa faces today, domestically, regionally and globally. Probably, it has deliberately avoided engaging in the long-running debate, among academics and policy makers, on the appropriate development strategy for the African continent.

Nevertheless, NEPAD cannot leave several critical issues aside. For example, African policy makers inevitably have to face the hard question of how real partnership and ownership of development strategy and economic policies could be achieved. Real ownership and partnership is not easy to attain on the basis of the existing donor-recipient aid relationship, in which the balance of power (and financial resources) has been on the side of international financial institutions and bilateral donors. Schmidt poses, in this regard, such key questions as:

- Will donors allow unorthodox, but reasonable economic policies?
- Will donors submit to independent monitoring of their performance, or set up a reverse consultative group where individual donor agencies will meet with African partners for review?
- How can the issue of aid conditionality (ex-ante and ex-post) be handled in the context of the new partnership?

Furthermore, to claim real ownership, African leaders have to mobilize and gain the support of the African people. Currently, NEPAD is more of a bargain forum between African leaders and G8 leaders. Hence, in order to achieve real partnership and ownership, it is necessary to replace the current donor-driven processes governing policy design, programme implementation and aid delivery with partner-driven processes in a democratic context, and in an accountable and transparent manner. It is also imperative to anchor development strategy and policy in a rigorous analysis of the context and constraints facing each partner country.

In this context, Dr. Horiuchi's paper can really be appreciated. He points sharply to one of NEPAD's features (and weaknesses), suggesting that NEPAD's economic strategies and political framework represent neo-classical economics and liberal democracy. From this perspective, he suggests a way forward to make TICAD complementary to NEPAD. His suggestions in the areas of complementarity between TICAD and NEPAD can be summarized as:

1. *Poverty reduction* - On the recognition that the poor are an uncaptured population of the market system, there are several important lessons to be learned from Asian experiences for comprehensive rural community-based development schemes and demand-driven approaches.

2. *Development resource flow and governance* - There is an annual gap of $64 billion envisaged, instead of the currently availlable $16 billion. Given the problems with the neo-patrimonial political and economic system found in Africa, more prominence should be placed on raising the domestic capacity to utilize foreign investments.

3. *Structural characteristics of African economies* - Africa's dependence on commodity exports has to be tackled. There is an urgent need for policies that will facilitate structural changes and transformation of African economies away from this commodity dependence. Here, again, Africa could draw some lessons from Asian experiences of diversification of production and economies.

4. *Ownership and partnership* - There must be a shift from the dependency syndrome to demand-driven cooperation. In the new aid relationship, partnership with domestic stakeholders should be much more emphasized.

These four areas in Dr. Horiuchi's list are all very critical for Africa's development. Indeed, I would like to join him in emphasizing the following critical issues that TICAD and NEPAD should address:

1. *Poverty reduction* - In designing a strategy for poverty reduction, it may be useful to examine the institutional and structural conditions (both domestic and international) under which poverty has been deepened and trapped in Africa. It can be argued that the prevailing institutional environments are not suitable for managing the risks associated with globalization as well as benefiting from positive dynamic forces of globalization in Africa.[2] This has a critical bearing on designing a set of policies for strategic participation of African countries in globalization.

2. *Structural transformation strategy* - Here, again, there is a critical incongruity between the models embedded in Structural Adjustment Programmes (SAPs) and the African economies on ground. There is an urgent need for working up fresh comprehensive economic strategies in light of the prevailing conditions found in Africa. PRSP in the HIPCs appears to be just an add-on to the SAP framework, rather than a coherent new framework based on a critical reappraisal of the Washington Consensus. As Dr. Horiuchi's paper argues, the need for addressing the fragility of the external and fiscal balances stemming from commodity price volatilities is paramount for Africa's future. A new strategy is required for dealing with Africa's commodity dependence through various risk management mechanisms, such as state-contingent debt contracts and aid allocations contingent upon on terms of trade (TOT) and other shocks.[3]

   In this regard, it is imperative to examine critically the framework of ex-ante and ex-post conditionality, and to assess the donor-driven selectivity principle discussed in the recent debate on aid allocation and aid effectiveness.

3. *Partnership and governance* - For all the urgent tasks ahead, strong, efficient and capable African

states and regional organizations are a critical condition, as they need to mobilize and sustain strong support and new energy from hitherto disfranchised communities and populace.

In conclusion, I would like to emphasise that Africa should not be an experimental battlefield of different economic models and paradigms. One of the most valuable lessons to be drawn from Asian development experiences is the explicit recognition, on part of all parties involved, of the need for adaptation of development strategies in light of local conditions.

[1] See Rodney Schmidt, 2002, "Ownership and Partnership in Africa's Development Strategy," Ottawa: The North-South Institute.

[2] For a more detailed discussion on this subject, see Machiko Nissanke, 2003, "Rural Poverty and Institutions in a Globalising Economy," an overview report based on six country case studies in Sub-Saharan Africa submitted to the Foundation for Advanced Studies on International Development (FASID), Tokyo, August.

[3] For a more detailed analysis of this issue, see Machiko Nissanke and Benno Ferrarini, 2001, "Debt Dynamics and Contingency Financing: Theoretical Reappraisal of the HIPC Initiative," *WIDER Discussion Paper No. 2001/139,* forthcoming in T. Addison, H. Henson and F. Tarp (eds.), *Debt Relief for Poor Countries,* Palgrave, 2003

Comments on "Africa is big enough for both NAPAD and TICAD"

How is NEPAD different from regional institutions in Asia?

Masanori Kondo

International Christian University

Introduction

NEPAD is one of the most interesting initiatives ever proposed by African nations. Dr. Horiuchi's paper conducts an outstanding analysis of NEPAD, and all the points he has raised in his paper will have to be discussed intensively at the TICAD III Conference. In this short note, I wish to supplement his work by comparing the African initiative with regional institutional arrangements in Asia. By making such comparisons, I do not intend to argue that Africa should learn from whatever Asia did, but instead hope to try to identify key issues for success and failure in different regional institutions.

The regional institutions I will examine are NEPAD, ASEAN, SAARC (South Asian Association for Regional Cooperation), and what I tentatively call "JCK" (Japan, China and Korea). I include "JCK" here because, whilst there is no official regional institution between Japan, China and Korea, business interaction is perhaps more advanced than in other regional blocs. For this reason, such informal arrangements are compared alongside more formal, Asian and African institutional arrangements.

Differences between Asia and Africa

Before comparing these regional arrangements, I shall first identify the major differences between African nations and other developing nations. According to a study by Collier and Gunning,[1] crucial factors that hinder African development are lack of social capital, closed economies, inadequate social services, geographical disadvantages, inadequate financial deepening and high aid dependency.

At the UNU workshop on 24-25 July 2003, however, it was pointed out that contrary to the opinions of Collier and Gunning, the real obstacle to achieving African development is not the lack of social capital, but the lack of efforts to utilize existing African social capital in the process of national development and ODA. This is an important point, and has to be addressed at the forthcoming TICAD III.

Varying initial impetus for regional institution building

Hereafter, I shall compare NEPAD with the Asian institutional arrangements and informal arrangements previously mentioned. First, in terms of the initial impetus for creating them, NEPAD and SAARC are similar. Both were set up in response to an increasing sense of crisis in terms of economic stagnation and political instability in their respective regions. In contrast, ASEAN was initially formed to hold back the spread of communism from Vietnam into Southeast Asia. Also, the economic relationships within "JCK" stem from Japanese war reparations to China and Korea.

Different driving forces

What were the driving forces behind the creation of these institutions and informal relationships? As NEPAD has just been created, it is too early to identify them at this stage. However, it is probable that the future success of the initiative will depend upon the future commitment and cooperation of African political leaders.

In the case of ASEAN, it is quite well known that Japanese investment took a major role for the economic development of the ASEAN region and its economic integration. It is also the same in the case of "JCK." In both of these arrangements, foreign investment by overseas Chinese also played a similar and crucial role.

In comparison, there is no strong driving force for further integration within the SAARC organization. This is partly due to the fact that for India, doing business with other South Asian countries is less profitable than doing business with the developed world and Southeast Asia. Another reason is that foreign direct investment into the region is fairly limited.

Different strategies

The main strategic focus of NEPAD is in line with development strategies proposed by the international donor community, in that poverty reduction and "good governance" are key priorities. In comparison, neither ASEAN nor SAARC (nor "JCK") focused upon such issues. The strategic focus of ASEAN shifted from the initial international politics against communism to trade liberalization. The "JCK" countries (as there is no official institution, there is no official strategy) have continuously placed emphasis upon on business matters. The strategic focus of SAARC is not clear - which is one of the weaknesses of the association.

Challenges to regional institution building

What major challenges do these institutions and informal arrangements face? The major potential danger for NEPAD is a conflict of differing interests among political leaders in African nations. In fact, in the case of NEPAD, the number of the countries involved is much larger than that in Asian regional arrangements.

ASEAN faces obstacles to further regional integration in the shape of similar trade and industry structures (with the exception of Singapore) among member nations. This has made intra-regional trade less attractive for ASEAN countries. However, here again, Japanese investment in the manufacturing sector has contributed to overcoming these problems, creating new opportunities of intra-regional trade.

In the case of SAARC, the diplomatic relationship between India and Pakistan has been a major challenge. It is unfortunate that people in Pakistan drink tea imported from Kenya. Likewise, the "JCK" area has faced similar diplomatic challenges; Japanese import restrictions on agricultural commodities have been one of the major obstacles for "JCK" integration. Also, war memories (of the Japanese invasion in China and Korea) continue to cause diplomatic rifts from time to time.

Different approaches to poverty reduction

Poverty is a serious problem in Africa, so it is natural that NEPAD has identified poverty reduction as one of its top priorities. Quite interestingly, however, poverty reduction has not been such a major agenda item in ASEAN countries. For example Thailand did not have a national poverty reduction strategy until it was hit by the Asian financial crisis in 1997. Similarly, the concern of the Malaysian government was income redistribution from Chinese to Malays, rather than nationwide poverty reduction per se. Moreover, ASEAN has not identified poverty reduction as a common agenda. Similarly, none of the countries of "JCK" have defined poverty reduction as a national policy objective, even when they were very poor.

ASEAN countries have achieved rapid poverty reduction through growth-oriented strategies rather than specific poverty reduction strategies. In contrast, India, the most important country of SAARC, which has pursued poverty alleviation for a very long period (especially during the Indira Gandhi administration), did not achieve much policy success, and hence has changed towards a more growth-oriented strategy since the early 1990s.

Different approaches to "good governance"

Along with poverty reduction, improving governance is a high priority for the NEPAD agenda. NEPAD's attempt to achieve governance through a "peer monitoring" strategy has been successful so far, and it is thought that improved governance is key for the future development of Africa. SAARC is also interested in governance, and some useful research comparing the governance of SAARC countries was recently conducted at the Haq Development Centre in Pakistan.[2]

It is interesting, however, that neither ASEAN nor "JCK" have included "good governance" in their common agendas. One small exception is that shortly after the Asian financial crisis in 1997, ASEAN proposed peer monitoring of the financial statements of governments. Given their authoritarian government systems, China or Malaysia may not particularly welcome the concept of freedom of speech or civil participation, and this could therefore be one of the reasons that ASEAN and "JCK" regional agreements are unwilling to address governance issues.

Different approaches to agricultural policy

Agricultural development, which is extremely important in Africa, has not been considered to be a major issue of concern for either ASEAN or "JCK." I will briefly touch upon some differences between agricultural sectors in Africa and Asia.

Several studies by economists have suggested that many African countries are abundant in land, but tend to lack communities compared with Asia. It is also pointed out that African farmers' decisions to not invest in agriculture is rational, because of the high risk associated with output fluctuations. In contrast, sharecropping arrangements are common within ASEAN, and the Green Revolution has taken place successfully. The International Rice Research Institute (IRRI) in the Philippines has played a pivotal role in this agricultural revolution.

Many studies on South Asia, however, suggest that communities in SAARC countries tend to be weaker, and that the success of the Green Revolution is limited to a small area such as Punjab. In "JCK," agriculture is (with the exception of China) not competitive; and, as mentioned previously, import restrictions on agriculture commodities by Japan has created major problems.

The challenge of making links with other regions

In today's age of globalization, it is inevitable for any regional association to seek positive economic linkages with other regions and countries. So far, however, the linkage between Africa and the rest of the world is limited (with the exception of some bilateral arrangements with the EU). If NEPAD is to be successful, this challenge must be addressed.

ASEAN, in contrast, has attracted and is seeking trade expansion with not only Japan, but also the USA, China and India as well as many other countries and regions. India, a main country within SAARC, is also trying to create links with the rest of the world. It is hoped that not only intra-regional free trade promotion within Africa, but also inter-regional free trade agreements between Africa and other parts of the world, will be further enhanced. Certainly, the NEPAD initiative is a positive step, and the AJAC, which is proposed by Dr. Obame, will be needed to enhance economic linkages among Africa, Japan and the rest of Asia in the future.

Lessons and key factors

The key prerequisite for the success of any regional organization is to carefully examine and develop its strategic value as an organization and what policy strategies should be pursued. Strategic value is something, which African nations can emphasize for strategic purposes, that attracts other countries and encourages them to think of NEPAD as an important organization with which to interact.

In the case of ASEAN, it was an investor-friendly environment. In the case of Africa, for example, it can be natural resources, which are lacking in Japan and some other developed nations. ASEAN developed its strategic value by inviting both Japanese and Chinese investment. Without formal arrangement, "JCK" has undertaken similar efforts. Roles of foreign direct investment are critical, and these nations have tried their best to invite foreign capital by working together. Also, successful arrangements have come from the initiatives of individual member countries.

It is noteworthy that little emphasis is placed on poverty or governance in any of the arrangements in East Asia. The influence of leading countries in the region seems to be more important here. Japan, for example, played a major role in shaping East Asian development. The creation of ASEAN originated in member countries sharing a similar political interest against Vietnam. While this was central to creating the initial success ASEAN experienced, the similar economic structures of ASEAN countries (except for Singapore) have retarded progress towards inter-regional economic cooperation.

In contrast, the political conflict between India and Pakistan has made SAARC rather dormant (although recently things have been slowly improving). The similar economic structures of SAARC countries have made India less interested in trading with them. From this observation, we can conclude that political interests in the region do not conflict, but economic structures must become more different in order to maximize the benefits of trade.

Finally, having made all these comparisons, we have to note that the lessons learned in Asia cannot be directly applied to NEPAD. However, we can learn that the global environment is different from ten years ago; hence, at the forthcoming TICAD III conference in Tokyo, we have to discuss about NEPAD's strategic value and possible future policy strategies.

[1] Paul Collier and Jan Willem Gunning, 1999, "Why Has Africa Grown Slowly," *Journal of Economic Perspectives,* Vol. 13, No. 3.

2 Mahbub ul Haq Human Development Centre, 1999, *Human Development Report in South Asia 1999: Crisis of Governance.*

Discussion of "Africa is big enough for both NEPAD and TICAD"

Since TICAD II, African leaders have expressed their political commitment to alleviate poverty in Africa and to integrate its economy within the global economy through the adoption of NEPAD as their framework for development. As opposed to previous development programmes prepared and owned by Africans, NEPAD has received an unprecedented, overwhelming endorsement from the G8. This is due to the fact that NEPAD essentially supports donors' positions.

So far, NEPAD's ambitious objectives of self-sufficiency in food, good governance, indigenous growth and partnership have not been achieved. In this respect, the TICAD III Summit will be a unique opportunity to extend partnership and solidarity with Africa and contribute significantly to the identification of a comprehensive strategy for the implementation of NEPAD. Some of the general areas in which TICAD and NEPAD should be concerned include:

Poverty alleviation

Poverty, which is concentrated in rural areas, is not only a lack of assets. It is cultural and institutional as well as material. It results from (1) a lack of resources and capacity to satisfy basic needs of daily subsistence (goods, services and income) and (2) isolation, dependency, alienation and discrimination in the form of non-participation in community decision-making. The poor represent populations uncaptured by the market system.

Poverty Reduction Strategic Programmes (PRSP) will be unable to cope with poverty unless the issue of self-sufficiency in food is resolved. The role of African governments as well as communities is to create the necessary conditions and help in planning and budgeting food security. Therefore, there is a need to enhance productivity through the establishment of rural community-based development as a platform to provide training and skill-building in agro-diversity as well as in improving self-irrigation and drainage. Governments should also actively encourage small farmers and support micro-projects, especially in the field of industrial food processing. It is also worth mentioning that land-ownership structure still serves as an obstacle to benefiting from the use of modern technology and increasing productivity. Further reforms are needed in this area.

Sharing in and learning from rural success stories, such as Asia's experiences in comprehensive rural community-based development schemes, is of enormous importance.

Daunting financing challenge

NEPAD's estimate of an annual resource gap of $64 billion to be financed from outside the continent is not a realistic expectation. This figure represents 12 per cent of Africa's combined GDP, as compared with the Marshall Plan for Europe, which was only 2.5 per cent of both France and Germany's GDP. It is hard to expect that such a resource gap could be financed annually.

Furthermore, there is reluctance towards budgetary support as opposed to project support. Budgetary support is often assorted with conditionality and too much monitoring. It also tends to result in "aid addiction."

Effective state

Unless the issue of governance is resolved, neither sufficient resource flows nor effective economic policies will be possible. The challenge for Africa, at its actual level of development, is not less state but rather an effective state - i.e., a democratic and legitimate state able to deliver basic services (health, education and security) and to play the role of leadership (or act as a locomotive) to sustain development.

Due to the complex diversity of Africa and the sensitivity of this issue, however, it is desirable to focus on how to create regional effectiveness. TICAD III is an opportunity to promote good governance in various forms of governance arrangement programmes.

Structural reforms of African economies

Economic growth cannot be realized in an environment still heavily dependent on primary commodity, low value-added exports. The past three decades have been marked by four concerns:

- A drastic decline in the purchasing power of African countries due to deterioration of the terms of trade of primary commodities and raw material prices;
- Constraints (but not inefficiencies) created by market size and the lack of infrastructures, which have been impediments for African countries to engage in their own manufacturing;
- European and multinational policies that did not allow Africa to develop manufacturing (Domestically manufactured goods are often replaced by less expensive goods produced by multinational enterprises.); and
- A huge wastage of resources under government control in many African countries.

Therefore, there is a vital need for structural changes and transformation Asian experiences of diversification of production, value-added upgrading and community-based economies can hold valuable lessons for African countries in their efforts to become self-supporting and, accordingly, achieve sustainable economic growth. Moreover, domestic capacity building is essential to attract and utilize foreign investments and to protect indigenous enterprises from multinationals' domination. Otherwise, the technology and management learning benefit to host countries will be very limited.

Social/cultural capital: is it lack or neglect?

Most rural-born Africans forget quickly about their rural roots as soon as they move to cities. Social infrastructures are completely neglected and destroyed in the process. Given the fast-growing rate of urbanization, it is therefore important to use "community based initiatives" to maintain all social infrastructures.

In this respect, NEPAD should take into account the social and cultural capital and characteristics of African countries. In other words, one has to ensure the adaptability of NEPAD concepts to local culture and conditions. Countries are supposed to develop their own strategies within NEPAD. NEPAD should be fleshed out - i.e., adapted to regional, national and sectorial conditions in order to respond to African common challenges, common threats and common goals.

The identification and mobilization of their cultural and social capital are crucial to the success of African countries' development strategies.

Ownership, partnership and solidarity

No one questions that African countries need assistance. However, only Africans can achieve African development. Africans must own the development efforts, i.e., visions, plans, policies, implementations and commitment to stakeholders. Therefore, Africa must find a balance between supply-driven and demand-driven cooperation.

Partnership has to be implemented in two dimensions: intra-partnership and inter-partnership. The former, which reflects the interaction among domestic stakeholders (the political elite, judiciary, legislative and executive branchs, civic organizations, religious organizations, business community, farmers, mass media and NGOs), is almost completely neglected in Africa. In this respect, NEPAD could easily contribute to and play a leading role in enhancing such partnerships among Africans. The latter, in contrast, must be a relationship of demand-driven cooperation; Africans have to have demand-driven plans. No developing country is endowed with enough resources to execute its development plans alone. Therefore, we urge Africans to demonstrate serious commitment to their agendas in order to win the backup and assistance of international partners.

Ownership and partnership have already been welcomed during TICAD I and TICAD II as fundamental principles that should guide ODA. What is urged now is "solidarity," a concept which should govern humanitarian aid and international cooperation. This new form for cooperation is of tremendous importance to reach policy harmonization between demand-driven and supply-driven projects in a domestic context, and in an accountable and transparent manner. Furthermore, Africans should come together to evaluate donors' policies, and to understand the nature of the conditionality (i.e., the balance between donors' interests and recipients' needs).

Strategizing Africa to Japan and other donors

Africa's strategic value to its development partners, including Japan, can be significantly enhanced. Indeed, from a geo-economic viewpoint, Africa could become an additional market for Japan and other donors in terms of both demand and supply. Africa's endowment with a cheap labour force, mineral resources, raw materials, water, and land could encourage the relocation of some manufacturing production to Africa and could systematically help Japanese companies to become more competitive and more effective in markets around the continent.

Moreover, there is an increasing demand for basic infrastructure in Africa. With appropriate financing and risk engineering, the demand for infrastructure in Africa can become important business opportunities for Japanese and other donor countries' companies. The reinforcement of existing institutions, such as the African Development Bank, and the creation of new institutions similar to MIGA to manage risk can greatly contribute to the materialization of opportunities. Eventually, this will help in distributing the benefits of globalization among concerned parties.

Therefore, in order to make Africa more attractive and strategic, we need to identify new forms of cooperation, taking into account Africa's specific interests and advantages as well as donors' specific interests. However, our efforts will remain hollow unless we build a constituency for Africa in Japan. The creation of the Japan-Africa Parliamentary League, the annual organization of the Africa Day Symposium as well as other cultural events and exhibitions can be regarded as "advertising" to create such a constituency. The TICAD III framework could endorse the idea of African constituency. Also, the example of building a constituency for Indonesia through technical cooperation is a good case to learn from.

Market information channel

There is a real need to learn, share information and enhance technical cooperation with Asia. One of the most effective mechanisms to promote Africa in Asia, and particularly Japan, is the AJAC centre initiative. Such a centre could promote investment, trade and tourism as well as covering various cultural exchanges between the two continents. Furthermore, information-sharing processes through the Africa-Asia Business Forum and ASEAN's successful experience in promoting exports to the triad (Japan, USA and EU) can be of value.

Annex 1: Recent UNU Press Africa-related publications

States, Markets, and Just Growth
Development in the Twenty-first Century
Atul Kohli, Chung-in Moon, and Georg Sorensen, editors

Enhancing Global Governance
Towards a New Diplomacy?
Andrew F. Cooper, John English, and Ramesh Thakur, editors

Researching Violently Divided Societies
Ethical and Methodological Issues
Marie Smyth and Gillian Robinson, editors

Reforming Africa's Institutions
Ownership, Incentives, and Capabilities
Steve Kayizza-Mugerwa, editor

Conflict Prevention
Path to Peace or Grand Illusion?
David Carment and Albrecht Schnabel, editors

International Waters in South Africa
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For more information, please contact the UNU Press.
United Nations University Press
53-70, Jingumae 5-chome
Shibuya-ku, Tokyo 150-8925
Japan
Tel: +81(3)3499-2811
Fax: +81(3)3406-7345
E-mail: sales@hq.unu.edu
http://www.unu.edu

Annex 2: Profiles of participants

Hans van Ginkel, Rector, United Nations University
Rector of the United Nations University (UNU) since September 1997, Prof. Hans van Ginkel was elected President of the International Association of Universities (IAU, Paris) in August 2000. He is Vice-chair of the Board of Trustees of the Asian Institute of Technology (AIT, Bangkok), and former Rector of Utrecht University in the Netherlands.

Shunji Yanai, Adviser to the Rector, UNU
Professor Shunji Yanai of Chuo University, former Japanese Ambassador to the United States and former Vice-Minister of Foreign Affairs of Japan, was appointed Senior Adviser to the Rector of the UNU in April 2003.

Kazuo Takahashi, Visiting Professor, UNU
A visiting Professor for UNU since February 2002, and Chairperson of the Society of Researchers of International Development, Japan, Kazuo Takahashi is a Professor at International Christian University (Japan).

Salah Hannachi, Ambassador of the Republic of Tunisia
Currently Ambassador of the Republic of Tunisia to Japan and Australia, Dr. Hannachi was Director General of the Tunisian Institute of Strategic Studies from 1994 to 1997.

Jean-Christian Obame, Ambassador of the Gabonese Republic
Mr. Obame has served as Ambassador of Gabon to Japan since 2001. He was Deputy Director in Charge of Financial Institutions, Gabon, from 1980 to 1983, and Technical Advisor to the International Monetary Fund from 1983 to 1999.

Shinsuke Horiuchi, Japan Institute of International Affairs
Shinsuke Horiuchi is currently Adjunct Research Fellow of the Japan Institute of International Affairs (JIIA) and President of International Development Associates, Ltd. He served as Special Assistant to the Minister of Foreign Affairs, Japan, in charge of the follow-up of TICAD II.

George Mavrotas, UNU/WIDER
Dr. George Mavrotas is a resident Research Fellow at UNU/WIDER in Helsinki, Finland. He taught for over 10 years at the Universities of Oxford and Manchester before joining UNU/WIDER in January 2003. He has extensive experience in working with governments in developing countries.

Steve Kayizzi-Mugerwa, Independent Evaluation Office of the International Monetary Fund
Steve Kayizi-Mugerwa is currently attached to the Independent Evaluation Office of the IMF in Washington, DC. He directed the study on Reforming Africa’s Institutions at UNU/WIDER during 2000-2001.

Mina Baliamoune, Faculty of the Economics Department, University of North Florida
Mina Baliamoune is Assistant Professor of Economics in the Coggin College of Business at the University of North Florida. She was a Fulbright Fellow (1997) and a sabbatical fellow at UNU/WIDER (2002).

Ernest Aryeetey, University of Ghana
Professor Ernest Aryeetey is Director of the Institute of Statistical, Social and Economic Research (ISSER) of the University of Ghana, Legon. He is a member of the Board of UNU/WIDER and a Member of the Advisory Committee and Resource Person of the African Economic Research Consortium, Nairobi.

Wafula Masai, Director, African Centre for Economic Growth (ACEG)
Wafula Masai is Consulting Manager at the African Centre for Economic Growth as well as Associate Professor at the Department of Economics of the University of Nairobi. He serves on national committees for manpower development, trade and private sector development.

Machiko Nissanke, Reader in Economics, SOAS, University of London
Dr. Machiko Nissanke is Reader in Economics at the School of Oriental and African Studies (SOAS), University of London. She has served as consultant/advisor to many international organizations (UNCTAD, UNIDO, UNDP, UNU, World Bank, African Development Bank, OAU, EEC, AERC) and Japanese government agencies (MITI and MOFA).

Masanori Kondo, Associate Professor, International Christian University
Masanori Kondo is Associate Professor of development economics at the International Christian University (ICU) in Japan. Before joining ICU in 1998, he worked as an economist for the Asian Development Bank (ADB) and World Bank.

Wassim Slama, Embassy of the Republic of Tunisia, Advisor to the Ambassador
Wassim Slama, Ph.D., is Advisor to the Ambassador of Tunisia in Japan and Lecturer on global business and corporate finance at Chiba University of Commerce, Japan.

Nairimas Ole Sein, Embassy of the Republic of Kenya, First Secretary, Political Division
Nairimas Ole Sein was posted to the Kenyan Embassy, Japan, in 2002 as Political Attache. Prior to that, he worked for the Ministry of Foreign Affairs.

Stephen Raphael Garama, Embassy of the Republic of Kenya, First Secretary, Consular Affairs
Stephen Garama joined the Kenyan Government services in 1978 as an Immigration Officer. He is currently First Secretary, Consular Affairs, at the Kenyan Embassy in Tokyo.

Soisik Habert, UNU Office of the Rector, Programme Assistant
Soisik Habert was appointed Programme Assistant in the Office of the Rector in September 2002. Before joining UNU, she worked for four years in China for Save the Children, UK.

Annex 3: Executive summary of the policy brief from UNU and AERC regarding TICAD II—"Strengthening Africa's participation in the global economy"

This policy brief is intended to assist African governments in efforts to strengthen their participation in the global economy in ways that bring widespread and sustainable benefits to their peoples. It stems from two issues. First, the forces of globalization are perhaps the most important factors that affect the current environment for economic development. Second, there are lessons from South-East Asian experiences that policy makers in Sub-Saharan Africa could adapt to their own contexts. These lessons stem both from South-East Asia's era of rapid growth as well as from the current economic crisis. In this report, we highlight three underlying issues and eight key lessons.

Underlying issues

1. Participating in the global economy provides immense opportunities.

This has been shown by the success of countries with an outward-oriented strategy. By contrast, inward-looking development strategies lead to marginalization and condemn countries to slow growth. Pursuing an outward-oriented strategy is even more crucial for most African countries, because their domestic markets are particularly small.

2. Participation also entails significant risks.

Participating in the global economy also poses significant challenges for the economic management of fragile economies, and can lead to major problems. In particular, as shown by the recent South-East Asian experiences, the risks of liberalization are particularly high for capital accounts due to the massive size and fluctuating nature of financial flows. Although few countries in Africa are facing the scale of inflows relative to the size of their economies that precipitated the Asian crisis, key lessons concern the importance of developing sound financial systems and appropriate sequencing, avoiding overly rigid exchange rate regimes, and exercising caution in financial opening.

3. Successful participation requires a strategic approach that is actively pursued.

It is vital that African countries actively engage the forces of globalization. The specific nature and scale of the benefits and costs, however, depend on the forms of integration, so a strategic approach is needed.

First, integration must be multidimensional involving, among others, the aspects of trade, investment, capital flows and technology. The optimal level of openness may differ for each aspect, which itself depends critically on the stage of development in each particular market. This leads to questions regarding the best policy mix (towards trade, foreign direct investment and capital flows) to achieve optimal integration.

Second, there seem to be certain prerequisites for countries to successfully manage the risks and to ensure orderly liberalization. This has significant implications regarding the most appropriate pace, sequencing and time frame for reforms.

Third, international economic interactions are currently characterized by fractured globalization. In particular, trade is concentrated in regional blocs. Therefore, African countries should place a high priority on trying to generate economic dynamism with neighbouring countries. Another implication is that countries' strategies towards trade and towards attracting investment should be targeted towards those non-African regional blocs with which the country has the strongest potential complementarities.

Key lessons for a successful outward-oriented development strategy

1. Ensure a stable macroeconomic environment.

Macroeconomic stability is an old lesson, but one that remains fundamentally important. Africa's growth "tragedy" is partly attributable to governments' failure to achieve stability on key macroeconomic issues, such as maintaining low inflation; keeping budget deficits manageable; maintaining an appropriate and stable real exchange rate; and maintaining stable and appropriate real interest rates. Although many African countries have made significant improvements in these areas, there is a need to consolidate and further improve macroeconomic fundamentals.

2. Liberalize trade, but with care.

In order to participate more in international trade, African countries will need to further liberalize their trade regimes. But liberalization has fiscal and balance of payments implications stemming from the difficulty of finding alternative secure sources of revenue. Also, premature de-industrialization could set in if trade liberalization is carried out without regard to the competitiveness of otherwise successful domestic enterprises. Therefore, in designing credible and sustainable trade reforms, more care will need to be taken regarding the sequencing, pace and phasing of trade liberalization. Countries should start with export liberalization and promotion, while import liberalization should be implemented steadily over a longer period.

3. Realize the opportunities of regional dynamism.

Africa's market is equivalent in economic terms to that of Belgium, yet it is fragmented into over forty different countries. Bearing in mind that much international economic interaction is regional rather than global in nature, there would seem to be great potential for African countries to promote regional interaction and markets as a stepping stone towards participating more actively in global markets. The first step is to work towards trade and payments liberalization between neighbouring countries, in order to generate regional dynamics. Building regional infrastructure networks (roads and telecommunications) would also help.

4. Focus on the primary sector.

The performance of the primary sector will be crucial, because it is this sector that provides Africa's main source of foreign exchange earnings. A crucial, immediate task for most countries in Africa is to rebuild the primary commodity export sector, while also proceeding with strategies to promote export diversification. A vital consideration is that the primary sector should not be penalized.

Governments could also actively intervene in expanding and diversifying primary exports. Creating or supporting institutions for research and development as well as education and training in this sector should be given priority. Infrastructual investments to overcome power failures, water shortages and poor rural road networks are also essential.

5. Some protection and selective promotion policies may be helpful ...

Governments could also intervene to promote upgrading of exports and encourage inward investment. Selective promotion measures for consideration include export-processing zones (EPZs), bonded warehouses, and duty exemption and drawback schemes. Also, protection can be justified in order to promote infant industries. Thus, temporary and strictly time-bound protection and promotion for certain industries can be justified if industries are selected in view of a country's evolving comparative advantage.

6. ... But, such policies can be dangerous if the institutional preconditions are weak.

However, in addition to the importance of sound policy foundations, selective measures can only be effective if the necessary institutional foundations exist. In fact, attempting selective measures without the appropriate foundations can actually be harmful. Therefore, African countries should concentrate on building sound policy and institutional foundations, including government commitment to economic development, communication between the public and private sectors, an effective bureaucracy and low risk of corruption.

7. Reinforce the institutional preconditions for outward orientation and growth.

There is increasing acceptance of the value of institutional reform in improving Africa's economic performance in general, and its external performance in particular. By institutions, we refer to the formal and informal "rules of the game" that govern the behaviour of state and market agents as well as their interactions. Institutions are vital, among others, at four levels:

- At a political level, it is important to have institutions that lead to commitment and credibility. There are two key lessons here: First, shield top economic agencies from political pressures and follow their advice. Second, develop sub-regional free-trade agreements as a means of demonstrating commitment as well as of realizing other benefits.
- At a public level, it is desirable to have institutions that lead to an efficient and non-corrupt public service. Important measures include merit-based recruitment and promotion; appropriate wages; limits on political

appointments, and insulation from political pressures; streamlined structures and bureaucratic practices; and efforts to combat corruption (most managers identified corruption as the number-one obstacle to doing business).

- Regarding the interaction between the public and private levels, it is important to have a bureaucracy that is responsive to the business community but still independent. Information-sharing through business councils is one useful mechanism to improve this responsiveness.
- At the level of private agents, the importance of secure property and contract rights cannot be overstated. There is a real need to improve the independence and effectiveness of the judiciary and to establish the rule of law.

Overall, there is substantial evidence that institutional failure in Africa is a critical obstacle to better growth and external performance. In particular, surveys identifying local entrepreneurs' views on the obstacles to business in Africa highlight the unpredictability of changes in laws and policies, the unreliability of law enforcement, the impact of discretionary and corrupt bureaucracies, and the danger of policy reversals due to changes in governments. Unless governments eliminate these kinds of obstacles, it is unlikely that business - domestic or international - will flourish in Africa.

8. Developed countries can help in several ways.

Developed countries can help Africa along the path by:

- *Radically transforming aid* - Aid will have to be substantially transformed if it is to serve as a useful instrument for mediating Africa's future relationship with the world. The key challenge is how to facilitate the effective transfer of ownership to countries in Africa. Donors could help through substantial reduction in donor procurement restrictions and inappropriate intrusion into domestic affairs, as well as by taking longer-term perspectives. They should also be more selective in concentrating their aid towards countries that demonstrate ownership and commitment - countries that have, or are actively moving towards, the economic policy and institutional foundations for development.
- *Reducing the debt burden* - There is an overwhelming case that significant further reductions in the external debt of debt-distressed countries would improve growth prospects in Africa, particularly if the resources provided are additional.
- *Guaranteeing open markets* - One of the most effective mechanisms to help African countries integrate into the global economy would be for OECD countries to guarantee open markets for African exports, and commit themselves to help strengthen Africa's participation in the world economy.

The policy brief is the product of research collaboration between the United Nations University (UNU) and African Economic Research Consortium (AERC). In particular, the issues were discussed at two conferences: Comparative African and East Asian Development Experiences, and Asia and Africa in the Global Economy. The work has been organized around the priorities of the Second Tokyo International Conference on African Development (TICAD II). The brief focuses on one of the main messages of the Agenda for Action, the output of TICAD II, namely "effective integration of African economies into the global economy." In addition, the conferences primarily involved researchers from East Asia and Africa, thereby reflecting the theme of Asia-Africa collaboration that is at the heart of the TICAD process.

ACBF	African Capacity Building Foundation
AERC	African Economic Research Consortium
AJAC	Africa-Japan-Asia Center for Economic, Trade and Cultural Exchanges
AMIGA	African Multilateral Investment Guarantee Agency
AMU	Arab Maghreb Union
ANZUS	(Security Treaty between) Australia, New Zealand and the United States of America
APRM	African Peer Review Mechanism (NEPAD)
AU	African Union
COMESA	Common Market for Eastern and Southern Africa
DAC	(OECD) Development Assistance Committee
ECAS	Economic Community of Central African States
ECOWAS	Economic Community of West African States
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
HIPC	Highly Indebted Poor Countries
ICT	Information and Communication Technologies
IMF	International Monetary Fund
IRRI	International Rice Research Institute
JBIC	Japan Bank for International Cooperation
JETRO	Japan External Trade Organization
JICA	Japan International Cooperation Agency
MDG	Millennium Development Goals
MIGA	Multilateral Investment Guarantee Agency
NATO	North Atlantic Treaty Organization
NEPAD	New Partnership for Africa’s Development
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
PRSP	Poverty Reduction Strategy Papers
SAARC	South Asian Association for Regional Cooperation
SADC	Southern African Development Community
SAP	Structural Adjustment Programmes
SEATO	Southeast Asia Treaty Organization
TICAD	Tokyo International Conference on African Development
TOT	Terms of Trade
UNCTAD	United Nations Conference on Trade and Development
WTO	World Trade Organization