Initiative for Policy Dialogue
Columbia University

# Report on the Initiative for Policy Dialogue's Africa Task Force
## Pretoria, July 10-11 2009

Introduction

The fourth meeting of the Africa Task Force took place in Pretoria, South Africa during July 9-10 (unless otherwise noted Africa refers to Sub-Saharan Africa, which is the focus of the task force). This report summarizes the major issues of the meeting. In doing so, it follows the principle of Chatham House Rules, in which we do not attribute particular ideas to particular people, although in some cases their institutions may be named.

The meeting covered a wide variety of topics over the two days. This report does not include all of the details of the discussion; rather, it brings out the salient themes of the meeting while setting the stage for further discussion. In addition, this year the South African government was substantively involved over the course of the two days. In this report, we are not attempting to summarize the discussions on South Africa, much of which took place in the closed sessions with the government's economic team.

We once again thank the Japanese International Cooperation Agency for their support. While we have worked with JICA in the past, this was IPD's first project together with JICA's new Research Institute. We once again express our gratitude not only for JICA's financial support but substantial support as well. We are very happy to be incorporating the very relevant and important viewpoints from our Japanese colleagues into the work of the Task Force. This year, we also owe a great deal to the South African Department of Trade and Industry who ensured not only that the workshop progressed smoothly but also that the work of the Task Force was brought to bear on and in turn was informed by the very practical issues facing the new South African government. We were honored to have had the opportunity to engage in a dialogue with the new government at this crucial stage of policy debate and formulation and were very impressed by the rigor and quality of the debates in South Africa. Finally, the collaboration of the African Center for Economic Transformation is very important to IPD as we develop our research agendas.

Background, overview

Last year, the discussion focused on broad, cross cutting issues involving in particular growth, governance, and industrial policy. The meeting was predicated on the view that much of the policy debate and many of the policy prescriptions imposed on Africa over the past three decades or so have been too narrowly confined within the orthodoxy that came to be labeled as the "Washington Consensus". Policy prescriptions often ignored both history and context. In particular, they have largely neglected the lessons of successful experiences of development, especially in East Asia.

This year, the focus of discussion was to be on a set of “niche” or topical issues as they pertain to Africa. We built on some of the topics from last year’s meeting in our discussion of land and agriculture. We also felt we had a distinct opportunity to respond to the new global landscape in our discussion of the financial crisis and its impact on Africa. As ever, one of the purposes of the Task Force is to put together a volume which can inform and advance policy debates.

The Initiative for Policy Dialogue aims for its Task Forces to consider policy options and trade offs between policies. We hope that the resulting volumes can not only better inform academic debate, but can also provide policy ideas which can inform policies directly, subject to the political processes in individual countries. To that end, any suggestions on how to further this debate or to better disseminate some of the discussions that take place at Task Force meetings are most welcome.

## I. Financial Crisis

Broadly speaking, discussion of the crisis centered around three themes: i) Prognosis, ii) Policies, and iii) Global Financial Infrastructure.

### i) Prognosis

Participants seemed to agree that for Africa the financial crisis very quickly turned into a development crisis, exacerbating many of the development challenges that existed before the crisis.

*Economic Growth*

Several participants noted that many initial predictions were that Africa would be insulated from the crisis, but subsequent projections have been progressively more dismal. After volatile growth record of the 70s and 80s, the past decade of growth of around 5 % led some to believe that Africa could weather the storm. However, initial growth estimates for Africa, including North Africa, from the African Development Bank have been revised down from 5.5% to 2.3% (1.5% for sub Saharan Africa, implying a significant drop in per capita income). These figures (and the relevance of these figures) were challenged on several fronts by members of the Task Force. Some noted generally that they were probably too optimistic, others specific points included:

- Much of the growth prior to the crisis was due to extractive industries: On one estimate some 83% of the growth between 2000 and 2006 was due to oil. Mining used to account for some 7% of sub Saharan Africa’s GDP not very long ago but by 2006 it accounted for 25 %. At the same time, the share of manufacturing has gone down. Growth that relies heavily on extractive industries is enclosed in enclaves with little links to the rest of the economy, involving little learning or acquisition of technology, and usually does not reach the majority of the population. In fact, much of the income generated from this type of growth accrues to foreign firms.

- Following from this, a better measurement of growth would be GNP, not GDP, especially in economies with substantial foreign owned extractive sectors. GDP is misleading because it includes the value of production accruing to foreigners. Foreign firms usually repatriate the bulk of their profits and income, therefore their inclusion in national accounts overestimates the living standards of the national population, particularly in economies with a heavy focus on extractive industries.

- There was a wide agreement that the structure of the economy prior to the crisis determined how the country was impacted by the crisis. In particular, middle income countries which are more integrated into the global economy will be more directly and immediately affected by the crisis. The impact on the low-income countries are through more complicated and indirect routes, though not necessarily less severe. Countries will also be hit differently depending on the make up of their exports; the particular risks faced by the country, and the overall state of the sub-region (i.e., badly affected Southern Africa vs. not-so-badly impacted East Africa).

*Mechanisms*
There was wide agreement on the mechanisms by which Africa will be affected by the crisis.

- **Remittances** Several people noted that the decrease in remittances is going to impact Africa significantly.

- **FDI flows** Generally, FDI flows have dried up as investors retreat from risky investments. Connected to this, the EMBI spread has shot up everywhere, but particularly in sub Saharan Africa. Therefore African countries as a whole have less access to capital and the little capital that can be accessed is at a greater cost than any other region, even though the crisis was external to Africa.

- **Foreign Banks** A view that seemed to be widely though not universally shared at the meeting was that the prevalence of foreign banks has exacerbated these financial problems. On this view, the impact of financial market liberalization on growth is at best ambiguous, but it made developing countries more vulnerable to risks and crises. For lending to domestic firms, especially SMEs, “local” knowledge is required, but multinational banks tend to be weak on local knowledge. They are by their very nature not “developmental.” There were some differences of views on whether in the current crisis foreign banks had funneled money out of Africa to their parent institutions on a significant scale. In the context of this discussion, some participants emphasized the desirability of domestic development financial institutions in Africa. There was a consensus that the revival of development finance should take care to avoid the repeating the failures of many such efforts in Africa, especially by learning lessons from successes elsewhere, notably East Asia. There were differences of views on how feasible that would be. Some participants noted that whilst it may not be feasible in some/many countries there were some sufficiently developmental regimes in Africa that were able to run effective development banks.

- **Commodity price changes** Africa remains heavily sensitive to commodity prices and the international economic/financial crisis had already begun to result in dramatic losses in terms of trade for some countries. Prolonged weakness in the world economy and consequently in commodity prices could be a serious dampener on African growth. On the positive side, the recent reversal of the spike in food and oil prices that occurred in 2008 has been advantageous in curbing inflation and helping the poor.

*Social and Political Consequences*
The social and political consequences were not discussed in detail, but it was noted that many African states are politically fragile. When they get into crises of this kind, there is an increased potential for even relatively stable countries to experience social unrest, conflict and political instability.

Concerns over poverty are also, of course, a major issue. Many people noted that the statistics have a tendency to hide the real effects of the crisis, most particularly that growth rates hide dynamics that happen at the lower end of the income spectrum and in the informal sector. There seemed to be consensus that in addition to this being a crisis for long-term development, there was a significant risk that many of the gains in the road to the MDGs will be reversed.

### ii. Macroeconomic Policy, Economic Structure

The discussion on how to handle the crisis often crossed over into discussing a longer term development agenda. Many of the debates from last year were revisited in considering ways to restructure the economy. Generally, there was recognition that policies need to deal with the short to medium challenges that the crisis imposed and the longer term structural constraints. The arguments can therefore be divided into two general categories: short-term crisis management and long-term developmental policies that will better insure against future crisis.

*Short-term*
In terms of the short-term response to the crisis, there was considerable discussion on whether a countercyclical policy is possible in African countries. Some speakers noted that most countries do not have the policy space necessary. However, others argued that countercyclical strategies were possible even in low income countries and countries which rely on donor funding and it is an issue of identifying and easing the constraints to countercyclical policies. In this context, it was noted that often an important constraint to countercyclical policies is an excessively severe debt sustainability framework employed by the IMF. This debt sustainability framework needs to be reformed as argued by developing countries at the G20 meeting in London. The G20 had called for a review of this framework but had left it to the IMF and the World Bank themselves to conduct it. How this review was conducted was important as was the need to have an independent

voice at the table. Perhaps the African Development Bank could be involved in reviewing the review. The crisis itself has provided a window of opportunity for reform and to allow countries to define their agendas more proactively. This opportunity could be short-lived, however, and it is necessary to take advantage of it now. Several specific recommendations for short-term crisis management were given. One very well-received presentation emphasized the credit constraint to countercyclical policies and the need to expand the fiscal space, including notably by tax reforms.

Another presentation on this issue focused on the case of Sierra Leone, arguing that a stimulus package is necessary and possible, and needs to be designed keeping in mind the country specific impact of the crisis, different tools to counter the crisis, specifics of implementation and the risks of inaction. A Keynesian stimulus package was possible if combined with substantial real exchange rate devaluation and the latter required a managed exchange rate rather than a floating, market determined one. The devaluation would ease the BOP constraint. In the case of Sierra Leone, it has been estimated that the high elasticity of exports to the real exchange rate means that the impact of a real devaluation on the BOP constraint would be fairly quick and substantial.

Another participant noted that a similar approach was tried in Uganda in the late 1980s, but rather than exports responding to devaluation, spiraling inflation was the result. Clearly an appropriate macroeconomic framework was necessary. A note of caution was also struck on the risk of undermining the credibility and reputation of monetary authorities in combating inflation.

Other policy responses are also necessary from supranational actors. Again, much of these responses deal with long-term structural issues of regional and international bodies. However, in a short-term way, emergency financing should be available to assist in recovery efforts. The G20 had given primary, almost sole responsibility to the IMF but multilateral development banks need to be more actively involved. The efforts by the World Bank need to be expanded. The launching by the African Development Bank of an emergency liquidity facility through which recovery funds can be channeled, was welcomed, though it was confined to the middle-income countries. ADB's concessional window, ADF (similar to IDA) had hardly had a significant increase in the resources available to assist the low-income countries of the region to deal with the crisis. These efforts need to be buttressed and implemented effectively.

*Long-term, Economic Structure*

There was general agreement that the crisis had highlighted the need for Africa to reconsider its long-term approach to development, along the lines discussed in last year's Task Force. As noted above, in addition to direct effects, the crisis exacerbated many of the longstanding development problems that exist in African countries even though the crisis had no roots in Africa. In addition, there may currently be greater space within the international context for Africa to reformulate policies. Another general note was that countries should look very carefully at the mechanisms through which the crisis entered Africa and negotiate accordingly in the future. For example, if the presence of foreign banks and unilateral trade agreements proved pro-cyclical, then those relationships

should be rethought or redesigned for the future. For the most part this discussion echoed or revolved around the issues of development strategy covered in greater detail at the previous meeting, the report of which is available at IPD's website <www.policydialogue.org>.
Some specific issues that received particular attention in this meeting included the following:

- **Diversification** There was a wide general agreement that Africa's reliance on extractive industries and agriculture made it particularly susceptible to the effects of the crisis as terms of trade fell.

- **Learning, Industrial and Technology policy (LIT)** It was noted that whether there should or should not be some form of protectionism or state support is unlikely to be the right question. Rather, what form such interventions take is the crucial issue. Some LIT policy works, while some do not. This is where lessons from East Asia can be highly instructive. One key element of successful industrial policy is learning. Another is the mix between protection and competition. It was also noted that one of the biggest barriers to enterprise in Africa is infrastructure and this has real implications on what you can do with LIT policy. This underlines the need for coordination between government bodies, as discussed below.

  The South African example was used to look at many of the problems related to industrial policy within the political process. A major thrust of South Africa's industrial policy has been on the auto industry. There were some question as to whether this was a wise decision, given that the sector is oversaturated. Some of the decision may have been based on political interest groups. However, much of it had to do with the decision to enhance an industry that was inefficient but existed during the sanctions era. South Africa has been able to capture the market on some aspect of the auto industry, for example BMW sources leather seats from South Africa. The low barriers to entry for leather mean that South Africa could lose this edge very easily. Coordination between government agencies has also been problematic. Infrastructure projects designed to complement the industry have been challenging. There also has to be coordination between industrial policy and finance and investment policy.

- **Employment** Two participants argued that employment should be at the center of policy. Creating jobs would directly address poverty. And it would involve a change in the pattern of growth with greater role for small and medium enterprises. One view emphasized that it was not just a matter of creating jobs but also the quality of jobs as reflected in the decent work agenda of the ILO.

- **Social Protection** Social safety nets can go along way to provide cushions for the poor against implications of the financial crisis. However, where formal social safety nets were absent before the crisis, social protection as a reaction to crisis may not be appropriate, as the institutions that are required take time to build. Much of Africa relies on informal social protection networks, not formal ones. Where formal networks do exist, those that have buy-in from a political constituency have the most promise for sustainability.

- **Other issues:** Amongst the familiar list of issues pertaining to sustained long-term growth and structural change in Africa those that received particular attention in this meeting included the following:
    - **Taxes** Funding fiscal expansion will require dealing with some of the problems involved in tax systems. The familiar problems of tax composition (heavy reliance on trade and consumption taxes) and a narrow base need to be redressed, in particular adequate taxation of foreign firms' profits from extractive industries and the incomes associated with assets held abroad (usually illegally) by residents, but this is a complex and longish term proposition.
    - **Physical infrastructure** This important constraint requires greater attention from donors and IFIs.
    - **Regional integration/trade** has been very successful in East Asia; it is easier to start with regional markets before entering the global ones though there were many constraints in Africa whose easing should receive greater attention( e.g. infrastructure, lack of economic diversification which leads to similar goods being traded)
    - **Reducing or socializing the risks** of investment in ways that encourage learning and dynamic efficiency and do not result simply in unproductive rent-seeking.

### iii. Global Financial Architecture

The financial crisis brings to light specific problems in the global architecture. As with the issues above, the crisis may represent a moment when change is politically possible. Many have noted the potential for this to be a so-called "Bretton Woods moment." The global institutions and arrangements for maintaining global financial stability have experienced a dramatic failure and the policy responses in the advanced economies have contradicted many of the policy that have been imposed upon developing countries. This could provide space for alternative voices to influence and reform the institutions.

The global architecture is equally important in light of the external nature of this crisis. Africa was hit hard by the crisis. However, as has been noted in the rest of this report, Africa's ability to insulate itself and react to the crisis is severely curtailed, not only because of limited policy space, but also because many of the key mechanisms by which Africa was affected and can recover are external to Africa. For example, remittances are dependent on employment opportunities in the West. A general question, then, is not only what should be done to make international institutions more developmentally oriented, but how can African countries articulate strategies to develop in light of the international environment?

*Voice*

The G20 has been gaining in relevance in international proceedings. This is to be welcomed; however, there can be wide differences between the views of the G20 and the interests of the least developed countries. Whereas G20 is more representative than G-8, what should be the number following the G and in what context, remains an open question.

*Aid*

The issue of aid came up several times during the discussion on the financial crisis and in two presentations.

One presentation considered what type of performance indicators were needed in order to evaluate aid effectively. This included a recognition that the Word Bank's CPIAs, which have been used since the 70s, suffer from a number of limitations, including implicit views on what constitutes "good policies" and attendant hidden conditionality, subjectivity, and lack of transparency. The challenge with designing a better tool is that it needs to measure both outcomes and efficiencies, as one does not necessarily equate to the other. For outcomes, the tool needs also to differentiate between growth and poverty alleviation, and it further needs to do this over time, as many interventions have a significant time lag before they begin to show up in outcome variables. Education is one example of this.

One set of challenges for this presentation was that performance indicators have a tendency to depoliticize aid. First, there is an implicit assumption that the effectiveness of aid is dependent on decisions made within the recipient country. In reality, donors and IFIs impose conditionalities whose impact may be negative, e.g. the IMF has been known to impose a macroeconomic framework that often does not even allow the countries to spend the aid they have been allocated in which case it will very clearly not be effective (though this particular problem is less of an issue today). In addition, there was some discussion of the need vs. efficacy of aid dilemma - sometimes countries where aid is not effective are the ones that need the most help.

The five areas in aid identified for improvement in the Paris Declaration were the following: alignment, accountability, ownership, harmonization, and managing for results. The second presentation on aid looked at what was left out of the process; in particular, the participation of civil society. Civil society, of course, has many drawbacks as it can be unrepresentative, unaccountable and lacking in expertise. However, these drawbacks have to be managed as civil society can play a key role in creating accountability networks between the poor and the governments.

There was largely a consensus that the agenda for reforming aid practices remained unfulfilled in many respects. Some of the reforms by donor groups included the following:

- **Expanding policy space** There were several suggestions that donors should expand policy space. One view was that if heterodox policies are to be acceptable to donors, countries should roll them out slowly. If they are not accepted, countries should think of ways to incorporate heterodox policies into an overall orthodox framework. One participant suggested that the challenge ultimately might be to comply with international regulations while maximizing policy space.

- **Delivery** The delivery of aid should be flexible, and the progress in implementing the Paris and Accra declarations should be accelerated. A related theme was that donors should not cancel funding as a reaction to delays in disbursement. Rather, there should be a contractual agreement between donors and recipients that stipulates that any delay in disbursements will result in bilateral discussions.

- **Priorities** There was some discussion of the relative importance that aid institutions should attach to poverty and the Millennium Development Goals versus medium to longer-term issues of sustainable development. There was also some question about whether poverty targeting as advocated in the MDGs might be less fruitful than poverty alleviation techniques that deal with job creation (and growth) and reducing inequality.

*Financial Sector*
It was generally noted that financial institutions including notably in the rich countries, have not been doing what they are supposed to be doing, i.e. mobilizing savings, allocating them efficiently and managing risks at low transaction costs. On the contrary, financial liberalization has tended to increase countries' vulnerability to risk. In the U.S., innovations in the financial system revolved around evading accountability rather than around providing more money to foster innovation. The domestic financial sector in much of Africa has similarly been unproductive. In South Africa, much like the U.S., the "financialization" of the economy happened through "consumeratization" without promoting productive sectors.

The discussion on finance, then, can be broadly put in two categories. First, how should national governments manage local and international finance? Second, how can the global financial architecture ensure that finance promotes development?

The discussion around managing financing looked at two primary points:

- **Capital markets** On one side, it is clear that capital market liberalization often exacerbated the capital flight in response to the crisis. African countries need to rethink the way they liberalize and open up their capital markets.

- **Local vs. International Banks** The case for local banks was made for several reasons. First, international banks are more likely to pull out of foreign countries wholesale than local banks, particularly African countries which are deemed to be risky. In addition, making loans to productive sectors requires local knowledge, and thus local banks are best suited to direct finance appropriately. It was suggested that encouraging local banks can be a liability to a country if the local banks do not have the opportunity to learn from foreign banks. The rebuttal to this was that foreign banks have proven that they should not be learned from, that countries should promote a different financial system than the dominant Western model. There was a more specific discussion on the case for domestic development banks (see above).

In addition, one view that was expressed was that with the massive subsidies given to Western commercial banks, there is no way that local banks can compete with Western banks without some sort of protection from governments.

A general question was put to the Task Force: It was noted that there is a mismatch between savings and investments. Can there be a set of new and better financial institutions that can address this mismatch and is there a possibility that it can emerge? In short, how can financing be developmental?

The answers to this, on one view, should recognize that market financial institutions are seeking ever more short-term ventures, perhaps even more so in the aftermath of the crisis, and are therefore non-developmental. The additional challenge, then, would be to evaluate where the risks are and what kinds of institutions should be created to manage that risk. It was recognized that there will be no way to entirely get rid of dysfunctional financial institutions. However, there must be an increase in the proportion of the institutional arrangements that are socially construction rather than destructive. There were several specific ideas around this:

- **New Instruments** like inflation index and GDP bonds could insure against instability.

- **Multilateral Development banks** have a role both in promoting longer term financing and, as one participant put it, they should also "put the fire out" by providing emergency financing to hard hit developing countries. In addition, development banks, it was argued, should step in where commercial banks have failed, and should play the role of collecting and channeling savings into productive activities that can promote longer term growth and dynamism in the economy.

  However, development banks will have to significantly reform if they are to be effective at this. First, they must be more creative and move away from insisting on improvements in governance and prudent fiscal policy to qualify for aid. Staying with "business as usual" will have a deleterious effect on a countries' ability to cope with the crisis as well as long-term development prospects. In addition, development banks need to cooperate more.

### iv. Concluding Remarks

Aside from the impact of the crisis on Africa, this part of the meeting focused on a number of policy issues. These included:

- The scope for countercyclical policies in Africa and how the constraints might be eased. Whilst there was widespread agreement on the desirability of designing appropriate countercyclical policies and easing the constraints to such polices (e.g. by reforming the debt sustainability framework used by IFIs), there were some important concerns about the space for such policies and the danger of inflationary spirals.

- The role of donors and IFIs in helping countries deal with the crisis, in particular by increasing the concessional resources available to the World Bank and African Development Bank to assist low-income countries.

- The crisis had highlighted the need to deal with the longer-term issues of sustained growth and structural change that had been the focus of the previous meeting of the Task Force (these are reflected in the report of that meeting, available at the IPD website). In sum, this implies expanding the policy options for Africa to get away from the straight-jacket of the "Washington Consensus" and to be better informed by lessons of success, especially in East Asia.

## II. Land, Agriculture and Climate

This year, another set of issues that were on the agenda of the Task Force, pertaining to the nexus of land, property rights, agriculture and climate change. We feel that IPD's contribution to this debate could be twofold: first, to consider experiences from other parts of the world which have gone through the process of moving from a largely agriculture based economy to an industrial economy, commenting in particular on land reform, property rights and titling. Second, we wanted to look at these issues in their international context, to consider the local processes within the broader framework of globalization. Finally, we had intended to look at ways that climate change will affect these issues. Because of a conflicting meeting of the IPCC panel (and related meetings), most of the relevant persons could not accept the invitation and this topic unfortunately was given short shrift in this meeting. However, we hope to look briefly at the issue in order to think about ways we can incorporate issues of climate change more thoroughly in future discussions and in the book.

### i. Land reform and titling

Land reform was instrumental to growth in East Asia. It is important that Africa prioritizes land reform as well both for growth and distributive reasons. The challenges involved in undertaking land reform are enormous, and vary dramatically between countries and even regions within countries. Parts of Africa are moving from a situation of land abundance to land scarcity. How land reform should be implemented is of course of paramount importance. It is also crucial that the institutions and mechanisms that are well placed to drive appropriate land reform are identified and developed. For example, local land reform efforts need local buy-in but should not necessarily be entirely in the hands of the chief system.

This discussion looked broadly at the issue of land reform, outlining lessons learned from around the world, and also looked particularly at the issue, using several case studies from within Africa.

*Institutions*
Land reform policy is a very contentious issue and the potential to get it wrong is very high. When gotten wrong, land reform processes can have disastrous outcomes. It can lead to an increase in the landless poor or foment conflict. It can also lead to a worsening of the agricultural outputs of a country or degrade the nutrition of a population. The institutions that structure land reform have a significant impact on the results. The conversation around land reform was delineated in several ways:

- It was noted by several participants that the many of the most successful land reforms have been done by authoritarian regimes. This did not mean, however, that land reform was an impossibility in other types of regimes but rather the point was intended to underline the difficulty of getting both the political buy-in and security needed to make the reforms go through and also that land reforms often involved "toughness" on the part of the state.

- Following from this, in order to invest in land, you need security, but that requires public legitimacy. Traditional lands might come into conflict with some of this, if lands are entrusted in customary or chief based systems.

- Market-driven security is risky for other reasons—once you title land, you increase the risk of the poor farmers being bought out, especially when in distress, so it can paradoxically lead to landlessness (this has been an important concern, e.g. in Ethiopia and Vietnam where land rights and security has stopped short of full ownership which includes the right of alienability). Social security systems to protect people may need to be in place before ownership rights are put in place.

Case studies on Institutions:

- **Rwanda**
  Rwanda's history of conflict has resulted in very distinctive land issues, largely because of the waves of immigration from neighboring countries and emigration/return migration of the local population (especially the RPF) that has characterized so much of the population movements over the past several decades. Land divisions in the East of the country are statistically more equitable than other parts of the country, even though the East has seen the most tension around competing refugee/return migrant land holdings. This is largely due to radical RPF policy. People accept the radical policy because the government has strong military power which can over-ride dissent. Many of RPF supporters are local leaders who support the policy and thwart opposition. The sustainability of the land tenure system is thus linked to the strength of the RPF.

- **Tanzania**

Historically, Tanzania's land reform had involved a heavy hand of the state. In the neo-liberal era, the government began to title land through authorities charged with overseeing the land tenure process. This has resulted in increased administrative costs which have undermined the security of land belonging to the poor. At the same time, the destruction of marketing boards and subsidies has meant that there is very little support for poor farmers. The new laws pose a risk of increased landlessness, which needs to be guarded against.

*Policies*

Institutions are important. However, policies are important too. The land reform process has historically been extremely contentious. In general, it was noted that policy makers should look to examples from around the world to learn lessons on what works and under what circumstances. Of course, it is also instructive to look at what does not work. A few participants noted that one of the major impediments to land reform particularly in Southern Africa is that the term is often equated with the unfortunate experience in Zimbabwe.

A variety of potential policies were put forward as options or tools to assist in the land reform process:

- Expropriation vs. Paying for land at market prices. Anything less than market prices will lead to resistance and potentially the eviction of laborers for fear that laborers will become claimants. It might feel strange when it results in giving wealth to people who have illegitimately acquired the land, but the costs of expropriation may be higher than the benefits. There may be a benefit, however to having the option of expropriation, as it could provide incentive for land owners to negotiate a smoother land reform process. The case of Brazil was cited as a place where expropriation did not have disastrous consequences. It was also noted that varying but significant degrees of expropriation were an important element in the land reforms in several East Asian countries, including not only China but also Taiwan.

- It may make little sense to take land from productive plantations. At any rate, it is more feasible and less disruptive to take under-utilized land.

- Land must be distributed equitably and fairly. Permanent residents should be the first beneficiaries both because they have experience in farming and because relocating people is very costly. In order for the land to be utilized well, the beneficiaries must be able to decide how to structure the mode of operation (i.e. individual, shared, coop, etc.).

- The first few thousand square feet distributed produce a spike in income and nutritional benefits, which levels off afterwards. It could therefore be a good idea to start by distributing plots that are small. It is also extremely detrimental if you run out of land before all potential beneficiaries have received land.

- The tax structure can lower the value of land. For example high taxes on unused land and progressive taxes on land holdings (especially in view of the fact that small holders tend to be more productive). This can help ameliorate some of the market imperfections in land use and assist in a market-based approach.

Case Studies on Policy:

- **South Africa**
  The first part of the South African land reform policy is restitution, which is an extremely complex process because negotiating land costs with the state leads to price explosion. There are legal impediments to expropriation, and in any event, land expropriation has problems, but in this context it could be useful as a last resort in order to strengthen the government's hand in negotiations on land prices. One weakness of the policy is that there is no incentive to search for alternative land if the original land cannot be restituted. Redistribution is also part of South Africa's land reform program which is a market assisted program.

- **Rwanda**
  After the genocide in 1994, Rwanda enacted a radical land reform policy in the east of the country. Many of the Tutsis who had lived outside of country came streaming back when the RPF took power and were allowed to settle in the vacant land in the East of the country rather than go back to their ancestral lands. They acquired land by equally dividing the land of the original inhabitants. This served the useful purpose of allowing those whose lands could not be restituted an alternative plot of land.

*Implementation*
A good policy or law will be useless if it is not implemented properly. Good institutions are of course vital to good implementation, but some policies are easier to implement than others. The following points were made in reference to land reform:

- In order to assist in implementation, regulations should as much as possible correspond to local customs. One participant pointed out that programs in South Africa tended to be top-down and were expert driven rather than community driven.

- People should be informed of their rights which could help enforce proper implementation as they assert those rights.

- Often the cost of land makes up only a sizable, but far from dominant, portion of the cost of land reform. Other costs include moving or relocating people, legal fees, providing inputs and support services, and funding different government bureaucracies that are handling different aspects of land reform. When formulating policy, the costs and feasibility of implementation should be an important concern.

- The timing of different parts of land reform programs in critical. This could require a great deal of coordination among different arms of government and the private sector.

*Property Rights*
The conversation around titling is very similar but also very different. Hernando de Soto's overly-simplistic advocacy of land titling as a way of providing poor people with an asset to hold in collateral with banks in order to get loans has had significant influence within the development community. When considered in the wider context of land reform, the issue of land titling is very problematic for many of the issues discussed above. The narrow focus on property rights and land does not address the more fundamental issues of how the agricultural productivity can be spurred forward and how land can be allocated more equitably.

Whether individualization of land rights is safe or desirable is highly context specific. In some cases formalizing land rights had protective and positive results, as in China and Andhra Pradesh in India. However, in other places, including in Africa, titling has led to the ouster of existing small holders or an exclusion of existing holders of traditional rights. Therefore, the desirability of titling needs to be carefully considered.

One presenter also called into question the overall soundness of de Soto's assertion based on research from Tanzania:

- The process of titling land is politically contentious and has the potential to produce negative social outcomes, as discussed below. In the case of Tanzania, the land titling process can be equated to land reform on the free market. It resulted in a huge administrative overhang in which the process of issuing titles is severely delayed; stratification by income, and "villagization," has actually undermined the security of land belonging to the poor and threatens to create or exacerbate landlessness.

- Banks are highly risk adverse vis-à-vis poor villagers and land titles do not change that. In order for land titles to work as collateral for loans, the bank would have to at least nominally be interested in collecting on the land. Interviews with bank officials indicated that they would only extend loans to poor people if the risks were socialized, whether they had land titles or not was of little relevance.

*Gender*
Rights over land for women are usually secondary rights. That is, in many areas women are primarily responsible for working the land but it might be a man who interacts with the state. Thus, when relationships to land are formalized, there is a real danger that women will lose their rights to land. In some areas such as Bangladesh and Rwanda, women have been granted formal property rights and this again has changed the dynamics in the home. In some cases it has fostered a sharp increase in divorce.

### ii. Agriculture

Closely related to land is the issue of agriculture. It was noted that the land make up of different countries is dramatically different. Therefore policies around agriculture have to be considered at the country level and considering Africa as a whole is somewhat limited. For example, one participant explored the history of land in South Africa, underlying the particular institutional context which is very specific to South Africa. However, there are commonalities, particularly considering how Africa is imbedded in the international context, that can be instructive.

The discussion on agriculture ranged from growth to market potential to the importance of linking agriculture to industry.

*Expanding Agriculture*
In sub Saharan Africa, per capita agricultural growth has increased in recent years. This has not been due to productivity growth but rather as a result of land expansion. Food prices also affect growth in the agricultural sector, as rising food prices benefit food sellers (though they have a negative consequence for domestic consumers).

The following points were made in regards to expanding Africa's agricultural sector:

- **Under-utilized land** It was noted that whilst parts of Africa are becoming a place of land scarcity, there are large tracts of land that are under-utilized. Land scarcity is a feature of populous countries, but there are countries with land abundance. This is particularly true of the African Guinea Savannah, the "sleeping giant" of highly cultivatable land. It was noted that the assumption that large areas of under-utilized land are available hides the fact that governments often claim that land in order to attract commercial investment even when there are local demands for land. In addition, a large amount of land is being bought by large-scale foreign companies, which can undermine the land rights of the poor.

- **African Green Revolution** In last year's meeting, we considered the prospects of an African Green Revolution, emphasizing the role of research. What is needed for an African green revolution came up again this year throughout the discussion. In addition to using under-utilized land, the productivity of agricultural land must be increased. This can happen most directly through agricultural inputs, including fertilizer and irrigation. In this context, one view expressed was that the Green Revolution, at least in India and Pakistan would not have been possible without the socializing of some of the risks of investing in the new technology, notably via support prices but also including input subsidies. There is also the very recent and very pertinent example of Malawi's fertilizer subsidies – despite donor and World Bank pressure against such subsidies – that had a major impact on raising food production. On this view, there is a compelling case to learn relevant lessons for Africa and how might they be adapted in specific agro-climatic and country contexts.

- **Research and Development** A key aspect of the green revolution is producing locally-appropriate research that can be used freely. This is significantly hindered by intellectual property rights on one hand and low domestic capacity for research on the other hand. In addition, research and development is not sufficiently focused on the right issues for Africa. For example, it is not focused on issues like rain-fed agriculture.

- **Technology** Adopting technology is also key to expanding agricultural output. In some cases, countries simply lack the capacity to adopt new technologies. Globally, the technology gap in agriculture is widening. This should be a focal point of government investment.

- **Family or commercial farming** The debate between family or commercial farms has gone on for decades. Successful commercial farms in Africa have relied on subsidies. The advantages of small farms are well-established, notably lower agency costs and higher land productivity. But there are also some disadvantages to family farms, many of which can be overcome by contract farming, farm machinery rental, and farmers associations. It might be the case that the desirability of family vs. commercial farms is dependent on the type of crop or location. Areas of low population density, plantation crop farming, or for horticultures for export might be areas where commercial farming has advantages.

*Markets*

There was some suggestion that in the short to medium-term regional markets might be the way forward for food crops or more generally for non-traditional agricultural exports. Another participant noted that there should be a balance between small and large-scale farming and domestic and export trade. Since most African countries are net importers of food, there was also a suggestion that agriculture might be an area where import substitution could be appropriate.

Major impediments to entering the international markets include:

- **Standards** For the most part, African agriculture does not have the quality standards for entry into global markets. There should be quality standardization, perhaps starting on the regional level.

- **Infrastructure** The cost of transporting goods is one of the major impediments to developing international or regional markets.

Case study: Rice

One presentation detailed the Coalition for African Rice Development Initiative. Rice, it was argued, would be an excellent crop to develop for both the domestic and international market. First, African countries by and large import rice so there is some scope to replace the foreign with domestic supply. Second, the growth of rice production in Asia is declining, so there is a potential gap that can be exploited. Finally, rice can be grown in lowlands that are not suitable for other crops.

*Linkages to Industry*
It was noted by several participants that agriculture should be integrated into a value chain or industrial policy. In some ways, there are competing motivations for developing the agricultural sector. Food security is essential; however, vying for a share of the global market in a way that can transform the economy might privilege agricultural development that has industrial linkages.

The discussion included the following points:

- **Agriculture as preconditions for industrialization** One presenter noted that, based on the Asian experience, the green revolution must take place before industrialization. The green revolution increased productivity growth, increased incomes for the majority of the population, and increased demand for industrial output.

- **Agro-processing** Another key feature of the South East Asia's agricultural sector is that there are linkages between industry and agriculture through agro-processing, etc. Last year's meeting provided excellent examples of this in the presentation on the flower and leather industries of Ethiopia.

- **Industry vs. food** There was some debate about the outsourcing of land for bio-fuels. On one hand, it was pointed out that developing the bio-fuels sector could potentially be a new opportunity to integrate agriculture with industry. The drawbacks, however, are potentially severe. It can result in a loss of land for smallholders or compromise food security.

- **Industrial policy affects on agriculture** Industrial policy can also strengthen the agriculture sector. A case study of South Africa analyzed the value chains of several crops in South Africa. It was clear that the sweeping liberalization and dismantling of control boards in Africa had often led to cartels which control whole chains of production in given markets. Competition policy may not be adequate to break these cartels, and industrial policy is required.

*Climate Change*
There was some debate as to whether the effects of climate change on agriculture on a significant scale were being seen yet. One presenter made it clear that climate change was very much affecting Africa, using data from the Sahel. Any agricultural strategy will have to look at the way climate change will change the potential uses of land in Africa. This is an area that requires more attention from the Task Force.

**Conclusion, next steps**
This year's Task Force covered a variety of issues. From the papers presented, we plan to put together a volume on agriculture and land. We therefore welcome comments from the Task Force members on what elements of agriculture were not covered in the meeting and more generally on what should be the direction and priorities for this exercise.

We are also interested in exploring further work and possible publication options for the financial crisis presentations. The book format is clearly not appropriate for much of the discussion because the information will be outdated quickly.  However, many of the discussions can be reformulated slightly to focus on the deeper issues involved in stability and growth.  There were many issues raised in that context that could do with further exploration. These include, in particular those pertaining to countercyclical policies in low-income countries; mechanisms to assist them in dealing with adverse exogenous shocks; the global financial and economic architecture; and financial sector policies. Other issues for future work of the Task Force that were raised but not explored adequately pertained to climate change and aid.