

“Situating NEPAD in the global debate on growth”

**Trevor A Manuel, Minister of Finance, Republic of South Africa
5 December 2002**

Ladies and Gentlemen,

Thank you for inviting me here today to speak about NEPAD, a subject that has aroused both considerable enthusiasm and even some concerns.

Allow me to state my preferences up front – the NEPAD programme is critical for the successful economic development of Africa and the achievement of a continent characterised by high standards of living, thriving private sectors, and accountable and democratic states. There is no question that governmental and private support for the initiative is strong and enthusiastic.

Moreover, NEPAD has emerged out of several years of negotiation and consultation to ensure that among Africa’s governments and peoples, the programme has durable and widespread political support. As an economic programme, furthermore, NEPAD has been constructed to address not only specific African economic problems, but also the complex and often fraught international economic relationships that characterise our global community.

Over the last year, a number of new agreements were reached that reflect a renewed awareness of the difficulties faced by the global

community in combating poverty – and the costs of not doing so effectively. The Monterrey Consensus, which was the outcome of the UN's conference on Financing For Development, was a landmark, setting out the concept of partnership between developed and developing countries, and elaborating the areas of work in which the partnership would be made effective.

NEPAD was conceived and developed in the same intellectual and empirical milieu, and I believe, takes the idea of partnership a step forward. Most African countries are only tiny elements of the broader global community, and as such, have limited capacity and ability to bargain effectively, or even to voice their perspectives. NEPAD sets out an institutional mechanism for Africans to combine their voices and maximise the returns to Africa from the partnership set out in the Monterrey Consensus.

Of course, NEPAD also goes much farther. While the Monterrey Consensus spelled out a number of areas where critical financing is needed for development, it did little to go beyond that and identify regional strategies. The architects of NEPAD, however, did precisely that, by elaborating the precise initiatives to be pursued by African governments and the areas where assistance from developed countries and the Bretton Woods Institutions would be important.

The regional focus of NEPAD, furthermore, provides critical sinew to the policies set out in the economic, infrastructure and governance initiatives of both NEPAD and Monterrey. Economic activity

generally, and cross-border activity in particular, is characterised by externalities that can be both positive and negative.

Effective resolution of negative cross-border externalities requires that they are addressed by more than just separate and individual action. Positive externalities need, in some cases, to be deliberately created, and in others, identified and taken advantage of. One that comes to mind, is the development of private business alongside the building of telecommunications and transportation infrastructure.

This was one of the areas which the WSSD focused on, and again, as with Monterrey, I believe that we must view NEPAD as an implementing vehicle for the broad agreements reached at the WSSD.

One method of addressing externality problems is the creation and/or strengthening of market and non-market institutions that ensure that the operation of the market does not weaken those who are unable to influence the outcomes of the market – in other words, the poor, children, women, and those with little in the way of voice or market power.

Of course, the emphasis on institutions as a means of making markets work can be turned around... in other words, non-market institutions, if not accountable, can seriously bias the outcomes of markets even further away from the interests of the poor and the private sector.

And, this aspect of institutions – their ability to make matters worse – is the one that much of the emphasis is on in Monterrey. From a critical analytical perspective, of course, this is exactly right.

But to progress in achieving economic growth and development, this negative has to be made a positive, for example, through making not just technical assistance but actual capacity building a central feature of an actionable implementation framework.

Indeed, I think we can take this point forward even more strongly: getting institutions right, whether market or non-market, will help to ensure that the outcomes of the processes that these institutions govern will be more accountable – and, as a consequence, ensure that creating economic opportunities for the private sector also means creating opportunities for our poor.

I am not a believer in the idea that either the institution of the state or the institution of the market can or should do everything in economic development. There are simply too many examples of failures of systems of paternalistic states and uncontrolled markets for me to accept either as a one-size-fits-all model for development.

Our model is one of an active, accountable state, dependent on appropriate and non-distortionary revenue generation to provide the means for individuals to engage in economic activity in markets – and where people are unable or incapable of doing so, to provide a

standard of living. That model depends in turn on well-regulated markets in which the private sector invests, produces, employs, and competes. To my mind, that is a very special partnership, and one which informs NEPAD.

In summary, NEPAD lays the foundation for Africa to move toward a new age of peace, security, economic growth, sustainable development and prosperity. Despite international economic turmoil, economic growth in Africa is expected to average 3.1% this year and 4.2% next year. This is more than twice the average growth we achieved from 1984 to 1993, and marginally higher than the average for all developing countries.

Macroeconomic stability is being consolidated, with average consumer price inflation rising by about 9.7% in 2002, down from 13.2% in 2001, and 54.6% in 1994. Underpinning these improving inflation figures are our fiscal balances, which have declined from – 5.2% of GDP in 1994 on average to –2.1% in 2001.

But while we as African countries have achieved some dramatic macroeconomic successes, NEPAD, and the broader post-Monterrey and post-WSSD environment, requires us to make much better progress. What we have done up to now, has simply not been good enough to meet the Millennium Development Goals and achieve our vision of stable, prosperous societies.

For us, as developing countries, the key tasks are clear.

Firstly, there should be an unwavering commitment to domestic resource mobilisation on the part of African countries. A concerted effort must be made to reverse the declining trends in the levels of savings and investment in the majority of African countries. For instance, in 2000 the average savings rate in the region was 12 percent of GDP. There are, however, countries in the regions that have registered higher levels of savings such as Algeria (32 percent), Gabon (35 percent) and Mauritius (23 percent).

Sharing best practices would help all of us to achieve the high saving and investment rates that we need to grow more rapidly. Appropriate revenue generation management and policies on social and infrastructure expenditure, moreover, are necessary for the public sector to contribute to the increases in saving and investment that we need.

Secondly, we need to create an enabling domestic environment that would be conducive to private sector participation. Capital will only go where it feels safe and where it is able to maximise returns on investment. We also need to create the enabling environment for our private sector that will take us to a competitive regional market and ensure our stake in the global market.

In the past, African countries have repeatedly raised the issue of unfair trade practices on the part of developed countries, particularly

in the form of tariff and non-tariff barriers. At the launch of the new trade round in Doha, developed countries have undertaken to reduce these tariff and non-tariff barriers. This will result in greater market access opportunities for African products. The onus rests on us to take advantage of these opportunities by diversifying our economies and reducing supply-side constraints.

We also need to enhance intra-regional trade, and to develop our regional economic communities into competitive markets capable of laying the foundation for Africa to compete in global markets. In order to achieve this objective, we must reform and invigorate SADC, and imbue it with a renewed sense of optimism. Over the past several years, the National Treasury has been especially vigorous in helping SADC and working with our Sub-Saharan neighbours to define and implement policies on macroeconomic convergence, investment, and tax harmonisation. More work needs to be done to raise SADC to meet the expectations of it in NEPAD, but it is fair to say that we are making very significant progress.

Thirdly, good governance is essential if we are to ensure that our governments, our civil societies and our private sectors work together towards creating a better livelihood for the people of our continent. We cannot do this as governments only. We need other sectors of society to be involved. What we can do is to ensure that our work is undertaken effectively and efficiently given the scarce resources at our disposal. To this end, the NEPAD Africa Peer Review Mechanism (APRM) is an innovative instrument that will foster the adoption of

sound policies, standards and practices through sharing of experiences and reinforcement of successful and best practices.

Allow me to turn to our interaction with the international development partners. At Monterrey, we emphasised that domestic resource mobilization needs to be complemented by increasing ODA flows, provision of greater market access and continuous debt relief. Regarding ODA, developed countries must ensure that flows are supportive of the development strategies of the recipient countries, are predictable and untied. Furthermore, greater utilisation needs to be made of domestic technical expertise. In the area of market access, tariff and non-tariff barriers have to be eliminated. We also urge that more rapid progress be achieved on the implementation of the HIPC Initiatives, especially in getting more African countries to reach the completion point.

In moving forward, I firmly believe that this new partnership is dynamic. This means that responsibilities will change as we progress towards implementing NEPAD. In the medium term this will surely require that our development partners augment the current resources earmarked for Africa as we make progress on the promotion of economic growth and development of the African continent.

Finally, one is tempted to view the international environment as inauspicious for the realization of ambitious developmental projects. However, there are three critical factors that I believe tip us in favour of optimism.

The first is the reality that collective action or joint action is difficult even in the best of times, and particularly where the contemplated action requires countries to provide financing. But the very existence of the Monterrey Consensus, the success of the WSSD, and the commitment of the IMF and the World Bank, not only reflects a widespread acknowledgement of the need to deliver the right policies with the right financing, but also reflects a political will to ensure their implementation.

Second, that as Africans, we know that expanding and deepening economic activity through appropriate domestic reforms is critical for our own freedom from want.

And finally, that while there is much to do, and that NEPAD cannot encompass everything that needs to be done to expand economic activity, it does include and elaborate the critical processes and goals required to enable the private sector to do what it can do best – help strong, stable governments and states to raise the standard of living of our people.

Thank you