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Les Actes du Deuxième Congrès des Economistes Africains

"How to realise strong and sustainable Economic Growth in Africa so as to absorb unemployment and sustain the dynamics of Regional and Continental Integration"

« Comment réaliser une croissance économique forte et durable en Afrique, afin de résorber le chômage et soutenir la dynamique de l'intégration régionale et continentale»

African Union Commission
Department of Economic Affairs
Commission de l'Union africaine
Département des affaires économiques

24-26 November / Novembre 2011
Abidjan, Côte d'Ivoire

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Economic Affairs Department
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Session 4

Strengthening the agricultural sector for sustainable economic development

Renforcer le secteur agricole pour le développement économique durable

Agriculture as Engine of Growth for Africa's Economies: Institutional Financing and Economic Prospects

By Mafimisebi, T.E. and A.E. Oguntade

By Mafimisebi, T.E. and A.E. Oguntade[1]

ABSTRACT

One of the strongest reasons for the persistent poor scorecard of Africa's economies is the failure to harness the comparative advantage of its agricultural sector which has been adjudged a formidable source of economic growth if adequately financed. There is the problem of inadequate funds inflow to the agricultural sector from formal institutional sources. This necessitates putting in place innovative country-wide financing arrangements to encourage financial institutions to increase and sustain lending to the high-risk agricultural sector. This step is justified by the strategic role of agriculture in African economies. This paper considered case studies of schemes in selected African countries that are designed to attract formal institutional funds to agriculture. These case studies included the partial credit guarantee scheme for increased securitization of agricultural credit in Nigeria

and agricultural credit scheme for easy access to finance by small farmers and operators of agro-allied enterprises in South Africa, Egypt, Kenya and Tanzania. The positive impacts of special credit programmes for agriculture are multi-faceted and include enhanced agricultural growth rate, increased food and fibre production, job creation, income generation, poverty reduction, better sustainable use of natural resource base, reduced vulnerability and economic stabilization. Empirical evidence from the programmes reviewed revealed that it is rewarding and necessary to institute programmmes designed to attract funds into Africa's agriculture. Missed steps in the implementation of the various programmes were also pinpointed to serve as lessons for African countries wishing to adopt programmes with success stories. Recommendations necessary to facilitate success in countries adopting a particular programme model were also made.

Key words: Agricultural sector, small holders, special credit programmes, banking institutions, loan securitization, agricultural development, economic growth, African economies.

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Introduction

Agriculture has been and is still a vital and dominant sector in African economies. Despite increasing urbanization, agriculture still provides livelihoods for about 60% of the continent's active labour force, contributes 17% of the gross domestic product (GDP) and account for 40% of its foreign exchange earnings (World Bank, 1993, Upton, 1997, CAADP, 2001; IFPRI, 2001). During the early 1950s to the late 1970s, the agricultural sector accounted for over 50% of the GDP of a large proportion (about 70%) of Sub-Saharan African countries as shown in Table 1.

TABLE 1: Agriculture's Share in the GDP of Selected Sub-Saharan African Countries

Country	Agriculture's Share in GDP	
Sub-Saharan Africa	1965	1990
Benin	59	37
Botswana	34	03
Cameroon	33	27
Chad	42	38
Ethiopia	58	41
Gabon	26	09
Ghana	44	48
Malawi	50	33
Mali	65	46
Niger	68	36
Nigeria	55	36
Rwanda	75	38
Somalia	71	65
Tanzania	46	59
Zimbabwe	18	03

Source: World Bank, 1993

Agriculture 'hunted' for the other sectors to 'feed' in generating foreign exchange earnings which enabled financing of development projects in other sectors. Abundant and affordable food also emanated from agriculture for both domestic consumption and exportation. This ensured a high degree of stability in the economy that was then characterized with negligible inflation rates (NISER, 2003, CAADP, 2001; Interacademy Council, 2005).

However, following the discovery and exploitation of minerals and other non-agriculture products in the early or late 1970s, the importance of agriculture began to wane as shown in Table 1. Attention virtually shifted to other sectors which increasingly accounted for the bulk of foreign exchange earnings. The resultant inflow of foreign exchange from non-agriculture products made Africans to increasingly rely on imported food and raw materials instead of investing in and strengthening the agricultural sector to widen its capacity to serve as an engine of economic growth in providing these commodities (Oyejide, 1993a; Idachaba, 2000). Rather unfortunately, agriculture- the goose that laid the golden egg- was abandoned as most investments went to the mining, industrial, health and construction sectors. Agriculture, the 'hunter' became the 'game'. The reason given for this was that returns from agricultural investments were poor and far lower compared with returns from investment in other sectors (NISER, 2003). To compound the problem of low public investment in agriculture in an era in which most African governments were directly involved in agricultural production (through state farms, public agro-chemicals and agro-processing companies and marketing institutions etc), banking institutions also became increasingly apathetic and reluctant to lend to the agricultural sector. Agricultural loans were regarded as low-yielding, high-risk prone with towering administrative costs and consequently unattractive to grant (Aryeetey, 1995, Coster, 1998).

Funds starvation of the agricultural sector became an issue. Agriculture's share of the budget in many African countries is less than 1% with the absolute amount sometimes smaller than what goes to the Government House of each country. Not only has agriculture suffered reduced funds allocation from African governments, overall donor aids level to agriculture has also witnessed a decline as donors' priorities have simultaneously shifted to other sectors. For example, the amount of aid set aside for primary agriculture by donors was $7.4 billion in 1998 down from $11 billion in 1990. The decline has been sharp in the case of the World Bank which had its total lending to agriculture as 7% in 2000 down from 39% in 1987 (CAADP, 2001). This effect of starving agricultural sector of funds was that by the late 1970s or early 1980s, most African countries had become net importers of many of the agricultural commodities they were hitherto highly rated in exporting. This was the origin of the "Dutch Disease" in Africa. In Nigeria in particular, the oil boom of the late 1970s is said to bring in its wake the agricultural doom which Nigeria is frantically battling to reverse in the last three decades (Oyejide, 1993; Mafimisebi *et al*., 2008).

While the various governments continue to take responsibility for public spending on agriculture with external assistance, access to institutional credit by smallholders for investment purposes remains an issue for attention. The persistent problem of paucity of formal credit has been reported by numerous researchers to be responsible for peasant farmers' extensive patronage of traditional lending institutions which are characterized by very low credit volume, usurious interest rates and brutal and dehumanizing treatment of borrowers in cases of default. On the positive sides of the traditional lending institutions however are their simplicity of borrowing procedure, timeliness of credit disbursement and waiver of collaterals (Adekanye, 1993; Aryeetey, 1995; and Mafimisebi *et al*., 2006, 2008). Table 2 shows the estimated need for funds by the African agricultural sector if the 4% agricultural growth rate to assure overall economic growth is to be achieved.

Table 2: Financial Implications of Required Investments in African Agriculture (2002-2015)

Activity	*US$ bn*
Land and water investment	37
Operations and maintenance	32
Rural infrastructure investment	89
Operations and maintenance	37
Trade-related capacities	3
National food security	6
Regional food security	1
Research and technology	5
Humanitarian safety nets	42
Total	**251**

Source: Comprehensive Africa Agriculture Development Programme

From the information in Table 2, the average amount to be devoted to agriculture annually for the period shown is $ 17.9 billion which though considered ambitious is currently less that the amount expended on importing food annually in the continent (CAADP, 2001). Half of this estimated total funding requirement is expected to be mobilized within Africa with this share increasing with the strengthening of domestic capacities in the continent.

In recognition of the indispensable role of credit in engineering the development of African agriculture to more effectively play its traditional roles, various African countries have used macro-economic policies which have recorded very small degrees of success in attracting institutional credit to the farm sector (Oyejide, 1993b, Mafimisebi,*et al.*, 2008). Poor government agricultural policies which provide only weak economic incentives to rural producers have also not helped the situation. Privatization and other structural adjustment policies led to hasty state withdrawal from direct agricultural production without a sound private sector with severe dislocation of production, farm trade and farmer support services being the consequence (CAADP, 2001). The persistent failure of governments in many African countries to attract adequate finance for agricultural activities from formal institutional sources necessitates instituting (where unavailable) or strengthening (where on-going) programmes that would revitalize and reposition the agricultural sector by encouraging the flow into it of formal institutional credit for investment purposes. The unpredictable and risky nature of agricultural production, the importance of agriculture to African economies, the urge to provide additional incentives to further enhance the development of agriculture and the increasing demand by formal lending institutions for appropriate risk aversion measures are justifications for the establishment of innovative financing programmes for agriculture in Africa (Coster, 2005, Mafimisebi, *et al.*, 2008).

The remaining part of this paper is organized as follows. Section II reviews the structure, characteristics, potential and constraints of African agriculture. In Section III, we carried out a performance appraisal or review of the selected programmes designed to attract formal institutional funds to agriculture in the selected countries and extrapolated from country case studies to draw implications for agricultural sector re-engineering Africa-wide. The missed steps and prospects of the programmes reviewed were briefly examined in Section IV to distill lessons for countries wishing to adopt them. The summary and recommendations are presented in the last section.

2. Structure, Characteristics, Potential and Constraints of African Agriculture

Despite the overriding importance of productivity-boosting technologies in agricultural development (NAS, 2008, Alexandre, 2009), African agriculture is still oriented towards home consumption with little marketable surplus owing to small farm sizes and use of low technologies which involves much drudgery. Thus, the result is poor performance compared with what is obtainable elsewhere. On average, cereal yields in Africa reached just 1,230 kg per hectare in 2001, compared with 3,090 kg in Asia, 3,040 kg in Latin America and 5,470 kg in the European Union (CAADP, 2001). Cutlass and/or fire and hoe/animals are used in preparing land for producing crops making the term "slash and burn" an appropriate description of African agriculture. Animal husbandry is mostly the backyard type in which animals fend for themselves and only receive supplementary watering and feeding only on availability. Animals feed generously during the wet and crop harvesting seasons but lack sufficient nutrients during off-farm and dry seasons. The growth of farm animals thus follows a staircase pattern (Williamson and Payne, 1978) in line with the trend in feed availability.

African agriculture depends on labour from humans and animals that are poorly fed (UNICEF, 1990; World Bank, 1990 and Mafimisebi, 2007) that they can then supply very limited labour input. This constraint in labour supply and crippling land tenure problems are the main reasons for smallholdings which are uneconomic to mechanize. Inadequate capital investment in agriculture has culminated in the vicious circle of low farm size, low uptake of productivity-boosting technologies, low output, low income and low farm size (Mafimisebi, *et al*., 2006, 2008). This phenomenon is prevalent and its adverse impacts are magnified because small-scale operators, regarded as highly unorganized and poor in resource endowment and managerial skills, preponderate in the African agricultural sector (Akinwunmi, 1999; CAADP, 2001). These inadequacies notwithstanding, the small-holders account for about 95% of agricultural production in Africa (Olayide, 1980, World Bank, 1993; 1996, Mafimisebi *et al*., 2008, NAS, 2008). To remedy the problem of persistent low performance of the agricultural sector, it is obvious that there is a need for capital injection since the funds required for investment farm cannot be provided by the resource-poor farmers owing to widening demand-supply gap for investible funds in the rural locales where they reside (Olayemi, 1999; Udoh *et al*., 2002, Mafimisebi *et al*., 2006, 2008).

Owing to the fact that planting materials and breeding stocks accessible to and affordable by farmers are the hardy, unimproved and low-producing types, low productivity results with the outcome that Africa only attains about 50% food self-sufficiency on the average (Olalokun, 1998; Eilitta, 2006, NAS, 2008). The greater proportion of African land area falls in the tropics which being "a paradise of parasites" compounds the problem of pests and diseases as hindrance to agriculture especially animal husbandry. Poor animal health is the main reason for losses in animal production. Direct and indirect losses of meat, milk and work output are estimated at about US$40 billion a year in SSA alone (World Bank, 2005). There is also soil fertility and other environmental management problems which negatively impinge on agricultural production and productivity (World Bank, 2006).

To ensure abundant and affordable food and achieve sustainable overall economic development, there is a compelling need to increase agricultural production. This is imperative from many perspectives which include food, income generation, employment creation, poverty reduction and economic stability (Oyejide, 1993a; IFPRI, 2001; NAS, 2008, Eilitta, 2006). Since the problems of sourcing the funds and distribution are inherent in further food import which is projected to expand considerably in future, the most practical and sustainable way for Africa to achieve a reliable food supply is to stimulate own agricultural system for better performance (IFPRI, 2001; World Bank, 1989, 1993, Harsh, 1998). To achieve a match between the growing population and food production levels, more countries of the continent must strive to meet the recommended 4% agricultural production growth rate per year (World Bank, 1989; 1993) necessary to achieve overall economic development. Only very few countries, shown in Table 2, achieved or came close to achieving this agricultural growth rate in the late 1980s or early 1990s.

TABLE 2: African Countries with High Agricultural Growth Rates

Country	Year		
	1986-1989	1990	1991
Chad	6.1	8.9	20.0
Cape Verde	12.0	-3.8	9.3
Nigeria	4.3	4.1	5.0
Botswana	19.5	3.7	2.7
Guinea-Bissau	6.4	2.5	5.7
Uganda	6.0	3.4	2.9
Benin	5.0	1.4	4.5

Kenya	4.3	3.5	-0.7
Tanzania	4.5	2.9	-
Comoros	4.5	2.8	3.9

Source: World Bank, 1993.

Some of these countries; Botswana, Chad and Comoros are classified as resource-poor and this is heart-warming news for African countries in that category. Most of these countries were all poor performers in the 1970s and the change in scorecard holds important lessons on what can be done to reverse agriculture's fortune in other African countries.

3. Programmes Designed to Attract Institutional Funding to Agriculture

Case studies were taken and examined in the following countries; Egypt Kenya, Tanzania, South Africa, and Nigeria. However, the case of Nigeria was considered in greater details only owing to availability of copious data.

The vision of the South African agricultural credit scheme is to empower the rural working poor, small entrepreneurs and farmers to improve their livelihoods. The socio-economic characteristics of the ruralizes include that there is an estimated of 15 million rural poor people and increasing proportion of women-headed households and people with disabilities. Rural people live in remote and dispersed areas with poor infrastructure. There is some form of access to land by would-be farmers. Those that are self-employed outside the agricultural sector earn as little as R600 per month. Agriculture accounts for less than 10% of total household income because the economy is mineral-dominated. Though, there is some level of poverty, households are not severely malnourished, hungry or destitute. However, households move in and out of large and small commercial farms and agribusinesses and emerging commercial farms and agribusinesses and subsistence farming economies in pursuit of household livelihood strategies. Most households rely on remittances, wages, disability allowance, pension and child support grants for production and household needs. Savings is used for subsistence farming and low returns productive activities. Extended families and social networks are used to manage production, price and market risks and disasters. There is then a need for credit for investment in agriculture regarded as high potential area capable of high returns to investment.

An agricultural credit scheme termed the Micro-Agricultural Finance Scheme for South Africa (MAFISA), was re-established in 2005 as a modification of the 1998-2004 scheme which itself derived from the pre- 1997 agricultural credit scheme. MAFISA is a state-owned scheme and it provides access to micro and retail agricultural financial services by households, individuals and entrepreneurs in the rural areas on a nation-wide, commercial, cost-effective and sustainable basis. The sources of funds for running the scheme include parliamentary appropriation, grants, operational income and investments. The scheme is hinged on the following policy issues

- that Micro-finance demand among the working poor can be met by profitable and sustainable institutions
- that successful commercial microfinance can be carried out by different institutions in widely different environments
- that regulatory authorities must provide an enabling environment if institutional commercial microfinance is to succeed
- that donors supporting the growth of commercial microfinance assist through capacity building initiatives
- that the scheme provides capital to increase support to agricultural activities in the communal land areas as well as other small–scale agriculture leaving the Land Bank to deal with the commercial sector as done in the 1998-2004 agricultural credit arrangement.

Under the new scheme, R1 billion was made available. The scheme works with financial institutions to implement the provisions in the financial services charter relevant to the development of small-and medium-farming enterprises. In providing access to funds by the rural poor, MAFISA uses the platform of sustainable livelihoods framework which leads to creation of more jobs, more income, better well-being, improved food security, reduced vulnerability and better sustainable use of the natural resource base. It operates on many principles including use of rural livelihoods strategies, collaborating, sharing and reinforcing, use of or improving on existing resources and efforts, service delivery within the 20km target, target 10 million beneficiaries, optimize tax-rand value returns and use of rural financial services industry benchmark. Target beneficiaries include farm workers, farm tenants, small landholders, the landless, food emergency beneficiaries, farm and labour tenants, land reform and agrarian beneficiaries, small, medium and emerging farmers, household food producers, food garden producers and rural micro-entrepreneurs (Department of Agriculture, 2005).

In analyzing the Nigeria ACGSF, we considered selected indices. These indices include the authorized and paid-up share capital of the scheme, the total resources, maximum amount of loan obtainable by various categories of participants and number and value of loans guaranteed by category of borrowers. Other indices include the volume and value of fully repaid loans and volume and value of default claims. The time-series data (1978-2005) collected were analyzed with a combination of statistical techniques which includes

The exponential growth function defined as

$LG_i = AB^t$.....i = 1, 2, 3........., 12 .... (1)

Where LG_i = number or value of loans guaranteed for the ith purpose in the crop and livestock sub-sectors; t = time trend in years; A and B are the parameters to be estimated,

i = the 12 sub-sectors of crop and livestock included in the analysis.

To estimate growth rate, equation 1 was converted to the linear form

$\ln LG_i = \ln A + t \ln B$ ....(2)

If $\ln LG_i = y$, $\ln A = a$ and $\ln B = b$, then equation 2 becomes

$Y = a + bt$ ....(3)

Therefore growth rate(r) = Antilog b – 1, i.e. e^{b-1}

Multiple Co-integration: This was used to determine whether or not there is a long-run relationship between agriculture gross domestic product (GDP) regarded as a proxy for agricultural production and some credit-related factors following what was done earlier by Mafimisebi (2004). The credit-related factors used in the co-integration analysis included

1) Federal Government recurrent budget on the agricultural sector (FGRECBA);
2) Federal Government capital budget on the agricultural sector (FGCAPBA) ;
3) Total volume of loans to the agricultural sector by commercial and merchant banks (TVLACMB) ;
4) Total number of loans guaranteed by the ACGSF (TNLGUAD) ;
5) Total value of loans guaranteed by the ACGSF (TVLGUAD) ;
6) Lending rate to the agricultural sector (LENRAGS in %);
7) Food importation bill (FOODIMB) ;
8) Cumulative number of fully repaid loans since Scheme's inception (CNFRLSI) ; and
9) Cumulative value of fully repaid loans since Scheme's inception (CVFRLSI).

The co-integration analysis followed the usual step of testing for the characteristics of time-series data especially that relating to non-stationarity using the Dickey Fuller (DF) and the Augmented Dickey Fuller (ADF) class of unit roots test (Dickey and Fuller, 1979; Engle and Yoo, 1987; Mackinnon, 1990; Mafimisebi, 2002; 2007 and Mafimisebi *et al*., 2008).The maximum number of lags used in the stationarity test was six (6) and the optimal lag for each time-series was selected using the Akaike Information Criterion

(AIC). Two or more variables are said to be co-integrated if each is individually non-stationary (i.e. has one or more unit roots) but there exists a linear combination of the variables that is stationary. Other attributes of co-integration are as shown in Engle and Yoo (1987) and Silvapulle and Jarasuriya (1994).

For the multiple co-integration test, the maximum likelihood procedure for co- integration propounded by Johansen (1988), Johansen and Juselius (1990, 1992) and Juselius (2006) was utilized. This is because the two-step Engle and Granger procedure suffers from the simultaneity problem and the results are sensitive to the choice of dependent variable (Baulch, 1995).

The findings from the Nigeria ACGSF are discussed under the following sub-headings;

(a) Paid-up Share Capital and Total Asset of the Scheme.

The ₦85.5 million paid-up capitals at commencement of operations in April, 1978 increased to ₦ 147.4 million ten years later (31st December, 1988) as a result of investing it in government securities. This is an average annual growth rate of about 7.24%. As at 31st December, 1998, the Scheme's paid-up capital is in the order of ₦ 1.78 billion which gave an average growth rate of 18.34% between 1988 and 1998. By December 31st, 2005, the paid-up capital stood at N2.5 billion. The average annual growth rate in this seven year period (1998-2005) was 5.06%. The mean annual growth rate of paid-up share capital for the period reviewed (1978-2005) is about 10.21%. Of the ₦ 2.5 billion paid-up share capital as at end – December 2005, the CBN had fully paid up its share of ₦ 1.33 billion. The total resources of the scheme as at end-December 2004 stood at ₦ 4.4 billion. By 2005, total fund resources had increased to ₦ 4.7 billion. This consistent increase and increasing growth rate of fund resources in the last three years of the period covered in this review is commendable and is an indication of prudent management of scheme's financial resources.

Owing to feedbacks to the FGN and the Managing Agent (CBN) that the financial resources of the scheme are inadequate to support the number of farmers demanding guaranteed loans, the CBN initiated the Trust Fund Model (TFM) in which other stakeholders were persuaded to augment farmers' savings security. As at end- December 2005, fifteen (15) stakeholders comprising ten (10) State Governments, three (3) oil companies and two (2) NGOs have adopted this model which had yielded ₦ 1.6 billion (CBN, 2005) as additional funds for guaranteeing credit. Thus, modest progress has been recorded in recent years in terms of widening participation in the Scheme.

(b) Changes in Loan Ceilings under the Scheme.

In tandem with reducing value of the naira due to inflation, there has been a consistent upward review of the maximum amount of loans obtainable by various categories of participants in the scheme. At inception in 1978, the maximum amounts of loans guaranteed under the Scheme were ₦5000 for small-scale farmers, ₦100,000 for individual large-scale farmers and ₦1.0 million for co-operative societies and corporate bodies. Loans for small-scale farmers were usually uncollateralized. These amounts were increased from time to time to make up for inflation. By 1998, the ceiling on loanable funds was reviewed upward to ₦20,000, ₦0.5 million and ₦5.0 million for small farmers, large farmers and cooperatives/corporate bodies, respectively. The upward review was carried out to cushion the effect of inflation and to encourage farmers to draw facilities for the expansion of their farms. The high rates of inflation witnessed in the country between 1999 and 2001 led to another upward review of guaranteed loan limits under the Scheme for some categories of borrowers in 2002. The limit for collateralized loans was raised from ₦0.5 million to ₦1.0 million for large-scale farmers while that of co-operative societies and corporate bodies was jacked up to ₦250 million from ₦5 million. Non-collateralized loan for individual small-scale farmers remained at ₦20, 000.

(c) Number and Volume of Loans Guaranteed

In line with the consistent upward review in the authorized and paid-up capital and the ceiling on loans obtainable by various categories of participants, there had also been increases in the numbers of loans guaranteed under the Scheme. As at end-1988, a total of 20,284 loans have been guaranteed up from 341 in 1978. The value of loans guaranteed in 1988 was ₦ 90.8 million which represented 21.6% of the total of ₦ 420 million from inception in 1978, and a 54.6% increase over the level in 1987. By 1998, the Scheme had guaranteed loans valued at ₦ 1.5 billion and had approved ₦ 252.2 million for payment to PLBs that suffered defaults. In 2002, a loan amount valued at ₦ 1.8 billion had been guaranteed while about ₦ 728.5 million had been paid out in default claims to PLBs. In the last four years, loans valued at ₦ 1.1 billion, ₦ 2.1 billion, ₦ 2.6 billion and ₦ 3.1 billion have been guaranteed at an annual growth rate of 44.6%.

(d) Distribution of Loans by Size and Term Structure

In terms of size of loans, small-scale farmers predominate in the Scheme. In 1988, 80.7% of the number of loans guaranteed went to small farmers who borrowed ₦5000 and below as against 72.4% in 1986 and 75.1% in 1987. Farmers who borrowed between ₦5000 and

₦50,000 accounted for about 16.9% while about 24.0% went to co-operatives/companies borrowing between ₦50,000 and ₦1.0 million. In 1986 and 1987, the last two categories of farmers received an average of 22.5 and 2.4% of the number of loans respectively. In 1998, and in the last three years of the Scheme, the distributions described above have not changed considerably. In 2004 for example, loans within the range of ₦ 20,000 to ₦100, 000 accounted for 87.2% of a total of ₦2.1 billion. In 2005, out of 46,238 guaranteed loans valued at ₦3.1 billion, 28,070 or 60.7% went to small-scale farmers. This accounted for about 65.5% (or ₦ 2.03 billion). The dominance of small-scale farmers in the Scheme is commendable as these farmers have been the focus of government's agricultural policy in the past three decades. This is probably an indication that the Scheme has brought about a positive response by banks to government's directive to lend to small-scale farmers, especially those borrowing N20, 000 and below, without demanding tangible securities.

In terms of categories of borrowers, as at end -1988, 96.1% of total guaranteed loans went to individuals, 1.3% went to co-operative societies and 2.3% went to corporate bodies. Looking at value of guaranteed loans received, individuals, co-operatives and corporate bodies received 37.5, 1.6 and 60.9%, respectively. In 1998 and particularly in the last three years covered by this review, there has been a considerable change in this distribution pattern. For example, in 2004, individual borrowers dominated the Scheme with the number and values of loans guaranteed put at 34,912 and N2.0 billion representing 99.6 and 96.5% of the total respectively. In 2005, individual borrowers accounted for 99.0 and 97.5% respectively of the total volume and value of loans guaranteed. Co-operative societies accounted for 0.3 and 1.0% while corporate bodies took the balance.

Considering term structure of loans, short term loans of less than three years continue to dominate lending under the scheme from inception. As at end-December, 1988, such loans accounted for 97% of total loans guaranteed. Medium term loans that matured between three and five years constituted 2.8% and those falling due in over five years, took 0.2%. This is comparable with the situation in 1987 when short, medium and long term loans accounted for 96.5, 3.1 and 0.4% respectively of total number of loans guaranteed. This distribution pattern has not changed considerably at end-December 1998 and in last three years of the scheme for which the average distribution was 94.6, 4.4 and 1.0%, respectively.

(e) Number and Value of Fully Repaid Guaranteed Loans and Claims Payment

A total number of 1234 loans amounting to

₦19.8 million were fully repaid as at end-December, 1988. These showed increases of 279 or 22.6% and 17.7 million or 84.9% respectively in the number and value of loans repaid over the preceding year. Banks submitted 156 default claims valued at ₦11.84 million bringing outstanding claims to 458 valued at ₦ 33.9 million. The claims submitted were 32.9% higher in number but 0.06% lower in value compared with 1987. Twenty-one (21) of the claims were in respect of loans to company, two and 132 resulted respectively from loans to co-operative societies and individuals. Food crops accounted for 85 or 54.5% of the number of claims, poultry 67 or 42.9%, cash crops 3 or 1.9% and fisheries/others 1 or 1.5%. Out of the total value of default claims, poultry accounted for N7.6 million of 64.4%, food crops ₦ 4.06 million or 34.3%, cash crops ₦0.083 million or 0.7% and other livestock ₦0.059 million or 0.5%. The cumulative number and value of claims settled was 228 valued at N1.14 million.

By end-1998, 3659 loans valued at ₦53.9 million were fully repaid. This represented a shortfall of 18.0% and 12.0% in the number and value of loans fully repaid in the preceding year. As at end 2004, the total number and value of fully repaid loans stood at 26,208 and ₦1.17 billion respectively, representing increases of 21.0 and 28.7%, respectively, above the levels in the preceding year. From inception of the Scheme to end- December, 2004, the cumulative volume and value of fully repaid loans was 397,422 or N7.6 billion respectively. Similarly, a total of 278,104 loans valued at ₦4.5 billion have been fully repaid as at end 2004. This represented repayment rates of 70.0 and 60.0% respectively. This repayment performance is far better than the case for non-guaranteed agricultural loans which stood at 50.1% in the community banks and 30.5% in the defunct Nigerian Agricultural and Co-operative Banks (Coster, 1998, Mafimisebi *et al*; 2005).

A total of 2,061 outstanding claims valued at ₦98.0 million was approved by the board of ACGSF and disbursed to participating banks in 2004. In 2005, the total number and value of fully repaid loans were 32,519 and ₦1.9 billion representing increases of 24.1 and 58.8%, above the levels for 2004. The total number of fully repaid loans from inception stood at 310,623 valued at ₦6.4 billion, representing a repayment of 70.0 and 60.1% respectively of the volume and value of loans granted. The Board of ACGSF also approved in 2005, the payment of 2,382 outstanding genuine claims out of the backlog of unsettled claims accrued between 1978 and 1998 valued at ₦18.8 million, compared with 2,061 valued at N98.0 million in 2004. However, as at end-2005, a total of 1,682 loans valued at ₦260.0 million are still undergoing verification by a special taskforce commissioned to accelerate the processing of the backlog.

(f) Result of Co-integration Analysis

The Dickey Fuller and Augmented Dickey Fuller class of unit root tests were applied to the natural logarithms of each variable over the period 1978 to 2005 with an intercept and a linear trend. As shown in Table 3, all the variables accepted the null hypothesis of non-stationarity at their levels at the 5% significance level. On first-differencing, however, the null hypothesis of non-stationarity was rejected in favor of the alternative by all the variables except FGCAPBA and FOODIMB. These variables were only stationary on second-differencing; they were therefore not included in the co-integration analysis since they could not be integrated with the others because they were generated by different stochastic processes (Baffles, 1991, Baulch, 1997, Franco, 1999 and Mafimisebi, 2002, 2007).

Table 3: Dickey Fuller and Augmented Dickey Fuller Statistic

Variable	At its level 1(0)	1st Difference I (1)	2nd Difference I (2)
GDPAGRS	-2.0752 NS	-5.4502 (S)	
FGRECBA	-2.8991 NS	-4.4467 (S)	
FGCAPBA	-2.5924 NS	-2.8604 (NS)	-5.1513 (S)
TVLACMB	-1.9626 NS	-3.8702 (S)	
TNLGUAD	-1.6455 NS	-5.4148 (S)	
TVLGUAD	-2.5704 NS	-3.9192 (S)	
LENGRADS	-1.8610 NS	-5.2282 (S)	
FOODIMB	-1.5543 NS	-2.7245 (NS)	-4.9278 (S)
CNFRLSI	-1.7273 NS	-3.8869 (S)	
CVFRLSI	-1.4913 NS	-3.8927 (S)	

Source: Compiled from print-out of data analysis

Notes: The critical values are -3.6027, -3.6119 and -3.6219 at 95% confidence level for I (0), I (1) and I (2) respectively. If the absolute value of the DF or ADF statistic is less than the tabulated value, we fail to reject the null hypothesis of non-stationarity.

NS means non-stationary and S means stationary.

The result obtained showed that all the variables accepted the null hypothesis of non-stationarity at their levels at the 5% significance level. When first-differenced, the null hypothesis of non-stationarity was rejected by all the variables, except FGCAPBA and FOODIMB. The two variables were stationary after the second difference and were then dropped out of our co-integration analysis.

The result of the multiple co-integration analysis between GDP and the remaining seven other time series shows that there were at least six co-integration equations at the 5% significance level using the maximal eigen value of the stochastic matrix. Table 4 presents the maximal eigen value test of the null hypothesis showing that there are at most r co-integrating vectors (r<0) against the alternative of one co-integrating vector (r =1). The test statistics (185.5385) is greater than the 95% critical value (55.1400), leading to the rejection of the null hypothesis and indicating that there is at least one co-integrating vector. The null hypothesis of r<1, r<2, r<3,r <4, r<5 against their respective alternatives (i.e r=2, r=3, r=4, r=5 and r=6) were also rejected at their respective 95% critical values (i.e 49.3200, 43.6100, 37.8600, 31.7900 and 25.4200). However, the null hypothesis of r<6 against the respective alternative (r=7) could not be rejected at the 95% critical value, suggesting that there are six co-integrating equations.

Table 4: Co-integrating Likelihood Ratio Test Based on Eigen Value of the Stochastic Matrix

Hypothesis		Test Statistics	95% central value
Null	Alternative		
r=0	r = 1	185.5385	55.1400
r ≤ 1	r = 2	134.8718	49.3200
r ≤ 2	r = 3	68.5323	43.6100
r ≤ 3	r = 4	44.2908	37.8600
r ≤ 4	r = 5	37.2487	31.7900
r ≤ 5	r = 6	29.2060	25.4200
r ≤ 6	r = 7	12.6190	19.2200
r ≤ 7	r = 8	6.2404	12.3900

Source: Extracted from print- out of co-integration results

Notes:

r denotes the number of co-integrating vectors. A maximum of two lags were used in the augmentation, eigen values in descending order; 0.9979, 0.9884, 0.7715, 0.77111, 0.6223, 0.3434 and 0.1878.

On Table 5 is presented the long run unrestricted error correction results for the variables. It showed that only TVLGUAD and TVLACMB were significant at 5% while the other variables were not significant even at 10% significance level. All the variables except TNLGUAD, CNFRLSI and FOODIMB had expected signs and conformed with *a priori* expectations and were thus consistent with economic theory. In order to get the restricted parameter estimate, the variable with the lowest probability value was removed one after the other and the test re-run after that. For the first test, FOODIMB (-2) with a probability value of 0.9628 was removed. Consequently, variables were removed in decreasing order of magnitude. After the removal of a variable, the test was re-run before another variable was removed. After doing this, the long-run restricted model presented in Table 6 was obtained. The coefficient of determination, R^2 is shown to be 0.5648. Thus, about 56.5% of variations in agricultural sector GDP can be explained by the independent variables TVLGUAD and TVLACMB. The Schwartz information criterion (SIC) improved from 0.01582 to -0.08751 implying that the restricted model carried more information. The F- statistic value was significant at 10% while the DW indicated no first order autocorrelation. In the restricted model, TVLGUAD and TVLACMB were both significant at 5%. The error correction term (ECM) of 53.17% showed the rate of adjustment or field back mechanism from short-run disequilibrium and it was significant at 5%. This result confirmed significant relationship between the output of the agricultural sector as proxied by the GDP and total volume and value of loans guaranteed the agricultural sector.

Table: 5 Unrestricted Parameter Estimate Results

Variable	Coefficient	Standard error	t- statistics	Probability
△GDPAGRS (-1)	0.56073	0.33265	1.68498	0.1236
△△GDPAGRS(-2)	0.29061	0.34471	0.84370	0.4201
FGRECBA	-0.14935	0.24556	-0.60847	0.5587
△FGRECBA(-1)	-0.06017	0.16593	0.36809	0.7270
△△FGRECBA(-2)	-0.13108	0.15305	-0.71612	0.4128
FGCAPBA	-0.18234	0.17167	-0.71612	0.4003
△FGCAPBA(-1)	-0.11121	0.14426	-0.66461	0.4986
△△FGCAPBA(-2)	-0.18074	0.16413	-0.60112	0.5144
TVLACMB	0.82361	0.32018	2.60391	0.0268 *
TVLACMB(-1)	0.61114	0.37914	2.0136	0.0388*
TVLACMB(-2)	0.59230	0.3046	2.0006	0.0409*
TNLGUAD	0.12361	0.16342	0.81623	0.4043
△ TNLGUAD(-1)	-0.01114	0.13114	0.6542	0.4813
△△TNLGUAD(-2)	-0.09230	0.10102	0.60274	0.4718
TVLGUAD	0.78714	0.30102	2.56084	0.0251*
△TVLGUAD(-1)	0.71121	0.32145	2.63721	0.0326*
△△TVLGUAD(-2)	0.66141	0.31268	2.66841	0.0418*
LENGRAS	-0.11971	0.31117	0.38213	0.7110
△LENGRAS(-1)	0.14543	0.31081	0.46885	0.6505
△△LENGRAS(-2)	0.42438	0.29298	1.45034	0.1890
FOODIMB	0.27373	0.21460	1.27770	0.2353
△FOODIMB(-1)	0.03348	0.16827	0.20006	0.8455
△△FOODIMB(-2)	0.16191	0.21258	0.75792	0.9628
CNFRLSI	0.14826	0.30148	0.72162	0.4162
△CNFRLSI(-1)	0.11114	0.14314	0.68214	0.4333
△△CNFRLSI(-2)	0.01889	0.12316	0.62261	0.4716
CVFRLSI	0.30402	0.2126	1.36851	0.2871
△CVFRLSI(-1)	0.31141	0.2224	1.37201	0.2801

△△CVFRLSI(-2)	0.2336	0.19978	1.19732	0.3204
C	-0.04713	0.19074	-0.24883	0.8049
ECM2(-1)	-1.15371	0.40858	-2.82005	0.0240

Source: Extracted from computer print-out of results

Notes:

** Means significant at 5%*

r Means fist difference

rr Means second difference

R^2 = 0.7726   F-Stat= 1.652 R^{-2}= 0.6448

D-W= 2.008

Schwartz Criterion= 0.01582

Table 6: Results of the long-run Restricted Model

Variable	Coefficient	Standard Error	t- statistics	Probability
TVLGUAD	0.63078	0.19521	3.23217	0.0034**
TVLACMB	0.61847	0.20872	3.44814	0.0052**
ECM2 (-1)	-0.53171	0.17857	-2.97449	0.0438
C	-0.11690	0.06517	-1.76676	0.0886

Source: Extracted from computer print-out of results

Note:

**= significant at 1%

R^2= 0.5648 R^{-2}=0.5446   DW= 1.771

F-Stat= 8.009 Schwartz Criterion= -0.0087

However, the effects of these two independent variables on agricultural GDP manifested a year after. This is understandable because agriculture has a gestation period. The equation for the restricted or under-parameterized model is then specified as

DLOG (GDP)= -0.11069 + 0.63078 D LOG (TVLGUAD) + 0.61844 D LOG(TVLACMB) -0.53171 ECM2(-1).

From the econometric results, it was shown that the output of agriculture proxied by agricultural GDP is influenced to varying degrees by a number of factors. In the restricted model, the total number and volume of loans guaranteed to the agricultural sector were found to be the only significant factors determining GDP.

The empirical findings from the Nigeria ACGSF have implications for overall economic growth in other African countries. It is informative that our empirical results in this study establishes that agricultural sector performance is determined by and tied in the long run to the number and volume of guaranteed loans. This may be a pointer to the fact that the popular argument that the African agricultural sector needs little or no financial investment because of its largely subsistent nature is no longer tenable. With the recent drive for commercialization of African agriculture, considerable financial investment for agricultural sector development is an urgent necessity (Interacademy Council, 2004). Probably owing to the failure to put the policies and investments needed to achieve it in place, only about ten African countries; Nigeria, Uganda, Kenya, Benin, Tanzania, Botswana, Chad and Comoros had, in the late 1980s or early 1990s, achieved or come close to achieving the recommended 4% minimum annual agricultural growth rate necessary for Africa to achieve sustainable economic growth. The fact that some of these countries are resource-poor is heart-warming news for other resource-constrained countries in Africa. The earlier African governments recognize and give priority attention to financing agriculture, the better it is for the African economy. There are compelling and justifiable reasons supporting the issue of appropriately financing agriculture through innovative credit reform programmes.

The promise for the overall development of African economies lies in the agricultural sector for reasons that have been explained earlier in the introduction to this paper. Analysis undertaken for SSA found that agricultural development is the most important contributor to the development of industrial, manufacturing and services sectors. This is because agriculture is the major source of raw materials for industry, is a main purchaser of simple farm tools (farm implements), is a purchaser of services (farm mechanics, transport, hired labour) when farmers diversify into other ventures or crops/commodities attracting higher prices with possibility for boosted growth, and farmers are the main consumers of consumption goods produced locally. The outcome of this is that the multiplier effect of farmers' extra dollar income is three and can be more if and when the largely subsistent African economy becomes fully monetized (World Bank, 1989, 1993, Haggblade *et al*., 1989 IFPRI, 2001, Interacademy Council, 2004, NAS, 2008).

In Africa, an average of 70 percent of the population lives by farming, and 40 percent of all exports are earned from agricultural products one third of the income of the continent is generated by agriculture. The highest incidence, depth and severity of poverty are found among the rural, agriculture-dependent members of the society (World Bank, 1993; 2002). With most of the rural population living below the poverty line, spending deficit ratio is high and achievement of food security in most countries will be most enhanced with the achievement of high agricultural growth rates and with widespread participation of the rural populace in such growth. Enhanced food security and poverty reduction are critical indices of economic development in African countries. Agricultural production will remain the most important element for addressing unemployment, food insecurity and poverty since most of the poor and the food-insecure are rural people. Being the largest private sector in the continent, stimulating the private sector is tantamount to stimulating agriculture and agriculture-related industry. Improving the economic activities of women, who preponderate in the agricultural sector, means in large part helping them to become better farmers (World Bank, 1993, Mafimisebi and Fasina, 2009). For these people to increase income in most cases, they will have to increase agricultural production. In addition, since local transport and distribution constraints in many African countries restrict many rural people from accessing food markets in the urban and mega cities, the most secure supply is their own production.

Agriculture holds the promise for Africa's economic growth also because the industry has a lower base from which to grow. A 1% growth in agriculture in SSA has been found to cause economic growth of 1.5 times this amount due to the stimulus to industry, transport and services (Haggblade *et al*., 1989). Crop yields are ridiculously low (Idachaba, 2000, NAS, 2008) while fertilizer use is a small fraction of quantity used in other countries (World Bank, 2006). Irrigated area is about 20% of potential. Development of Infrastructures and institutions impinging on agricultural sector performance lag far behind those of other developing countries while private investment is negligibly low (World Bank, 1993, Mafimisebi, 2002b; 2009; NAS, 2008). All this provides large scope for rapid growth in the agricultural sector with appropriate financing which will translate to overall economic growth.

4. Missed Steps and Prospects in Credit Programmes

A number of missed steps exist in the running of the credit programmes which other African countries intending to do same or similar programme must learn from. In the ACGSF in Nigeria, these missed steps are:

(1) Persistent lag between authorized and paid up capital .The FGN is the more culpable defaulter in this regard. For a government that seeks to revitalize agriculture by channeling institutional credit into it, paying up its full share of the authorized capital needed to secure more commitment from participating banks, should be a matter of priority. This is more so as the number of farmers demanding loans increase year-in-year out while the Managing Agent and PLBs need more funds to serve as guarantee against default risk. To stimulate new bodies buying into the Scheme, the Federal Government should demonstrate its commitment by fully paying its share of the authorized capital. Although it is understandable that the FGN has other credit programmes from which agriculture also benefits,

it is still worthwhile for it to live up to expectations in terms of her shares of authorized capital. This is because the Scheme occupies a unique position in terms of agricultural finance since its commencement in 1978. The fact that the Fund has not been scrapped nor is the FGN contemplating scrapping it in the nearest future is probably a result of its commendable performance. Only few programmes or policies started in 1978 as the Scheme are still in operation in any sector of the Nigerian economy especially in the Nigerian agricultural sector which is notable for its high mortality rate of policies and programmes (Idachaba, 1995; 2000).

(2) The stagnation of loan ceiling for non-collateralized loans at ₦20,000 is a disservice to small-scale farmers who are responsible for virtually all the locally produced agricultural products in the country. Owing to high inflation rate in the country which reduces the purchasing power of the Naira, there is the need to review upward the loan ceiling for this category of farmers. This is informed by our finding that some non-collaterized loans regarded as bad loans in one year sometimes becomes fully repaid a few years after as the fortune of the farmer improves. Also, research findings indicate that the tendency for loan diversion increases when the amount received is below what is required to establish or maintain the farm firm (Mafimisebi *et al*., 2006, 2008).

(3) The non-passage of the amendment bill to the Act establishing the Scheme by the National Assembly. This has made the much desired total overhaul of the Scheme, to ascertain factors that will lead to more satisfactory performance, impossible.

(4) The problem of backlog of unsettled claims some of which span over twenty years is a clog in the wheel of progress for the Scheme. It is highly undesirable for claims by participating banks to lie unsettled for more than two years in an economy like Nigeria's where there is high rate of inflation. Delays in claims settlement tends to erode the confidence of banks in the Scheme and this is probably responsible for the poor growth in the number of banks participating in the Scheme. There were also delays by the Fund in processing default claims arising from failure or slowness by some participating banks in furnishing the Scheme with returns on

loans and complying with the established procedure for filing claims stipulated in the Scheme's Guidelines.

(5) The low number of stakeholders (states, local governments, multinationals and NGOs) responding to the Trust Fund Model has also limited the quantum of funds available for the Scheme to guarantee loans received by farmers. It is obvious that the share contribution to the Scheme by the FGN and CBN alone can no longer cope with the demand for guaranteed loans nationwide. Since the TFM commenced as a framework for fund intermediation for agricultural purpose in 2001, only about 15 stakeholders comprising 10 State Government (out of 36), 3 international corporations and 2 NGOs have adopted the model as at end-December, 2005 with a total deposit of ₦1.6 billion. The response to the persuasive call to rescue and resuscitate Nigerian agriculture by contributing to the fund available to guarantee loans to farmers can at best be regarded as poor.

(6) Other problems which affect agricultural development and *ipso facto* the operations of the Scheme include delays by banks in processing and disbursing loans, ineffectiveness of credit delivery machinery, delays by state governments in issuing certificates of occupancy to prospective or existing farmers who desire to expand their operations, poor transportation, agricultural research and extension, insurance, finance, marketing and storage facilities (Mafimisebi, 2009).

There is the optimism that the present performance of the Scheme in terms of number and value of loans can be surpassed in future years based on the following.

1. With appropriate incentives being made available by the various governments, there is going to be a continued increase in the number of young educated people taking to farming on account of non-availability and increasing difficulty of securing non-farm employment. This is corroborated by the fact that despite rapid structural changes in the Nigerian economy making agriculture to account for less and less proportion of the GDP, the sector together with its agribusiness counterpart, still provides employment for up to 70% of Nigerians in 2005 (CBN, 2005). Since most of this young people are those with little or no financial resources to support investment in commercial agriculture, they will most probably rely on guaranteed institutional credit from the Scheme.

2. The increase in supply of credit to agriculture following the removal of restrictions on interest rate on agricultural loans, whereby banks could charge up to 22% interest on agricultural loans as other loans, connotes that lending banks will be on the lookout for appropriate credit guarantee arrangements under the Scheme. Also, the removal of maximum lending rates for all sectors of the economy including agriculture will have the same effect of lending banks seeking more protection for their loaned funds from the Scheme.

3. Following banking sector consolidation which has increased the strength and capital base of banks to lend to weak sectors of the Nigerian economy, many banks participating in the Scheme have come up with innovative products in form of special credit programmes in favour of agriculture in general and small-scale farmers in particular.

4. There are continued efforts by the FGN and CBN to enlighten the public on the Scheme and getting more stakeholders to contribute to the pool of funds available for guaranteeing agricultural credit. Efforts are also geared at getting more PLBs to comply with new and constantly modified measures aimed at increasing lending to agriculture. The most important of these measures is licensing of more banks to join the Scheme and make them lend actively to the agricultural sector.

5. Summary and Recommendations

This paper is a perspective on special credit schemes for agriculture aimed at enhancing the flow of funds into agriculture from formal institutional sources. We examined the justifications for instituting and implementing the schemes in the countries in which they are used. The paper carried out an investigation of the quantitative impact of the programme on agricultural sector performance in the case of Nigeria. The major findings of the study are as follows:

1) The main justification for the introduction of the various schemes was to encourage lending to agriculture by banks to stimulate production and productivity gains in agriculture.
2) The ACGSF as organized in Nigeria is cheap to run despite being a subsidization programme.
3) A performance review shows that the Scheme is not doing badly and this is probably the reason why no regime has ever contemplated scrapping it since inception.
4) The TFM needs to be aggressively popularized.
5) Majority of the clients serviced are small-scale farmers who demand guaranteed short- term loans within the range of N 20,000-N50,000.
6) There is a positive rate of growth in the paid-up share capital, total fund resources, ceiling on each loan category, number and volume of loan guaranteed, loans fully repaid and number and volume of claims settled.
7) There is justification for the Scheme to continue operations since this study has established that the volume and value of loans guaranteed have a long-run relationship with the agricultural GDP. This connotes that enhanced performance of the Nigerian agricultural sector is tied to the volume and value of guaranteed loans and hence, efficient operations of the Scheme.

For improved performance of the scheme, the following recommendations are made. Government of African countries should as a matter of priority, commence and increase programmes designed to attract funds from formal institutional sources for investment in their agricultural sectors. This is to financially reposition their agricultural sectors for better performance. This is necessary because of failure of various mechanisms put in place to ensure this. The TFM is one to be adopted to increase financial contributions to the credit guarantee scheme to increase its financial base. This will ensure that more funds are available to guarantee agricultural loans advanced by participating banks and enable the scheme serve more farmers. Finally, there should be a kind of reward system put in place for guaranteed loan users who utilized loans for stipulated purposes and repay loans as and when due. Our farmers should be regarded as our noblest citizens if agriculture is to be truly accorded its pride of place and better repositioned to perform its traditional roles. Such rewards will motivate other loan users to effectively utilize loans, avoid loan diversion and deliberate default which are both detrimental to effective running of credit schemes.

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Session 4

Strengthening the agricultural sector for sustainable economic development

Renforcer le secteur agricole pour le développement économique durable

Exploiting the Potentials of Agriculture for Sustainable Economic Development in Africa

By Odinakachukwu Ejiogu

By Odinakachukwu Ejiogu[2]

Executive Summary

Food security refers to the ability of individuals and households to meet their stable food needs all year round. All year round availability and affordability of food is achieved through exploiting the potentials of agriculture.

In addition to ensuring food security agriculture provide employment for over 80% of the people of sub-Saharan Africa. It is also a major source of income, foreign exchange earnings and raw materials for the industries.

Against the background of the role of agriculture in the development process that this paper reviews the status of agriculture in some selected countries in Africa. The paper also offered some recommendations aimed at the attainment of sustainable development through a more productive and profitable agricultural sector.

Nigeria has an arable land of 72 million hectares with only 50% currently under cultivation. In Ethiopia, agricultural harvests rely on rain with only 2.5% of the crop land under irrigation. Between 1974 and 1993, the decline in Kenya's economic performance was traced to inappropriate agricultural policies, inadequate credit and poor international terms of trade. In Tanzania, topography and climatic conditions constrain cultivated crops. In Swaziland the Title Deed Lands are characterized by high levels of investment and irrigation and high productivity. There is also the Swazi Nation Land which employs 75% of the population in subsistence agriculture and is characterized by low productivity and investment. This dual nature of the economy tends to explain overall low growth and unemployment.

In Sudan, agriculture, which is the most important sector of the economy, is beset with vulnerability to drought and long drawn civil war.

This paper brings to the fore some measures

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aimed at stemming the slide in agriculture. One is the comprehensive Africa Agriculture Development Programme whose mutually reinforcing responses for immediate improvement of agriculture include extending the area under sustainable land management and reliable water control systems, improving rural infrastructure and trade related capacities for market access, increasing food supply and reducing hunger. The long term response refers to agricultural research technology dissemination and adoption. The essence of these responses should be explored. However, care should be taken and in implementing the establishment of water control systems and increasing the area of land under cultivation so as not to bring about negative environmental consequences. Other potentials to be explored for enhancing agricultural productivity include agricultural trade liberalization, adoption and irrigation of climate change concerns and building new capacities and incentives for agricultural entrepreneurship.

The problems confronting agriculture are not new; recommendations for solving them are not new either. A closer look at the situation shows that we tend to be high on policy pronouncements but abysmally low on diligent and effective execution. In our fresh impetus to the search for how to achieve a strong and sustainable economic growth in Africa, we should to all intents and purposes, religiously implement policies and programmes we have formulated for ourselves.

Introduction

Conceptual complexities characterize operational definitions of sustainable development. Conceptual compartmentalization has been anchored on either economics or ecology. Economists believe in the infinite possibility of substituting man-made and human capital for natural resource capital through human inventiveness and institutional responsiveness (Schuh, 1987). On the other hand, ecologists have the idea of absolute scarcity; that the assimilative capacity of the environment with respect to human activities is limited and so a constraint on economic growth (Underwood & King, 1989).

Bifurcated and dichotomous definitions of sustainable development are both narrow and limiting. For example, the economic definition focuses on managing economic systems so that the people live off the dividend of the resources in the land and maintain and improve the asset base (Repetto, 1986). Though, similarly narrow, ecology-based definitions dwell on using renewable natural resources in a way that does not degrade nor diminish their renewable usefulness for future generations (Goodland & Ladec, 1987).

Interestingly, improvements in the traditional versions of these definitions have been made. The improvements can be seen in their being broad-based, multidisciplinary, inter-temporal and multi-sectoral. For instance, according to World Commission (1987), sustainable development is development that meets the needs of the present generation without compromising the ability of future generations to meet their own needs. It is humanity's ability to survive by means of the rational use of renewable resources, refraining from disrupting the ecosystem or over-exploiting natural resources and allowing societies to reach their potential (Ballara, 1991).

According to Eboh (1995), the basic principles on which the concept of sustainable development is embedded include equity, stability, co-evolutionary growth and participation, and food security. Equity emphasizes equal and equitable access to natural resources and to social and economic goods. Eboh (1995), espoused stability in terms of economic, political and ecological perspectives. Economic stability stresses sustained growth, employment, fiscal balance and prosperity. Political stability emphasizes enduring democratic cultures and institutions, regional peace and security. Ecological stability refers to man-nature balance through sound environmental management.

As a principle underlying sustainable development, co-evolutionary growth connotes the nexus of knowledge systems and environmental systems that inherently and inter-connectedly co-evolve. The principle of participation pertains to people oriented development.

Food security refers to the ability of individuals and households, especially the rural and urban poor, to meet their staple food needs all year round. It emphasizes the availability and affordability of food for all in and out of season. In the development process, food security is achieved through exploiting the potentials of agriculture. Agriculture plays other role.

As the largest employer of workers, the agricultural sector is the source of manpower for industrialization (Salvatore & Dowling, 1977). Boosting agricultural productivity enables workers to be drawn from agriculture without serious disruption of food supplies.

Since primary products are the principal source of export earnings in a less developed country, agriculture provides income and foreign exchange. Furthermore, since a large share of natural income is generated in agriculture, agriculture must be a major source of savings.

According to Okuneye *et. al* (2005), the role of agriculture in the economic, social and sustainable livelihood of the people of sub-Saharan Africa can be summarized as follows:

- Provides employment for over 80% of the people;
- Generates over 70% of food people consume;
- Is the major source of foreign exchange earnings;
- Is the main source of industrial raw materials.

To all intents and purposes therefore, exploiting the potentials of agriculture is the key to sustainable development.

In Africa and Asia, about 70% of the Millennium Development Goals target groups living in rural areas. For most of the rural poor, agriculture is a critical component in the successful achievement of the MDGs. As an important economic activity, agriculture provides employment and livelihoods for most people and also provides raw materials for many industries. In most African countries, 70% of the population is supported by agriculture for their survival and well-being (UNEP, 2007).

In terms of animal production, about 70% of the rural poor in Africa rear livestock. Livestock particularly contributes to household resilience to disasters in the arid and semi-arid zones of Africa. It is against this background of the role of agriculture in the development process that this paper is written.

The rest of the paper reviews the status of agriculture in some African countries. Specific recommendation are also offered for the attainment of sustainable development through a more productive and profitable agricultural sector.

2. Status of Agriculture in Some African Countries

NIGERIA

Agriculture has been the main stay of the Nigerian economy. However, its importance has been inversely proportional to the pendulous oscillations in oil revenues (FMANR, 1997). The burden of the coexistence of vast natural resources and extreme poverty (resource curse) tend to be more evident in the agricultural sector (Ejiogu and Okoli, 2008). For instance, Nigeria has an arable land of 72 million hectares with only 50% currently under cultivation. It has a wide range of ecological zones suitable for the production of equally wide range of crops and livestock. Agricultural production accounts for over 40% of Nigeria's GNP (CBN, 2007).

ETHIOPIA

The Ethiopian economy is suffering from a failure to stimulate the supply side which is mainly made up of agricultural productivity (Hailu, 2009). Harvests heavily rely on rain with only 2.5% of the crop land irrigated and three tractors used per 100 hectares of arable land.

KENYA

With only 5% of its land mass as arable land, Kenya after independence experienced rapid economic growth through public investment, incentives for private and foreign industrial investment and encouragement of agricultural production. Agricultural production grew by 4.7% annually between 1963-1973. Growth was stimulated by redistributing estates, diffusing new crop strains and opening new areas for cultivation. (www.cia.gov/Kenya). However, between 1974 and 1993, Kenya's economic performance declined due to inappropriate agricultural policies, inadequate credit and poor international terms of trade.

TANZANIA

The Tanzanian economy is mostly based on agriculture. On its part, agriculture accounts for more than half of the GDP. It provides about 85% of exports and employs approximately 80% of the work force. However, topography and climatic conditions limit cultivated crops to only 4% of the total land area (www.wikipedia.gov/Tanzania).

SWAZILAND

The economy of Swaziland is distinctively dualistic in nature. The Title Deed Lands, where the bulk of high value crops are cultivated, are characterized by high levels of investment and irrigation and high productivity. On the other hand, there is the Swazi Nation Land (SNL) where 75% of the population is employed in subsistence agriculture and is characterized by low productivity and investment. The dual nature of the economy tends to explain the overall low growth, high inequality and unemployment (www.wikipedia.org/Swaziland).

SUDAN

Agricultural production remains Sudan's most important sector employing 80% of the workforce and contributing 39% of the GDP. However, most farms remain rain fed and vulnerable to drought. Instability including long drawn civil war, adverse weather and weak world agriculture prices perpetuate poverty in Sudan.

The green revolution in Asia showed that increasing agricultural productivity plays important role in lifting people out of poverty (Manning, 2007). As a result of the green revolution, the average real income of small farmers in South India rose by 90% in 1973 and 1994 and that of landless laborers by 25%.

However, agriculture in Africa has not been able to contribute to growth as effectively as in Asia. Since 1990, food availability has fallen 3% per capita in Africa, whereas it has increased 30% in Asia. The following section offers some solutions to the problems confronting the full exploitation of the potentials of agriculture for sustainable economic development.

3. Policy Recommendations for Realizing Agriculture Potentials

Some policy responses have been proposed to stem the slide in agriculture. For instance the Comprehensive Africa Agriculture Development Programme (CAADP) was endorsed by African governments in late 2002 under the New Partnership for Africa's Development (NEPAD). The CAADP is divided into immediate and long term pillars. The mutually reinforcing responses for immediate improvement of agriculture include:

Extending the Area under Sustainable Land Management and Reliable Water Control Systems.

This proposal makes a case for the building up soil-fertility and moisture holding capacity of agricultural soils. Furthermore, it also proposes increasing the area under irrigation especially small scale irrigation. Irrigation development and water management occupy a central position in exploiting the potentials of agriculture for sustainable development. Out of the total cultivated land in Africa, only six percent is under *irrigation compared with 33% in Asia. This is the case in Africa where drought periodically wreaks havoc on agricultural production. Irrigation facilities development will not only facilitate all year round water availability but will also make crop and animal production less dependent on rainfall.*

Improving Rural Infrastructure and Trade related capacities for market Access.

This pillar draws attention to the need to raise the competitiveness of local production in relation to imports and export through the improvement of such supporting facilities as roads, storage, markets, and processing and input supply networks.

Increasing Food Supply and Reducing Hunger.

Increasing food supply can be achieved by either increasing the area of land under cultivation or by agricultural intensification. Whichever method chosen by African, countries attention should be paid to environmental sustainability. Related to increasing food availability is the need to improve access to technology by small farmers.

Agricultural Research, Technology Dissemination and Adoption.

This is a long term pillar on which to base productivity gains. This includes

(a) enhanced rate of adoption of yield improving technologies through research extension farmer input-linkage system;

(b) technology delivery systems that are adaptable to the information and communication technologies;

(c) improving the capacity of agricultural research system to generate and adapt innovations to African realities; and

(d) working out ways and means of reducing cost and risks of adopting new technologies.

Agricultural potentials cannot be fully exploited without increased use of more efficient inputs and technologies. Hence, there is the need to ensure greater private sector participation in procurement, distribution and marketing of fertilizer, and herbicides. Other yield increasing technologies that need to be in use by all farmers include improved seed/planting materials and improved livestock breeds.

Technology dissemination is equally important in the adoption and use of modern inputs and technologies. African nations should strive towards meeting the ideal of one well equipped and well-motivated extension agent to one thousand farmers.

Commitment to the implementation of these strategies is less than satisfactory. In fact African *governments are not particularly short of fine policies and programmes on agriculture. What is sorely lacking is successful implementation of the pronounced policies and programmes. Other policies that will enhance the exploitation of the potentials of agriculture for sustainable development are as follows:*

Agricultural Trade Liberalization

The three types of instruments used to protect agriculture in Organization for Economic Cooperation Development (OECD) countries are: (i) trade protection measures and market price support schemes which ensure that domestic producer prices exceed international prices; (ii) direct production related subsidies and (iii) indirect supply through, for instance, research and capacity building (Olofin, Plummer & Sanogu, 2005). For example, average annual support to agriculture in OECD countries reached $330 billion during 1999-2001 period. For this reason, prices received by OECD farmers were higher than world prices. It is suggested that such protections as are found in the OECD countries be removed in favour of agricultural trade liberalization. It believed that agricultural trade liberalization would yield large gains globally and especially to developing sub-Saharan countries who have competitive advantage in producing many agricultural products that are protected in the OECD countries. African countries should endeavourer to push the US-EU to liberalize their barriers to agricultural trade.

Value-Added Production

African economies are delicately dependent on primary production. To broaden the export base and diversify production, it is imperative that value is added through agro-processing. This calls for both public and private investment in agro-processing activities.

Agricultural Credit and Financing Schemes

One of the measures aimed at exploiting the potentials of agriculture essentially includes enhancing agriculture credit and financing schemes especially for the small scale farmers and women. Africa spends an average of US$18 million on food import annually in addition to US$2000 million worth of food aid it receives annually (UNEP, 2007). These amounts are staggering and can be more properly channeled to finance the low-input agriculture for sustainable development. Budget for agriculture of not less than 12% is suggested. There is the need to increase the outreach targeting and impact of agricultural credit and finance schemes that exist in Africa.

Climate Change Concerns

Climate is the most significant factor in determining plant growth and productivity (Buchdahl, 2002). Depending on the response of the climate system and the way the global economy evolves over the next 100 years, global mean temperature is expected to increase. The increase will alter such factors limiting to plant growth as temperature, *precipitation and nutrient supply.*

Moisture and water availability are affected by temperature increase. This is regardless of any change in precipitation. Extreme weather events bring about a change in the frequency and intensity of drought in the drought-prone areas. For instance, years of cumulative extremes led to hunger and famine as typified by the devastating drought in the Sahel region of North Africa during the 1970s and 1980s.

Africa contributes little to the pollution that engenders climate change but is the hardest hit by the drought and flooding cycle that is already affecting parts of the continent. Against the climate change concern, farmers must adjust as and when necessary to the resultant challenges. African countries should as a matter of urgency devise adaptation and mitigation measures against climate change concerns especially in relation to agricultural productivity.

New Capacities and Incentives for Agricultural Entrepreneurship

Exploiting the potentials of agriculture for sustainable economic development should essentially include interventions to strengthen human capacity and improve the skills of the poor farmers. According to Eboh et. al. (2006), improved human capital in agriculture can be achieved by nurturing new capacity in agricultural entrepreneurship. Sustainable development cannot be realized if employment in agriculture is treated as a second rate option fit only for the old illiterate and poor persons.

There is the need for an agricultural education policy designed for supplying requisite skills, knowledge, competencies and attitudes for agricultural entrepreneurship. Economic incentives should be provided to make private agricultural investments more competitive and attractive to growing entrepreneurs.

Summary and Conclusion

This paper focused on exploiting the potentials of agriculture for sustainable economic development in Africa. It has reviewed the role of agriculture in the development process which includes provision for food, foreign exchange, employment, income and savings. Agriculture is confronted with a myriad of challenges with the result that these potentials are less than fully exploited. This paper has highlighted the less than satisfactory status accorded agriculture in some selected African countries. Policies and programmes that are conducive to actualizing the full potentials of agriculture in the developing countries of Africa are also presented in this paper.

Since humanity at large is depended on agriculture sector, the challenges confronting it cannot be ignored. Some of these challenges may not be new. However, defined by the current emphasis on sustainable development and employment generation, these challenges take on particular significance.

Because these challenges are not new, proposals to confront them are invariably not new either. A closer look at the situation shows that we tend to be high on policy pronouncements but abysmally low on effective and diligent implementation. In our fresh impetus to the search for how to achieve a strong and sustainable economic growth in Africa, we should as a rule, religiously implement policies and programmes we have formulated for ourselves.

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Session 5

Africa and a new Development paradigm

L'Afrique et un nouveau paradigme de développement

The Impact of China on the Economies of Sub-Saharan Africa: Opportunities, Challenges and Prospects

By Humphrey P.B. Moshi

By Humphrey P.B. Moshi[3]

ABSTRACT

The increased competitiveness of China, and its enhanced presence in world market, is having major impact on both developed and developing countries. This is especially the case with Africa in general and Sub-Saharan Africa (SSA) in particular, where the presence of China has become quite pronounced. Currently, Sino- African trade is growing even more rapidly than Chinese trade with the rest of the world. It has grown from US$ 2.0 billion in 1999 to US$ 55.5 in 2006. Africa's economies offer huge investment opportunities for the Chinese private sector while Africa entrepreneurs can benefit greatly from Chinese experience, technology and know-how.

The problem is that the emerging relationship between China and SSA, through the channels of trade, aid and FDI, are yet to be adequately studied to know the opportunities, challenges and prospects embedded in such a relationship. The objective of this paper is to attempt to make a contribution to filling-in this gap.

We contend that the "Chinese Development Model" has a number of lessons which can be adapted to the African environment. The idea here is not to replicate the model. Rather, the idea is to extract specific lessons from the Chinese experience that may be relevant to the common and diverse circumstances of many African countries. These lessons range from institutional changes, to specific industrial and trade policy measures, to mechanisms of attracting and disciplining FDI, to devising more effective "reciprocal control mechanisms" between states and business, to enhancing bargaining power and broadening policy space vis-à-vis "the Washington Consensus". However, in order for Africa to tap the development potential embedded in these lessons, a strategy for dealing or engaging with China

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has to be crafted and effectively implemented. Indeed, currently the Sino- Africa socio- economic and trade relations seem to be China driven. This might not empower African countries to fully benefit from such a relationship.

The relative resilience of China, and other Asian economies, to the current financial and economic crisis is a clear manifestation of its robust development paradigm. This in turn demands that the SSA countries have to revisit the neo-liberal paradigm, with its attendant policy and financial dependence on external bi- and multilateral donors, as a way of enhancing ownership of the continent's development agenda; a pre-condition for realizing sustainable socio-economic development and poverty reduction in SSA.

1. Introduction

China's position as an economic powerhouse in the global economy is generating interests, concerns and attention at both the academic and policymaking level. China's rapid growth and increased openness over the past quarter of a century has led to its emergence as a key player in the global economy in the early twenty-first century. China's GDP has grown at over 9 per cent per annum over the past two decades and the OECD (2005) predicts that China will become the fourth largest economy in the world during the next five years. Its share of world trade has risen from less than one per cent in 1980 to almost 6 per cent in 2003, making it the fourth largest trading economy. The increased competitiveness of China and its enhanced presence in world market is having a major impact on both developed and developing countries. This is especially the case with Africa in general and Sub-Saharan Africa (SSA) in particular, where the presence of China has become quite pronounced.

Since the establishment of the Forum for Chinese – African Cooperation (FOCAC), in 2000, China has become one of the most significant actors on African continent. The volume of trade has increased more than fourfold since 2000 and this year it is estimated that, for the first time, will exceed the 50 US dollar billion mark. In this regard. China is already Africa's third most important trade partner, after the USA and France.

Africa exports primarily raw materials, particularly crude oil – about 30 per cent of Chinese oil imports come from Africa – and unprocessed metals, while processed consumer goods such as clothing, plastic products, and electrical goods are imported from China. This asymmetric relationship needs to be seriously addressed by according priority to the aspect of value addition of Africa's exports as a strategy of tackling the continent's core problem of abject poverty.

2. Theoretical Framework

Currently there is lack of a coherent theory guiding the Sino-Africa relations. However, overtime there has been an evolvement of assumptions and hypotheses which aim at analyzing the relationship. We attempt in this section, to revisit some of the explanations for the rapid Chinese expansion into the economies of Sub-Saharan Africa.

One school of thought argues that the Chinese expansion into Africa is underpinned by the construction of strong bilateral relations between Beijing and African regimes, contrary to the principle of multilateralism as advocated by both the G7 and OECD countries. This bilateralism is seemed as being beneficial to the African governments because it enhances their scope for manoeurre (Melber 2008). However, the Chinese foreign policy in Africa with its emphasis on the sovereignty of governments and non-interference is seen as an instrument of promoting autocratic leaders and oligarchies that continue to rule the roots in the majority of African countries, especially those in possession of vast natural resources (Chang and Halliday 2006).

The non-interference issue has been debated hotly in the Western countries to the extent that the Chinese aid to Africa has been characterized as "doing more harm than good" for its failure to match the conditions placed on aid by other countries, including evidence of good governance, respect for human rights and spending directed to alleviate poverty (McGreal 2007).

The other school of thought is underpinned by the spirit of "South-South" cooperation guided by the principle of equality and solidarity. The main argument is that countries of the South should mobilize resources for development among themselves rather than relying on donor countries. It is thus assumed that such mobilization of resources should ensure that a more balanced and equitable global order would be achieved, whereby the development and advancement of the peoples including both China and Africa are prioritized (Fernandez-Taranco 2008). It is in the same context that the Chinese ambitions, from the time of Bandung Conference of 1954 onwards, assumed a hegemonic role in the South, later stoked by Sino-Soviet rivalry, founded upon a necessarily proactive, interventionist role in African countries (Chang and Halliday, op.cit) The message which emerges from the South-South debate is that China's image is seen as an alternative to imperialist and neo-Western interests aimed fostering Africa's development.

The third school tends to view Chinese penetration as another face to capitalism, no more and no less self-interested than similar Western involvements (Melber, op.cit). The penetration is seen as being not only motivated by the scramble for markets but also by the need to position herself as a competitor for increasingly scarce resources (particularly fossil energies). It is no wonder, therefore, so the argument goes, (neo) mercantilist aspects figure prominently in China's intensified relations with a number of politically crucial producer countries in Africa, Central Asia and the Middle East (Giessmann 2006).

The above concerns and criticisms, notwithstanding, the expansion of Chinese interests into Africa and elsewhere is, at the end of the day, informed by the China's foreign policy which, among other things, aims at achieving the following goals. One, preservation of the peaceful environment for continued economic growth and for the social prosperity of Chinese society. Two, support for an economic development that promotes political stability both within China and on its periphery. Three, guarantee an unhindered access to resources, in particular as regards the energy and raw materials sectors.

3. Sub- Saharan Economic Developments

Using the indicator of growth performance, whereas SSA countries have, an average, grew at about 5% over the past four years, China growth performance was at an annual rate of 8.4%. The modest growth in SSA explains why extreme poverty has increased given that one-half of the population is living below the poverty line (IMF, 2006a). The poor growth performance in SSA countries casts doubts on their ability to achieve the Millennium Development Goals (MDGs) of halving extreme poorly by 2015.

However, it needs to be pointed out that economic growth in SSA has picked up compared to the experience in the 1990s. This trend has been attributed mainly to the favourable performance of primary products, including oil and gas on the world market in recent years. This reversal in the secular decline in primary product prices on the world market has, to a larger extent, caused by China's increased demand for such products. China is currently the world's consumer main of iron one, manganese and chrome. It is also estimated that China's import of energy and other raw materials has increased by more than twenty times in the last twenty years. It is further claimed that given the increasing standard of living in China, the demand for products such as soya beans, cotton, wood-and meat products, has been on the rise. For example, 40% of the world's soya beans exports are directed to China (Kreft, 2007).

Other macroeconomic indicators also show that SSA underperforms relative to China. Inflation rate in SSA is higher relative in China. Moreover, while the latter is recording positive current account balances over the period, SSA is increasing the deficit; with the exception of oil exporting countries whose current account balances are positive since 2003 due largely to recent oil price increases.

Asia's trade performance has been important with respect to both total merchandise exports and manufactures. Its share of global merchandise exports increased from 18% in 1980 to 22% in 2000, while its share of total developing country merchandise exports increased from 60 to 72% over the same period. Similarly, its share in global manufacture trade increased threefold, reaching 21.5% in 2000. The value of Asian's total exports recorded 7% average annual growth over the period under review compared to a mere 1.1% for Africa and 1.3% for SSA. While the value of Asia's non-fuel commodity exports increased by 5% per year, those of Africa and SSA rose by only 0.6% and 0.4% respectively. SSA recorded the worst performance in terms of the annual growth rate of merchandise exports, as well as in the other categories of exports – primary and non-fuel primary commodities and manufactures (Bamou, 2007).

The above review of recent performance of SSA and China, and to some extent Asia, shows clearly that the two regions face different challenges. In this regard, to achieve the MDGs, SSA need to accelerate its growth knowing that, only acceleration in economic growth for a long and sustained period of time will unlock the continent from the poverty trap (Sachs et al, 2004). For this to happen there is need to step up progress in putting in place a policy environment that is conducive to fostering strong economic growth.

4. Impact Assessment

There are several channels through which Chinese activities will affect the development process in SSA. In the last Forum (2006) two documents were adopted by the participants: The Beijing Declaration as well as The Action plan 2007-2008. Both documents were unanimously hailed by the parties, 50 years after the commencement of diplomatic relations between China and Africa, as "historical milestones" and as a manifesto for "new kind of strategic partnership". The agreements embodied in the documents include a comprehensive package of concrete investment and development and commitments on the part of the Chinese for the next three years, including favorable credits in the amount of three billion us dollars, preferential credit for the purchase of Chinese goods to the value of two billion us dollars, as well as the doubling of Chinese development aid by 2009. Further, within the framework of the second Chinese – African Entrepreneurs Conference, on the side line of the summit, a Chinese – African Chamber of Trade was set up and investment agreements with eleven African States, in the amount of 1.9 billion us dollars, were concluded (Hofmann et al, 2007).

In the context of the foregoing, it is clear that the main channels of impact will be basically three: Trade, Foreign Direct Investment (FDI) and Aid. We are aware of other channels like: migration; governance and environment, however, for now we will focus the attention on the former category of impact assessment.

4.1 Trade

Traditionally, African economies have strong trade and economic relations with European countries. In contrast, exports to Asia are small but increasing market for Africa in recent years. Africa's exports to Asia grew significantly in both relative and absolute terms during the past 12 years. Of Africa's total export earnings, which are estimated at about us dollar 134 billion per year, exports to Asia grew by 10.3% in the period 1991-2003; surpassing intra-Africa trade which grew by 7% over the same period. On the Asia side, apart from intra-Asia imports which grew by 7.9% between 1991-03, imports from Africa averaged 7.5 compared to 4.7% and 2.9% from the EU and USA respectively.

According to Bamou (2007) a major factor accounting for the rising share of Asia in trade relations with Africa is the influence of China and India. Sino-Africa trade, in particular, has grown tremendously. It grew by 700% during the 1990s. Between 2002 and 2003, trade between China and Africa doubled to us dollar 18.5 billion and then nearly doubled again in the first ten months of 2005 to us dollar 32.17 billion. Most of the growth was due to increased Chinese imports of oil from Sudan and other African nations. China is now the continent's third most important trading partner, behind the US and France and ahead of Britain.

The trade relationship between the two parties is based on a number of mutually beneficial factors. On the African side, China is more acceptable because of its policy of non-interference in other states internal affairs. Therefore, loans or aid are,-not subjected to political conditions, as is often the case with the Western countries.

The trade relations between China and SSA will have both direct and indirect impact on the economies of the latter countries. The direct impacts range from increased export volumes and prices of certain raw materials, to availability of Chinese products which are accessible to a broad spectrum of consumers. However, how such a phenomenon will impact on poverty remains controversial. Nonetheless, the growth of exports can impact positively in reducing poverty, if it translates into higher investment, higher capacity utilization and expanded output. This will in turn result into an increase in per capita income.

Apart from what appears to be possible positive impacts, one should not lose sight of the fact that most of the imports from SSA to China are primary commodities, while exports from China are manufactured goods. This content and pattern of trade may have the possibility of looking African countries in specialization in primary commodities with its short term benefits and long-term problem. Further, the pressure on domestic manufactured goods through competition and the positive effect through supply of cheap producer goods may stifle or promote industrialization in African countries. Furthermore, one of the effects of Chinese trade relations with some African countries is the competitive effect which is a significant threat to African producers and exporters, both in domestic market and third country market. In particular, the Chinese impact on Africa in the US and the EU markets might be important for commodities like textiles and garments.

We sum up this section on trade impact of China on SSA by putting emphasis on three dimensions of the impact (Qureshi and Wan 2006). First, the complementarity effects which is the growth of exports to China by African countries due to an increase in demand. Second, the international competitive effect, this refers to increased competition from China from exports in third markets. Third, the domestic competitive effect due to increase in competition from China in domestic markets.

4.2 Foreign Direct Investment

Africa's share of world FDI inflows is extremely low. By the second half of the 1990s, the average share of FDI in GDP of African countries was not only very small but also declining. Any positive trends were largely related to investment in countries will newly discovered resources. For instance in 1996, FDI was a mere us dollar 5.5 billion, representing only 1.5 per cent of global investment flows. Its distribution was extremely skewed, with Nigeria, Egypt Morocco, Tunisia, South Africa, Algeria, Angola, Ghana and Cote d'Ivoire accounting for over 67 per cent of FDI receipts to Africa. Between 1991 and 1996 ten countries (the former plus Tanzania, Namibia, Uganda and Zambia) received almost 90 per cent of the flows, with Nigeria alone absorbing a third

(Geda, 2007).

In analyzing the issue of FDI, especially in the African context, it is important to focus on the motivation for the flows. These motivations fall into three broad categories namely; natural resource seeking. This categorization will in turn inform the kind of the likely impact. According to Goldstein et.al (2006) the likely impacts are through four channels: (i) direct competition for FDI (or what is commonly known as FDI crowding out by China); (2) indirect consequence of the rise in the price of commodities on FDI flows; (3) interest of Chinese multinationals to invest in Africa; and (4) opportunity for African FDI in China and India.

In discussing the crowding out effect, it is stressed that as much as FDI in SAA is geared toward resource extraction (resource seeking) and domestic market (market seeking); China does not pose a direct (and significant) threat to Africa. In relation to the more indirect channel, Goldstein (op.cit) argues that the commodity booms are at least partly fueled by Chinese and Indian demand are making Africa more attractive to "resource and raw-material-seeking" FDI.

The implication of the above to African countries is that industrialization aspirations of these countries may not be realized or may have to be postponed and efficiency and market seeking FDI will continue to shun places in the short and medium-terms. This will be the case as long as China can keep its competitive edge in low technology industries, unless the preferential market access granted by developed countries (such as Every Thing But Arms and AGOA), and tariff jumping FDI and proximity to rich economies could over-turn the cost disadvantages of countries in Africa.

Nevertheless, the long-term might hold a very different picture. The pace which China is changing the technological structure of its production and exports, rising costs of locating export oriented production, Africa's proximity to European and Middle Eastern consumer markets and a host of other factors might help Africa to become the next "goose" in the long run. Indeed, Asian countries are increasingly providing essential inputs (and components) to Africa's growing manufacturing sector most probably, its textile and apparel sectors and in some cases, its automobile sector (World Bank, 2004).

The World Bank study (2004) observes three possible forms of Asian investment in Africa: (i) investments aimed at supplying Asia with natural resources and processed raw materials; (ii) investments that target African domestic market which could get a boost via effective regional integration; and (iii) investments aimed at supplying the international markets such as EU and the US motivated mostly by low-labour costs plus favorable trade access given to African countries in those markets.

In sum, it should be borne in mind that: First, it is highly unlikely that China diverts FDI that would have been coming to Africa. Second, the level of FDI from China is not only very small but also located in a few countries. Third, these flows from China are largely motivated by the desire to secure sources of energy and raw materials as well as the desire to exploit preferential markets which are accessible to African countries. In order to have deeper insights into to the impact of FDI on the receiving countries, future studies need to focus on impact indicators like technology transfer, employment creation, and competitive-threat to local producers, as well as on locking African countries in primary commodity production and exporting sectors.

4.3. Development Aid

The foregoing sections have clearly indicated that China has developed into a significant economic partner for Africa. At the same time, it has developed into "an important new and obliging donor". As a donor China has carefully aligned its foreign policy to its domestic development strategy. It is in this context that Chinese state controlled companies are encouraged to seek out exploration and supply contracts with countries that produce oil and gas, and aggressively courts the governments of those countries with diplomacy, trade deals, debt forgiveness and packages.

It is hard to get accurate and systematic figures of total aid from China to SSA countries. Only in 2002 it has been reported that China offered $1.8b to a number of SSA countries. Since that year there is no comparable information that is publicly available (Alden 2005). However, it would seem that current aid flows are still far well below the amounts provided by OECD agencies. China's relations and aid flows with African countries are longstanding and have evolved significantly over the past 30 years. After the 1955 Bandung Conference China pledged to support Liberation Movements and to gather support to isolate Taiwan (Taylor 1998). It is indeed extraordinary that China, being a developing country, had been able to offer substantial amounts of aid since 1960 and before the more recent surge of Chinese cooperation (Brautigam 1997). Overall, as of mid-2005 SSA countries had received financial assistance from the Chinese government for over 800 individual projects of key investments, such as the famous 1,860 km TAZARA railway linking Zambia and Tanzania in the early 1970s (Kaplisky et al. 2006). Over the last few years, when China's economic and diplomatic presence in SSA has been significantly strengthened, its development assistance to African countries has become also more sophisticated and developmental even if *"China's growing aid programme appears to be closely related to its need for traded commodities*" (Kaplinsky et al. 2006).

China's intensive cooperation with Africa is increasingly drawing attention in the international community, and particularly in Europe. The central point of criticism by Western industrialized countries is China's abandonment of political conditionalities in the awarding of credits and aid. In contrast to other development and donor countries, China imposes no conditions on the recipient country regarding criteria such as good governance or social and environmental standards (Hofmann, et al; op.cit). With such a policy stance China supports countries like Zimbabwe and Sudan, which have had sanctions imposed on them by the international community.

Apart from the "liberal governance criticism" and skepticism, China's involvement in Africa is also evaluated positively. It is now widely accepted that China contributed positively to economic growth in Africa of over 5 per cent in 2005 as well as to improving infrastructure. In principle, the traditional donors appreciate the fact that China has taken on responsibility. In particular, China's commitment to a strengthened multilateralism is held in high esteem. For example, the International Poverty Reduction Center founded together with UNDP in 2005 with the objective of enhancing dialogue between China and other developing countries, is being positively rated by the international community.

Especially on China's aid to Africa, it is important to note that it accompanies trade and FDI; and it is widely spread in that it covers a broad spectrum of sectors. For example, it includes infrastructural projects like roads, bridges, dams and pipelines. It also involves construction of sports stadiums, sending of teachers and donors to host countries, as well as provision of low cost housing and training scholarships. This broadly based aid clearly shows that it is directed towards broader strategic objectives of socio-economic development of the recipient countries.

In sum, there are four main potential advantages with Chinese aid: 1) aid that is more targeted to important infrastructure projects with long maturity and long-term potential (no hurry for disbursements); 2) less bureaucracy and transaction costs; 3) more efficient low cost and faster; 4) more policy space (low conditionality) and increase in bargaining power vis-à-vis other donors. More importantly, here we argue that enhanced aid from China, and eventually other countries like India, may provide opportunities for broadening policy space for those governments that aim to redirect their policy frameworks towards the gradual establishment of development states or simply look for room for maneuver to design and implement policies that would not be supported by the Western Aid Consensus.

5. Concluding Remarks and Lessons Learned

The "Chinese Model" has a number of lessons which can be adapted to the African environment. The idea here is not to replicate the model. Rather, the idea is to extract specific lessons from the Chinese experience that may be relevant to the common and at the same time diverse circumstances of many African countries. These lessons can range from institutional changes, to specific industrial and trade policy measures, to mechanisms of attracting and disciplining FDI with greater development potential, to devising more effective "reciprocal control mechanisms" between states and business, to enhancing bargaining power vis-à-vis other major donors (Oya, 2006).

One, China has displayed high and sustained high economic growth rate for over two decades. The economic growth has been driven by high investment growth, reaching more than 40 per cent of GDP. The sustainable growth has enabled China to rise half of its population out of extreme poverty between 1980 and 2000. This shows clearly that high and sustainable growth rates are critical in reducing poverty.

However, this impressive performance has been attained without adherence to the "Washington Consensus" doctrine. Indeed, policies in China differ fundamentally from those of the World Bank and IMF, and in spite of this, China has performed tremendous well. The main lesson to be learned here is that African states have to appreciate the fact that there is an alternative path to socio-economic development, contrary to the usual neo-liberal doctrine. Therefore, there is a need for African countries to learn more about the experiences of the Asian drivers and adapt some of the lessons to their own conditions.

Two, China's experiences of development provide a basis for African countries to demand, from the development partners, for more policy space than the case is at present. Policy space is understood as "room for maneuvers" in policy making and therefore the range of different types of policies and policy options effectively available to government. We are of the opinion that the high dependence on donors has shrunk the policy space of most African governments. In other words much aid from Western donors does not only come with high transaction costs and sometimes significant tying, but also with a strong ideological agenda, which may vary across donors in terms of emphasis, but that can ultimately shape policy decisions and processes.

Chang (2006) is of the opinion that many developing countries, but particularly in Africa, aid flows have become a vehicle for the shrinkage of policy space. This being the case, it important for African countries to strengthen economic ties with the Asian drivers not only as a way of broadening the policy space, but also as a means for pressurizing Western countries to ease conditionality they impose on African governments. The relative resilience of China and other High Performing Asian Economies (HAPEs) to the global financial crisis provides yet another opportunity to African policymakers to revisit the debate on the efficacy of the neo-liberal development paradigm in the context the continent's guest for sustainable socio-economic development (Moshi, 2008).

Whatever the true interest lying behind China's intentions in `helping' SSA countries with grants, extremely concessional loans and technical assistance in relevant domains, the fact is that its presence is providing an alternative to governments currently locked in tight conditionality frameworks with an enhanced aligned donor front of developed countries.

Three, China, including India, are developing into significant global-governance actors which are fundamentally changing the basic pattern of the world economy and politics. Indeed, the activities of these countries will have profound impact on the economies of African countries. To the fact that their impact, through channels of trade, FDI and Aid would be either positive or negative, it is important for African countries, as a bloc or individually, to craft a strategy for dealing or engaging with China. The main objective of such a strategy should be that of ensuring that China's trade, FDI and development aid potential is effectively exploited to support and complement growth and poverty reduction initiatives in the African countries. We would like to underscore the fact that, without such a strategy Africa will fail to benefit adequately from the socio-economic and trade relations with China because such a relationship will be not reach out to reducing poverty in sub Saharan Africa.

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Session 5

Africa and a new Development paradigm

L'Afrique et un nouveau paradigme de développement

'Trust, Trade, Travel, Diaspora and Empire:' A New Development Model For Africa

By Cedric Muhammad

Contents Continued . . .

By Cedric Muhammad[4]

ABSTRACT

This article outlines a proposed solution to the economic problems impeding the sustainable development of the African Continent. Offering a precise definition of development („trust‟) as the basis of economic growth, it is argued that the evolution of African economies toward a broader enjoyment of prosperity depends upon the management and proper cultivation of 10 emerging phenomenon over the next ten years: 1) the development of human capital and economic diversification via mass re-training and business apprenticeships 2) the development of finance pools for African entrepreneurs and small and medium sized businesses (SMEs) 3) monetization of civil society via direct distribution of commodity-based revenues to the electorate 4) the rise of capital markets, increased Initial Public Offerings (IPOS) and secondary listings on African stock exchanges 5) innovations in infrastructure source funding at the Public and Islamic finance level 6) recognition that nation-state monetary policy is inadequate to fight inflation and that currency stability can only be achieved by establishing regional currencies at a time certain 7) leveraging the ongoing international competition for African resources 8) moving beyond rhetoric and formalizing the Diaspora as the *de jure* 6th region of the African Union 9) the development of African „supercities‟ and 10) the viability of the entertainment industry as a form of economic development. The paper‟s premise is that until members of African kinship systems and its mass of small farmers and traders are incentivized to increasingly use money, engage central authorities, participate in formal market activity, and adopt more uniform economic activity, there can be no diversification away from the limited mono-commodity export-driven Least Developed Country (LDC) economic model and toward vibrant, dynamic, sustainable development and growth throughout the continent. The paper advocates throughout for the African Union‟s

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development of a uniform commercial code for all laborers, entrepreneurs, traders and investors to operate within on the basis of freedom, justice and equality. This article builds on the author‟s proposal for a single currency for Africa, backed by gold, presented at the First Congress of African Economists in March 2009 in Nairobi, Kenya.

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Introduction:

Toward A Precise Definition Of Economic „Development" and „Growth"

Could it be that African economies have been unable to achieve sustainable development and growth simply because government officials and academicians do not agree on what constitutes „development" and „growth"?

Yes.

As the saying goes, if you don't have a target you will always hit it.

For the most part, Western economists, anthropologists, and sociologists have dominated the discussion over economic development and economic growth and what constitutes it. Unfortunately, most African economists, and those within her Diaspora have either outright followed such thinking, or been heavily influenced by it. As students of such teachers, and whole countries as patients of such „doctors" it is not surprising to see the effects of the miseducation of an entire generation of economists in the poor health of African economies, post-Independence.

If the West struggles to be clear about what it means by development and growth - and has been woefully inept at measuring it - what hope do those intellectually and financially dependent upon it have? As it relates to identifying a new and vibrant economic model for Africa, a good first step would be to appreciate the basic bias that Western economists have against informal economic activity (acting as if it does not exist or matter) and how they fail to measure it.

This is important because so much of what takes place in the way of trade and exchange in Africa is considered „black market" rather than economic activity. From an aptly titled chapter „Illusions of Precision" in his book *Labyrinths of Prosperity*, Reuven Brenner writes:

In Italy, 1987 was called the year of *il sorpasso*, roughly translated, means —I leapfrogged you, Mr. Jones.|| In that year, ISTAT, the government's statistics office suddenly added an extra 18 percent to its estimate of Italy's real national income. According to the revised numbers, Italy became the world's fourth biggest capitalist economy after the United States, Japan, and West Germany. In fact, the number 18 was chosen to make this jump.

The adjustment was made to take into account Italy's underground economy, though no other reason than leapfrogging other members of the European Community was given for choosing the specific figure. After all, since 1971, when the first study on Italy's black economy was published, the estimates of its size hovered between 20 percent and 30 percent of the Gross

National Product (GNP), in some years thought to be less and in others more. Such adjustments render the official unemployment, inequality, and growth figures unreliable and make economic and statistical analyses and policies based on the official pre- and even post-1987 figures dicey as well. Moreover, Italy‘s prosperity suggests that a country can, on average, do quite well without having access to even vaguely reliable aggregate figures, be they employment or growth rates.

Italy is not the only successful country where income tax returns have had only a vague resemblance to the actual, underlying income patterns. In Taiwan the underground economy is estimated to vary between 25 and 30 percent of the official GNP figure. As in Italy, the existence of this large underground economy is attributed to a high-rate progressive taxation, regulations, and prohibitions, as well as to the history of the Taiwanese, who have had centuries of experience at evading tax collectors. It has been recently estimated that in Spain, another booming country, one-third of the ―unemployed‖ are working illegally and that there too the black market adds between 20 and 30 percent to the official GNP figure. Estimates of the black economy in other countries vary significantly. In the United States it was estimated to add 10 percent to the official figure in 1948, 5.5 percent in 1968, and, according to some, only 4 to 6 percent in 1977. According to others the figure during the 1970s was above 20 percent. In Britain estimates range from 2 to 15 percent; in Belgium, from 5 percent in 1960 to 21 percent from 1978 to 1980; in Greece, from 30 to 50 percent; in Denmark, from 4 to 12 percent; in West Germany, between 4 and 11 percent; and in Canada, around 15 percent. Argentina‘s black economy is estimated to be 30 percent of the official one, and Peru‘s as much as 40, whereas in Mexico it is estimated to have increased from 19 to 38 percent of the size of the official one during the last five years.

The existence of black markets due to varying tax rates suggests that not only aggregates but also growth rates and changes in unemployment rates become unreliable, because an increase in tax rates has two effects. It diminishes incentives to work and to invest, and it also diminishes incentives to declare revenues and employment. When the latter effect is significant, as the previous evidence suggests, the recorded growth rates increase. To an extent, both may be statistical artifacts. And the contrary: when tax rates diminish, the recorded increased growth rates and diminished unemployment rates are, in part, statistical artifacts too.

The term „black market‟ has come to be equated with criminal and illegal activity which has had the effect of dismissing its real economic impact and funneling discussion into a political context where broader questions about what kinds of behavior should and should not be criminalized (echoes of the long-standing debate over alcohol prohibition in the Unites States of America, continue today in calls to decriminalize non-violent drug offenses and in efforts to legalize marijuana).

That the „black market‟ is not as invisible as economists and policy makers in the West have led many to believe, is important because it informs consideration of how „developed‟ or not Africa really is. If it can be shown that the size of the informal sector of Africa's economy (both illegal and that which takes place within kinship systems such as families, tribes, ethnic groups) for example is significant or even larger than the formal economy (that which takes place under the authority and regulation of central governments, and which is measured by it), perhaps it can be made clear why this is so.

Maybe there is a fundamentally legitimate reason for the informal economy that can become the basis of developing a more formal one. First let's add more precision to what constitutes the informal economy. From "Mainstreaming Informal Employment and gender in poverty Reduction: A handbook for Policy Makers and other Stakeholders by Martha Alter Chen, Joann Vanek and Marilyn Carr we read:

The most visible occupational groups in the informal economy are those who work on the streets or in the open air. City streets and village lanes in most developing countries and in many developed countries are lined with barbers, cobblers, garbage collectors and vendors of vegetables, fruit, meat, fish, snack-foods or a myriad of non-perishable items from used clothing to locks and keys or soaps and cosmetics to electronic goods. In many countries, head-loaders, cart pullers, bicycle peddlers, rickshaw pullers, bullock or horse cart drivers jostle to make their way down narrow village lanes or through the maze of cars, trucks, vans and buses on city streets. In rural areas, the vast majority of people earn their livelihoods working on farms, raising livestock, making handicrafts or collecting and processing minor forest products.

Somewhat less visible are the informal workers who work in factories or small workshops that repair bicycles and motorcycles; recycle scrap metal; make furniture and metal parts; tan leather and stitch shoes; weave, dye and print cloth; polish diamonds and other gems; make and embroider garments; sort and sell cloth, paper and metal waste; and more. The least visible informal workers, the majority of them women, sell or produce goods from their homes: stitching garments, weaving cloth, embroidering textile goods, making crafts, making shoes, processing food or assembling electronic and automobile parts.

From „About The Informal Economy, Definitions and Theories‟ we learn of four dominant schools of thought regarding informal economies: The dualist school, popularized by the ILO in the 1970s, subscribes to the notion that the informal sector is comprised of marginal activities – distinct from and not related to the formal sector – that provide income for the poor and a safety net in times of crisis (ILO, 1972; Sethuraman, 1976; Tokman, 1978). According to this school, the persistence of informal activities is due largely to the fact that not enough modern job opportunities have been created to absorb surplus labour, due to a slow rate of economic growth and/or a faster rate of population growth. The structuralist school, popularized by Caroline Moser and Alexandro Portes (among others) in the late 1970s and 1980s, subscribes to the notion that the informal sector should be seen as subordinated economic units (micro-firms) and workers that serve to reduce input and labour costs and, thereby, increase the competitiveness of large capitalist firms. In the structuralist model, in marked contrast to the dualist model, different modes and forms of production are seen not only to co-exist but also to be inextricably connected and interdependent (Moser, 1978; Castells and Portes, 1989). According to this school, the nature of capitalist development (rather than a lack of growth) accounts for the persistence and growth of informal production relationships. The legalist school, popularized by Hernando de Soto in the 1980s and 1990s, subscribes to the notion that the informal sector is comprised of ‗plucky' micro-entrepreneurs who choose to operate informally in order to avoid the costs, time and effort of formal registration (de Soto, 1989). According to de Soto et al, micro-entrepreneurs will continue to produce informally so long as government procedures are cumbersome and costly. In this view, unreasonable government rules and regulations are stifling private enterprise. More recently, de Soto has championed property rights as a means of converting the informally-held property of informal entrepreneurs into real capital (de Soto 2000). The il-legalist school, popularized by neo-classical and neo-liberal economists across the decades, subscribes to the notion that informal entrepreneurs deliberately seek to avoid regulations and taxation and, in some cases, to deal in illegal goods and services. This perspective is associated with the notion that the informal economy is an underground or black economy. According to this school of thought, informal entrepreneurs choose to operate illegally – or even criminally - in order to avoiding taxation, commercial regulations, electricity and rental fees, and other costs of operating formally (Maloney 2004).

Current re-thinking of the informal economy suggests the need for an integrated approach that looks at which elements of dualist, structuralist, legalist, and il-legalist theories are most appropriate to which segments of informal employment in which contexts. Clearly, some poor households and individuals engage in survival activities that have – or seem to have – very few links to the formal economy and the formal regulatory environment (dualist school); some micro-entrepreneurs choose to avoid taxes (il-legalist school) and regulations (legalist school); while other informal units and workers are subordinated to larger formal firms (structuralist school).

In light of all of the above it is clear a case can be made that the informal sector is larger than the formal sector, not only in supposedly developing countries but also in the „developed" West.

It is also clear from what has been previously stated that Africa already has a large *developed* economic sector that is *growing* in many respects.

What the continent *does not have* and which we may want to target more precisely if the goal is sustainability is a similarly growing economy *under the authority of its central governments*.

What is the common thread that glues together the informal sector? It is trust. And, where do we often find the greatest forms of trust? Within kinship systems. What economic development in the informal sector has which economic development in the formal sector (under central authorities) often lacks is trust. If trust for African central governments and the instruments and goods it provides and facilitates -as the basis of a „market" economy- were greater, by definition Africa would experience more sustained development and growth. It would also experience lower taxation[5].

So let us be clear. What is most commonly referred to as economic development and economic growth is that which takes place in a formal sector where a central government has powers of taxation, the issuance of currency, and regulatory and enforcement jurisdiction over markets. But any member of a family can easily see obvious economic realities that these narrow „official" view misses[6].

By now it should be clear that since statistics can be misleading about what constitutes development and growth and that there is a bias

5 This can be seen in an unexpected way when one considers how much taxation in Africa is the result of inadequate formal public good provision (i.e. infrastructure) which allows various actors to informally ‗charge' individuals and entities for the right of passage. One example is covered in *Africa PreBrief*, ―Southern Sudan: What The ‗Doing Business Report Doesn't Reveal‖ (May 25, 2011) with this anecdote from an individual on the ground in the region, ―Southern Sudan does not have a road network to speak of and locals at times set up road blocks to 'collect tax' from transporters (this actually happen to a friend of mine who has a trucking business, the story goes that a young boy, barely in his teens, brandishing an AK-47, asked for 'tax' but in his local dialect. So my friend, being the slow guy that he is:-) took his sweet time and before he knew it, he was down on the ground: All his money gone).‖ Were a viable road built here, two things might result – 1) the collection of tolls which would bring revenue to a central authority and 2 increased security.

6 In History- The Human Gamble, Reuven Brenner writes, ―In one country donating blood is a custom, in another there is a market for it. In one country grandparents still live with their children and grandchildren, providing (with love) a wide range of services; in another similar services are purchased from maids and babysitters or provided by dishwashers and television. In one place grandparents still sit by the bedside of their grandchildren and tell them stories; in another books on fairy tales are bought and read by the babysitter. Which countries are the richer? As measured by the GNP, the richer countries are those in which money is exchanged for services. As the arguments…and these examples show, this conclusion can be very misleading.‖

toward the economic instruments and processes that are utilized or which take place under the authority of a central government. However, this should not obscure or deny the benefits of more formal economic activity, or the use of money, property rights, and regulated markets that exist under such authority, which people may not be able to enjoy through informal kinship systems.

In advocating greater participation in formal economic activity, rather than continuing the assumption that such an environment is automatically preferred, or progressive, policy makers should openly state and make clear the benefits of formal economic activity versus informal. Then and only then can a path to „development" and growth be identified and around it a consensus reached.

Only then can sustainability targets and statistical measures like employment have true value. What is missing from the discussion of African economic development is the important transition area of what exactly causes people tied to kinship systems and informal economic activity to choose to participate in a formal economy.

By leaving out why people make such a decision or take such a risk – whether in private or publicly through elections, or utilizing legal forms of business organizations (corporations, partnerships) – economists, policy makers, and government officials not only make mistakes and errors but they also show disrespect for people's culture, belief systems, and customs, furthering suspicions or aggravating old wounds.

People bet on formal „economic development" – the use of money, markets, legal instruments and courts, for example – when it is in their interests and specific things occur. As Brenner explains in History - The Human Gamble (boldface emphasis is mine):

What do we mean today by economic development? The widely accepted view is that when wealth per capita increases, an economy is growing. But one further question must be asked: What exactly does one include in the measurement of wealth? If the views presented here are correct, then wealth in a society also depends on the amount of trust people share: trust is one resource that, by diminishing contract uncertainty, lowers the costs of exchange in the economy. This resource is part of a nation's wealth.

When population increases exchange becomes more anonymous and people will gamble on institutions that substitute for trust, such as formal markets, money, and legal institutions. Suppose that one includes only physical property and education when estimating an economy's wealth. Then if a comparison is made between two societies, the one with the greater population will have a greater measured wealth per capita, for the output of institutions that substitute for trust is taken into account in the economy with the greater population, but the same output… is omitted from the calculation when produced by trust and a common set of beliefs. Yet the ‗wealth‘of the two nations could be the same. Why has this argument been omitted from the analysis of development? The answer may stem not only from the fact that ―trust‖ is rarely formally discussed in economic analysis (since exchanges are assumed anonymous), but also from our misunderstanding of freedom and individualism.

> *…many puzzles about „growing economies:" might be resolved once the issues of trust and custom are made clear and their relationship to the potential number of participants in exchange is taken into account. The "rise of markets"…the increased demand for social institutions, the adjustment of laws, the definition of property rights, increased specialization, the increased demand for literacy, and the diminished role of custom can all plausibly be linked to the population growth. Thus the only meaning I can give to ‗economic development is that of adaptation to an increased population…*

But I should stress that in spite of the fact that the role of population in understanding these adjustments has been emphasized, I do not suggest that economic development can be linked to some simplistic form of population determinism. Quite the contrary: when population increases, wealth per capita diminishes and the distribution of wealth changes, leading to an increased supply of criminal, revolutionary, and innovative acts. Societies we today call ―primitive‖ might be those that have succeeded at some point (we do not know how or when) in gambling on customs that hold their population and wealth distribution stable. In contrast where population fluctuates (because of reasons beyond human control), customs are frequently abandoned and there is a greater supply of novel ideas.

So now we can forthrightly state that if economic development and economic growth are defined and measured in terms of the use of „money and legal institutions‟ or as "The „rise of markets‟… the increased demand for social institutions, the adjustment of laws, the definition of property rights, increased specialization, the increased demand for literacy, and the diminished role of custom…" then what matters is not the current level of economic development that exists in Africa but rather, whether it, and the diminished role of custom, habit, and tradition, that must accompany it, is desirable, progressive, and can occur without an increase of „criminal and revolutionary‟ acts that result in more suffering and poverty than prosperity and wealth creation.

In the proposal, „As Good as Gold,‟ which I presented to the First Congress of African Economists in 2009, I argued that a decision by Africans to utilize a single currency, would contribute to wealth and prosperity, provided that the money was stable – clearly defined in value in terms of a weight of gold. In that sense I was advocating that all Africans, under certain conditions – including those who do not currently use money - should „gamble" on the social institution of money because of specific benefits that decision would yield.

This proposal, "Trust, Trade, Travel, Diaspora and Empire" makes the case that the institution of money (for additional reasons to be given) and several others like formal private capital markets, the adjustment of laws, the definition of property rights, increased specialization, and the increased demand for literacy are desirable, under certain conditions, the most important of such conditions being that Africans currently skeptical of central governments (and members themselves in the most tightly knit kinship systems) see such institutions as in their enlightened self-interests.

If African tribes, ethnic groups, and religious communities do not see these institutions and instruments as in their best interests and have them imposed on them, then such a process can hardly constitute economic development and growth, and actually resembles the colonialism and imperialism that is responsible for much of what continues to ail the continent.

The African Union should supplement its minimum integration programme (MIP) with greater emphasis on this transition stage between informal and formal activity and toward greater uniformity in commercial policy, engagement of the African Diaspora, and participation of civil society, indigenous and grassroots communities on the continent, particularly on the subject of financial innovations in the best interests of entrepreneurs. If it does this with the objective of establishing a supranational pluralistic civil society that treats the universal and egalitarian principles of freedom, justice, equality, and liberty as paramount human rights, independent of any particular creed, ideology, faith tradition or kinship identity, it will have laid the foundation of a United States of Africa with an economy well able to sustain development and growth for the foreseeable future.

There are ten realities and emerging phenomenon taking place in the African continent that will test the African Union's capacity and which must be adequately addressed or cultivated this decade if real economic growth in African is to become strong and sustainable (and with it regional and continent-wide integration dynamics); and if unemployment is to be curbed. If these ten realities and phenomenon are engaged properly they will provide the foundation for strong central authorities capable of implementing progressive and dynamic policies that will strengthen Africa's leveraging and bargaining power in the international community, further enhancing the gains and quality of life experienced by African people.

Closing The Knowledge -Skills Deficit Through Business Apprenticeships and Re-Training

> *"Since we are able to train our officers only in theoretical principles of business, we would appreciate it if you would take into your firm one officer for approximately one week in order to become familiar with all phases of the business and industrial administration."*

- Excerpt from a 1959 letter sent to domestic and foreign industrial and business firms in Cuba by the Agrarian Reform Institute directed by Ernesto (Che) Guevara

Whether multi-lateral institution; former colonial power; liberation hero-turned president; non-governmental organization (NGO); or international aid agency a common error remains: no policy, decree, or program has effectively addressed the deficit in business knowledge created by colonialism in Africa. The problem recognized by Che Guevara in 1959 Cuba remains unsolved in 2011 Africa with under-funded central governments incapable of financing – through public education programs – the closing of such a gap. The result has been a hodge-podge of uncoordinated actions by economic actors of all kinds which never seem capable of preventing or reversing a brain drain of skilled African professionals and exodus of college-educated which has been ongoing since the liberation era struggle.[7]

Primary and secondary education, which requires a 16 to 20 year time commitment, depending upon profession is simply too slow to provide Africa with the critical mass of professionals that it needs in time to solve endemic problems.[8]

So where may answers lie?

Through massive re-training from the international business community. The seeds of such an effort are already at work in some of the Chinese state-to-state and business engagement

7 In Class Struggle in Africa (1970) Kwame Nkrumah wrote, ―Even today, when many independent states have built excellent schools, colleges and universities, thousands of Africans prefer to study abroad. There are at present, some 10,000 African students in France, 10,000 in Britain, and 2,000 in the U.S.A.‖; The Global Health Workforce Alliance Report, ―Scaling Up, Saving Lives: Report of the GHWA Task Force on Scaling up Education and Training for Health Workers‖, Geneva; GHWA/WHO (2008) states that Ghana has 30% of its physician workforce serving the health care needs of the US population; The Nursing Self Sufficiency/Sustainability in the Global Context report developed for the International Centre on Nurse Migration reports, ―In Malawi, between 1999 and 2011 over 60 percent of the entire staff of registered nurses in a single tertiary hospital (114 nurses) left for employment in other countries.‖ There are more Ethiopian doctors living in Chicago, Illinois in the United States of America, than in the entire country of Ethiopia, a nation of 80 million it has been reported.

8 The World Health organization estimates that Africa requires 1.5 million additional health workers in order to provide the most basic of health services for its population.

with Africa. 4,000 scholarships for business students were announced at the November 2006 Bejing Summit (with stipends increased by African governments like Sierra Leone and training for 15,000 Africans over a three year period in courses ranging from agriculture to sewage treatment, telecommunications and financial management). At this same time Chinese telecom Huawei established training centers in Angola, Egypt, Kenya, Nigeria, South Africa and Tunisia and in 2008 ZTE partnered with the Ethiopian government to train 3,000 engineers from that country.[9]

Another promising development in how international trade and commerce can result in a form of skill pollination for Africa is in the recent phenomenon of sunset industries and maturing sectors in developed countries re-locating to Africa. The decision by India's technology infrastructure and business processing outsourcing (BPO) company - Spanco Limited - to rapidly move close to half of its operations to six countries in Africa (Kenya, Burkina Faso, Tanzania, Chad, Niger and Nigeria) is an example of decisions which demonstrate the value of African labor and the growing intention of foreign companies to access and re-train it.[10]

Ensuring that this enhanced skill set then, in turn, will directly benefit African economies and societies is ultimately the responsibility of governments and electorates.

If in addition to what has commonly but too generally been summarized as infrastructure-for-resource arrangements between African and Asian nations, business apprenticeships and re-training commitments can become standard negotiation points, the knowledge and skill gap that Africa experiences can be rapidly closed.

The Establishment of Mass Finance Pools for African Entrepreneurs and small and medium sized businesses (SMEs)

> *"Africa's small enterprises, from traders to farmers, contribute to more 90 percent of output and jobs in most African nations."*

- Africa Commission (africacommission.um.dk)

One of the great peculiarities in the world of economics is the insistence that entrepreneurs and small business owners are the lifeblood of a nation while policy prescriptions for growth neglect them and focus primarily on firms of the largest market capitalization. It is as if the concerns and interests of this vital class of producers and innovators are paid only lip service while their rallying cry is used to benefit

9 The Dragon's Gift: The Real Story of China In Africa by Deborah Brautigam

10 Africa PreBrief Client Comment, —India Exports A Sunset Industry," (May 12, 2011)

others. Even capital gains, corporate, income and dividend tax reductions, though styled as aiding those most in need of capital (i.e. the poor, most talented and riskiest) in reality are insisted upon with the interests of investors in mind more than entrepreneurs and small business owners on the other side of the equation. The limited impact of this approach and the misalignment between capital and talent that it produces is being revealed in how the China Development Bank pours buckets of finance into Africa's next generation of great entrepreneurs while both Western investors (waiting on the policies it traditionally favors) and African governments fearful of what a well-financed talented poor may mean to their grip on power have no connection to Africa's 40 million Small and Medium Sized enterprises (SMEs) – the smallest of whom require $170 million in finance.[11]

11 Tanzania's Citizen newspaper reported in June 8, 2011 ―SMEs need $170m loans, says banker,‖ explained the dilemma last week as it plays out in Africa (http://thecitizen.co.tz/business/14-international-business/11746-smes-need-170m-loans-says-banker.html): ―Micro, small and medium enterprises (MSMEs) in Sub-Saharan Africa need loans of between $140 billion and $170 billion. This is the case because their number has continued to rise, the SMEs Banking head at the Standard Bank Africa (STB), Ms Amrei Botha, said. She put the number of MSMEs in Africa to around 40 million ― a 106.3 per cent increase in recent years. Tanzania has 2.1 million MSMEs. ―In Nigeria the number of MSMEs grew by 38 million, in Ghana by 5.2 million, in Mozambique by 4.2 million, in Kenya by 3.5 million, in Zambia by 2 million and in Uganda by 1.3 million MSMEs. She said trade in consumer goods and services in Africa was largely driven by small and medium-sized enterprises (SMEs). SMEs in Africa are concentrated in wholesale and retail trade, agriculture, telecommunications, transport and services. However, many SMEs are unable to borrow funds for more investments because they lack collateral. Many banks are not willing to lend money to small companies whose track records are unclear. Africa has the workforce of more than 500 million people. By 2040 the number is projected to exceed 1.1 billion.‖

The result is the Small and Medium sized enterprise (SME) paradox – where small businesses represent nearly 70% of the employment of

most nations yet never grow beyond a certain scale [in the United States with 30,000,000 small businesses - there were 6.1 million employer and 23.1 million nonemployer firms (a nonemployer firm is defined as one that has no paid employees, has annual business receipts of $1,000 or more and is subject to federal income taxes) in the U.S. in 2008 according to Statistics of U.S. Businesses (SUSB) data from the U.S. Census Bureau].

With commercial banks not established to finance risky entrepreneurs and financial intermediation not providing formal capital from the equity side, along with the lack of formal business organizations on a mass level (C and S corporations or LLCs) prospects for African entrepreneurs to obtain sufficient capital in the manner that is more common in the West or through stock markets – even if capital gains and corporate taxes are cut or eliminated – are small.

The question then is a simple one in terms of the risk to reward ratio that intermediates the relationship between talent and capital: does Africa have to wait for its capital markets, institutions, and tax policies to reach a certain stage before its entrepreneurs and SMEs access capital?

No.

Why?

Because China has understood – before African and Western governments – what is needed - a super-fund for entrepreneurs and small business owners.

Rather than working on the side of making SMEs less risky to invest in, or being bludgeoned by governments and multi-lateral institutions with conditionality and perverse carrot-and-stick incentives, it seems to make more sense for Africa‟s talented and adventurous ones to seek a less risk averse source of capital, and a plentiful one at that, to fill the void.

They are finding it by looking East rather than West.

Since 2009, China has provided nearly $1 billion to SMEs in over 20 countries in Africa.[12]

The hub of the effort is the China Development Bank (CDB) – providing or pledging support of half a billion dollars in special loans.

Yet and still, the amount is insufficient as is the level of funding sources. What is needed and what should be supported by African governments, regional bodies and the African Union are the establishment of hybrid financial institutions[13] similar to investment clubs, private equity, and venture capital firms which can more nimbly maneuver around the continent‟s landscape than large-scale state-owned Chinese entities.

An African Union/African Development Bank superfund to provide funds and security to not only investment clubs, private equity and venture capital firms but also commercial banks and Africa‟s rich informal savings culture would fill a tremendous void.

But this effort should start from the ground up and just as in the West and „developed‟ economies,

12 Xinhua, June 12, 2011; ―China Offers Loans To Boost SMEs in Africa‖ (http://www.chinadaily.com.cn/china/2011-06/12/content_12678568.htm)

13 In an August 4, 2011 Forbes magazine opinion editorial, ―Reuven Brenner and William Mundell place ‗hybrid financial institutions in context, ―But history shows clearly that where there was no foreign aid, and yet conditions were set for entrepreneurs to be financed, places started to thrive. 18th century Scotland went from being the poorest place in Europe to becoming the richest within few a decades. The Dutch Republic, suffering from natural disasters, including being under sea level, became the ―miracle‖ of the 17th century. More recently India and China came from behind to catch up, again without external monetary aid. ‗Hybrid' financial institutions have been keys to their rapid development. There are no examples of any country ‗making it' without accessing capital to expand medium size companies and start new ones. Scotland had ‗banks' which combined under one roof the roles of micro-credit, venture capital, and normal lending services. China's recent success was jump-started by the 55-million Chinese Diaspora, mainly through Hong Kong's financial center. And let us not forget that the Wild West was tamed by ‗soft' banks (a combination of VC and a bank) rather than traditional ones, three of which only existed at the time, all on the East Coast. Perhaps it is thus not surprising that the rapidly growing ‗sovereign wealth funds' (China's in particular) may turn out to be well-suited to jump-start Africa. They know from their own recent experience that countries going through political transitions must rely on the type of hybrid financial institutions listed above, but with strong expertise in doing due diligence since traditional collateral may be lacking.‖

it is always personal savings and friends and families which serve as the first source of capital to entrepreneurs.

There are two critically important social institutions in Africa which accumulate capital and deploy it in many cases on behalf of entrepreneurs and existing small business owners at the grassroots level. One, the rotating credit and savings association (ROSCAs), is indigenous in character, and often, but not always revolves around kinship system ties. The other, the investment club, is an increasingly formal vehicle for individuals with income and savings, to pool capital in groups for investment. Although capable of attracting individuals on the basis of kinship ties, investment clubs are open to all.

ROSCAs are associations where people meet at regular times, monthly in many cases, to make variable and fixed individual contributions that are then given to one member as a lump sum. That person then utilizes the capital for any purpose they desire, quite often to finance or fund a new or existing small business.

ROSCAs go by different names in different parts of the world. In a 1997 paper „The Microeconomics of an Indigenous African Institution: The Rotating Savings and Credit Association" Rogier van den Brink and Jean-Paul Chavas write, "The ROSCA is known as tontine in Francophone West Africa, dashi among the Nupe in Nigeria, isusu among the Ibo and Yoruba, and as susu in Ghana. It is called ekub in Ethiopia. In Tanzania, it is called upatu, and it is known as chilemba in many parts of East Africa. In other parts of the world, the ROSCA is called arisan (Indonesia), pia huey (Thailand), ko (japan) ho (Vietnam), kye (Korea), and hui (central China)."

Although still relatively under researched and under analyzed ROSCAs are an undeniably important source of capital for entrepreneurs in areas where commercial banking services are lacking or where lending standards are too stringent for those who are not deemed credit worthy, and where no one-to-one personal loans are made. In some cases ROSCAs have been the dominant financial center in a community, even towering over more formal banking institutions.[14]

14 On this point Rogier van den Brink and Jean-Paul Chavas write:||How well does the ROSCA system perform compared with other forms of financial mediation in the village? For instance, how important is the ROSCA in terms of membership… we attempt to answer these questions using the ROSCAs in Big Babanki, Cameroon, as a case study. In 1979, the estimation was that, out of a total population of 3,355 people, 95% of all household heads were members of one or more ROSCAs…It is important to analyze the relative financial role of the ROSCA system for the village. The system has a turnover of about US$74,000 annually, given out in approximately 650 loans. This is a substantial amount by any standards. If we assume a per capita income of $200, it would mean that the ROSCA system mobilizes 11% of village income. If we add to this the amount of savings accumulated in the numerous trouble banks, the indigenous credit sector seems to be doing a good job in mobilizing savings and extending credit. Moreover, in the ROSCA, savings are immediately and locally transformed into credit. If we maintain that the transformation of savings into credit, that is, mobilization followed by immediate reinvestment, should be a performance indicator, the ROSCA performs very well....The Credit Union, which operates in the village, is a formal savings and credit cooperative. First, how important is the Credit Union compared to the ROSCA in terms of membership? As mentioned, at least 90% of all household heads are members of a ROSCA. The number of members of the Credit Union in the village was 199, which is 30% of the total number of ROSCA members…The ROSCA system of the village handled $74,000 annually, given out in 650 loans,

Empirical evidence – from both economists and anthropologists demonstrates that defaults among ROSCAs are rare.

Why?

According to N.S. Chiteji, in a paper, "Promises Kept: Enforcement and the Role of Rotating Savings and Credit Associations In An Economy" (2002) published in the Journal of International Development there are three reasons:

(i) the ability of members to police one another

(ii) the value of a good reputation to any one individual and the general awareness of an individual"s reputation among other potential members, and

(iii) the presence of relationships between members that can be tapped for information about individual entrepreneur characteristics (for example, their integrity).

or approximately $75 per member. The Credit Union, in the same year handled only $3,800 given out in 37 loans, which is about $105per loan. At the same time, an increasing number of loans were rescheduled loans and posed a serious danger to the institution's long-term viability....It is beyond the scope of this article to compare ROSCA default rates outside the particular village of Cameroon with a representative sample of formal credit institutions, but few informed observers would have difficulty accepting the hypothesis that ROSCA default rates would, on average, be lower than those in formal credit institutions, in particular those that are linked to the government or donors. The single most important problem with these latter institutions seems to be the failure to enforce loan repayment.||

In Ghana the susu tradition ROSCA is practiced in a slightly different manner than in many places, with a variation known as daily deposit collection. In an April 2001 paper, published in the April 2001 Journal of Developmental Entrepreneurship by Hans Dieter Seibel we read:

Daily deposit collection is a financial institution in West African markets and we can trace this back about fifty years. It is called ajo among the Yoruba of Nigeria, anago sus in Ghana, nago in Ivory Coast (nago or anago = Nigerian), yesyes in Southern Togo and jojuma among the kotokoli in central Togo. The deposit collector may serve anywhere between 200 and 600 clients a day. From each he collects a fixed amount which is then registered on a printed card. By the end of the month he returns the total keeping the amount of one daily deposit as a collector's fee.

The efficiency of the anago sus is far beyond the possibilities of even the most advanced modern bank. At one of the markets in Accra, I measured the time it took on average to make a deposit including the walking time from one client to the next: 17 seconds. Making a microlan took just under one minute.

With such skill and scale it is not hard to imagine that a group of daily deposit collectors could not establish a more formal financial institution – whether an investment club, commercial bank or even investment bank or private equity firm. What the African Union, regional bodies, state governments and civil society should focus on are policies which impede the evolution of informal savings traditions into formal banking institutions. One unfortunate effort that ran into regulatory-political barriers was the experience of the Ghana Cooperative Susu Collectors Association, formed by daily deposit susu collectors in Accra whose efforts to establish their own bank were frustrated by governmental authorities. Apparently seeing an opportunity the government of Ghana could not properly evolve, and stepping into the void, other institutions including both the World Bank and London, England based Barclays Bank have embraced this traditional form of finance.[15]

In Kenya, while ROSCAs abound, the use of group savings clubs and investment clubs is an increasingly popular way to save and make investments. How the popular informal savings culture of Kenya – chama- has evolved into a more formal one, investment clubs, is instructive.[16] And legendary success stories including how TransCentury began as a chama are important[17].

15 The work of Professor Hans Dieter Seibel of the University of Koln on the history of micro-credit should be consulted. He writes, ―Today, the Ghana Cooperative Susu Collectors Association, with 397 members out of an estimated total of 1040 susu collectors, covers all of Ghana. The World Bank, together with IFAD and the African Development Bank, is in the process of supporting linkages of susu collectors with rural banks and other formal institutions and the establishment of a national risk fund by the association.‖ For an explanation of how daily deposit-susu collection works in an August 1, 2006 article, ―Susu Collectors Connect With Formal Banking,‖ published in New African magazine we read: ―Susu collectors are known to have plied their trade in and around Ghanaian markets for at least three centuries. The concept is remarkably simple and provides a very useful service for small traders. Typically, it works like this. Traders pay a small sum to register with a Susu collector, perhaps C20,000 (around US$2). The collector makes his daily rounds and collects a similar amount over a 31-day rolling period from each of his customers. At the end of the period, the collector pays out lump sums to the customers, while retaining one day's payment from each customer for his services. In larger collectives (say, an office group), selected members receive lump sums each month while the others wait for their turn, and the ball keeps rolling. Susu collectors can also offer other services such as small loans and helping their customers to establish or develop their businesses. Now Barclays Bank of Ghana is connecting modern finance with this ancient form of banking. ‗There are perhaps 4,000 Susu collectors in Ghana, each serving between 400 and 1,500 customers daily,' explains Edward Derban, who heads the Barclays' Susu programme. ‗They offer basic banking to some of the least affluent in Ghana, such as the small trader at the market or the micro-entrepreneur selling from roadside stalls. We believe that there is a real opportunity for Barclays to learn from them so that we can know how best to help and complement their services.'... What we are doing is somewhat unique," says Margaret Mwanakatwe, MD of Barclays Bank of Ghana Limited. "Not only are we creating an account for Susu collectors to deposit their funds, we are also providing them with loans which they can 'lend-on' to their customers, helping them build their capital. In the process, we are laying the building blocks for a truly financially inclusive society. Currently, over three quarters of Ghanaian society may not have access to high street banking.' Mwanakatwe continues: ‗We are also providing capacity building training to Susu collectors to make sure that they do their credit risk correctly. Finally, we are using our expertise to educate the clients of the Susu collectors on basic financial issues. We are currently running a trial programme with 100 Susu collectors. If it is successful, we would look to roll the model out to other African countries.' ―

16 From The United Nations Africa Review, in a July 2009 article entitled, ―Mobilizing Money At The Grass Roots: Self-help groups in Kenya boost domestic savings and investments,‖ by Mary Kimani, we read the following: ―Currently, local investment clubs hold a total of about 35 bn Kenyan shillings, equivalent to US$469 mn, reports Patrick Kariuki, chairman of the Kenya Association of Investment Groups (KAIG). This is just a small portion of the KSh642 bn in total bank deposits in Kenya in 2007, but still more than twice all the foreign grants the country received that year. Kenyans call such groups chamas, loosely translated as ―committees.‖ They began as a means of survival during the economically troubled 1980s and 1990s. Relatives, neighbours or work colleagues would pool some of their resources under a chama and use the money as a fund for borrowing and lending among members in times of difficulty. As the country's economic health improved, members would use the same funds to start small businesses. Over time, clubs started formalizing their relationships, with some registering as companies and investing in stocks and real estate. Today, according to Mr. Kariuki, one in every three adult Kenyans is a member of an investment club.‖

17 See ―How TCL Rose From ‗Chama' To Big Investor‖, July 19, 2011; Business Daily: ―Once, they were a preserve of old rural women who periodically met and collected money for one of the members in what was known as merry-go-round. Investment groups — also known as chamas in Kenya — have since the 1980s changed and attracted membership

When investment clubs do fail, it is because of poor governance structures. Therefore the African Union, regional economic communities, and nation-state governments can provide greater regulatory support through advocating a legal and judicial framework and even code which helps supply that which every commercial society needs – processes which guard the entrances of economic activity (i.e. bank licensing and supervision) and those which guard how one exits (i.e. bankruptcy proceedings).[18] A gentle push in this area would pay dividends in a region like East Africa. Although many investment clubs in Kenya have enough capital to invest in the Nairobi Stock Exchange (NSE) at the level of institutional investors, the NSE‟s regulations treat investment clubs as individual investors which denies them important resources and incentives given to institutional investors. Compounding matters is the fact that financial literacy and investor education is lacking for the masses of people in Kenya which impacts their participation in investment clubs and their level of understanding of such institutions as the NSE.

While not exhaustive, it can be seen from the above that a firm foundation of trust, years of lessons, and promise lies ahead for Africa if it can evolve such informal institutions like ROSCAs and formal institutions like investment clubs into regular and widespread vehicles of finance for African entrepreneurs. The African Union working more closely with voluntary associations like the Kenya Association of Investment Groups (KAIG) and the Ghana Co-operative Susu Collectors Association could go a long way toward the goal of popularizing, improving, supporting, and regulating institutions that have demonstrated they are time-tested and able to attract and organize the significant levels of human and financial capital.

Lastly - the ongoing effort to develop formal capital markets and stock exchanges throughout Africa should be no more important the work of refining existing informal financial institutions that fund entrepreneurs from the ground up. In

of younger people irrespective of their work or profession. However, the challenge of their informal nature has remained even for a group of known names including Jimnah Mbaru, Joe Kamau, James Kahiu and the late James Gachui. According to TransCentury‘s chairman Zephaniah Mbugua, the four and others — after coining the idea to start an investment group on one of the golf courses in Nairobi around 1995 — also faced the same hurdles as the thousands of informal investment groups, especially during the company‘s early years.‘Initially there were about four gentlemen on one of the golf courses playing and discussing what we could do with our investments,‘ Mr Mbugua recently told a forum organised for investment groups. ‗We were among a group of seven who started TransCentury.‘‖ (http://www.businessdailyafrica.com/How+TLC+rose+from+chama+to+a+big+investor/-/539444/1203476/-/5cjawu/-/index.html)

18 In the August/September 1009 issue of First Things First, Reuven Brenner described such this way, ―There are thus preconditions for commercial matchmaking, and they all relate to the responsibilities of government. Guarding the entrance to the market is the first: Not just anyone can start a bank, for example. And just as there must be criteria for startups, so someone must be guarding the exits, through the criteria for bankruptcy, for example. Likewise, creditors and equity holders must be able to assert their claims on profits and assets, if necessary in courts of law. And, finally, there must be provision for risk-free assets—typically from the government (Treasury debt, for example, and guarantees on deposits that promise no default), which has been a sine qua non of American finance since the first Treasury secretary, Alexander Hamilton, funded public debt—built on a solid, nondefaulting currency.‖

fact, focusing on the former without combining it with the latter is a classic example of a misunderstanding of what constitutes economic development.

Monetization of Civil Society through Direct Distribution of Commodity-Based Revenues to the Electorate.

Any effort to incentivize Africa's population to lessen attachment to informal custom, and narrow kinship interests, and in its place establish a greater affiliation to a central government (that represents people of all walks of African life), must deal forthrightly with the subject of money, and who has it, or not.

As was mentioned previously people decide to use money in place of barter arrangements, for example, when population size increases and when personal contact diminishes. This is currently being experienced by many within Africa's traditional kinship systems.

Money, could have already been utilized in greater quantities by these groups, but unfortunately inflation, devaluations and currency instability have prevented money from becoming a popular or viable option.

Even a stable currency as advocated in „As Good As Gold" is not worth much if the people cannot get their hands on it. Today, an enormous amount of the population on the continent survives on subsistence farming with little money left over for any kind of investment or growth, if utilizing money at all. Numerous farming, herding and gathering activities at a kinship system level (tribal, religious, ethnic) take place without any money changing hands.

[For those in the West, this should not seem strange when we consider the numerous exchanges and „trades" that take place within even a small nuclear family, without money being used.]

This state of affairs is not a shock when it is remembered that the power of the local tribe in many African nations still rules the day, with elected officials beholden to the interests of specific communities rather than the pluralistic society that they have been charged to govern fairly and as a whole.

How can the African economy accomplish two goals at once: greater monetization and greater attachment and goodwill to a central authority, while opening the door to a third benefit – increased revenue through direct taxation?

[While the benefits of Africa moving from a system of indirect taxation (leveled on goods and services like the sales tax, or excise tax) to one of direct taxation (levied on the wealth and income of individuals, households, and businesses like the corporate tax, inheritance tax, and income tax) is beyond the subject of the paper it should be mentioned that as kinship systems and an informal economy dominate in Africa, the resources to collect direct taxes properly and fairly does not currently exist, nor would such a capacity complement the agrarian nature of the economy of the continent, that lends itself to indirect taxation. But as increased economic diversification occurs (away from just farming and mining for instance) and individuals and businesses become wealthier, direct taxation will become more viable and necessary.]

The innovation that could accomplish these three items is the direct distribution of revenues African central governments currently receive - from the export of commodities and cash crops like oil, gold, cocoa, and cotton – right to the people. It is helpful to look at a few opinions in favor of direct wealth distribution in „developing countries" like Iraq with strong kinship systems.

From „The Real Curse of Oil" by Tim Harford as published on open Democracy, on October 17, 2003, on behalf of Iraq we read:

There is an approach which would go a long way to saving Iraq from the curse of oil. As the Iraqi governing council drafts the country's new constitution, it should give all adult Iraqis an inalienable right to a proportionate share of public oil revenues. Direct transfers of oil money are rarely seen, although Alaska is a notable exception. Iraq, with its constitution a blank slate, is an ideal candidate for the policy. (It was proposed for Nigeria by economists Xavier Sala-i-Martin and Arvind Subramanian, but sadly the Nigerian government has no reason to give up control of its oil revenues.)

Direct transfers of all oil revenue to citizens would solve a number of problems. Individual citizens are likely to spend their own money more wisely than weak governments would - it is hard to imagine their clubbing together to build an Iraqi version of the Ajaokuta steel mills, for instance. Individuals are also less likely to raid the cookie jar when times are good: most people understand the value of savings.

Direct transfer would undercut the politics of patronage, because Iraqis would have an automatic right to oil money, defensible in the courts. Possibilities for corruption would not go away, but they would be limited.

To raise revenue, the Iraqi government would have to behave the way serious governments do, setting up an efficient system to tax its citizens. Broad taxation is more likely to lead to better governance, because it requires an accountable relationship between government and people.

It would be hard but not impossible to implement this approach. One necessity would be decent electoral rolls; another would be a bank account for all citizens. Iraq is a long way from either, but since it needs both to develop economically and politically, the revenue transfer might add much-needed impetus.

From „There Will Be Blood‟ written by Nicholas Shaxson, and published in the September/ October 2008 edition of Foreign Affairs writes:

In many resource-rich countries, politics involves vertical relationships of dependence based on the central source of wealth, and factions compete (or fight) for their share in a grand zero-sum game. This behavior is highly divisive, politically and socially; it reinforces existing fractures, such as ethnic, religious, or regional rivalries, and generates new schisms. As resources flow (or trickle) downward, politics splinters at all levels, from the high echelons of power to the village and even the family level. Other sources of economic rents and aid can have similar effects.

Contrast this with a country such as Denmark or the United States, where wealth is widely distributed, leading citizens to cooperate through trade and in markets and form horizontal relationships that compensate for natural fragmentation. In such countries, governments tax citizens directly, which provides an institution-building stimulus and creates the "no taxation without representation" political bargain that helps build accountability and consensus -- and further counteracts fragmentation. In oil nations, where rulers mostly tax oil companies and can ignore their citizens, no such repairing happens.

From „Sharing, Alaska-Style‟ by Steven Clemons, published in the April 9, 2003 edition of the New York Times we read:

Though most Americans don't believe this war is about oil, much of the rest of the world does. How the United States handles Iraq's oil after the war is therefore crucial. For guidance, America might look to its experiences in Japan after World War II and -- perhaps more surprisingly -- in Alaska in the 1970's.

Most revolutions that produce stable democracies expand the number of stakeholders in the nation's economy. America's occupation of Japan succeeded not just because the United States purged Japan's warmongers and established a peace constitution but because it imposed land reform. American occupiers broke up vast estates held by the Japanese aristocracy and redistributed the land to farmers, thus linking Japan's most lucrative resource to millions of citizens. Now America should do the same with Iraq's most lucrative resource, oil.

Here is where Alaska comes in. In the 1970's, during the construction of the Trans-Alaska Pipeline, the state realized that the new oil leases would produce an enormous windfall. Its citizens set up the Alaska Permanent Fund to manage this income, directing that the revenue be invested, the principal remain untouched and the gains be used for state infrastructure investments. A part of the proceeds was distributed as dividends to every Alaskan. By July 2002, the fund had grown to more than $23.5 billion. Dividend payments to Alaskan families averaged about $8,000 per year.

Iraq's annual oil revenue comes to approximately $20 billion. A postwar government could invest $12 billion a year in infrastructure to rebuild the nation. The other $8 billion could anchor an Iraq Permanent Fund, to be invested in a diverse set of international equities. The resulting income would go directly to Iraq's six million households. These payments would make a huge difference to families in a country whose per capita gross domestic product rests at about $2,500.

From „Oiling The Wheels of A Tribal Society" by Reuven Brenner, published in November of 2003 in The Asia Times, we read:

But have there been any political-institutional arrangements that have been not just offered, but tried, that succeeded in diminishing ethnic, religious and linguistic conflicts? One system that has been pursued with obvious success is the melting pot of the federal US government - an example of a state creating in the course of time a new, large tribe with the most open financial markets in the world. When its financial markets were closed to some groups - Afro-Americans prominent among them - symptoms of aggressive "tribalism" surfaced within the US too. However, at the same time, new organizations came into being, such as the civil rights movement that started to restore trust between the many "tribes" living under the US's federal umbrella. These new institutions were also successful in transforming governments into a source of capital for these marginalized groups, when financial markets remained closed, offering them hope and a stake in the system. The debate today in the US asks whether or not capital markets have now been opened sufficiently to members of these groups, and thus whether government should no longer single them out for preferential treatment, whether at universities or for obtaining government grants. But forget about the US model for the Middle East: it's not in the cards. The ethnic tribes in the Middle East are not about to melt (how long have the Catholics and Protestants in Ireland been fighting?), and they do not have the maze of institutions needed to support open financial markets. Countries such as Canada, Spain, Belgium and Switzerland have pursued other solutions. Though they have each faced conflicts of their own, their problems pale in comparison to those other multi-ethnic states such as Russia, the Balkans, the Middle East and several African and Asian states. It is no accident that the Western states have on the whole found the more stable solution. They had open capital markets, more checks on government power, a wide variety of voluntary organizations dispersing power, and bringing about greater accountability. They also allow experimenting with a wide variety of new organizations. Whereas some other countries around the world have such institutions, most those in the Middle East, Iraq in particular, do not. What can be done?

First execute an idea that has been in circulation for a while, modeled after the Alaska public trust fund, which would offer each and every Iraqi a fraction of oil revenues. The other portion would be invested and could not be spent without well-defined voting procedures. This arrangement would ensure that people had an immediate stake in the new Iraqi system, and incentives to both prevent sabotage and cooperate. The oil revenues could be managed by an international trust fund.

In 2008 it was reported that former African Union Chairman and then-Libyan Leader Muammar Gadhafi desired to directly distribute oil revenues to the people of Libya. In 2009 the Libyan leader continued to press his case on behalf of the initiative[19].

That the people of Africa would inevitably use oil revenue, for example, directly distributed to them, to finance entrepreneurship is easy to see. How it would be done, no one could be sure, but with the option of rotating credit and savings associations (ROSCAs), daily deposit takers for esusus, group savings clubs and investment clubs, not to mention commercial banks, the bold leader who can effectively get this done will have a grateful electorate on his or her hand, and potentially increased tax revenue from individual incomes, property taxes on land and real estate (the market for which would boom as people have more cash on hand, history tells us) and small businesses that over time could more than make up for any deficit in government spending caused by the lost state revenue.

The Rise of Capital Markets: Initial Public Offerings (IPOS) and Secondary Listings

The onward march of African stock markets continue – as of July 2011 there were 29 in existence with more expected almost by the month it seems. This is not to say that challenges are yet to be climbed – the chief of which are

19 Here is what Reuters reporter Lamine Ghanmi explained: ―Libyan leader Muammar Gaddafi on Saturday called on Libyans to endorse his proposal to dismantle the government and give the oil wealth directly to the country's 5 million people.His plan to hand oil revenues directly to Libyans had run up against opposition from senior officials, who stand to lose their jobs in a government purge Gaddafi wants to rid the state of what he says is entrenched and widespread corruption….Many Libyans say they have not benefited from rising oil revenues and foreign investment after Libya in 2003 abandoned prohibited weapons programs and ended its international isolation. Gaddafi estimated the oil revenue to be handed out to Libyans at $32 billion per year. The administration has failed and the state economy has failed. Enough is enough. The solution is we Libyans take directly the oil money and decide what to do with the money," said Gaddafi, whose speech was broadcast on state television. ‗We are not afraid that people enjoy freedom on every street and every place, to appoint the officials of their liking, create associations, set up business and companies as they like,' he said.||

barriers to African capital markets seamlessly receiving the billions, even trillions of dollars that wait it from frontier and diaspora investors. The problem of timely trade execution stands out in particular.[20]

That being acknowledged, there may be few more promising arenas where economic growth can occur explosively than through the expansion of capital markets. Key to this advance will be the frequency with which initial public offerings and secondary listings on African exchanges take place. In that regard 2011 has been a year that has stood out with numerous high-profile offerings, listings and secondary listings. The IPOs of energy company Kosmos Energy in Ghana; insurance giant British American in Kenya and Bank of Kigali in Rwanda are part of a narrative whereby a litany of profitable and lucrative companies in diversified economic sectors are able to attract capital from the indigenous small retail investors as well as international financiers.

The IPOs are not only significant because of their capital raise potential but also because of what they signify about the prospects and policies of whole nations.

20 ‗The Final Frontier‖ published in the February 6, 2010 edition of The Wall Street Journal described, ―There are challenges in such markets. Local market players can quietly ‗front run'—or trade ahead of—Western orders. A bigger issue: ineptitude. For three days recently, Nick Padgett of frontier-investment firm Frontaura Capital waited for an order to clear in Tanzania. The person needed to finish the trade was on vacation. "You have to laugh," Mr. Padgett says. ‗It shows how early some of our markets are.' ―

In the case of Kosmos – the story is the effective positioning of an oil and gas exploration company which has camped out in off-shore West Africa, seeking to exploit its promising and largely untapped hydrocarbon resources, and how it has managed to navigate the political minefields that accompany securing contracts from resource-rich African nations. The crown jewel of its efforts is the huge deep water Jubilee oil find, discovered in 2007, followed by several others in subsequent years. These „success stories" grow out of a 2004 agreement with the government of Ghana. Jubilee is expected to yield 120,000 barrels per day this year, upward to about 250,000 per within 3 years. It has 500 million barrels of proven reserves and a potential for over 1 billion barrels. The production rate is expected to supply more than $400 million to the government's 2011 budget and around $1 billion per year into the country's coffers in a few years. The ultimate hope is that some $24 billion in total revenue over the next 20 years will be sent to the government of Ghana[21]. The results: seeking to raise $500 million Kosmos raised more than expected in the first day of its initial public offering selling more shares than planned at the top of the proposed price range. The IPO results were interpreted as a bet on the likelihood that oil prices will rise in coming years and that Ghana's political environment would be stable enough for firms to enjoy contract certainty.

21 *Africa PreBrief, ―The Kosmos IPO‖ (May 9, 2011)*

With British American – the story is the first IPO in Kenya since 2008 when telecom giant Safaricom raised millions with the controversial assistance of Morgan Stanley[22]. The offering highlights how lucrative the untapped promise of the insurance industry is - insurance as a sector is poised for exponential growth with only a 2.8% penetration level in Kenya (this as a result of kinship systems where custom, the family and tribal unit have played the informal role of „insurer"). British American sought to raise $66 million in order to expand in Kenya (using $14.5 million), further penetrate the East African markets of Tanzania, Rwanda, Uganda and Southern Sudan (using $11 million) and invest in affordable housing and property market ($28 million earmarked for this category). The results: Investors bought only 60 percent of the shares in an initial public offering (IPO) by, with foreign investors largely shunning the stock.[23] Shares sold to indigenous investors however were higher than expected. The IPO results were interpreted as not only a result of global slowdown in investing but also concerns about the policies of the government of Kenya and investment climate in that country.

With Bank of Kigali – the country's largest lender by assets, with the Rwandan government currently holding 2/3s of shares – the story was an IPO as attractive entry point for those looking to ride the rising tide of what many think is Africa's most promising economy this decade. With 1,000,000 people expected to receive formalized title to land this decade, commercial courts emerging and ethnic disputes being resolved progressively through a dynamic indigenous gacaca tradition, it is expected that the banking sector (and of course real estate) will be electrified in coming years. With a 30% market share Bank of Kigali looks like a well-positioned beneficiary of Rwanda economic growth prospects and demographic shifts[24]. The IPO results: Demand from foreign investors for shares was three times the amount offered. The oversubscribed IPO results were interpreted as a continued sign of approval for the policies of the nation of Rwanda by the international community.

In addition to the growing import of IPOs, interest in secondary listings on African exchanges is also picking up steam. One of the most notable in 2011 was Tullow Oil's 4 million share IPO on

22 See ―How Morgan Stanley Sold Safaricom IPO Shares To Foreigners On The Cheap‖; November 22, 2008; The East African: ―International Investment banker Morgan Stanley, which presided over the Safaricom IPO, has been heavily criticised in a new government investigation into the manner in which it allocated shares to foreign investors in East Africa's largest share flotation. The investigation, conducted by the Office of the Controller and Auditor General, says the government may have lost up to Sh1 billion ($13 million) because of the subjective and opaque methods that Morgan Stanley employed when placing Safaricom IPO shares to the foreign investors. Under the arrangement, Morgan Stanely was appointed the sole book runner, giving it the exclusive right to sell some two billion Safaricom IPO shares to a selected group of foreign investors according to the formula of its choice — under a method referred to in market jargon as book-building. In the end, Morgan Stanley came up with an IPO price of Sh5.50 (7.1 US cents) per share for the foreign investors pool. But the investigation has now discovered that Morgan Stanley actually rejected higher offers for Safaricom IPO shares.‖

23 Africa PreBrief, ―The British American IPO‖ (July 6, 2011)

24 Africa PreBrief, ―Update- Bank of Kigali‖ (June 21, 2011)

the Ghana Stock Exchange (Tullow was already listed on the London Stock Exchange and Irish Stock Exchange).

The significance and potential is five-fold.

First, because the shares are fully fungible and can be traded on more than one stock exchange there may be arbitrage opportunities as was the case in 2009-2010 with Africa's largest retailer Shoprite Holdings which traded on Zambia's

Lusaka Stock Exchange at a 56% discount to its price on South Africa's Johannesburg Stock Exchange (JSE). The strategy was obvious – buy low in Zambia and sell high in South Africa.

Second, by allowing local investors an opportunity to own stock in multi-nationals exploiting African resources, wealth which previously exclusively accrued to governments and corporations becomes democratized, better distributed to the masses who have an opportunity to own shares. The impact will be felt in a profound way as African markets become deeper and more liquid (the Ghana Stock Exchange has a way to go in this regard). Until direct distribution of oil revenues becomes a reality, capital market participation can help alleviate concerns about how corruption, greed, and nepotism prevent wealth from being shared more broadly. Perhaps as a way to stave off direct distribution, more and more governments will encourage secondary listings. This is already the case in Uganda where Tullow is being pushed to list on the local exchange, providing a very dissatisfied and restless electorate with an indirect way to „own" the country's oil revenue.

Third, the listing will likely improve visibility of foreign brands, giving them further incentive to share the proceeds and capital gain their operations in Africa make possible. Here leading manufacturer of American accessories Coach's announced intention to secondary list in Hong Kong is instructive and may reveal a non-financial motivation for Tallow's and other secondary listings in Africa. As one analyst put it, "These companies come to Hong Kong mainly to demonstrate their commitment to Asia and also to significantly raise their profile, although not many of them have plans to raise funds immediately."[25] We think the secondary listing in Africa as an advertising tactic will gain popularity.

Fourth, contract certainty gains a boost. The dividend here is a bit more metaphysical but tangible in the sense that as brand awareness grows, people and consumers will identify more closely with companies and this, we believe, may enhance contract certainty because governments will find it harder to play fast and loose with deals and negotiations with firms that people own and have confidence in and with whom they have formed an emotional attachment.

25 (http://www.ft.com/intl/cms/s/0/4e1e332a-80a6-11e0-85a4-00144feabdc0.html#axzz1Mi167XNK)

Fifth, the secondary listings provide a form of information regarding the quality of government policies or dangerous errors made by the same. Since even democracy can be slow in correcting government errors and policies, financial markets - because they generate prices, instruments of probability and exchange rates – can reveal harsh truths about economies that no politician is likely to tell[26], perhaps in time to make corrections.

With financial markets revealing the mistakes and errors of policy-makers the potential is there for better decision-making in the direction of economic development and growth.

The Evolution of Infrastructure funding through Public and Islamic Finance

If there were a single African nation that should be watched as a barometer of the continent's progress toward sustainable growth or lack thereof it might Nigeria. This is true in a few areas but perhaps none more important than in how Africa's most populous nation is tackling the root material problem it faces in economic development: the lack of infrastructure.

Any skepticism about the primacy of infrastructure to Nigeria's economic development can be alleviated by a review of the place it has in the nation's ambitious 20/20 Plan[27] which officially is "a road map; a blueprint for transforming the Nigerian economy to be one of the top 20 in the world by the year 2020." Its targets are:

* Gross Domestic Product (GDP) of at least US$900 billion as against US$212.1 billion currently;
* Double digit annual growth rate of the economy as against current annual growth rate of about 5.9%;
* Economic diversification;
* increased contribution of the Manufacturing sector from a migre 4% currently, to somewhere between 15 – 30% of output;
* Growth in services from 34% to between 45%-75%;
* Industrial capacity of 30-50% as against 23.8% currently etc.;
* guaranteeing the productivity and well-being of Nigerians by ensuring that 60% of the population own or live in decent homes by 2020; improved water supply coverage from 35% to 100%;
* Universal access to electricity from 40% to 80%;

26 (http://www.obserwatorfinansowy.pl/2010/06/25/break-the-thermometer-and-you-will-not-have-a-fever/)

27 *(http://www.fmt.gov.ng/news_one2.php?article=18)*

* Reduction of hunger and malnutrition by 75%;

* ensuring access to functional health care delivery system for primary, secondary, and tertiary health needs by 80%;

* guaranteeing continuous formal education for all children below the age of 15 years;

* promoting high skill levels to meet the specialized development needs of the economy;

* increasing micro-credit to small scale entrepreneurs by 70%;

* achieving 10% annual increase in workforce skills and competencies development;

* delivering 35,000 Mega Watts of electricity;

* increasing ICT penetration to 80%;

* Reducing crime from 30% to 15%;

* Ensuring that all Nigerians have access to an affordable integrated, modern functional and multi-modal (rail, road, water and air) transport system, etc.

Summarizing its 20/20 objectives as "Nigeria aims to transit economically, from an agrarian, mono-culture, import dependent economy with an average growth rate of 7.8% p.a., in the decade 1999-2008, to a modern, industrial economy, with a recommended average growth rate of 12.5 p.a. from 2010 – 2020 and a GDP size of US$900 billion from its (2008) level of US$212.4 billion," the recent projections that have Nigeria's growth ceiling at 7% until infrastructure development takes place(despite optimistic assessments of 10%)[28] are sobering.

With this litany of 20/20 goals – which have entered the political discourse and are shaping the aspirations of the Nigerian electorate - an estimate of a $200 billion (or 30 trillion naira) price tag on infrastructure needs means a greater stress on infrastructure finance is of paramount importance.

In that light every other policy-make in the country pales in comparison to the country's ICRC (Infrastructure Concession and Regulatory Commission).

Three developments over the last year and decade paint a picture of regulatory reform and public finance innovation which make us believe the previously unthinkable (even laughable to some pessimists) is now on the horizon: a Nigeria dedicated to making significant improvements

28 http://www.bloomberg.com/news/2011-07-19/nigeria-ivory-coast-may-exceed-10-growth-renaissance-capital-forecasts.html

in infrastructure. These developments may eventually show the way for all of Africa.

First, infrastructure finance is picking up a bit at the State level and for example, is a priority in Lagos – Nigeria's commercial capital - with State Commissioner for Finance, Mr. Tokunbo Abiru[29] trumpeting the progress made since an important law was passed in 2009 which boosted the humble bond issuance program. The progress is fueled by the realization that the development of infrastructure requires sourcing funds beyond the total available revenue of the state. This acknowledgment gives the weak federation government and its state authorities breathing room on expectations and allows adroit political entrepreneurs time to take the infrastructure narrative out of the zero-sum election cycle and into the non-partisan arena of development finance[30].

As more and more Nigerian politicians join this consensus a critical mass will form capable of altering a too prevalent view that equates control of the State‟s business monopoly as a sectarian patronage mechanism. This paradigm shift alone can lift the country out of the LDC worldview and on to progressive activity. Lagos‟ engagement with international finance is a story that has captured the imagination of not only local politicians but global capital markets, as evidenced by last year's coverage of infrastructure bond issuance[31]

Second, as Lagos moves along in this direction an event like next year's major Nigerian Infrastructure Conference[32] further addresses the "sourcing funds beyond the total available revenue of the state" problem. We think President Goodluck Jonathan‟s rhetoric about a massive public-private partnership is matched by, or better yet, is really only catching up to a consensus among the people, entrepreneurs and foreign investors about the need to make infrastructure priority number one and builds upon regulatory building blocks of last decade. A positive regulatory reform came through last December when Nigeria's National Pension Commission (PenCom) mandated in Section 7.1.7 "Pension Fund Assets may be invested in Infrastructure Funds, subject to a maximum portfolio limit of 5% of pension assets under management."[33] Mr. Muhammad Ahmad, Director-General of PenCom articulates the match between patient pension fund capital with infrastructure investment, "The nation's infrastructure deficit presents enormous opportunities for the private sector, especially since the funding requirements in bridging the infrastructure gap far outweighs the available

29 (http://www.lagosstate.gov.ng/index.php?page=principalofficerdetail&poid=263&mnu=module&mnusub=ministry&mpid=31&pocat=ministry&pocatsub=31)

30 (see "Bond Issuance Aids infrastructure Development In Lagos, Says Commissioner" http://www.guardiannewsngr.com/index.php?option=com_content&view=article&id=55487:bond-issuance-aids-infrastructure-development-in-lagos-says-commissioner&catid=31:business&Itemid=562)

31 (http://www.bing.com/search?q=Lagos%2C+infrastructure+finance%2C+Bloomberg&go=&qs=n&sk=&form=QBRE).

32 (http://www.cwcnif.com/)

33 (http://www.pencom.gov.ng/download/regulation/Regulaion_on_Investment_of_Pension_Funds_2010.pdf).

investment from the government. The rationale for encouraging pension fund investment in infrastructure was predicated on further enhancing the safety of pension fund assets through diversification of the pension portfolios and income streams as well as contributing to the provision of critical infrastructure that would enhance economic development and generate employment opportunities."[34] His insistence – reiterated just last week that pension sector's 2 trillion naira in capital is actively seeking infrastructure investment opportunities is encouraging[35]

That he links this state of readiness to the Pension Reform Act of 2004[36] is further evidence that a storyline with deep regulatory roots continues to be written.

Third, the enormous Islamic population in Nigeria – often cited as a source of tension or barrier to national unity – may actually be an asset in solving the infrastructure problem due to the role that Islamic finance has played in addressing infrastructure problems in numerous nations. Nigeria's Infrastructure Concession and Regulatory Commission is now actively exploring this avenue[37].

34 (http://www.punchng.com/Articl.aspx?theartic=Art201107192594087).
35(http://www.inlng.com/DailyIndependent/Article.aspx?id=37442).
36 (http://www.pencom.gov.ng/download/faq/Nigeria_PensionReformAct2004.pdf)
37 (http://www.icrc.gov.ng/wp-content/uploads/2011/07/ICRC-Press-Statement-Meeting-with-CBN-and-DMO.pdf)

Here, we can foresee the largely Muslim northern Nigeria – in dire need of development – as fertile ground for this approach. The ICRC"s 2011 53-page "Addressing Infrastructure Deficit In Northern Nigeria" lays out a vision and sober grasp of the challenges which seems equal to the reality of the problem[38]. As another external source of capital for infrastructure finance, the implications are clear, the West African Institute for Financial and Economic Management (WAIFEM) says Nigeria stands to benefit from over $1.4trillion worth of assets being controlled by approximately 500 Islamic banks all over the world[39] Both momentum and resistance (along religious lines) are increasing after 1) new guidelines for non-interest banking were issued by the Central Bank of Nigeria on June 21, 2011[40] and which include the careful diplomatic provision, "The new guidelines clarify the contextual definition of Non-interest banking which is not restricted to Islamic banking, but also include other form of non-interest banking not based on Islamic principle…" 2) after it became known that Jaiz International is pending final approval to become Nigeria's first Islamic bank - with the Islamic Development Bank (IDB) as major investor ($20 million)[41] and 3) after it became known that the Nigeria's Debt

38 (http://www.icrc.gov.ng/wpcontent/uploads/2011/03/Northern_Economic_Summit_ICRC_March11.pdf).
39 (http://www.vanguardngr.com/2011/07/islamic-banking-nigeria-to-benefit-from-1-4trn-assets/).
40 (http://www.cenbank.org/Out/2011/pressrelease/gvd/CBN%20ISSUES%20NEW%20GUIDELINES.pdf)
41 (http://jaizinternationalplc.com/www.jaizinternationalplc.com/agmpublication.htm)

Management Office (DMO) is contemplating issuing its first sovereign sukuk[42] within 1 to 2 years – sparked by an interview CBN head Sanusi Lamido Sanusi gave Reuters in June[43].

However, as a stable currency is a necessary condition, yet not a guarantee for economic development, neither is access to capital for infrastructure a guarantee for results. At present the country is suffering from a massive misuse of funds dedicated to building projects – a fact known anecdotally for years and privately within accounting circles but has finally been broadly documented to political and media fanfare.

In March of last year Nigeria inaugurated a 20-person Presidential Projects Assessment Committee (PPAC) to "take inventory of all on-going projects awarded by the Federal Government; assess the level of funding; and to physically inspect each projects to determine work done and to ascertain whether it is commensurate with the amount paid to the contractors."[44] Projects that labored under „corruption, inadequate budgetary provision, poor project conceptualization and institutional mediocrity, " were itemized and reviewed in detail.

42 (http://www.investopedia.com/terms/s/sukuk.asp)
43(http://af.reuters.com/article/investingNews/idAFJOE75J0DA20110620)
44 (http://www.vanguardngr.com/2011/06/why-most-government-projects-fail-panel/)

A report, issued by the PPAC in June of 2011 stated, "There are 11, 886 ongoing capital projects being executed by the Federal Government. The estimated cost of these projects is N7.78tn. Out of this amount; N2.69tn had been paid to contractors. However, there is evidence of large scale and widespread institutional mediocrity, deficiency of vision and lack of direction in the project management. This has resulted in avoidable losses of billions of naira. In addition, corruption in the handling of projects by many self-seeking and inept public officers and contractors has led to massive inflation of costs and undermined the legitimacy of their monitoring and supervision responsibilities. There was subversion of the normal project cycle. The committee established that almost all ongoing projects have not been subjected to, and taken though the normal project conceptualization, planning, design and procurement, contract execution and maintenance stages."

Since the release of the report President Jonathan has stayed on message – notably at a two-day (July 15 -16, 2011) retreat of Ministers and Advisers at the State House in Abuja. He remarked, "In the area of infrastructure, I will be looking out for tangible results in the repair of our existing roads and the construction of new roads. Moreover, we cannot be a nation of over a hundred and fifty million people that depend solely on road transportation. We need to build on our railways. Of particular interest to me is that projects such as the Lagos to Kano rail tracks which will ease the burden on Nigerians are completed within the projected time."[45]

At a close to $1 billion cost, an Abuja-Kaduna railway is the first step toward an envisioned modernized national system, and is to be built around nine stations and 18 bridges. The project is to be completed within 3 years. Again, addressing the „source funding" dilemma it is being built by the China Civil and Engineering Construction Company (CCECC) with China providing a concessionary $500 million loan to be repaid over 15 years at 3%. Railway projects connecting Abuja, Kaduna and Lagos may not seem like engines of economic growth but they absolutely can be when one considers the benefit they yield on productivity and consumer prices, as noted recently by a Nigerian writing in This Day newspaper: "Imagine if Nigeria had an efficient rail system that would enable the transportation of tomatoes produced in Kadawa, Kano State to Lagos within 12 hours and at an affordable price! The current differential of nearly 300 per cent in the price of tomatoes between Lagos and Kano is largely attributable to inefficient logistics, which if debottlenecked will vastly improve the earnings of the Kano farmer and the quality of life of the Lagos consumer - a win-win situation for both, that is beneficial to the economy as a whole."[46]

If nothing else, the President's willingness to review past mistakes and errors is positive.

The other major lever to be pulled is in the area of cement, which is an embarrassment with a deficit in domestic supply of 7 million tons of cement last year which had to be provided by imports, despite the fact that Nigeria is the largest cement market in Sub-Saharan Africa, with 16.5 million tons of cement consumed in 2010. And although economic development (nor nation building) happens by decree, President Goodluck Jonathan's May ultimatum to Nigerian cement manufacturers to lower prices[47] resulted in a positive engagement between government and the industry, namely the Cement Manufacturers Association of Nigeria (CMAN) where both sides acknowledged failings and a desire to work together. Cement manufacturers struggling with the lack of access to a reliable fuel supply, lack access to grids while enduring treacherous road travel (which cause companies to purchase trucks in excess of need as a hedge) have very serious grievances with the government, and tax holidays and the provision of cheap gas – which the Nigerian government has enacted in order to be responsive - though not able to

45 (http://www.nigeriafirst.org/article_11212.shtml)

46 (http://www.thisdaylive.com/articles/infrastructure-deficits-and-our-future/94652/)

47 (http://www.nigeriafirst.org/article_11084.shtml) solve the problem do demonstrate goodwill and lay the foundation for systemic negotiation and progress.

There are other examples of how infrastructure is being developed and financed that hold promise not simply because one method is better than the other but because these approaches come with the benefit of scale – equal to the awesome first phase of building Africa and because they feature

competition (for access to African development) which results in better outcomes and terms for the continent. We will turn attention to two examples in a future section.

While unable to foot the bill for infrastructure at its current level it would seem that the role of the African Union would be to uphold the best practices, principles and values taking place at every possible turn.

Recognition that Nation-State monetary policy is inadequate to fight inflation and that currency stability can only be achieved by establishing regional currencies at a time certain.

> ***"Stability might not be everything, but without stability, everything is nothing."***

- Karl Schiller, West Germany's minister of finance in the late 1960s (also appointed President of the Economic Development Corporation for Equatorial and Southern Africa),

The summer of 2011 has provided ample proof for the premise of „As Gold as Gold" presented at the First Congress of African Economies. Specifically, the decline of several East African currencies provides the case in point, verifying this portion of what was presented in 2008-2009:

"The EAC alone does not meet the optimum currency area criteria, and current efforts to form its monetary union languish as the currencies of Kenya, Tanzania and Uganda depreciate against the U.S. dollar. As currency dealers and institutional investors with accounts denominated in Kenyan shilling are purchasing dollars and selling shillings, Kenya's currency falls, and with it, those of the other EAC countries – revealing that the region fails to meet the optimum currency area criterion that the foreign exchange markets must not be so thin that any single speculator can strongly affect the market price of the single currency. With insufficient credibility and dollar reserves to ward off speculators, finance officials are reduced to public statements against speculation and exchange controls."

This year we saw this unfortunate movie played out in Kenya and Uganda, in particular.

Kenya got a $500 Million dollar loan facility from the IMF in late 2010.[48]This facility had conditions, chief among them being that the Central Bank of Kenya (CBK) had to boost its hard currency reserves to four months' worth of imports (some believe it is actually 6 months the IMF wants) by the end of June 2011[49] This made it the biggest buyer of dollars in the market over the course of 2011 – as commerce screams for liquidity. The central bank action, then, produced an overreaction by commercial banks. As the CBK would come to the market to buy dollars, its actions were often misinterpreted as designed to weaken the shilling, rather than build dollar reserves. The CBK has its hands tied by its agreement with the IMF as it has yet to achieve the foreign reserve target set, and hence can't supply what the market needs. In that sense the 90 KES to 1$ exchange rate does not reflect insight into the country's economic fundamentals as much as it does the impact of IMF conditionality which has a goal that can be achieved at a time certain.

Unfortunately, because the CBK did not communicate the strait-jacket it was in and compounded it with policy errors, what was described in 2008-09 as a maxim of optimal currency area theory has proven true yet again: foreign exchange markets must not be so thin that any single speculator can strongly affect the market price of the single currency.

In July 2011, Uganda's central bank, the Bank of Uganda, gave us another case study in the difficulty factors involved in managing the monetary unit of a country whose economy lacks the necessary attributes - in terms of size and scale - to qualify as an optimal currency area. In this era where hardly a single nation-state is economically sovereign with currencies unable to withstand a speculative attack, Uganda's monetary policy decision-making has consequences not only for itself but an entire East African region interconnected on a political, cultural and economic level.

To say that Central Bank Governor Emmanuel Tumusiime-Mutebile's dramatic response to speculators[50] was „bold" - in effect challenging them to a fight - is an understatement. That it is an understandable rhetorical and policy response to a serious problem, but one which is setting the shilling up for a virtual free fall is our greater concern.

In an effort to halt the fall of the Ugandan shilling – just off of levels not seen in 18 years – the central bank sold over $60 million (Shs160 billion), into the open market from June 15, 2011 (when the exchange rate came under speculative pressure resulting in outflows of about US $30 million)

48 (http://www.imf.org/external/np/sec/pr/2010/pr10455.htm)

49 (http://www.imf.org/external/np/loi/2011/ken/011711.pdf)

50 (http://www.bou.or.ug/bou/media/videos/Governor_Warns_Speculators.html) to early July. Additional undisclosed amount of dollars, described as „significant," and „sizable," have also been sold.

Prof. Emmanual Mutebile‟s insistence that he and the BOU were ready and able to ward off speculative attacks punctuated by his statement, "I am not indifferent to further exchange rate depreciation," is credible in the short term when one considers that the central bank has $2 billion in reserve dollar holdings. But it is not a

claim that we believe can continue to be made if things continue at the current trajectory, when one considers that Uganda has a widening trade deficit of virtually that exact amount - $2.1 billion - built upon an economy that exports coffee, tea, flowers and fish while it imports fuel, machinery, clothing, steel, and vehicles[51].

The estimated amount of reserves was sufficient to cover no more than 4 months of imports – an uncomfortable socio-economic buffer considering the instability and dissatisfaction in the country since April – including riots[52] as a result of rising food and fuel prices and political tensions.

With these realities the Bank of Uganda is up against the clock – racing to stem inflation while it anxiously awaits next year's changing circumstance which finds Uganda an oil producer as a result of its exciting Lake Albert Basin find exploited into production by the UK‟s Tallow Oil PLC.

The greatest immediate threat to the Ugandan shilling would be to actualize a decision to switch to inflation targeting, one of the least workable monetary regimes[53].

That the new approach has been selected to replace the absolutely outdated monetarist regime (discredited in the United States in the 1980s) which targeted the money supply, is hardly a source of comfort, though the switch is being hailed as a move that will enable to the Bank to get a better handle on inflation.

Unfortunately this is impossible.

Why?

Because not only is the BOU moving to an inherently flawed monetary regime, it is attempting to simultaneously target both monetary policy[54] and an exchange rate (whether

51 (http://www.monitor.co.ug/Business/-/688322/1193836/-/3wgj99/-/index.html)

52 (http://www.nation.co.ke/News/africa/Two+killed+as+food+riots+rock+Kampala+/-/1066/1153412/-/k1lhiwz/-/index.html and http://www.monitor.co.ug/News/National/-/688334/1153024/-/c25eudz/-/index.html)

53 (http://www.monitor.co.ug/Business/Business+Power/-/688616/1189724/-/o1d45nz/-/index.html and http://af.reuters.com/article/investingNews/idAFJOE7630DK20110704). comfort, though the switch is being hailed as a move that will enable to the Bank to get a better handle on inflation.

54 (http://www.bou.or.ug/bou/monetary_policy/framework.html) publicly revealed or not, this is clearly implied by Governor Emmanuel Tumusiime-Mutebile"s words) as it aims at placing a floor on the value of the shilling - by mopping up shilling liquidity with dollars and raising interest rates - while encouraging its banks to lend more.

This cannot be done without speculators spotting and exploiting the obvious contradictions.

What the Bank of Uganda's decisions are manifesting is the lack of a clear taxonomy on exchange rate regimes and why its latest move will have serious unintended consequences.

Explained in terms of the clear classification provided by Professor Steve Hanke of John Hopkins University[55]

"There are three types of exchange rate regimes: floating, fixed and pegged rates. Each has different characteristics generating different results. Although floating and fixed rates appear to be dissimilar, they're members of the same family. With a floating rate…a monetary authority sets a monetary policy, but has no exchange-rate policy" the exchange rate is on autopilot. In consequence, the monetary base only contains a domestic component, determined by a monetary authority. Whereas, with a fixed rate, a monetary authority sets the exchange rate, but has no monetary policy – monetary policy is on autopilot. In consequence, under a fixed-rate regime, the monetary base only contains a foreign component, determined by the balance of payments. In other words, when a country's official net foreign reserves increase, its monetary base increases and vice versa.

With both of these exchange-rate mechanisms, there cannot be conflicts between exchange-rate and monetary policies, and consequently, balance of payments crises cannot occur. Indeed, under floating and fixed-rate regimes, market forces act

to automatically rebalance financial flows and avert balance of payment crises.

Fixed and pegged rates appear similar but are fundamentally different. Pegged rates require a monetary authority to manage both the exchange rate and monetary policy. Unlike floating and fixed rates, pegged rates result in conflicts between exchange rate and monetary policies. For example, when capital inflows become ‗excessive under a pegged system, a monetary authority often attempts to sterilize the ensuing increase in the foreign component of the monetary base by reducing the domestic component of the monetary base. As outflows become ‗excessive, 'an authority attempts to offset the decrease in the foreign component

55 Drawn from Professor Steve H. Hanke, Professor of Applied Economics at Johns Hopkins University's excellent ―Some Reflections on Monetary Institutions and Exchange-Rate Regimes‖ (Testimony before the International Financial Institution Advisory Commission, Washington D.C., January 3, 2000).

of the base with an increase in the domestic component of the monetary base. Balance of payments crises erupt as a monetary authority begins to offset more and more of the reduction in the foreign component of the monetary base with domestically created base money. When this occurs, it‘s only a matter of time before currency speculators spot the contradictions between exchange rate and monetary policies and force a devaluation.

What Uganda is trying to pull off is a managed float where it will periodically intervene in open markets to keep the shilling at a certain level. But in reality, by indicating it has a floor “ an exchange rate level beneath which it will not allow the currency to fall” while still managing a domestic monetary policy, it is only masquerading as a fixed exchange rate regime when it is really only operating an unsustainable semi-pegged exchange regime.

Were Uganda to outright state it will defend the shilling-dollar exchange rate and maintain it at say a level of 2000 UGX to 1 USD but allow its monetary policy to go on auto pilot it would have an authentic fixed exchange rate. But this would only be sustainable and strong enough to ward off speculative attack if all of the East African Community or EAC; and the Southern African Development Community or SADC executed a coordinated currency action with the explicit goal of moving toward a single monetary union and regional currency for Eastern and Southern Africa at a time certain. The combination of these two regions would approach the size and scale to qualify as an optimal currency area.

With nothing realistically on the horizon along these lines, Uganda, despite its $2 billion in reserves, is heading in the direction of further dramatic currency weakness.

That Uganda is now grabbing the same monetary policy that South Africa utilized in 2001 – inflation targeting – is a comfort to some but hardly analogous in significant areas. Such optimists seem to lack a clear understanding of the shortcomings of this much celebrated monetary regime.

But the South African Reserve Bank (SARB)’s management of liquidity relative to consumer price indices and exchange rates is a mess as it utilizes five open market instruments and transactions which all represent shifting targets of their own: 1) the creation of a liquidity requirement (or shortage) which it refinances at the repurchase rate 2) cash reserve requirements (the balance it requires banks to hold on its accounts with the central bank). And to drain liquidity the SARB utilizes 3) debentures, 4) longer term reverse repos and 5) foreign exchange swap transactions [i.e. swapping dollars for rand].

Despite the sophisticated techniques employed, they often produce forecasts that are disconnected from reality which can then lead to questionable policy responses; indeed, the earliest classic example was in the fourth quarter of 2001, when the SARB increased the supply of high-powered base money by 18% in the face of falling domestic and international demand for the rand.

Such a system sets up a system of alternating winner and losers.

What South Africa has struggled to find – currency stability free of a contentious debate between exporters and importers – will be even more elusive for Uganda whose money markets are more shallow and lack as sophisticated an array of monetary policy instruments juxtaposed to an economy which desperately needs to diversify beyond the export of commodities (Agriculture is the most important sector of the economy, employing over 80% of the work force. Coffee accounts for the bulk of export revenues[56].

Furthermore, making matters worse is the challenged faced by virtually every African governing body - the BOU is enduring a human capital flight of sorts with a wave of retirements reportedly "including two Executive Directors, two Directors, four Deputy Directors, six Assistant Directors and staff of various ranks…"[57] that is sure to impact efficiency and execution in its efforts.

The time has come for the EAC and AU to forthrightly and at a time certain, establish a monetary union as outlined in „As Good As Gold."
Perhaps success in the Eastern region will provide the catalyst of competition to move forward West Africa‟s more promising and viable plans toward a currency zone which continue to language.

56 (https://www.cia.gov/library/publications/the-world-factbook/geos/ug.html).
57 (http://www.monitor.co.ug/Business/-/688322/1195144/-/3whrf8/-/index.html)

Effectively leveraging and managing the international competition for Africa‟s resources

When the Honorable Jean Ping, Chairperson of the African Union Commission told Newsweek magazine in its December 1, 2008 issue "We need bigger Markets. Some of our countries are too small and too weak. Africa is a big continent full of raw materials. But this big continent is divided by 165 borders into 53 countries. Even the voice of a larger country like Nigeria or South Africa by itself is inaudible in international negotiations on world trade or climate change. But collectively it's impossible to ignore 53 countries with almost one billion inhabitants," he articulated a sound principle that Africa has been struggling to fulfill since its earliest efforts to assert independence from colonial control and establish a united front in cultural, political and economic spheres.

Mr. Ping‟s proposition is true but how can it be pragmatically approached?

In 2008 and still today, many insisted that African unity applied on the stage of geopolitics would be created by top-down state-to-state partnerships and coalitions of a more political nature. Today, most opinion leaders still advocate this approach.[58] But evidence is mounting which confirms a historic truth established in our introduction – that Africa‟s leverage in negotiations lies not in its assertion of nominal unity or that which is decreed by pieces of paper, but rather that which is backed by real power. We can‟t recall any nation whose diplomatic pursuits were not guided or undergirded by commercial and military strength and the leverage that accrues from both. While the role of state-to-state negotiation is important and Africa certainly could ask for, or demand more than it does in dealing with not only China and India, but the West, the root of any power or success for Africa in bargaining would have to come from commercial power – rooted in productive economies connected not by treaties or communiques but high levels of intra-trade with resource-rich central authorities willing to defer some of their sovereignty and vest authority in regional and continental-wide bodies.

By this measure, Africa has a long way to concretize Mr. Ping‟s articulated vision.

But that doesn‟t mean that movement toward that noble and necessary methodology is not underway, organically.

President Abdoulaye Wade, of Senegal, wrote that "a contract that would take five years to discuss, negotiate and sign with the World Bank takes three months when we have dealt with Chinese authorities. I achieved more in my one

58 See CNN.com's August 31, 2011—Asian interest means Africa needs new economic vision|| by Calestous Juma (http://articles.cnn.com/2011-08-31/opinion/juma.africa.economic.vision_1_china-and-india-economic-diplomacy-market-access?_s=PM:OPINION) hour meeting with President Hu Jintao at my hotel in Berlin during the recent G8 meeting in Heiligendamm than I did during the entire, orchestrated meeting of world leaders at the summit, where African leaders were told little more than that G8 nations would respect existing commitments."[59]

While this type of rationality and efficiency has been celebrated for years in terms of Asian innovation and greater realism guiding economic decision-making, less attention has been given to the impact this growing attitude among African leaders is having in fostering an international competition to do business in Africa – most notably in the United States.

This new reality was reflected in how much the discussion of China‟s inroads into Africa pre-occupied the April 14, 2011 "Assessing the FY2012 Budget for Africa" hearing held by the U.S. Senate Committee on Foreign Relations Subcommittee on African Affairs[60] with open acknowledgements of an almost insurmountable gap.

Presiding Committee Member Senator Christopher Coons of Delaware outlined the five areas the U.S. budget was focused on: 1) strengthening democratic institutions 2) long-term development and growth 3) healthcare and education 4) conflict resolution and 5) „trans-national challenges‟ i.e. climate change, and fighting terrorism and narco-trafficking. If that broad mandate weren‟t enough, the more important detail that three-fourths of this $7.8 billion goes to the Global Health Initiative alone, demonstrated not only the lack of priority that facilitating economic growth in Africa is for the United States government, but more strikingly how inferior the approach is when compared to that of China.

The secret to China‟s success in Africa has been loosely referred to as an „infrastructure for commodities‟ trade whereby the Chinese government builds roads, bridges, damns, buildings and even stadiums in exchange for access to precious minerals. Free of a human rights constituency to answer to back home and the evangelical need to „strengthen democratic institutions,‟ the Chinese, it is surmised, offer a more efficient and easier-to-achieve target for struggling African leaders and governments to meet on their way to meaningful economic development. The Chinese, it is said, offer more capital, and demand less, in the way of conditions, terms, and policy reform which strip African nations of sovereignty and that exploit its labor.

This is generally true but what‟s usually missing from this narrative is the nitty-gritty of how this

59 "Can Africa Become The Land of Milk and Honey?", Forbes, August 4, 2011 (http://www.forbes.com/sites/leapfrogging/2011/08/04/can-africa-become-the-land-of-milk-and-honey/)

60 (http://foreign.senate.gov/hearings/hearing/?id=203fcf99-5056-a032-523d-801b8943d4d8) is done and the sophisticated level of coordinated support that the Chinese offer to both their own and African businesses in concert with government aid. For over 16 years three policy banks – the China Development Bank, China Export Import Bank, and China Agricultural Development Bank - operating on commercial principles, though still tools of government, have provided a formula of joint venture investments and concessional lines of credit to African nations and state-owned enterprises (SOEs) as well as other forms of support – at a micro and macro level.

Almost every ounce of aid China gives Africa is with the objective that those dollars produce not just an equal amount but a multiple in measurable economic growth – for both China and Africa.

Understanding that these partnerships and level of penetration would create a demand for Chinese goods and services as much as African, the Chinese were never threatened by economic development in Africa, to the point of blocking African access to Chinese markets (as is the case with cotton produced by poor West Africa farmers, fought tooth and nail by the American textile sector where 25,000 cotton farmers have received billions in subsidies resulting in depressed prices for years). In fact as early as 1995 the Chinese government was officially advocating, "Chinese trade corporations and manufacturing enterprises should be encouraged to invest in African countries with better investment climate to promote the export of our medium and small equipment, processing machinery, relevant technology, and labor service."

When has an American policy-maker made such a clear and unapologetic economic statement of self-enlightened interest like this by Africa, we wonder?

The level of maturity, and rationality in the Chinese approach is quite sobering and it is beginning to become the standard in the minds of African leadership, albeit with much room for improvement, as some of the backlash against Chinese endeavors in Namibia and Zambia demonstrate.

For decades the Chinese have been 1) viewing Africa as a strategic beachhead to create demand for its exports while 2) recognizing that its own official support for assisting the relocation to Africa of Chinese companies struggling in maturing and declining industries would be in their national interests (something that cannot happen in the U.S. due to the debate over „off-shoring" and „outsourcing" – what American politician would have the courage to endorse companies „taking jobs" abroad?).

While, in America, the place of Africa in the strategic interest paradigm has never evolved beyond the August 26, 1958 Statement of U.S.

policy toward Africa adopted by the National Security Council, which in a section entitled „The Nature of Interests‟ reads:

“The strategic value of Africa South of the Sahara stems principally from the area’s geographic location athwart alternate air and sea routes to the Far East, and from its strategic materials. In the event of war or loss of Western access to sea and air routes through the Middle East, control of sea and air communication through Africa South of the Sahara would be extremely important. Recent events increasingly jeopardize our sea and air lanes through the Middle East, thereby increasing the strategic significance of Africa South of the Sahara. From bases in certain areas of Africa South of the Sahara, the Communists could pose a serious threat to communications in the Atlantic, the Indian Ocean, and the Red Sea, as well as to our important North African strategic facilities, the Mediterranean littoral, and the flank of NATO. Therefore, under these circumstances, our primary strategic interest is to deny Africa South of the Sahara to Communist control.”

These are clearly expressed military designs but nothing even remotely commercial in orientation.

Although the Cold War ended 20 years ago, the 60-plus year U.S. attitude toward Africa that was shaped by it, has not sufficiently changed. And as evidenced by the desperate but futile effort of the U.S. Military Command in Africa (AFRICOM) to find a headquarters base in Africa – it currently operates out of Stuttgart, Germany – the success of an evidently tired playbook is dubious.

The delusional mind-state was on display in the Senate hearing when Mr. Patrick Fine, Vice President for Compact Implementation for the Millennium Challenge Corporation (MCC) [MCC officially “provides…well-performing countries with large-scale grants to fund country-led solutions for reducing poverty through sustainable economic growth”] was asked by Senator Coons to give his assessment of the global jockeying for position under way in Africa. Mr. Fine, with a straight face stated that to the extent the United States pulled back from its involvement, her geopolitical competitors would „step in‟, namely China.

Interestingly, when providing MCC success stories he mentioned the Republic of Georgia and Honduras, not African nations.

Unfortunately for Mr. Fine – who does help run one of the few U.S. programs operating in Africa designed to evolve African economies from the ground-up[61]– there has been very little for the United States to pull back from, in terms of a profound economic footprint.

61 *(see Mr. Fine‟s relevant hearing testimony: http://foreign.senate.gov/imo/media/doc/Fine%20Testimony.pdf)*

Until very recently, that is.

One result of being lapped by China is that America has intensified its efforts to establish economic development on the continent – through the MCC in particular. This is now evident in Tanzania.

In an effort to create a success story in Africa, the United States government-backed Millenium MCC has given contracts to U.S.–based Symbion Power LLC to purchase the Ubongo Power Plant in Dar es Salaam (celebrated by a ceremony attended by U.S. Secretary of State and Chair of the MCC Board of Directors Hillary Rodham Clinton, Symbion Power CEO Paul Hinks, and MCC CEO Daniel W. Yohannes)[62] and Pike Electric to build 800 km of new electrical distribution lines through 84 villages in two areas north of the country‟s capital of Dodoma[63]. Pike CEO Eric Pike has enjoyed some high profile face time for the project – appearing on Bloomberg[64] and a meet and greet at a state dinner with the President of Tanzania Jakaya Kikwete in July[65].

So, the United States gets a success story but what accrues to Tanzania? Resources to build badly needed infrastructure that it can find in few other places.

62 *(http://www.mcc.gov/pages/press/calendar/calendar-062011-ceo-to-africa)*

63 *(http://www.mca-t.go.tz/component/content/article/9-news/208-mca-t-signs-third-major-energy-works-contracts-with-usa-firms-ms-symbion-power-llc-and-pike-electric-inc.html)*

64 *(http://www.washingtonpost.com/business/pike-says-us-distribution-of-electricity-is-rebounding/2011/08/16/gIQAfeI0JJ_video.html)*

65 *(http://www.pike.com/PressRoom/WhatsNew.aspx)*

The potential of the power sector in Tanzania is enormous with a percentage of the country (14% in 2008) with access to grid electricity below the sub-Saharan average of 26% last year. Biomass fuels like firewood and charcoal are still used by 86% of the continent. An April 2011 snapshot of investment opportunities provided by the Tanzania Electric Supply Company Limited (TANESCO) paints a broad outline of opportunity[66]

If these projects can be successfully completed (which would allow physical, financial and human capital to be matched more efficiently), along with other dynamics, they give credence to the argument made by some Tanzanian MPs that within 5 years the country could surpass Kenya in economic importance in the region,[67] further fostering competition between African nation-states in progressive ways.

While what motivates such forms of investment may be geopolitical factors (U.S. vs. China) the benefits and consequences are for more complicated and yield innovation. In the case of Tanzania, the presence of MCC in deals has resulted in new avenues of finance. In a sign of things to come where more African governments will source capital from commercial banks and allow them to intermediate the process of

66 *(http://www.tanesco.co.tz/index.php?option=com_remository&Itemid=214&func=startdown&id=278)*

67 *(http://www.thecitizen.co.tz/news/5-political-news/13908-mps-we-can-beat-kenya-in-5-years)*

coordinating local and international banking capital with the underwriting of multilateral financial institutions and commercial insurers, as opposed to pursuing the path of debt issuance, the Tanzania government in August of 2011 received a $250 million 7 year loan facility courtesy of Standard Bank Group[68] to fund road construction and rural electrification.

This is especially important because while capital markets can provide cheaper finance than bank loans for cash-strapped governments seeking to fund big infrastructure projects, (especially at the local level) public finance has a ways to go before a country like Tanzania will be able to execute debt issuance regularly. A country like Nigeria, set to overtake South Africa as the leader in local government debt issuance, is the exception to the rule.[69]

Lastly, the intangible nature of this competition, though hard to quantify and not necessarily visible in any overt state-to-state negotiation between Africa and the rest of the world is playing out in the private sector as well with indigenous African firms serving as the foundation of long-sought infrastructure projects, like the extremely attractive Port of Mombosa in Kenya, where an alphabet soup of international interests are coalescing around two Kenyan companies – power and electrical infrastructure firm Transcentury and Equity Bank.

68 (http://corporateandinvestment.standardbank.co.za/sa/news_centre/news_centre.jsp?from=recent&mediaid=486)

69 (http://www.vanguardngr.com/2011/08/nigeria-leads-in-africa-local-debt/)

The infrastructure positioning of TransCentury with its Rift Valley Railways is most strategic and with a new capital influx of $164 million [including an African Development Bank loan of US$40 million loan (Sh3.4 billion)] its 25-year concession to operate a century-old rail line with some 2,352km of track linking the Indian Ocean port of Mombasa to the interiors of Kenya and Uganda, including the capital city of Kampala, is something the world wants in on[70].

A bit of background explains why.

In 2006 TransCentury acquired 20% of Rift Valley Railways which as previously stated has the concession to run the railway system in Kenya and Uganda. This system has had a chequered history from its completion in 1901 to date with it being the favoured mode of transport for heavy goods such as cement, steel and chemical. It began a steady decline from the 1980s due to mismanagement by the state corporations running them and competition from other modes of transport. This necessitated the privatization of the system that led to the acquisition by a consortium of private investors. Since 2006, there has been a reorganization of shareholding

70 (http://www.transcentury.co.ke/main-news-gid-23) that has seen TransCentury increase its stake to 34%.

The railway opportunity is best seen by analysing the cargo flows in East Africa.

Most of the heavy imports and exports in the region are done through the port of Mombasa with 19 Million tonnes of Cargo handled in 2009. This port serves Kenya, Uganda, Southern Sudan, Rwanda Burundi and Eastern Congo. With the region's rapid economic growth, this is bound to grow over the coming years. Currently, 92% of all cargo in the port is transported by truck. This already puts a lot of pressure on an underdeveloped road network in the region and is logistically more expensive than rail in moving heavy goods. With an 8% market share, RVR has undertaken a few steps to consolidate and grow. It has teamed up with America Latina Logistica from Brazil to act as a technical partner in revamping the railway. Their brief includes revamping the aging rail infrastructure, head-hunting experienced senior staff and designing executing a strategic and investment plan. This investment is at its early stages and is yet to make an impact in Transcentury's books. It however, has the potential of becoming a cash cow.

And this „potential‟ is about to be realized. As described in the half-year results, "On 02 August 2011RVR concluded a debt financing package for a total of $US 164 million with various international financial institutions (AfDB, BIO, FMO, ICF, IFC and KfW) and Equity Bank of Kenya to support a US$287 million 5-year capital expenditure programme aimed at upgrading the railway services in Kenya and Uganda. The remainder of the funding will be from a combination of equity capital injections from the shareholders (TransCentury, Citadel Capital of Egypt, and Bomi Holdings of Uganda) and internally generated funds.[71]"

This alphabet soup described as „various international financial institutions‟ is a who‟s who of international interests that realize the untapped potential of the Port of Mombasa. „FMO‟ is The Netherlands Development Finance Company. „KfW‟ is Germany‟s promotional bank, KfW Bankengruppe. „BIO‟ is Belgian Investment Company for Developing Countries. „IFC‟ is the World Bank‟s International Finance Corporation. „ICF‟ is The Infrastructure Crisis Facility Debt Pool conceived by the International Finance Corporation and developed on the Private Infrastructure Development Group platform.[72]

As more and more infrastructure projects are financed in this manner (and this must be seen in the context of geopolitical competition), and as African nations become wealthier and are seen as credible central authorities in whom

71 *Africa Prebrief —TransCentury On The Cusp of a Leapfrog‖ (August 30, 2011)*
72 *(www.PIDG.org)*

kinship systems will place their trust; the political hand of country after country will be strengthened enabling nation-states to defer to and cede sovereignty and authority to regional and continental wide bodies capable of handling negotiations with scale, acting as a united front.

While it is tempting to insist that African unity at a top-down level is capable of re-arranging rational economic actors around economic development the evidence suggests that it is only when rational interests are present on both sides of the relationship that more equitable and different levels of cooperation take place. Anything less than a recognition that this happens very organically and requires patience continues the tendency in many observers targeting Western audiences to overemphasize the importance of political factors at this stage of African economic development, rather than more fundamental ground-up elements that build commercial societies.

Neither approach guarantees immunity from exploitation, though the latter does come with more reality, and more incentive for Africa to receive more along the way to establishing a full and complete cultural, political and economic unity.

Moving beyond rhetoric and formalizing the Diaspora as the de jure 6th region of the African Union.

When, in 2010, in the aftermath of the devastating earthquake that crippled the Western Hemisphere‟s (and some say the world‟s) first Black republic – Haiti – Senegalese President Abdoulaye Wade offered dual citizenship and land to any Haitians who sought it (an initiative discussed at the annual summit of the African Union) a path toward re-marrying the capital, talent, and culture of not just Haiti but the entire African Diaspora was highlighted.

At a time when Diaspora bond issuance[73] is becoming more lucrative and viable, and with no member of the Diaspora at war with any aspect of the homeland it is glaring that the offer of dual citizenship has not been universally presented by the African Union on behalf of its member states, to the international African community. It would provide the most direct first step for all of the resources that Africa needs to be drawn back to Her, with irresistible magnetic pool.

Evidence suggests that the financial crisis of 2008-09 has made a return home to Africa or

73 *An article, —New Ways To Finance Development in Sub-Saharan Africa‖ published on the World Bank website describes them:‖ A diaspora bond is a debt instrument issued by a country—or even by a sub-sovereign body or a private corporation—to raise financing from its overseas diaspora. This relatively unexploited instrument can raise investments from international migrants for economic development in the home country. Members of the diaspora are more likely to invest in their country of origin not only for patriotic reasons, but also because their country risk perception is likely to be weaker than that of international investors. The diaspora from India and Israel have raised $11bn and $25bn respectively in recent decades. The Philippines has announced that it will sell a diaspora bond to overseas Filipino workers this year to raise funds for development projects. Ghana has begun marketing the Golden Jubilee Savings Bond to the Ghanaian diaspora in Europe and the United States.*

emigration from the West more attractive. The colonial heritage between Angola and Portugal is providing perhaps the best evidence in this regard – with 23,787 Portuguese moving to Angola in 2009, compared with only 156 in 2006, according to the Portuguese immigration observatory,[74] overwhelmingly as a result of the economic crisis rocking the European nation. Such demographic transitions are enriching entities like the state air carrier TAP Portugal, benefitting from increased traffic to its former colony (TAP Portugal is also enjoying increased traffic to another former colony Brazil).

Ms. Margaret Kilo of the African Development Banks‟ Fragile States Unit has stated properly that "The issue is not whether to return home or not. The African diaspora does not have to relocate to the continent in order to contribute to its development," but the right to return must be kept on the table and part of any discussion of incorporating the Diaspora into African economic development. Those Angolans and nearly 25,000 Portuguese moving to Angola largely for economic reasons would not be able to enjoy the quality of life they desire nor be satisfied without a physical return and ability to leave an economically less attractive environment.[75]

Also conspicuous by its absence is that in all of the emphasis on China-Africa relations, it is striking to hear so little of such discussions move into the possibility that the manner in which the Chinese diaspora is responsible for financing the mainland‟s businesses is a model for Africa should follow. In an aptly titled article, "China‟s Miracle Workers Mostly Live Elsewhere", by George Melloan, published on March 8, 1993, „it was estimated that 75 percent of mainland China‟s 28,000 enterprises with significant foreign equity are financed by ethnic Chinese living outside China.‟[76]

That someone is not proposing a vision whereby 75 percent of mainland Africa's numerous enterprises with significant foreign equity are financed by members of the African diaspora (as opposed to reliance upon the West or Asian

74 *"Portugal Turns to Former Colony For Growth‖, New York Times, July 13, 2010 (http://www.nytimes.com/2010/07/14/business/global/14angolabiz.html)"*

75 *In response to Ms. Kilo's comment this author sent the following now posted after an interview of Ms. Kilo on the African Development Bank website, ―This is a profound interview and Ms. Margaret Kilo deals forthrightly with some very difficult issues. But I agree and disagree a bit with this portion, "I think that the issue is to put in place mechanisms that would allow them to help the continent, even from afar. The return of the Diaspora should not or cannot be artificially orchestrated; it will come with the improvement of social, economic and political situation in countries." Yes and no. Portions of the Diaspora (particularly Black Americans who have ideological affinity but not necessarily deep cultural attachment or kinship ties) will not return simply because of improving conditions. It will require 'artificial orchestration,' in terms of outreach and policies (widely popularized conferences/dual citizenship/immigration-entrepreneurial visas). Here, there are lessons in the history of nations that have successfully re-connected a mainland and a diaspora. So I am so pleased that Ms. Kilo mentions South Korea, India and China, among other possible examples. I mention more of these dynamics in a recent interview at: http://www.africaprebrief.com/pages/posts/whatrsquos-next-for-african-economic-development-and-investment-q-a-with-cedric-muhammad-founder-africaprebrief-25.php — (http://www.afdb.org/en/news-and-events/article/interview-the-african-diaspora-does-not-have-to-relocate-to-the-continent-in-order-to-contribute-to-its-development-magaret-kilo-ofsu-head-6946/)*

76 *As summarized in Labyrinths of Prosperity by Reuven Brenner (1994)*

nations for foreign capital etc…) is revealing and shows how discussions of economically integrating the Diaspora with Africa have only begun to scratch the surface.

Of all of the members of Africa‟s diaspora the group perhaps in the best position to economically maximize a dual citizenship opportunity with Africa are Black Americans. For years the potential impact of a strategic economic relationship between Blacks in America and African economies has been discussed rhetorically with mixed results in practice.

As a member of this portion of the Diaspora I am well acquainted with beautiful stories of business conducted by Blacks in America so touching, they resemble the Biblical account of Joseph and his Brothers, and even the story of the Prodigal Son comes to mind[77].

And mixed with such highlights are anecdotes where the engagement was not so pleasant, for either side. I know of Black Americans that have been deceived by Africans, and I know of Africans who were so put off by the conduct of Black Americans that they considered never doing business with any of them again.

There is nearly a 100 year history of such painful stories, some of which include interaction between the followers of such great pan-African leaders as the Honorable Marcus Mosiah Garvey of the Universal Negro Improvement Association (UNIA), and Emperor Haile Selassie of Ethiopia as well as many who left America to exploit business opportunities in South Africa immediately after the release from prison and rise to the presidency of Nelson Mandela.

Yet and still the strategic nature of the Black American seems obvious to so many. Oddly, perhaps, it may be the Black American him and herself who realize it the least. But it is arguable that those who come from the descendants of slaves in the continental United States are the most highly educated and professionally trained of all of the other Diaspora members, due to their role in the American economy and participation in its educational system. That, in tandem with their unique contributions to the land and their suffering make them a unique member of the scattered African family (Black Americans were totally stripped of their identity: language, culture, and beliefs – unable to pass any of this down to their children intact. One area where this can be shown is in the area of group economic systems where rotating savings and credit associations were passed down in some form to Blacks in Caribbean. With Black Americans there is no such history, especially when applied to the financing of Black entrepreneurs by such vehicles.

77 In reference to a visit he received from the Sultan of Ethiopia in 1972 (Sultan Ali Mirah Hanfare: http://www.ethiopianreview.com/content/33023), the Nation Of Islam's (NOI) Honorable Elijah Muhammad described Black American-African interaction in this manner. This scriptural exegesis remains a pillar of NOI teaching

By comparison, although materially poorer than their kin in the United States, Haitians enjoy the retention of African cultural heritage in the form of over 2,000 proverbs traced to Africa).

I have thought of the strategic nature of the Black in America over the last year as I have become more and more familiar with the kind of opportunities for investment in Africa that they/we are presented with. The deals almost always position the Black American in a trader-like role where they are being asked to bring money, information, and a unique professional skill set, and invited to continue to play such a role, over time.

While a historical review of the role of the trader in Africa is beyond the purview of this article, in concept, it is relevant to consider whether or not Black Americans, with the proper preparation and training, may constitute what is known as an Ethnically Homogenous Middleman Group (EHMG). EHMGs are a network of individuals with some form of cultural kinship, customs, and practices that allow them to function efficiently in business environments where the kinds of social institutions that constitute economic development (already mentioned as wide use of money, established laws, clearly defined property rights, economic specialization and diversification, and high literacy) are non-existent or uncommon.

Where there is contract uncertainty – no guarantee that agreements will be honored or enforced by a process or system because there is no well-developed framework for contract law – EHMGs are able to navigate such a difficult business environment because of their tightly knit nature and shared customs, beliefs, and practices.

In the book Trust, Ethnicity, and Identity by Janet Tai Landa we read of a few EHMGs throughout history:

We may develop a theory of the ethnically homogeneous (Italian) Mafia group as a low cost club for the enforcement of contracts since Mafia-entrepreneurs, by the very nature of their illegal activities, operate outside the legal framework. Similarly, the theory may explain why successful trading groups operating in other underdeveloped economies characterized by contract uncertainty are socially homogeneous groups: the East Indians in East Africa, the Syrians in West Africa, the Lebanese in North Africa, the Jews in medieval Europe, and the Medici merchant-bankers in fifteenth-century Florence.

If Black Americans (or a certain group among them) constitute an EHMG aside from other considerations and motivations, it may behoove African countries to make greater outreach to them, advertising financial innovations and legal reforms that make it easier for them to invest in joint ventures, development projects or entrepreneurs.

The extension of dual citizenship to Black Americans, perhaps associated with some form of entrepreneurial visas[78] should even be considered.

One of the most intriguing propositions and initiatives outlined in public as it relates to the role of Black Americans, and their potential role as an organizer of broker of talent, labor, skill, wealth, and brainpower on behalf of Africa, and in a mutually beneficial relationship was presented by Minister Louis Farrakhan of The Nation of Islam in 1993 in his book, A Torchlight For America wherein he describes how ex-offenders may be offered reduced sentences in the United States if they agreed to receive re-training and return to Africa to build a new reality. In a section entitled, "Begin Reforming Black Inmates by Helping Them Make a New Beginning in a Land of Their Own" it he proposed:

78 *In ―New Pitch for Start-Up Visas‖ published in the December 16, 2010 edition of The Wall Street Journal an approach to entrepreneurial visas in the United States is outlined (http://online.wsj.com/article/SB10001424052748704694004576020001550357580.html), ―The StartUp Visa Act, introduced by Sens. John Kerry (D., Mass.) and Richard Lugar (R., Ind.) in February, would grant permanent residency—that is, a green card—to any foreign-born entrepreneur whose new business attracts at least $100,000 in venture capital or angel backing out of a total $250,000 in equity financing, while creating five new jobs within two years. The bill is expected to be reintroduced in the Senate as early as January.‖ The African Union, regional economic communities or any individual African country could offer the same to Black Americans or any other member of the diaspora.*

America has not found a way to curb crime and reform those in her society who consistently break her laws, particularly in the black community. The fact is that due to the high rate of recidivism, most of the street crime in this country is perpetrated by the same set of people. Instead of being reformed, a substantial number of people are recycled through committing crime and then being incarcerated again and again. The threat of street crime to life and property, and the great cost to the American taxpayer for warehousing people in jails and prisons, continues unabated.

We have an idea for addressing the problem of crime and reforming the so-called criminal, that can at the same time relieve some of America's burdens and even elevate her stature in the eyes of god and the nations of the earth.

America, and the nations of the earth, are in competition for developing the resources of Africa – the next significant economic growth opportunity in the global economy. Blacks in America could help to foster the relationship that could cause America to be first in line in trade relations with Africa and the development of her mineral resources – which is the prize sought by every nation that would hope to be a world leader in the 21st century.

However, America's foreign policy and relations with other nations is largely a reflection and the result of her treatment of the different ethnic and racial groups within her borders. If America would improve her treatment of black people, she could leverage that improved treatment to foster favorable relations with Africa. Also, if America would develop an enlightened foreign policy toward Africa, this would lead to stronger trade and economic opportunities.

We are proposing that America – by encouraging development in the black community and by helping us to make a new beginning on the continent of Africa, first with the inmate population – could win a place in the hearts of Africans that would gain for America a strong foothold on that strategically important continent.

If we look at what Europe and America did for the Jews of the world by creating a state for them in what was called Palestine, we ask: Why can't this model be used again to create a state for those black people who would be willing to work to build a new reality for our people now and in the future?

Europe released its prisoners to the colonies of the New World, not only to populate the colonies, but to build a new reality from a wilderness. It worked. Australia and new Zealand were also populated by prisoners from Europe.

Twenty-five percent of our youth are in some way connected with the criminal justice system, and about half of the jails and prisons are populated by blacks. When you consider the high rate of recidivism and the cost to maintain prisoners, and when you consider that integration has not worked to advance the condition of many of our people, shouldn't we be open to new ideas, especially when they are rooted in models that have worked in the past?

Suppose we asked our brothers and sisters in Africa to carve out that huge continent a territory for blacks from the diaspora to begin to build a new reality. Since Africans were involved in the slave trade, which brought their kith and kin to these shores in chains, thus having a hand in bringing us to our wretched present day condition, should not Africa also have a hand in our redemption? Some of our people would be willing to build a new reality on the continent of Africa, and we could do it in a way that benefits Africa, America, as well as ourselves.

The Muslims have shown a tremendous ability to reform those of our people who break the law. The movie ―Malcolm X‖ demonstrated how the teachings of the Honorable Elijah Muhammad could reform an eighth-grade dropout student and so-called criminal into a world leader. How many future world leaders are languishing in prisons who may never have a chance to demonstrate to the world to the world what the Almighty Creator has put in them? Our prisoners need a chance to do something constructive with their lives.

America should be willing to support the Nation Of Islam for the next three or more years, to teach unhindered in the jails and prisons to begin the process of reform. Meanwhile we could work with African governments toward the establishment of a territorial base for our people.

There are many black scholars and professionals who are not presently working who would be willing to teach and train the inmate population in the skills necessary to build a new reality. We would offer the prisoners a chance to be reformed, trained, and then work off their time building a new reality on the African continent.

In a White House conference held nearly 130 years ago, President Abraham Lincoln tried to get blacks to go to Central America or Africa to begin a new life. He said that perhaps what we had learned in our sojourn in America would be of use to that ―dark‖ continent. Black people turned down President Lincoln‘s offer and elected to stay, although the president had promised that we would never be equal in this society. President Lincoln was correct. Even to this day we are still not equal members in the society. However, since that conference, blacks have emerged as masters in every field of human endeavor. That mastery must now be put to work to lift the masses of our people in America and to help lift Africa into the 21st century.

Europe and America are attempting to get African leaders to allow them to dump their nuclear waste material on the African continent. I am not asking the government to make Africa the dumping ground for America‘s rejects. I am asking that America support us in first reforming the co-called criminal element among our people, and then placing them in an environment that will manifest their hidden gifts and talents.

Amends have never been made fully for the destruction of black people during the Holocaust of slavery and through the institutions of racism that have prevailed from that time to the present day. The moral issue of rectifying its role in dehumanizing an entire people still hovers over America.

In America, many of our people have been written off as members of the permanent underclass, meaning the country has lost hope in improving the condition of these people. As discussed earlier, many of our people have lost their jobs – in disproportionate numbers when compared to job loss and unemployment rates among white people – due to the deteriorating economy. This idea should be open to all of those – the permanent underclass and the unemployed – who would be interested in making a new reality for themselves on the continent of Africa.

The majority of black people will not wish to go anywhere. Because of the contributions that our forefathers have made to this land, and the contributions that blacks continue to make to America, most of our people feel that this is our only home. However, a small but significant number would be willing to try to build a new reality on the African continent, with the support of the government.

We would propose that some of the $18,000 spent each year per inmate to warehouse them in a cell be redirected to support building a new reality as outlined here. We would give the inmates a right to choose to stay here or to build a new reality in a land of their own. The freedom of choice, the right of the people to choose, has been and is the way of the teachings of the Honorable Elijah Muhammad. We have given our people an opportunity to make enlightened choices on their behalf for the past 60 years, and we will continue to do the same in the future. We would ask that the participants be granted the same dual citizenship that allows Jews to travel back and forth to Israel, making their contributions on both sides of the Atlantic.

The work done by former criminals of Europe in establishing America, New Zealand, and Australia, has redeemed them in the eye of history. Let the work of the so-called underclass and so-called criminal element among black people be allowed to redeem them in the eye of history by their being permitted and supported in building a new reality on the African continent.

As Jews in America visit Israel and take pride in the accomplishments of their Jewish brothers, yet still desire to live in America, let the blacks who remain in the diaspora take pride in the work of these pioneers who would venture to build a new reality in Africa.

Further, we would establish a skills bank, composed of our scholars and professionals, for use in developing Africa and the Caribbean. We propose that these scholars and professionals work for other countries for an agreed upon compensation plan, including salary and benefits. However, what they work to develop in manufacturing, mining, agriculture and industry, a percentage of the profit would accrue to a national treasury for the benefit of those blacks who remain in America, so that on both sides of the Atlantic we will use our bitter experience for the good of Africa as well as America.

This outlined plan should be considered by members of the African Union‟s First and Second Congress Of African Economists.

Were universal citizenship be provided to the Diaspora it would cause a chain reaction that when combined with other actions, phenomenon and policies (like many described in this paper) would result in bottom-up economic development complimented by an infusion of international capital seeking investment opportunities all over the continent – even in regions previously seen as too porous, unstable and insecure to sustain development.

Nothing attracts capital like a critical mass of talent and labor. With proper engagement of her Sons and Daughters, Africa can ensure that all forms of capital – human, physical and financial are properly married.

The Development of African "Supercities"

If a returning diaspora would be a magnet for capital then certainly the prospect of massive work projects to build and re-build wasted cities as well as develop large tracts of unutilized or under utilized land would be worthy of investment from Africans and those abroad.

A sign of things to come may be an ambitious development project soon to start in East Africa.

Since October of 2010, the real estate market in Kenya has been abuzz with news that could re-shape the landscape not only of African real estate but paradigms for economic development and growth. At that time, Russian investment bank, Renaissance Capital and local investors entered into a 50-50 venture to develop Africa's „city of the future" - called Tatu City.

Tatu City[79] will be a mixed residential and commercial use development situated in a 1000-Hectare coffee farm on the outskirts of Nairobi, the hub of East Africa. It will be constructed at a cost of $ 5 Billion, fully funded by private investors and with a target of 62,000 inhabitants. The site, situated 15 km from Nairobi and 25 km from the Jomo Kenyatta International Airport, is connected to both the city and the airport by newly constructed highways making it easily accessible. Plans are also underway to ensure amenities such as water and electricity have been put in place by the time actual construction work begins. The City will be constructed in 10 phases over the next 10 years, with the first phase concentrating on a core residential and cyber-city. Renaissance says it has secured most of the major approvals it needs from local and environmental authorities, as well as utility providers, and that they are on course for an October 2011 launch for the first phase of the project with its full functionality by 2014.

Initially driven by equal participation from local and foreign investors, the financing structure is potentially precedent-setting. The local investors roll features prominent Kenyans such as industrialist Vimal Shah of Bidco Oil Refineries and former Central Bank Governor Nahashon Nyagah, both of whom have a wealth of experience and connections in both the private and public sectors. Renaissance Capital offers its experience in raising capital from foreign investors and aims to lure big- name international corporations to

79 *(www.tatucity.com)*

set up shop in Tatu City.

This project is among several similar one that Renaissance is pursuing in Africa.

It has secured land in key African cities Lusaka, Accra, Lagos and Harare for similar urban renewal projects. The case for such projects is driven by the rapid urbanization currently experienced in Africa. Renaissance Capital CEO, Stephen Jennings can hardly contain himself when roughly outlining his vision for what he believes is the future of urban development in Africa[80]

If it actualizes its potential, Tatu City would certainly fit into a vacuum.

A demographic surge has caught many African governments flat-footed exposing poorly planned cities incapable of responding to or resolving extreme pressures on housing capacity, water and electricity infrastructure. Numerous informal settlements arising in major African cities with poor living standards are symptomatic of the crisis.

Not different from any other part of the world, wealth inequality and quality of life concerns juxtaposed to an increasing foreign presence and expanding middle class aspirations have combined to create a market for gated communities, which are becoming the norm in real estate development – now part and parcel with large scale, planned city schemes.

The current unmet demand for housing in Nairobi and its environs stands at 150,000 with an annual estimated 30,000 in need thereafter. This coupled with the increasing cost of construction, and property investments from a relatively wealthy foreign clientele - as diverse as Somali „pirates‟ and Western professionals - has led to a ten-fold increase in real estate prices over the past decade. With economic growth at about 5% annually and a housing deficit yet to be covered, demand shall continue to increase in the foreseeable future and be unmet.

This is the industry outlook that Tatu city is walking into, and is quite anxious to monetize.

The attraction to and cost-savings within Tatu city are immense.

With its site on the outskirts of Nairobi, the cost of land will be significantly lower than what is experienced inside the city limits. Furthermore, Kenya has become in recent times a magnet to tech firms like Google, Nokia and Airtel, who are setting up Sub-Saharan headquarters. They along with Business Process Outsourcing companies from nations like India and China are also prime

80 *(http://video.ft.com/v/952116897001/Renaissance-Capital-s-Stephen-Jennings-full-interview).*

candidates as tenants in the project's „cyber-city".

Investment opportunities in Tatu City can currently be accessed by forming consortia with developers and financial institutions. The key local financial institutions in this space are Housing Finance Company Of Kenya, Kenya Commercial Bank and CFC Stanbic bank who will also play an important role in financing mortgages - once the project is complete – for both commercial and residential buyers.

On the project risk side, Tatu City has been facing legal hurdles stemming from a shareholder battle with one side seeking the project's dissolution in court[81].

Steve Mwagiru and his family allege to have been swindled out of their initial shareholding of 15.4% down to the level of just 1%. Another bone of contention is $62.5 million arranged and guaranteed by Renaissance Capital - from a consortium of banks - for the purpose of buying land and setting basic infrastructure. Local shareholders agreed to charge their shares to Renaissance Capital in exchange for their guaranteeing this facility, effectively giving Renaissance total control of the project. But the plaintiff has placed caveats on assets as he claims not to have been party to this agreement. The matter is not insignificant as transactions cannot be made with the land until the issue is resolved, possibly placing loan repayments for the facility in danger. The worst case scenario would be default and subsequent liquidation of the properties by the lenders.

Steve Mwagiru is seeking compensation and is open to having his stake bought out but already existing disputes over the land's valuation are further compounded by the fact that the official land use designation has been altered. Prior to Tatu City the project's site was a coffee plantation. Subsequent county council regulations required change in the classification - from agricultural to commercial use - which increased its market value.

Renaissance Capital, along with other local shareholders, is handling the dispute with the Mwagiru family through the legal process while insisting that the project is still on course. Despite their assurances these court actions adjudicated in a slow-moving Kenyan court system, are likely to dent investor confidence in the project, especially with no out-of-court settlement in the offing and the possibility of the matter gaining traction in the colorful Kenyan press - known to be extra vigilant (and creative) in an election year. Whether Renaissance's position is an effective hard line negotiating tactic or a sign of hubris remains to be seen. Renaissance says they

81 *(http://www.businessdailyafrica.com/Corporate+News/-/539550/1179300/-/view/printVersion/-/qtkvla/-/index.html)*

are optimistic that the caveats will be lifted and of their confidence in an eventual court victory, though without a time certain. Essentially they have depicted the Mwagiru matter as one lone shareholder against the rest.

Regardless, the effort toward Tatu City has set the stage for larger real estate developments in the region and positively impacted the investment atmosphere with several large scale real estate projects announced this year.

There is Konza Technology City[82] which is being backed by the Kenyan government at a budgeted cost of $13 Billion. Aptly dubbed „Africa's Silicon Savannah', it seeks to leverage the country's tech infrastructure and a well-trained critical mass of human capital, to attract investment in the business process outsourcing sector. Project plans have been approved but still have yet to see a concrete development timeline materialize. There is also Sergoit Golf & Wildlife Resort[83] catering to the tourist market - blending recreation, residential and wildlife use as its main offering. This resort project is seeking to raise $500 Million. Next, Migaa[84] is seeking to create a gated community on the outskirts of the city and like the other projects is open to private investors seeking to develop portions of the residential space.

82 (www.konzacity.co.ke)
83 (www.sergoit.co.ke)
84 (www.migaa.com)

Lastly, Centum[85], Kenya's oldest investment company, has also thrown its hat into the ring with planned developments along the shore of Lake Victoria in Uganda and in Nairobi. Both developments will provide a mixture of residential, commercial, retail and hospitality space.

The Tatu City project is still on course but not as seamless as Renaissance would like it to appear. The big elephant in the room is the Mwagiru court case, then perhaps affordability issues for local residents. Until clarity on the former matter emerges, the risk to reward ratio is not as promising as it could be. In addition there are some dynamics about investing in real estate in Kenya that should be factored.

Typical returns in the real estate sector are in the range of 100%-200% over the span of a project, normally 2-3 years. Unfortunately there are no clearly structured investment vehicles (like a REIT) capable of accommodating investors who do not want intimate involvement in the project but who still want exposure to the opportunities.

That's a deterrent to many investors but may also be a blessing for one who can successfully set up such a vehicle.

Tatu City still looks like the future of Africa to us,

85 (www.centum.co.ke)

but that vision is far from 20-20[86].

But a larger and more obvious question remains – should a Russian investment firm be leading the continent in urban development – with a vision more clearly articulated than any national, regional or continental body?

The Viability of the Entertainment Industry as a Form of Economic Development

The news that the United Nations‟ World Intellectual Property Organization and Google are partnering to build a common digital platform which will help streamline the identification of protected musical works across 11 West African countries, helping entrepreneurs and artists from these countries get paid for their work through a simplified and standardized rights registration system[87] is more evidence of the trend and storyline dominating African economic development beneath the surface.

One of the more difficult realities especially for Western-based mainstream opinion leaders, and analysts to accept, it seems - about emerging economic development, growth and opportunities – in Africa is the confluence of forces that are in a state of co-opetition on the continent. The tendency to believe that investment opportunities will materialize primarily when the right policy is enacted by a central government is a hard one to shake, but it obscures understanding.

The fact remains that economic growth in Africa cannot be decreed by pieces of paper or arbitrary rules – whether constitutions, policies, prices, or property rights – unless such formalities have an organic root or take place in harmony with the institutional framework and cultural heritage of the society where opportunity lies.

Therefore, one of the reasons why Rwanda looks so promising this decade is not because she has enacted property rights or established court systems to uphold the rule of law and business disputes, but because the nation did so utilizing informal cultural traditions called gacaca which allowed the broader society to participate and establish justice and build trust. It is this which will allow the society to access its own capital in the form of formalized titles to land which an emerging financial intermediation sector can utilize as collateral for loans and securitizations and monetize.

What we are seeing – from the ground up – is a confluence of actors, motives, and interests in Africa: entrepreneurs, tribal leaders and politicians for instance, combining with a top-

86 Africa PreBrief, —Tatu City – The Development of The Decade?‖ (June 27, 2011)
87 (http://www.un.org/apps/news/story.asp?NewsID=38655&Cr=wipo&Cr1=)

down critical mass from abroad, whether multi-lateral institutions, foreign corporations and investors, and State-Owned Enterprises (SOEs) directly or indirectly cooperating, with one another with the end result being the creation of capital and wealth that will serve others well beyond an immediate transaction.

It is easier to see in say, China's interaction in Africa where in exchange for the continent's access to mineral resources, they build a road, school, stadium, bridge, dam, or utilities which a community can access or „own.‟ It is much more difficult to see this phenomenon in the services sector or in an area like intellectual property. The truth is that attention to distinctions like „public‟ and private‟ and economic ideologies and models which rely upon them to describe Africa lack full explanatory power.

A study of Africa's art, entertainment and cultural sector and its historic relationship with Western entertainment companies is instructive. For decades multi-lateral institutions, foreign corporations and indigenous artists have struggled with how to identify and monetize African intellectual property. After years of frustration it has been multi-lateral institutions acting under the guise of aid and charitable programs who took the most visible lead in this effort [see 1) the "Research into the Impact of the Arts and Creative Industries on Africa's Economy" report which highlights Nigeria[88] and 2) The United Nations Educational, Scientific and Cultural Organization (UNESCO) and BEMA effort, "Promoting West African Music in Regional and International markets"[89]].

As is often the case, a non-profit mentality married with the artistic and cultural community's need for self-expression has left us with a mass of entrepreneurs and creators believing that only grants, donations and corporate sponsorship were their only path in the world of music. But there is more to the story of how we got to this position. Obi Asika, CEO of Storm 360 – one of the leading entertainment companies in West Africa explained some it to me in a conversation in October of 2010[90]:

Cedric Muhammad: How has Storm 360 navigated the demonetization of music in the era of mixtape and file-sharing? Has Africa been impacted differently in the way that music is sold?

Obi Asika: Well in a funny way the absolute lack of investment by the major labels when they were here meant we were already demonetized. This country was a top 6 market worldwide for music.

88 (http://www.creative-africa.org/CREATIVE AFRICA_2008/index.php?option=com_content&task=view&id=49&Itemid=109)
89 (http://portal.unesco.org/culture/en/files/40911/12735838909BEMA_factsheet__eng.pdf/BEMA%2Bfactsheet_%2Beng.pdf)
90 (http://www.allhiphop.com/stories/editorial/archive/2010/10/07/22425762.aspx)

If you read Richard Branson's autobiography you will see where he talks about being saved from bankruptcy by receiving a royalty cheque for sales of a Yellowman Album in 1978 in Nigeria. The thing is the majors never invested beyond talent, so when they left Nigeria they left no distribution which gave our market over to the street traders, so informal distribution has now become the primary channel through which content producers across music and film – including Nollywood - have to use to push their content. This has caused an imbalance where the cd and dvd plants make money, the distributor makes money and the content owner and talent do not see the real numbers. In Nigeria right now we are finally emerging from years in the wilderness and our collection society is now fully legal and endorsed by the Nigerian Copyright Commission. Nigeria is now very well regulated for rights admin and copyright and this will lead to international rights holders, film studios, publishers, record labels doing deals in and out of Nigeria. These are just some of the fundamental reasons why it has been so difficult for our huge pool of talent to break into major international markets, we simply do not have the right level of access, relationships and we need to build trust. We are all dealing with demonetization but there is a thriving corporate circuit which pays the very top artists and of course a few brands have endorsed top level Nigerian talent.

The thing is with a population of over 150m and most of them being under 24 we have a massive youth market who are voraciously consuming these products. What we are all working on is how to fully monetise this market, so we are all ears for any smart ideas.

Among other important insights, this portion of what Mr. Asika offered is important, "The thing is the majors never invested beyond talent, so when they left Nigeria they left no distribution which gave our market over to the street traders, so informal distribution has now become the primary channel through which content producers across music and film – including Nollywood - have to use to push their content. This has caused an imbalance where the cd and dvd plants make money, the distributor makes money and the content owner and talent do not see the real numbers."

This is the state of affairs all over Africa as was highlighted recently in a CNN Africa report on the emergence of the use of the tape cassette over CDs in Zimbabwe due to the former's durability and superiority as an anti-piracy distribution format[91].

While everyone in music has had to deal with these kinds of issues the advantage that foreign investors, entrepreneurs, and artists have had – that their African counterparts have not – is

91 *(http://edition.cnn.com/2011/BUSINESS/06/07/cassette.culture.zimbabwe/index.html)*

the ability to monetize copyrights. Because the kinds of voluntary organizations in the West which led to the American Society of Composers, Authors and Publishers (ASCAP) - a membership association of more than 410,000 U.S. composers, songwriters, lyricists, and music publishers of every kind of music – have not emerged in Africa with coordinating authority, artists have not been able to produce in a way that funnels up a pyramid of financial opportunity. The result has been that the very best African artists are cherry-picked by foreign record labels who usually struggle to market them as international phenomenon and no industrial infrastructure is left behind.

Although they have quietly sought to get the multi-laterals to do the heavy-lifting, the major record labels like Sony, Universal, Warner, and EMI - all of whom have publishing arms of enormous scale - have never been able to identify the reward as worth the risk of tackling Africa's infrastructure and intellectual property bottlenecks.

Enter Google who is aggressively moving deeper and deeper into the monetization of music (and headed for a showdown with Apple in the cloud[92]) seeking more and more content in the aftermath of both the dotcom bubble and the near death experience of the recorded music industry which it has survived. In many ways, the music industry is relying on Apple and Google to solve the problems it has been overcome by for over a decade. Identifying the double play of good publicity and access to the most creative and least monetized place on earth, Google's partnership with WIPO makes total sense as the following language in the official WIPO press release makes clear:

A project using WIPOCOS to build more efficient copyright infrastructures in developing countries was approved by WIPO member states as part of the Organization's Development Agenda. WIPOCOS will help collecting management organizations in the participating countries share information on the identification of works and relevant interested parties, making cross border licensing easier. The 11 countries involved in the current phase of the project are Benin, Burkina Faso, Côte d'Ivoire, Gambia, Ghana, Guinea, Mali, Niger, Nigeria, Senegal and Togo. ―The current data management process for registering works is complicated,‖ said Mr. Gurry. ―The improved WIPOCOS rights registry will streamline that process – it will store information online and make it accessible from each participating country. This means that a right holder will only have to register a work once to have the information stored across the 11 countries.‖ Mr. Gurry announced the project during a keynote presentation at the third World Copyright Summit, organized by the International Confederation of Societies of Authors and Composers (CISAC) in Brussels.

92 see "Apple and Google Set For a Cloud Music Face-Off" http://www.associatedcontent.com/article/8120935/apple_and_google_set_for_a_cloud_music.html

Mrs. Diabe Siby, Director General of BSDA (Senegal's Copyright Office) and Chairperson of a network of West African collecting societies called the West African Network, said the project —has the potential to enable developing countries to participate more fully and effectively in the benefits of the global music industry.||

"We are pleased to be able to contribute to this effort, because we have a keen interest in making it easier for creators and performers to be remunerated for their works and in enabling new innovative content services to emerge online," said Mr. Carlo d'Asaro Biondo, Google Vice President Southern Europe, Middle East and Africa.

> *"Google has a history of working with public institutions like WIPO to build technology solutions; we will continue to build these partnerships to benefit creators, consumers and the public-at-large."*

The WIPOCOS system will enable streamlining of administrative costs relating to collective rights management, making the reporting of usage for royalty allocation less expensive and more efficient. Connecting these 11 societies to the rest of the world through this initiative will make rights information about West African music more accessible to other societies worldwide. WIPOCOS will link together information about the creator, his works and related metadata so that use of the music by licensees can be properly accounted for.

The stage is now set for the emergence of an entire new segment of the global publishing industry in Africa - in its three major forms: performance (concerts, radio, broadcast) mechanical (sale of CDs, downloads) and synchronization (use in TV and movies). With American sales of recorded music declining and even downloads reaching plateaued growth, Africa and monetizing music catalogues matter more and more.

Music & Copyright reported that Universal has the No. 1 global market share leader amongst major publishers. 22.6%, followed by EMI at 19.7%, Warner Chappell at 13.9%, and Sony/ATV at 12.5%. In 2010 Sony signed over 100 artists in Africa alone – including a project that paired artists with Grammy-award winning producer R. Kelly.[93]

Some will see Google-WIPO in terms of what it means to the entertainment sector in 11 economies; others will understand it in terms of the work of a multi-lateral institution; still more will find it as more evidence of the continued progress of regional integration; some circles will see it as a victory for artists and entrepreneurs who have not been aided sufficiently by state and

93 *(http://articles.cnn.com/2011-02-22/entertainment/one8.africa.rkelly_1_african-countries-pan-african-sony-music?_s=PM:SHOWBIZ)*

local governments; and many will understand it as a strategic move by a multi-national corporation to position itself on the place on earth poised to experience the greatest economic growth over the next decade and century.

The fact of the matter is that there is truth in all of these interpretations with ramifications in both the „public" and „private" sector for years to come. Those who understand that this is the way of economic development in Africa – more than single variable policy decrees - will make the most money, over that timeframe.

No discussion of sustainable African growth and ending endemic unemployment (especially in light of Africa's youth unemployment crisis[94]) that leaves out the millions of talented persons who create with their minds, voices, hands and legs through creative expression and performance art is credible. Factoring the creation of public goods which allow for greater monetization of intellectual property, the spread of social media which connects more and more people all over the world – across space, time and markets - and business dynamics like the desperate need that international business has for multi-lingual African opinion leaders is not an option but a must.[95]

94 See the World Bank's ‗Youth and Employment In Africa' report, December 2008, (http://siteresources.worldbank.org/EXTSTATINAFR/Resources/ADI-200809-essay-EN.pdf) which is preceded by the following introduction, ―Youth Unemployment and Underemployment in Africa Brings Uncertainty and Opportunity‖ (http://www.prb.org/Articles/2009/youthunemployment.aspx) , ―Africa has the fastest-growing and most youthful population in the world. Over 20 percent of Africa's population is between the ages of 15 to 24 and, since over 40 percent of Africa's population is under 15 years of age, that number is expected to grow significantly in the coming years. According to the International Labour Office, youth make up as much as 36 percent of the total working-age population and three in five of Africa's unemployed are youth. The [high] total fertility rate is Africa's biggest demographic challenge," says Carl Haub, senior demographer at PRB. "For 30 years, 45 percent of most African countries' population has been below age 15. So, a constantly rising number entering the labor force ages is one of Africa's biggest challenges." The combination of population growth associated with high fertility rates and the slow pace of job creation in Africa presents challenges to its youth. Despite annual economic growth rates of 6 percent or more in sub-Saharan Africa in recent years, there has not been a sufficient increase in stable employment opportunities for young people. With current demographic trends, the pressure to create new jobs will only increase over the coming decades.

95 See October 22, 1010 Wall Street Journal, ―Global Ad Agencies Flocking To Africa‖ (http://online.wsj.com/article/SB10001424052702304741404575564193783950352.html), ―...Ads in Nigeria, for example, need to be in five different languages to reach a large audience.‖

Conclusion -

Empire: The African Union – Multi-Cultural Society and Uniform Commercial Code

(Arabic: الثورات العربية; ; literally the Arabic Rebellions or the Arab Revolutions) is a revolutionary wave of demonstrations and protests occurring in the Arab world. Since 18 December 2010 there have been revolutions in Tunisia and Egypt a civil war in Libya resulting in the fall of the regime there; civil uprisings in Bahrain, Syria,and Yemen; major protests in Algeria, Iraq, Jordan, Morocco, and Oman, and minor protests in Kuwait, Lebanon, Mauritania, Saudi Arabia, Sudan and Western Sahara. Clashes at the borders of Israel in May 2011 have also been inspired by the regional Arab Spring. The protests have shared techniques of civil resistance in sustained campaigns involving strikes, demonstrations, marches and rallies, as well as the use of social media to organize, communicate, and raise awareness in the face of state attempts at repression and internet censorship.

Many demonstrations have also met violent responses from authorities, as well as from pro-government militias and counter-demonstrators. A major slogan of the demonstrators in the Arab world has been Ash-sha`b yurid isqat an-nizam ("The people want to bring down the regime").

- Definition of ‗Arab Spring'offered by Wikipedia[96]

‗The African Leaders have a great responsibility. Though many of these Leaders are former military men who fought in the liberation struggle for their people, now each of these Leaders must become a teacher of profound magnitude in order for the African Union to become a reality. Each leader and teacher must recognize that their frail political reality is based upon a tribal, ethnic, religious and racial reality that can become very unstable. '

- Minister Louis Farrakhan, ‗The Birth of the African Union, 'July 2001[97]

The African Union – managing, facilitating, and cultivating economic growth and these 10 emerging phenomenon, trends, and challenges- is in a vanguard position to elevate the principles, policies, and ideas that can lift the continent beyond attachment to partisan, parochial and kinship interests, and the failed models that have not developed Africa economically. The only way a „United States of Africa" can be created or a continent-wide environment for sustainable economic development and growth is if differences and diversity are embraced and honored, without becoming the basis of

96 (http://en.wikipedia.org/wiki/Arab_Spring)
97 (http://www.finalcall.com/artman/publish/Minister_Louis_Farrakhan_9/The_Birth_of_the_African_Union_4945.shtml)

governance.

Perhaps Czech playwright, essayist, and political dissident Vaclev Havel laid out the objective best when he stated:

No member of a single race, a single nation, a single sex, or a single religion may be endowed with basic rights that are different from anyone else‘s. In other words, I am in favor of what is called a civic society. Today this civic principle is sometimes presented as if it stood in opposition to the principle of national affiliation, creating the impression that it ignores or suppresses the aspect of our home represented by nationality. This is crude misunderstanding of that principle. On the contrary I support the civic principle because it represents the best way for individuals to realize themselves…to establish a state on any other principle of nationality, or religion, for instance – means making one aspect of our home superior to all the others, and thus reduces us as a people, reduces our natural world…Most wars and revolutions…came about precisely because of this one-dimensional conception of the state.

In a sense the role of the African Union is to be a spiritual guiding force that works through fostering dialogue, performing advocacy and mass education, the popularization of the best ideas, developing consensus, and enforcing agreement. It must synthesize both thesis and antithesis and it must standardize and bring uniformity to an eclectic and wide-ranging list of laws, policies, best practices and lessons that are offered to the African people and Member States for their choosing, or rejection.

As it relates to economic policy, the AU can be guided by a study of the lessons and process that resulted in the Uniform Commercial Code (UCC) of the United States; the laws and institutions of the British Empire; and the manner in which Chinese and Jewish business practices are able to balance informal customs and traditions with formal legal requirements.

The UCC. According to referenceforbusiness.com: “The Uniform Commercial Code (UCC) is a collection of recommended laws covering many different issues that arise during commercial transactions, such as sales contracts, leases, negotiable instruments, letters of credit, bank collections, and secured transactions. The impetus behind the creation of the UCC was the hope that each state would adopt it as a statute, thereby giving uniformity throughout the country to the area of commercial law. The first draft of the UCC was created in the fall of 1951 by an editorial board consisting of representatives from the National Conference of Commissioners on Uniform State Laws and the American Law Institute. Pennsylvania adopted the draft as state law in 1953, but no other state enacted it until the editorial board issued a revised code in late 1956. After the revision, Massachusetts and Kentucky were the first to adopt the UCC. Today, all of the states (except Louisiana, which has only adopted certain parts) and the District of Columbia have adopted the UCC."

What may be instructive to the AU is the manner in which laws were collected and recommended and the process by which individual members of the United States of America were allowed (but not forced) to adopt them.

The Laws and institutions of the British Empire. The often celebrated development of Taiwan, Hong Kong and Singapore, for instance, was partly a result of Chinese emigrants being able to not only rely upon their own customs and develop a trading network that fostered entrepreneurship in all of these places. It also was the result of the similarity of the economic environment and policies that nations within the British empire experienced – for better and worse. As it relates to Hong Kong for example, her economic development and growth was spurred in part by rules and policies that governed, capital remittances and overseas profits, regulations on company law and incorporations, low taxes and few regulations on the flow of capital into and out of her borders.

The AU can promote equality and opportunities for economic growth by focusing on providing a uniform and standardized package of monetary, fiscal, trade and regulatory rules, if not as policies actually implemented at least as a compass that can guide discussion and formulation.

Informal Chinese and Jewish business practices in a formal legal environment. There is always either a legal culture and social logic that guides business practices, whether formal and informal. Respect for customs, belief systems and even etiquette are important in fostering economic development. This respect is especially critical when kinship systems dominate nation states, as is the case in Africa. If the African Union is to provide ground rules and guiding principles at the same time that it is allowing for spontaneity and tradition to shape economic laws and policies it can benefit perhaps from the internal customs and behavior of the Chinese ethnic trading networks and the Jewish community's diamond trade which successfully balance informal and formal legal culture.

The Chinese business practice revolves around guanxi which has layers of meaning and is translated differently in English to mean social relationship, personal relationship, personal tie, social connection or a particularistic relationship. Wai-Keung Chung and Gary G. Hamilton, explain why this matters in a section of the book Rules and Networks: The Legal Culture of Global Business Transactions:

Western business alliances rest…on the contractual agreement firms reach and the legal framework on which the contracts are based. Guanxi relationships…rest on mutual trust, individual reputation…In a Western business environment; trust is separate from the contractual basis of alliance. Trust is generated over time through long-term interaction, and may additionally have interpersonal dimensions. For instance, as long as there is no legal violation, a breach of trust may incur few or no sanctions from other firms linked in a network. In the Chinese environment, however, trust is a normative and essential part of a relationship. Without trust, there is no meaningful relationship, and a breach of trust, if serious enough, would lead to ostracism from the network and loss of reputation.

African culture and customs found in its kinship systems and in ROSCAs for instance, are similar in many ways to guanxi. The African Union, for instance, could map the different aspects of trust as held by different traditions and use them to recommend laws and policies that would guide contract law and business regulations. It can also make education along these lines a staple of the school system and in integrating and orienting immigrants, traders, and members of the Diaspora who wish to do business on the continent. Systems of business arbitration could emerge from African custom just as easily as court rulings.

In the case of the Jewish community an appreciation for the fact that trust is a form of wealth and that kinship systems have it in abundance (often more than formal methods of engagement). While more formal social institutions like money, written contracts, courts, property rights have benefits, they do not necessarily inspire the trust that kinship systems do. In fact, they often emerge when kinship systems are weakened. An example of course is when population sizes increase and personal contact decreases.

On this Reuven Brenner points out in History-The Human Gamble:

How can central authorities maintain the bonds among an increasing number of people when kinship and existing religions no longer prove sufficient to maintain the stability of societies? The answer in both places is the same: under such circumstances shifts will occur toward more ―impersonal‖ methods of exchange, supported by laws and police, This does not imply that the roles of kinship and religion disappear, but only that their value decreases relatively in diminishing contract uncertainty. The next example shows that even today, when populations have ‗exploded,' kinship and religion diminish contract uncertainty. Murray Schumach (1981) in Diamond People, describes the mainly Jewish New York based diamond industry of the twentieth century and shows how social and religious bonds diminish uncertainty. Exchange is based on complex rules that go back 1000 years and contracts are still based on a code of honor that traces its roots to the Old Testament, the Talmud, and the teachings of Maimonides. Contracts of millions of dollars are concluded by only a handshake and the Hebrew-Yiddish ‗Mazel and Brucha'(luck and blessing) rather than being written…

On that final point we end where we began. Since trust is a form of wealth and kinship systems in Africa currently have more of it than do central authorities, the economic development and growth policies and initiatives (that need trust) should be humble in their attitude toward those belonging to tribal, ethnic, and religious communities – even members of so called „gangs."

There can be no long-term economic development, growth, and sustained employment without trust; or travel; an engaged Diaspora; entrepreneurs financed through financial or political innovations; and the best elements of a pluralistic „civic" empire with uniform and egalitarian „rules."

And there are ten very real challenges, phenomenon and opportunities that will test the African Union's readiness to achieve this goal - as this article has hopefully made clear

Session 5

Africa and a new Development paradigm

L'Afrique et un nouveau paradigme de développement

Croissance soutenable et mandat de la banque centrale en Afrique: perspective à partir d'un modèle dynamique d'équilibre général et stochastique

Par Thierry Kame

Par Thierry Kame[98]

ABSTRACT

This study aims to identify a monetary policy framework consistent with sustainable growth in Africa. To achieve this target, we use a Dynamic Stochastic General Equilibrium model applied to four African monetary zones, namely, CEMAC, CMA, WAMZ and WAEMU, via Bayesian approach. The results of calibration reveal that, since African financial system is characterized by excess reserves and excess bank liquidity, a Central Bank with a hierarchical Mandate of economic growth based on the credit channel, could effectively acts on economic activity and development in Africa.

JEL Classification numbers: ***C11, C61, E1, E2, E5, E61, O11.***

Keywords: *sustainable growth, Central Bank's Mandate, DSGE model, excess reserves, excess bank liquidity, bond*

RESUME

Cette étude vise à mettre en évidence un cadre de politique monétaire compatible avec une croissance soutenable en Afrique. Pour ce faire, nous adoptons un modèle Dynamique d'Equilibre Général et Stochastique appliqué à quatre zones monétaires africaines, à savoir, la CEMAC, la CMA, l'UEMOA et la ZMAO, selon une approche Bayésienne. Les résultats de la calibration nous révèlent, qu'en présence d'une conjoncture du système financier africain marquée par les réserves excédentaires et la surliquidité bancaire, une Banque Centrale ayant un Mandat hiérarchique de croissance économique basé sur le canal du crédit, agirait efficacement sur l'activité économique et le développement du continent.

Classification JEL : ***C11, C61, E1, E2, E5, E61, O11***

Mots-clés: *Croissance soutenable, Mandat de la Banque Centrale, modèle DSGE, réserves excédentaires, surliquidité bancaire, obligations.*

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1. *Introduction*

La crise financière amorcée en 2007 a mis à nu l'inconsistance des prescriptions de la nouvelle synthèse en faveur du mandat de la Banque Centrale. Elle a vue l'émergence des vertus de soutien au système bancaire et à l'activité réelle face à la récession (Blanchard O., Dell'Ariccia G. et Mauro P. 2010). Donnant lieu à un intense débat sur l'importance sociale de la politique monétaire. Ce débat a pris la forme d'une dispute entre ceux qui dénoncent les croyances erronées (Acemoglu D. 2009), l'inconsistance intellectuelle (Stiglitz J. 2008), la faillite (Collander D., Goldberg M., Kirman A. et al. 2009), et les orthodoxes (Friedman 1956).

En Afrique, nombre de Banques Centrales, comme leur homologue dans le monde, se focalisent prioritairement à lutter contre l'inflation, au détriment de la croissance économique. Au point où, au regard du Mandat des Banques Centrales africaines figurant dans leurs statuts, la stabilité des prix est l'objectif dominant. La raison avancée est que l'inflation stable et basse affecte positivement les équilibres réels. Une politique monétaire crédible tendra effectivement à baisser l'inflation anticipée et assurer une croissance économique forte (Bernanke 2008). Il est ainsi démontré qu'à long terme l'inflation est d'origine monétaire. Il existerait un fort effet de levier des taux d'intérêts sur la demande globale à travers la base monétaire. Une modification, même mineure, des taux d'intérêt se répercute de façon significative sur les différents compartiments des marchés monétaire et financier, et in fine sur la demande (B. Friedman 2000).

En conformité à cette théorie, la tendance à la décélération de l'inflation s'observe dans la quasi-totalité des pays africains. En Afrique du Nord, la Tunisie et le Maroc sont parmi les pays du Maghreb qui sont traditionnellement peu inflationniste. Au Maroc, le Mandat de la « Bank Al Maghrib » (Banque Centrale marocaine) est la stabilité des prix. Pour atteindre son objectif, la « Bank Al Maghrib » mène une politique monétaire prudente, basée sur la stratégie de ciblage de l'inflation et des mesures d'intervention de l'État à travers la caisse de compensation. A cet effet, l'inflation a toujours évoluée à un rythme très modéré , en oscillant sur la barre de 1%. En Tunisie, le Mandat de la Banque Centrale est d'éviter les pressions inflationnistes et à assurer un solde extérieur soutenu. La politique monétaire cherche à moderniser le cadre opérationnel, en vue de passer à un régime de ciblage de l'inflation. Le taux d'inflation, de 3,5 % en 2009, a augmenté à 4,4 % en 2010 et les prévisions le portent à 4,7% à 2011, largement au-dessus de l'objectif des 3 %. Néanmoins, les tensions inflationnistes devraient s'intensifier dans l'ensemble du Maghreb, sur le reste de l'année 2011 et début 2012 en raison des troubles politiques qui ont perturbés l'activité économique de la zone.

En Afrique sub-saharienne, pour plusieurs auteurs, l'inflation ne serait plus une préoccupation majeure (Reinhart et Rogoff 2002). La pratique de la politique monétaire y être placée sous l'égide de quatre zones monétaires. Il s'agit de la Zone Monétaire Commune de l'Afrique Australe (CMA), la Zone Monétaire de l'Afrique de l'Ouest (ZMAO), la Communauté Économique et Monétaire de l'Afrique Centrale(CEMAC), et l'Union Économique et Monétaire Ouest Africaine (UEMOA).

Tableau 1 : Inflation en Afrique

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011 Prev.
Afrique du Nord[1]	6,2	7,1	4,3	3,5	4,4	4,7	4,6	9,1	7,2	5,2	4,7	5,6
Afrique Sub-saharienne	16,6	10,6	12,2	9,9	7,3	7,4	7,2	7,8	13,5	8,3	6,9	9,4
CEMAC	1,2	4,4	3	1,3	0,4	2,7	4,1	1,0	5,7	4,7	2,4	3,8
CMA	4,5	5,6	6,07	1,2	1,8	3,6	5	7,1	11,6	7,2	4,4	6
UEMOA	2,1	0,9	3,6	2,8	0,3	4,7	2,2	2	7,9	1	1,2	3
ZMAO[2]	3,4	4,4	9	11,8	12,1	10,05	8,6	6,6	7,7	9,5	6,7	7,4
Zone Euro	2,5	2,1	2,3	2	2,3	2,29	1,9	3,07	1,6	0,9	2,2	2, 23
Pays émergents	8,11	7,2	7	5,9	6,2	5,6	5,7	7,5	8,1	5,3	6,1	7

Source : Données du FMI et de la Banque Mondiale 2011.

La politique monétaire dans la sous-région CEMAC, est définie et conduite par la Banque des États de l'Afrique Centrale (BEAC), Banque Centrale commune aux six pays membres. Depuis les réformes monétaires intervenues au milieu des années 90, le Mandat de la BEAC est d'assurer la stabilité intérieure et extérieure des prix. Afin d'atteindre cet objectif, la BEAC utilise le taux d'intérêt directeur, la politique de marché libre et les réserves obligatoires, comme instruments opérationnelles. En réponse, la BEAC a pu convenablement stabiliser ses prix autour du seuil communautaire de 3%, pour s'établir à 2,4 en 2010 selon les statistiques du Fond Monétaire International (FMI).

Dans la CMA, le taux de change est ancré sur le rand Sud-africain en vertu des accords de taux de change fixe entre le Lesotho, la Namibie, le Swaziland et l'Afrique de sud. Le Mandat prioritaire des quatre Banques Centrales de la CMA est de maintenir la stabilité des prix. En tant qu'instituts d'émission du rand, monnaie ancre, la « South Africa Reserve Bank » influence

1 *Il s'agit des valeurs agrégées de l'Algérie, la Tunisie, le Maroc, l'Égypte et la Lybie, obtenue par la moyenne géométrique des données de chaque pays, pondérée par le PIB calculé à parité de pouvoir d'achat(PPA) et exprimé en pourcentage du PIB du groupe de pays considéré.*

2 *Il s'agit des valeurs agrégées de la Gambie, le Ghana, le Nigeria, la Sierra Leone et la Guinée, obtenue par la moyenne géométrique des données de chaque pays, pondérée par le PIB calculé à parité de pouvoir d'achat(PPA) et exprimé en pourcentage du PIB du groupe de pays considéré.*

la conduite de la politique monétaire dans la CMA. Elle mène une politique monétaire dont la stratégie est basée officiellement sur le ciblage inflationniste. En affichant clairement son ambition à assurer toujours la stabilité des prix, le taux d'inflation en Afrique du sud s'éloigne difficilement de la fourchette cible de 3-6%.

Dans l'UEMOA, le Mandat de l'institut d'émission communautaire, la Banque Centrale des États de l'Afrique de l'Ouest (BCEAO), est de conserver un taux de couverture extérieur de la monnaie à un niveau satisfaisant dans un environnement non inflationniste. La surveillance institutionnelle des prix, au moyen du taux de pension, du taux d'escompte et des réserves obligatoires, a contribué à maintenir le taux d'inflation moyen annuel à un niveau assez proche du seuil de convergence de 3 %, sauf dans les années, 2002, 2005 et 2008.

Concernant la ZMAO, le Nigeria, la Gambie, le Ghana, la Guinée et la Sierra Leone constituent une zone monétaire, dont chaque pays membres détient sa propre Banque Centrale. Le Mandat des Banques Centrales des pays membres de la ZMAO, est principalement axé sur la diminution de l'inflation. A cet effet, la « Bank of Ghana » affiche clairement le ciblage inflationniste, comme stratégie de politique monétaire. L'objectif principal de la politique monétaire consiste à stabiliser le taux d'inflation sous la barre des 10 %. La politique de restriction monétaire a effectivement contribué à faire baisser l'inflation de manière durable au Ghana. En Gambie, la politique monétaire est articulée autour de l'objectif intermédiaire du contrôle de la masse monétaire au sens large. La Banque Centrale de Gambie concentre ses efforts sur le maintien de l'inflation au-dessous de son objectif de 6 %. Au Nigeria, bien que la lutte contre l'inflation soit un objectif, les autorités monétaires n'arrivent pas à maintenir la stabilité des prix. La « Central Bank of Nigeria » est confrontée à un risque permanent de tensions inflationniste, avec les taux allant au-delà de 10%.

Nonobstant cet effort de convergence nominale en Afrique, paradoxalement, les performances en matière de croissance économique demeurent modestes. Dans les pays du Maghreb, la croissance connait une évolution modérée, ne dépassant pas en moyenne 5%. Elle est tirée majoritairement par le secteur des services et l'exportation pétrolière. Dans le dernier cas de figure, certains pays connaissent des taux de croissance robuste, c'est le cas de la Libye, qui avant l'éruption des conflits de 2011, jouissait du troisième Revenu National Brut (RNB) par habitant le plus élevé du continent.

En Afrique sub-saharienne, le niveau de l'activité économique reste nettement inférieur au potentiel de croissance des économies, à cause de la double extraversion réelle et l'extraversion monétaire (Kako Nubukpo 2011). L'extraversion monétaire est effective dans la zone Franc Africaine, où la monnaie des économies pro-pauvres (Franc CFA) est arrimée à une devise forte (Euro). A cet effet, l'appréciation tendantielle de l'euro par rapport au dollar entreverrait toute utilisation de l'arme monétaire à des fins de politiques structurelles, pourtant nécessaire pour le développement. En zone CEMAC et UEMOA, durant toute la décennie précédente, le taux de croissance n'a pas à attend le chiffre de 7%, même à l'approche de l'échéance 2015 des Objectifs du Millénaire pour le Développement. La moyenne de croissance retenue étant de l'ordre de 4%. L'extraversion réelle explique l'évolution modeste de la croissance dans la CMA et la ZMAO. Durant la décennie 2000, la croissance a oscille entre 5 et 7,5% dans la ZMAO, contre -1 et 6% dans la CMA.

Tableau 2 : Taux de croissance du PIB réel en Afrique

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011 prev.
Afrique du Nord	-	-	3,1	5,6	4,8	5	5,5	5,3	5,1	3,5	4,8	0,7
Afrique Sub-saharienne	3,1	3,0	3,4	3,5	7,1	6,2	6,5	7,2	5,7	2,7	5,4	5,2
CEMAC	3,2	6,4	4,1	4,2	6,6	5,1	2,5	5,9	4,3	2,4	5,1	4,7
CMA	2,7	3.3	3,5	2	4,8	5	5,6	5,5	3,6	-1,7	3,1	3,5
UEMOA	3,7	3.3	1,9	3,5	2,9	4,7	3,2	3,4	4,2	2,9	4,6	1,9
ZMAO	5	6,3	14	8	8,5	6	5 ,5	6	6,1	6	6 ,8	6 ,5

Source : Données du FMI et de la Banque Mondiale 2011.

Cette évolution de la croissance semble refléter la dynamique de la pauvreté en Afrique. Ainsi, à mesure que la croissance économique faible diminue le revenu par habitant, de plus en plus des africains se retrouvent dans la trappe à pauvreté. En 2005, la proportion de personnes vivant dans l'extrême pauvreté en Afrique subsaharienne se situait au-delà de 50% (Chen et Ravallion 2008). La récente crise financière à accentuée la tendance. Entre 2009 et 2010, respectivement 50 et 39 millions d'Africains supplémentaires auraient basculé dans la pauvreté (Ravallion 2009). Ainsi, en choisissant de s'attaquer exclusivement à l'inflation, les Banques Centrales africaines se sont enfermées dans une obsession anti-inflationniste d'autant plus préjudiciable à la croissance économique, que cette inflation n'est pas d'origine monétaire (Kako Nubukpo opct.). Le reste de l'étude s'articule comme suit. Dans la section 2, il est question de présenter le modèle DSGE permettant de mettre en évidence le cadre de politique monétaire compatible avec la croissance soutenable en Afrique. La section 3 sera consacrée à l'analyse des données et au Calibrage du modèle. Les principaux résultats sont présentés dans la section 4, et nous tirons la conclusion à la dernière section.

2. Modèle dynamique d'équilibre général stochastique (DSGE) et cadre de référence de la politique monétaire en Afrique

Cette section présente un modèle DSGE d'une petite économie ouverte pour illustrer comment la Banque Centrale peut se servir du canal du crédit pour soutenir l'activité économique. Les différentes relations comptables dérivées peuvent être intégré aux équations de comportement pour analyser le processus de transmission des chocs de politiques macroéconomiques et les chocs exogènes. Le modèle s'inspire des travaux de Issouf Samake (2010), et de la version d'origine développée par Agénor et Montiel (2007). La particularité de notre étude, réside dans la prise en compte de la surliquidité bancaire, les réserves excédentaires, les obligations publiques et la relation de crédit entre les banques commerciales et les producteurs de quatre Zones Monétaires Africaines. La liquidité se réfère à la liquidité nécessaire pour honorer les demandes de retrait à court terme des contreparties, ou pour couvrir leurs opérations (Valla et al. 2006). Une banque qui accumule de la liquidité au-delà du coefficient de liquidité peut être considérée comme surliquide.

L'inquiétude la plus récurrente des Banques Centrales est la possibilité qu'une liquidité abondante des banques puisse empêcher la capacité de la politique monétaire d'influer sur le niveau de l'activité économique (Agénor et El Aynaoui 2009). Cela est d'autant plus visible dans le continent africain, composé quasi-exclusivement des pays pauvres et à fort besoin de financement pour leur développement, et victime de la mauvaise orientation de la politique macroéconomique. Les banques étant les acteurs majeurs du secteur financier africain, le moyen par lequel la Banque Centrale peut remédier à cette situation reste donc le canal du crédit bancaire. Les travaux partageant ce point de vue sont Agénor et Montiel (opct.), Greenwald et Stiglitz (1993), Bernanke et Gertler (1995), Carlstrom et Fuerst (1997), Kiyotaki et Moore (1997), et Bernanke, Gertler, et Gilchrist (1999).

En conséquence, le modèle est construit sur une économie produisant un bien unique avec cinq marchés (marché des biens, du travail, de la monnaie, du crédit et des dépôts bancaires) et cinq agents (le ménage, le producteur, la banque commerciale, l'Etat et la Banque Centrale). Tous les ménages sont identiques dans leurs dotations et comportements[99] . De façon similaire, toutes les firmes et les banques sont identiques. Le stock de capital est fixe dans le cadre de l'analyse et les travailleurs sont parfaitement mobiles. Par simplicité, on fait l'hypothèse que la production des biens exportable est entièrement vendue à l'extérieur. La croissance économique étant

99 *En particuliers ils possèdent des parts identiques des profits des entreprises.*

au centre de l'analyse, les choix effectués par la Banque Centrale, en matière d'objectif de politique monétaire, influencent le producteur, la banque représentative, la firme représentative et le ménage représentatif.

I. Programme du ménage représentatif

Le ménage consomme (C) et détient en moyenne trois catégories d'actifs financiers dans son portefeuille : la monnaie domestique (qui ne rapporte pas d'intérêt), les dépôts dans le système bancaire, les titres domestiques (obligations de l'Etat). Tous les actifs sont considérés comme des substituts imparfaits.

Les équations de demande d'actifs sont données comme suit. D'abord, la demande de monnaie est supposée liée négativement au coût d'opportunité de la détention des liquidités (mesuré par le taux d'intérêt sur les obligations de l'Etat, i_G) et positivement au revenu des facteurs :

$$M^d = M^d\left(\overset{-}{i_G}, \overset{+}{Y}\right) \qquad (1)$$

Deuxièmement, la demande des dépôts bancaires est considérée comme dépendant positivement du revenu des facteurs et du taux d'intérêt bancaire sur les dépôts, i_D, et dépend négativement du taux d'intérêt sur les obligations de l'Etat :

$$D^p = D^p\left(\overset{+}{i_D}, \overset{-}{i_G}, \overset{+}{Y}\right) \qquad (2)$$

Troisièmement, parce que la richesse financière totale des ménages (RF) consiste à détenir la monnaie domestique, qui ne confère aucun intérêt ($\tilde{n}$) et des dépôts (D) dans les banques commerciale domestiques.

Ainsi :

$$RF = \tilde{n} + D \qquad (3)$$

Nous supposons que la monnaie en circulation peut s'exprimer comme suit :

$$\tilde{n} = \mathrm{e}^{-\delta_1 i_D} P^{\delta_2} C^{\delta_3} \qquad (4)$$

P est le niveau général des prix. δ est la sensibilité de la variation de la monnaie domestique respectivement par rapport au dépôt, aux prix et à la consommation.

Nous faisons l'hypothèse que le coût d'opportunité de la détention des liquidités dépend aussi des taux d'intérêt sur les dépôts bancaires et les titres étrangers n'affecteraient pas qualitativement les implications de l'analyse. L'offre de travail du ménage représentatif est inélastique.

II. Le programme de la firme représentative et l'équilibre du marché du travail

La firme représentative finance ses plans d'investissement en empruntant auprès des banques. Étant donné la quasi-absence des marchés financiers dynamiques sur le continent, on fait l'hypothèse qu'il n'ya pas de substituts aux crédits bancaires, de telle sorte que les firmes ne peuvent pas émettre des instruments financiers d'échange ou des titres[100] pour financer leur besoins de financement. Les producteurs des biens exportables et des biens non-échangeables sont modélisées de façon symétrique, quoiqu'en pratique leur comportement peut différer substantiellement en raison des différences des intensités factorielles.

Les besoins en capital pour les plans d'investissement, sont supposés consister uniquement en des coûts en main d'œuvre. Les coûts de production totaux que supporte la firme représentative sont donc égaux à la masse salariale plus les paiements d'intérêt effectués sur les prêts bancaires nécessaire à rémunérer au préalable la main d'œuvre. Le problème de maximisation auquel est confrontée la firme représentative peut s'écrire comme suit :

$$\max_{Y} \quad Y - sN - i_c C^P \qquad (5)$$

Y désigne la production du bien, N la quantité de travail employé pour la production, s le salaire exprimé en unités de produits, C^P le montant des prêts bancaires obtenus par la firme opérant dans le secteur de production et i_C le taux d'intérêt servi sur les prêts bancaires. La relation production emploi prend la forme :

100 *Créances et stock de capital.*

$$N = Y^{\tau} \qquad (6)$$

La technologie de production de biens est caractérisée par des rendements de travail décroissants car $\tau \succ 1$. La contrainte financière de la firme représentative est donné par :

$$C^P \geq sN \qquad (7)$$

Qui requiert que le montant des prêts bancaires soit au moins aussi important que les couts salariaux nominaux. La contrainte (7) est supposée être continuellement saturée, car la seule raison pour les firmes de demander des prêts est de financer les coûts en main d'œuvre.

La maximisation de l'équation (5) sous contrainte (6) et (7) donne l'offre de production suivante:

$$Y^{\tau} = \left\{ \frac{1}{\tau s\left(1+i_C\right)} \right\}^{1/(\tau-1)} \qquad (8)$$

Qui montre que l'offre de production est inversement reliée au salaire effectif exprimé en unités de produits $\tau s\left(1+i_C\right)$. En remplaçant l'équation (8) dans (6), on obtient la demande de travail:

$$N^d = N^d\left[s\left(1+i_C\right)\right] \quad avec \quad N^{d'} \prec 0 \qquad (9)$$

En utilisant les équations (7) et (9), la demande de crédits de la firme représentative peut être écrite comme suit :

$$\left(C^P\right)^d = sN^d \equiv C^P\left[\overset{?}{s}, \overset{-}{i_C}\right] \qquad (10)$$

Qui montre qu'en général, une hausse du

salaire exprimé en unité de produits a un effet ambigu sur la demande de crédits. D'un côté, elle augmente directement les coûts de main-d'œuvre ; d'un autre côté, elle réduit la demande de travail. Si l'élasticité de la demande de travail est suffisamment importante, l'effet net sera négatif. Ceci est le cas supposé dans ce qui suit.

En première approximation, le modèle fait l'hypothèse que les salaires nominaux sont parfaitement flexibles. Étant donné la mobilité parfaite de la main d'œuvre, le chômage peut donc émerger. Ainsi, la flexibilité du salaire implique que, le salaire exprimé en unités de produits équilibre l'offre et la demande de travail par :

$$N^{d}\left[s\left(1+i_{C}\right)\right]=N^{O} \qquad (11)$$

N^O désigne l'offre constante de travail. En résolvant cette équation en s, elle montre que le salaire réel d'équilibre est négativement relié au taux de change réel (Z=E/P) et au taux de prêt bancaire:

$$s=W\left(\bar{z},\bar{i}_{C}\right) \qquad (12)$$

Qui implique que :

$$\left|\partial W_{X}/\partial z\right| \prec 1$$

En remplaçant les équations (11) et (12) dans l'équation (8), il en résulte que :

$$Y^{o}=Y^{o}\left(\bar{z},\bar{i}_{C}\right) \qquad (13)$$

Ces équations montrent que la production des biens est négativement reliée au taux de change réel et qu'une hausse du taux de prêt bancaire a un effet négatif sur l'activité. Le revenu net des facteurs est donné par :

$$Y=Y^{o}$$

Par conséquent, on aura :

$$Y=Y\left(\bar{z},\bar{i}_{C}\right) \qquad (14)$$

III. Programme de la banque commerciale

La banque commerciale transforme les dépôts (D), les emprunts auprès de la Banque centrale (C^B), et la surliquidité bancaire (SB) en crédit au secteur privé (C^P), en détention des obligations de l'Etat (C^G), et des réserves obligatoires (RO) à la Banque Centrale, qui sont proportionnelle à D. Etant donné la grande aversion au risque des banques, nous supposons que l'offre des prêts bancaires est ce que reçoivent les emprunteurs privés.

Le bilan de la banque commerciale représentative peut donc être écrit comme suit :

$$D+C^{B}=C^{G}+C^{P}+RO+SB \qquad (15)$$

Les réserves détenues à la Banque Centrale ne rapportent pas d'intérêt aux banques commerciales. Lorsque ces réserves sont excessivement abondantes, comme c'est le cas pour plusieurs pays en Afrique, le coût d'opportunité devient énorme pour les économies qui peuvent utiliser ces réserves pour leurs divers besoins de financement. Elles sont donc déterminées par :

$$RO = \upsilon D \ , \quad 0 \prec \upsilon \prec 1, \qquad (16)$$

Où u est le coefficient des réserves obligatoires.

En présence d'un risque défaut de la part des emprunteurs c , mesuré par le ratio prêts irrécouvrables sur le total de crédit au secteur privé, la banque commerciale doit optimiser sa fonction d'intermédiation en maximisant son profit espéré[101]. La banque représentative maximise son profit en choisissant son volume optimal de prêts sous contrainte de l'identité de son bilan, ce qui conduit à :

$$\underset{i_D, i_C, i_G}{MAX}\, E(\Pi) = \chi i_C C^p(i_C) + i_G C^G - i_D D(i_D)$$

$$-i_R\left[C^P(i_C) + C^G - (1-\upsilon) D(i_D) + SB(i_G)\right]$$

La probabilité de défaut associé aux obligations de l'Etat est supposée être nulle. L'offre de prêt optimal d'une banque individuelle est caractérisée par le fait que le revenu marginal égalise le cout marginal. Ce dernier comprend le taux de refinancement de la Banque Centrale et les couts marginaux obtenus des défauts possibles de remboursement des prêts. Nous obtenons la condition de premier ordre de l'équation de maximisation:

- Par rapport à la demande des dépôts bancaires par les ménages

$$\partial \Pi \big/ \partial i_D = D + \left(i_D - \left(1 - (1-\upsilon) i_R\right)\right) \partial D \big/ \partial i_D = 0$$

- Par rapport la demande des prêts bancaires par les producteurs

$$\partial E(\Pi) \big/ \partial i_C = qC^P + (\chi i_C - i_R) \partial C^P \big/ \partial i_C = 0$$

- Par rapport à la demande des obligations de l'Etat par les banques et les ménages.

$$\partial E(\Pi) \big/ \partial i_G = \left(C^G + i_G \partial SB \big/ \partial i_G\right) + (i_G - i_R) \partial C^G \big/ \partial i_G = 0$$

Ces équations indiquent qu'une banque accorde les prêts si et seulement si la marge de taux d'intérêt est positive. Toute mesure incitative de la Banque Centrale en faveur du crédit aura pour effet à rendre la marge des taux positive. L'offre de prêt s'accroit avec l'augmentation du taux d'intérêt des prêts (i_C), mais décroit en réponse au taux de refinancement de la banque centrale (i_R) et le risque de défaut (c). A cause de l'arbitrage entre le marché de dépôt et le marché monétaire, le taux de dépôt convergera au taux de refinancement de la banque centrale. La dérivation de l'offre optimale de prêts de la banque repose sur l'hypothèse que les dépôts sont productifs d'intérêt et les réserves conduisent à un rendement positif, le taux de refinancement de la Banque centrale. De l'équation (7), on obtient trois taux, à savoir :

Le taux d'intérêt servi sur les dépôts (i_D) :

101 Nous supposons que lorsqu'une banque accorde un prêt elle supporte un coût fixe qui est nulle.

$$i_D = \left(1+\frac{1}{\psi_D}\right)^{-1}(1-\upsilon)\,i_R \qquad (17)$$

Le taux d'intérêt servi sur les prêts bancaires (i_C) :

$$i_C = \left(1+\frac{1}{\psi_C}\right)^{-1}\frac{i_R}{\chi} \qquad (18)$$

Et le taux d'intérêt servi sur les obligations de l'Etat (i_G) :

$$i_G = \left(1+\frac{1}{\psi_G}\right)^{1}\left(1-\frac{\psi_{SB}}{\psi_G}\frac{SB}{C^G}\right)i_R \qquad (19)$$

Où ψ_D, ψ_C , ψ_G , et ψ_{SB} sont respectivement l'élasticité d'intérêt des dépôts du ménage, des prêts bancaires, des obligations publiques, et de la surliquidité. Implicitement, les obligations et les prêts ne sont pas les substituts parfaits, autrement nous aurions une condition d'arbitrage qui égalise i_G et $i_{C,}$ ajusté, bien sûr, pour les coûts d'émission des prêts. A l'équilibre, le différentiel de taux d'intérêt reflète le risque moyen de défaut de crédit associé à l'extension du crédit dans l'économie par la Banque Centrale.

IV. Programme de la Banque Centrale

La Banque Centrale mène une politique monétaire axée prioritairement sur le soutien de l'activité économique. Elle cible un taux de croissance soutenable compatible avec des emplois élevés. Pour cela, elle utilise la stratégie de politique monétaire basée sur le canal du crédit. Parmi les travaux publiés par Ben Bernanke, président de la FED[102], l'un des plus souvent cité porte sur l'importance respective du canal du crédit et du canal de la monnaie dans l'économie américaine (Bordes, 2007). Ainsi, les actifs de la Banque Centrale sont constitués des prêts aux banques et des avoirs extérieurs nets, les passifs comprennent la monnaie en circulation et les réserves obligatoire.

$$MB = C^B + ER^* = \tilde{n} + RO \qquad (20)$$

La Banque Centrale assure la conversion sans cout des avoirs en monnaie nationale en monnaie étrangère au taux de change prévalant, E.

R* est le stock des avoirs extérieurs nets de la banque centrale mesuré en termes de devises étrangère, MB est la base monétaire et C^B le crédit réel aux banques qui est supposé exogène. Les variations des réserves officielles sont déterminées par le comportement de la balance de paiements, c'est-à-dire, la somme du compte courant et du compte de capital. Par conséquent, les variations des réserves officielles de change se traduisent en variations du même montant de l'offre de monnaie nationale. Autrement dit, la banque centrale ne s'engage pas dans une intervention de stérilisation.

L'objectif opérationnel de la banque centrale est la marge des taux positif et faible, pour assouplir les coûts des plans d'investissements des

102 *« Federal Reserve » qui est Banque Centrale américaine.*

producteurs. Dans son action, la Banque Centrale utilise deux instruments, à savoir, le taux de refinancement et le ratio de réserve obligatoire, afin d'atteindre son objectif de croissance. D'une part, elle fait varier le taux de refinancement bancaire pour alimenter le marché du crédit par une part importante du montant des excédents de réserves. D'autre part, la Banque Centrale fait aussi varier son coefficient de réserves obligatoires, pour permettre aux banques commerciales de disposer une part substantielle de surliquidité, afin d'acheter les obligations de l'Etat et d'octroyer d'avantage de prêts aux producteurs privés. La deuxième mesure de la Banque Centrale affecte directement l'ensemble de l'économie, le secteur public et le secteur privé, alors que la première est réductrice au seul secteur privé. Pour réduire le risque de défauts et les comportements opportunistes des emprunteurs privés, la Banque Centrale disposera d'une agence de garantie, de contrôle et de supervision du processus de crédit bancaire. Ainsi la Banque Centrale remplira son mandat de stabilité de l'activité, tout en préservant l'équilibre actuel du système monétaire et financier en Afrique.

V. Programme de l'Etat

Blejer et khan (1984), Moshi et Kilindo (1999), Asante (2000), Amin (1989) ont démontré dans leurs études variées la complémentarité existante entre l'investissement du secteur public et l'investissement du secteur privé. La raison en est que le secteur public offre certaines facilités à l'instar des moyens de communication, des routes et d'autres services sociaux, qui permettent d'encourager les activités des entreprises privées. Dans ce sens, L'Etat accompagne la Banque Centrale dans son objectif de croissance, par le biais du levier des installations publiques sur l'activité économique. L'Etat émet donc des obligations pour financer ses dépenses publiques. Nous supposons que les dépenses publiques concernent principalement les investissements publics en infrastructures. Les obligations sont émis par une adjudication à l'hollandaise[103], chaque agent économique (banques et ménages) souscrit au montant des obligations qu'il veut au taux préférentiel, et les combinaisons les moins chères des taux et des quantités qui coïncident avec la cible de l'Etat, sont sélectionnées. En réponse, les obligations(C^G) sont maintenus en dessous de (i_C) et nous supposons donc que :

$$G = \varpi C^G + C \qquad (21)$$

L'équation montre qu'une hausse des dépenses publiques requiert une baisse du taux d'intérêt bancaire prêteur (i_C) qui accroit l'offre des prêts à l'Etat, pour réduire la surliquidité bancaire, relancer la demande et maintenir l'équilibre sur le marché des biens.

103 « Duch auction »,

6. Les Conditions d'équilibre des différents marchés dans l'économie

Pour réaliser la "fermeture" du modèle, nous spécifions les conditions d'équilibre du marché des biens domestiques, le marché du crédit, le marché de la monnaie et le marché du dépôt bancaire.

a. Équilibre dans le marché des biens domestiques

La consommation des ménages a un impact positif sur la production (elle soutient la croissance par l'augmentation de la demande des biens domestiques produit) et un effet négatif sur le taux d'intérêt de dépôts. Les dépôts (D) sont une fonction du taux d'intérêt servis sur les dépôts (i_D), du prix domestique (P), et de la consommation des ménages (C). Le ménage représentatif détermine d'abord la consommation totale[104], en ces termes :

$$C = \gamma_1 \left(Y(-1) - RF \right) + \gamma_2 \left(i_D - \pi^a \right) \qquad (22)$$

π^a est l'inflation anticipée, et γ_1 est la propension marginale à consommer au-delà du revenu Y, (RF) est la richesse financière des ménages.

Puisque dans notre modèle, les entreprises réalisent leurs plans d'investissement en se financant prioritairement à travers les prêts bancaires qui sont disponibles, on aura donc à l'équilibre :

$$I = \rho_1 Y(-1) + \rho_2 \left(i_C - \pi \right) + \rho_3 C^P$$

Or, à partir du bilan de la banque commerciale, on déduit que les prêts bancaires accordés aux producteurs dépendent de l'emprunt auprès de la banque centrale, des obligations de l'Etat, des dépôts et de la surliquidité, comme suit :

$$C^P = C^B - C^G - SB + (\upsilon - 1) D$$

Ainsi, l'investissement privé réel dépend négativement du taux d'intérêt réel de prêts et est finalement définit en ses termes :

$$I = \rho_1 Y(-1) + \rho_2 \left(i_C - \pi \right) + \rho_3 \left(C^B - C^G - SB + (1 - \upsilon) D \right) \qquad (23)$$

Soit M et X les fonctions d'importation et d'exportation respectivement. X est fonction de la production de la période précédente, qui reflète l'effet retardé d'un an de la production agricole sur les exportations, le taux d'intérêt réel des prêts bancaires, et le taux de change réel (E/P). En effet, dans plusieurs pays africains, le secteur primaire contribue à 1/3 de la Valeur ajoutée totale. Supposons que $z \equiv E/P$ est le prix relatif des biens importés en

terme de biens domestiques, il est donc considéré comme le taux de change réel.

$$X = \xi_1 Y(-1) + \xi_2 \left(i_C - \pi^a \right) + \xi_3 (z) R^* \qquad (24)$$

Avec $\xi_3 \succ 0$ qui exprime une relation positive entre le montant des exportations et la valeur en

104 *On peut montrer que la règle d'affectation donnée ici est optimale si l'utilité dérivée de la consommation des biens domestiques et des biens importables est approximée par une fonction Cobb-douglas.*

devises étrangères ou en reserves R*. La raison est qu'une grande portion des devises tirées des exportations est nécessaire pour le service de la dette (Osei 2000). A l'évidence, plusieurs pays du continent ayant bénéficiés de l'allègement de leurs dettes extérieures suite à l'atteinte du point d'achèvement l'initiative P.P.T.E, l'accroissement des capitaux extérieurs, pourrait en principe contribuer à l'expansion des infrastructures, le lancement des nouveaux projets, la continuation des vieux projets et l'approvisionnement de l'économie en biens d'équipements.

M est fonction du taux d'intérêt réel des prêts et le taux de change réel :

$$M = \eta_1 \left(i_C - \pi^a \right) + \eta_2 \left(z \right) R^* \qquad (25)$$

Avec $\sigma_2 \prec 0$ qui exprime une relation négative entre le montant des exportations et la valeur en devises étrangères ou en réserves.

L'équilibre dans le marché des biens est automatique, et la production est ainsi déterminé du côté de la demande par :

$$Y = C + I + G + \left(X - M \right) \qquad (26)$$

La condition d'équilibre ainsi déterminé dépend étroitement de la condition d'équilibre du marché de la monnaie.

b. L'équilibre sur le marché de la monnaie

La condition d'équilibre du marché de la monnaie est donnée par l'égalité entre l'offre (M^s) et la demande de monnaie (M^d), comme suit :

$$M^s = M^d \left(i_G, Y \right) \qquad (27)$$

Pour un niveau donné de l'offre de monnaie (c'est-à-dire, pour un niveau donné des réserves officielles, R*), et en utilisant l'équation de la base monétaire pour éliminer Y, l'équation du bilan de la banque commerciale définit les combinaisons du taux de change réel et du taux d'intérêt sur les obligations pour lesquelles le marché de la monnaie est équilibré. En résolvant cette équation pour i_G, il en résulte que :

$$i_G = i_G \left(\overset{-}{z}, \overset{-}{i_C}; \overset{-}{M^s} \right) \qquad (28)$$

Ainsi, une dépréciation réelle réduit la production globale (mesurée en termes de prix des biens exportables) et la demande de monnaie transactionnelle, requérant une chute des taux d'intérêt pour maintenir l'équilibre du marché de la monnaie, influençant aussi l'équilibre du marché du crédit.

c. Équilibre dans le marché du crédit

La condition d'équilibre du marché de crédit est donnée par l'égalité entre l'offre (C^s) et la demande de crédit (C^d), comme suit :

$$C^s = C^d \qquad (29)$$

De sorte qu'en utilisant le bilan de la banque commerciale, on l'équilibre du marché de crédit pour le secteur privé est donné par :

$$C^P = C^B - C^G - SB + (1-\upsilon)D \qquad (30)$$

L'équation ci-dessus peut être résolue pour le taux d'intérêt préteur d'équilibre :

$$i_C = \left(1 + \frac{1}{\psi_C}\right)^{-1} \frac{i_R}{\chi}$$

Ainsi une hausse du taux de refinancement bancaire entraine la baisse de l'octroi du crédit par les banques commerciale. Car l'augmentation du taux d'intérêt prêteur renchérie l'offre de crédit. Cette situation dépend de l'environnement des affaires, qui fait varier à la baisse ou à la hausse le risque de défaut. D'un côté, elle réduit la production, la demande des dépôts bancaires des ménages et donc l'offre de crédits bancaires. Ceci tend à augmenter le taux d'intérêt préteur d'équilibre ;

Concernant le secteur public, la condition d'équilibre est donnée par :

$$C^G = C^B - C^P - SB + (1-\upsilon)D \qquad (31)$$

L'équation ci-dessus peut être résolue pour le taux d'intérêt d'équilibre servi sur les obligations de l'Etat :

$$i_G = \left(1 + \frac{1}{\psi_G}\right)^{-1} i_R$$

Le risque de défaut de l'Etat étant inexistant, toute augmentation des dépenses publiques devrait s'accompagner d'une baisse de taux d'intérêt préteur de l'Etat, afin de se financer auprès des banques à moindre coût. Une hausse du taux d'intérêt sur les obligations, en réduisant la demande des dépôts bancaires des ménages, crée un excès de demande de prêts (Obligations de l'Etat), qui requiert donc une baisse du taux d'intérêt bancaire préteur pour maintenir l'équilibre du marché du crédit.

d. Équilibre dans le marché des dépôts

L'équilibre du marché des dépôts bancaire est obtenu par l'égalité entre l'offre et la demande des dépôts bancaire.

$$D = RF - \tilde{n} \qquad (32)$$

Par la suite, la sensibilité de la demande des dépôts bancaires est fonction du taux d'intérêt de dépôt :

$$i_D = \left(1 + \frac{1}{\psi_D}\right)^{-1} (1-\upsilon) i_R$$

La demande de dépôts par les ménages est fonction du taux d'intérêt servis sur les dépôts, plus il est important et plus les ménages sont enclin à déposer leur épargne à la banque. Il est inversement proportionnelle au coefficient des réserves obligatoire, pour les ménages averse au risque, plus ce coefficient est faible, moins les ménages seront enclins a demander les dépôts.

Le modèle ainsi défini est applicable en Afrique, dont les variables dépendent étroitement des données des différents pays.

3. Donnees et Calibration du Modele

Le modèle est calibré sur des données annuelles allant de la période 1970-2010 à partir des statistiques financières internationales du FMI et les indicateurs africains de la Banque Mondiale de 2011. Le choix de la période d'étude repose sur le constat selon lequel, avant la décennie soixante-dix, le cadre de politique monétaire n'était pas encore formalisé dans plusieurs pays africains. En outre, dans le souci d'internaliser la crise financière internationale dans l'étude, nous sommes allés jusqu'à 2010.

Notre échantillon est composé de 23 pays appartenant à 4 Zones Monétaires en Afrique, puis cinq Banques Centrales, comme l'indique le tableau 3.

Tableau 3: Zones Monetaires Africaines

ZONES MONETAIRES	PAYS MEMBRES	BANQUES CENTRALES
ZONE MONETAIRE DE L'AFRIQUE AUSTRALE (CMA)	Afrique du sud, Lesotho, Namibie, Swaziland	South Africa Reserve Bank
ZONE MONETAIRE DE L'AFRIQUE DE L'OUEST (ZMAO)	Ghana, Gambie, Nigeria, Guinée, Sierra Leone	Central Bank of Nigeria Bank of Ghana
UNION ECONOMIQUE ET MONETAIRE OUEST AFRICAIN (UEMOA)	Benin, Burkina Faso, Côte d'Ivoire, Guinée Bissau, Mali, Niger, Senegal, Togo	BCEAO
COMMUNAUTE ECONOMIQUE ET MONETAIRE DE L'AFRIQUE CENTRAL (CEMAC)	Cameroun, Congo, Gabon, Guinée équatoriale, Centrafrique, Tchad	BEAC

Source: construit par l'auteur

Nous utilisons les données agrégées des Banques Centrales des différentes zones monétaires. Nous avons retenus quatre procédés d'agrégation en fonction des variables, selon la méthodologie de référence qu'adoptée le FMI pour ses données (Tableau 5). Premièrement, la valeur composite est la moyenne arithmétique des données de chaque pays, pondérée par le PIB à Parité du pouvoir d'achat (PPA) en pourcentage du PIB du groupe considéré. Deuxièmement, la valeur composite est la moyenne arithmétique des données de chaque pays, pondérée par le PIB converti en dollars EU aux taux de change du marché et exprimé en pourcentage du PIB du groupe considéré. Troisièmement, la valeur composite est la moyenne géométrique des données de chaque pays, pondérée par le PIB calculé à parité de pouvoir d'achat(PPA) et exprimé en pourcentage du PIB du groupe de pays considéré. Enfin, la valeur composite est la moyenne géométrique des données de chaque pays, pondérée par le PIB converti en dollars EU aux taux de change du marché et exprimé en pourcentage du PIB du groupe considéré.

Les paramètres pour le calibrage consistent en un ensemble de paramètres de référence de la littérature sur les pays à faible revenu (Tableau 4).

Tableau 4 : Paramètres structurels pour la calibration

Paramètres	Coefficients
ϖ	0,963
τ	1.80
υ	0,150
ψ_D	0,090
ψ_G	0,090
γ_1	0,588
γ_2	0,208
$\sigma(RO)$	0.963
$\sigma(SB)$	0.963
$\sigma(C^G)$	0.963
γ_3	0,607
γ_4	-0,066
ρ_1	1,935
ρ_2	-0,012
ρ_3	0,374
ξ_1	1,884
ξ_2	-0,024
ξ_3	0,227
η_1	-0,033
η_2	-0,126
δ_1	-0,191
δ_2	1,105
δ_3	0,359

Source : construit par l'auteur.

La technique de calibration du modèle est l'approche bayésienne couramment utilisée pour les Modèle Dynamique d'Équilibre Générale et Stochastique (DGSE) (Smets et Wouters 2003). Le principe de l'approche bayésienne est de compléter l'information que fournissent les données par des informations préalables, dites *a priori*, dont disposait le modélisateur sur les valeurs de paramètres. Pour les modèles DSGE, dont les paramètres sont structurels, ces informations sont en général d'ordre économique, provenant d'études micro-économétriques, effectuées sur d'autres pays. Plus précisément, la calibration par l'approche bayésienne part d'une probabilité *a priori* des valeurs que le modélisateur attribue aux paramètres, et révise celle-ci, grâce à la fonction de vraisemblances, pour obtenir une probabilité *a posteriori* sur l'espace des paramètres. D'autres moments de la distribution *a posteriori* des paramètres, se calculent par une méthode de Monte Carlo reposant sur des tirages aléatoires de valeurs des paramètres suivant leur loi de distribution *a posteriori*. La difficulté d'application de cette méthode est que si la valeur de cette distribution en chaque point peut être calculée numériquement, cela ne suffit pas pour permettre d'effectuer des tirages aléatoires de façon simple. Plusieurs méthodes ont été développées pour résoudre ce problème, la plus usitée en économie étant l'algorithme de Métropolis-Hasting. Néanmoins, le processeur DYNARE permet d'effectuer d'une façon particulièrement conviviale la calibration bayésienne d'un modèle DSGE.

Tableau 5 : Les variables du modèle : technique d'agrégation, statuts et sources des données.

Définitions des variables et symboles	Technique D'agrégation	Statuts	Sources des données
DEMANDE AGREGEE ET PRIX			
Consommation privé réel, (C)	La moyenne arithmétique des données de chaque pays, pondérée par le PIB à Parité du pouvoir d'achat en pourcentage du PIB du groupe considéré.	Endogène	W D I 2011
Emploi des ménages, N	La moyenne arithmétique des données de chaque pays, pondérée par le PIB à Parité du pouvoir d'achat en pourcentage du PIB du groupe considéré.	Exogène	W D I 2011
Salaire des ménages, S	La moyenne arithmétique des données de chaque pays, pondérée par le PIB à Parité du pouvoir d'achat en pourcentage du PIB du groupe considéré.	Exogène	W D I 2011
Produit intérieur brut réel, (PIB)	La moyenne arithmétique des données de chaque pays, pondérée par le PIB calculé à parité de pouvoir d'achat(PPA) et exprimé en pourcentage du PIB du groupe de pays considéré.	Endogène	IFS/FMI 2011
Investissement domestique réel, (INV)	La moyenne arithmétique des données de chaque pays, pondérée par le PIB converti en dollars EU aux taux de change du marché et exprimé en pourcentage du PIB du groupe considéré.	Endogène	W D I 2011
Exportations réels, X	La moyenne arithmétique des données de chaque pays, pondérée par le PIB converti en dollars EU aux taux de change du marché et exprimé en pourcentage du PIB du groupe considéré.	Endogène	W D I 2011
Importations réels, M	La moyenne arithmétique des données de chaque pays, pondérée par le PIB converti en dollars EU aux taux de change du marché et exprimé en pourcentage du PIB du groupe considéré.	Endogène	W D I 2011
Inflation, INFL	La moyenne géométrique des données de chaque pays, pondérée par le PIB calculé à parité de pouvoir d'achat(PPA) et exprimé en pourcentage du PIB du groupe de pays considéré.	Exogène	IFS/FMI 2011

MENAGE REPRESENTATIF			
Richesse financière des ménages, RF	La moyenne géométrique des données de chaque pays, pondérée par le PIB calculé à parité de pouvoir d'achat(PPA) et exprimé en pourcentage du PIB du groupe de pays considéré.	Endogène	IFS/FMI 2011
Monnaie détenue par les ménages, M^c	La moyenne géométrique des données de chaque pays, pondérée par le PIB converti en dollars EU aux taux de change du marché et exprimé en pourcentage du PIB du groupe considéré.	Endogène	IFS/FMI 2011
Dépôts bancaires des ménages, D	La moyenne géométrique des données de chaque pays, pondérée par le PIB calculé à parité de pouvoir d'achat(PPA) et exprimé en pourcentage du PIB du groupe de pays considéré.	Endogène	IFS/FMI 2011
BANQUE CENTRALE			
Base monétaire, MB	La moyenne géométrique des données de chaque pays, pondérée par le PIB converti en dollars EU aux taux de change du marché et exprimé en pourcentage du PIB du groupe considéré.	Endogène	IFS/FMI 2011
Niveau des réserves obligatoire, RO	La moyenne arithmétique des données de chaque pays, pondérée par le PIB converti en dollars EU aux taux de change du marché et exprimé en pourcentage du PIB du groupe considéré.	Endogène	IFS/FMI 2011

Taux de change (Monnaie domestique : US$), E	La moyenne arithmétique des données de chaque pays, pondérée par le PIB converti en dollars EU aux taux de change du marché et exprimé en pourcentage du PIB du groupe considéré.	Exogène	IFS/FMI 2011
Taux de refinancement, i_R	La moyenne géométrique des données de chaque pays, pondérée par le PIB calculé à parité de pouvoir d'achat(PPA) et exprimé en pourcentage du PIB du groupe de pays considéré.	Exogène	IFS/FMI 2011
Ratio des réserves obligatoires, μ	La moyenne arithmétique des données de chaque pays, pondérée par le PIB converti en dollars EU aux taux de change du marché et exprimé en pourcentage du PIB du groupe considéré.	Exogène	IFS/FMI 2011
BANQUE COMMERCIALE			
Prêts aux producteurs, C^P	La moyenne arithmétique des données de chaque pays, pondérée par le PIB converti en dollars EU aux taux de change du marché et exprimé en pourcentage du PIB du groupe considéré.	Endogène	IFS/FMI 2011
Emprunt auprès de la Banque centrale, C^B	La moyenne arithmétique des données de chaque pays, pondérée par le PIB converti en dollars EU aux taux de change du marché et exprimé en pourcentage du PIB du groupe considéré.	Endogène	IFS/FMI 2011

Taux d'intérêt de dépôts bancaires, i_D	La moyenne géométrique des données de chaque pays, pondérée par le PIB calculé à parité de pouvoir d'achat(PPA) et exprimé en pourcentage du PIB du groupe de pays considéré.	Endogène	W D I 2011
Taux d'intérêt de prêts bancaires, i_C	La moyenne géométrique des données de chaque pays, pondérée par le PIB calculé à parité de pouvoir d'achat(PPA) et exprimé en pourcentage du PIB du groupe de pays considéré.	Endogène	W D I 2011
Surliquidité bancaire, SB	La moyenne géométrique des données de chaque pays, pondérée par le PIB converti en dollars EU aux taux de change du marché et exprimé en pourcentage du PIB du groupe considéré.	Exogène	IFS/FMI 2011
ETAT			
Dépenses publiques réels , G	La moyenne arithmétique des données de chaque pays, pondérée par le PIB converti en dollars EU aux taux de change du marché et exprimé en pourcentage du PIB du groupe considéré.	Endogène	IFS/FMI 2011
Obligations de l'Etat, C^G	La moyenne arithmétique des données de chaque pays, pondérée par le PIB converti en dollars EU aux taux de change du marché et exprimé en pourcentage du PIB du groupe considéré.	Exogène	IFS/FMI 2011

4. Resultats

Les résultats sont en général compatible avec les prédictions théoriques pour les pays en développement. Le mécanisme de transmission de la politique monétaire par le canal de crédit parait être plus efficace que celui du taux d'intérêt ou du taux de change, pour les économies africaines. Car en général le secteur privé de production et le secteur public sont significativement impactés par une politique de prêts bancaires, bien que les prêts bancaires et les obligations ne soient pas des substituts parfaits. En s'autorisant des marges d'inflation de soutien à l'activité économique, l'atteinte de l'objectif prioritaire de croissance devient effective. L'amélioration de l'intermédiation financière Africaine, par une socialisation des taux de prêts bancaires contribue ainsi à améliorer l'efficacité de la politique monétaire. Le canal du crédit bancaire exercerait dont un effet vertueux sur les variables fondamentales des économies africaines. Par conséquent, les réserves et la liquidité excédentaires peuvent être utilisées pour financer la croissance et le développement en Afrique. Cette orientation de la politique macroéconomique au sein du continent est le fruit d'un résultat général selon lequel : les autorités monétaires qui adoptent un Mandat hiérarchique de croissance économique basé sur le canal du crédit, agissent significativement sur l'activité économique.

5. Conclusion

Notre objectif était de mettre en évidence un cadre de politique monétaire compatible avec une croissance soutenable en Afrique. Pour ce faire, nous avons adopté un modèle Dynamique d'Equilibre Général et Stochastique appliqué à quatre zones monétaires africaines, en utilisant la technique développée par l'approche Bayésienne. Les résultats de la calibration nous révèlent, qu'en présence d'une conjoncture du système financier africain marquée par les réserves excédentaires et la surliquidité bancaire, une Banque Centrale ayant un Mandat hiérarchique de croissance économique basé sur le canal du crédit, agirait efficacement sur l'activité économique et le développement du continent.

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DECLARATION of Abidjan

Second Congress of African Economists

DECLARATION d'Abidjan

Deuxième Congrès des Economistes Africains

NOUS, économistes africains tant dans le continent africain que de la diaspora africaine, nous sommes réunis à Abidjan (Côte d'Ivoire) du 24 au 26 novembre 2011, à l'invitation de la Commission de l'Union africaine au Deuxième Congrès des économistes africains sur le thème « Comment réaliser une croissance économique forte et durable en Afrique pour résorber le chômage et soutenir la dynamique d'intégration régionale et continentale » :

CONSCIENTS de la nécessité d'un nouveau paradigme de développement en vue de réaliser des taux élevés de croissance économique durable pour la création d'emplois, la réalisation des Objectifs du Millénaire pour le développement, la création de richesses et la lutte contre le problème de l'appauvrissement en Afrique ;

NOTANT que le phénomène du chômage, notamment le chômage des jeunes, sur l'ensemble du continent africain, a de graves répercussions sur la stabilité économique et sociale comme en témoignent les récents développements en Afrique du Nord et au Moyen-Orient ;

PREOCCUPES par le phénomène de la croissance sans emplois en Afrique qui s'explique, entre autres, par le peu d'importance accordée à la transformation

WE, African Economists from within Africa and the Diaspora, gathered in Abidjan, Cote d'Ivoire, from 24 to 26 November 2011, at the invitation of the African Union Commission to the Second Congress of African Economists on the theme "How to achieve a strong and sustainable economic growth in Africa in order to curb unemployment and sustain regional and continental integration dynamics":

COGNISANT of the need for a new development paradigm to achieve high rates of economic growth on a sustainable basis as a means of job creation, attaining the Millennium Development Goals, wealth creation and addressing the problem of impoverishment in Africa;

NOTING that the unemployment phenomenon, particularly youth unemployment, across the African continent does have serious ramifications on economic and social stability as evidenced by recent developments in North Africa and the Middle East;

CONCERNED with the phenomenon of jobless growth in Africa explained, among others, by the lack of focus on structural transformation for the development of productive base, inadequate infrastructure, limited value added activities and inadequate structurelle pour le développement de la base productive, l'insuffisance des infrastructures, le manque d'activités à valeur ajoutée et l'insuffisance de liens entre les différents secteurs de l'économie ;

CONVAINCUS que l'intégration régionale et continentale permet dans une large mesure pour tirer parti de la mondialisation, de promouvoir le commerce et l'investissement, de réaliser le développement et la croissance, et de résoudre le problème du chômage ;

RÉITÉRANT l'existence éventuelle d'un lien fort entre la qualité de la politique économique et la création d'emplois et, partant, la nécessité d'adopter des modèles économiques appropriés compatibles avec la culture et les conditions spécifiques de l'Afrique ;

CONSCIENTS de nos responsabilités en tant qu'économistes africains dans la mise en place d'initiatives appropriées face à l'aggravation de la crise économique et financière mondiale actuelle pour minimiser son impact sur les économies africaines ;

RÉITÉRANT que l'Afrique ne peut pas compter sur l'aide (le contrat social mondial de l'objectif d'APD fixé à 0,7 %) comme source importante de financement du développement de l'Afrique ;

linkages among various sectors of the economy;

CONVINCED that regional and continental integration hold great potential for reaping the benefits of globalization, enhancing trade and investment, achieving growth and development, and addressing the problem of unemployment;

REITERATING the possible strong link between the quality of economic policy and job creation and, hence, the need to adopt appropriate economic models compatible with Africa's specific conditions and culture;

MINDFUL of our responsibilities as African economists to develop appropriate responses to the deepening of the current global economic and financial to minimise its impact on African economies;

REITERATING that Arica cannot count on aid (the global social contract of ODA target of 0.7%) as a substantial source of funding Africa's development;

RECOGNISING the current weakness of policy dialogue between African economic researchers and policy makers and, hence, the potential of the Congress to serve as a think tank and an effective platform for strengthening such dialogue;

RECONNAISSANT la faiblesse actuelle du dialogue entre les chercheurs en économie et les décideurs africains et, partant, la possibilité pour le Congrès d'être un groupe de réflexion et une plate-forme efficace pour renforcer un tel dialogue ;

Recommandons ce qui suit :

(I) Le chômage comme un obstacle à la croissance économique durable en Afrique :

i. L'UA, les CER et les États membres devraient mettre en place des systèmes statistiques, en particulier des données statistiques sur le travail exactes et appropriées en produisant des données statistiques et en utilisant des méthodes analytiques qui tiennent compte des particularités africaines ;

ii. Des stratégies globales devraient être mises en place en vue d'une transformation des économies basées sur les ressources naturelles de l'Afrique en économies basées sur le savoir et de leur intégration progressive dans les chaînes de valeur mondiales;

Hereby recommend as follows:

(I) Unemployment as a barrier to sustainable economic growth in Africa:

i. The AU, RECs and Member States should set up statistics systems, in particular labour statistics data that are accurate and timely work in producing statistical data and using analytical methods that take into account particularities of African;

ii. Comprehensive strategies should be developed aimed at the transformation of Africa's natural resource based economies into knowledge-based economies and progressively involving them in global value chains;

iii. Investment in research and development should be enhanced and technical and vocational training promoted throughout the continent;

iv. Member States should make concerted effort to involve the youth in the economic

iii. Les investissements dans la recherche - développement devraient être augmentés et la formation technique et professionnelle encouragée sur tout le continent dans le cadre d'une stratégie globale d'accès à la technologie et au développement du capital humain ;

iv. Les États membres devraient faire des efforts concertés pour impliquer les jeunes dans le processus de développement économique et prendre les mesures nécessaires pour mettre en œuvre le Plan d'action de l'Union africaine pour le développement de la jeunesse ;

v. Les pays africains devraient s'efforcer de mettre en œuvre des réformes appropriées dans le domaine de l'éducation et du marché du travail en vue de faciliter la création d'emplois et de résoudre le problème du chômage;

vi. Dans le cadre du processus d'intégration, les pays africains devraient mettre en place une base de connaissances partagées

development process and take the necessary measures to implement the African Union Plan of Action for Youth Development;

v. African countries should endeavour to implement appropriate education and labour market reforms geared towards facilitating job creation and addressing the problem of unemployment;

vi. Within the framework of the integration process, African countries should build a shared knowledge base on employment, growth and sustainability issues, for the sharing of experiences on best practice;

vii. The AU, RECs and Member States should use the "Employment Profile" and "Employment Macro-cells (EMCs)" as tools for full employment, integration and development;

viii. The role of macroeconomic policy in job creation should be enhanced;

ix. The gender dimension should be

sur les questions de l'emploi, de la croissance et de la durabilité, pour le partage d'expériences en ce qui concerne les meilleures pratiques ;

vii. L'UA, les CER et les États membres devraient utiliser le « Profil de l'emploi » et « macrocellules de l'emploi (EMCs) » comme outils pour le plein emploi, l'intégration et le développement ;

viii. Le rôle des politiques macroéconomiques dans la création d'emplois devrait être renforcé ;

ix. La dimension genre devrait être reflétée dans les politiques de l'emploi.

(II) L'investissement étranger direct (IED) et la mobilisation des ressources nationales pour la réduction de la pauvreté et de la création d'emplois en Afrique :

i. L'Afrique devrait adopter sa propre définition de la pauvreté ainsi qu'un

reflected in employment policies

(II) Foreign Direct Investment (FDI) and domestic resource mobilization as a tool for alleviating poverty and generating employment in Africa:

i. Africa should agree on its own definition of poverty as well as an appropriate system of measurement;

ii. FDI should be directed towards labour- intensive and pro-poor sectors such as agriculture and manufacturing;

iii. The African Union should work with Member States and Regional Economic Communities (RECs) to develop a comprehensive plan for the promotion of long-term investment and strategies for the creation and retention of labour in Africa;

iv. Within the framework of the regional and continental integration agenda, steps should be système approprié d'évaluation ;

ii. L'IED devrait être acheminé vers des secteurs à forte intensité de main-d'œuvre et générateurs de revenus pour les pauvres, comme l'agriculture et l'industrie ;

iii. L'Union africaine devrait travailler en collaboration avec les États membres et les Communautés économiques régionales (CER) pour élaborer un plan global pour la promotion des investissements à long terme et des stratégies pour la création d'emploi et la rétention de la main-d'œuvre en Afrique ;

iv. Dans le cadre du programme d'intégration régionale et continentale, des mesures devraient être prises pour promouvoir la convergence des politiques budgétaires en Afrique ;

v. Les États membres devraient faire des efforts concertés pour mettre en œuvre des réformes fiscales approfondies pour la mobilisation des ressources nationales ;

vi. Des mesures concrètes devraient

taken to promote the convergence of fiscal policies in Africa;

v. Member States should make concerted effort to implement comprehensive tax reforms for domestic resource mobilisation;

vi. Concrete steps should be taken at national, regional and continental levels geared towards an improvement of the investment climate in Africa.

(III) Governance, institutional reform and the role of the private sector in boosting economic growth in Africa:

i. Governance programmes, such as the African Peer Review Mechanism (APRM), should be supported and implemented by all Member States in order to address problems such as corruption and political instability;

ii. In view of the important role of SMEs in economic growth and job creation, specific strategies on SME development should be être prises aux niveaux national, régional et continental en vue d'une amélioration du climat d'investissement en Afrique.

(III) Gouvernance, réforme institutionnelle et rôle du secteur privé dans la relance de la croissance économique en Afrique:

i. Les programmes de gouvernance tels que le Mécanisme africain d'évaluation par les pairs (MAEP) devraient être soutenus et mis en œuvre par tous les États membres afin de faire face aux problèmes tels que la corruption et l'instabilité politique ;

ii. Compte tenu de l'importance du rôle des PME dans la croissance économique et la création d'emplois, des stratégies spécifiques pour le développement des PME devraient être mises en œuvre par les pays africains ;

iii. Les États membres devraient mettre en œuvre la réforme du secteur financier en vue de

implemented by African countries;

iii. Member States should implement financial sector reforms aimed at deepening the financial system thereby addressing the problem of high cost of borrowing and lack of access to finance for African businesses;

iv. Institution strengthening and legal and regulatory reform measures should be implemented by African countries;

v. Competitiveness of African industries should be improved by reducing the cost of doing business due to government bureaucracy and addressing the problem of poor transport, energy and ICT infrastructure, among others.

(IV) Africa and a new development paradigm:

i. African countries should develop appropriate economic models and conceptual tools to theorize African economic realities within renforcer le système financier pour résoudre le problème du coût élevé des emprunts et le manque d'accès au financement pour les entreprises africaines ;

iv. Les pays africains devraient mettre en œuvre des mesures de renforcement des institutions et de réforme juridique et réglementaire;

v. La compétitivité des industries africaines devrait être améliorée par la réduction du coût des affaires lié aux lourdeurs de la bureaucratie gouvernementale et l'amélioration des infrastructures de transport, d'énergie et des TIC, entre autres.

(IV) L'Afrique et un nouveau paradigme de développement :

i. Les pays africains devraient mettre en place des modèles économiques appropriés et des outils conceptuels pour théoriser les réalités économiques africaines

the framework of the global development agenda;

ii. African countries should consider enhancing the use of Human Development Index to complement GDP as a measure of development;

iii. African countries should take steps to bring about a change of mindset by taking a leadership role in developing their economies and reducing dependence on the outside world;

iv. African countries should work towards implementing African-led development initiatives such as NEPAD;

v. The African Union, RECs and Member States should take all necessary measures to expedite the regional and continental integration process as a stepping stone towards integration into the global economy through measures such as the Implementation of the Minimum Integration Programme (MIP).

dans le cadre du programme global de développement;

ii. Les pays africains devraient envisager de promouvoir l'utilisation de l'Indice de développement humain pour compléter le PIB en tant que mesure du développement ;

iii. Les pays africains devraient prendre des mesures pour opérer un changement de mentalité en jouant un rôle de premier plan dans le développement de leurs économies et en réduisant la dépendance vis-à-vis de l'extérieur;

iv. Les pays africains devraient s'employer à mettre en œuvre des initiatives africaines de développement telles que le NEPAD ;

v. L'Union africaine, les CER et les États membres devraient prendre toutes les mesures nécessaires pour accélérer le processus d'intégration régionale et continentale. Ces mesures telles que la mise en

vi. Africa should take steps to harness the power of the digital economy and foster competitive business by expanding trade through various means, including supporting the GCEL initiative which supports the deployment of soft infrastructure, partners with global organizations to empower the digital economy and works within a PPP framework to prepare Africa for the digital economy;

vii. African countries should take steps to build alliances with the Diaspora in efforts to attain development;

(V) Boosting intra-African trade:

i. The African Union should work with Regional Economic Communities and Pan-African Institutions to promote monetary and financial integration in Africa;

ii. African countries should take steps to implement regional and sub regional Agreements on free movement of persons, goods, œuvre du Programme minimum d'intégration (PMI) marqueraient une étape importante vers l'intégration dans l'économie mondiale.

vi. L'Afrique devrait prendre des mesures pour exploiter le potentiel de l'économie numérique et promouvoir les activités compétitives pour développer les échanges commerciaux par divers moyens, y compris l'appui à l'initiative Global Coalition for Efficient Logistics (GCEL) qui soutient la mise en place de l'infrastructure immatérielle, en partenariat avec des organisations mondiales pour renforcer l'économie numérique et qui fonctionne dans un cadre de PPP pour préparer l'Afrique à l'économie numérique ;

vii. Les pays africains devraient prendre des mesures pour établir des alliances avec la diaspora dans le but de réaliser le développement.

services and capital;

iii. Cross-border infrastructure development programmes such as the Programme for Infrastructure Development in Africa (PIDA), should be supported and implemented;

iv. The African Union, RECs and Member States should put in place adequate measures to capture statistics relating to cross-border trade in unregistered and smuggled goods;

v. Efforts of the African Union to boost intra-African trade and create a continental free trade area should be supported by Member States;

vi. African countries should take steps to do more processing and value addition to raw materials prior to export as a means of diversification and improving the potential for more trade among themselves.

(V) Relancer le commerce intra-africain :

i. L'Union africaine devrait travailler en collaboration avec les communautés économiques régionales et les institutions panafricaines pour promouvoir l'intégration monétaire et financière en Afrique ;

ii. Les pays africains devraient prendre des mesures pour mettre en œuvre des accords régionaux et sous-régionaux sur la libre circulation des personnes, des biens, des services et des capitaux ;

iii. Les programmes de développement des infrastructures transfrontaliers tels que le Programme de développement des infrastructures en Afrique (PIDA) devraient être soutenus et mis en œuvre ;

iv. L'Union africaine, les CER et les États membres devraient mettre en place des mesures adéquates pour recueillir les statistiques relatives au commerce transfrontalier de biens non déclarés entrés en contrebande ;

(VI) Aid effectiveness:

i. The African Union should develop an African perspective on the definition of aid and agree on how it should be measured and reported;

ii. African countries should negotiate more effectively with both their traditional and emerging partners to ensure a win-win situation and address the problem of conditionalities;

iii. Africa should explore innovative sources of finance, including domestic resource mobilization and Diaspora bonds as means of reducing dependence on aid;

iv. The African Union, in collaboration with RECs and Member States, should develop a framework document to serve as a basis for any donor assistance to Member States;

v. The African Union should develop a comprehensive long term strategy for donor engagement with a view to ensuring that aid addresses

v. Les efforts de l'Union africaine pour relancer le commerce intra-africain et créer une zone de libre-échange continentale devraient être soutenus par les États membres ;

vi. Les pays africains devraient prendre des mesures pour procéder à une transformation accrue des matières premières pour la valeur ajoutée avant de les exporter en vue de diversifier et d'améliorer les possibilités d'échanges commerciaux entre pays africains.

(VI) Efficacité de l'aide :

i. L'Union africaine devrait élaborer une perspective africaine sur la définition de l'aide et convenir de la façon dont elle doit être mesurée et communiquée ;

ii. Les pays africains devraient négocier plus efficacement avec aussi bien leurs partenaires traditionnels que nouveaux pour créer une situation gagnant-

the development needs of the continent as well as promoting its progressive elimination;

vi. Aid should be strongly tied to economic growth in Africa, triggering growth in dynamic sectors such as agriculture;

vii. Aid must be in line with the strategic priorities of the receiving country and regional and continental institutions such as the RECs and the AU;

viii. There should be annual reporting on the delivery and utilization of aid within Member States as well as regional institutions such as the RECs and the AU;

ix. African countries should develop strategies aimed at promoting technology transfer, development of human capital and labour mobility.

gagnant et et régler le problème des conditionnalités ;

iii. L'Afrique devrait explorer des sources novatrices de financement, y compris la mobilisation des ressources nationales et les obligations de la diaspora, en vue de réduire la dépendance vis-à-vis de l'aide ;

iv. L'Union africaine, en collaboration avec les CER et les États membres, devrait élaborer un document-cadre qui servira de base pour toute assistance des donateurs aux États membres ;

v. L'Union africaine devraient mettre en place une stratégie globale à long terme pour l'engagement des donateurs en vue de s'assurer que l'aide répond aux besoins de développement du continent ainsi que de promouvoir son élimination progressive ;

vi. L'aide devrait être fortement liée à la croissance économique en Afrique, stimulant la croissance dans les secteurs dynamiques tels que l'agriculture ;

(VII) General recommendations

The AU Commission should take active steps to ensure continuation of reflections and engagement on topical issues among African economists in between Congresses

Commendation and vote of thanks

We commend the African Union Commission for organizing the Second Congress of African Economists and encourage the further strengthening of the event in view of its potential to serve as an effective platform for engagement between African economists and policy makers.

We thank H.E. Mr. Alasane Dramane Ouattara, President of the Republic of Cote d'Ivoire, the Government and People of The Republic of Cote d'Ivoire for hosting the event and for the hospitality accorded to all participants.

Abidjan, 26 November 2011.

vii. L'aide devrait répondre aux priorités stratégiques du pays bénéficiaire et des institutions régionales et continentales telles que les CER et l'UA ;

viii. Un rapport annuel devrait être établi sur la fourniture et l'utilisation de l'aide dans les États membres et les institutions régionales telles que les CER et l'UA ;

ix. Les pays africains devraient mettre en œuvre des stratégies visant à promouvoir le transfert de technologie, le développement du capital humain et la mobilité de la main-d'œuvre.

(VII)Recommandations générales

La Commission de l'UA devrait prendre des mesures concrètes pour assurer la poursuite des réflexions et du dialogue entre les économistes africains entre les Congrès sur les questions d'actualité.

Motions de félicitations et de remerciements

Nous félicitons la Commission de l'Union africaine pour l'organisation du deuxième Congrès des économistes africains et encourageons le renforcement de cet événement qui pourrait être une plate-forme efficace pour le dialogue entre les économistes et les décideurs africains.

Nous remercions SEM. Alassane Dramane Ouattara, Président de la République de Côte d'Ivoire, le Gouvernement et le peuple de la République de Côte d'Ivoire pour avoir accueilli la réunion et pour l'hospitalité accordée à tous les participants.

Abidjan, le 26 novembre 2011

List of Participants of the Second African Economists Congress

Liste des participants du Deuxième Congrès des Economistes Africains

No	Names	Title and Organization
1	Prof. Ben Said Mohamed Moncef	Professeur, Tunisie INAT
2	Dr. Christopher D. Mlosy	Economist Expert CSIR South Africa
3	Dr. Osei Barfour	Chief Research Economist, African Development Bank
4	Prof. Desiré Mandilou	Enseignant / Chercheur
5	Mr. Mudimeli Madivha Aaron	Chargé d'Affaires, Embassy of South Africa
6	Mr. Fred A. ENO	Correspondent/Bureau Chief Guardian Newspapers, AU/UNECA/Horn of Africa Bureau
7	Mr .Danhoundo Firmin	Chercheur (CNPE/UEMOA), (CNC/CEDEAO)
8	Ms Nathalie B. Chinje	Director- Upbeat Marketing
9	Mr. Gohou Gohou	Economiste/Cess Institute
10	Ms Olivia Muza	Consultant Economist
11	Mr. Yapi Guy-Assane	Assistant Recherche
12	Dr Cherif Salif SY	Directeur général du Cabinet "Chérif Salif SY/International Consulting Services (C2S/ICS)
13	Mr Chassem Tchatchum N. Palissy	Chargé d'Étude, Ministère de l'Economie,
14	Mr .David Atemkeng	Journaliste - Canal 2
15	Mr. Isa Audu	Assistant Director, Central Bank of Nigeria
16	Mr.Mably Nantouo Stephane	Assistant du Conseiller technique à l'Économie
17	Mr .Serge Alain Nziebou	Technicien supérieur en Audiovisuel Cameraman, en service à la rédaction TV de Canal 2 international
18	Mrs Idika-Kalu Cecile	Dukes Transnational
19	Nasser Beydoun	VP Operations,Switzerland, GCEL
20	Dr. Amadou Ousmane	Enseignant-Chercheur
21	Dr. Haruna Yahaya	University of Abuja
22	Dr. Sule Magaji	Professor,University of Abuja
23	Dr Patrick N'Gouan	Coordinateur National de la Convention de la Société civile Ivoirienne (CSCI)
24	Mrs Candide Leguede	Présidente/Fédération des Femmes Entrepreneures et Femmes d'Affaires de la CEDEAO (FEFA/CEDEAO)
25	Mr Francois Ndengwe	Chairman, Cameroun/African Advisory Board
26	Mr Ignace Kissangou	Enseignant - Chercheur
27	Ms. Beah Dreh Yvette-Armelle	Doctorante, Université de Tous-France
28	Mr Henri Tabi NGOA	Enseignant, Université de Yaoundé II-Cameroon
29	Dr Kamga Tchwaket Ignace	Chef du Département Économiem, ISSEA-CEMAC
30	Mr. Albert MALEKERA	Managing Director,Guy Carpenter
31	Mr Bauna Sylvain- Jasmin	Private consultant in Finance problems & MonetaryIssues
32	Dr Boubie T. Bassole	Enseignant/Chercheur, Université Ouaga II
33	Ms Lulit Gizaw Bereda	Research Analyst, California Lutheran University
34	Prof. Gankou Jean Marie	Professor

35	Mr Chrysost Bangake	Maître de Coférences Laboratoire d'Economie d'Orléans (LEO), Université d'Orléans

No	Names	Title and Organization
36	Mr OKEY Mawussé Komlagan Nezan	Ph.D Student, Universite de Lomé
37	Mr Diery Seck	Director, Center for Research on Political Economy (CREPOL)
38	Djembissi Kamsu Bertrand	Maître de Conférences, CNAM Paris
39	Dr. Mark Drabenstott	GCEL Secretary General
40	Mr. Diakite Daouda	Maître de Conférences, Université de la Réunion
41	Mr Aram Belhadj	Assistant Universitaire Tunisian University
42	Dr. Joseph Fantcho	Enseignant, Cameroun
43	Dr. Fanneh Momodou Mustapha	Assistant Professeur University of The Gambia
44	Mr Ballogoun Moutairou	Ministry of Economics and Finance, Benin
45	Prof. Ndiaye Mohamed Ben Omar	Directeur general, WAMA
46	Mr. Jacob Gumba Otieno	Statistician, Ministry of Finance, Kenya
47	Prof. Biao Barthelemy	Vice-Chancellor, African University for Cooperative Development
48	Albert Gyan	Development Consultant
49	Dr. Atangana Ondoa Henri	Enseignant Université de Yaounde II
50	Mr. Lo Moubarack	Président, Emergence Consulting Group
51	Dr. Yves Ekove Amaizo	Directeur Afrology Think Tank
52	Prof. Seka Pierre Roche	Directeur de Cabinet
53	Dr. Kinimo Yabité René	Conseilleur technique
54	Kobena Adou	Conseiller Technique
55	Mahamadou Kone	Conseiller Technique
56	Tohougbe Yehovan Anatole	Conseiller Technique
57	Dr. Edmol Doua	Directeur
58	Gono Sylvain Gue	Attache de Cabinet
59	Ms Diaby Keldi Nissoiti	Directrice adjointe, CIREJ Université de Cocody, Abidjan
60	Dr. Djelhi Yahot	Economiste, Inspection d'État
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65	Beke Tite Ehuitche	Enseignant-Chercheur
66	Fe Doukoure Charles	Enseignant-Chercheur
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68	Fofana Lassana	Chef Cabinet Mairie Mankono – UVICOCI
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73	Gakpa Kasson Aide-Yves	Assistant du Conseiller
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No	Names	Title and Organization
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76	Kada Firmin	Juriste
77	N'Guessan Josée Clotide	IIDECG, Assistante du Directeur
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79	Gouare Lee Fielze Ameme	Chargé du développement et du suivi des Entreprises APEX
80	N'Zi Bossan Florha	Assistante UVICOCI
81	Konan N'Da Germain	Entrepreneur
82	Zomy Gueu Blainay Adeline	Assistante de Direction
83	Ouly Marie Lisette Dion	Assistante de Direction
84	Camara Valentin	Protocol du Ministre d'État
85	N'Dri Germain	VOA Journalist
86	Kouassi Augustin	Journalist, Xinhua (Chine Nouvelle)
87	N'Da Konan Serge	TAM-TAM
88	Dangui Dangui	Journaliste
89	Yapi Narcisse	Consultant, IDECG
90	Felix Tia	Protocole
91	Ouraga Eric Landry	Medecin, SAMU
92	Dr. Konan K. Bruno	Medecin, SAMU
93	Benie Arnaud	Ambulance SAMU
94	Dr. Atangana Ondoa Henri	Enseignant, Université de Yaoundé II
95	Gnanzou Asman Olga	SODEML,Conseiller Technique du Directeur général
96	Kada Pascaline	Assistante de Direction
97	Dan N'Nan Estelle	Assistante de Direction Bilingue

Aide Memoire
Congress of African Economists

I. Introduction

The building of the African Economic Community is currently one of the major concerns of the African Union Commission (AUC). In order to succeed in this noble and historic enterprise, the authorities of the Pan-African organization have set many initiatives in motion, among which are: the rationalization and consolidation of the Regional Economic Communities (RECs); the acceleration of the establishment of the institutions provided for in the Constitutive Act of the African Union, including the African Central Bank with the mission of minting the single African currency, the African Monetary Fund and the African Investment Bank.

To this end, the AUC assigned specific mandates to departments, divisions and regional offices, to enable it to acquire the necessary dynamism and efficiency for the building of the African Union.

It is in this context that to provide your contribution to the achievement of this gargantuan task, the Economic Affairs Department intends to organize, a Congress of African Economists (those of the Continent and the Diaspora), in order to consider, analyse and propose an appropriate and extensive solution to the economic problems impeding the development of these RECs, the pillars of African integration.

II. Objectives

This Congress, composed essentially of economists, professionals or researchers from research centres and institutes, and African economic operators, has, inter alia, the following objectives:

- To carry out a sectoral analysis of the economic and social activities of RECs;
- To highlight the contribution of major sectors of activity to the economic development of each country, and take stock of these contributions in terms of results, difficulties and future prospects;
- To conduct a comparative analysis of macro-economic and social indicators between the countries of each REC;
- To highlight the most efficient sector(s) in each country;
- To take stock of community projects for basic infrastructure and other projects in each REC and initiate new avenues for making these projects effective;

- To review the economic (monetary and budgetary) policies practised in each REC within the framework of the harmonization of economic policies;

- To highlight the advantages and inconveniences of the use of a single currency within each REC;

- To indicate the advantages and inconveniences of the practice of complete free trade within each area, and of a similar tariff policy between each REC and the rest of the world;

- To show the theoretical and practical outlines of the agricultural policy that should be applicable in each REC according to the natural and agricultural potentials of each of their member countries;

- To propose appropriate strategies and policies to enable the private sector to play its role as a driving force of economic growth in Africa and a catalyst in the regional and continental integration process;

- To determine the sources for sustainable financing of the regional and continental integration process; and

- To contribute to enlightening African leaders about the strategic partnerships established between Africa and the rest of the world.

III. The Theme of The Congress

· General Theme

Will be determined

· Sub-Themes

- The consequences of the choice of an exchange rate system and implication of the choice of an African model;

- The determinants of the choice of an exchange rate system in African economies context;

- The economic foundations of integration of markets lessons learned for the establishment of an African Common Market;

- Monetary Union and its

implications for African countries: advantages, inconveniences and modalities;

- Monetary policies implemented in the RECs: case of ECOWAS, COMESA, SADC and the ECA)

- Should African economies necessarily converge before the adoption of a single African currency?

- Assessment of progress made in the harmonization of sectorial policies in the RECs;

- Economic convergence, multilateral monitoring and statistical harmonization in Africa: challenges, status and way forward.

IV. Submission and Communications Format

The congress will be implemented in an operational way. In selecting papers, attention should be paid on these studies will be carried out by consultants, particularly by academics and researchers with in-depth knowledge of the subjects mentioned.

The consultant, research centre, consultancy firm, university, etc, selected to carry out the studies in question, will perform their task from their place of recruitment. Their main activities will be structured around the following points:

- Carry out the study in compliance with all the tasks contained in the relevant terms of reference;

- Include in the final study (final report), a summary comprising the essential orientations of the study;

- Cover the debate on the study during the Congress, in order to garner the observations, suggestions and recommendations that the Congress will make on all chapters of the study so as to make appropriate adjustments aimed at enriching it;

- The final study, the relevant summary and the additions emanating from the Congress, that is, three (3) documents, will be submitted to the AUC for printing and binding.

V. Organization of The Congress

The Congress will focus essentially on the above-mentioned studies. Participants will therefore work in four groups (depending on their area of interest) to consider, analyse and make proposals, chapter by chapter, on the different issues and avenues mentioned in the study they will be called upon to consider. Consequently, there will be four working groups, and a drafting committee will be established, set up in a separate room, comprising at least two members of each of the teams that carried out studies and the AUC, with a view to incorporating in the studies, as deliberations progress, the amendments made by participants. Finally, when the four groups have completed their deliberations, a plenary session will be held for a whole day to enable each group to present its conclusions and reflections. This plenary will be followed by the closing ceremony. After the closing ceremony, the secretariat and the teams that carried out the studies will have two additional days to finalize the different reports. This will enable representatives of the AUC to return to Addis Ababa with all the finalized proceedings of the Congress.

VI. Responsibilities of The Commission

The Commission shall bear full responsibility for the Congress in terms of:

- Financing the participation of members of the teams that carried out the studies and those of a few participants whose presence could prove to be enriching;
- Providing and financing all the logistics (interpreters, translators, printing and binding, secretariat, etc) connected with the smooth functioning of the Congress.

However, part of the above-mentioned costs could be borne by partners who agree to provide their assistance.

VII. Expected Outcomes

The recommendations of the Congress will be submitted to the Conference of African Ministers of Economy and Finance (if the issues considered focus on economy) or Sectorial Conferences of African Ministers (depending on the nature of the subject treated), for consideration and adoption. Subsequently, they will be submitted to the

Assembly of Heads of State and Government for consideration and adoption of political decisions for implementation. Thereafter, the Congress shall constitute a preparatory activity for CAMEF.

VIII. Participants

Participants will comprise essentially economists, researchers, Member States (Ministries of Economy and Finance, assisted by the relevant technical ministries according to the theme), Regional Economic Communities, the African Union Commission, as well as development partners, namely, EU, UNDP, AfDB, ECA, ACBF, BADEA, etc).

· *Date And Venue*

- Venue will be determined.

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