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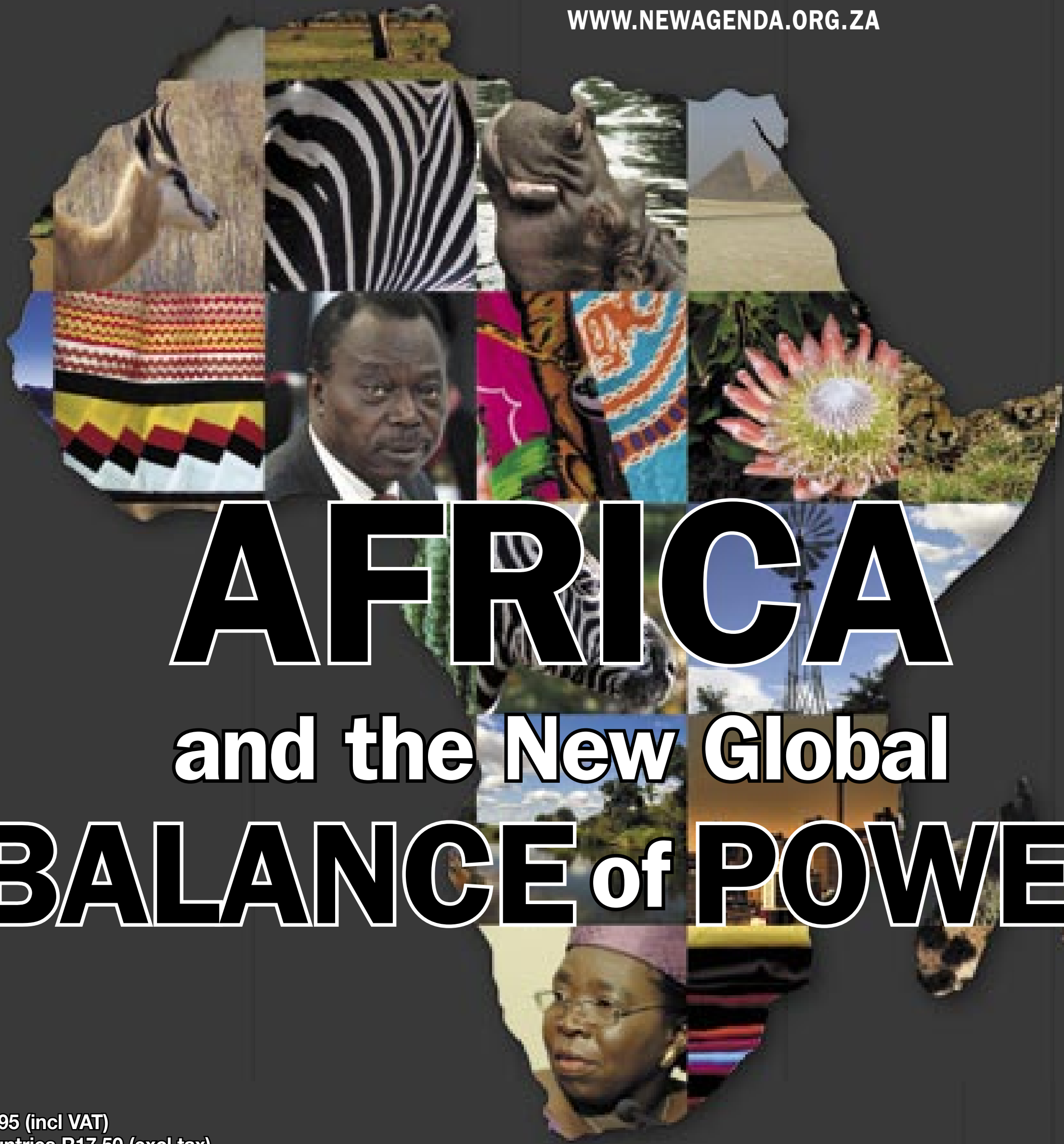

AFRICA and the New Global BALANCE of POWER

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NEW AGENDA

Editorial Board

Issue 33

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Africa and the crisis of global financial governance

Terry Shean 11/10/2005 © *Sunday Times*

By **Adebayo Adedeji**

Prof Adedeji is one of the most distinguished personalities in Africa. He was the head of the United Nations Economic Commission for Africa, minister of economic development in Nigeria and is currently head of the African Union Peer Review process

The current meltdown of the global financial infrastructure is the inevitable cumulative consequence of the "financialisation of development". The cart has been put before the horse. The dominant theory and practice have made growth and development hostage to finance. The causes of the international financial meltdown are not different from the basic factors that led to the South Sea Bubble of 1720. These were, and are: lack of scruple, lack of knowledge and judgement, speculation, greed and barefaced fraud. The refusal of the world of finance to draw the necessary lessons from experience is the main cause of the present crisis.

While speculation is not always harmful, there is always the danger of the speculators behaving recklessly, particularly when greed and arrogance take over. Unfortunately, greed cannot be expunged from the financial market. Brokers and dealers, the hedge-fund dealers, and even the bankers themselves are speculators. And the capitalist system contains a large measure of tolerance for speculators. While banking and financial institutions are usually assessed on the basis of five ratios known as CAMEL ratings, the fact is that only two of these factors – capital adequacy (C) and liquidity ratio (L) are quantifiable. The remaining three factors – asset quality (A), management competence (M) and earnings strength (E) have no objectively measurable threshold.

This is why, in the Golden Jubilee Anniversary Lecture of the University of Ibadan's economics department on 26 November 2008, I named financialisation and speculation as two of the four horsemen of the apocalypse. In other words, the meltdown of the global financial architecture represents a judgement on the corrupt and evil world that has been overly concerned with the free-market ideology at the expense of economic rationality.

First and foremost, financialisation has led to the transfer of huge resources from the real sector of the economy to the financial sector, with a heavy opportunity cost, as there was no corresponding acceleration in economic growth. In the meantime – and this is the second negative impact – the real productive sectors, particularly the manufacturing sector, have stagnated. Thirdly, income inequality has been exacerbated as median wages stagnated while wages and salaries in the financial sector have skyrocketed. Fourthly and finally, economic insecurities have also risen very high and very fast.

Africa, as the most exposed and the most vulnerable region in the world, cannot escape the apocalyptic consequences of these two horsemen. Everywhere in Africa where financial deregulation has taken place, there has been a massive decline – in numbers and relevance – of productivity oriented entrepreneurs, workers and enterprises. In their place, as I wrote in 1996, "a class of speculators and of wheelers and dealers in currencies has been elevated to the stature of pillars of society, due to the fact that they are symbolising the freest of market forces".

The performance of the financial and banking sector in promoting productive investment in Africa and in developing both domestic and international trade has been quite dismal. The burden imposed on African economies and societies by financialisation is even more devastating because of the distorted macro-economic environment prevailing in Africa which encourages trading in money, as opposed to lending for increased production and transformation in agriculture, manufacturing and infrastructural development. Until the international community in general and Africa in particular cease to make development hostage to finance and, instead, make finance serve development, the current meltdown will become even more devastating in Africa.

This calls for effective monitoring by the regulatory authorities, especially the central banks, the securities exchange commissions and the stock exchanges. In addition, an independent institutional mechanism must be established in each African country to monitor its central bank to ensure that it complies with the highest ethical and professional standards in the service of the nation, in its adherence to the principles of accountability and transparency, and in always ensuring that financialisation becomes a true instrument for development. By ensuring that finances serve development and not the other way round, the meltdown will be mitigated and eventually stopped. It is also imperative that this realignment is both at national and global levels. No doubt this will call for the restructuring of national and global financial and banking governance architecture.

In any crisis, there is usually a silver lining. From the current meltdown has emerged a global consensus on the imperative to put in place effective systems of corporate governance, supported by systematic and equally effective surveillance by government. As I stated in my Jubilee lecture:

> Under an unbridled free-market regime, lack of social and financial discipline reigns supreme. Good political governance, first-class corporate governance and good economic governance and management have now, more than ever before, become a must for our world and our countries – not just for Africa alone. The banking system has failed and the need to clear up the financial system has become imperative. It will be ill-advised for African governments not to take prompt action on the basis of the naïve assumption that what has been happening in Europe and America will not spread to Africa. Let us not forget the spread and backwash effects of the American and European crisis on the world economic systems.

When John Maynard Keynes was criticised that his theory of full employment focused exclusively on the short term, he quipped that, in the long run, we are all dead. And he had a short life! While there is a global resignation that the recession has come to stay, and is even likely to degenerate into a depression, we must not focus only on the long run.

This promises to be a year of bracing adjustment to a changed world. The recession in developed economies will persist with bankruptcies and rising unemployment playing their havoc. No doubt, the effort to meet the crisis headlong will continue, particularly given the determination of the new president of the United States, Barack Obama. But it is most likely that 2009 will be the most perilous in modern history for the American economy.

The developing economies will begin to face more seriously the consequences of the financial meltdown and recession, and Africa certainly more than the other regions. The backwash factors will be more visible. Exports to the developed economies will fall, footloose foreign finance to developing countries will be harder to come by, and economic growth rates will fall substantially. Without doubt, the global crisis of capitalism of 2008 will persist in 2009.

However, there are opportunities knocking at the door. First, there is the opportunity for Africa to distance itself from neo-liberalism and neo-classicism. Second, there is the challenge to deconstruct the neo-colonial "skyscraper" economies. Third, there is at last the chance to lay the foundation of a human-centred holistic development paradigm. And, finally, the democratisation of the development process and its fruits, so that marginalisation, large-scale unemployment and grotesquely unequal distribution of income will be tackled by the government, the private sector and the mass of the people in tandem.

But will Africa accept and explore these challenges? Will Africa take the bull by the horns and exploit the present global crisis to follow the path of developmentalism, self-sustainability and self-reliance? And will Africa take each and every step to ensure that it participates fully in designing the architecture of a new global economic and financial and banking order, as it did not participate at all at Bretton Woods in 1945?

The world at a crossroads

By **Nkosazana Dlamini-Zuma**

The author is the minister of foreign affairs of South Africa

The unipolarity based on United States hegemony remains a dominant feature of our world, although it is being seriously contested in political, economic and military spheres. The European Union is no longer willing to play second fiddle to the US on major global challenges, including climate change, but strong currents that challenge unipolarity are even more visible in the global South. The financial crisis has also significantly legitimised voices from both the South and North that are critical of the Washington Consensus in economic policy. The world is truly at a crossroads!

THE GLOBAL BALANCE OF FORCES

Over the past few years, a number of developments have influenced the global balance of forces. These include:

- the increasing political and economic influence of countries outside the historical G-7 leadership, especially Brazil, Russia, India and China (collectively referred to as BRIC). An important element of this has been their confident assertion of the importance of multilateralism
- the failure of the military option to deliver a speedy and durable peace in Iraq
- the ascent to power of vocal left-leaning governments in South America. Such ferment, although complex and sometimes contradictory, is mobilising a challenge to US hegemony in its own backyard
- some progress in Africa with respect to democracy, economic governance and performance, and peace and security. Africa's strategic natural endowment is attracting competition for its traditional trading partners in the United States and Europe, increasingly from China and India
- growing global and intra-national inequalities, resulting in significant numbers of people not realising the benefits of globalisation.

THE POLITICAL CONTEXT

The end of 2008 witnessed a number of other events that are likely to define international affairs during 2009 and beyond. The American people elected their first-ever black president. In the Caucasus region, tensions built up over territory disputes. Terrorists struck the Indian commercial city of Mumbai. The food and energy crises were followed by the global financial crisis. Sadly, the year also ended without a resolution in sight for some of the long-standing peace and security challenges facing the world.

The significance of the election of President Barack Obama did not only resonate with the people of America, but with the whole world. In the US, the election fulfilled the dreams of generations who fought for civil rights in that country. President Obama proudly referred to this when he continuously reminded the electorate of the teachings and the dreams of people such as Rosa Parks and Martin Luther King, Jr.

Beyond the shores of the US, there are expectations that the new American administration could bring a fresh perspective to international affairs. The US has always been an influential player in world affairs. It carries a significant voice in many international forums, and its leadership is always sought on key global issues. The new administration will therefore have to work with the rest of the world on a range of critical issues.

The first major challenge will be for the US to re-examine its own policies and approaches. Its conduct on many fronts was seriously criticised around the world during the past eight years. The world watched with trepidation as a country with such a historical record of democracy and human rights seemed to disavow important values in pursuit of short-term ideological goals. Torture, the use of so-called extraordinary renditions and the determination to adopt unilateral positions on important matters did not help the image of the US. Indeed, they detracted from the respect that it has always enjoyed in the world.

It will be in the interest of the United States to collaborate with others in the search for solutions to the major challenges facing the world. Whether it is climate change, the financial crisis, or peace and security, no country can address these matters acting on its own. It is folly for anyone to think otherwise and the past eight years provide ample evidence.

The new US administration will also have to be open to the global shifts in power in the world. Analysts and commentators on international affairs talk of the emergence of a multipolar world. This multipolarity does not necessarily presage a decline of American power, but the "rise of the rest", to use the new popular parlance. This refers to the emergence of other centres of economic and political power. It is expected that the rise of emerging economies will lead to these countries increasingly asserting their political power in world affairs. The US National Intelligence Council's recently published *Global Trends 2025* report predicts that US dominance will be much diminished, and even its military power less significant, by 2025. If such a power shift occurs, the challenge for America will be to approach it with reason and not ideology.

THE GLOBAL FINANCIAL CRISIS

It can be argued that the global financial crisis has exposed some fundamental fault lines of globalisation. The world is witnessing a financial meltdown not too dissimilar in impact to the 1914 collapse of the gold standard and the 1929 stock market crash that lead to the Great Depression. It is in this context that we see major economies implementing policies that were unthinkable only a few years ago. There is much talk of the return of Keynesian economics. Indeed, John Maynard Keynes's thesis was not a complicated one, for he simply warned of the imperfect nature of markets. He said that markets were not self-correcting – regulation was needed and there was an important role for government to play in the economy. For decades this was shunned by the very countries that are responding to the financial crisis today with huge government bailouts of banks and other industries.

For many people all over the world, the impact of the financial crisis is immediate and real. Many developing countries were making progress towards development as a result of consistent economic growth. According to UN reports on the Millennium Development Goals, 23 African countries have seen marked improvement in their economic growth rates in the past two years. In these African countries and elsewhere, this translated into jobs and the ability of states to deliver better services. The implementation of the Millennium Development Goals is now expected to be set back by about seven years.

The external shocks of the financial crisis, including volatility in commodity prices, are already impacting negatively on the macro-economic stability of developing countries as their exports decline. The World Bank's *Global Economic Prospects 2009* report predicts that global GDP growth will slip from 2.5 percent in 2008 to 0.9 percent in 2009. It estimates that each 1 percent drop in the growth rate could trap another 20 million people in poverty.

Will the international community muster the necessary political will to implement both the short- and long-term steps needed to deal with the crisis? It is important that the correct lessons should be learned. The crisis originated from the regulatory failures and other inadequate policies in the advanced economies. It also exposed the weaknesses and gaps in the existing system of global economic governance. Harvard economist Dani Rodrik refers to these gaps when he notes that global markets "suffer from weak governance and therefore weak popular legitimacy".

The end of 2008 witnessed a number of other events that are likely to define international affairs during 2009 and beyond.

It is important that the steps being taken to deal with the financial crisis are equitable and implemented to address the needs of emerging markets and developing countries in general. This should also be an inclusive and transparent process. The G-20 summit in November 2008 was important, as it saw most of the systemically significant economies included in the search for solutions. Let us recall, however, that the summit was convened after an attempt by the G-7 to deal with the crisis alone had backfired.

Most importantly, we should see the financial crisis as an opportunity for a deep and fundamental review of the architecture of global governance. Some of us have been saying for a long time that most of these institutions are ill-suited to deal with the challenges we face today. In composition, they are relics of the past, created when the majority of the countries of the world had no significant voice.

Today, developing countries and the emerging markets are critical to the resolution of the world's problems. It will be unfortunate if these countries are expected to shoulder bigger responsibilities without being given the concomitant voice in global governance. Giving voice to emerging markets and developing countries will also improve the legitimacy of the institutions. The eminent Singapore diplomat, Kishore Mahbubani, notes that those who resist this display a fundamental flaw in their strategic thinking. In his view, "the West has become the most powerful force preventing the emergence of a new wave of history, clinging to its privileged position in key global forums such as the United Nations Security Council, the IMF, the World Bank and the G-8".

PEACE AND SECURITY ISSUES

As we begin 2009, we also have to grapple with the reality that the threat of conflicts around the world has not abated. This threat is increasingly also coming from non-state actors. The Mumbai attacks showed the audacious determination of terrorist groups to pursue their aims without any regard for human life. The international community needs to enhance its collective efforts to address the scourge of terrorism. Terrorism in all its forms must be condemned, no matter who commits it.

The persistence of this threat, however, shows the need for comprehensive solutions that also address the root causes of terrorism. It cannot be addressed by short-term means and expediency. States have to reach out to all communities to understand their concerns and to avoid stigmatising other cultures. We should avoid responding to terrorism in ways that play into the hands of terrorists.

The conflict in South Ossetia and Abkhazia in the Caucasus shows that real wars between states are still possible, and that some important disputes over territory remain largely unresolved. Here we saw the world on a precipice. There was a possibility – and even an expectation by some – that the conflict would escalate to involve some of the major military forces of the world, with unimaginable consequences. Fortunately, calm and reason prevailed. The lesson is that fundamental solutions to these problems need to be found.

Other long-standing conflicts that still persist include those between Israel and Palestine and the situation in Western Sahara. The people of Palestine continue to suffer. We remain hopeful that we will one day see a state of Palestine and a state of Israel living side-by-side with secure borders and in peace. The significance of this for the whole world is that peace in the broader Middle East is inconceivable without the resolution of the question of Palestine. The persistence of this problem means that such an important region will continue to suffer from conflict, reducing the potential for its own positive impact on the rest of the world.

We are convinced that the people of Western Sahara will one day see their dream of self-determination fulfilled. This is a conflict that affects relations between important states in North Africa and therefore also affects the whole African continent. The issue continuously divides African countries even in the context of the African Union. At the same time, we know from history that nothing can stop a people who are determined to achieve their self-determination.

As we begin 2009, we will also have to contend with the continuing tensions between some of the major Western countries and Iran over the latter's nuclear programme. It is clear that both sides need to do more to build confidence. Iran has to convince the Western countries that its programme is indeed for peaceful purposes only. South Africa has advocated for the International Atomic Energy Agency (IAEA) to play its role in this process, as it has the necessary expertise and the required impartiality to conduct such verification. We appreciate that Iran has continued to open its doors to the Agency. The Western countries also need to be more sensitive to the concerns of Iran and avoid actions that might escalate rather than resolve the problem. Western countries also need to show more confidence in the IAEA's work.

We should also be heartened by the debate that is re-emerging in many parts of the world about the urgency of nuclear disarmament. In South Africa's view, nuclear disarmament is the key and fundamental requirement. As long as some states possess nuclear weapons, others might aspire to similar capabilities. The bargain of the Non-Proliferation Treaty – that some countries would forgo the option of nuclear weapons in return for the disarmament of those states with them – has not been fulfilled. South Africa has consistently called for all states to live up to this bargain. It is imperative that states with nuclear weapon fulfil their own obligations in this regard.

Remarkable progress with the resolution of conflicts has been made in Africa, at least during the past decade. While challenges still persist in countries such as the DRC and Sudan, we can say that the continent is on a forward march towards peace and stability. The Zambian and Ghanaian elections were the latest testament to the fact that democracy is taking root in Africa. Indeed, the past decade has witnessed a number of democratic and peaceful transfers of power in several countries. The African Union has taken a robust stance towards unconstitutional changes of governments. On the economic front as well, African countries are making great strides with economic growth being the norm for many. We are working hard to sustain these gains.

Africa's successes will make an important contribution to a better global balance of forces.

Aid for effective development

An interview with Mugisha G Kamugisha

Mugisha Kamugisha is the commissioner for policy analysis in the ministry of finance and economic affairs of the United Republic of Tanzania. Ben Turok interviewed him at the Third High Level Forum on Aid Effectiveness, Accra, Ghana, 2–4 September 2008

Ben Turok: I spent some years in Tanzania in the days of President Julius Nyerere and I've been back from time to time. What is your assessment of the state of Tanzania today?

Mugisha Kamugisha: The Tanzania of today is significantly different from the times of Nyerere, in part because we have been able to take advantage of the very good elements and foundation that Nyerere built in those days, particularly in the areas of social cohesion and patriotism – the national feeling of what went into building that kind of foundation. But there has been a significant shift in the economic management, which is seen by many as probably Nyerere's biggest failure. The economic vision he articulated wasn't sustainable and it led to a major crisis in the '80s. Now Tanzania has adopted a more liberal economic policy.

This had some impact on the social cohesion. We see some signs of that, but the government is quite conscious in dealing with it. Tanzania has been able, up to now – even with the adoption of multi-party politics – still to remain one nation. People are proud to be Tanzanians. People feel the togetherness. We haven't seen any tensions along tribal lines or religious lines. The population that Nyerere built is well recognised and people are sustaining that.

BT: I recall when *ujamaa*[1] was introduced – and I was part of the implementation – that the better-off Tanzanians, especially in the public service, were very resentful, because *ujamaa* was also an attack on private property and so on. As you say, it became a logjam on the economy and has been overcome. But the values of *ujamaa* – such as equality and *kujitegemea* [self-reliance] – have they survived?

MK: Tanzanians value very much the social foundation that Nyerere built and do recognise that the reason we feel like one – the togetherness, the oneness that Tanzanians have

UN Photo / Eskinder Debebe

enjoyed – is based on a commonality of aspirations and the feeling that I belong to the community, and there is this community to provide for me. It's because people realised we're *one*: our tribes do not matter, the religious beliefs do not matter. At the end of the day, we are equal human beings and we belong together. That's the foundation.

You don't have the same enforcement of equality standards as you had with *ujamaa*. In *ujamaa*, the government or the community was there to provide to everyone according to their needs and take from everyone according to their ability. But when you have a liberal market economy – this real capitalist economy that we are promoting – you are asking people to take advantage of opportunities that come up, for personal gain. So, the level of tolerance for inequality is increased. There is more tolerance for inequality today, to provide incentive for people to apply themselves to producing and creating wealth. In the *ujamaa* days, taxation was primarily aimed towards bringing about equality. Today it is about transferring wealth, yes – but also conscious of the need to leave some incentive for the people who have the means to generate wealth to go on generating wealth.

Self-reliance has been one area where Tanzanians have, for a long time, been giving lip service. Again, living by the aspirations of the Arusha Declaration[2], but in a situation where we are not able to do it. Now that the economy has picked up, to reasonable standards, we've gone back to providing social services on a needs basis. You see us going back to self-reliance. The government has made a statement it will reduce its financial reliance on [foreign development] aid, over time. This year, for example, the budget says that recurrent expenses are financed by domestic revenue. That's a mission we have. We haven't had that for some time.

BT: What proportion of the budget now is aid?

MK: For the central government budget, it's 34 percent. It has been 44 percent at times. We've had aid for recurrent expenditure at 130 percent of domestic revenue.

BT: When was that?

MK: Four or five years ago. We started scaling back, and now we have a very small surplus of US$2 million in the recurrent budget. The intention is to continue growing that, so that more and more of our development budget can be financed by domestic revenue.

BT: You're arguing that *ujamaa* stalled the economy while building national consciousness, and I think everybody would agree. But you're saying that liberalisation has allowed the economy to grow. You've allowed private enterprise to flourish, and your taxation system is meant to provide incentive. How has this worked?

MK: With the building of a private sector led economy, we let a lot of foreign investment come in and Tanzanians have learnt some business entrepreneurship skills from these people. Not many Tanzanians had been involved in private enterprise in the past, and I would say we have a burgeoning private sector today. We have been building our tax base, which has expanded considerably. For example, for the last five years we've been able to more than double the value of the shilling. We have very low inflation, so the doubling is not coming from inflation.

BT: You have low inflation? How do you manage that?

MK: It's predominantly by containing public expenditure, both capital and recurrent expenditure. We say we shall only spend as much as we have earned. For the last three years there has been no domestic financing of the budget, through domestic borrowing. Because, in part, we have a lot of debt, and aid is inflationary, as you know. So, if you do aid and you do domestic financing, you are accelerating inflation. But we have low inflation. We have had 4.5 or 5 percent for about six years. Right now it has gone up because of the oil price. We are around 9 percent now, but it's still lower than many other countries'.

The growth of the private sector has enabled the growth of the tax base, and we have seen it working. But as the private sector grows, as private initiative is given more room and incentivised, there will be a negative impact on social cohesiveness. The government allowed that, and we are now at a level where we are going back to address the particular issues around corruption. If you have people in public office and you have allowed private enterprise, the tendency is for some people to take advantage of their official position to push some private business interests.

BT: Well, that started even under Nyerere.

MK: Yes. But under Nyerere, we had the leadership code[3], and it was very tight. Then, when we allowed private enterprise, a decision had to be made. We couldn't refuse opportunities for people in public offices to do business in the strict way as we had. So the rules were relaxed a bit. Now we are tightening that, because we think we are getting to a level where it's more dangerous to social cohesiveness. We are reintroducing the leadership code, for example, and we are working on election financing and political campaigning. In the Nyerere days, parliamentary candidates were not allowed to spend their own money on campaigning. Not allowed. You couldn't do it. It was for the party to do. We relaxed that with the multi-party system [introduced in 1992], because it could be seen as denying the new political parties opportunity to flourish – but you also no longer had a party with the funds to do everything. But now we have legislation in the works to re-introduce the leadership code. In the next six months, it will go through parliament.

BT: Really? Back to Nyerere!

MK: Back to Nyerere, but in a different way, in a mixed economy.

CONTRADICTIONS OF AID

BT: Let's talk about aid now. You are telling me that you are trying to reduce your dependence on aid, and you have done so. And yet, here we are at the Third High Level Forum on Aid Effectiveness, where clearly the talk is about how we can make aid more effective. Isn't there a contradiction?

MK: It is indeed a contradiction. First, I don't hate aid. Tanzania doesn't hate aid. For a long time, we've had this discussion on whether aid or aid dependency is bad or not bad. But the reason we are saying that we need to reduce aid is because it is increasingly becoming a political tool. And you have to mitigate that risk.

BT: Can you give me examples?

MK: One good example, of course, is Zimbabwe – but let's not talk about Zimbabwe today.

When you have aid, you have all sorts of discussions about aid effectiveness, and aid effectiveness requires a conducive policy environment. That then brings you into discussion about economic policies, governance and public administration policies. You are engaged in a debate about, for example, what the procurement rules should be. It's in the interest of promoting transparency, but as you encourage transparency in procurement, you find – like someone was saying today – rules that "you cannot favour your own people here, you must throw things open also to our people. We are financing your procurement, and our people will not take it lightly if they are denied the opportunity to compete for supplying you". So, things that are meant to provide for the social and economic needs of an aid-receiving country are compromised sometimes. We see that.

We had a huge reform of the public service, trying to empower and strengthen it to render better-quality services. We've been implementing the reforms for close to 10 years now and we don't seem to be getting that improvement in the quality of service delivery. On the contrary, we seem to be seeing signs of disintegration in the civil service. We are saying we need to go back and look at this. Some people don't take this lightly. If you are going to rely on aid, donors need a stamp of approval from the IMF [International Monetary Fund] that the economic management is in good hands.

BT: Does every aid donor need the stamp of approval of the IMF?

MK: Invariably, I would say, yes.

BT: What is the mechanism? How does that work? They don't talk about it here.

MK: They don't talk about it here, but in their own headquarters, say in London. The government and parliament and the people there in the UK need reassurance that the economic management in Tanzania is in order so that the aid they send will be effectively used. For example, the reason we stopped getting aid during the *ujamaa* days was people saying that it was being wasted on unsustainable social programmes. So when the Fund's management experts tell people that the economic policies and management in Tanzania are sound, then you get aid. It takes away the need for them to engage in looking at everything.

BT: Does every major aid package include a certificate or an agreement from the IMF?

MK: Not a certificate as such. But you have the Fund programme. They will come in and they will look and they'll say to the board, yes, things are okay in Tanzania, and people give credit to and take comfort from that.

BT: Is that a reason for you to cut down on the aid – that you don't want this kind of conditionality?

MK: We would like to increase our level of flexibility in dealing with these policy issues, but also we know that aid is not sustainable.

BT: You are saying that you want more flexibility in your decision-making and that is a reason for reducing aid?

MK: Yes, that's one of the reasons. The second one is that aid is not sustainable. It's not going to be there forever. Now, when you have aid, you'll build hospitals, schools and roads, and all these things will need maintenance. You are lifting your level of public expenditure. So what do you do when all of a sudden, for some reason, aid is not there? Aid could be reduced because there is a crisis in the North, like we have seen. They need to stimulate their economies, so they may reduce the amount of aid that is available to us. What then do you do with the schools you built because you had aid?

So that's another reason. We are saying we need to get to a level where, should there be a shock, we can easily cope with that. So it's (1) a policy strengthening position, but (2) it's a question of sustainability.

Now, the interesting thing is that Tanzania is calling for more aid in terms of volume. We must continue expanding our tax base and strengthening our capacity to raise domestic revenues. So the aid we get today, we'll be putting into infrastructure that will grow our economy more. That's one point of contention with donors in the North…

BT: They don't want you to go into infrastructure?

MK: Because it's easier for them to say, "because of our aid, so many children have gone to school in Tanzania, or so many hospital beds have been provided". It's easier for them.

For us, if we just get new hospital beds and more classrooms and that kind of thing, when the donors go away, we're left with the difficulty to cope with that – but also, now, we are not using the resources that are available today to build our base so that, in the future, we can be self-sustainable. The self-reliance thing comes in here. We must use the opportunity we have today to get assistance to build a base for self-reliance in the future – and that is not a very good message to take to the North.

THE ACCRA HIGH LEVEL FORUM

BT: Any comments about this meeting?

MK: Several. One is the preparation process is overly influenced by the North and the South isn't as well prepared and doesn't have a very articulate position to take here. Yes, we are co-chairing, we are participating in the organs, we are there. But it's entirely in the hands of the OECD-DAC [the Organisation for Economic Co-operation and Development's Development Assistance Committee; the donor countries]. They are financing and leading it. So the ideas that come through are predominantly the North's ideas… I have personal experience in this, trying to put some ideas through, and – they get lost! (chuckles). Where are the e-mails, the phone calls? They somehow get lost in the clouds.

Two, there is a big inconsistency in the stated objectives of the "aid management" agenda and general economic co-operation – the global policies. When you go to the Doha Round [of World Trade Organisation negotiations], the kind of objectives coming from the North are the absolute opposite of what you hear in meetings like this. This leaves me concerned about whether this is indeed a forum that is meant to come up with tangible results or not.

You cannot talk about development in Africa – predominantly agriculture-based economies – when the agricultural policies in Europe and the US are taking away every opportunity that could be created. The reason we are not able to co-operate in the Doha Round is because the North wants access to our services market. They have got our goods market, they have got that under control – but they want the services market. And they don't allow us to access their goods market where we are able to produce. So how does aid become effective, when we are talking about aid effectiveness: "aid is not an end in itself: it must be going towards development and the wellbeing of the people", and at the same time, we're at loggerheads when it comes to the real issues that promote development? So I say… I'm not sure.

BT: (laughs) Very diplomatic. Anything else you'd like to add?

MK: I think the developing countries need to get their act together when it comes to the aid agenda. They have done something good, I think, in the trade negotiations by consulting more and saying what they want from a trade agreement. We have seen this from Cancún to Doha to Geneva. I think there is, increasingly, a common voice that South-South co-operation in the overall development agenda needs to be broadened beyond trade issues, for more consultation, more cross-investment, more inter-regional trade.

People need to go back to the recommendations of the South Commission, if you remember that. Nyerere chaired it [from1987 to1990] and it had excellent recommendations for the South. The South ignored those in favour of initiatives from the North but, for sure, if the South wants to develop, it needs to go back to that Commission report to see what can be implemented now.

BT: Why do you think they called this meeting? It's a big meeting. It's expensive. Is it just window-dressing or wallpaper?

MK: Very much so. To hide cracks in the wall, you put up wallpaper. Because if you don't do that, people see the cracks and you don't have as much enthusiasm and you don't get co-operation. Right now, I believe, the emergence of new donors is quite worrying for the OECD. I understand Europe already has a forum with China – a Sino-European strategy forum on Africa – for their participation in Africa, their contributions and roles in Africa. They would like to bring those into the ambit of the DAC.

NOTES

1. *Ujamaa*, the Kiswahili word for "familyhood", was Nyerere's policy of socialism for Tanzania.
2. The Arusha Declaration was presented by Nyerere on 5 February 1967, outlining the principles of *ujamaa* to develop the nation's economy. It called for an overhaul of the economic system through African socialism and self-reliance in locally administered villages, through a villagisation programme. en.wikisource.org/wiki/Arusha_Declaration
3. Originally set out in the Arusha Declaration, e.g. party and government leaders "should in no way be associated with the practices of capitalism or feudalism".

Kenya's lessons for Zimbabwe

An interview with Peter Anyang' Nyong'o

Prof Nyong'o is the minister for medical services in Kenya, and secretary-general of the Orange Democratic Movement. He was interviewed by **Ben Turok** in Nairobi

Ben Turok: Peter, could you give us a sense of the nature of the conflict that broke out in Kenya after the elections?

Peter Anyang' Nyong'o: Well, Ben, apart from being the minister for medical services, I'm secretary-general of the Orange Democratic Movement (ODM), so my comments must also be seen in the context of the objectives of the ODM.

What happened in January 2008 was a protest by the Kenyan people against what they called a stolen vote. An election had been held on 27 December 2007, for both parliamentary and presidential and also local government seats.

The voting process and the counting of votes at the polling stations went very well, in the majority of cases. Trouble started with the tallying of the votes from the constituencies at the tallying hall at Kenyatta International Conference Centre (KICC), which was managed by the Electoral Commission of Kenya. As the votes came in, it became clear that the ODM and Raila Amollo Odinga, our presidential candidate, were leading. But, you see, the Electoral Commission had organised the tallying in such a way that they first brought in votes from the ODM strongholds, and delayed the votes coming from central Kenya, so that they could tell by what margin the ODM and our presidential candidate were leading.

When they realised – on the night of the 27th, and into the morning – that Raila got about 1.2 million votes more than [President Mwai] Kibaki, the process of doctoring and delaying the results from central Kenya started. And as this went on, something very unusual happened. The KICC was ringed by paramilitary police, the General Service Unit. Inside the hall, we had more paramilitary personnel managing those facilities. This has *never* happened in Kenyan history. We do have administration police in polling stations, just to make sure that things go well, but the police and the armed forces have never been involved in supervising or providing security at any counting place. So this was very unusual.

Accessing the counting became very difficult. In fact, we couldn't enter the hall where the tallying was being done. We were only allowed in the hall where the results were announced. That was the big problem. They could doctor the results at the tallying centre and bring them out. Unfortunately for them, we had access to some of the returning officers who had sent text messages about the results in their particular constituencies. As the electoral commissioners announced results that differed from those from the constituencies, well, of course, the thing was questioned.

BT: It's very similar to Zimbabwe.

We are quite sure that we can use the next two or three years in the coalition government, and we stand a good chance of winning the popular election in 2012.

PAN: On the evening of the 28th, therefore, we had to halt the tallying process and locally check the results in all 48 constituencies [where results were in question]. And although that exercise was carried out the next day, it was not used in any way whatsoever; we checked when the results were announced. So, in the end, the chairman of the Electoral Commission – under heavy guard by the police – announced the result that President Kibaki had won and that the ODM presidential candidate had lost, as it were.

What was also very interesting was that, on that day that the results were announced, the chief justice had been at State House since the morning waiting to swear in Kibaki [as president]. Why should the chief justice be waiting to swear in Kibaki when votes were still being counted at the conference centre? It can only tell you what was happening.

Now of course, subsequent to that, we protested – ourselves and our supporters. And we met *tremendous* repression from the state. The administration police, the police themselves, some members of the General Services Unit, went to the areas where the ODM was very popular, like Kadera and Mathare, and started shooting people. A lot of them. A lot of people lost their lives. In fact, even in Kisumu and Eldoret, they shot people. They expected that the resistance would only be for about two or three days. But because of the popularity of the ODM, the resistance lasted for about two months, all over Kenya. In short, that is what happened.

Why should the chief justice be waiting to swear in Kibaki when votes were still being counted at the conference centre?

BT: And the resolution of the conflict?

PAN: We, as the ODM, organised ourselves very quickly to resist this stealing of the vote. In spite of the tremendous repression by the state, we were very quick in reaching our people, holding press conferences, going out wherever the crisis was and braving it – telling people to hold on, because their rights have to be defended. We also started to make a diplomatic offensive at various African capitals, to bring this problem across. I think we were more successful than the PNU [Party of National Unity, the coalition headed by Kibaki] side, because people listened to us. That is what brought the attention of the African Union (AU) and the United Nations (UN). We told them very clearly that, in this day and age, an authoritarian president cannot just be allowed to lose the election and then impose himself on people, because otherwise Kenya was going to continue to be in flames.

And I think when the state realised that the resistance was going on longer than the three days expected, they panicked and they could not resist coming to the AU and the UN and three other partners to discuss with us and try to find a solution. That is when the UN secretary-general called in Kofi Annan to lead the negotiation team and to lay down the framework for negotiations between us.

We had insisted at the beginning that Kibaki had to quit: he had lost the elections. But we decided to withdraw from that position because it would have prolonged the crisis. They had command of the state apparatus and, with the way in which they were killing our people, we said, okay, fine, let's negotiate power sharing for a period of two years. When we have a new constitution and a new electoral commission, then we can rerun the election. Well, that discussion was on and, in the end, we agreed to form this coalition government on a 50-50 power-sharing basis. It was not the best deal that we could have expected, but under the circumstances it was a deal that could bring peace to Kenya.

Mind you, a few days before we had that accord, there was a suggestion [from Rwandan president Paul Kagame] that the only solution now possible for Kenya was for the military to intervene. We thought that would be more problematic, knowing quite well that the military top echelons were part and parcel of the plot to rig the elections, so it was better to avoid military intervention.

We have an accord that would maintain a civilian government, with agreement – under Agenda Item Four – for far-reaching constitutional, political, economic and social reforms. We are hoping within a year we could have a new constitution, based essentially on the Bomas Draft [a 2004 draft constitution proposed by the Kenyan constitutional review commission] that would (a) get rid of the authoritarian presidency, and (b) establish a parliamentary system of government that will see substantial devolution of political power to the masses, and a more critical sharing of natural resources – which has been a deep source of grievance, because of the inequity that existed in this system after independence. And of course, lastly, another issue that has always been unfinished is far-reaching land reform. This was all part of the "Agenda Four" reforms in the accord.

The other thing we insisted on was to deal with the issues of corruption and impunity. A truth and reconciliation commission was established to deal with that. We hope that those who have been caught in matters of corruption – particularly the Goldenberg issue of 1992 onwards and

In the Western press, it was quite important to view the Kenyan crisis as an ethnic crisis. But this was a social, political and economic crisis, with ethnic overtones.

the Anglo-Leasing issue of 2003–2004 – would own up, and that a restitution process could finally put closure on these cases of corruption.

BT: Tell me, what is the role of parliament throughout all this?

PAN: The ODM has the majority in parliament. When parliament was summoned for the first time to elect the speaker and deputy speaker, we won, and we also won control of most of the parliamentary committees, so obviously this is a majority party. We also won the majority of local government authorities, close to 1 000 out of 1 500. It is quite clear that if we remain organised and have a constitution that will guarantee a free and fair election, and an electoral commission that is really independent, with electoral courts that can settle electoral disputes like in Mexico and South Africa, we are quite sure that we can use the next two or three years in the coalition government, and we stand a good chance of winning the popular election in 2012.

BT: What about the ethnic dimension of the conflict?

PAN: In the Western press, it was quite important to view the Kenyan crisis as an ethnic crisis. It's an age-old agreement in conservative politics. But if you look at the reality, this was a social, political and economic crisis, with ethnic overtones. The ethnic overtones come from the pattern of inequity practiced by the authoritarian regimes since independence, which has been to use ethnicity as a tool for political repression. The authoritarian president surrounds himself with members of his own ethnic stock, because that is the only source of legitimacy and support he can get. He uses them in civilian politics as supporters and within the security apparatus of the state. Over time, the pattern of inequality follows ethnic boundaries, and there grows a resentment against this ethnic elite that exploits and oppresses. So when people are rising up against injustices, they see themselves as oppressed as a people.

Our constitution was very good in formally guaranteeing individual freedoms, but absolutely silent on peoples' rights and communal rights. A truly social democratic system should not only look at the rights of the individual. Individuals live in communities; communities claim boundaries to their existence. They have a right to their languages, customs and beliefs. And you cannot ride roughshod over these just because you are imposing individual rights. People are first and foremost social beings: social at a community level and social at a national level. I think that one of the things we have to correct in the new constitution is to recognise the importance of peoples' and individuals' rights in a social democratic system.

BT: We had a battle with this in the South African Bill of Rights: the apartheid people wanted group rights to protect the white minority.

PAN: Well, if you want it to protect privileges, then it becomes undemocratic. But if you want to promote rights, then individual and communal rights cannot be in contradiction.

BT: Tell me something about the land question. We know from history that land was the major issue in the Mau-Mau uprising, and so on.

PAN: Precisely. Even when various authoritarian presidents have tried to use ethnicity as the basis for political support, it always breaks down when it comes to individual rights to property. Even within the ethnic group from which the president comes, you find that the landed elite exploit and oppress those who have no land, and deprive them of land.

This is what happened at independence. The so-called Home Guards, who had not been treated badly by the colonial regime, had taken land from those who had been detained during the struggle against the regime. And when the detained came out, or when those who had been put together in hamlets were freed after independence, they found that their land had been enclosed by the Home Guards. If you go to a place like Kembu, you find individuals owning 500, 1 000, 3 000, 10 000 hectares of land – and within that, you have the place of the communal village where people are packed together like sardines.

These are the people who, after independence, migrated to the Rift Valley in search of land. And Kenyatta's government got former white settlers' farms and subdivided them to give to these landless people – not for free, but at a price. That did not solve the problem of landlessness or access to land in the central provinces. There's always been that conflict between the landless and the landed gentry. In Swahili, they say we are only two tribes here in Kenya: the people who do not have a place to feel at home, and those who do.

BT: Would you be willing to comment about parallels with Zimbabwe?

PAN: Yes, I think there are some parallels. Robert Mugabe's attempt to deal with the land issue in Zimbabwe several years after independence came in the midst of an economic crisis. In other words, he wanted to use the fist of the state to deal with the social and economic problem, rather than deal with the social and economic contradiction that underlies the land issue, dating from colonial times.

In Kenya, the difference is that, after independence, ways were opened for the landless to have access to property. In fact, I would say, the biggest difference between us and Zimbabwe is that the frontier of private property was opened much wider in Kenya at independence than in Zimbabwe. In Zimbabwe, it remained closed for a very long time. By the time Mugabe was trying to deal with it, this contradiction now had been reinstated after independence. And the manner he used undermined him. He was not democratic. It was a typically authoritarian approach, which did not endear him either to those he was trying to help or to those he was trying to victimise. Mugabe therefore found that, although he had tried to settle the land issue in a populist way, it did not earn him the popular support he wanted. So he resorted more and more to authoritarian repression in Zimbabwe.

Whereas, in our case, because the opening of the frontier of private property happened in the middle class, it is this middle class that has always fought for popular democracy and had a bigger access to the forces of popular democracy than the authoritarian regime. So, the regime has always been on the defensive against this class aligned to the popular masses. The attempt to impose authoritarian regime in Kenya has been much more tenuous than the more successful imposition of an authoritarian regime in Zimbabwe.

The biggest difference between us and Zimbabwe is that the frontier of private property was opened much wider in Kenya at independence than in Zimbabwe.

BT: What would you say about the resolution of your conflict compared to what's going on in Zimbabwe today?

PAN: In the resolution of conflicts, the Zimbabweans have a lot of lessons to learn from. Where you have a regime with absolute access to the armed forces of the state, if it refuses to concede defeat at an election, it's very difficult to depose unless you get military might from outside. It can refuse and can stay there for as long as it likes and rule the country. If you don't have access to the governing might of the country, you cannot have success and you cannot support the people. The people may come out in demonstrations, but they would be mowed down by guns.

We must negotiate a truce through which we carry out some type of reform. That is better than fighting it to the bloody end, and I think the same is true in Zimbabwe.

BT: A very gloomy view.

PAN: The manner in which the police gunned down people [in Kenya] was not a laughing matter. If you see the video clips, it's terrible. And they have their own "Tonton Macoutes" to do the same. It was terrible how they used the Kikuyu group.[1]

BT: So what did you do in your negotiations to outmanoeuvre this?

PAN: We said, look, we cannot win this military battle. We will be out-gunned. We are already out-gunned. We know we have the support of the people, but we cannot win with resistance. It is going to be too costly in terms of shedding blood. So even the regime knows that we are the popular masses, but we are forced to negotiate with them. We must win international opinion to support principled negotiations and also to know that we have the popular vote, and that must be recognised. Once that is recognised, then we must negotiate a truce through which we carry out some type of reform. That is better than fighting it to the bloody end, and I think the same is true in Zimbabwe.

BT: The MDC must find a way of outmanoeuvring the military power?

PAN: Maybe not "outmanoeuvring". I would say it must find a way of principled compromise with the military power, without betraying the long-term interests of the people for social, economic and political reform.

NOTE

1 The Tonton Macoutes were the personal militia of Haitian dictator "Papa Doc" Duvalier, known for brutally terrorising the population. Nyong'o is referring to the Mungiki, an equally vicious criminal organisation in Kenya that began as a religious sect supporting Kikuyu traditional culture. The Waki Commission of Inquiry into the Post-Election Violence has accused national security agencies, high-ranking government officials and prominent Kenyan businessmen of collusion with its leaders during the ethnic conflict of January 2008.

What Ireland's history says to Africa

An interview with Brendan Howlin

Brendan Howlin is the Leas-Cheann Comhairle (deputy speaker) of the Irish Houses of Parliament. **Ben Turok** spoke with him at the Third High Level Forum on Aid Effectiveness, in Accra, 4 September 2008

Ben Turok: Let me first ask you, how did you get into parliament and all that?

Brendan Howlin: Very briefly, I am from a Labour background. My father was a trade unionist, a trade union official, and a close confidante of Brendan Corish, who was a leader of the Irish Labour Party, former deputy prime minister, and minister for health in various governments. So I was raised in a political house and I think it was a natural thing that I would migrate into politics.

BT: You're a member of the Labour Party. Is this the ruling party in Ireland now?

BH: I'm afraid not. The rule of thumb in politics in Ireland for more than 20 years has been coalition government. Labour has been in a number of them; I had the privilege of serving in two, with both other main parties. My first role was as minister for health in government with Fianna Fáil, which is the largest party in Ireland, and subsequent to that I was minister for the environment and local government in a coalition government with Fine Gael, which is the second political party in Ireland, Labour being the third. In essence, at the conclusion of any general election in recent times, it's been a negotiation process between parties to determine who can coalesce to form a majority in our 166-seat parliament.

BT: We all know that Ireland has a very stormy history. It was a very poor country and yet today it seems to be a model of economic growth and success. Can you trace that for us?

BH: I can give you a potted history. There was a struggle for Irish nationalism going back centuries, with various insurrections or revolutions, the most famous being the 1798 Irish Rebellion, which was inspired by both the French and American revolutions. That was immediately followed in 1800 by the Act of Union, which formally abolished the separate Irish parliament that existed then. Ireland was subsumed into the United Kingdom. The United Kingdom became the United Kingdom of Great Britain *and Ireland*. From that time there was always a strong nationalist movement.

We went through hardships in the 19th century, with famine in the 1840s and mass emigration from Ireland – a situation that probably took a hundred years for Ireland to recover from. It was the revolution of 1916 that declared the Irish Republic, and mobilised the Irish people to demand it. And then we had the general election of 1919, where the majority of members in Ireland were Sinn Féin – Irish for "ourselves alone" – and they determined *not* to attend parliament in Westminster and met in Dublin instead, in what we called the First Dáil, the first Irish parliament, that met in the Mansion House in Dublin and declared a separate Irish state. We had a war of secession from the United Kingdom, a war of independence that went on for a couple of years, and a treaty was signed. The formal recognition of the Irish Free State happened in 1922, with the separation of six counties in Northern Ireland that remained part of the United Kingdom.

BT: This is the Northern Ireland we know today?

BH: Yes.

BT: Ireland was a colony for a long time and very poor. What was the result of independence?

BH: Technically, we were never a colony as such, as we were subsumed into the mother nation and assumed to *be* part of the United Kingdom. And in fact, many Irish people were part of the colonial power. Irish administrators, flying the Union Jack, administered parts of the empire. Ireland as a region of the United Kingdom was no poorer than some other regions – Scotland in the 19th century, or parts of northern England that had great hardship.

But Ireland didn't develop an industrial base as most of the rest of Britain did in the 19th century. We were still a very poor agrarian society. We had some domestic industries, like linen and so on, but it was largely agricultural. When the move for separation happened in the 1920s, when the Irish Free State was established, we had a poor economic base. The economic attitude of the first government – well, they were nationalists, idealists, who wanted to create an Ireland that was self-sufficient. They closed their doors, in terms of trade, and looked to see if they could build an agrarian self-sufficient economy. Now, in hindsight, that was a disastrous economic strategy and it kept economic development in Ireland in check, basically, to the 1960s. For the first several decades of Ireland's existence as an independent state, it was among the poorest in Europe.

BT: Exporting labour to England?

BH: The biggest issue was, of course, mass migration out of Ireland, a haemorrhaging of population. The young of Ireland left on the boats to work in England. They became the road builders and the tunnel diggers and the shop workers of Britain, and further afield. It was part of the difficulties of Ireland for decades.

When the second generation of Irish political leadership took charge in the 1960s, things changed. The closed attitude to the rest of the world ended, the embracing of education as a means of empowerment became front-and-centre, and we sought inward investment from abroad as well. We had the first major economic plan, by a fortuitous combination of an extraordinarily good prime minister, Seán Lemass, and a very progressive secretary of the department of finance [Ken Whitaker].

They were outward-looking and they began to build an industrial base. It was there that progress was made.

But the significant breakthrough didn't happen until the 1980s. It took probably 15 years or so for the investment in education and the establishment of free secondary education to filter through, to have a generation of highly educated graduates. And the huge expansion of the third-level sector happened at that stage. In the 1980s, again we were economically very challenged, having all the oil shocks that went through the world in the 1970s.

We opened our economy and began to attract particularly American inward investment. We joined the European Union and got significant resource transfers – and used those well, by any objective analysis. The money that went to other poor regions, like Portugal or Greece, didn't have the same impact. The resource transfers to Ireland were much better and more effectively utilised to build our economy. We used it well, infrastructurally.

BT: You went into niche areas?

BH: Obviously, we were a small economy and we weren't going to build a mass car production industry. So the strategy was to look at cutting-edge technologies. We particularly attracted the IT [information technology] sector. Sixty of the largest IT companies in the world are now based – with very substantial research and development, as well as manufacturing capacity – in Ireland.

BT: Is this because of cheap labour?

BH: No, not cheap labour. We have high labour costs. We can't compete on the cheap labour end of it, but we have a highly trained, intelligent, well-educated workforce that we could now employ at home, and that was the dividend of the investment in education. The big IT players are all well established, and Ireland is also the second-largest exporter of software in the world.

Another niche area was pharmaceuticals, and there's a very large pharmaceutical manufacturing industry, across the Cork region particularly. All of these sectors seem to be regionalised. Medical devices was another niche area that we looked at, and a lot of the heart implants and medical devices that are used across the globe are manufactured in Ireland.

We have looked to ensure that we are not resting on our laurels now. We're looking at the next generation of nanotechnologies and biotechnologies, and the world's largest biopharmaceutical plant in the world is being built in Dublin now, costing over €2 billion. So these are very significant investments. We also created Science Foundation Ireland (SFI) – modelled on the American parent – that attracted a lot of intellectual capital, in research terms, to Ireland, to commercialise new ideas. That was given a very substantial budget of €0.5 billion, so that individual researches could be allocated up to €5 million.

Sixty of the largest IT companies in the world are now based — with very substantial research and development, as well as manufacturing capacity — in Ireland.

BT: What lessons do we learn for Africa? I've heard you say that the comparative history is similar: the colonial history, the struggle for independence, stagnation and then resurgence.

BH: The first thing that strikes me is that success is never, or seldom, instant. We went through decades of struggle to get a formula that worked, that was right. You need to look beyond the nationalist, narrow perspectives of independence – which we did, but it took us a long time to do it and to become internationalised.

Look at aid, the issue that we were discussing for the last number of days: not as some sort of charity, but as an enabler for development. Just as the European transfers to Ireland were from the 1970s on, or indeed the American transfers in the years after the war in the Marshall Plan were. And how to build a capacity and an infrastructure to best meet the needs of your own economic plan. But, of course, there is also conditionality. Conditions were imposed on the money that was transferred to Ireland, in terms of accounting, in terms of how it was spent. Within reason, these things are acceptable.

I believe that the next generation of Africans is no different from the young generation of Irish people in their capacity to up-skill, to internationalise their trade, and to ensure that they are full participants in the world trading structures. But that has to be done on a fair basis and we all have to work politically to structure and engineer a trading environment in the world that facilitates development for all, and not the exploitation of the poorest by the strongest.

BT: You talk about opening up and joining the world trading system, yet most countries in Africa find that doing so is disadvantageous. And countries such as South Korea opened up carefully, phasing it in and using protectionism in a very structured way.

BH: That wasn't the model that Ireland followed, but I suppose in truth we're still a work in progress. With the economic figures coming out now, Britain is formally in recession, and the European Union is formally in recession. We are, in Ireland, a very open economy, and just as we've been spectacularly successful in our development, we are now spectacularly vulnerable to international trade. So, in truth, I think the question you posed will best be answered in a year or two's time, to see how our very open and quite vulnerable economy survives the first significant recession of our success.

A lot of the factors of recent years were obviously going to pose difficulties. We had a very significant inflation in house prices and a lot of money flowed into property. That is going to be adjusted and a lot of people are going to be *stunned* with that. It will also affect our employment, because we were bringing in a huge volume of workers to sustain a large construction sector.

BT: Importing workers from where?

BH: Largely from the new member states of the European Union – eastern Europe, especially from Poland and the Baltic states. Amazingly, in Ireland, which was a marginal society 15 years ago, now 10 percent of the population is not Irish-born. To put it in context, that's as many as arrived in Britain in the 50 years since the end of the war, and we've done it in 15 years, without tensions so far. You know, it's significant. You should see the variety of races now in Irish streets, all over Ireland: a great number of Chinese, a significant number of Africans, but a huge number of east Europeans. The ethnicity of Ireland has changed incredibly in the last 15 to 20 years.

Critical success factors for the African Renaissance initiative

By **Rudolf Perold** and **Maurice Oscar Dassah**

Rudolf Perold, an architect and lecturer at the Cape Peninsula University of Technology (CPUT), is working towards a master's degree in African Studies at the University of the Free State. Maurice Dassah is with the faculty of informatics and design at CPUT and a specialist in programme/project monitoring and evaluation. This is an edited version of their paper

The African Renaissance is a strategy to achieve socio-economic progress in post-independence Africa. Its success revolves around three sets of factors. Firstly, there are certain things Africans must do for themselves, such as regional integration and good governance. Secondly, it is necessary to pursue South-South co-operation among developing countries. Finally, the co-operation and assistance of developed nations of the north and multilateral financial institutions is a sine qua non, *but asymmetrical power relations continue to influence the African development agenda. Significantly, the aims and objectives of the African Renaissance, and policies that need to be adopted to achieve them, are in the hands of Africans themselves. Despite the existence of factors favouring the success of the initiative, the undermining of good governance and democratic values and a fading spirit of* ubuntu *are among the threats that could derail the initiative.*

CONCEPTION OF THE AFRICAN RENAISSANCE

The African Renaissance (AR) was the brainchild of former South African President Thabo Mbeki, in response to the World Bank's challenge: Can Africa claim the 21st century? The AR is seen as a socio-cultural, political and economic regeneration which strives, among other things, to improve Africa's geo-political standing in world affairs. Mbeki recognised that the destiny of Africa will be greatly influenced by the attitudes of developed countries and that it is crucial to pursue the support of financial institutions such as the International Monetary Fund (IMF), the World Bank, the World Trade Organisation (WTO) and the politically

National health systems dismantled in the name of financial soundness cannot be expected to fight pandemics of malaria and HIV/AIDS.

powerful European Union (EU). His promotion of Africa's integration into the global system is a pragmatic attempt to change the rules of the game from within. For this reason, he advocated mobilisation of the masses in support of it.

Growth and prosperity for Africa cannot be decreed, but will arise only when certain preconditions have been achieved. To this end, Mbeki, along with Nigerian President Olusegun Obasanjo and Algerian President Abdelaziz Bouteflika, initiated the Millennium African Recovery Plan (MAP) to lay the foundation for stability, emphasising conflict resolution and setting out conditions African leaders must abide by. MAP also aimed to co-ordinate assistance to fragile African economies through a combination of debt relief, investment promotion, trade concessions and foreign assistance.

The New Partnership for Africa's Development (NEPAD) has evolved to become a foreign policy in essence, guiding the South African government's dealings with other African countries. Two principles underscore NEPAD: economic development that results from fostering the productive forces of capitalism, and political stability and accountability that draws authority and legitimacy from the will of the people. These principles illustrate the uncomfortable duality of seeking approval and support from the developed world while maintaining an endogenous African process, in which Africans themselves find solutions to their problems.

NEPAD and the AR initiative are intended to cultivate an Africa-centred, South-South alignment as a counterweight to EU-US hegemony of the globalising world. African countries must be aware of the power asymmetry in the so-called global village, which has the potential to relegate the continent to a mere resource base for the attainment of strategic interests of the world's most powerful countries. A lobby of developing and newly industrialising countries in Africa, Asia and Latin America needs to be mobilised to instigate the necessary reforms in the global trading system to promote suitable and sustainable growth in the developing world.

The AR can only succeed if Africans themselves define its aims and objectives, design its programmes and take responsibility for the success or failure of their own policies. If Africans are to empower themselves and repossess their own development, they must rebuild their national images and insist on their own cultural preferences and terms of membership in the global village. This calls for a sincere, committed, social, cultural, economic and political realignment and restructuring that is truly African in nature and intent.

AFRICAN STRATEGIES

Multilateral and regional economic blocs are seen as vehicles for the African Renaissance. Historic overdependence on the export of raw resources has rendered Africa's economies highly susceptible to external events. This led the Organisation of African Unity (OAU), in its 1980 Lagos Plan of Action, to assume that Africa's developmental problems were essentially exogenous and that the solution involved a regional approach based primarily on collective self-reliance. This approach was also promoted in the 1991 *Kampala Document: Towards a Conference on Security, Stability, Development and Co-operation in Africa*, the most comprehensive antecedent to the AR concept.

The dynamics of globalisation must be understood and appropriate responses developed to reduce the devastating consequences for Africa. Rapid physical and economic integration is essential for achieving the degree of diversification, transformation and competitiveness necessary for Africa to move beyond its current dependency on developed countries.

Africa's survival in the global village is conditional on three transformations. Firstly, political leaders need to take the socio-economic and political aspirations of the people into account. Secondly, a paradigm shift must take place in relations between people and their environment. Thirdly, African economics and politics must be regionally unified to the extent of a common currency. Regionalisation of economic activity in Africa will enable national economies to overcome the disadvantages of their small size through realising the economies of scale required to build capacities in all critical areas. This will act as a springboard for more meaningful participation in the world economy. Trade must be promoted between African countries, and complementary industries developed to spread the benefits of integration equitably between and within regions.

Member states of the OAU signed the Abuja Treaty in 1991, establishing the African Economic Community (AEC). This signalled a new and realistic approach to regional integration in Africa. It aims to create a continental common market by 2025, using existing regional economic communities (RECs) – such as the Economic Community of West African States (ECOWAS) and the Southern African Development Community (SADC) and Common Monetary Area (CMA) – as building blocks. The treaty provides a legal and institutional framework to manage the gradual process of economic integration and co-operation.

Past movements towards African integration have been thwarted by interventions by the World Bank, United Nations agencies and bilateral aid programmes.

African countries, together with developing countries on other continents, could create regional political and economic blocs equal in size and strength to that of the EU and the North American Free Trade Agreement to effectively challenge and influence the trajectory of globalisation. However, it is crucial that Africa establish and maintain healthy relations with regional organisations of the developed world. Without these, the threat of continued marginalisation will increase rather than diminish. Past movements towards African integration have been thwarted by interventions by the World Bank, United Nations agencies and bilateral aid programmes. Since deepening the modernisation process in all parts of the African continent in a way that retains the best values of traditional societies is the essence of the AR, it is important that developed countries extend development assistance in ways supportive of NEPAD.

NEPAD is a commitment by African leaders to strive for development within the context and framework of the international economy. Reflecting a firm belief that Africa's development is first and foremost an African responsibility, it is the first African initiative that does not blame the developed world for the continent's socio-economic malaise, and pragmatically embraces free-market principles. Improving the quality of human resources through better education and training, particularly in information and communications technology, is one of its strategic focal points. To achieve this, African countries must be prepared to collaborate much more fully with each other than in the past, and will need much more assistance from the developed world.

The African Peer Review Mechanism (APRM), implemented through NEPAD, is a unique promise of joint responsibility for development, with each country acknowledging its interest in ensuring that appropriate policies are followed in its partner countries. The APRM addresses political concerns as well as issues of infrastructure, human resource development and culture, environment, drought and desertification, science and technology, agriculture and rural development and market access.

Widespread democratisation on the continent has made it more difficult for African leaders to abuse and trample on the rights of citizens without incurring the wrath of both their own population and the international community. However, they have become adept at holding elections that are just open enough not to incur sanctions by the international community, while protecting themselves against excessive competition. The Zimbabwean elections of March 2005, for example, were characterised by government-imposed limitations on campaigning and severe restrictions on the media. SADC leaders failed to curb the worsening perversion of governance and, through inaction, made a mockery of their undertaking to hold each other accountable.

At the moment, Zimbabwe's political and economic situation has become a litmus test of how seriously African leaders can be taken when it comes to taking hard decisions against one of their peers. Apart from a few who have voiced displeasure, they collectively stand condemned for remaining silent about disrespect for democratic principles and serious human rights abuses, casting serious doubt over NEPAD's promises of good governance and enforcement of the APRM.

SOCIAL DEVELOPMENT

Development is not achieved through the manipulation of macro-economic statistics, as the often-disastrous growth-oriented structural adjustment programmes (SAPs) of the World Bank and IMF demonstrate. The social, cultural, political and environmental components of the development process are increasingly being recognised. To achieve the goals of the AR initiative, a genuinely popular struggle must be embarked upon by governments, political parties and by citizens themselves. On a fundamental level, AR entails meeting the basic needs of people, ending poverty and improving quality of life, ensuring access to education, adequate health care, decent homes, clean water and modern sanitation. Paradoxically, these are the goals most sidelined by the SAPs' exclusive focus on economic issues. National health systems dismantled in the name of financial soundness cannot be expected to fight pandemics of malaria, cholera and HIV/AIDS.

Globalisation has relegated social concerns beneath market considerations and reduced the autonomy of states to mediate against external pressures. On a vulnerable continent that has continually been exploited, even before the Berlin Congress of 1884–1885, to decrease national control over the domestic economy while increasing control by outside players, this is neither advisable nor acceptable.

Public-private partnerships are fundamental to the globalisation process in Africa to ensure reduction of poverty and inequality. African countries need developmental states, where the political economy is geared to growth and development. The prosperity achieved by the USA and Europe after the Second

World War was based on the notion of a developmental state, in the form of the Marshall Plan. To follow this example, several key tasks lie at the core of every African government's mission: establish a foundation of law, maintain an effective macro-economic policy environment, facilitate investment in basic social services and infrastructure and provide a comprehensive safety net for citizens.

Education is one of the most important and self-sustaining forms of national investment. The World Bank has recognised the importance of educational development and identified a three-fold task for developing countries wishing to take advantage of opportunities presented by globalisation. This includes acquisition and adaptation of global knowledge, investment in human capital to improve the ability to absorb and apply this knowledge, and investment in technology to facilitate the acquisition and absorption of newfound knowledge. This highlights all the more the seriously detrimental effect of the African "brain drain". African graduates are being driven away in search of better opportunities by the uncompromising nature of governments and the social, economic and administrative disorder in Africa. The loss of human capital is compounded by the fact that these young people could save Africa from marginalisation within a world order that is increasingly interdependent due to the globalisation of knowledge and skills.

African countries must be aware of the power asymmetry in the so-called global village, which has the potential to relegate the continent to a mere resource base for the attainment of strategic interests of the world's most powerful countries.

African governments' use of funds is not always to the long-term advantage of the population, with vast amounts being spent on arms and expensive, unsuccessful development projects. Worse still, some funds are siphoned into private overseas bank accounts. Nonetheless, Africa is gradually confronting such political and economic corruption, and mounting grassroots opposition to mismanagement and authoritarian rule has led to growing demands for transparency, accountability, respect for human rights and promotion of the rule of law.

Governments need to take into account the socio-economic and political aspirations of their people through soliciting greater public involvement in policy decisions and mainstreaming social and environmental issues in macro-economic reforms. Participation inculcates a sense of ownership and control, and the involvement of all stakeholders increases the possibility of successful policy and programme implementation.

Globalisation is not rooted in the community, yet the role of civil society in development is clear. Local communities themselves, together with development practitioners and an empowering civic sector, must work towards development. Through effective linkages with similar groups across national boundaries, an alternative process of globalisation can be initiated from below.

FOREIGN INVESTMENT AND DEVELOPMENT

Fifty of the largest economies in the world are global corporations rather than nation states. This shows the potential contribution private local and foreign enterprises can make to the AR initiative, but liberalisation and privatisation policies have instead contributed to the control of African economies by transnational corporations (TNCs). The idea that markets make major social and political decisions is foreign to the spirit of the Marshall Plan that stimulated European development, as is corporations having total freedom while trade unions are curbed and citizens given less, rather than more, protection. African countries rarely define the rules and regulations of their economy. The traditional concept of the state as a sovereign entity has been eroded by the globalisation of capital, yet these powerful corporations have unfettered freedom to operate anywhere without being limited by the policies of host nations, despite the consequences of their operation for local interests.

Involvement with foreign companies is not equivalent to submission and exploitation. Where poor countries have insufficient domestic resources to meet their investment needs, foreign investment is needed to reduce the gap. The monopolistic tendencies of foreign subsidiaries may crowd out domestic investment and result in reducing total industry size and employment. The developmental benefits of foreign investment, if they are equitably and effectively distributed, include employment creation, promotion of forward and backward linkages in the host economy, development of human capital and improved access to world markets.

Enterprise growth is not always accompanied by employment growth. On the contrary, rising capital intensity and improved productivity may limit the socio-economic benefits of investment in terms of ongoing job creation. Foreign companies may also choose to reduce operating costs by employing labour and utilising natural resources without investing in the region's education, training and environmental protection. If companies invest, train, employ, pay taxes and build infrastructure in African economies, the subsequent opening up of markets can create a multitude of advantages for local people. Many companies even negate social and environmental concerns altogether when dealing with developing countries. Corporate social responsibility, however, entails foreign companies' preparedness to take a long-term view by investing in staff training and equipment, and the willingness to wait for returns.

AFRICAN RENAISSANCE AND THE DEVELOPED WORLD

Debt is the main obstacle to development in Africa, as it diverts scarce resources towards debt payment. Debt relief initiatives by the G8 are mostly seen as being too little, too rigid and too late, and often have negative impacts on socio-economic development. Some countries pay more in debt servicing than their combined expenditures for health, education and social services. The problem is compounded by its strong disincentive effect on private investment. Debt-service payments further reduce domestic resources available for investment, resulting in often-undisciplined borrowing in an already insufficient indigenous capital base. This state of affairs has led to African countries unwittingly generating a self-perpetuating cycle of wealth transfer to a host of foreign interests. In most cases, aid has been extended to ensure opportunities for continued wealth transfer as an alternative to direct colonial control, incorporating developing economies into the global economy as exploitable entities.

Notwithstanding evidence to the contrary, the World Bank's 1981 Berg Report held that African leaders alone were responsible for the crisis in Africa, blaming it on domestic factors including failed policies, corruption and mismanagement. Under the guise of ensuring socio-economic recovery, the prescribed SAPs were primarily intended to achieve macro-economic stability in order to facilitate prompt debt servicing. Economic growth was subsequently promoted through production increases, while distributional concerns were downplayed. These policies achieved the liberalisation of African economies and increased capital mobility – achievements that were useful only to the economies of the developed world. Neo-liberalism and the pursuit of growth justified the introduction of austerity measures, curtailed social programmes, disregarded environmental concerns and restricted the regulatory and protective role of the state, without being able to reverse declining trends in investment.

As a result of economic and political conditions inappropriately imposed by donors, African governments have lost control of the policy-making process. They discuss development issues more with donors and creditors than with their own nationals. Excessive focus on macro-economic stability impacts severely on the most vulnerable in society by neglecting the social sector. Tanzania, where once readily available social services such as water, health, education and agricultural subsidies were curtailed through forced reductions in government expenditure, is a case in point. Institutionalised poverty and states' eroded capacity to respond to their citizens' socio-economic needs is contrary to the idea, advanced by both the African concept of *ubuntu* and Western new biology, that all life is interconnected.

Debt activism around the world has led to the growing realisation that current debt relief initiatives, such as the heavily indebted poor countries (HIPC) and the Commission for Africa, have failed to resolve the crisis. African countries spend around R120 billion in debt servicing yearly, without any tangible results. Irrefutable historical evidence indicates that what is owed to developed countries is only a tiny portion of what has been stolen from Africa since the 15th century, a fact that bolsters demands for the unconditional cancellation of Africa's foreign debt.

Pressure is mounting on developed countries and multilateral institutions to develop an African "Marshall Plan" to ensure that the potential benefits of unconditional debt cancellation will be achieved. An immediate and unconditional cancellation of Africa's foreign debt would free resources urgently needed for investment in production, health, education, culture, women's emancipation and the eradication of poverty. The ANC recognises these opportunities and has capitalised on South Africa's international standing, calling for debt cancellation to provide a clean slate for economic development as well as for improved terms of trade, increased domestic and foreign investment, expanded development assistance and better market access for African products. Debt relief alone, however, will not reduce poverty, and must be complemented with good governance and sound economic management.

Debt relief alone, however, will not reduce poverty, and must be complemented by good governance and sound economic management.

NEO-COLONIAL TRADE RELATIONS

The process of economic, political and social change known as globalisation started in a small way during the 19th century, when capital from Europe was exported to America and Australia to promote agriculture and build road and rail systems to facilitate the expansion of capitalism. Interdependencies between countries are reinforced by globalisation, which has the potential to deepen partnerships between the developing and the developed world. For this partnership to be mutually beneficial, developed countries need to open their markets to the products and services of developing countries.

The toughest challenge facing the African Renaissance is that it coincides with the advent of economic globalisation driven by the major industrial powers. The world economy is largely defined in terms of international trade and foreign direct investment. Africa's share of world trade in 1998, amounting to only 2.1 percent, illustrates its severe economic marginalisation. This partly accounts for the European countries' reluctance to forge strong and workable new relationships with their former colonies. The EU has, however, prioritised trade as an instrument to facilitate Africa's reintegration into the global economy. Privatisation has also encouraged capital inflows and foreign ownership of formerly public-owned enterprises, deepening African countries' integration into global systems of production and finance, while simultaneously disbursing ownership mainly to citizens of developed countries.

When they press developing countries to open their borders to the free market, developed countries are dispensing advice they themselves did not follow, having given their own agricultural and industrial producers some level of protection at crucial stages of their development. The market cannot accommodate the interests of the majority of people who have no access to basic livelihood; it depends on society's readiness to sacrifice its own citizens, as the Tanzanian case illustrates.

The popular "trade, not aid" slogan reflects the belief that the long-term development of African countries depends on greater access to the markets of developed countries. However, liberalised trade regimes benefited Europe to the tune of R640 billion, while Africa suffered a loss of R24 billion. The existing asymmetry has been devastating for African countries that provide raw materials for industries in developed countries, which, in turn, produce goods and dump their surpluses in developing countries. To ensure their own survival in a globalised world, European countries have mobilised and formed the EU, while the USA has responded by implementing selective trade agreements.

Measures such as the Lomé Convention and the recent African Growth and Opportunity Act offer slightly improved access to northern markets for selected developing countries on selected products. The Lomé Convention links EU members to African, Caribbean and Pacific countries by providing tariff exemptions for industrial products, with quota regimes and commodity protocols for agricultural exports. Its distinguishing feature is discrimination in favour of European ex-colonies, while non-reciprocity allows these countries to erect and maintain tariff barriers against EU exports. Free trade areas are also promoted in areas where the EU can compete, while their extremely sensitive agricultural industry is highly protected.

CONCLUSION

Globalisation and its neo-liberal ideology are unsustainable in the long-term and do not provide a suitable basis for the African Renaissance. Conflict also exists between globalisation in its present form and the pre-colonial African values of collectivism and communality upon which elements of the initiative are based. Even the pragmatic support that NEPAD gives to globalisation is tempered by an appeal to the developed world to address the inequality inherent in this process, and to strive towards creating a just and humane world order.

Compromise with developed countries, rather than confrontation, is necessary to ensure a continued flow of desperately needed aid and debt relief into Africa. However, the developed countries continue to argue, in a self-serving way, that the integration of developing countries into the global economy through trade and investment is a more effective and sustainable method of reducing poverty.

It is beyond doubt that the AR initiative is a big step in the right direction to realising a better future for Africa. This article has examined factors that are critical for its realisation. Some are within the control of African leaders: regional integration, better governance and the eradication of corruption and mismanagement, proper management of external debt, measures to end poverty and improved quality of life. Africans have themselves to blame if they fail to do the fundamental things needed to give momentum to the AR. Many other factors, including globalisation, investment and development assistance, lack of access to markets and asymmetrical trade relations, represent challenges that can only be overcome through continued engagement with the developed world.

Glorious as the AR initiative is, and as much as it is the dream of all Africans to see this naturally endowed continent rejuvenated from its current state, the seeds of its failure abound. Political education is needed to ensure that the xenophobic "May madness" in South Africa last year is never repeated in any country, for the presumption that ordinary Africans share a common vision, understanding and destiny is inherent in the AR initiative. The initiative is inextricably, if subtly, linked to a united Africa – and until African leaders make bold efforts to achieve this elusive and long-overdue unity, it will take more than rhetoric for the rest of the world to take us seriously.

Black Diamonds vulnerable to tightening monetary conditions

By **Thandile Gubevu**

The author is an independent economist

As an emerging democracy, South Africa is increasingly showing signs of contrasting development patterns. On the one hand, there is persistent underdevelopment and growing poverty in what is termed the "second economy", which is a legacy of colonial and apartheid economic planning. Co-existing side by side with this phenomenon is a relatively growing economy underpinned by a combination of market-driven policies and capital responding to both national and international business opportunities. This latter phenomenon is beginning to produce a black middle class, which has become a subject of interest to a variety of social commentators.

A groundbreaking study, conducted by the University of Cape Town Unilever Institute of Strategic Marketing and TNS Marketing on the emerging black middle class in the past two years, provides a better insight into the changing economic landscape of South African society. This change is largely a consequence of transformation policies set in motion since the advent of the new political dispensation. If this momentum continues in the medium to long term, it will have huge social impact on domestic production and consumption. Producers of products and providers of economic services need to have a good understanding of the changing social patterns to be able to respond to these needs.

The manner in which this emerging black middle class is defined is rather elusive and perplexing. It asserts that this is a social group or stratum with education, acceptable credit-worthiness and salary in a process of asset acquisition. If this is the key defining feature, it could be argued that this concoction lacks precision and is very unwieldy for a class distinction. In classical dialectical materialism, what constitutes and distinguishes classes "is not primarily differences in income, mentality or habits, as is vulgarly supposed, but the places they occupy in the social production and the relations in which they stand to the means of production. This is what determines their differences in income, habits, mentality and so on". It would seem that the manner in which these "Black Diamonds" are characterised includes aspirations, ambitions and worldview and bears no linkage to the critical issues of access to the means of production. It is apparent that the Black Diamonds neither own the means of production nor have unencumbered assets that could withstand negative changes in the economic landscape, which is a major weakness in this class or social stratum.

Black economic empowerment (BEE) has been identified as one of the key drivers of this group. Their acquisition process has just started, and most BEE transactions have been financed through loans from financiers with the understanding that the underlying assets will appreciate in value, thus enabling repayment of interest and principal debt over time. This has proved to be a strenuous financing arrangement, especially during tight economic conditions and omnipresent market changes.

The tightening monetary policy stance of the South African Reserve Bank (SARB), occasioned by exogenous factors such as increasing oil prices, does not augur well for the entire economy and places all consumers under severe pressure. At the prime rate of 15.5 percent, the spending power and borrowing patterns in South Africa are bound to be curtailed. The fragility of the Black Diamonds is being tested by these monetary conditions. Of their debt, 68 percent is for home loans or mortgages and 24 percent for cars, with the rest spent on durables and semi-durables. Although investment in fixed property makes good economic sense and would

They neither own the means of production nor have unencumbered assets that could withstand negative changes in the economic landscape.

pay off in the long run, if the tightening monetary policy stance persists to the extent last seen during the 1997–98 East Asian contagion, the entire edifice of the Black Diamonds could easily crumble, with huge negative financial implications.

Although the Black Diamonds are reported to account for about R180 billion of spending power (about 28 percent of the national total), the entire position is premised on formal employment and business acquisition that is credit-financed and therefore susceptible to economic fluctuations. According to the SARB's *Quarterly Bulletin* of December 2007, the real final consumption expenditure by households on durable goods contracted to 15.75 percent in the second quarter of 2007. This is attributed to new credit conditions outlined in the National Credit Act and the SARB's tightening stance on monetary policy. The Black Diamonds are extremely vulnerable to these developments, which are not of their own making.

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Geographically, Gauteng Province leads with 66 percent of the Black Diamonds. The Western Cape comes in at 8 percent, suggesting that this province has yet to embrace the notions of empowerment and transformation as completely as rest of the country. It further implies that advocacy structures still have to work harder for the implementation of these transformative policies.

The success of the Black Diamonds as a class is dependent upon many factors, including economic growth, which registered 4.9 percent in the second quarter of 2008. Should the growth rate falter, this emerging black middle class – like all other active economic agents – would experience serious challenges to its forward momentum.

The general consumer price index (CPIX) at 13 percent is further eroding purchasing power, especially for durables and semi-durables, which make up the bulk of Black Diamond spending and are sensitive to inflation. The general inflation outlook of the monetary authorities remains uncertain, but there is a strong determination to bring inflation down to within the target range of 3–6 percent. There could be an upward adjustment of interest rates, should the SARB deem it appropriate.

It would therefore be premature to predicate South Africa's growing and future consumption expenditure on this social stratum that has yet to be tested under adverse economic conditions. It is, however, a laudable initiative to discern the consumption and investment patterns of this emerging black middle class as a harbinger of social and economic development. For now, this social stratum and the entire black middle class have not even begun to significantly alter the economic structure in this country. If the "Black Diamond" construct is to have credence, it should take on the key question of the ownership of the means of production in this country.

Addressing the skills gap in senior public management

By **Sam Koma**

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The impetus that informs the drive for a developmental state that promotes growth and development hinges on the capacity of top bureaucrats to effectively discharge their responsibilities. The November 2008 report of home affairs director-general Mavuso Msimang, which disturbingly revealed that more than 70 percent of senior managers failed a competency test based on their respective job assignments, requires sound analysis and reflection on fundamental questions. Are current recruitment and selection methods and processes appropriate for senior management service? What is the impact of executive training and development programmes tailored for senior managers in the public service? This article seeks to grapple with these questions and offer plausible strategies to address the competency deficiencies of senior management service.

The deficiency in the state's capacity to properly fulfil its mandate is identified as one of the binding constraints for the Accelerated and Shared Growth Initiative of South Africa (ASGISA). Further, the state of senior managers' ability to discharge their roles and responsibilities has been succinctly elucidated in various official and academic reports, notably the 2008 *Evaluation of Training Needs for Senior Managers* carried out by the Public Service Commission (PSC).

Senior managers operate within a context that is increasingly becoming more complex, and at times chaotic. Their competence is crucial, and should thus be accorded special attention.

The department of public service and administration has designed a comprehensive generic competency framework (Competency Management Criteria) that covers an array of competences, notably strategic capability, project management and financial management. National and provincial departments are expected to adhere to the framework in order to arrive at informed and sound appointment decisions. It is encouraging to note that some departments have outsourced both the screening and interviewing functions (including competency-based assessments) to external recruitment agencies.

However, in terms of the Public Service Regulations of 1999, political authorities (MECs and ministers) have the power to make final decisions in the appointment of senior managers. Thus, though the recruitment and selection processes appear to be meticulous and above reproach, ultimately political authorities take decisions

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that are political in nature. In other words, political trust, loyalty and like-mindedness are some of the considerations that come to the fore.

It is imperative that political office-bearers factor in the complex and dynamic context within which senior managers invariably operate. The administrative arm of the government cannot afford to be staffed by senior managers who fail to add value and appropriately deliver on their performance objectives. This is unacceptable, as it hinders efforts to accelerate service delivery.

EXECUTIVE EDUCATION

At the same time, schools of public administration and management should proactively begin to diagnose the skills gaps and deficiencies of senior management service and shape executive education programmes that cater for particular circumstances. The PSC report cogently addresses the lack of customised training materials pertinent to the national government. This diagnostic process should further extend to post-graduate academic programmes, notably the master's degree.

The flagship Accelerated Capacity Building and Training programme, undertaken by the office of the premier in Mpumalanga in 2007, affirms the important work undertaken by other spheres of government in response to skills gaps. It was informed by a skills audit of the entire senior management service, including municipal managers and chief executives of parastatals. An executive education and training programme was subsequently initiated, customised and attuned to the requirements of senior management. It covered service delivery improvement, growth and development (developmental state), and public management and leadership, and included study tours to designated overseas countries. The programme also awarded competency certificates to successful participants. Through this programme, the provincial government was able to demonstrate bold and visionary political leadership in the pressing challenge to ensure the realisation of a well-capacitated executive cadreship.

POST-ELECTION AGENDA

Following the 2009 elections, the need for a strong, well-capacitated and result-oriented senior management service should top the agenda of the new administration. To ensure proper staffing at the top level of government, a review of public service regulations that give political office-bearers the power to appoint senior managers should be considered. The practice of separating political authorities from the awarding of tenders should also become applicable to human resource functions.

The new administration should also consider adjusting the length of employment contracts for senior managers to five years, to bring them in line both with current best practice and with standard contracts for municipal managers.

The implementation of a "revolving door" policy, which would allow the placement of senior academics into the public service and senior managers into academia for a certain duration, with a view to share and transfer expertise and skills, should be fast-tracked and properly effected. This will certainly help bridge the gap between theory and practice in the domain of public administration.

Community participation in social dialogue institutions

By **Elias Cebekhulu** and **Ibrahim Steyn**

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Proponents tout civil society organisations (CSOs) as crucial instruments for government accountability and responsiveness. They argue that it is essential that citizens enjoy, between elections, the right and capacity to pronounce on government actions and policies, and seek to influence them. Participation in CSOs can contribute to building democracy by fostering political pluralism, engendering democratic values, and enhancing participation in public life. This paper examines the efficacy of the National Economic Development and Labour Council (NEDLAC) Community Constituency in four main themes: internal democratic processes, representation, influence on policy-making and implementation, and external projections of the community constituency.

SETTING THE SCENE

Forums have become a critical feature of policy-making in South Africa since the 1980s and the liberalisation of the political system under PW Botha's regime. This reflected a phenomenal growth in associational life and involved reform of the cruder aspects of grand apartheid and the attempted political co-option of some sections of disenfranchised communities. Habib (2003) argues that it allowed the emergence of some activity within, and representation of, the black population.

The political transition from apartheid to democracy propelled forums into higher prominence. Based on the 1994 Reconstruction and Development Programme's vision of democratising the state and society, a plethora of participatory forums – public spaces that would enable citizens to engage with their government – became a strong feature of the post-election era.

The forums of the early 1990s sought to balance the two key South African realities of the time – popular mobilisation against minority rule, and the recognition that the old order could not be defeated and therefore would have to be negotiated out of power. The incorporation of civil society organisations in formal decision-making institutions was a significant moment in the post-election era. One of its best illustrations is NEDLAC's inclusion of organisations representing largely grassroots interests.

In the NEDLAC constitution, the Community Constituency refers to "non-governmental organisations (NGOs) representing community interests with an interest in development and reconstruction and which have been admitted as parties of the Council". The Constituency's role is to represent the views of local communities, women, youth and people with disabilities in the NEDLAC participatory process on social and economic issues. The constituent organisations are the South African Youth Council (SAYC), Disabled People South Africa (DPSA), the Women's National Coalition (WNC), the Financial Sector Campaign Coalition (FSCC), the National Co-operative Association of South Africa (NCASA), the South African National Civic Organisation (SANCO) and the South African National NGO Coalition (SANGOCO).

The incorporation of civil society elements into governance processes forces us to examine the relationship between the state and civil society.

STATE-CIVIL SOCIETY RELATIONS

The concept of "the state" can be very confusing. In common use, it can be confused with "government" or with a given type of political regime. In political science, the state is a political structure made up of the government (political elite), a bureaucracy, and a public armed force, endowed with the power to legislate and to tax. It is the political organisation that constitutes the juridical institutional superstructure of every society. It is also necessary to distinguish between the state apparatus – the bureaucracy, police, government agencies, judiciary, etc. – and the state as a locale for the expression of class contradictions and dominant and subordinate social forces. (Tade, 1997)

This raises the question of which interests are represented in the state and the implications of this for politics, public policy and action. The very nature of the state and class formation in Africa allows the interplay of interests and social forces not clearly located in the relations of production. Some of these are at the level of ideology and identity and are expressed as ethnic, racial or religious interests. Other interests are those of strategic groups located within the state apparatus. These are often linked with class domination, expressed through the representations and actions of dominant classes and their fractions – as was the case in apartheid South Africa.

Unlike "society", which sociologists broadly agree is "the field of structured social relations and actions", notions of "civil society" are as varied and contested as those of the state. Briefly, civil society is broadly theorised as a public realm of private individual associations or of organisations that are autonomous from the state but interrelate with it – organisations that make claims against the state but do not seek to claim the state. The existence of civil society seems to be a necessary feature of democratic societies, since it provides a check on the power of the state and provides vehicles for citizen participation in public affairs. (Reitzes, 1995) It is from civil society that individuals and groups set out to challenge unresponsive and authoritarian states through various methods such as strikes, protest marches, demonstrations, dissemination of information through informal networks, and the formation of associational life through reading clubs and discussion forums.

Critics argue that the notion of civil society has been perverted from an essentially contested concept to a consensual one, flattened out and bereft of political and ideological content. (Chandoke, 2007) They claim that the concept has been abstracted from all debates and contestations over its meaning, stripped of its ambiguities, its dark areas and oppressions, and presented to us as a sphere of solidarity, self-help and goodwill. Furthermore, contemporary versions of civil society have drastically emptied out the sphere for any other agency; NGOs are taken as the main components of civil society today.

Liberal notions of civil society regard this sphere as politically neutral, thus relegating politics exclusively to the state. In this conception, civil society is formally circumscribed by the state, which also legitimises its existence. Civil society only exists where it is granted formal recognition by the state. Hence it is often equated with "interest groups". In this case civil society can be said to be part of the state domain of politics, because its existence is premised on its legitimacy in the eyes of the state. (Neocosmos, 2002)

However, the state cannot be allowed to dictate whether popular organisations are legitimate or not. Only society is able to bestow such legitimacy. In this sense, South Africa can be said to have had an extremely powerful and "vibrant", as well as politicised, civil society in the 1980s. Although popular organisations of civil society entered the political sphere in both the 1980s and 1990s, they did so in the first period within a subaltern domain, while in the second they became part and parcel of the state domain of politics. This co-option resulted in a systematic political demobilisation of civil society.

The state is not the exclusive domain of politics, and state forms of politics are not necessarily the only ones in existence. These are central points. The basis for democratic politics must be the recovery of politics within civil society; in other words, the creation of a fully politicised citizenry, a process which presupposes pluralism but is not reducible to it.

Even with these problems, "civil society" remains a valuable term. This is not because it is a precondition for democracy, but because it is a site where various groups can engage with each other in projects of all kinds. Its absence would mean the absence of democracy and of the freedom that is necessary for democratic engagement. However, it is essential to recognise civil society for what it is and is not.

Like other domains of collective interaction, it is a contested site. It is not something that, once constructed, can be left to fend for itself; nor is it an institution. *Civil societies are what their inhabitants – NGOs, CBOs, social movements, etc – make of them*. They can easily become hostages to formal democracy at best, and undemocratic trends at worst. There is nothing in civil society that automatically ensures the victory of democratic projects. All that civil society does is to provide actors with the values, the space and the inspiration to battle for democracy.

Finally, in the South African context, post-apartheid state-civil society relations must be seen across a spectrum of marginalisation, engagement and antagonism. There is a set of informal CBOs, mainly in the marginalised communities, which have no relationship with the state and are preoccupied with assisting people to survive the ravages of anti-poor socio-economic policies. There is also a range of more formal social movements and CBOs that are actively challenging the implementation of these policies. Finally, the third and perhaps the most powerful block includes more formal service and advocacy NGOs which, as a result of the more enabling environment created by the democratic regime, have entered into partnerships and contracts with the state. These organisations have more engaged and collegial relations with the state. (Habib, 2003)

NEDLAC'S COMMUNITY CONSTITUENCY

The incorporation of CBOs within the NEDLAC participatory process has been a permanent focus of analysis since its formation in 1995. Serious consideration was given to the need to involve historically excluded and less organised constituencies, primarily at the local rather than national level, in order to avoid the elitist outcomes associated with the predecessors of NEDLAC – the National Economic Forum and the National Manpower Commission. (Naidoo, 1995) NEDLAC was thus seen as a tripartite core of state, business and labour, with the Community Constituency as a fourth "emerging partner" to represent the interests of poor urban and rural communities, youth, women and people with disabilities.

This rationale for including community or development organisations in the corporatist structure of NEDLAC continues to be the subject of fierce scrutiny. Critics have, for example, questioned the identification of CBOs that are linked to the ruling party, such as SANCO, for popular participation in NEDLAC. They argue that these organisations could serve to insulate government from the full range of interest associations in society. (Reitzes, 1995)

Others have pointed out the inherent structural problems where a government ministry is tasked to identify which organisations could claim to represent large and diverse social constituencies. And while this is hardly a recommended method of ensuring inclusive participation, it is difficult to imagine an alternative that would have ensured even a semblance of representation. The constituencies to be represented are vast, diverse and unorganised; it would have required hundreds of organisations to represent even a fraction of these social actors. Assigning an official to make the appointment was arguably no worse than any other method. (Friedman, 1995)

Jayendra Naidoo, the first executive director of NEDLAC, indicated that four criteria were followed for defining these organisations:

- they had to have an interest in reconstruction and development
- they should have a significant interest in the community at a national level, and be constituency-based
- they had to have a democratic constitution, and be democratically constituted
- they had to be capable of mandating. (Naidoo, 1995)

However, the dividing line between some elements of civil society and the state is exceedingly thin; many of the most articulate and talented leaders of the liberation movement have been absorbed into the post-apartheid state.

Research on the post-apartheid role of SANCO and the WNC supports this assumption. The WNC made a significant contribution to democracy during its early years, by developing a women's charter that influenced the constitution, and by effectively mobilising across political party lines to increase the number of women at the multi-party negotiation process. But after the women's charter was completed in 1994, the coalition was unable to continue sustained action on particular issues that affected all women, and it became weak.

One explanation offered for this is the coalition's inability to attract and retain strong leadership. After 1994, like many other CSOs, many of its strong and highly skilled leaders moved to parliament and into senior government positions, leaving the coalition with a leadership vacuum. In addition, the last democratic election for the WNC national committee was held in 1996. In subsequent AGMs, the last being in June 2000, elections for leadership were deferred. Instead, individuals were nominated from the floor to strengthen the committee. The WNC has since lost contact with many of its affiliates, making it unclear on whose behalf it speaks. In addition, most provincial offices have collapsed or are weak, which means that it is no longer driven by the needs of regional structures but functions in a top-down manner in which decision are made by a largely Gauteng-based committee. (Gershater, 2001)

SANCO'S DILEMMAS

The analysis of the state of SANCO since apartheid is less enthusiastic. (Heller and Ntlokonkulu, 2001) SANCO was created in 1992 in order to scale up the civics movement. In doing so, it exposed itself to the classical dilemma of maturing social movements: the need to manage the trade-offs between the two institutional goals of operational autonomy and political engagement.

Many local-level SANCO activists and leaders of breakaway civic movements argue that SANCO, as a national organisation, has become so hierarchical and bureaucratic that internal democracy has become a sham and branches have lost their autonomy. SANCO has moreover been compromised by its close association with the African National Congress (ANC).

The national level structures play a limited role. Because of SANCO's dire financial situation, national executive committee (NEC) meetings are held only when sponsors can be found to foot the bill. The national office has little if any capacity to co-ordinate action between sub-national structures. Of the many campaigns that SANCO has endorsed or launched, none has received significant support from the national office. The most glaring failure, however, has been the inability to develop and advance independent policy positions. By all accounts, SANCO has had little or no influence on government policy-making since 1994. The national structures do, however, appear to play a significant political role. This is especially true with regard to SANCO's relationship to the ANC.

Despite the fact that key NEC members, including the current president, have called for taking more independent positions, the national office has been very circumspect in its criticism of the government and continuously reaffirms its support for the ANC. The fact that six national working committee members, including its president and general secretary, became ANC MPs at the time of the last election raises questions about whom the committee actually answers to.

PRAGMATIC GOVERNANCE

The main bone of contention regarding the incorporation of CBOs into the NEDLAC participatory process relates to the extent to which corporatist participatory mechanisms can deepen democracy. Only the organised are at the table. But if the object of the exercise is to make government decisions more capable of implementation by reaching agreement with organised interests, then by definition only the organised will be engaged. If we understand corporatism as a pragmatic governance strategy – rather than a vehicle for deepening democracy – the pertinent question is not whether all of society is represented, but only whether the organised groups capable of derailing policy are represented. (Friedman, 2005)

Reitzes and Humphries (1995) aptly note that corporate agreements usually accommodate interest groups that have already proved their ability to bind constituencies to certain decisions. Corporatism is not an attempt to create interests, but a response to interests that already exist. One of the problems of incorporating community or development interests in the NEDLAC participatory process is that it is not altogether clear that they have proven their representivity or their ability to hold their constituencies to corporatist agreements.

CONCLUSION

The above analysis paints a tepid picture of the role and capacity of the NEDLAC Community Constituency, suggesting multiple institutional and technical constraints. To rise to its challenges, the following key problem areas need to be addressed:

- its ability to deliver organised constituencies in terms of the criteria for inclusion in NEDLAC
- the extent to which it could be considered the equivalent of the other three NEDLAC constituencies
- the institutional and leadership capacity of the Community Constituency organisations to fulfil constitutional duties
- the ability of the organisations to acquire democratic mandates from members
- the degree of social interest representation in these organisations. Who are their members?
- the capacity to advance independent policy positions on development policy issues in the NEDLAC participatory process
- the degree of popular support for the Community Constituency among formal and informal networks of civil society organisations.

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Current challenges facing small contractors

Lessons from the North West Province

By **Wellington Didibhuku Thwala** and **Makgati Jacky Phaladi**

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This study examines the current challenges faced by small- and medium-sized contractors in the North West Province. The results show that, even with the existence of supportive development programmes, these contractors continue to be unsustainable and their performance unsatisfactory. The critical factors are seen to be: lack of effective management, including financial management; lack of proper training; lack of resources; lack of entrepreneurial, technical, contractual and managerial skills; late payment for work done (common with government contracts); inability to get credit from suppliers; and fronting by established contractors.

Under its black economic empowerment (BEE) programme, the South African government has committed to ensure that black-owned companies have access to the construction sector. Large, predominately white-owned corporations have sold assets to achieve this objective, with the first sale occurring in late 2000. From 1995, various government departments have initiated development programmes that award certain levels of their construction projects to historically disadvantaged black contractors, in order to develop competent skills, build viable construction companies, create jobs and redistribute wealth. (DPW, 1996)

In South Africa and other countries, there seems to be a general consensus that small enterprises are the mainstay of economic growth and prosperity. Small contractors can be powerful instruments for generating job opportunities in various situations. They can run small projects in different or remote geographical locations that might be unattractive or too costly for big firms. Their low overheads enable small contractors to work at more competitive prices. A large number of functioning small- and medium-scale black contractors can help to decentralise a construction industry dominated by established large contractors. The relatively low skills

and resources required at this scale can easily lower the entry point for participation in the industry. Thus, a large number of functioning, South African-owned contractors can develop a platform for growth and the redistribution of wealth in South Africa.

CHALLENGES FACED BY EMERGING CONTRACTORS

Due to the long-term real decline in demand, small- and medium-sized contractors are facing increased competition and many have responded by shedding labour. Larger contractors have also responded by moving into the international market. Small local contractors are particularly subject to further volatilities due to the geographic distribution of construction and the peak workloads that characterise construction projects. This has further reduced their ability to build capacity. Emerging contractors are subject to the same market forces as small contractors. In addition, emerging contractor development policies that were intended for black economic empowerment through small government contracts have, in fact, been used as job creation opportunities. This has resulted in an overcrowding of the market and increased financial failure for emerging contractors.

To reduce operational costs, owners tend to manage their businesses themselves. Their lack of effective management skills and poor record keeping is a major cause of business failure. In most cases, this is not only due to the low priority attached to it by new and fresh entrepreneurs, but also to a lack of basic business management skills. Most lost track of their daily transactions and could not account for their expenses and profits at the end of the month. During the early stages of some business start-ups, owners were unable to separate their business and family situations. Business funds were put to personal use and used to settle domestic issues, which had a negative impact on profitability and sustainability. Some owner/managers employed family members simply because of kinship relations. Where these have turned out to be undisciplined and ineffectual employees, this is another factor that has led to eventual and sometimes rapid failure of businesses.

Earlier studies have discussed the following factors as causes for the relative lack of success of emerging contractors in South Africa:

- inadequate finance and inability to get credit from suppliers
- inability to employ competent workers
- poor pricing, tendering and contract documentation skills
- lack of mentoring (and poor quality where implemented)
- fronting by established contractors
- lack of entrepreneurial skills
- lack of proper training
- lack of resources for either large or complex construction work
- lack of technical, financial, contractual and managerial skills
- late payment for work done.

(Rwelamila, 2002; Croswell and McCutchen, 2001; Mphahlele, 2001)

Some key features of small-scale contractors are that they are largely unregistered, operate in the informal sector of the economy and have very limited formal business systems. The small-scale sector comprises the largest percentage of total contractors, although they employ very few permanent staff – usually fewer than 10 employees. The conditions in developing countries present additional challenges, such as limited resources for training contractors, poor construction procurement systems, and lack of management capacity and resources to equip managers to operate their business enterprises effectively and efficiently.

Policies that were intended for black economic empowerment have, in fact, been used as job creation opportunities. This has resulted in an overcrowding of the market and increased financial failure for emerging contractors.

Tebogo Letsie 28/09/2006 © *Sunday Times*

FINDINGS FROM THE NORTH WEST STUDY

The main instrument used to collect data was a questionnaire that was self-administered by the owners/managers of 100 small- and medium-sized contractors based in the North West Province, selected from the databases of the national department of public works' Emerging Contractor Development Programme, the contractor development programmes of local municipalities and the Construction Industry Development Board.

The ages of respondents ranged from 20 to 59 years. The sector is dominated by men (78 percent) and almost all were African (98.3 percent), with 1.7 percent coloured. Just over four in five contractors (81.4 percent) were based in urban areas. The respondents employed between 1 and 50 people. Just under half (47.5 percent) had previously participated in contractor development programmes. As can be seen from the text boxes, almost half have formal education no higher than matric level; the great majority of these contractors are unable to manage many projects simultaneously; 61 percent have less than five years' experience in construction; and less than a third possess relevant business skills.

The results show that skills development in the construction industry is a major challenge. As most small- and medium-sized contractors cannot afford to hire qualified artisans and construction professionals, there is no option but to contract the work to the well established firms.

Education
Grade 11 or less: 16.9%
Grade 12 (matric): 28.8%
Post-matric diploma or certificate: 28.8%
Bachelor's degree: 8.5%
Post-graduate degree: 11.9%

Number of projects managed at one time
0–2: 74.6%
3–10: 18.6%
11–15: 3.4%
20+: 1.7%

Length of experience in sector
Less than 3 years: 27.1%
3–5 years: 33.9%
11–15 years: 18.6%
15+ years: 10.2%

Business skills
Construction management: 30.5%
Business management: 47.5%
Project management: 30.5%
Health and safety: 30.5%
Tendering: 37.3%
Site management: 27.8%

RECOMMENDATIONS

Fifteen years into the new democratic South Africa, the situation of small- and medium-sized contractors continues to be unsustainable, even with the existence of supportive programmes. The study found that lack of effective management during their early stages is a major cause of business failure for small- and medium-sized contractors. The authors recommend the following to be undertaken by contractors to address current and future challenges in the North West Province:

- **Business skills:** continuous improvement by attending business courses, workshops, seminars and linking with an experienced business mentor and coach
- **Management skills:** financial management should be emphasised, networking with other people with similar businesses
- **Access to capital:** merge with other similar businesses, negotiate favourable credit purchases from the supplier, source affordable loans from financial institutions and negotiate advance payments from clients
- **Good record keeping:** financial records should be prioritised – establish a record of accounts on a daily, weekly, monthly and annual basis
- **Well-managed cash flow:** prepare cash flow forecasts and budgets, prepare a cost-benefit analysis, lease equipment and other financial assets to improve cash flow, negotiate outstanding loans through payment procedures and scale down operational costs
- **Family/domestic situation:** separate business activities and family obligations and look for alternative sources of income to cater for basic family needs.

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Fundamental change is now imperative

By **Miguel d'Escoto Brockmann**

The author is president of the 63rd session of the United Nations General Assembly. He was Nicaragua's minister for foreign affairs from 1979 to 1990

This is the chairperson's report of the main committee of the United Nations Follow-Up Conference on Financing for Development, which was called to review the implementation of its 2002 Monterrey Consensus. Held in Doha, Qatar, 29 November to 2 December 2008, the conference was attended by officials from more than 160 countries, including nearly 40 heads of state or government.

We have reached a successful conclusion to this conference, enabling the United Nations to reaffirm the new partnership for development that was agreed upon in Monterrey six years ago.

In the midst of an ongoing financial crisis of far-reaching but yet unknown consequences, we have not only strengthened commitments to innovative co-operation for financing for development, we have taken the first steps to agree on major changes in our international financial governance. We agree that these changes must respond to the needs and concerns of all nations – rich and poor, North and South – and that the process of change will be inclusive and democratic. In short, our negotiations have highlighted a new sense of solidarity and goodwill among nations at a time when we can be tempted to withdraw into our narrowly defined self-interests.

In the face of a loss of confidence in our international financial institutions, the difficult process of rebuilding trust has begun. Very few of us believe that we can continue on the same path that has brought us to this breakdown – a collapse that reflects not only the implosion of the so-called Washington Consensus, but the exhaustion of our fragile planet and the bankruptcy of the dominant culture of greed and dominance. We are replacing arrogance with humility, agreeing that all of us must take on responsibility for the development of our societies. We are putting aside hypocritical policies and insist that we all play by the agreed rules of the game.

We have taken the first steps to agree on major changes in our international financial governance.

The Emir of Qatar put it very well when he said: "The developed countries have no right to direct others what to do, giving them advice and directives while exempting themselves from the due contributions to the issue of development that are proportionate to their capabilities."

We have heard from representatives of 250 civil society networks who also came to Doha to speak on behalf of the millions of people around the world, particularly women, whose voices go unheard. We appreciate their emphasis on investing in people-centred development and their comprehensive and compelling proposals for changes that enhance action for effective development, poverty eradication, human rights, gender equality, decent work and environmental sustainability. I will forward the Declaration of the Civil Society Forum to all members of the UN General Assembly.

We are aware that the Monterrey meeting in 2002 was in part a response to the financial crisis that devastated economies in Asia and Latin America in the 1990s. At that time, there were calls for reform of the faulty international financial architecture that makes all countries, rich and poor, vulnerable to misguided policies and lack of regulation. Another investment bubble was quickly inflated and the clamour for change was stifled. We certainly hope that the current crisis can be brought under control so that a devastating global depression can be avoided. But there can be no doubt that fundamental change is now imperative. Our declaration is clear that we must seize this opportunity to make our global financial system more equitable, sustainable and stable.

UN Photo / Eskinder Debebe

We agree that the United Nations is uniquely qualified as a forum for discussion of these changes. We stress the importance of co-ordinated, coherent action in responding to the crisis, as well as in formulating national development strategies that adequately reflect the interests of developing countries. An essential part of a stable and equitable system will require the reform of all international economic institutions and standard-setting bodies to ensure adequate representation of least-developed countries.

The General Assembly must continue its efforts to reinforce the role of the economic and social council as the central monitoring agency to ensure co-ordination of economic and financial policy across the United Nations system. This includes the monitoring of the multilateral financial institutions and bodies, their governance, their decisions and the consequences of such decisions, in order to assess broader social and economic impacts on growth, employment and poverty reduction in particular. We recognise these increased responsibilities will require reforms in the relationship between the General Assembly and the Bretton Woods institutions as well as regulatory institutions, to enhance the latter's accountability to the international community.

We must continue to monitor the unfolding crisis and step up our search for viable responses to its underlying causes. Towards this end, we have authorised the General Assembly to hold a conference at the highest level on the world financial and economic crisis and its impact on development. As president of the General Assembly, I will make preparations for this conference a priority and help define its modalities by March 2009 at the latest, as requested. I look forward to working closely with the Secretariat, which provides, in addition to the capacity to organise what will be an intense conference process, a diverse and professional pool of experts on these complex issues.

An essential part of a stable and equitable system will require the reform of all international economic institutions to ensure adequate representation of least-developed countries.

In preparation for this conference, I have convened a commission of experts on the reform of the monetary and financial system, drawing on pre-eminent experts from around the world.

Thank you all.

G8 + G5 = G13

Voices of the South emerge

By **Farida Mahomed**

The author is a South African member of parliament (ANC), writing in her personal capacity

An equitable world order requires the participation of all its constituents on all platforms of discourse; no exclusive group of rich developed countries is able to make appropriate decisions on global issues without equal participation of all countries around the world.

Initial efforts to form the Group of 8 (G8) began during the 1970s, when countries around the world faced the challenges of the first oil crisis and the devaluation of the US dollar. The countries of the North galvanised support among themselves to discuss policy co-ordination on such issues as currencies, energy and trade.

More countries must be invited to engage in meaningful discourse on global issues and diverse challenges that transcend national borders.

Six countries met in 1975, when French President Valéry Giscard d'Estaing invited the leaders of the United States, the United Kingdom, Japan, Germany and Italy to Rambouillet Palace near Paris to discuss contemporary economic problems. Canada was invited the following year, and Russia joined in 1998, thus forming the G8.

SUMMIT HISTORY

The G8 Summit is an annual meeting attended by the leaders of the eight countries and the president of the European Commission. The host country holds the G8 presidency for the calendar year and is mandated to carry out preparatory meetings for the Summit and calls for emergency meetings as deemed necessary. The Summit's thematic structure centres on economic and social problems facing the global community. National leaders engage in frank, lively and vigorous discussion among themselves to reach consensus on top-down decisions. The results are then compiled into a declaration articulating the united resolve of the rich northern countries on matters of global concerns.

Following the end of the Cold War, the agenda of the G8 Summit expanded to include political issues and North-South relations. As the world is dynamic and challenges are many, new issues – such as climate change, the AIDS pandemic and terrorism – were also added to the agenda. Members of the G8 found that the Summit was becoming increasingly useful as a forum for policy co-ordination among the major developed countries. They also acknowledged that the world is a global village of interdependent countries. Dialogue only among themselves would therefore be futile; more countries must be invited to engage in meaningful discourse on global issues and diverse challenges that transcend national borders.

Climate change and environmental issues took centre stage at the Hokkaido Toyako Summit in 2008.

EXPANSION

Three decades after their own beginning, the exclusive group of G8 members attempted to expand the group. At the 31st G8 Summit, held in 2005 at Gleneagles in Scotland, British Prime Minister Tony Blair invited leaders from five developing countries – Brazil, China, India, Mexico and South Africa – to form a G5 group. This still remains an elite group that is not representative of the world population.

On 24 February 2006, the "G8+5" was launched, and the first meeting of the G13 was convened on 16 February 2007 in Washington to discuss climate change. A non-binding agreement was reached to co-operate on matters concerning global warming. There was consensus among the group that carbon emissions of both industrialised and developing nations had impacted negatively on the environment. The group agreed that a global system of carbon emissions cap would be put in place by 2009, to supersede the Kyoto Protocol, the first phase of which expires in 2012. Following the meeting, the countries issued a joint statement looking to build a "new paradigm for international co-operation" in the future.

The results are then compiled into a declaration articulating the united resolve of the rich northern countries on matters of global concerns.

At the 33rd G8 Summit, German Chancellor Angela Merkel announced the "Heiligendamm Process", which supported the full institutionalisation of permanent dialogue between the G8 countries and the five emerging economies. In a foreign policy statement on 28 August 2007, French President Nicolas Sarkozy proposed that Brazil, China, India, Mexico and South Africa should become members of the G8, saying: "The G8 can't meet for two days and the G13 for just two hours… That doesn't seem fitting, given the power of these five emerging countries". Nevertheless, for the time being, formal enlargement of the G8 is not realistic politically, since its member states have diverging positions on this issue. The US and Japan rejected the idea of enlargement; France and the UK are actively in favour; and Italy, Russia, Germany and Canada have reserved their position.

Climate change and environmental issues took centre stage at the Hokkaido Toyako Summit in 2008. The secretariat showcased Japan's latest environmental technologies by exhibiting cutting-edge, environment-friendly technologies. Efforts were made to minimise carbon emissions during the Summit, and environmental procurement efforts were made for office equipment, stationery and waste management. Clean-energy shuttle buses were used during the Summit, and the construction of the International Media Centre was also done on the "3 Rs" principle: reduce, reuse and recycle. The expanded agenda at the Tokyo meeting included issues on global food security, energy security, climate change, and countering global terrorism and transnational organised crime.

CONCLUSION

International challenges cannot be debated and addressed exclusively by the G8 countries. All affected countries should be encouraged to freely participate and engage in frank and candid discussion on global trade regimes – including the Doha Round of World Trade Organisation negotiations, global resources, and environmental and global challenges on climate change. The world could be bracing itself for a change in international geo-politics as the voices of the G5 nations emerge sharply on issues affecting the developing world and the least-developed countries.

Rising from the ashes

How to rebuild the world

By **Iain Macwhirter**

This article was first published in Scotland's *Sunday Herald*, 19 Oct 2008

In his book The Protestant Ethic and the Spirit of Capitalism*, the German sociologist Max Weber argued that, despite appearances to the contrary, capitalism was an essentially moral activity that expressed Calvinism's virtues of hard work, saving and the deferment of personal gratification. Investment became a calling.*

And it's true that you could see an austere Presbyterian ethic at work in some great 19th-century Scottish thrift institutions such as the Trustee Savings Bank and in the mutual societies. But it has always required a high degree of studied naivety, as well as selective vision, to see some great moral purpose in the ruthless exploitation of human and natural resources that made capitalism what it is today. Though that hasn't stopped people trying.

Even the greatest critic of capitalism, Karl Marx, was in awe of its productive capacity. Observing steam-age industrialisation in the mid-19th century, Marx concluded that capitalism had been a progressive force in society that had destroyed rural idiocy by developing technological civilisation. All that was needed was for the industrial working classes now to take over the means of production and run it in the common interest. Then everyone would be free to "hunt in the morning, fish in the afternoon and be a philosopher in the evening".

But instead, capitalism evolved and gradually made the industrial working class extinct. We now have a higher form of capitalism than Marx could ever have imagined: one global, integrated financial machine, driven by neurotic individualism, managed by computer programmes and beyond the control of any government or social class. Capitalism, in the developed world, gave up making things and turned instead to ever more complex financial engineering to maximise the wealth of an international financial aristocracy with allegiance to no society, faith or moral system. The apotheosis of pure greed.

This is nothing like the clunking capitalism of Marx and Weber and is more like a giant computer game – a financial version of virtual reality world Second Life, where investment bankers trade speculative instruments they don't understand for money that has lost any intrinsic value (except when monetised in their bonuses).

Hedge funds, structured investment vehicles, collateralised debt obligations, credit default swaps – all the paraphernalia of the $500 trillion shadow banking system were designed to allow this caste to enrich itself without the rest of us understanding how they were doing it. The trouble was, they didn't understand it either.

So now we're left with a $7 trillion global bailout of this financial madness, organised by national governments, paid for by us, and with no guarantee of success. We have been left like religious devotees, offering ever-greater sacrifices to the gods of finance in the hope that they will make all things right again.

But the gods have fled to their palaces of retirement and are damned if they're going to come down to earth again, until market conditions allow them to make another killing. This is what we must not allow them to do. As we pick around the ruins of financial capitalism, we must finally learn the hard lesson: this system doesn't actually work.

In previous crises, apologists for the free market could always make excuses, blame others. In the 1970s, it was all down to greedy trade unionists; before that it was the communists and the Soviet Union; before that, nasty foreign governments refusing to recognise the virtues of free trade. But there are no scapegoats left any more. This latest catastrophe is all capitalism's own work.

Under Reagan and Thatcher 30 years ago, it finally got its way: the market was opened up and state controls swept away. It didn't work, and now we are heading for global depression.

So what now? Well, some optimists believe that the partial nationalisation of the banks itself represents a form of socialism, and that now the state is in charge all will be well. But I fear this is an illusion. What we are seeing is a form of financial corporatism; the merger of the state with the commanding heights of the debt economy. Huge resources are being raised now through our taxes in an attempt to get the moribund system to work again. But the truth is that even if the machine can be restarted, it would only lead to more of the same.

The global economy will have to be rebuilt on different principles. Which poses the question: Is it possible to create an economic system not driven by personal greed? We are told that it is not; that only by harnessing the profit motive can the economy become productive and human needs be satisfied – only by stuffing the mouths of the rich will the poor be able to eat.

And it has to be said that attempts to run economies in a different way have not exactly inspired confidence. The Soviet Union claimed to be a communist society in which all were equal and in which the profit principle would be replaced by rational economic planning. The ideals were high. But it degenerated into a bureaucracy.

Just handing all economic power to the state is even worse than leaving it with the capitalists.

So, what else is there? A return to some kind of rural arcadia, perhaps, a post-industrial green paradise where we all grow organic food, cycle to work and stop using fossil fuels. Well, we are certainly going to have to live in a more fuel-efficient way and find some means of preventing our economic activity destroying the planet. From an environmental point of view, a global depression may even be seen as a good thing, because the collapse of industry and world trade will lead to a lot less greenhouse gas emissions.

But there is a problem here: the population of the world is over six billion and rising, and without fossil fuel-based fertilisers, economic growth and world trade, there is no conceivable way that such a population can be sustained.

We have been left like religious devotees, offering ever-greater sacrifices to the gods of finance in the hope that they will make all things right again.

If we had to rely on food grown organically in Britain, our population would have to fall by more than half or else we would have to eat a very great deal less.

So we are condemned to technological civilisation for the time being at least. But what kind of technological civilisation? The financial capitalist model may be broken but it has left us with a pattern of social and economic organisation which will have to be reformed rather than discarded overnight. The principle that has to be salvaged is globalisation, but not as it has been thought of hitherto.

The crisis has had one great benefit: it has forced all the world's governments to recognise that they have a common interest. Moreover, it has shown that the world is capable of mobilising resources on a colossal scale.

The global economy will have to be rebuilt on different principles. Which poses the question: Is it possible to create an economic system not driven by personal greed?

Trillions of pounds have been plunged into the western banking system in an aid programme without precedent in human history. In future, when governments bicker about small change while dealing with aid programmes in Africa or tsunamis in Asia, or about saving the rainforests in Brazil, they will have the Great Crash of 2008 thrown in their faces.

If it is possible to spend trillions to bail out the banks, then it is possible to do other more worthwhile things as well.

In future, instead of letting the market decide our economic priorities, we are going to have to decide them rationally and then devise market structures to deliver them. This is the kind of purpose-built economic direction that normally functions in wartime and in periods of national emergency.

This is no longer just a good idea, but a real economic necessity. The conventional argument that nothing can be done in the world unless financiers can make a lot of money out of it was always morally repugnant, but it is now economically bankrupt also. We can't continue creating ever-greater debt bubbles to deliver ever-larger bonuses for the financial elite. The world economy and the institutions that regulate it will in future have to be reprogrammed to address great global objectives such as tackling climate change, eradicating world poverty and eliminating human misery and ignorance.

The International Monetary Fund, which has seen its job as imposing neo-liberal, free-market policies around the globe, is going to have to shut up shop or change.

After the trillion-dollar bailout in America, how is the IMF going to continue telling governments in developing countries that they cannot support essential industries, run fiscal deficits, or introduce socialised medicine?

The mission statements of institutions such as the World Bank will have to be altered so that they promote worthwhile economic activities and discourage speculative financial capitalism. Their operations could be financed by taxes raised on the trillions of dollars of international transactions that take place on the financial markets. World development goals will have to be exactly that – agreed social and planetary objectives around which national economies will have to be organised.

If the government's target of 80 percent reduction in greenhouse gas emissions is to be reached, it will require a lot more than a few home insulation programmes. Renewable energy industries will have to be created, cities will have to be rebuilt, systems of transportation will have to be created. But these are also industries which employ people and in which responsible profits can be made.

Just as governments have had to co-operate to save the banks, so they will now start rebuilding the world economy – rather as Roosevelt did in 1930s America with the New Deal – by mobilising productive activity through public investment. And the great thing is, this needn't mean austerity and rationing. The New Deal set the foundation for the greatest era of prosperity the world has seen: the 1950s. It was based on high taxation on wealth, a mixed economy, state sponsorship of industry and infrastructure investment. The world must now do the same thing on an international scale.

Developing sub-Saharan Africa would bring into the world economy a new source of trade and wealth. Africa has enormous economic potential as a centre for environmentally sustainable agricultural production using abundant solar energy.

Everyone accepts that the age of deregulated capitalism is over, that we must never again allow pure greed to drive the world economy. There is no choice but to start managing capitalism and setting it tasks that are morally and socially sustainable.

We don't need huge wealth to make an economy work – in fact, we have discovered that the bonus culture is a hugely destructive force. It is a self-serving fallacy that individuals need to be given multi-million-dollar incentives to be productive. A much smaller form of managed capitalism, based around socially responsible enterprise, is the way forward.

Principles for reforming the global financial architecture

By **Stephany Griffith-Jones**

The author is executive director of the Initiative for Policy Dialogue at Columbia University, New York. This paper was prepared for UNDP Uruguay and presented at a conference on The Effects of the Global Financial Crisis on Developing Countries and Emerging Markets, held in Berlin on 11 December 2008. It has been edited and shortened

- Developing countries are affected by the collapse of stock markets and have been badly hurt – in spite of their prudent policies.
- The crisis has shown how profoundly the current international financial architecture is dysfunctional.
- The crisis is associated with inadequate regulation and supervision of banks and financial markets.
- Derivatives, with a notional value of US$600 trillion, are totally unregulated.
- Strong policy response is needed.
- We need clear expansionary monetary and credit policies, especially fiscal policies.
- Taxpayers are paying for excessive bonuses.
- The International Monetary Fund (IMF) should be reformed.
- There is a need for the IMF to lend without overburdening conditionalities.
- Global governance should be democratic.

The financial crisis that originated in the United States in mid-2007 has become a global financial crisis, the largest since the Great Depression. The Bank of England in October 2008 estimated total losses of financial institutions at US$2.8 trillion, an amazingly large amount. Since mid-September, financial markets have collapsed.

The crisis has severely hit developing countries through increasing risk premiums and a severe cut in bank financing – even of short-term trade credit. Developing and emerging countries with large current account deficits and a high proportion of short-term debt find it particularly difficult to get foreign funding, and a surprisingly large group of developing countries have been affected. Capital outflows from developing countries have generated a collapse of stock markets, exchange rates and quite a large loss of reserves. Reversal of the carry trade seems to have had a particularly negative effect. Commodity prices have plunged and volumes of demand for exports are being cut worldwide. Even developing countries that were initially believed to be protected from a recession in the industrial world are now being badly hurt in spite of their very prudent policies.

Any global solution – both reflected in short-term measures to stabilise the current situation and long-term measures to prevent future crises – must consider the impact on developing countries. Without this, economic stability cannot be restored and economic growth, as well as poverty reduction globally, is threatened.

The present financial crisis has shown again how dysfunctional the current international financial architecture is, with all its channels through which financial contagion spreads across the world, and especially with its major financial regulatory deficit. In the 1980s, the debt crisis in Latin America, Africa and other parts of the developing world, and the succession of Asian, Russian and Latin American crises in the mid- to late-1990s had already revealed that something was deeply wrong with that architecture. Unfortunately, though there was much discussion, there was little progress on any significant reform of the international financial architecture. The fact that, this time, the crisis began in developed countries may now lead them into action. The call by several of them to engage in a serious reform of the current governance and have a Bretton Woods II conference is, therefore, most welcome.

There is at present therefore an important opportunity to transform the international financial system, so as to make it more stable, and more equitable, which could provide a basis for an era of growth and greater prosperity for all countries. The governance of this system also has to be modernised, to reflect the far greater share of developing countries in global savings, foreign exchange reserves and GDP. In what follows, we will first outline the main areas for reform of the international financial system. We will then deepen our analysis in the area of global and national regulatory reform, where there is currently a particularly large challenge.

THE REGULATORY DEFICIT MUST BE OVERCOME

The magnitude of the current crisis is clearly associated with inadequate regulation and supervision of banks and financial markets. Since the Asian crisis, it became widely accepted conceptually that financial liberalisation must be accompanied by stronger prudential regulation and supervision. This principle has been applied in many parts of the developing world but, paradoxically, was to a large extent ignored in the United States and the United Kingdom, where further liberalisation was accompanied by deregulation and weak supervision of financial intermediation.

The new regulatory governance should be based on a properly functioning network of national and regional authorities, and include truly international supervision of financial institutions with a global reach. Although the new global regulator should clearly have links with the International Monetary Fund (IMF), it would seem better if the IMF were not at the centre of the regulatory system.[1]

The creation of a new global financial regulator therefore urgently needs to be put on the international agenda. Both respected market actors and academics have long argued for such an institution; the recent major global financial crisis has made it more necessary and more politically feasible.

Existing institutions and ad hoc groups could provide valuable building blocks for a new global financial regulator. It should certainly include the Financial Stability Forum (FSF) – created precisely to identify sources of systemic risk, fill gaps in regulations and help develop consistent regulations across all types of financial institutions. It should also incorporate the Basel Committee on Banking Supervision and parts of the Bank for International Settlements (BIS).

This global financial regulator should, firstly, have adequate representation from developing countries (which bodies like the FSF and the Basel Banking Committee do not have); this will ensure not just greater legitimacy, but also greater efficiency, given the growing role of developing countries in the global economy. Secondly, it should have teeth – it must have real power to influence decisions of national regulators, especially in the major countries, including developed ones. Thirdly, it should link its work to broad macro-economic prudential concerns, with the help of the IMF and BIS. Finally, it should consider the potential costs of financial instability on the real economy. For this purpose, it could include not just representation from different financial regulatory bodies across sectors and countries, which is essential, but also those concerned with growth and equity. For that reason, the United Nations, or the International Labour Organisation (ILO), which represents business, trade unions and governments, should have a place in the new global financial regulator.

It is encouraging that a growing number of world leaders are willing to act on crisis avoidance through regulation, as reflected in the call for a "Bretton Woods II" G-20 summit, with a large focus on regulation. Indeed, the only silver lining of the crisis and its very negative effects on the world economy seems to be that regulatory measures to prevent future crises have become politically far easier to accept. This window of political opportunity for introducing such regulatory changes may be relatively narrow, so the task is urgent.

The current deep crisis and numerous previous ones that hit developing countries seem to demonstrate that crises are inevitable in deregulated financial systems. There is, therefore, ever-growing consensus that more complete and more effective financial regulation is required. The key question is how best to do it. The main aims must be to help avoid future building-up of systemic risk, while allowing desirable financial innovation that supports the real economy.

There are two broad principles on which future financial regulation needs to be built. The first is counter-cyclicality, in order to correct the main market failure of banking and financial markets: their boom-bust nature. The second key principle for modern, effective regulation should be comprehensiveness. There are several reasons for this. A particularly obvious one today is to avoid moral hazard, as an ever-increasing range of financial institutions (many of them not – or only lightly – regulated) have had to be bailed out, likely with massive costs to taxpayers. The only way that we can avoid this happening again is by ensuring far more complete and counter-cyclical regulation to avoid excessive risk-taking in the boom across the financial sector.

A second reason for comprehensive regulation is that, as economic theory tells us, for regulation to be effective, the domain of the regulator has to be the same as the market to be regulated. In the United States, banks represent less than 25 percent of total financial assets; furthermore, only a part of commercial banking activity has been properly regulated, with off-balance-sheet activities largely excluded. The system of regulation that focused only on parts of the banking industry, and regulated neither the rest of the banking system nor much of the rest of the financial system, clearly did not work. It was the parts that were not regulated (having very little or no capital requirements in the US), such as structured investment vehicles, that tended to be the cause of the largest problems. Inevitably, there was regulatory arbitrage.

Another area for potential regulation surely must be derivatives, especially the ever-growing over-the-counter derivatives markets. The scale and growth of total derivatives, a large part of which was totally unregulated, had been exponential. According to the BIS in 1997, their notional value reached $75 trillion; by 2007, they had increased to $600 trillion, 11 times the size of world output.

The magnitude of the crisis, and the damage that it is causing, should make it far easier and more urgent to design desirable changes in financial regulation. Weaker financial institutions may be less able today to oppose such regulation. They may also realise that good regulation is actually in their own long-term interest.

THE IMF SHOULD BE REFORMED

Four essential reforms of the IMF should be part of the reform agenda. The first long-term reform is the creation of a meaningful and truly global reserve currency, which could be based on the IMF special drawing rights (SDRs). This would overcome both the inequities and the instability that is inherent in a global reserve system based on a national currency. Experience has indicated that this system is plagued by cycles of confidence in the US dollar and by periodic shocks due to policies of the reserve currency country that are adopted without attention to their international impact.

The second issue is the need to place the IMF at the centre of global macro-economic policy co-ordination. This is the only way to give developing countries a voice on the issue. The multilateral surveillance exercise launched by the Fund in 2005 was an interesting step in that direction, but it has lacked binding commitment by the parties and any accountability mechanism.

The system of regulation that focused only on parts of the banking industry, and regulated neither the rest of the banking system nor much of the rest of the financial system, clearly did not work.

The third issue is the need for the IMF to lend during balance of payments crises rapidly and without overburdening conditionalities, particularly when the sources of the crisis are exogenous, such as a rapid reversal of capital flows and/or a sharp deterioration in the terms of trade. This means quickly putting in place a credit line for capital account crises. In this sense, the recent approval (October 2008) of a fairly large quick-disbursing facility by the IMF seems a very positive step. The new short-term liquidity facility (SLF) creates a quick-disbursing financing mechanism for countries with strong economic policies that face temporary liquidity issues due to the current global crisis. The G-24 countries had requested the establishment of that type of facility at the 2008 IMF annual meetings.

The IMF plans to streamline the approval process and keep confidential the results of countries rejected, so as not to increase their market instability. Some still worry that, despite these efforts, the IMF will essentially divide developing countries into an A-list of those that qualify for loans without strings, and a B-list of everyone else.

Former World Bank chief economist Joseph Stiglitz has said that he is encouraged by the IMF's new lending program, as it does not impose conditions on these unstable economies (as the 2008 IMF loans to Iceland, Hungary and Ukraine already have). In imposing these, the IMF used the same vocabulary they used in past crises: "We need to restore confidence." It doesn't restore confidence. It just leads to further bankruptcies.

Dominique Strauss-Kahn, managing director of the IMF, has also noted that the Fund's current lending practices cannot be maintained without additional funds, saying that it would solicit additional contributions from countries with high levels of foreign exchange (such as Japan and China) and oil exporters. Both British Prime Minister Gordon Brown and French President Nicolas Sarkozy have echoed this need for China and the Persian Gulf states to step up their IMF contributions. An interesting question is whether such lending should be done through the IMF or through a mechanism in which countries supplying the funds would be appropriately represented.

Some additional points should be considered. Most importantly, the scale of existing facilities and resources – e.g. for grants and for subsidies to allow concessionality financing of loans – is too small, in proportion to the shocks. In a context of scaling up aid and/or innovative sources of finance, higher resources should be allocated for financing shocks. This would need to be linked to fewer restrictions on the scale of facilities, so that a far larger proportion of shortfalls of exports could be financed.

Secondly, in the case of low-income countries, grants are more useful than loans for more permanent shocks, or shocks – such as natural disasters – with more permanent effects. However, official lending has an important role to play, as it is potentially speedy and may provide incentives for changes in the economy to reduce vulnerability. For middle-income countries, loans play a particularly valuable role. Also, closer co-ordination between institutions providing loans (e.g. the IMF) and those providing grants (e.g. the European Union) seems urgent.

There should also be a significant simplification of IMF facilities, which are too numerous and too complex. Indeed, low-income countries may not even be acquainted with – or fully understand – all that is available. Perhaps all the IMF trade-compensatory financing facilities for low-income countries should be merged into one low-conditional facility.

Lower conditionality is clearly needed. There is no justification for upper credit conditionality where countries with reasonable policies face external shocks. A possible way forward would be for countries with Poverty Reduction and Growth Facilities (PRGFs), Policy Support Instruments (PSIs) or other shadow programmes to have a baseline scenario, with embedded augmentations for terms of trade or other external shocks.

More broadly, the IMF should act more like a central bank, providing liquidity in an agile way, as central banks in industrial countries have actually been providing funds on a massive scale in recent months. One possibility would be for these new IMF credits to guarantee the external debts of corporations and banks from developing countries, to help sustain private finance towards them.

CO-ORDINATION OF GLOBAL MACRO-ECONOMIC POLICY

The global recession now under way calls for a strong policy response. This means clear expansionary monetary and credit policies in all industrial countries, especially fiscal policies. Developing countries should also be part of the solution, and should adopt equally expansionary policies. Those countries that have accumulated large amounts of international reserves do have more space to adopt these policies than they had during previous crises. For those who have not, this again implies that it is essential to avoid the IMF conditionalities of the past, which forced developing countries to adopt contractionary macro-economic policies.

A large increase in official development assistance (ODA) to low-income countries can play an important role, both to combat poverty and contribute to the generation of aggregate demand at the global level. Additional ODA and highly concessional lending (e.g. from the World Bank's International Development Association) is particularly important to avoid contractionary policies in the poor countries that have suffered a deterioration of their terms of trade due to the collapse of commodity prices.

Past crises have also shown that multilateral development banks can play an essential role as lenders when private financing dries up. One particularly problematic issue during crises in developing countries is the curtailment of commercial credit available to exporters, which severely limits an essential mechanism through which countries can recover from crises. A large programme of commercial lending, launched by multilateral and/or regional development banks, should be at the centre of the crisis response. They could also issue guarantees for such commercial lending. No conditionalities should be attached to these credit lines or guarantees.

REFORM SHOULD BE DEMOCRATIC

Any discussion of international financial reform must be democratic, giving adequate voice to both industrial and developing countries. The governance system that it designs must be mainly based on *representative institutions*, not on any ad hoc grouping of countries. A central role is needed for the United Nations, the most representative global institution, in any reform process.

In all of the areas of reform, the IMF should collaborate more closely with regional institutions, such as the Chiang Mai Initiative or the Latin American Reserve Fund. Indeed, the IMF of the future could be seen as the apex of a network of regional reserve funds – that is, a system closer in design to the European Central Bank or the Federal Reserve System than to the unique global institution that it now is. This is also the system in place in the multilateral development banks.

The developing countries are in an excellent position to contribute to this task, given their extremely large foreign exchange reserves. Using those reserves more actively – for swap arrangements among central banks, pooling them in reserve funds or to support the development of regional bond markets – can multiply the room to manoeuvre that they provide. These reserves and existing sovereign wealth funds could also be used to increase the role of regional development banks owned by developing countries, by investing in the capital of existing institutions and creating new ones. Developing countries as a whole in mid-2008 had a level of reserves approaching $5 trillion. Half of this volume is concentrated in developing Asia, but Latin America and Africa have also been amassing international assets at a remarkable pace. This pool of reserves surpasses developing countries' immediate liquidity needs (though the seriousness of the current crisis does make high levels of liquid reserves very desirable). This could lead to the increased creation and expansion of sovereign wealth funds, which have an additional level of assets of more than $3 trillion. Practically all developing countries' reserves are invested in developed countries' assets.

A significant increase in investment in areas such as infrastructure is required to sustain growth in developing countries in the future. A very small portion of developing countries' total foreign-exchange reserves – say 1 percent – could be channelled to the expansion of existing regional development banks or the creation of new ones that would invest in infrastructure and other crucial sectors.

NATIONAL REGULATION, INTERNATIONAL CO-ORDINATION

The discussion of a global financial regulator needs to be put urgently on the international agenda. In the meantime, increased co-ordination among national regulators requires top priority. It is also urgent that developing country regulators participate fully in key regulatory forums, such as the Basel Committee. Given the growing systemic importance of these, it is absurd and inefficient if they do not.

The compensation of bankers and fund managers needs to be self-regulated or regulated. As Stiglitz points out, incentive problems are at the heart of the boom/bust behaviour of financial and banking markets. A large part of bonuses are tied to short-term profits and are one-sided, positive in good times and never negative – even when big losses occur. Such asymmetries seem even stronger in institutions such as hedge funds, where managers' fees rise very sharply if profits are very high, but fall mildly with poor performance, encouraging excessive risk-taking and leverage.

Another negative effect of short-term bonuses is less often highlighted. In good times, banks and other financial institutions have very high profits, but a large part of these are not capitalised or paid out to shareholders. They are paid out to executives as very high bonuses. As Wall Street analyst Michael Lewitt put it: "Too much capital is allowed to exit banks in the form of cash compensation." Banks are bled of capital in good times, making less capital available in bad times. When a crisis comes, bailouts help recapitalise the banks, paid for by the public sector and ultimately by taxpayers. It could be argued that taxpayers are paying for excessive bonuses after the fact, which gives an additional rationale for regulating compensation structures. Very high short-term bonuses create a moral hazard for three reasons. They encourage excessive risk-taking. And, by bleeding banks of potential capital, they make the need for costly public bailouts more likely. Finally, if banks have losses due to excessive risk-taking, they may well pay fewer taxes in the future. These two latter effects are not traditionally reflected in the literature.

There are easy solutions to this problem, such as providing a fixed basic monthly salary, with bonuses accumulating in an escrow account or short-term pension fund. However, the key problem will be the resistance of bankers and fund managers. Given the magnitude of the current crisis and its damaging effects on the real economy – especially in major developed countries – this may be the best of times to move forward. The self-regulatory route (by the industry itself) could be tried, but we are sceptical it would bring about meaningful results. Regulators therefore need to do it for them. This would benefit financial and macro-economic stability and even the stability of individual financial institutions.

NOTE

1 There are three reasons why the IMF should not be at the core of global financial regulation. The first is that it will have other, very important functions to carry out and it must focus on doing them properly. Secondly, and perhaps more importantly, the IMF does not have as much expertise in financial regulation and supervision as do other existing bodies. Thirdly, the IMF has been – at least in the past – too closely wedded to excessive enthusiasm for deregulation of financial markets. It should, however, be pointed out that the IMF does have two valuable characteristics which need to be incorporated into the new global financial regulator. Firstly, the IMF has practically universal membership (though the representation clearly does not reflect current economic realities). Secondly, IMF board members respond to finance ministers, who are usually elected representatives accountable to parliaments. Often national financial regulators do not report, or not sufficiently, to elected representatives.

Private but vigorous

By **Wang Jun**

This article first appeared in *Beijing Review*, 14 August 2008

During the past thirty years, the private sector has been the driving force of economic development in Zhejiang Province.

Private enterprises were virtually unknown when China adopted its reform and opening-up policy 30 years ago, but now the private sector has become an important part of the country's economy. Zhejiang Province has been a pioneer in this area. "Among every 25 people in Zhejiang, there is a boss of a private company," said Yao Zuoting, deputy director of the Zhejiang Development and Reform Commission (ZDRC). According to the ZDRC, there were 450 000 private enterprises in the province by the end of 2007, which accounted for nearly 80 percent of its total companies.

From 1979 to 2006, the private economy in Zhejiang registered an average annual growth rate of 28.9 percent, much higher than the growth rate of its GDP, according to the ZDRC. In 2006, the private economy generated 863.96 billion yuan (US$126.13 bn) and accounted for 54.9 percent of the province's GDP. In terms of private economy contributions to GDP, Zhejiang's was much higher than the country's other four developed regions: 19.9 percent higher than that of Jiangsu; 35.2 percent higher than Shanghai's; 14.7 percent higher than Shandong's; and 14.9 percent higher than Guangdong's.

A 2006 survey conducted by the All-China Federation of Industry and Commerce showed that 203 of the country's top 500 private enterprises were based in Zhejiang. That same year, the Chinese Academy of Social Sciences issued a list of the country's top 50 private enterprises ranked according to independent innovations: 19 of them were from Zhejiang.

The private economy is a driving force in Zhejiang's economic development. ZDRC figures show that in 2006 the private sector accounted for 47.9 percent of the province's total tax revenues, 69 percent of its total employment, 44.8 percent of its total exports and 53 percent of its total fixed asset investments.

Yao said that, unlike the private economies of other provinces, Zhejiang's was formed by the joint development of and interaction between private enterprises and commodity markets. Under this pattern, different villages, counties and cities in Zhejiang specialise in manufacturing different products, such as leather shoes in Wenzhou, textiles in Shaoxing, home appliances in Ningbo, and motorcycles and parts in both Wenzhou and Taizhou.

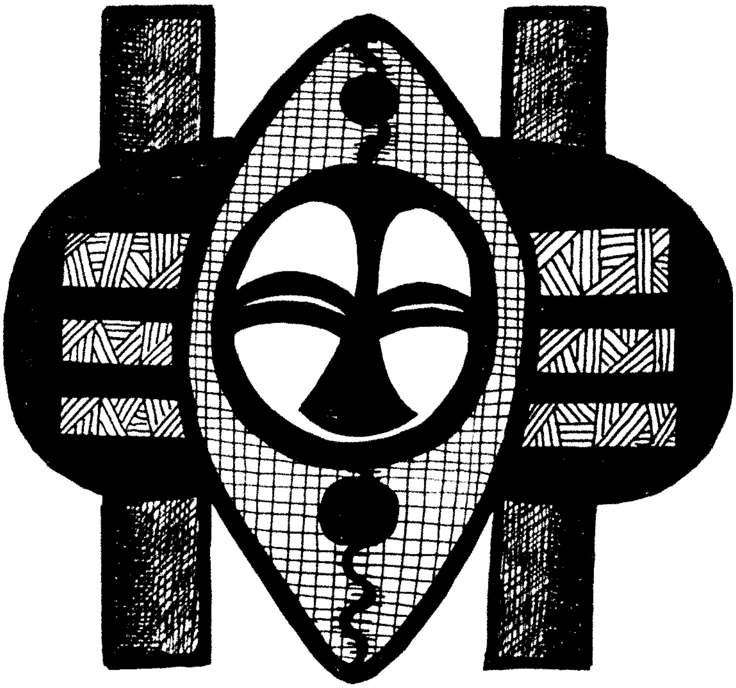
Zhejiang's private economy was formed by the joint development of and interaction between private enterprises and commodity markets.

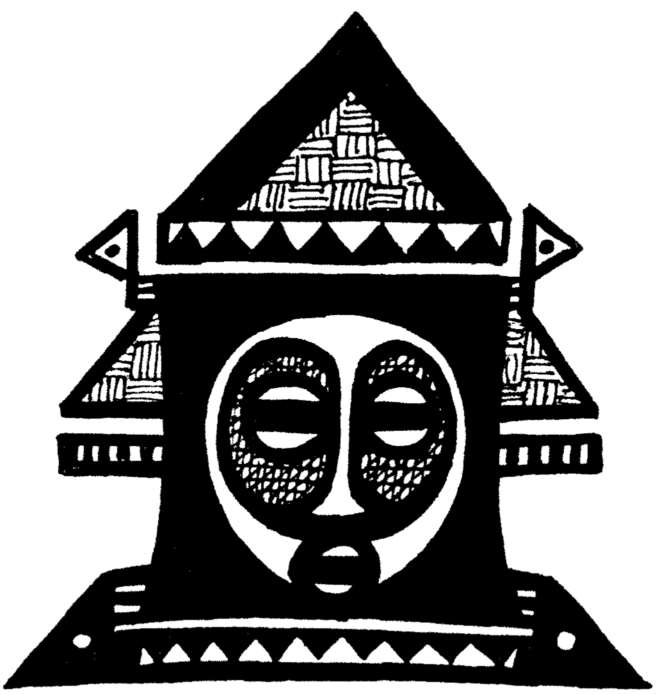
ZDRC figures indicate that by now there are 4 096 special commodity markets in the province, whose total transactions amounted to 932.5 billion yuan ($136.13 billion) in 2007, making Zhejiang the most productive province in this regard for 17 consecutive years.

THAT'S THE SPIRIT

"The reputation of private enterprises in Zhejiang is rooted in the people's pioneering spirit of 'being boss in the daytime and sleeping on the floor at night'," Yao said. "Wherever they go, they can survive and develop."

Because Zhejiang has few natural resources and is often prone to natural disasters such as typhoons, its citizens have developed the traits of endurance and hard work. These factors have also forced many to leave the province and seek their fortunes elsewhere by creating overseas marketing networks for companies back home. Zhejiang businessmen have established business communities known as "Zhejiang villages," "Wenzhou villages" and "Yiwu trade cities" in many cities throughout China and in some foreign countries.





Ninety-nine percent of the province's private enterprises are small and medium-sized ones.

The provincial government has also been helping to foster the continued growth of private enterprises by creating a liberal atmosphere necessary for their development.

SMALL AND MEDIUM ENTERPRISE

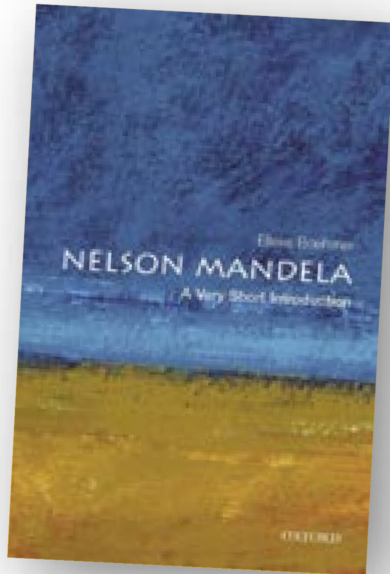
Despite their success, some private enterprises in Zhejiang also have in-born deficiencies. "Set up by farmers who are poorly educated, many private enterprises are faced with the problems of technologies, management, talent and equipment, such as an overly intense ownership structure and a low level of decision making," Yao said.

ZDRC figures show that 99 percent of the province's private enterprises are small and medium-sized ones. "Although some large-scale private enterprises have adopted international practices, the small and medium-sized private enterprises still have a long way to go," said Yao, adding that innovation is an urgent task for them. He said the government also would create some policies to promote the transformation and upgrading of private enterprises.

Reviews Editor: **Helen Douglas**

Nelson Mandela:

A Very Short Introduction



Elleke Boehmer
Oxford University Press:
Oxford and New York,
2008. 204 pp

Reviewed by **Tim Hughes** (SA Institute of International Affairs)

Ho-hum, yet another Mandela book… Well no, not quite. Elleke Boehmer is a South African-born Oxford scholar of literature who is also an accomplished author in her own right, and this deceptively titled paperback is one of a collection of some 200 volumes of "very short introductions" to fascinating subjects, ranging from the Marquis de Sade to mathematics to anarchism to the meaning of life.

Dissatisfied with the regurgitation of celebratory accounts and coffee-table iconography of "the world's president", Boehmer attempts to deconstruct the image of Mandela, locating her subject principally within a post-colonial historical formation and discourse. In so doing, she does not deny the early and indelible influence of Mandela's Thembu clan, his father's role and lineage, nor that of "Nelson's" Christian missionary secondary education. However, to divine the sources of Mandela's political and ideological personae, it is Ghandi, Nehru, Nkrumah and Fanon to whom Boehmer turns. This attempt to probe the influences of Mandela the politician *par excellence* is just one of the many refreshing facets of this short volume.

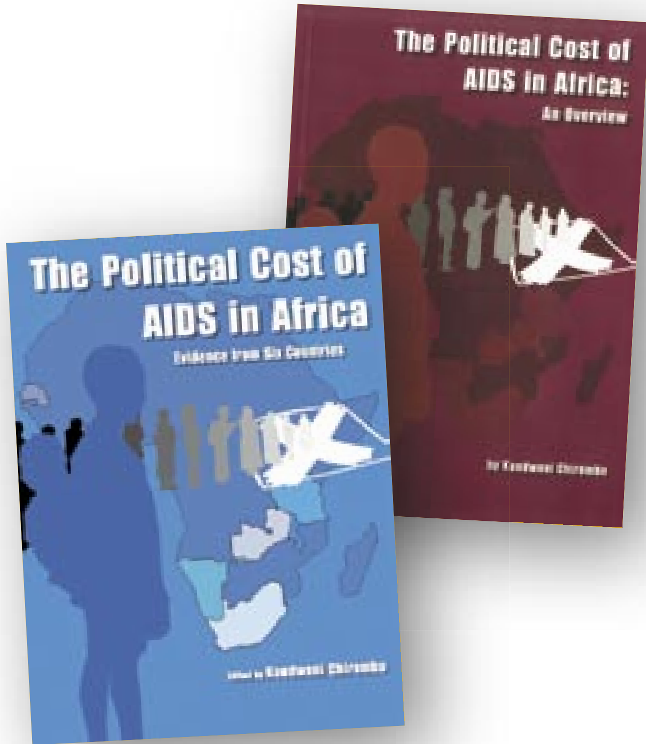
Indeed, what has been lost in the fluffy-doll schmaltz that has engulfed Mandela Inc. is that prisoner 466/64 was at once a military strategist, feisty pugilist and traditional chauvinist. Despite his ponderous and wooden spoken delivery, Boehmer portrays the public Mandela as a supreme performer and showman (she claims this in the context of Mandela donning a Springbok jersey for the 1995 Rugby World Cup final). At one point she refers to Mandela the politician as Machiavellian.

Readers seeking subcutaneous insights into Mandela the man will be left both tantalised and frustrated. Boehmer briefly probes Mandela the African male, the lover, the philanderer, the ladies' man, the doting and desperately isolated husband and absent father. For example, Mandela admitted to Mary Benson that he enjoyed the company and friendship of women in part because he felt less vulnerable in discussing his personal fears and doubts. We are also reminded that, although the constant gardener of Robben Island is no towering intellect, it was during his transformative incarceration that Mandela perfected the technique of listening to opponents, blending points of agreement and, by force of personality, leading protagonists to share *his* way forward. This technique ultimately succeeded in delivering a stable government of national unity from the vicious chaos of Botha and De Klerk's apartheid.

Without professing to be personally familiar with Mandela and absent any record of her interviewing him for the publication, Boehmer writes with supreme confidence and mastery of her subject, although those less familiar with postcolonial discourse may find some of the author's constructs more occlusive than illuminating. This splendid, challenging little volume concludes with a handy bibliography of both "Mandela" books and other sources that should provide the non-postcolonial scholar with helpful context.

The Political Cost of AIDS in Africa and The Political Cost of AIDS in Africa:

An Overview



Kondwani Chirambo (Ed)
IDASA: Pretoria,
2008. 401/74 pp

Reviewed by **Malcolm Wallis**
(Commerce, Durban
University of Technology)

As the shorter volume brings together the main conclusions and recommendations of the more detailed study, these two books do not need to be treated separately. Under the auspices of IDASA, with the Swedish International Development Co-operation Agency, a 20-member team investigated the ways that the AIDS pandemic has impacted on political processes in Africa. I was delighted to see that this was a multi-disciplinary project – at least 10 disciplines are represented.

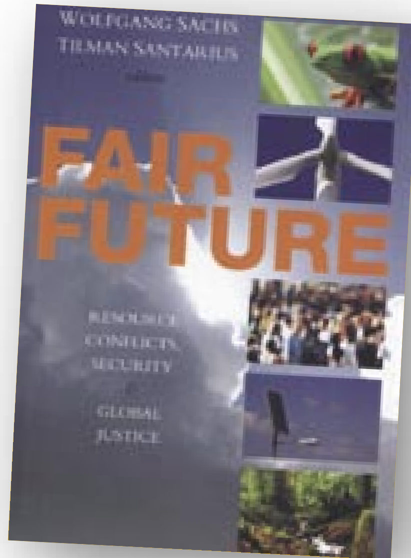
Six countries are discussed in detail: Malawi, Namibia, Senegal, South Africa, Tanzania and Zambia. The conclusions on several issues are inevitably tentative. For example, if a certain number of MPs die in a given period, it is very difficult to say how many of these deaths were due to the pandemic, as that information is not usually available. However, there are salient issues and quite valuable suggestions made.

The volumes are of value not only because of the main questions they address, but also because of the wealth of detail contained in the case studies. For example, there are well-informed accounts of policy processes and the extent of the problem in the different countries. There are also thorough reviews of the prevailing electoral systems. A general view emerges that some variant of proportional representation may be preferable to a "first past the post" system, since the latter requires by-elections on the death of a member (as well as other reasons). There are, of course, counter-arguments that could have been given more of a hearing. The literature accessed and references provided will greatly benefit researchers with related interests.

Kondwani Chirambo and his team are to be congratulated on making a significant contribution to the study of the nexus between HIV/AIDS and political systems.

Fair Future:

Resource Conflicts, Security and Global Justice



Wolfgang Sachs and Tilman Santarius (Eds)
Zed Books: London, 2007. 276 pp

Reviewed by **Victor Munnik**

I am a Wolfgang Sachs fan. I remain fascinated by his *Development Dictionary* (1992), which unmasked the use of terms such as "development", "poverty" and "participation" as tools of domination. The Joburg Memo of the 2002 World Summit for Sustainable Development took shape under his capable guidance. Its simple message: The resources of five planets would be needed for everybody to live like North Americans and Europeans. It echoed the arguments in *Planet Dialectics* (1999) that the idea of "development" first advanced by US president Harry Truman as a tactic in the war against communism was an impossible dream, if not simply a cruel manipulation. But I couldn't recognise that Wolfgang Sachs in *Fair Future*.

More than half of the book is a solid wide-ranging analysis of the inequalities of resource use on the planet. It uses concepts like "ecological rucksack" and "ecological footprint" to show how Northern countries consume far more than their share. The power dynamics are made clearer in an analysis of resource grabs – of oil, land use, water, plant genetics. The book also shows how mechanisms like trade, intellectual property regulation and the international division of labour enable the North to remain at the top of the value chain. It discusses solutions in arenas like climate change and industrial production, such as "leapfrogging" to clean technologies and renewable energies. The choice is now upon us: either global justice or global war.

Using continental thinkers like Immanuel Kant and Jürgen Habermas, Sachs builds an argument for Europeans, with their (recent) track record of human rights and other cosmopolitan values, to take the lead in establishing an ecologically sustainable, just world society. It is not a bad idea to lobby Europeans as a leading world power (in the expectation that the US manages to knock itself out in a peak oil frenzy). The trouble is that he and his co-authors pander to the views of mainstream Europeans to take them along this path.

One example is the dismissal of the ecological debt argument: "It is doubtful how much responsibility can be demanded for actions that were committed in ignorance of the consequences". Ignorance of the consequences? The expressed intention of colonialism was to grab resources, and there was no hesitation to destroy indigenous political systems – just as there seems little intention today to let go of the vice-grip of debt, which is exactly why the ecological debt remains an issue.

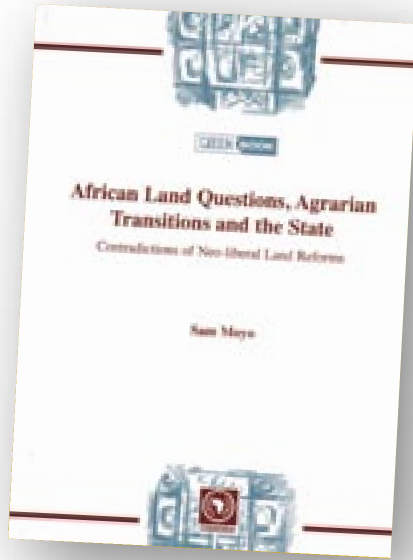
Another is the easy view of who is civilised and who is not:

> Brown, yellow and black faces will people tomorrow's transnational world; white Europeans will be scarcely more than 7 percent of its population. Thus, the global society of the twenty-first century will certainly not be a European society – just as fifteenth-century Europe was not a Greco-Roman society. And yet, without the Greco-Roman legacy in law and culture, Europe as a civilisation would have been poorer and even, perhaps, more barbaric. That is both a consolation and an encouragement. Why should Europe not become for global society what Rome was once for the Renaissance?

If you can make peace with Sachs's tactical stance – or better still, if you are interested in the tactical mainstreaming of originally radical ecological arguments – it is absolutely worth reading. It is still worth reading as a comprehensive and meticulous analysis of the inequalities of resource usage. Maybe the gamble works and Europe's cosmopolitans will deliver on the authors' hopes. But I will wait for the return of Wolfgang Sachs as the principled and outspoken, rather than the tactical, writer.

African Land Questions, Agrarian Transitions And The State

Contradictions of Neo-liberal Land Reforms



Sam Moyo
CODESRIA: Dakar,
2008. 159 pp

Reviewed by **Philip Nel**
(Centre for Africa Studies,
University of the Free State)

To tackle the land issue in Africa as well as agrarian reform policies in a single monograph is an enormous challenge, and to cover the field in 150-odd pages is nearly impossible. Despite the limitations of the project, the author successfully sets out the foundational theoretical and ideological issues of Africa's land questions. Empirical evidence from the continent is employed to support the author's position that avenues for land reform and agrarian politics have been, and are still, latched on to neo-liberal development philosophies together with unjustified ignorance of social justice and equity issues. He calls for attention to the unique history of Africa's land ownership and tenure systems before and during colonialism and in postcolonial eras.

Indigenous small-scale farmer and peasant social communities have been disadvantaged and marginalised by capitalist market and large-scale (elite) farming policies. International development support has also become entrenched in state and market-led agendas that focus on production technologies, markets and trading agreements, further detracting from the integration of rural development with agrarian reform.

Moyo rightly asks whether these neo-liberal policies have addressed the aspirations of people who still live from the land. He claims that the resurgence of social movements attacking these policies and practices signals a renewed frustration on the ground and that the land issue may become the focus of unfinished colonial business. Rural and even urban communities are increasingly challenged by continuous insecurity, poverty and limited access to property rights.

The author also speaks out against undue emphasis on large-scale productive farms, claiming that small-scale farming and small rural land redistribution cannot be wiped from the debate of Africa's land and agricultural issues. Foreign landholdings on the continent and disproportionate developments for wildlife and nature conservation signal a form of eco-imperialism that is also detrimental to rural communities and customary agrarian livelihoods.

Although one may disagree with the simplicity with which Moyo ascribes policy failures to the legacy of colonial settler communities and practices, he is correct that a continental historical analysis is required so that the tendency to accept a neo-liberal agenda can be critically countered.

Books available for review

The following books have recently been received

Interested reviewers should contact **Helen Douglas** at mwnewagenda@mweb.co.za

Crumbley, Deidre Helen. **Spirit, Structure and Flesh: Gendered Experiences in African Instituted Churches Among the Yoruba of Nigeria**. University of Wisconsin Press: Madison. 200 pp

Friedman, Thomas L. **Hot, Flat, and Crowded: Why the World Needs a Green Revolution**. Allen Lane: London and New York, 2008. 438 pp

Green, Pippa. **Choice, Not Fate: The Life and Times of Trevor Manuel**. Penguin: Johannesburg, 2008. 602 pp

Hassim, Shireen, Tawana Kupe, Eric Worby (Eds). **Go Home or Die Here: Violence, Xenophobia and the Reinvention of Difference in South Africa**. Wits University Press: Johannesburg, 2008. 259 pp

Mngxitama, Andile, Amanda Alexander and Nigel C Gibson (Eds). **Biko Lives! Contesting the Legacies of Steve Biko**. Palgrave Macmillan: New York and Hampshire, 2008. 294 pp

Motlatsi, James and Bobby Godsell. **Do It! Every South African's Guide to Making a Difference**. Jacana Media: Johannesburg, 2008. 186 pp

Stein, Howard. **Beyond the World Bank Agenda: An Institutional Approach to Development**. University of Chicago Press: Chicago, 2008. 320 pp

Walker, Cherryl. **Landmarked: Land Claims and Land Restitution in South Africa**. Jacana Media: Johannesburg, 2008. 292 pp

Webster, Edward, Rob Lambert and Andries Bezuidenhout. **Grounding Globalization: Labour in the Age of Insecurity**. Blackwell: Malden MA, 2008. 261 pp

Zeilig, Leo. **Patrice Lumumba: Africa's Lost Leader**. Haus Publishing: London, 2008. 182 pp