K.Y. AMOAKO - ON GROWTH, DEPTH AND ECONOMIC TRANSFORMATION

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President of the African Center for Economic Transformation
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K.Y. Amoako, Founder and President of the African Centre for Economic Transformation, offers his candid and considered views on Africa's growth prospects. Although K.Y. views many of the reforms attached to Structural Adjustment Programmes of the 1980s and 90s as necessary, he contends they were largely "imposed" and lacked "genuine commitment" from African governments. Nevertheless, policy making on the continent has come a long way over the past 15 years, resulting in improved macro-economic performance, greater ownership over development programmes and better governance.

In this interview with Jonathan Bhalla, Research Manager at Africa Research Institute, K.Y. argues that attempts to impose an Asian development model in Africa will ultimately fail. He puts forward the idea of "market-friendly industrial policy" to drive the structural transformation of African economies. But if this vision is to become a reality, governments must develop the capacity to mobilise financial resources, deliver public services and ensure peace and security.

ON STRUCTURAL ADJUSTMENT

You worked at the World Bank during the height of structural adjustment. What impact have these programmes had on Africa's transformation prospects today?

This was an interesting time. In 1981 the World Bank published the famous – or what some refer to as "infamous" – report, *Accelerated Development in Sub-Saharan Africa: An Agenda for Action* . It became known as the Berg report, after Elliot Berg, an American economics professor who was co-ordinator of the African Strategy Review Group. I was the only African on the team of economists who authored that report! I was young, having only joined the Bank in 1974.

The context in which the report was written is quite different from today. In 1981, the continent was in dire straits – economic growth tumbled, government deficits soared, world commodity prices plummeted, terms of trade were stacked against African countries and the debt crisis was just beginning. People were asking, "Wow, what has happened to this continent?" That is the background, which I think is important.

There was a lot of concern about the state of Africa's economies. The purpose of the Berg report was to understand the root causes of the problems, and to devise actions to address them. The request for this study actually came from the African members of the World Bank's executive board.

There were big debates raging about whether the causes were external or internal, and to what degree. Many blamed the spike in world oil prices, while others faulted the rise in global interest rates that caused government debts to escalate. The conclusion of the report was that bad policies were the principal reason for the crisis. Emphasis was placed on poor internal policies and governance. Not everyone agreed with the findings of the Berg report, African governments in particular.

Just after the report was published, I was asked to go with Elliot Berg to discuss its findings with the Organisation of African Unity (OAU) and the United Nations Economic Commission for Africa (ECA), an organisation of which I later headed. We had a very frosty meeting with the ECA, and the OAU did not see us at all.

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So what did the Berg report say exactly? It criticised a host of bad practices, including poor macro-economic management, uncompetitive exchange rates, overly interventionist agricultural policies such as subsidies, pan-territorial pricing and corrupt parastatals. The World Bank felt that it could no longer pour money into projects without addressing the fundamental structure of economies and policy-making.

These were valid criticisms. I think where the Bank went wrong was that it did not consult widely enough in Africa. The report was also too harsh on African governments. Structural adjustment programmes (SAPs) ended up more or less being imposed on countries, as there was no genuine commitment to reforms. In general, African countries did not have the capacity to negotiate or implement the reforms.

Certainly, some of the basic fundamentals of structural adjustment were correct, but the way the relationship was handled left much to be desired. The expenditure cuts in social sectors, for example, were indiscriminate.

There is an explicit acknowledgement within the World Bank that they got some things very wrong. The evaluations done by the Bank's Operations Evaluation Department – it's now called the Independent Evaluations Group – were scathing about some of the SAPs. Pressure from civil society around the world also prompted the Bank to rethink its approach. The appointment of James Wolfensohn as president of the World Bank also helped. He believed there was more than one path to economic growth and poverty reduction; an approach which improved the Bank's relationship with Africa.

In 2014, the policy landscape in Africa is radically different. Over the last 15 years, African economies have been growing at an accelerated rate, with six of the world's 10 fastest growing countries in the 2000s being located in sub-Saharan Africa. One of the key reasons is because policymaking has improved. Macroeconomic performance is stronger. There is greater local ownership over development programmes. Furthermore, issues such as trade liberalisation, privatisation, budget deficit reduction, and exchange rate management are no longer contentious.

ON AID EFFECTIVENESS

You have been heavily involved in efforts to improve the effectiveness of foreign aid. In your view, what improvements, if any, have been made over the past 30 years?

Again, the context is important. I became Executive Secretary of the ECA in 1995. This was an interesting time because the trinity of development issues – aid, trade and debt – were beginning to converge in discussions between donors and recipient countries. African governments were becoming more vocal in their calls for assistance that went beyond the delivery of aid. The Heavily Indebted Poor Countries (HIPC) Initiative was instigated in 1996 by the World Bank and the IMF.

In 2000, I organised a conference in Addis Ababa for African ministers of finance to discuss financing development in Africa. It was actually a sort of African precursor to the International Conference on Financing for Development in Monterrey, Mexico, in 2002. This was where the discussion about aid effectiveness really began to take root. Yes Africa needs more aid, we said, but it also needs better aid. We started to turn the tables by arguing that aid effectiveness is not just an issue for recipient counties. The way aid is delivered by donors is equally important.

The way in which aid is delivered has certainly improved, but it's a mixed bag.

Every year after the Addis conference I organised smaller round-table meetings between African and OECD ministers to further thrash out issues relating to aid effectiveness. We discussed the need to reduce transaction costs, the desire for more direct budget support and the importance of local ownership of aid programmes. These discussions ultimately culminated in the Paris Declaration on Aid Effectiveness in 2005 and the Accra Agenda for Action in 2008.

So where are we now? The way in which aid is delivered has certainly improved, but it's a mixed bag. Questions of aid effectiveness – such as local ownership, co-ordination and mutual accountability – are firmly on the agenda. Countries that have taken the ownership issue seriously have been able to deliver some very effective programmes. In Rwanda and Tanzania, for example, the government calls donor meetings and it sets the agenda. This seems to have worked well.

The architecture of aid has also changed. Philanthropic foundations, such as the Bill & Melinda Gates Foundation and the Rockefeller Foundation, are now some of the biggest donor organisations. And then there is China and other newly industrialised countries. The private sector is also a significant player. So while aid is still important, its place in the discussion of financing African development is not the same as it was 30 years ago. There are more resources available to African countries than ever.

ON STATE CAPACITY

The 2014 African Transformation Report focuses a lot on the role of government in developing manufacturing bases, diversifying exports, increasing competitiveness and so on. How can state capacity and skills be enhanced to further these objectives?

I think there are different dimensions to state capacity. The first point to make is that transformation is a long-term process. It takes 20–30 years.

The state must have a plan, a vision, of how to achieve transformation and governments need to be consistent. This is especially important in a democratic environment where governments change every four or five years. The continuity of policy is as important as the capacity of the state to deliver.

Southeast Asian countries, such as Malaysia, had a central agency that called the "economic" shots. But development is about much more than this. It is about co-ordinating various institutions. The ability of these institutions to monitor programmes to ensure they are on track, to manage resources in an equitable and efficient manner. These are all critical factors. So we need to isolate each dimension of state capacity. I think the African Transformation Report goes a long way towards doing this by giving specific examples of what has been done elsewhere.

One of the main aims of the report is to learn from past experience. African countries have tried adopting laissez-faire economic principles in the 1980s through SAPs and more interventionist import substitution industrialisation policies in the 1960s and 1970s. Neither worked. So let's learn from that. It's important to be pragmatic, rather than ideological, and embrace both sides.

The continuity of policy is as important as the capacity of the state to deliver.

In the report we put forward the idea of "market-friendly industrial policy". It is about the state and the private sector working together. The state has an important role to play, including getting the fundamental economic and institutional structures right. It can also be proactive in helping the private sector to access appropriate technology. But it is important to be clear about where the role of the state ends and that of the private sector begins.

It is not enough just to produce reports explaining how states can improve their capacity. This is the problem I have had with donor-funded think-tanks and research outfits. Governments are overwhelmed with these reports sometimes. I wanted to change the paradigm, so that's why I set up ACET, after 20 years of working in the World Bank and the ECA.

At ACET we call ourselves a think-and-do-tank. We engage with governments in the nitty-gritty of policy-making and implementation. In Liberia, for example, we are working with the Ministry of Finance on a staff audit. In Sierra Leone we are helping the President co-ordinate the delivery of public services.

Greater state capacity will inevitably require more state resources. Where will this money come from?

The amount of money available is certainly important, but how effectively state resources are used is also crucial.

You need to tackle both sides. For most African countries, the revenue-to-GDP ratio is quite low, so there is clearly a lot of room for more domestic tax collection. In order to get value for money, governments must also allocate resources to productive sectors that will make a difference.

The right policies need to be in place to improve the efficiency of government spending. If a road can be built in a year but through poor procurement policy it takes five years, there is no point in talking about more money for infrastructure development. This is the challenge for many African countries.

ON POLITICS

What are the key "governance" requirements associated with increasing state capacity and economic transformation?

To answer this question it is important to ask where did we start, how far have we come, and where do we want to go?

For me, governance – how governments function and deliver public goods to their citizens – has a direct relationship with economic development. It is not a political issue in the sense of determining who should or should not be in power. It is about fostering what I coined "a capable state". Governments in Africa must have the capability to mobilise financial resources, deliver public services and ensure peace and security. The totality of these three will lead to sustainable, long-term development.

There have been a lot of improvements in governance on the continent over the past 15–20 years. The majority of countries are multi-party democracies. There is an accepted role for civil society in holding governments to account. Women are playing a more active and meaningful part in national politics. These trends – in what I call "first-generation" governance issues – are clear to see. It may not be perfect, but it is certainly a work in progress.

Any developing country must have a national platform where the government and opposition can work together for the national interest.

So, how does governance relate to economic transformation? The African Transformation Report says that without peace and security you can forget about good governance and economic transformation. That is why all 15 countries in our survey are stable and conflict-free. We also defined the role of government, with respect to the need for a national development plan, policy continuity between national elections and the proper use of financial resources.

African governments must now start confronting the second-generation governance issues. Even my own country, Ghana, which has made considerable progress in holding free and fair multi-party elections, still experiences governance problems that undermine development. What are they? The winner-takes-all mentality of politics is one clear example. Any developing country must have a national platform where the government and opposition can work together for the national interest. There is still a lot of corruption in politics and business. You cannot achieve long-term transformation if you do not tackle these problems.

ON ASIAN INDUSTRIALISATION

How useful has the experience of development in Asia been for African countries?

The context in which Asian countries underwent economic transformation was very different to that which African countries find themselves in today. Most countries were autocratic. African countries cannot operate like that in today's global economic order.

My colleague Yaw Ansu, the chief economist at ACET, offered an anecdote recently which nicely sums up this point. He said that he has lived under a dictatorship and a democracy, and there is no way he wants to live under a dictatorship again. Many people feel like this. You cannot impose that kind of Asian approach in contemporary sub-Saharan Africa. So the question becomes: how do we learn from Asia, but apply the lessons in a different environment?

You cannot impose that kind of Asian approach in contemporary sub-Saharan Africa.

In Africa today, countries like Ethiopia and Rwanda have done very well with respect to economic transformation. They have achieved important fundamentals such as implementing a coherent national development plan, consistent policy, co-ordination between the various arms of government and, ultimately, delivering tangible results. Strong leadership is important. This is a lesson we can take from Asia, and it is evident in Ethiopia and Rwanda. Nevertheless, I believe it is possible to have strong democratic leadership in contemporary Africa.

In terms of industrial policy, many Asian countries closed their markets to foreign competition in order to build the global competitiveness of the domestic private sector. It was much easier for Park Chung Hee in South Korea to say "export or perish". Today, with World Trade Organization regulations and the liberalisation of international markets, it is not easy for African countries to adopt such strategies.

So yes, there are certain areas where African countries can learn from Asia, but we must also accept that we live in a different environment.

ON AFRICAN INDUSTRIALISATION

Are there particular sectors or industries which you would encourage African countries to exploit?

There is an entire chapter in the report dedicated to capturing what we call "the low-hanging fruits". Manufacturing is certainly critical to economic transformation.

In the report we developed a manufacturing index, which tries to dissect – and understand – why African countries are not attracting the necessary foreign direct investment in light manufacturing and component assembly industries. We also interviewed about 20 executives from manufacturing companies operating in Africa to understand what they think is holding back industrialisation on the continent.

The issues that arise time and again are education and skills. If countries want to be able to export value-added goods, they must improve the quality of their labour force. And this means investing in education and skills development. Take, for example, agro-processing. The African continent has abundant land and natural resources. But historically most countries have exported their key agricultural commodities – like cocoa, coffee and tea – raw. How do you add value? This requires skills and knowledge.

There are other factors holding back industrialisation in Africa. Market size is one. Infrastructure and transport is another. These constraints need to be identified and addressed systematically. This is why we place such an emphasis on strong leadership, and on the need for a national vision. It will not happen automatically. African governments must make it happen.
I must also say that we do not talk enough about the external barriers to trade these days. The issues around the Doha Development Agenda, such as tariff escalation and subsidies, are still relevant today. Too many people have abandoned Doha, but it remains critical. I still believe in the Doha process. I would even accept a "Doha light" agreement if it improved trade conditions for African countries.

Some of Africa's best-performing economies – Nigeria and Ghana, for example – perform quite badly on the Africa Transformation Index (ATI). Why is this?

The African Transformation Report really tries to stress the importance of "growth with depth", where depth is an acronym for diversification of production and exports, export competitiveness and gains, productivity increases, technology upgrading, and human well-being. This is one of its main contributions. In the report, we have developed metrics for measuring each of the depth indicators of economic transformation.

The ATI is an outcome index. There are a number of reasons why these countries ranked poorly in the index but, in particular, they have not made the necessary strides towards the diversification and the export competitiveness indicators. Ghana has fallen six places between 2000 and 2010.

The report is not prescriptive in terms of telling countries how they should achieve economic transformation. The situation in every country is different. We are working with some African countries, like Ghana, Liberia and Sierra Leone, to identify the specific issues that need addressing and devising strategies to move forward.

Do we need to start thinking a bit differently about education and skills development in Africa?

There has been a lot of improvement in enrolment rates in primary education over the past fifteen years, but the quality of education remains abysmally low. In many countries, studies have shown that some primary school graduates cannot even read and write. The enrolment rates in secondary and tertiary education are substantially lower than in Asian countries at the equivalent stage of development.

African governments must grapple with the need for greater vocational education and training. In Ghana many polytechnics are turning themselves into universities because they can attract higher-fee-paying students. This is an area where the state can and should intervene.

There must be greater collaboration and co-ordination between the public and private sectors with respect to education and skills development. They need to be tailored to the economy. At the end of the day, transformation is about people. The ability of a country to specialise in a particular sector, whether IT or engineering, comes down to what kind of skills exist within the labour force. It is a technical issue, but it's also more fundamental than that.

ON REGIONAL INTEGRATION

Regional integration in Africa has not realised the potential that its proponents have suggested it would. Why is that and how might the shortcomings of regional integration initiatives be addressed in future?

I am a Nkrumah man, you know. He is my hero.

My former organisation, the ECA, has been at the forefront of efforts to promote greater co-operation between African states. There is no shortage of regional institutions or protocols calling for greater integration and alignment on the continent. We have established institutions, signed these agreements, but African governments have not supported them financially. Most regional economic communities (RECs) on the continent and the African Union rely on external sources to fund their programmes. There is an issue of lack of political will here.

Towards the end of my tenure at the ECA I instigated a series of research reports called “Assessing Regional Integration in Africa”. The second of the reports addressed the plethora – or “spaghetti bowl”, as we referred to it – of RECs in Africa. It is common for one country to be a member of two, three and even four RECs. These overlapping memberships, mandates and objectives have resulted in unnecessary duplication of efforts and misuse of scarce resources. I made “rationalisation” of RECs one of my pet projects in those days. The abundance of poorly funded RECs in Africa has really frustrated genuine co-operation and integration.

The compilation of high-quality data is vital for transformation in Africa.

Intra-African trade is an important indicator of economic transformation, but we do not have the necessary institutional capacity and co-ordination between states to measure this phenomenon effectively. Statistics on intra-Africa trade are notoriously unreliable. Some people say that it is beginning to creep up, and that the reality is much better than what the official data says, but who is to know for sure? I do not know whether intra-African trade is 8%, 10% or 13% of overall trade. Nobody knows. The compilation of high-quality data is vital for transformation in Africa. You cannot plan when you do not have an industrial census, for example.

The political will to drive the regional integration agenda has been lacking. I have always said that national policy-makers should not only think nationally. They should think and act regionally to pursue comparative advantages more effectively in the global economy or to plan basic infrastructure. But it doesn't happen because the follow-through is not there. Protocols are signed but not implemented. Politicians pay lip service to the regional integration agenda but then do not make the necessary adjustments to turn this rhetoric into reality.