13

Africa's Development and External Constraints

Kamran Kousari[1]

While the primary responsibility for achieving the conditions of rapid and sustained growth lies with the African countries themselves, the international community also has responsibility in securing consistency and coherence between international and domestic policy actions. This is because international actions exert a major influence not only on the external conditions facing Africa, but also on domestic policies through aid conditionality and stabilisation and adjustment programmes.

Thus the external and internal constraints of African economies cannot be usefully disentangled. The structural deficiencies from which many African countries suffer, particularly in sub-Saharan Africa, has led to continued heavy reliance on commodity exports as a major source of foreign exchange earnings with the result that these economies are vulnerable to the vicissitudes of markets and weather conditions. With the secular decline in the prices of commodities and the resulting terms of trade losses, levels of savings and investment have not been sufficient to invest in human and physical infrastructure development, thus retarding the economic transformation of these countries. And the continent has had to rely on external financing both

[1] This chapter is principally based on a series of studies undertaken by UNCTAD on African development starting from a section exclusively devoted to Africa in the Trade and Development Report 1998, followed by the annual publications entitled Economic Development in Africa, which were launched in 2000. However, some of the views expressed in the paper are solely those of the author's and should not be attributed to the UNCTAD secretariat.

From: Africa in the World Economy - The National, Regional and International Challenges
Fondad, The Hague, December 2005, www.fondad.org

from multilateral and bilateral sources to bridge the financing gap. This has proven to be inadequate for financing adjustment, unevenly distributed and pro-cyclical.

The less than satisfactory outcome of policy advice attached to lending has had its costs in terms of low growth, increased indebtedness, rising poverty, weak institutions, and the inability of countries to diversify their economic base. Furthermore, in the face of inadequate resources to finance long-term development, attracting foreign direct investment has assumed a prominent place in the strategies of economic renewal being advocated with the result that 80 percent of such investment has gone in to the extractive rather than productive sectors without engendering the benefits generally touted for FDI or raising substantially fiscal revenues from the sector.

This chapter will argue that under present conditions Africa needs a major boost in terms of financing for development and an exit solution from the debt overhang. While critical, this is not a sufficient condition. It has to combine with greater policy space adapted to the trade and industrial development requirements of the countries concerned at the domestic level, with much greater flexibility in the application of multilateral disciplines, as well as reduction of subsidies by the North and better market access.

In order to judge how policy advice has played itself out in various aspects of African development, first a look at the export sector of African economies would be in order.

1 Commodity Dependence, Terms of Trade and the Value Chain

African countries remain by and large dependent on the export of commodities for their foreign exchange earnings. According to UNCTAD's calculations, commodity exports (comprising fuel and non-fuel commodities) account for some 80 percent of Africa's total export receipts. With the secular decline in the prices of commodities since the early 1980s, terms of trade declines have been a major factor in the poor economic performance of African countries between 1980 and 2000.

A simulation on "unchanged terms of trade" counterfactual, carried out by UNCTAD based on the World Bank's estimates of cumulative terms of losses, suggests that in non-oil exporting countries, investment ratios would have been 6 percentage points higher per annum. This would imply that per capita GDP would have been 50 percent higher at the end of the decade (UNCTAD, 2001).

The downward trend in the relative prices of commodities has been accompanied by a high degree of volatility. After a downward trend in the 1980s and 1990s, prices picked up between 1996 and 1998 to drop down again (and for some commodities such as coffee to their lowest historical levels) and then increase again towards 2003. The latest rise has been fueled mainly by higher prices for the region's fuel and mineral exports on the back of strong global demand, in particular the continuing growth in demand from emerging economies such as China and India. This, added to better agricultural performance owing to clement weather conditions, and improved political stability as well as increased levels of external resource inflows, has led to a GDP growth of 4.6 percent in 2004, moderately higher than 2003 (UNCTAD, 2005b).

However welcome this latest development may be, boom periods in commodity markets have tended to be much shorter than slumps (UNCTAD, 2003) and therefore the current trend might not be a guide for the future.

The Agro Sector

International commodity policy has not been helpful. In fact, after the slowdown in the world economy in the 1980s, the international community basically abandoned any attempts at price stabilisation and saw a demise of the Integrated Programme for Commodities negotiated at UNCTAD IV in 1976 (with the aim of bringing stability to commodity markets). Instead, reliance on market forces became the order of the day and adjustment programmes called for the dismantling of state institutions responsible for the marketing of commodities and providing extension and other services to farmers. Concomitantly, fewer firms through major mergers and acquisitions are now controlling the purchase, processing and distribution of major agricultural products of export interest to African countries. For example, in the case of coffee, the market share of the five largest processors went up from 21.5 to 58.4 percent between 1995 and 1998, and three multinational trading companies dominate the trading stage. In the case of cocoa, the number of grinders in Europe fell from about 40 in the 1990s to nine in 2000 and the three largest grinders account for over 50 percent of the market, with even higher levels of concentration in chocolate manufacturing (UNCTAD, *Discussion Paper,* forthcoming).

There is also continuing concentration in the vegetable oil industry (UNCTAD, 1999, pp. 243-44).

Paradoxically, the production side has been moving in the opposite direction. The dismantling of marketing boards in Africa has shifted chain governance to major buyers and processors that have moved into operations formerly in the province of these boards. This has created an asymmetry in the chain with enhanced power at the downstream end and diminished power at the upstream.

A similar scenario is being repeated in the non-traditional agricultural export sector. In most Western European countries, the five largest grocery retailers now account for over two-thirds of market share and concentration ratios in food manufacturing can be even higher than this. These trends are also apparent in the US market. While such retailers have been important in expanding Africa's trade in non-traditional commodities such as fresh fruits and vegetables through increased access to these markets, marketing and distribution channels in the hands of major supermarket chains has meant that the value added is captured by them and reliance on one or two buyers and retailers has increased the vulnerability of producers. This combination of forces has often meant that the benefits of liberalisation have not been appropriated at the farm gate but by firms in the high-income consuming countries.

The concentration and vertical integration has thus provided the possibility for major firms to abuse their dominant position in the market by dictating prices and quality in a market where producers have become increasingly atomised, and it is perhaps not surprising that producer prices have been at their historical lows for some of these products (although prices have recently picked up with coffee, for example, thanks to lower stocks in developed markets).

An examination of Africa's leading primary exports still shows only limited capacity in more dynamic products (UNCTAD, 2003) and even in those products where African economies have shown some success, price trends appear to have become less favourable in recent years (Gibbon, 2003), while production costs (particularly those associated with storage and processing) as well as (imported) input costs may be rising (Humphrey, 2003).

Case studies of non-traditional exports tend to confirm restricted progress in the absence of more strategic policy approaches to support domestic investment in both the private and public sectors (Helleiner, 2002; World Bank, 2005) and while participation in production chains may well be unavoidable for a growing number of products, this should not be seen as a substitute for more effective policy action. In fact, certain complementary assets, in addition to a favourable agro climate and relatively inexpensive labour, must be put in place. Because this will involve public investments in such areas as transport infrastructure, farm advisory and support services, land development, and the transfer of technology and skills, policymakers will need a framework to fully evaluate the costs and the benefits of moving into these areas (World Bank, 2005, pp. 252-56; Weatherspoon *et al.*, 2001, p. 10).

The Extractive Sector

In the case of fuels and minerals exports, African countries have not fared much better. In an effort to revive the extractive sector in Africa, policy advice by the World Bank has called for privatisation and liberalisation of the sector and the provisions of major incentives in order to attract high risk capital. As a result, African countries have undertaken wide-ranging reforms of their mining codes, including the provision of generous tax incentives. This has no doubt contributed to the recovery of investment to the sector. The 15 billion dollars invested in mining in Africa in 2004 represented 15 percent of the global total, up considerably (from 5 percent) from the mid-1980s, and putting the region in third place behind Latin America and Oceania. Of the total investment, South Africa accounted for 48 percent (Mining Journal, 2005). With the exception of South Africa, most was FDI.[2]

Certainly from the corporate perspective, the outcome of the recent reforms undertaken in the mining sector in Africa have been positive, as reflected in the significant increases of FDI in the sector. From the host country perspective, in order to assess the outcome of these reforms, governments would need to consider whether the increasing set of incentives provided to foreign investors have been commensurate with the desired outcomes in terms of income, technology transfer, employment, backward and forward linkages with the economy, environmental protection etc. Already some observers have described the incentive competition as a "winners curse" for host countries, whereby investment competition among them can trigger a "a race to the bottom" both in the more static sense of foregone fiscal earnings, but also in terms of giving up policy options which would be needed to organise a

[2] For a full discussion of FDI in Africa, see UNCTAD, 2005a.

more dynamic long-term growth path.[3] A review of incomes derived from the mining sector from two countries is telling: In Tanzania, where gold exports have risen from less than 1 percent of export revenues in the late 1990s to over 40 percent in 2003, six major mining companies earned total export revenues of about $890 million (between 1997 and 2002) out of which the government received $86.9 million (that is, about 10 percent) in revenues (taxes) and royalties. In Ghana, a calculation based on 2003 Government figures of the total value of mineral exports juxtaposed to income (revenue) derived from mineral taxes shows that Ghana earned only about 5 percent of the total value of exports, i.e. about $46.7 million out of total mineral export value of $893.6 million.[4]

Generous tax incentives provided to transnational mining corporations have an opportunity cost in terms of government revenues. As such they are a (hidden) subsidy which developing countries are providing to transnational corporations (TNCs) and ultimately to final consumers, while the provision of subsidies to domestic firms are considered as an anathema to the proper functioning of market forces and are labeled distortionary. Such subsidies are, in general, only likely to be warranted where the TNC uses elastically supplied factors intensively, they do not lower the market share of domestic firms, and there are strong positive productivity spillovers (Hanson, 2001). It seems unlikely that any of these hold for the extractive sector. Consequently, a lot would appear to hinge on significantly augmented government revenues from the sector.

In the energy sector, a large part of the additional revenue immediately leaves the continent, as foreign companies capture much of the rent. For example, Chad's revenue from its oil exports represents roughly

[3] Akabzaa, 2000 and 2004; Lissu, 2001; Charlton, 2003; Campbell, 2004; Hilson and Potter, 2005. The idea of a "race to the bottom" accompanying a globalising world has attracted a good deal of hostile press and carries a number of, not always consistent, meanings. Certainly its initial use to suggest that in a more open trading system, the entry of more low-skill manufacturing exports from developing countries would cause worsening labour market conditions in the North has been widely criticised (see UNCTAD, 1995). However, a rather looser use of the term exists, which is more akin to the idea of "beggar-my-neighbour" trade policies whereby, given increasingly mobile capital, measures to bolster competitiveness are pursued by increasing labour market flexibility, weakening regulations on corporations, reducing social provisions, etc., in the uncertain expectation that this will bolster investment, including FDI, and bring large and positive spillovers in terms of technology and jobs (see ILO, 2003, p. 117).

[4] Data obtained from the Ghana Minerals Commission.

6.7 percent of the value of its oil exports while that of Congo represents 34.4 percent. Oil producing countries such as Kuwait, Iran and Algeria have revenue shares of 98.5 percent, 83.3 percent and 72.7 percent respectively (UNCTAD, 2005b). Related to this, most sub-Saharan African oil-producing countries have not managed to build links between the oil sector and the rest of their economies, losing much of the value added of oil production to foreign service providers, and forgoing the possible positive effects of oil production for industrial development. Energy is being exported in raw form rather than being used for local growth and the export of value-added products.[5]

It is important to weigh the costs and benefits of foreign direct investment in the extractive sectors including environmental and social ones. The devastating effects of gold mining on the environment are well documented with respect to polluted waters and land by the use of arsenic and mercury. Sulphides in the rock, when exposed to the elements for the first time, become sulphuric acid and create a chain reaction of freeing dangerous and toxic heavy metals of lead, mercury and cadmium. Bearing in mind the capital intensity of the sector, evidence has shown while thousands of people have been displaced, only a few jobs, numbering in the hundreds, have been created by the mining companies.

Owing to its enclave nature, it is unlikely that backward and forward linkages can be created with the rest of the economy as capital and intermediate goods are imported or that other spillovers usually associated with foreign direct investment such as the transfer of technology will be realised. Furthermore, a recent calculation shows that among 21 African countries in which there have been relatively higher levels of investment, in a third of them cumulative outflow of profit remittances has been more than the cumulative inflows of investment and in some countries by many-fold (UNCTAD, 2005, Table A2).

2 Trade Liberalisation

Domestic Policies

The fact that trade as a share of GDP for sub-Saharan Africa (excluding

[5] See statement by the officer-in-charge of UNCTAD to the Ninth African Oil & Gas Trade and Finance Conference, Maputo, Mozambique, 2005.

South Africa and Nigeria) increased from 45 to over 50 percent between 1980-1981 and 2000-2001 demonstrates that Africa is not trade averse (UNCTAD, 2003). However, policy advice has been to liberalise trade and to reduce tariffs and non-tariff barriers even if there were to be no reciprocity, as unilateral trade liberalisation would bring in its benefits. Much of the literature has been drawing on cross-country regressions showing the benefits of trade "openness". The success of emerging markets has been attributed to higher ratios of openness, while disregarding the fact that countries opened up after becoming competitive at the international level, while African countries are being advised to open up in order to become competitive. This is a classic case of confusing correlation with causality. The World Bank has proposed that developing countries will "gain significantly more from their own reforms" than market opening in industrialised countries (World Bank 2005, pp. 50-51). Thus trade liberalisation has been a key ingredient of the policy advice of multilateral financial institutions. A more open domestic trade environment was expected to force efficiency of local enterprises and thereby strengthen the growth prospects of developing countries through the efficient allocation of resources through the market mechanism. Trade policy advice has therefore pushed far beyond requirements arising from the multilateral disciplines that African countries have agreed to in the context of the WTO.

However, experience in Africa and elsewhere has shown that contrary to the promises held out by the neoclassical case for free trade, this has not transpired and in fact has led to balance of payments problems, increased indebtedness and de-industrialisation. However, the neo-classicists have not been put off by this outcome because the underlying institutional assumptions of the orthodoxy include a market structure that is complete and a government that intervenes in the markets only to correct failures (see Akyuz, 2004). Therefore, any negative outcome in this respect is attributed to bad institutions or governance failure. But how the Bretton Woods Institutions can make such institutional assumptions in countries where structural weaknesses are compounded by imperfect markets and the withdrawal of the state (proffered by the BWIs themselves), and the resulting weak institutions, remains a mystery. It would be useful to recall that viable institutions emerge through long and, at times, painful historic processes and many that are now regarded as prerequisites for successful economic development were the outcomes, rather than the causes, of economic development in today's advanced countries.

Certainly, given that the broad body of evidence suggests that export success involves self-selection by strong performing domestic firms, a more strategic approach to trade policy will also be needed, involving selective liberalisation and differentiated tariff structures, duty draw-back schemes as well as fiscal, credit and other incentives to exporters (UNCTAD, 1998).

A developmental state must also be able to mix and sequence policies with the aim of raising investment and diversifying into non-traditional exports. Such policies will aim to raise profits above those provided by market signals as well as improving the coordination of investment decision across complementary activities, including through support for effective corporate governance in local firms. While the term seems to have disappeared from the conventional policy lexicon, *strategic industrial policies* have a key role to play in this regard.

The strategic component does not, as sometimes portrayed, mean favouring universal protection; rather, it prescribes liberalisation, protection and subsidies in various combinations, depending on a country's resource endowments, macroeconomic circumstances and level of industrialisation, as well as disciplining the recipients of the rents generated by such interventions through the enforcement of effect-tive time limits and the use of performance requirements. Similarly, industrial policy, a staple feature of the rise of today's advanced countries throughout the last century, is not synonymous with picking winners or public ownership;[6] rather, it is part of the discovery and coordination process facing firms and governments as they learn about underlying costs and profit opportunities associated with new activities and technologies, evaluate possible externalities associated with particular investment projects and push towards a more diversified and higher value added economy (Amsden, 2001; Rodrik, 2004).

International Policies

The external constraints to Africa's trade expansion should therefore be seen both in the light of national policies referred to above, international rules and disciplines, and the external trading environment. Many African countries have yet to draw significant benefits from their

[6] Ironically, conventional policy thinking has made "attracting winners" through opening up to FDI a measure of policy success even as it decries any efforts to give strategic support to domestic firms.

participation in the international trading system. Phasing out subsidies in agriculture remains an important element in Africa's capacity to enhance its agricultural trade. The case of cotton is well documented and need not be described in detail.[7] But there is also a debate as to whether African countries would stand to gain from the removal of agricultural subsidies as many are net food importing countries and that this would eventually raise their food import bills. A recent study by the World Bank (2005) shows that, on the whole, sub-Saharan Africa stands to gain from global agricultural trade liberalisation.

More fundamentally there is a need for a review of current agreements and practices with a view to assessing their impact on African development, and to translate them into explicit obligations. Some of the areas where such action is needed include a re-evaluation of the concept of transitional periods particularly in the context of TRIPS and TRIMS; a review of the Agreement on Subsidies and Countervailing Measures to take into account the specific circumstances and requirements of African countries; measures for the realisation of the technology transfer objectives envisaged in the TRIPS Agreement; and, effective implementation of Article IV of GATS for building services capacity, access to technology and distribution channels.

It would appear that there is a consensus on the issue of granting more flexibility to developing and least developed countries in the implementation of their commitments in the WTO. For example, paragraph 44 of the Doha Ministerial Declaration, adopted on 14 November 2001, reaffirms "…that provisions for special and differential treatment are an integral part of the WTO Agreements… [and noted] the concerns expressed regarding their operation in addressing the specific constraints faced by developing countries, particularly the least developed countries in that connection…". In paragraph 28 of the same Declaration, WTO members agreed to "negotiations to clarify and improve disciplines under the Agreements on Implementation of Article VI of the GATT 1994[8] and on Subsidies and Countervailing Measures … taking into account the needs of developing and least-developed participants". Earlier on in paragraph 6, members of the WTO reaffirmed their commitment to the objective of sustainable development, and underscored their conviction that an open and non-discriminatory multilateral system and

[7] For a full discussion, see UNCTAD (2003), Annex. See also Drábek (2004).

[8] This Article, among other things, covers issues of "determination of dumping", "determination of injury" and the "definition of domestic industry".

"…the protection of the environment and the promotion of sustainable development can and must be mutually supportive", while emphasising that measures taken to attain these objectives should not constitute a disguised restriction on international trade.

In effect, the effective participation of developing, including African, countries in the on-going negotiations of the Doha Round cannot be gainsaid. This would be to ensure that they are granted sufficient flexibility under the relevant Agreements to enlarge their policy space to accommodate those policies that respond to their own domestic development agendas. In the interim, they should find ways and means of utilising effectively existing flexibilities available under the SDT they already enjoy as members of the WTO. This having been said, policy coherence at the international level is crucial.

As the UK's recent Commission for Africa Report aptly notes in its discussion of the Doha Round, negotiations should proceed with the aim of ensuring "…special and differential treatment works for Africa, prioritising development without resort to legal disputes, with sufficient flexibility to allow trade reform to be achieved at a locally agreed pace – not forced through reciprocity or IFI conditionality – with appropriate sequencing and within the framework of national and regional development and trade strategies" (Commission for Africa, 2005, p. 269). Coherence on these objectives is particularly crucial because other EU bilateral trade agreements with developing countries in recent years have often tended to cover a range of disciplines, including the so-called Singapore issue, in a "WTO-plus" agenda (Karingi *et al.*, 2005). Considering that under the Cotonou Agreement, ACP countries have to cooperate on investment, competition policy (and possibly on government procurement), the issue is whether African countries should allow themselves to be locked into disciplines to which they have not committed themselves in the context of on-going multilateral negotiations within the WTO. Recently, African delegates at an African Union meeting expressed concern about the principle of reciprocity in the EPA negotiations between the AU and African countries and that reducing tariffs to similar levels would mean sharp tariff cuts in African countries in relation to the EU products. Concerns were also expressed with regard to the deindustrialisation impact that it might have. There was also concern that the EU would introduce TRIPs-plus proposals which would oblige African countries to adopt intellectual property disciplines beyond the WTO. Finally, African countries saw problems with respect to the effect of these negotiations on regional integration efforts in Africa.

Liberalisation in African and other developing countries invariably raises adjustment problems (WTO, 2004, p. 20). Although largely ignored or underestimated in the past, it is now widely recognised that short- to medium-term assistance to cope with adjustment to external shocks is indispensable to gaining the full commitment of poor developing countries to freer trade. Otherwise, it is argued, trade liberalisation may be resisted and reversed (WTO, 2004, p. 20). The multilateral trade agreements of GATT/WTO were traditionally silent on the issue of adjustment, leaving it entirely for national policies to address, but currently an international consensus is emerging on this issue that these agreements should include provisions and specific measures to deal with adjustment costs. This is especially important for African countries, most of which lack adjustment assistance instruments to meet increased import competition, for which substantial international support is required.[9] The new challenge for the multilateral trade negotiations would be to properly design such adjustment mechanisms, ensure their funding and find ways to effectively integrate them into the negotiating outcomes.

3 Financial Flows

It is useful to recall that in its study on Capital Flows and Growth in Africa (UNCTAD, 2000), the UNCTAD secretariat demonstrated that the immediate requirement for Africa was a doubling of aid and maintaining it at that level for ten years in order to raise domestic savings and investment which could lead to a virtuous process of growth and development thereby attracting private capital flows and reducing aid dependency in the longer term. This analysis found favour with the Zedillo Report on Financing for Development (United Nations, 2001). More recently both the Report of the Commission for Africa (2005) and the Sachs Report on the MDGs (Sachs, 2005) have arrived at similar conclusions. Combined with a debt write-off, this should provide African countries with the necessary "big boost" in domestic investment,

[9] Some recent initiatives to address this issue include a temporary "Aid for Trade Fund" proposed by the UN Millennium Project's Task Force on Trade in its Report on Trade For Development, 2005, while P. Mandelson, EU Trade Commissioner, proposed on 4 February 2005 to establish a special Trade Adjustment Fund to "help the poor to trade more effectively and ease the social costs of adjustment".

both private and public, in order to break out of the vicious circle of low growth and rising poverty.

Recent announcements by the EU with respect to increasing aid to 0.5 percent of GNP by the year 2010 and to the 0.7 percent target by the year 2015 is a welcome development and should go a long way in dealing with the most pressing financial needs of African countries and give the necessary boost. Other developed countries should be convinced to do so.

Delinking lending and aid from policy conditionality is paramount in this respect. There is now a general recognition that conditionalities imposed by the IFIs have gone beyond their proper areas of competence. The Meltzer Report (IFIAC, 2000, p. 7) argued that: "detailed conditionality (often including dozens of conditions)....has burdened the IMF programmes in recent years and made such programmes unwieldy, highly conflictive, time consuming to negotiate and often ineffectual". Similar views have been expressed in the Council of Foreign Relations Independent Task Force Report (CFRTF, 1999, p. 15): "Both the Fund and the Bank have tried to do too much in recent years, and they have lost sight of their respective strengths. They both need to return to basics." According to Horst Köhler, the previous Managing Director of the Fund who called for a greater focus in the Fund's conditionality: "…I trust that ownership is promoted when the Fund's conditionality focuses on what is crucial for the achievement of macroeconomic stability and growth. Less can be more if it helps to break the ground for sustained process of adjustment and growth."(Köhler, 2000).

The question of the debt overhang of African countries should be equally addressed. Research in UNCTAD (2004) found that the criteria applied in the debt sustainability analysis such as net present value of debt to exports ratios and thresholds for fiscal sustainability were lacking in objectivity and were arbitrary. Sachs has argued, for example, that official creditors (Paris Club, IFIs) "have used arbitrary formulas rather than a serious analysis of country needs to decide on the level of debt relief….[consequently] the so-called debt sustainability analysis of the HIPC Initiative is built on the flimsiest of foundations" (Sachs, 2002, p. 275). The UNCTAD report also found that eligibility ratios were based on neither a comprehensive measure of poverty nor indebtedness; as a result, neither the poorest nor the most indebted countries were HIPC eligible. Furthermore, the scope of country selection is regarded as too narrow since the "IDA-only" criterion disqualifies some otherwise debt strapped countries (Gunter, 2001; G-24 Secretariat, 2003). UNCTAD proposed that debt sustainability should be based on other criteria such as human development indicators and the ability of countries to meet the Millennium Development Goals. On those criteria, it was obvious the external debt of the poor African countries would need to be written off. While calls for a debt write-off have gathered momentum, it should be pointed out that it should not be limited to the HIPCs group only. UNCTAD called for the establishment of an independent panel of experts, selected by debtors and creditors, to assess the debt sustainability of indebted countries, with creditors accepting to write-off debt deemed as unsustainable. It also proposed that in the meantime, no additional interest should accrue on the outstanding debts of the indebted countries concerned. The decision by the G-8 to write-off the debt of the countries that have achieved the completion point under the HIPCs initiative is encouraging although dampened by the proviso that an equivalent amount would be reduced from future flows. Furthermore, there are increasing indications that debt relief would be counted against future ODA flows which goes against the principle of additionality.

4 Conclusions

African countries need adequate resources and debt relief in order to jump-start their economies. But this in itself is not enough to create the conditions for a virtuous circle of growth and poverty reduction. National policies matter and here a major overhaul of conditionality is required, de-linking it from aid flows and lending.

It is argued that the poverty reduction policies being advocated have addressed the weaknesses of the older generation of adjustment policies, with greater ownership of the policies by the countries concerned. However, as the UNCTAD study on adjustment and poverty reduction showed (UNCTAD, 2002), while policymakers have been provided some flexibility in devising social safety nets, the macroeconomic policies contained in the Poverty Reduction Strategy Papers (PRSPs) are not fundamentally different from those under the Structural Adjustment Programmes (SAPs).

Growth-oriented strategies would require much greater policy space in order for African countries to devise strategic trade and industrial policies adapted to their specific economic and social conditions and based on their endowments. This would not only include providing special and differential treatment (and facilitating the utilisation of existing measures) under the current multilateral trade rules combined with a reduction in agricultural subsidies and improved market access for processed products, but also a frank and impartial assessment of the impact of macroeconomic policies applied in the last two decades, and drawing the necessary lessons not only from past mistakes but also from successful experiences.

Policymakers also need to rethink the singular preoccupation with attracting foreign direct investment and pay more attention to the its costs and benefits, including: gauging the impact of FDI on local costs and profitability; the size of spillovers; backward and forward linkages with the economy; level of rents and income generated and profit repatriation; and, the longer-term social and environmental impact, particularly in the extractive industries.

Finally there is need for a balance between too much state control which marked African economies in the post-independence period and too much reliance on the market which has been the hallmark of the adjustment period. This requires a hard and unbiased rethinking of the role of the state and the strengthening governance institutions both in the public and private domains.

References

Akabzaa, T. (2004), *African Mining Codes a Race to the Bottom*, Third World Network Features, first appeared in: *African Agenda*, Vol. 7, No. 3.

Akabzaa, T. (2000), *Boom and Dislocation: The Environmental and Social Impacts of the Mining in the Wassa West District of Ghana*, Third World Network-Africa, Accra.

Akyüz, Y. (2004), "Trade Growth and Industrialization: Issues, Experience and Policy Challenges", mimeo, Third World Network, Geneva, December.

Amsden, A. (2001), *The Rise of the Rest: Challenges to the West from Late-Industrializing Economies*, Oxford University Press, Oxford.

Commission for Africa (2005), *Our Common Interest*, Report of the Commission for Africa, London, March.

Campbell, B. (ed.) (2004a), *Regulating Mining in Africa: For whose benefit?*, Nordiska Afrikainstitutet, Uppsala.

CFRTF (1999), *Safeguarding Prosperity in a Global Financial System. The Future of International Financial Architecture*, Council of Foreign Relations Independent Task Force, Washington, D.C., November.

Charlton, A. (2003), "Incentive Bidding for Mobile Investment: Economic Consequences and Potential Responses" , OECD Working Paper 203, OECD, Paris.

Drábek, Z. (2004). "The Potential of the Doha Development Agenda", In: J.J. Teunissen and A. Akkerman (eds.), *Diversity in Development: Reconsidering the Washington Consensus*, FONDAD, The Hague.

G-24 Secretariat (2003), "Heavily Indebted Poor Country (HIPC) Initiative", G-24 Secretariat Briefing Paper 2, March.

Gibbon, P. (2003), "Commodities, Donors, Value-chain Analysis and Upgrading", Paper prepared for UNCTAD, November.

Gunter, B.G. (2001), *Does the HIPC Initiative Achieve its Goal of Debt Sustainability*, UNU/WIDER Discussion Paper 2001/100, United Nations University/World Institute for Development Economics Research, Helsinki, September.

Helleiner, G., (ed.) (2002), *Non-Traditional Export Promotion in Africa: Experience and Issues*, Palgrave, New York.

Hilson, G. and C. Potter (2005), "Structural Adjustment and Subsistence Industry: Artisanal Gold Mining in Ghana", In: *Development and Change*, Vol. 36, No. 1, January.

Humphrey, J. (2003), "Commodities, Diversification and Poverty Reduction", Paper presented at FAO Symposium, Rome, 15-16 December.

IFIAC (2000), *International Financial Institutions Reform: Report of the International Financial Institution Advisory Commission* ("Meltzer Report"), Washington D.C., March.

ILO (2003), *A Fair Globalization: Creating Opportunities for All*, International Labour Organization, Geneva.

Karingi, S., R. Land, N. Oulmane, R. Perez, M.S. Jallab and H.B. Hammouda (2005), "Economic and Welfare Impacts of the EU-Africa Economic Partnership Agreements", ATPC Work in Progress No. 10, African Trade Policy Centre, ECA, Addis Ababa.

Köhler, H. (2000), *Address to the Board of Governors of IMF*, Fifty-fifth Annual Meeting, Prague, 26 September.

Lissu, Tundu (2001), "In Gold We Trust: The Political Economy of Law, Human Rights and the Environment in Tanzania's Mining Industry", Work in Progress, In: *Law, Social Justice and Global Development Journal*, Vol. 2.

Mining Journal (2005), "2004: A Record Year for Mining Investments", London, February 4.

Rodrik, D. (2004), "Industrial Policy for the 21st Century", CEPR Discussion Paper No. 4767, CEPR, London.

Sachs, J.D. (2005), *Investing in Development: A Practical Plan to Achieve the Millennium Development Goals*, Report of the UN Millennium Project to the UN Secretary General, United Nations, New York.

Sachs, J.D. (2002), "Resolving the Debt Crisis of Low-Income Countries", Brookings Papers on Economic Activity 1, The Brookings Institution, Washington D.C., pp. 257-86.

UNCTAD (1998), *Trade and Development Report, 1998*, United Nations, New York/Geneva.

UNCTAD (1999), *World Investment Report 1999*, United Nations, New York/Geneva.

UNCTAD (2000), *Capital Flows and Growth in Africa*, United Nations. New York/Geneva.

UNCTAD (2001), *Economic Development in Africa: Performance, Prospects and Policy Issues*, United Nations, New York/Geneva.

UNCTAD (2002), *Economic Development in Africa: From Adjustment to Poverty Reduction: What is New?*, United Nations, New York/Geneva.

UNCTAD (2003), *Economic Development in Africa: Trade Performance and Commodity Dependence*, United Nations, New York/Geneva.

UNCTAD (2004), *Economic Development in Africa: Debt Sustainability: Oasis or Mirage?* United Nations, New York/Geneva.

UNCTAD (2005a), *Economic Development in Africa: Rethinking the Role of Foreign Direct Investment*, United Nations, New York/Geneva.

UNCTAD (2005b), *Trade and Development Report 2005*, United Nations, New York/Geneva.

Weatherspoon, D. *et al*. (2001), "Linking Globalization, Economic Growth and Poverty: Impacts of Agribusiness Strategies in sub-Saharan Africa", Staff Paper No. 6, Department of Applied Economics and Management, Cornell University, Ithaca, November.

World Bank (2005), *Global Agriculture Trade and Developing Countries*, The World Bank, Washington D.C.

WTO (2004), *The Future of the WTO, Addressing Institutional Challenges in the New Millennium*, Report by the Consultative Board to the Director-General, World Trade Organization, Geneva.