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Parliamentary Network on the World Bank

Keynote Address

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Introduction

Africa, with a GDP of just over $2 trillion[1] in 2006, is regarded as the poorest region in the world. On a per capita basis, Africa's GDP based on purchasing-power-parity ranges from a low of US$ 645 in Malawi to a high of US$ 17 426 in Equatorial Guinea.[2] This view is quite different to that held of the continent at the beginning of the 19th century. It was during this time that Africa's income

[1] Gross domestic product based on purchasing-power-parity (PPP) valuation. This compared to the World GDP ($65 trillion), US ($13 trillion), China ($10 trillion) and India ($4 trillion). Source: IMF WEO and CIA Fact book.
[2] Gross domestic product based on purchasing-power-parity (PPP) per capita GDP (Unit: Current international dollar Units). Source: IMF WEO

amounted to roughly one-third of that of Europe and recorded growth that was more rapid than in Asia. However, in the twenty years of the last century, GDP per capita on the African continent remained remarkably flat while most other emerging regions enjoyed substantial increases in prosperity and welfare.

Africa is, however, catching up. Economic growth has been sustained and is more rapid than in decades. Since the turn of the century, growth has averaged 4.8 per cent, reaching 5.2 per cent in 2006. Macroeconomic policy reforms and outcomes in terms of stability underlie the improving performance. Lower and more stable inflation, manageable debt levels, sound fiscal policies and improved public financial management providing a firm foundation for this accelerating economic growth.

Strong commodity prices, in particular oil, have also supported growth in recent years and this combined with sound macroeconomic performance has provided a framework for resilient growth in most African countries.

While this trend is encouraging, it does not yet provide a sustainable platform for the reduction of poverty and inequality. Africa needs two to three decades of rapid growth to make a substantial dent in the level of poverty. Half of Africa is today regarded as poor, while in regions such as Asia, the number of people living in poverty has halved in the past three decades. Thus, a challenge on the continent is to sustain this rapid economic growth through further acceleration of investment in physical and human capital.

And central to that effort are three important areas of work. First, African governments need to continue to increase fiscal space for development via a range of reforms, prudent fiscal decisions and the development of government institutions affecting revenue collection and administration and effective government expenditure.

Second, the continent's capacity to trade must be enhanced through a pragmatic approach to regional economic integration.

And third, the efforts of recent decades to improve governance needs to be strengthened, accelerated, and made irrevocable, in large part be ensuring that we make major strides forward to improve global governance. As economic integration proceeds and deepens and the issues associated with globalisation reach further into our social, political, and economic lives, we need a system of global governance that is representative and effective.

Expanding fiscal space

Fiscal space is the room that governments build, through sound fiscal decisions, to respond to economic and social needs. Reducing debt service costs through lower debt releases resources that can be spent on social services. Improving the efficiency of the revenue authority provides additional income to invest in government spending on human and physical capital. Managing and mitigating risks on the spending side provides governments with the policy room to be able to respond to increased demand for public services or to adverse shocks.

African governments have done well to create fiscal space in recent years. In 2006, despite rising public expenditure, many African countries recorded surpluses or moderate deficits, reflecting improved domestic revenue collection and significant current grants. Debt relief efforts are helping and progress is being made to reduce the burden of interest costs.

Increased aid is also providing additional resources. However, the volatility and unpredictability of aid flows presents a significant obstacle to proper budgeting and quality spending. For example, aid to Africa began rising after the early 1970s, growing steadily from 16 per cent of global aid in 1974 to 28 per cent in 1992. Thereafter, the continent experienced a sharp downturn lasting until 2000, followed by a recovery in 2002 which surpassed earlier peaks.

In recent years, aid levels have been affected by geopolitical issues, and in particular the demands placed on donors to help sustain and redevelop Iraq, Afghanistan, and other countries experiencing conflict. According to the OECD Development Assistance Committee (DAC), despite a significant increase in overall aid during 2005, the share going to sub-Saharan Africa has declined from 35 per cent in 2003 to 30 per cent in 2005.[3]

As an international community, we have developed a common language and set of understandings and agreements on raising the level of aid and how it will be used. Reciprocal commitments have been made covering donor and recipient behaviour. Because those agreements are so important, the difficulty currently being experienced in ensuring a fully-funded IDA is especially disconcerting.

For those reasons, and others, reliance on aid flows is risky and governments need to design and implement the institutional and other reforms required to develop other forms of revenue. They also need to ensure that the fiscal space created is sustainable and that expenditure that follows from it provides a human or capital return to support more rapid economic growth and/or higher productivity. Our multilateral institutions have tended to dissuade us from focusing too much on fiscal space issues, but I think it is critical to moving African economies and governments from a condition of dependence to one of independence.

Some of the increased revenue accruing to African countries arises from high commodity prices, and there will be structural and cyclical elements to it. Sound fiscal management suggests that once-off revenue be spent on items that provide a sustainable boost to economic development and well being. This implies that a substantial portion of the increased revenue should be spent on infrastructure and capacity so that development can continue when commodity prices abate.

[3] Real total aid flows increased from US$72.4 billion in 2002 to US$104.8 billion in 2005. Only nominal data available for Iraq and Afghanistan, for which flows increased from US$1.4 billion in 2002 to US$24.4 billion in 2005. Real flows to sub-Saharan Africa increased from US$23.6 billion in 2002 to US$31.4 billion in 2005. Source: DAC Development Co-operation Report 2006.

Later this year, African policy makers will have an opportunity to engage Finance Ministers' and Central Bank Governors' Group of Twenty (G-20) countries on the issues of fiscal space and integrate the lessons and best practice coming out of these discussions into their fiscal management processes. South Africa will be hosting the 9th annual meeting of the G-20 Finance Ministers' and Central Bank Governors' in November.

Increasing trade with the rest of the world

Turning to increasing trade with the rest of the world, it is quite evident that multilateral trade reform and regional integration holds the promise of economic growth for both developed and developing countries. A strong external sector would help integrate African countries into the global economy and ensure that it is not left behind as the global marketplace expands.

Increased trade is beneficial to Africa in that it supports poverty alleviation and is able to create new employment opportunities on the continent. It promotes regional integration and helps expand intra-regional trade, while infusing new capital and technology into the continent. Finally, by promoting strength, stability and prosperity, trade enhances Africa's ability to contend with the problems of crime, drug trafficking, terrorism, corruption, HIV/AIDS and other infectious diseases and environmental degradation.

It is precisely for these reasons that the collapse of the Doha round, originally termed a 'development round', is a serious indictment on the intention of developed countries to increase market access to the developing world. Agricultural subsidies, phytosanitary rules and other non-tariff barriers remain significant obstacles to increased trade between Africa and the developed world. They distort markets and impoverish millions, thereby reducing the incentives for African countries to invest in improving their supply-side infrastructure. This is especially true for least developed countries, and is exactly why trade and aid must go hand-in-hand for these countries. Aid for trade needs to be addressed as a critical step in the Doha round.

LDC's require more than just lower tariffs and improved market-entry conditions to benefit from the global economy. Enhanced supply-side capacities are of utmost importance in enabling developing countries to strengthen their export performance. Thus, these countries often need financial resources to remove supply-side constraints through investments in trade infrastructure, technology, production capacity, human resources and institutions. At the UN World Summit in September 2005, our leaders pledged their support to increase aid for building the productive and trade capacities of developing countries. It is important that Africa derives maximum benefit from this initiative and that it results in an increase in the level of both inter- and intra-regional trade.

In spite of this disadvantage, African countries are breaking into certain niche markets in the developing world, and are benefiting greatly from the commodity riches they can export. Nonetheless, African economies face a challenge of attempting to diversify their exports within an environment where access to markets is concentrated in a limited number of products.

Much of the African economic policy renaissance has been home-grown – African societies choosing policies and policy reforms to improve economic outcomes. And that important step of setting out alternatives and making choices is an outcome in some important senses of the paucity of effective global governance of our international economic system.

A much stronger approach to African and regional economic integration would also help to improve the balance of trade with the rest of the world by creating new economic links between national economies and deepening those that currently exist. Economic diversification remains critical to long-term economic development and growth. It is difficult to underestimate the importance of such efforts, even though the short-term benefits of some of the policies that need to be adjusted to get there are not always obvious.

But a new and robust approach linking African efforts to free fiscal space to the need for cross-border infrastructure could use greater coordination. And it is especially important that the Bank's work on infrastructure and its financing in Africa be given fresh impetus and urgency. For Africa, economic integration depends on infrastructure development in a way the continent has never before witnessed.

Global governance

A key concept in the international development debate and policy discourse has been that of good governance. Former UN Secretary-General Kofi Annan encapsulates the importance of good governance when he says "good governance and sustainable development are indivisible…without good governance – without the rule of law, predictable administration, legitimate power and responsive regulation – no amount of funding, no amount of charity will set us on the path to prosperity."[4]

Improving Africa's governance environment has been an essential element of the New Partnership for Africa's Development (NEPAD) – an initiative by African leaders to place the continent on a path of sustainable development encompassing good political, economic and corporate governance and prosperity.

But governance at national and regional levels is only one part of the economic trajectory that developing and poor countries need to follow. Global governance – the roles and accountability of our multilateral institutions – must play a key role in achieving the economic and social outcomes associated with sustained economic growth and good policies. The public good qualities of these institutions must play themselves out and provide key benefits in different ways and at different levels.

[4] Economic Commission for Africa. 2005. Striving for Good Governance in Africa: Synopsis of the 2005 African Governance Report Prepared for the African Development Forum IV

Ever more integrated economies need a global governance structure to help resolve disputes, identify common interests and help countries achieve mutually beneficial solutions. They may in some cases even provide direct public goods, and one of the more important of these it seems to me is high quality and dispassionate macroeconomic and microeconomic advice. I mean dispassionate not in the sense of not caring about the outcomes, but in the sense of being alive to the interplay of national interests, ideas and influence that can bias advice away from the best interests of the country's receiving advice. The Bank and Fund have come far, but we need to be mindful of the risks involved with applying templates across economies that are idiosyncratic and diverse. The repercussions of the approach taken in the past to structural adjustment still bear scars on the political consciousness of many African societies, and undermine the voices of our multilateral institutions.

How do we address these sorts of problems? Let me suggest a few ideas.

First of all, we need to ensure good policy advice calibrated appropriately to our economies, our economic challenges, and our social and political norms. This is less straightforward than it sounds and critically important to get right. It also entails ensuring that the broad ideas and approaches that sometimes inspire us in international forums are set off against solid core programmes of policy analysis and advice.

One example of this is the Millennium Development Goals, which tend to dominate our thinking about development in recent years. Laudable certainly, useful definitely, comprehensive? Perhaps not. The MDGs have swung our thinking too far away from the productive sides of our economy – it is important to keep a sense of perspective. For most developing countries, achieving the MDGs is as much about more rapid economic growth as it is about shifting around government spending.

Unlocking constraints to economic growth has to remain a central role of developing country governments. And for most of them, the activity is neither clear cut nor simple. What to do with land, the use of natural resources like water, and how these link to thornier problems around property rights remain key to the question of sustainable economic growth. Despite what we sometimes hear, the oldest profession on earth may in fact be agricultural economics.

Trying to address local economic problems, whether they centre on land reform, irrigation or how to develop a sustainable revenue base, require capacity building, knowledge and global systems for making sure that knowledge is available and usable. As part of the global governance system, the Bank and Fund will not be able to create positives out of a quest to rid the world of negatives, important as it is in its own right to tackle corruption. Capacity building, institution building, knowledge building have to be the core of our development equation.

Our multilaterals also need to think more broadly about their role in the provision of other types of public goods, in particular environmental ones. In coming decades, global and regional environmental issues will need clear economic and policy thinking backed up by institutions and regulatory frameworks capable of handling the intersection of national governments and economies, cross-border environmental concerns and frameworks for addressing externalities that are today in their infancy.

Conclusion

The solid growth seen in Africa at this time is greatly encouraging, but will only be sustained if states develop the capacity to use additional resources for the benefit of all. Investment in infrastructure and building solid economic and social institutions will affect our ability to turn the current commodity cycle into a sustained improvement in living standards for the broadest possible range of people.

We continue to make progress in building our institutions, improving governance, supporting macroeconomic stability and investing in long term development. In large part, these efforts are independent of the current economic trajectory, but it is also true that difficult policy reforms can sometimes have a better chance of succeeding when economic times are good. African governments should use revenue gains and improved fiscal positions to make clear progress on policies that hold back economic growth, especially those with vested interests or which relate to regional economic integration, and to build institutions.

But they need to be able to do these things within a system of global governance that supports these efforts, truly and free of cynicism. Bank and Fund intentions, policies and systems must place economic development and the interest of African and other peoples at the centre of their approach.

The role of the parliamentary network is critical to resolving many of the issues that I raised today. Global governance can only be effective when it is owned by those countries willingly participating in the governance arrangement. As parliaments, founded as representative institutions, you need to probe and inquire, hold our multilaterals to an ever higher standard of accountability and effectiveness. It is only in this way that the societies that you represent as parliaments will benefit fully from multilateral institutions that truly work in harmony with you to achieve our common human goals.

I trust that your review of the role of the Bank and Fund in Africa helps to generate further steps on the road to prosperity for all.

Thank you.