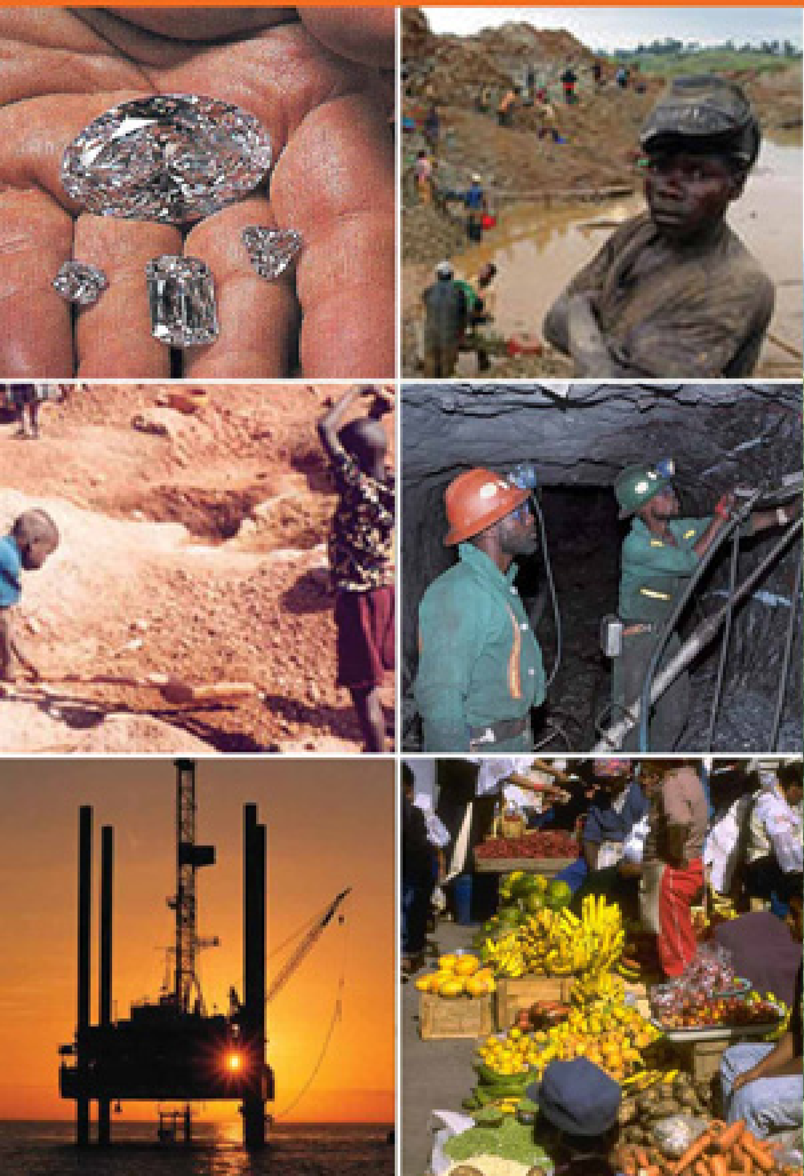
Managing

Commodity Booms in Sub-Saharan Africa

Senior Policy Seminar IX

27 February - 1 March 2007, Yaoundé, Cameroon



Seminar Report

African Economic Research Consortium

Consortium pour la Recherche Economique en Afrique

Managing Commodity Booms in Sub-Saharan Africa

AERC Senior Policy Seminar IX

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Seminar Report

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Commodity Booms – Neither Panacea Nor Curse

Since 2004, many sub-Saharan African countries have been experiencing a rare phenomenon – a boom in the prices of their primary commodity exports. It is very easy to see such a boom as a panacea for development, providing huge extra resources for government spending. Yet there is also a large literature indicating that commodity booms have been a development curse, undermining governance and contributing little to sustainable growth.

AERC researchers have recently been investigating how best to manage commodity booms, treating them as neither panacea nor curse, but as major inflows of resources that need to be carefully managed to promote sustainable development and poverty reduction. As a result, when African policy makers at the eighth AERC Senior Policy Seminar (Dakar, Senegal, 2006) identified managing commodity booms as a key policy making area in which they needed additional policy-oriented research, AERC decided to make this the subject of its ninth Senior Policy Seminar (SPS IX).

SPS IX therefore looked at how best to manage commodity booms. Held in Yaoundé, Cameroon, from 27 February to 1 March 2007, the seminar was attended by 77 policy makers and researchers from 21 countries. Discussions were organized around the following seven themes:

- Lessons of international experience
- Africa's management of previous oil booms
- Strategies for managing the current oil boom
- Africa's management of previous solid mineral booms
- Strategies for managing the current solid mineral booms
- Africa's management of previous agricultural commodity booms
- Strategies for managing the current agricultural commodity boom

Each session began with a researcher presenting a paper summarizing policy-oriented research on the issues. This was followed by comments from policy makers, and open discussion among policy makers and researchers to identify the key lessons from past boom management and strategies for managing current booms. Policy makers then divided into three working groups (one dealing with each type of commodity) to refine lessons and recommendations. Their conclusions were presented at a plenary session for further discussion and priority setting.

Opening Session

Welcome:	Augustin Frédéric Kodock, Minister of State for Planning, Programming and Local Development, Cameroon
	William Lyakurwa, Executive Director, AERC
Official opening:	Ephraim Inoni, Prime Minister, Republic of Cameroon
Vote of thanks:	Olu Ajakaiye, Director of Research, AERC

Welcoming the seminar participants, Hon. Kodock indicated how timely an issue this was for most African governments, especially Cameroon. He expressed a wish for strong policy recommendations to come out of the seminar, including strategies to keep Africa's commodity prices at the highest possible levels.

AERC Executive Director William Lyakurwa began by indicating that the decision to hold SPS IX in Cameroon was a further step in broadening the involvement of Africa's francophone countries in the AERC network and bridging the linguistic divide between Africa's populations. He then described how AERC sponsors policy-oriented economic research and training, to build capacity for independent policy making in Africa. Senior Policy Seminars are the Consortium's key high-level forum for reaching Africa's policy makers with useful research results. The seminars, in turn, give policy makers the opportunity to draw lessons and recommendations for future policies and to participate in setting AERC's future research agenda.

The subject of managing commodity booms had been chosen because Africa's past management of commodity booms is commonly acknowledged to have been inadequate. The danger is that Africa's governments would repeat past mistakes by assuming that the booms are going to be permanent and therefore make unsustainable long-term spending commitments. In addition, the context for managing current booms has changed fundamentally because most sub-Saharan governments have recently adopted much more participatory economic governance mechanisms. A key challenge for the seminar was to examine how management of commodity booms can be integrated into these participatory mechanisms in order to maximize the transparency of use of resources for growth and poverty reduction.

> African policy making has too often been based on lessons and views from other continents.
>
> – *Prime Minister of Cameroon*

In his official opening address, Prime Minister Ephraim Inoni strongly welcomed the seminar to Cameroon. He lauded the opportunity for exchanging views among African researchers and policy makers, who he said were fully capable of analysing issues for themselves, rather than relying on lessons from other continents transmitted by international experts.

The Prime Minister stressed that it was essential for the seminar to focus on the impact of commodity booms on government revenues and expenditures, as well as the management of any budget surpluses that could result. He also expressed a wish for some conclusions on how to plan the smoothing of long-term expenditures so as to avoid the "boom and bust" cycles of past commodity price volatility to keep Africa on a long-term path of steady development.

Managing booms must be rooted in the participatory planning of government policy.

Lessons of International Experience

Chair:	Augustin Frédéric Kodock, Minister of State, Ministry of Planning, Programming and Local Development, Cameroon
Presenter:	Paul Collier, Centre for the Study of African Economies, Oxford
Discussant:	Ernest Aryeetey, Director, ISSER, University of Ghana

Paul Collier began by indicating that current commodity booms present Africa with its best opportunity for growth and development in 30 years. Africa's booms are unpredictable short-term price spikes, he said, but many smaller developing economies have lessons to transmit in managing such occurrences. In Africa and elsewhere, spikes add 2.5% to short-term growth rates; over the longer term, agricultural booms also enhance growth whereas other commodity booms reduce it. The most likely explanation for this is non-transparent distribution of tax and other rents from non-agricultural booms. Governance (especially how public money is spent) is therefore crucial, relying on citizen engagement to make the executive accountable.

Three critical public decisions need to be taken for non-agricultural booms, Professor Collier said: how much of the revenues should be saved instead of consumed or invested; how much should be invested domestically and how much externally; and how the domestic investment and consumption should be divided between public and private sectors. The main challenges of agricultural booms, given that government should not tax farmers, are monetary rather than fiscal, because farmers will initially direct savings into financial assets before investing them. He ended by suggesting that the fundamental steps are to develop strong fiscal and monetary policy skills, and to embed policy rules in a fiscal constitution.

The key challenge is for citizens to breathe life into the institutions that are the effective checks and balances on the executive.

A lively discussion raised the following major issues:

- The current boom might last longer insofar as it represents a diversification of export markets to Asian economies.
- Africa needs to invest far more domestically, in order to increase employment, to reduce

poverty, and to change the structure of the economy and reduce long-term dependence on commodities, external aid and foreign investment.

- Foreign savings and reserve accumulation are politically unpopular and therefore can be used only to smooth short-term consumption. If debt is high, it should be reduced rather than using the proceeds from booms to accumulate assets; if it is low, borrowing should be responsible and limited.
- Public and private investments are complements: the challenge is how to use public investment to crowd in private investment, for example by providing export-related infrastructure and pro-agriculture spending (such as rural roads, irrigation, electrification and extension services).
- It cannot be assumed that either transnational oil or mineral corporations, agricultural trading intermediaries, or farmers will save or invest revenues from booms. So government must tax a proportion of windfalls, especially in order to increase revenue mobilization rates and fund public investment.
- Alternative tools such as fiscal responsibility acts, regional economic convergence treaties, and greater scrutiny of budgets by parliaments and civil societies are preferable to the complex process of changing constitutions.

> What right do current Ministers have to think they will be wiser than a future Minister? Constitutional change is no easy solution – what we need is fiscal responsibility acts with prudent rules.

Africa's Management of Previous Oil Booms

Chair:	Anne Itto, Minister of State for Agriculture, Sudan
Presenter:	Akin Iwayemi, Dept of Economics, University of Ibadan, Nigeria
Discussant:	Wani Tombe, Under-Secretary, Ministry of Finance and Economy, Sudan

Akin Iwayemi argued the case that Africa's management of its oil wealth has to change fundamentally if it is to achieve sustainable development. Sub-Saharan countries have performed very poorly in managing the resource allocation and macroeconomic flexibility challenges created by booms, turning oil wealth into a curse. The key drivers of the oil booms have been the high level of global oil dependence and international oil market influences (especially Middle East political tensions). The current oil boom has been driven by sharply rising demand and supply bottlenecks and uncertainties, a fall in industry investment in the 1990s, and the spread of oil-based derivatives in financial markets.

Oil price rises in the 1970s accelerated growth, but since then most revenues have been squandered on rents by oil companies and governments, exacerbated by oil price volatility, poor quality investments, capital flight and high debt burdens. The fundamental cause, according to Professor Iwayemi, is poor governance associated with weak institutions. Improved management involves many complex and politically controversial issues. Future strategies must involve a paradigm shift in economic policy, take account of oil depletion, and manage revenues through an Oil Fund and the Extractive Industries Transparency Initiative (EITI). Future oil management must be based on deepened reforms, expanded energy access for the Millennium Development Goals (MDGs), increased domestic value-added, transparency and a long-term vision. Professor Iwayemi laid out a set of short- and medium-term imperatives, and the need to link oil to sustainable development.

> Oil wealth must be used to increase incomes, education, health, life expectancy, employment and social stability. We must devise innovative ways to overcome political and social pressures to deviate from this objective.

The seminar participants urged more analysis of:

- The social, environmental and human rights consequences of oil production and booms.
- Legal and institutional structures that have proved successful for managing past oil booms in Africa and elsewhere by guaranteeing more equitable distribution of revenues including between central and local governments, and promoting investment in infrastructure and diversification.
- Benefits of increased value added and how to achieve this.
- Relative benefits of different taxation and royalty regimes at times of booms and slumps in prices, and how to negotiate these with oil companies.
- The relationship between oil booms and debt accumulation, especially the contracting of debts for developing oilfields and the use of loans guaranteed by oil proceeds.
- How to transfer higher-level labour skills to the local workforce.
- Whether more prudent overall economic management had a positive impact on oil management, or whether oil continued to act like a largely separate “enclave” industry.
- The impact of civil strife and war on oil production and use of oil revenues.
- The advantages of potential regional African sales of oil and gas.

> We have not taken care of the poor citizens who live in oil-rich areas, or their environment. This is why they steal the products and kill the workers.

Strategies for Managing the Current Oil Boom

Chair: Polycarpe Abah Abah, Minister of Finance, Cameroon
Presenter: Ibrahim Elbadawi and Linda Kaltani, World Bank
Discussant: Shehu Misau, Director of Revenue, Federal Ministry of Finance, Nigeria

Suggesting that the current oil boom is in no small part driven by the economic rise of China, Ibrahim Elbadawi and Linda Kaltani said the boom presents huge opportunities and challenges for Africa. Successful management of oil booms has been the exception rather than the rule, they pointed out, and many countries have suffered "resource curses" – output collapses when oil prices fall. Successful oil-driven economic transformation requires macroeconomic and financial frameworks for promoting national savings, fiscal stability and diversification.

To manage oil revenues successfully, the authors said countries need a three-pronged strategy. First, a macroeconomic framework aimed at ensuring high and prudently invested savings, and an effective counter-cyclical policy to insulate government expenditure from oil price volatility cycles. Second, a business plan for stemming real exchange rate appreciations, including measures to enhance the productivity of the non-oil tradeable sector (especially providing them with contingent credit facilities during the boom). Third, a political and social contract for managing oil revenues, based on democratic participation and transparent economic governance. The success of such governance will depend on political stability, government legitimacy, a long policy horizon, high domestic savings and – especially – powerful non-oil political constituencies. Managing oil revenues is at all times profoundly political, and foreign allies (including China) need to encourage Africa to improve governance to guarantee oil stability.

> While a sound technical economic framework is critical, management of oil rents is profoundly political. The priority is therefore transparent economic governance.

Participants suggested that:

- More stress should be placed on the other causes of the current oil boom (especially disruption to supply in Iraq and Nigeria, Middle East geopolitics, and competition between OECD and Chinese companies) and their potential effects on the boom.
- We need to negotiate aptly with all investors, including the Chinese, and not give our oil away to them.
- A detailed analysis is needed of the successes and problems of the various oil stabilization/savings accounts established in Africa since 2000.
- The involvement of China in the oil industry should be seen in a wider context of rising Chinese aid flows, debt cancellation and political ties.
- Exchange rate and monetary policy issues are very different in a fixed exchange rate regime such as that of the CFA Franc Zone.

- More analysis was needed of how to diversify successfully, notably beyond the oil sector, especially in relatively prolonged booms such as the current one.
- Oil appears to be highly correlated with civil strife and conflict, and the two may be related to a scramble for African resources.
- Oil revenues need to be distributed more evenly across regions and ethnic groupings within countries, to avoid exacerbating tensions and conflicts.
- Positive international exchange and interest rate shocks could exacerbate oil booms.

Management of Previous Solid Mineral Booms in SSA

Chair: John Benjamin, Minister of Finance, Sierra Leone
Presenter: Happy Siphambe, Department of Economics, University of Botswana

Happy Siphambe started from the evidence that mineral-rich sub-Saharan countries grew less rapidly than their neighbours in the 1970s–1990s. This reflected seven factors: "enclave" development with poor linkages to the rest of the economy; Dutch disease effects of appreciating exchange rates and anti-diversification; high wage increases driven by the boom sector; poor use of government subsidies; excessive foreign ownership and export of profits; high export and import dependence and susceptibility to external shocks; and the insidious negative effects of natural resource abundance – corruption, political violence and erosion of democracy. Generally, governments responded to booms by assuming they were at least long term or even permanent and thereby making long-term spending commitments. At the end of the boom revenues fell but expenditures could not, leading to high borrowing at exorbitant interest costs. Governments also expanded the money supply, allowing real exchange rates to appreciate. Growth and diversification remained low, and poverty and inequality high.

> Banks only give you money at reasonable prices when you don't need it – during a boom!

Botswana is often cited as an example of a good performer. Its high growth has reflected good governance (including democracy, political stability and low corruption), prudent financial management (including prudent planning and forecasting of diamond prices), and macroeconomic stability. It also held successful initial negotiations with its diamond company, resulting in high levels of royalties, and benefited from the controlled and stable nature of the world diamond market. Botswana also created a Revenue Stabilization Fund, treated the boom as temporary, had legally enforceable maximum expenditure limits, and invested diamond revenues predominantly into infrastructure, education and health. Nevertheless, Professor Siphambe said, the country has seen little diversification into manufactures, and a continuing high level of unemployment and poverty for most of the population, which remains rurally-based. Thus Botswana was able only to minimize but not escape the resource curse.

Monetary policy cannot manage a boom without a reasonable level of tax revenues from the commodity producers.

The discussion focused largely on the lessons Botswana's experience holds for other countries:

- The difficulty of diversifying the economy and attracting foreign investment in spite of implementing all the right policies, including a good investment climate, due to the small size of the Botswana market and competition from South Africa.
- The need to target resources deliberately to poverty reduction (health, education, social safety nets) and employment creation (incentives to entrepreneurship, micro credit).
- Maximizing the role of the domestic private sector in exports.
- Ensuring that foreign investment agreements include clauses to renegotiate royalties when prices rise.
- The benefits of a controlled and stable international market for a commodity.
- The importance of institutionalized checks and balances on the executive, including active parliamentary debate, rather than multi-party electoral competition and changes of government.
- The role of wage controls through an incomes policy.

Strategies for Managing the Current Solid Mineral Booms

Chair:	Simeon Moribah, Deputy Minister of Planning and Economic Affairs, Liberia
Presenter:	Noah Mutoti, Assistant Director, Macroeconomic Policy, Bank of Zambia
Discussant:	Michel Mubake, University of Kinshasa, DRC

Focusing particularly on Zambia's experiences with managing the recent copper boom, Noah Mutoti noted that the price boom has been driven by high demand especially from China. Zambia has benefited because it has increased exports threefold due to greater foreign investment in the copper sector. The combination of higher copper exports, external debt service reductions and increased aid and foreign investment have led to currency appreciation pressures and a sharp fall in the current account deficit. The impact of the copper boom on poverty is unclear so far because of delays in compiling statistics, but per capita real income has been rising even though employment in mining has fallen as a result of increased use of modern technology.

In terms of policy responses, Dr. Mutoti said Zambia has liberalized its external accounts and introduced a flexible exchange rate regime. More recently, it has pursued prudent fiscal and monetary policies, thereby reducing inflation and sterilizing the liquidity impact of foreign exchange reserves accumulation. However, as the mines are privately owned and low-taxed, and there is no national revenue stabilization fund or international copper market control agreement, Zambia's policy options are very limited, largely to market-based hedging instruments to protect its reserves. It has also engaged in an active export diversification policy, which is successfully promoting non-traditional agricultural-related products, partly as a plank of its poverty reduction strategy to improve rural incomes. Nevertheless, copper has risen from 60% to 79% of exports since 2004.

Participants debated several key issues arising from Zambia's experience:

- The fall in copper production before the boom, showing the responsiveness of production to prices.
- The low level of copper revenues for the budget (only 5–7% of revenue), which reduces the impact on fiscal space, partly because government has not increased taxes during the boom from the very low 0.6% royalty negotiated at a time when government was desperate to sell the copper mines (though royalties will rise to 3%).
- That monetary policy has been severely complicated by the need to sterilize copper earnings, resulting in growing domestic debt and interest rates.
- The low foreign exchange reserves due to high imports and private capital outflows.
- The contrast with poor management of the 1970s copper boom.
- The need to provide more incentive for manufacturing, including export processing zones, as well as for agriculture with tax exemptions for inputs and support for fertilizer

> In spite of exchange rate appreciation, non-traditional exports have grown by an average 18% in the last two years.

Management of Previous Agricultural Commodity Booms

Chair:	Ephraim Kamuntu, Deputy Minister, Ministry of Tourism, Trade and Industry, Uganda
Presenter:	Nehemiah Ng'eno, Consultant, Kenya
Discussant:	Augusto Bambo Sumburane, National Director of Research, Ministry of Finance, Mozambique

Agriculture remains a crucial sector in most African non-oil economies, especially in terms of employment and earnings for the majority of the population. Nehemiah Ng'eno showed that agriculture's share in value added has fallen sharply since 1965, from 39% to 17%, with a particular collapse in oil economies. Even so, in SSA agriculture retains a higher share than all other regions except South Asia.

Dr. Ng'eno dwelt on Kenya's coffee boom in the 1970s, which was attributable to a frost in Brazil that reduced world coffee supply by 30% – and

Africa's farmers receive only 13% of international retail coffee prices today, compared with 50% in the 1970s. Why has liberalization handed more to intermediaries and what does this mean for managing booms?

also had knock-on boom effects on tea and cocoa prices. The result was increased revenue, through export, import or consumption taxes, as well as higher recurrent expenditures. The high boom-induced expenditures plus debt accumulation led to high deficits after the boom. In Kenya the private sector saved additional earnings domestically but invested them in urban areas (especially property), resulting in pro-urban income redistribution. In other countries high taxes on coffee farmers also worsened rural welfare. Monetary policy was somewhat accommodating and therefore inflationary. It is hard to distil growth impacts because the boom was immediately followed by an oil price shock. There was no diversification or movement up the value chain as a result of the boom. This has been a general problem in SSA, usually ascribed to poor governance, conflict and land abundance. The policy solutions to promote diversification are improvements to the investment climate, investments in transport infrastructure and application of new technologies.

The discussion revolved around the need for more analysis of:

- The service sector, which is dominant in many African economies, and its highly speculative boom-bust behaviour.
- The different effects of booms on various agricultural commodities, such as beverages, cotton, nuts, tobacco, wood, leather, fish, soybeans, cassava, etc.
- The importance of diversification within agriculture.
- The impact of the new liberalized agricultural trading environment and of intermediaries, particularly on who captures the gains from booms and therefore on tax policies.
- The potential impact of domestic consumption of agricultural products, and intra-African trade and regional transport on boom results and reduction of price volatility.
- How agricultural booms can be used to promote "agro-industrialization", value addition, new technology and FDI.
- The role of producer associations or cooperatives in enhancing producer voice and power.
- The role of international trade regimes and tariff escalation in preventing diversification, and therefore the need for Africa to diversify its markets.
- The impact of government spending on pro-agriculture interventions such as irrigation, power, rural roads, extension services, input subsidies and rural markets.

Investments in transport and communications and application of new technology to agriculture and forestry are crucial to diversification and higher value-added.

Strategies for Managing Current Agricultural Commodity Boooms

Chair:	Polycarpe Abah Abah, Minister of Finance, Cameroon
Presenter:	Ade Olomola, Department of Economics, University of Ibadan, Nigeria
Discussant:	Gwantwa Mwakibolwa, Director Bank of Tanzania

According to Ade Olomola, agricultural production and exports have grown considerably, and many commodities have seen price booms in recent years. Price volatility has allowed traders to gain from risk management and speculation, while small farmers and labourers lose. The booms reflect growth in developing countries, Europe's taste for exotic fresh foods, climate fluctuations, instability in producing countries, high energy costs and price speculation. Booms provide enhanced opportunities because they appear to be medium term, and African countries could well benefit owing to their renewed commitment to agricultural transformation and to attracting FDI into agriculture. On the other hand, Professor Olomola asserted, the booms also create challenges to food security from competition between food and export crops and rising food prices, and to the environment from unsustainable production practices. Other challenges he pointed to are ensuring farmers – rather than traders and distributors – capture the gains, and promoting employment generation and poverty reduction. It will also be hard to retain long-term profitability in the face of policies in the countries of the Organization for Economic Cooperation and Development (OECD) that allow agricultural protection, subsidies and dumping, as well as the development of synthetic substitutes and the growing concentration of purchaser power.

In this context, Professor Olomola said, African governments have limited options for management. International commodity agreements are on the wane. Domestic price stabilization programmes have failed to achieve their desired results, as have international exporter compensation schemes. Producer risk management schemes may well have limited applicability. As a result, African countries would best focus on national supply management through market-oriented stabilization funds, institutionalizing and strengthening producer organizations, revisiting commodity boards, and enhancing cooperation among producing countries. They should also work together to fight anti-competitive behaviour among purchasers, sign longer-term contracts to stabilize prices, create an African Commodity Exchange and add more value to primary commodities.

> Africa will need major capacity building support if it is to capture the gains from current agricultural commodity booms.

In discussions led by Ms. Mwakibolwa, participantsconcluded there was need for the following policy and research actions, among others:

- Turn general declarations of support for agriculture into detailed commodity-specific strategies with important budgets.
- Promote micro-finance to assist farmers.

> Can't we use Africa's own market of 600 million people to provide more price stability through regional agricultural trade?

- Strengthen agricultural institutes for improved technology, research and development, as well as extension services.
- Analyse the potential for intra-African commodity trade, as well as the impact of the ACP-EU Economic Partnership Agreements and any potential Doha-round liberalization.
- Assess the structure of agricultural production more closely – i.e., under what circumstances do large farmers, small farmers and agricultural labourers gain?
  - Examine the impact of land laws and their liberalization on who gains.

Lessons and Policy Options

Following the plenary discussion, the participants divided into three working groups, one on each type of commodity, to discuss lessons learned and policy options. The groups identified the following key lessons and options:

☛ *Oil Booms*

- ***Lessons from previous booms:*** Given that oil is a non renewable resource, it is vital to reduce corruption, negotiate more beneficial and transparent contracts with oil companies, and ensure that oil companies do not evade taxes. It is also essential to distribute resources more equitably among the population taking into account the local socio-political and ethnic context, to direct revenues into investments in other sectors to diversify the economy, and to maximize checks and balances through parliament.

- ***Opportunities/challenges of current booms:*** Government leaders need a clear vision and a workable action plan. Full involvement and education of the population and civil society is essential, especially in minority ethnic zones, in the management of the resources. Civil society can be represented by an independent committee that will advise the government on transparent management. Regional and subregional integration frameworks, such as the Communauté Economique et Monétaire d'Afrique Centrale (CEMAC) and the Economic Community of West African States (ECOWAS), and New Partnership for Africa's Development (NEPAD) peer reviews can be useful, as can support of international organizations such as the IMF and the World Bank.

> The question is, how long will the factors driving the current booms last, and how fast will production capacity reach limits and then fall?

- ***Policy options:*** Perhaps the most important step is internal cooperative dialogue with all stakeholders to overcome those who are benefiting from lack of transparency. Also necessary are support to parliamentary and media investigation and to the civil society by enhancing individual and institutional capacity, using the

NEPAD African Peer Review Mechanism to enforce checks and balances.

> What is the aim of managing commodity booms well? Accumulating foreign reserves and government deposits, or reducing poverty and ensuring sustainable development?

☛ *Solid Mineral Booms*

- ***Lessons from previous booms:*** These vary depending on the degree to which governments still own or tax the mines, the level of achievement of and commitment to macroeconomic stabilization, and the extent to which exchange and interest rates and prices, and the economy more generally, have been liberalized. High fiscal deficits, inflation and debt as well as controls have been major exacerbating factors in the mismanagement of commodity booms, as have lack of investment in government-owned mines, which brought them to a state of virtual collapse and reduced government negotiating power with potential buyers. There was also an impression that booms were permanent and therefore an abandonment of agricultural and other sectors and failure to develop the wider private sector or infrastructure beyond that necessary to serve the mines.

- ***Opportunities/challenges of current booms:*** Current booms are driven largely by demand from China and India, private foreign investment, new uses to support new technologies, and speculative demand, so the question is how long these factors will last, and how fast production capacity will reach limits and then fall. Opportunities are presented by greater economic stability, GDP gains, and the commitment to reduce poverty, develop labour skills, improve the investment image of the country and pay down some debts. Challenges include renegotiating existing agreements with investors during a boom period so as to capture more revenue, adding value through smelting and other procedures, integrating small-scale miners into the boom, and transferring skills more rapidly to locals through training and research.

- ***Policy options:*** The boom is ideally the period during which the country should introduce new legal frameworks to manage revenues, renegotiate agreements with investors, and set up strong procedures and institutions to improve management.

☛ *Agricultural Commodity Booms*

- ***Lessons from previous booms:*** These were limited by the fact that Africa had moved from state-controlled to market-based agricultural sectors. However, the top priorities are to ensure that maximum earnings reach producers, to diversify agricultural sectors in order to dampen booms and busts, to encourage investment by producers and government, to provide market information and promote competition among farmers, and to prevent leakage of revenues to smuggling.

- ***Opportunities/challenges of current booms:*** Participants endorsed those presented in the seminar papers. They added the opportunity to capitalize on booms by diversifying products up the quality and value-added chain. They also cited the challenges presented by high prices for net food importers and the lack of agricultural financing and research institutions compared with OECD and other developing countries.

- ***Policy options:*** Countries have different political and economic contexts, so options will vary. However, they can choose from among:
  - Encouraging farmers to diversify into other crops and non-farm activities, and to save and invest their earnings during boom times.
  - Promoting national economic diversification into manufacturing, value-added and use of by-products by investing boom revenues.
  - Establishing stabilization funds and buffer stocks.
  - Rethinking and restructuring marketing boards so that they can retain their regulatory role and provide support services to the farmers.
  - Encouraging exporters to subcontract to small-scale farmers to facilitate their access to export markets.
  - Investing boom revenues in infrastructure to support farmers – rural roads, electricity, irrigation, extension, technology and research.
  - Joint ventures between countries for value-adding activities, especially within regional trade blocs.
  - Developing effective systems to improve farmers' access to reliable, accurate and timely market information.

The Way Forward

Working groups were also asked to identify potential subjects for a future senior policy seminar. The main topics suggested included: regional economic integration and its role in participatory policy making, trade and infrastructure (especially energy); the role of civil society, institutional reform, decentralization and political governance; and the role of

Suggested topics for future SPS discussion

- Regional economic integration and its role in participatory policy making, trade and infrastructure (especially energy)
- The role of civil society, institutional reform, decentralization and political governance; the role of remittances in economic development
- Reversing the African brain drain and making the African diaspora contribute to development
- Harnessing information and communication technologies for development
- Development in post conflict and "fragile" states
- Rural development to encourage more sustainable non-farm livelihoods

remittances in economic development. Among others were how to reverse the African brain drain and make the African diaspora contribute to development; how to harness information and communication technologies for development; development in post conflict and "fragile" states; and how to boost rural development to encourage more sustainable non-farm livelihoods.

Olu Ajakaiye, AERC Research Director, responded on behalf of AERC by indicating that the main lesson of the seminar had been that each country needed to be aware of and examine its own policy options. A first step after the seminar would be the publication and wide distribution of the seminar report and a more extensive Policy Brief to encourage policy makers and researchers to respond to the issues raised by participants. Thereafter the individual papers would also be published by AERC and disseminated widely within the AERC network. The seminar report, policy brief and papers will also be available on the AERC website in due course.

> Besides the technical aspects. we would also like to see future Senior Policy seminars discuss the role of research and training in informing Africa's economic policy making.

In his closing remarks, William Lyakurwa, AERC's Executive Director, reminded participants of AERC's other current policy-oriented major research projects, including on institutions and service delivery; ICT and economic development; the links between poverty, reproductive health and growth; and export supply capacity constraints. He thanked the presenters and participants for their high-quality contributions, as well as all those who had contributed to the organization of the seminar, for the richness of the policy lessons and options it had generated. He assured participants that their diverse suggestions for future senior policy seminars would be considered carefully as AERC plans the next seminar, to be held early in 2008.

ANNEX A
Seminar Papers

Managing Commodity Booms: Lessons of International Experience
By Paul Collier

The Macroeconomics of Oil Booms: Lessons for SSA
By Ibrahim A. Elbadawi and Linda Kaltani

Managing Previous Oil Booms in Sub-Saharan Africa
By Akin Iwayemi

Managing Previous Solid Mineral Booms in Sub-Saharan Africa
By Happy Siphambe

Management and Challenges of Commodity Booms: The Case of Zambia
By Noah Mutoti

Managing Previous Commodity Booms in Sub-Saharan Africa
By Nehemiah Ng'eno

Strategies for Managing the Opportunities and Challenges of the Current Agricultural Commodity Booms in Sub-Saharan Africa
By Aderibigbe S. Olomola

ANNEX B
Seminar Participants

Benin

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ANNEX C
Seminar Programme

DAY 1: Tuesday, 27 February 2007

08.00–09.00	Registration	
09.00–09.30	**Opening Session / Welcome**	
	Welcome:	Hon. Augustin Frédéric Kodock, Minister of State, Ministry of Planning, Programming and Local Development, Cameroon Prof. William Lyakurwa, Executive Director, AERC, Nairobi, Kenya
	Official opening:	H.E. Ephraim Inoni, Prime Minister, Republic of Cameroon
	Vote of thanks:	Prof. Olu Ajakaiye, Director of Research, AERC, Nairobi, Kenya
10.30–10.45	TEA/COFFEE BREAK	
10.45–11.00	**Seminar Objectives and Overview**	
	Presenter:	Prof. Olu Ajakaiye, Director of Research, AERC, Nairobi, Kenya
11.00–12.30	**Session 1:**	**Managing Commodity Booms: Lessons of International Experience**
	Chair:	Hon. Augustin Frédéric Kodock, Minister of State, Ministry of Planning, Programming and Local Development, Cameroon
	Presenter:	Prof. Paul Collier, Centre for the Study of African Economies, Oxford University, UK
	Discussant:	Prof. Ernest Aryeetey, Director, Institute for Statistical, Social and Economic Research (ISSER), University of Ghana
	Plenary discussion, question and answer session	
12.30–14.00	BUFFET LUNCH	

14.00–15.30	**Session 2:**	**Managing Previous Oil Booms in Africa**
	Chair:	Hon. Anne Itto, Minister of State, Ministry of Agriculture, Sudan
	Presenter:	Prof. Akin Iwayemi, Department of Economics, University of Ibadan, Nigeria
	Discussant:	Dr. Wani Tombe, Under Secretary, Ministry of Finance and National Economy, Sudan
	Plenary discussion, question and answer session	
15.30–16.00	TEA/COFFEE BREAK	
16.00–17.30	**Session 3:**	**Strategies for Managing the Opportunities and Challenges of the Current oil Boom in SSA**
	Chair:	Hon. Polycarpe Abah Abah, Minister of Finance, Cameroon
	Presenter:	Dr. Ibrahim Elbadawi and Linda Kaltani, The World Bank, USA
	Discussant:	Dr. Shehu Misau, Director of Revenue, Federal Ministry of Finance, Nigeria
	Plenary discussion, question and answer session	
19.00	**Cocktail/Reception**	

DAY 2: Wednesday, 28 February 2007

09.00–10.30	**Session 4:**	**Managing Previous Solid Mineral Booms in SSA**
	Chair:	Hon. John Benjamin, Minister of Finance, Sierra Leone
	Presenter:	Prof. Happy Siphambe, Department of Economics, University of Botswana
	Plenary discussion, question and answer session	
10.30–11.00	TEA/COFFEE BREAK	
11.00–12.30	**Session 5:**	**Strategies for Managing the Opportunities and Challenges of the Current Solid Mineral Booms in SSA**
	Chair:	Hon. Simeon M. Moribah, Deputy Minister, Ministry of Planning and Economic Affairs, Liberia
	Presenter:	Dr. Noah Mutoti, Director, Bank of Zambia
	Discussant:	Mr. Hippolyte Nsimundele, Chargé d'Etudes, Ministère des Finances, DRC
	Plenary discussion, question and answer session	
12.30–14.00	BUFFET LUNCH	
14.00–15.30	**Session 6:**	**Managing Previous Agricultural Commodity Booms in SSA**
	Chair;	Hon. Prof. Ephraim Kamuntu, Minister for Tourism, Trade and Industry, Uganda

	Presenter:	Dr. Nehemiah Ng'eno, Consultant, Kenya
	Discussant:	Dr. Augusto Bambo Sumburane, National Director of Studies, Ministry of Finance, Mozambique
	Plenary discussion, question and answer session	
15.30–16.00	TEA/COFFEE BREAK	
16.00–17.30	**Session 7:**	**Strategies for Managing the Opportunities and Challenges of the Current Agricultural Booms in SSA**
	Chair:	Hon. Polycarpe Abah Abah, Minister of Finance, Cameroon
	Presenter:	Prof. Ade Olomola, Department of Economics, University of Ibadan, Nigeria
	Discussant:	Mrs. Gwantwa Mwakibolwa, Director, Bank of Tanzania
	Plenary discussion, question and answer session	
17.30–18.15	**Session 8**	**Orientation to Working Groups / Breakout Sessions**
	Briefing:	Prof. Olu Ajakaiye, Director of Research, AERC
	Plenary discussion, question and answer session	

DAY 3: Thursday, 1 March 2007

09.00–12.30	**Session 9:**	**Working Groups / Breakout Sessions**
(10.30–11.00	*TEA/COFFEE BREAK)*	
Breakout groups:		
Agriculture:	Convener:	Mr. Victor Mbewe, Governor, Reserve Bank of Malawi
Oil:	Convener:	Hon. Augustin Frédéric Kodock, Minister of State, Ministry of Planning, Programming and Local Development, Cameroon
Solid minerals:	Convener:	Hon. John Benjamin, Minister for Finance, Sierra Leone
12.30–14.00	BUFFET LUNCH	
14.00–15.30	**Session 10:**	**Reporting from Group Chairs and Closure**
	Chair:	Prof. Ernest Aryeetey, Director, Institute of Social Statistics and Economic Research, Ghana
	Closing remarks:	Prof. Olu Ajakaiye, Director of Research, AERC Prof. William Lyakurwa, Executive Director, AERC, Nairobi, Kenya
15.30–16.00	TEA/COFFEE BREAK	
18.00	CLOSING DINNER	

The ***African Economic Research Consortium*** (AERC), established in 1988, is a public not-for-profit organization devoted to the advancement of economic policy research and training. AERC's mission is to strengthen local capacity for conducting independent, rigorous inquiry into problems facing the management of economies in sub-Saharan Africa. There are two principal approaches to this: learning by doing research in thematic, collaborative and other modalities, and support for postgraduate training through collaborative master's and PhD programmes.

Networking – the linking of individuals and institutions in a knowledge sharing, experience sharing framework – is the key strategic instrument for implementing AERC's activities. The network approach links economists within and outside the region and promotes professional esprit de corps.

The Consortium is itself a network of 16 funders who support a commonly agreed programme of research activities, its dissemination and the training of future potential researchers. The Board of Directors sets broad policy, provides support for a multi-year programme of activities, approves annual work programmes and budgets, and appoints the Consortium's international staff. An independent Programme Committee sets the research agenda, advises on scientific matters, and reviews and approves proposals for research and training grants. Academic Boards for the collaborative master's and PhD programmes oversee the implementation of their respective programmes. A small Secretariat, based in Nairobi, Kenya, manages the programme and provides technical support to researchers, students and participating institutions. This organizational structure allows for ownership of AERC activities by the network of local researchers, an independent determination of the research agenda, and a programme of activities that is responsive to the professional and policy needs in the region, while at the same time ensuring accountability to funders.

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Contents

Abbreviations

AERC	African Economic Research Consortium
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AU	African Union
CEMAC	Communauté Économique et Monétaire de l'Afrique Centrale
CEPI	Cellule d'Études et de Planification Industrielle
DRC	Democratic Republic of Congo
ECOWAS	Economic Community of West African States
EITI	Extractive Industries Transparency Initiative
FDI	Foreign direct investment
GDP	Gross domestic product
HIPC	Highly indebted poor country
HIV/AIDS	Human immuno-deficiency virus/Acquired immune deficiency syndrome
ICT	Information and communication technology
IDRC	International Development Research Centre
IFI	International finance institution
IMF	International Monetary Fund
ISSER	Institute of Statistical, Scientific and Economic Research
MDGs	Millennium Development Goals
MTEF	Medium-term expenditure framework
NEPAD	New Partnership for Africa's Development
NISER	Nigerian Institute of Social and Economic Research
OECD	Organization for Economic Cooperation and Development
PRSP	Poverty reduction strategy paper
SOAS	School of Oriental and African Studies
SPS	Senior Policy Seminar
SSA	Sub-Saharan Africa
UEMOA	Union Monétaire et Économique Ouest Africaine
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme

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