December 2002 Issue 03

Published and distributed free of charge by:
The Namibian Economic Policy Research Unit (NEPRU)
P.O. Box 40710 Windhoek Namibia
Phone: +264 61 277500 Fax: +264-61- 277501
Email: nepru@nepru.org.na
Web Site: www.nepru.org.na

This series aims at providing lessons from recent economic research applied to Namibia relevant for policy making.

NEPAD and the African 'Resource Gap'

In the post-colonial era there have been many attempts by African leaders to formulate an initiative to boost development on the continent. The most recent of these, spearheaded by three prominent leaders, is the 'New Partnership for Africa's Development' (NEPAD). According to the NEPAD plan of October 2001, there have been several attempts in the past byAfrican leaders to set out continent-wide development programmes, which proved unsuccessful because of questionable leadership and ownership. The initiation of NEPAD, however, was not at local or national level, and its implementation depends to a high degree on the approval of a group of industrialised countries, most particularly the Group of Eight (G8). Despite a 'top down' approach, the NEPAD plan should be recognised as an impressive attempt by a pool of African leaders to get Africa out of perpetual underdevelopment and poverty, and as such it should be respected and taken seriously. The feasibility of the NEPAD goals and objectives will be elaborated upon in this policy brief with a special focus on what in the NEPAD plan has been labelled the 'resource gap'.

Historical roots

Following the colonisation of Africa during the 19th and early 20th centuries the first Pan-African conference was held in 1919 organised by an African-American thinker and journalist, William du Bois. Several Pan-African congresses were then held in Europe and USA. At these meetings there were repeated demands for self-rule and the abolition of the white minority domination in Kenya, Rhodesia (Zimbabwe) and South Africa, the development of Africa forAfricans and so on. The fifth Pan-African congress was held in Manchester (UK) in 1945 and won a reputation as a pace-setter for de-colonisation in Africa and in the British West Indies. It demanded an end to colonial rule, imperialism and racial discrimination, whilst at the same time continuing with a broad struggle for human rights and equality of economic opportunity. Kwame Nkrumah was the driving force behind the Pan-African struggle, building on the ideas of William du Bois and Marcus Garvey of the USA. The Pan African ideology is about unifying all Africans, or all hitherto marginalised people around the world, on economic, political and social grounds. NEPAD on the other hand is targeting those countries which comply with the requirements of what can be classified as good political and economic governance, respect for the rule of law and social responsibility, in order to integrate them more with the rest of the world rather than with each other.

MAP+OMEGA=NAI=NEPAD

NEPAD is essentially a merger of the Millennium Partnership for the African Recovery Programme (MAP) developed by the South African President Thabo Mbeki, and the OMEGA plan, developed by the Senegalese President Abdulaye Wade. MAP had its focus on peace, security and governance, investing in Africa's people, the diversification of Africa's production and exports, investing in Information & Communications Technology (ICT) and other basic infrastructures, as well as developing financial mechanisms. The OMEGA plan drew attention to four socio-economic sectors: infrastructure, education, health and agriculture. Together these two plans came to form the New African Initiative (NAI). NAI was approved by the OAU Heads of State and Government Summit in July 2001, and was finally launched in Abuja (Nigeria) in October 2001 by the implementation committee of heads of state, chaired by the Nigerian president Olusegun Obasanjo. NAI was at the same time renamed NEPAD.

Objectives and expected results

The key objective of NEPAD is to reduce poverty by avoiding the further marginalisation of Africa in the globalisation process, and to promote accelerated economic growth and sustainable development through a GDP growth rate of 7% per year over the next 15 years. The NEPAD plan is in addition to an increase of economic growth and poverty reduction, expected to result in increased employment, reduction of inequality, diversification of productive activities, enhanced international competitiveness and increased exports, and finally, firmer African integration in the world economy.

Macro economic policy

On what macro-economic policy is NEPAD based, in aiming to reach its objectives? Even if NEPAD rests on the notions and rhetoric of "self-reliance" and claims forcefully that African states must be "masters of their own destiny", the policy has nothing to do with de-linking or the policies that were once advocated by the 'dependency' schools of thought. This project is more in tune with the 'more of the same' economic policy that has been characteristic of the world economy (including Africa) during the last decade and a half. The policy is built upon financial liberalisation, deregulation, privatisation and global economic integration. The promotion of the private sector and

stimulation of trade through the removal of tariffs as well as non-tariff barriers are seen as leading to greater market access for Africa to other markets. Although NEPAD is an African initiative, the partnership rests fundamentally on the possibility of developing an economic and political framework that can be endorsed by Africa's 'partners' in the Bretton Woods' institutions and rich countries of the North.

Peer review mechanism

One voluntary self-monitoring tool of NEPAD is the African Peer Review Mechanism (APRM) wherein the idea of ranking countries is developed in a way that the 'performers' will get more aid and investment from industrialised countries. The peer review system, designed by African countries, allows them to categorise themselves according to economic and corporate performance only, leaving out sensitive political issues - especially when it comes to human rights, a feature which is not welcomed by presumptive funding nations.

There are questions concerning how African countries that do not become NEPAD members will benefit from the plan, and also regarding the actions that NEPAD can take to punish non-complying members, other than expulsion or exclusion from the continental initiative. The APRM was agreed upon when the 18 heads of state of the implementation committee of NEPAD met in Abuja (Nigeria) in November 2002 and signed by 12 of the 18 in the committee. There appeared to be confusion surrounding the political issues, and whether they fall under the review of NEPAD or are beyond its mandate. To date there has been no decision made on how the mechanism will work. The review process is expected to start functioning on the 1st of April 2003. Another pertinent issue not addressed in the plan is the impact a possible exclusion of a country from the initiative will have on the ongoing process of regional integration and cooperation of African states.

Inflow of capital to Africa

As can be understood from the objectives and anticipated results, the NEPAD plan is an extremely bold project encompassing almost all sectors of development: infrastructure and communication, human resource development, agriculture, environment, culture and science and technology. In order to implement the NEPAD framework, massive resources need to be mobilised by increased capital inflows and also through increased market access.

In the 1990s, some African countries managed to increase their economic growth to around 7%. Among these we find *inter alia* Mozambique, Tanzania and Tunisia. This is encouraging, though for Africa as a whole the picture has been quite bleak, with an average economic growth rate that hovered around 2.4 percent during the 1990s. In Namibia, the annual economic growth rate during the same period was 3.5%.

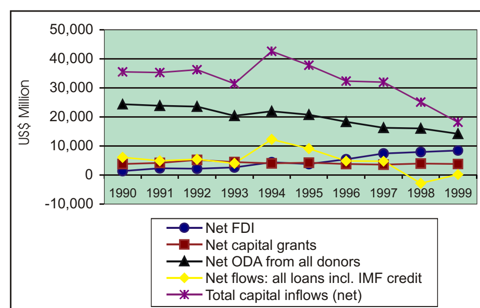
An important condition for economic growth is capital investment, and this is also the focus in the NEPAD plan. In the plan it is recognised that the bulk of the capital for an economic push for Africa needs to come from outside Africa, to the tune of US$64 billion annually, or about 12% of the GDP of Africa in order to close the so called 'resource gap'. It is anticipated that this required capital will come in the form of Official Development Assistance (ODA), debt relief and Foreign Direct Investment (FDI). The assumed massive inflow of capital will materialise as a result of the improved economic and political governance of African states, which presumably will create stability and thereby diminish the risk for potential investors.

A conservative record-taking of capital flows to Sub Saharan Africa (SSA) during the 1990s does not indicate an increase in net transfers of capital resources, but rather the opposite in fact. While the 1990s were characterised by a sharp increase in total capital inflow to developing countries, this was not the pattern in SSA. This pattern could *inter alia* be ascribed to the debt crisis which forced many African countries to increase their interest payments to lenders such as the International Monetary Fund (IMF), but also to a continuous decrease of ODA to Africa despite a general improvement in terms of 'good governance' (multi party elections) and 'macro economic soundness'.

In 1999, Africa attracted a total of US$14.2 billion in the form of net ODA, or US$18 per capita. Thus the net ODA/GDP ratio for Africa decreased from 5% in 1990 to 2.6% in 1999, giving an annual average of 4% throughout the 10-year period. For Namibia, this ratio was in the range of 5-7% throughout the same period, and at an ODA inflow per capita to the tune of US$104 annually.

In 2000, the FDI inflow to Africa was around US$9 billion. The proportion of FDI to Africa declined between 1995 and 2000, compared to the value of FDI to all developing countries (excluding China). Africa received 7.7% of total FDI given to developing countries in 1995 and in 1997, but this gradually decreased to 4.6% by 2000. In addition, the continent attracted 1.4% of the world FDI on average between 1995 and 2000. This trend needs to be reversed in order to meet the objectives of NEPAD.

Within Africa, however, the FDI inward stock as a percentage of GDP rose from 10.5% in 1990 to 25.4% in 1999, partly due to the slow growth of African economies. In Namibia the inward FDI stock was on the decline, both as a share of GDP and in nominal terms, during the 1990s. A paradox is also that the FDI inflows during the 1990s in for instance Southern Africa did not favour countries with good governance and 'sound macro economics'. While Angola managed to attract a lot of FDI during the 1990s both in nominal and relative terms, the performance of countries such as Botswana, Namibia and South Africa was somewhat disappointing.



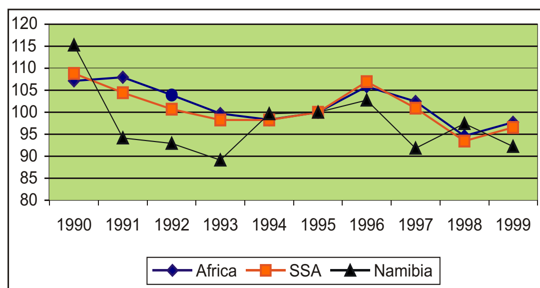
The annual net capital flows to Africa grew from US$35.5 billion in 1990 to reach a peak of US$42.6 billion in 1994 in nominal terms (excluding debt relief, which is part of US$64 billion). Since then, this figure has been reduced to a below average level of US$25.1 billion in 1998, mainly because of the fall in ODA and loan credit to Africa.

Total capital flows to Africa averaged US$34.3 billion annually between 1990 and 1998. The US$42.6 billion net capital inflow in 1994 was achieved mainly through high borrowing, as loans also reached a record high of US$12.3 billion for that year. This high borrowing can be attributed to the IMF structural adjustment programmes (SAP) implemented in many African countries at the time. The external debt service has been consistently high, averaging to US$21.1 billion for a 9-year period from 1990 to 1998.

However, the capital inflows to Africa appear to be even worse than the decreasing net capital inflow indicated above. A general estimation by the United Nations Conference on Trade and Development (UNCTAD) is that for each US$ of net capital inflow to SSA from the rest of the world, US$1.06 goes out. Of this US$1.06, 25 cents is siphoned off as interest payments and profit remittances abroad, 30 cents leaves as capital outflows and reserve build-up, while the bulk of the outflows, 51 cents, vanishes as a result of terms of trade losses. If these estimates are correct it also implies a net transfer of real resources from SSA to the rest of the world and not the other way around, which would be expected for genuine socio-economic development on the continent.

Terms of Trade

Africa exports approximately 30% more in volume than it did in 1980, although the value of the exports has contracted by more than 40%, indicating a long trend of falling terms of trade (ToT). Using data from the World Bank, Africa as well as SSA had falling terms of trade throughout the 1990s. Namibia's ToT has by and large followed the general pattern of falling TOT on the African continent.



Fast-track economic integration, by one-sided trade liberalisation, may perpetuate this trend in most African countries - including Namibia - if at the same time the export basket is not substantially rearranged to include more value added goods and services or by transforming global trade relations. A fundamental question would then be, whether a higher degree of global economic integration (on the part of Africa) than witnessed today would foster economic diversification and value added production, or whether it would in fact perpetuate the polarisation between industrialised and non-industrialised countries within Africa as well as on the global playing field. Deregulation and trade liberalisation in African countries during the 1980s and 1990s actually, in some cases, resulted in de-industrialisation.

The real structure of international trade appears to be ignored in the set-up of NEPAD. As the present scenario stands, where developing countries are faced with trade restrictions in areas in which they have comparative advantages, the belief that eventually Africa will come to an agreement whereby such restrictions are removed seems somewhat over-optimistic, at least in the short run. As revealed by the World Bank, tariffs in high-income countries on imports from developing countries, though low, are four times those collected from industrial countries.

NEPAD and Namibia

From a narrow perspective, NEPAD appears to have little to offer Namibia considering that Namibia already scores well in both 'political governance' and 'sound economic performance' as set out in the initiative. An increase in capital inflows to Namibia as a result of improved governance and sound macro economics is therefore not to be expected.

When it comes to FDI, history shows that private capital inflows lag behind rather than lead economic growth in a country. It appears therefore that Namibia, with low domestic investments and a moderate economic growth rate, would have to rely on official more than private capital inflows in the future. NEPAD *per se* is unlikely to generate additional FDI for Namibia.

Namibia is already a major receiver of ODA (aid) as discussed above, and it is therefore neither realistic nor likely that ODA will increase in the near future. The trend is rather the opposite, as for a lower middle-income country the competition for foreign aid is stiff between the many least developed countries (LDC), which could even mean a diminishing slice of the cake for Namibia in the future. In addition, as a non-Highly Indebted Poor Country (HIPC), but rather a non-internationally indebted country, it will not benefit directly from any future debt relief issued to African countries.

However, from a broader perspective, NEPAD might be able to halt political turmoil, civil war, and bad governance in a way that has not been possible in Africa up to now. If this is to be the case, NEPAD might be able to curb havoc and illegitimate governance in countries in the region and in Africa in general. This would undoubtedly also have positive effects on Namibia through the 'neighbourhood effect'. In other words, peace and prosperous development conditions in Namibia's neighbouring countries would most likely also have a positive impact on economic development in Namibia.

Conclusions

The NEPAD plan is one of the most discussed African issues inside as well as outside Africa. However, one of the major shortcomings is the lack of local African embedding, where the NEPAD plan was developed more in conjunction with the international community (G8) than with African civil society, which could have created popular support and legitimacy at 'grass roots' level. The NEPAD plan risks backfiring as a result of the 'top down' approach, in that it could be perceived as a 'non-African' development plan.

As a result of the clear direction of the political economy of the NEPAD plan, this appears to have created a clear rift between African states - or maybe more correctly, between African leaders. Among the overtly antagonistic, we find *inter alia* President Colonel Muammar

El-Qaddafi of Libya and President Robert Mugabe of Zimbabwe. The near future will tell how many African leaders (states) join the group of African states that would neutralise rather than promote the NEPAD plan.

Closing the 'resource gap' may prove to be a mammoth task, taking into consideration the latest data points in a direction of about US$40 Billion gap for Africa, or that SSA may be a net 'exporter' of real resources to the rest of the world. Measures need to be taken in order to halt the declining net inflow of capital to Africa, but maybe even more pertinently, to reverse the tide of capital flowing out of Africa.

Even if African states manage to live up to what would be perceived as 'good governance' and 'sound economics', no government can decide to increase the private capital flows to Africa, since this is basically based on market rather than political decisions. A *modus operandi* peer review mechanism is therefore no warranty for hiking private capital (FDI) inflows to Africa, which also rests on important considerations other than simply 'good governance' and 'sound macro economics'.

Since experience shows that private capital inflows (especially FDI) lag behind rather than lead economic growth, the task to fill the 'resource gap' will primarily rest on official rather than private financing. Since ODA is a political decision, this is something that political leaders in the G8 and OECD can actually control. Still it should be kept in mind that despite a general improvement of good governance and macro economics in Africa during the 1990s the inflow of ODA decreased substantially.

There is a danger that implementation of the NEPAD plan will drive the African continent into one-sided trade liberalisation with the industrialised world, before any real confidence has been created within African economies to warrant productive investment, while the industrialised countries keep their trade barriers on agricultural products, textiles and clothing where many developing countries have comparative and competitive advantages today.

Still, whatever materialises from this initiative, an important issue for Africa's development has surfaced on the global arena in order to deal with underdevelopment and poverty in Africa. It is now important that Africa, independent on the merits or shortcomings of the NEPAD plan, can remain within the core of international development discourse and not be relegated to the position of backbencher in the international development fora.

Finally, NEPAD may create opportunities for those countries that are ready for a more deregulated economic integration with the industrialised world and are prepared to comply with the set of conditional ties that are put in place by those in charge of the capital that will fuel this process. These would be countries with developed and competitive secondary and/or tertiary industrial sectors. Could it be South Africa? For those nations, the prospect might prove good, while for others the future could be dark or at best gloomy.

Policy Recommendations

- AU should be instrumental in increasing the pressure on the industrialised countries to open up their markets for African products as well as demand a stop on their use of non-tariff barriers such as production subsidies as a *sine qua non* for similar trade arrangements by African states.
- The African resource gap should be partly closed by putting a higher policy priority on how to get capital generated in Africa to be invested in Africa rather than too one-sidedly push the idea of inflow of capital from overseas.
- A continental plan built on Pan African ideas should be guided on the notion of inclusion rather than the potential risk of being excluded from a development initiative. This is important in order to continue the process of regional integration and cooperation. Exclusion and isolation of states are not always the best or most viable option to solve issues relating to good governance or economic and corporate performance.
- Although there is no single medicine that can cure all patients (countries), a continental development plan as the NEPAD plan is claimed to be, should be articulated in a flexible way as to benefit the majority of countries, and not only a class of distinguished nations, which may be an unintended result of a too rigid implementation of the plan.
- A continent-wide debate, including civil society, on the crises in Africa would be pertinent in order to find common ground for an overarching development plan for the continent. This should be done before deciding on conditions of partnership with the industrialised countries.

Selected References and Further Reading

Diescho J. 2002. Understanding the New Partership for Africa's Development NEPAD, NID & Konrad Adenaur Foundation, Windhoek

The New Partnership for Africa's Development (NEPAD), October 2001 (official document)

UNCTAD 2000. Capital Flows and Growth in Africa, United nations, New York & Geneva, United Nations

UNCTAD 2001. Economic Development in Africa Performance, Prospects and policy issues, United Nations, New York & Geneva

World Bank 2001. African Development Indicators 2001, Washington

Compiled by: *Johan Dahl and Rehabeam Shilimela*   Technical assistance: Aldenia Chaka.
Funded by: Konrad Adenauer foundtion - Windhoek / Namibia

© NEPRU 2002