

## DEVELOPMENT CHALLENGES FOR AFRICA

**T**o the development world, Africa is the future. The necessary ingredients for healthy and sustainable growth are visible; now private sector entrepreneurial talent—working with and through government—must bring them to fruition. Small and medium-sized businesses created and led by imaginative and innovative risk-takers with their own funds invested will be the key to that growth.

Although government does not create wealth, along with providing for public safety and social stability it creates the pre-conditions and conducive atmosphere that permit the entrepreneurial sector to ‘do its thing’ for the benefit of all.

Necessary public investment, growth-encouraging legislation and social institutions, transparent business regulation, supervision of effective capital markets, etc. are immediate goals. The importance of public education is a given. For producers and for consumers, for the growing middle class whose demographics predict it can become the workshop of the world, for imaginative investors and for the creative entrepreneurs who can put those investments to productive use, for a submerged public yearning for health, education, safety and employment—for all those, Africa’s future is bright if it is approached prudently, energetically and competently.

The failures and the successes, the boots-on-the-ground experience and similar efforts elsewhere provide important lessons for Africa.

Vast sums international groups dissipated in Haiti with little to show for it and the current state of Palestinian refugee camps after re-

ceiving billions of dollars of foreign aid should make us reflect on the next steps in Africa's development.

Our economic gurus' failure to predict the widespread financial disasters of 2007-8, and their failure to resolve them since should encourage modesty in a field often characterized by hubris; yet our economic thinking remains largely unchanged.

Bureaucrats love formal economic models—the more like mathematical equations the better—even though in the real world they often lead us astray, especially when dealing with economic development. The late Albert O. Hirschman, a dear friend who was never awarded the Nobel Prize he richly deserved, understood this clearly. He was a maverick who knew that economics is part art, part science and that on occasion appropriate metaphors may be more instructive than formal models. While his colleagues were obsessed with 'economies of scale' and conditions of 'perfect competition,' Hirschman realized that well-intentioned actions could have unintended adverse consequences, that capital markets can be inadequate for the demands upon them, that there could be local cultural barriers to change, and that insufficient local information, skills and entrepreneurial practice must be faced. While others focused on the "Big Push" from outside, Hirschman believed in local forward and backward linkages that were self-reinforcing. Others thought of development from the top down; Hirschman thought of it from the bottom up.

If he were here today, I believe he would endorse government and international focus on improving major infrastructure (with appropriate private involvement) but he would also emphasize the need for private investment (and access to loans) by and through local entrepreneurs with hands-on experience in coping with local obstacles.

This is true of all fields but particularly so of real estate, where he would have espoused smart growth, with a focus on long term sustainability as well as short term benefits; on prudent relationships between new development and existing utilities, infrastructure and public services; on transparency and public discussion, on community

and stakeholder involvement in planning; and on the importance of cost effectiveness so often missing from development thinking.

Economic growth and urbanization go hand in hand, reinforcing each other as growing employment in services and manufacturing create an urban consumer class involved in finance, health care, higher education and distribution of retail and wholesale consumer goods. An increase in discretionary spending will be reflected in the purchase of durable consumer goods and a range of services marking a modern economy that is more than just a producer of commodities. The development of a thriving resource sector will stimulate the building of roads, rail and airports near natural resources, as well as investment in power and telecommunications.

Water and sanitation investments are crucial, not only for economic reasons, but for disease prevention and health, primary and secondary education and the freedom it gives women to participate more fully in national life. Production of clean water for those who lack it must be a high priority.

In Africa today, sound and stable governance and prudent macro-economic policies are creating an environment in which favorable demographics, infrastructure development, rapid urbanization, consumer growth and new mineral discovery reinforce each other to signal a glowing future, as does the return of a talented, well-trained African diaspora.

If the future is to reduce Africa's heartbreaking social and economic inequality and remove the grinding poverty of the poorest, several steps must be taken. Most important of all is a fairer sharing of the benefits of national mineral wealth.

The chief threat Africa faces is the so-called 'resource curse' of massive new oil and gas discoveries where improperly-handled new revenues lead to corruption, with favored groups becoming rich and the rest of the economy suffering. To date, no African country has been able to apply its oil and gas revenue fairly for the public benefit.

U.N. officials believe Guinea and DR Congo are Africa's worst and Ghana the best, but even in Ghana the Auditor General reports

that Ghana's share in some oil and gas companies is not on record, has not been disclosed to the Public Account Committee and has paid no revenue to Ghana.

African public opinion must demand more mineral rights transparency and accountability, an end to trade mispricing, country-by-country reporting of sales, profits and taxes, clear reporting of 'beneficial ownership', automatic international tax information exchanges on income gains and property of non-resident entities, and an end to money laundering.

The Washington-based Center for Global Development makes a convincing case for distributing the new mineral revenue directly to the public as taxable income, as some countries do successfully. Ghana could be a leader in this movement.

Other constructive goals would include an increase in productivity of subsistence farmers by the use of fertilizers, better seed, judicious use of water and the pooling of small land holdings and equipment so farmers can compete effectively with foreign food producers. The half of Africa's available piped water now unaccounted for because of leaking pipes and illegal connections by private tanker operators must be recaptured, and all water users should pay their bills. The tens of billions of dollars leaving Africa illegally each year could be stopped by greater transparency in the financial sector and the use of criminal penalties where indicated. Widespread tax-evasion must be remedied. Clarification and simplification of land tenure rights, (of ownership and use) and the simplification of visitors' visas for tourists and business travelers are long overdue. African central bank reserves, pension funds and sovereign wealth funds should be invested in cost-effective infrastructure improvements that offer investors a competitive return while helping society. Africa's mineral, physical, financial and human capital should be coordinated and applied for the public good.

Finally, the issue of corruption must be faced frankly and discussed openly. True transparency and accountability in the financial and legal systems and in government operations at all levels will have a

positive impact on the continent's development. Trust and confidence in the ground rules are important factors in sustainable development.

Africa's potential can be achieved if Africans will it.

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