Development Centre Seminars

Reform and Growth in Africa

INTERNATIONAL DEVELOPMENT

Preface by
Jorge Braga de Macedo
and Omar Kabbaj

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AFRICAN DEVELOPMENT BANK

DEVELOPMENT CENTRE OF THE ORGANISATION
FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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Foreword

This publication was undertaken in the context of the International Forum on African Perspectives, jointly organised by the African Development Bank and the OECD Development Centre. It forms part of Centre's research programme on *New Forms of Co-operation in Emerging Africa*, and the Centre's External Co–operation activities. The Forum held its first meeting in Paris on 3 and 4 February 2000 under the title *Emerging Africa*. Contributions to that meeting are included in this volume.

Acknowledgements

This book would not have been possible without the assistance of the French Ministry of Finance, Economy and Industry, who graciously provided the facilities in which the First International Forum on African Perspectives took place. Accordingly, the editors would like to thank Florence Tordjman, of the Direction du Trésor for her role in this co–operation. Our gratitude is also extended to Henny Helmich, Robert Mondeil, Kemal Saiki and Catherine Duport for the organisation of the Forum, and to Sheila Lionet, Vanda Legrandgérard, Richard Ward, Véronique Sauvat and Maryvonne Briand without whom production of this book would not have been possible. Finally, this book would be incomplete without recognition of the decisive role in establishing the Forum played by the Development Centre's former President, Jean Bonvin.

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Preface

The progressive adoption of prudent macroeconomic policies coupled with structural reforms has been assisting most African economies in recording positive growth. But the bases of this recovery are still fragile, as shown by the impact of the Asian crisis, the shortcomings of governance mechanisms, and the limited trickle–down that has occurred so far to alleviate the plight of extreme poverty.

Recognising the need to establish a regular instrument for analysis and dialogue on the growth prospects and policy challenges facing Africa, the African Development Bank and the OECD Development Centre decided to launch the *International Forum on African Perspectives*. The first meeting took place in February 2000 on the theme of "Emerging Africa". The timeliness and topicality of the Forum helped make it a success; over 300 participants, including ministers and policy makers from both African and OECD Member countries, experts, government representatives, journalists and business people, filled the Conference Centre of the French Finance Ministry at Bercy.

The meeting provided a platform for the participants to debate if the current reforms being undertaken in certain African countries were succeeding in identifying major bottlenecks to growth, in addressing major distortions in the functioning of domestic markets, and in promoting their integration into the world economy.

Three issues emerged as particularly essential. First, there was a growing convergence among all policy makers present about how to set priorities in reforming domestic institutions and how to use development aid and co–operation to break standstills. Second, the importance of creating more positive interaction between foreign assistance and domestic reform was highlighted. Third, the opening of global commercial markets to African countries was seen as crucial to improving the working of domestic markets.

This volume presents the papers and discussions at the Forum. We believe that its rapid publication, appearing only a few months after the meeting, will inform the debate on growth strategies in Africa and contribute to new initiatives to strengthen governance in a global economy. In addition, the need for further and deeper analysis on the challenges facing Africa and for increased visibility of these issues will serve to establish a long and fruitful partnership between the two institutions.

We wish to express our gratitude to the authors for their quick revisions and to participants for their excellent contributions during the Forum; both guarantee the lasting appeal of this publication for those interested in development and in Africa.

Jorge Braga de Macedo
President
OECD Development Centre
Paris

Omar Kabbaj
President
African Development Bank
Abidjan

April 2000

Opening Remarks

Philippe de Fontaine Vive

It might seem audacious to devote this forum to "emerging Africa", because apart from a few countries (Republic of South Africa, Botswana, Mauritius) for which this term seems suitable, this is not the image we have of the African continent. The challenges still to be met come more readily to mind, despite the progress achieved in ten years and continuing efforts by the international community to support these developments.

Instead let us underline the conditions for achieving this goal in coming years:

— overcoming poverty and fighting the scourge of AIDS;

— continuing reforms now well underway which will ensure the economic and human development of Africa; and

— strengthening the partnership with the international financial community to end over–indebtedness, to promote private investment in Africa and integrating Africa better in the world economy.

Reducing Poverty and the Fight against AIDS Remain the Main Challenges of the African Continent for the Next Millennium

The challenge of poverty in Africa remains unchanged because the recent improvement in Africa's economic situation is still inadequate and its integration in the world economy remains too marginal to lead to a virtuous circle of growth.

— The last evaluation by the World Bank underlined the uniqueness of sub–Saharan Africa where the absolute number of poor people continues to grow and where, compared to other regions of the world, progress in the last ten years in providing access to education and health were the slowest. Indeed, it now seems to be recognised that a minimal growth rate of 5 to 8 per cent is necessary to have a real impact on growth and economic and social development.

— Moreover, Africa is faced with a major public health problem linked to the AIDS epidemic. It is a real calamity which can nullify all the efforts for development of this continent. A few figures show this: more than 11 million Africans are already dead, and 22 million have this disease which affects 34 million people in the world. The life expectancy in many African countries has now decreased: a quarter of the adults are infected in Zimbabwe and Botswana; a child born in Zambia today has one chance in two of dying of AIDS; in many other African countries the probability of dying of AIDS is greater than one in three. The international community cannot wait long before acting on this question; the future of Africa depends on it and the recent meeting of the UN Security Council on this subject proved it. France has already taken some practical steps by financing projects for prevention and treatment in Côte d'Ivoire and Mali through the *Fonds de Solidarité thérapeutique international*. We wish to do more in co–operation with the WHO, UNAIDS and other donors like the African Development Bank and the World Bank.

Only the Continuation of Reforms Now Well Underway will Enable the Objective of a Sustainable Economic and Social Development to be Attained in Africa

Actually, recent economic results of the African continent reflect the success of structural adjustment policies carried out with determination, even though the results are still contrasted. Real annual growth of the African GDP has attained an average of 4 per cent during the five last years. Inflation which was about 40 per cent during the first half of the 1990s has been reduced to a single figure. These performances should be improved by the return of a more favourable world economic outlook after the shock of the international financial crisis. The performances should reflect a better distribution of the fruits of growth to the benefit of the most impoverished people in these countries. That assumes a better distribution of public expenditure and national priorities clearly focused on human investment and reducing poverty.

African economies remain fragile because they too often remain based on mono–production and depend on the prices of basic commodities which still experienced major fluctuations in recent months. The diversification of the African economies remains a challenge. African countries must work to eliminate the obstacles to economic efficiency, productivity and competitiveness. Reforms in the financial sector should stimulate domestic saving and optimise the allocation of resources. Moreover, African economies lack quality infrastructure, especially transportation and communication networks for supporting a harmonious development of trade. That will require large–scale mobilisation of public and private resources, the latter having been neglected in Africa for too long.

However, this mobilisation of private investment will only be possible in countries not weakened by endless political instability; a restoration of peace is a *sine qua non* of sustainable development of the African continent.

Beyond that, a consensus now holds that advocating macroeconomic stability is useless if significant efforts are not also made to strengthen the institutional capacity of these states, promote transparency in the management of the public affairs, adapt regulatory frameworks and fight against corruption.

The support of the international financial community remains more necessary than ever in Africa to insure the success of basic reforms undertaken in many African states.

The Partnership with the International Financial Community should be Strengthened to End Over–Indebtedness, Promote Inflows of Private Investment to Africa and Improve the Continent's Integration in World Trade

The continuation of official development assistance remains essential because private international flows have only marginally benefited the poorest countries, and in particular those of Africa. This is why France continues to be the most generous G–7 country with respect to official development assistance.

Official development assistance, now stagnating, should in the future be more oriented towards the countries which need it most. That was the reason why France successfully advocated that half of the resources of the AID–12, the principal concessional funds of the World Bank, should be devoted to sub–Saharan Africa. The agreements on the replenishment of the African Development Fund and on the fifth increase in capital of the African Development Bank will enable them to play a major role in the coming years to help support structural reform in these African countries, in partnership with the other Bretton Woods institutions

One of the major challenges of the coming years is to put an end to the over–indebtedness of African countries. In this respect 1999 was a turning point since the Cologne G–7 Summit decided to enlarge and strengthen the initiative on debt of the highly indebted poor countries, which establishes an appropriate framework for dealing with their bilateral and multilateral debt. This initiative involves considerable international financial aid of 70 billion euros of debt cancellation and potentially applies to 33 African countries out of 41 eligible countries. It serves three essential concerns of France:

— *solidarity,* which should lead to giving the countries the most favourable treatment possible. In that respect French financial aid amounts to 7 billion euros;

— *equity,* which leads France to expect equitable sharing of the burden by its partners in the Paris Club and international financial institutions; and

— *responsibility,* which explains why these exceptional measures of support will benefit countries whose policies of economic and social management and good governance are irreproachable.

The treatment of debt must serve development and allow the eligible countries to finance priority expenditure to fight poverty. That led us to fully support the new approach of the Bretton Woods institutions which, drawing "lessons from their past experience and failures", according to Michel Camdessus, have just updated their conception of development and their financial instruments by putting the reduction of poverty at the heart of things. Governments themselves will define their budgetary priorities to support growth and fight poverty, and will establish national strategies of poverty reduction approved by the Bretton Woods institutions which will form real bonds of trust linking their population and the international community.

What would be the use of cancelling debt and providing substantial official aid if at the same time poor countries cannot export their products? Gradual improvement of Africa's integration in world trade is a priority: that assumes greater access to the markets of the OECD countries. The Lomé Convention has provided and continues to provide the ACP countries with a more favourable framework for trade with Europe than with the two other great world economies (the United States and Japan). The new convention, now being finalised, will evolve while preserving progressive integration with world trade and supporting regional dynamics.

Thus a window of opportunity for the revival of the African continent opens on the eve of this new millennium, provided that the fight against poverty is at the heart of the national priorities.

Keynote Address

Omar Kabbaj

The Reform Process in Africa

A cursory review of political, economic, and social conditions in Africa as the continent enters the 21st century would reveal the far–reaching changes that have occurred in the region in the recent past. Although a superficial observer may see Africa only as a region of civil conflicts and limited economic progress, much has changed. Political, economic, and social conditions in Africa today are increasingly differentiated across sub–regions, and the situation today is far more complex than the simple picture that is often portrayed in the mass media.

In assessing political, economic, and social conditions in Africa, it is useful to step back and recall that at the start of the 1980s, much of Africa was in a state of political and economic crisis. On the political plane, limited progress had been made in setting up systems of democratic governance, South Africa was still under apartheid, and much of southern Africa was in turmoil. The economies of virtually all the countries in the region were also in a state of crisis, with the social gains that countries had made in the immediate post–independence era seriously threatened.

By the mid–1980s, it was evident to a number of African countries that major changes and reforms had to be initiated to arrest and reverse the severe economic and social deterioration that they were experiencing. This recognition led to the adoption of far–reaching reform programmes with the support of the international community. While these first generation reforms were, in the early years, often controversial, their wide endorsement today does signify the acceptance of a new development paradigm by most African countries.

Briefly, the new paradigm includes the following: greater reliance on the market for the allocation of resources and on the private sector for generating rapid economic growth, recognition of the need for prudent macroeconomic policies for creating a favourable environment for investment and enterprise development, the importance of systems of good governance for promoting sustainable development, the need

for an export–oriented industrialisation strategy and the imperative of greater integration into the world economy, and the critical role of foreign capital in augmenting domestic resources for development and for gaining access to modern technology and external markets.

The adoption of this development paradigm has led to marked improvements in the performance of African economies in the last few years. It has also generated a new optimism about the continent's potential for accelerating economic growth and for reducing poverty. A review of the economic performance of African countries during the decade of the 1990s clearly brings out the economic turnaround that is becoming evident in much of the continent.

During the first half of the 1990s, much of Africa continued to experience the severe economic difficulties that it had faced in the 1980s. In the five–year period from 1990 to 1994, for example, real output growth averaged only 1.6 per cent per annum, leading to a decline of 1.3 per cent per year in per capita incomes. The serious macroeconomic imbalances in much of the continent were also reflected in an average rate of inflation of 27.4 per cent for the first half of the decade, and an average fiscal deficit of 5.1 per cent of GDP.

By contrast, the average growth rate during 1995–99 was nearly 4 per cent per annum, with per capita income rising at 1.8 per cent per year. Growth has also been quite widespread with over three–quarters of all countries recording positive rates. Other indicators also show that African countries have begun to adopt sound macroeconomic policies. The inflation rate has declined from a peak of 42 per cent per annum in 1994 to less than 10 per cent in 1999. Similarly, average fiscal deficits for the region are now less than 3 per cent of GDP.

Emerging Africa

While most African countries, with the exception of those that have experienced civil conflicts and adverse climates, have, in recent years, shown noticeable improvements in their economic performance, there is a group of about 20 to 25 countries that are performing well above the average. These countries can indeed be considered as constituting "Emerging Africa", broadly defined.

The group comprises a smaller number of lower to middle income economies of Africa that could be considered as having rightly joined the ranks of the world's emerging markets. In the last decade, these countries have undertaken major structural reforms — including large–scale privatisation and the development of capital markets — thus creating a more attractive environment for the private sector. They have also taken important steps to integrate their economies into the global economy through the rationalisation of their trade regimes. A few, such as Morocco, Tunisia, and South Africa, have gone further and entered into association agreements with the European Community that aim at considerable trade liberalisation and co–operation in many

areas. These countries at present account for the bulk of foreign investment — both direct and portfolio — that is directed towards Africa, with foreign direct investment increasing from an average of $2.5 billion during the first half of the 1990s to $4.8 billion during 1995–98.

Emerging Africa also includes a larger number of low income countries that have yet to join the world's emerging markets but have, nonetheless, begun to transform their economies through sustained economic reforms. These have also begun to attract increased levels of foreign investment. For this group of countries, growth of real output during 1995–99 ranged from 4 to 8.6 per cent and averaged 5.5 per cent. The considerable improvements registered in the management of their economies are reflected in the low inflation rates that averaged 9.7 per cent per annum and fiscal deficits which were 2.6 per cent in 1999.

Africa in the 21st Century

As we enter the 21st century there are a number of important questions about Africa's future that we should pose at this important historical juncture. Foremost among these are: What are the principal challenges facing African countries? What measures should African countries take to assure themselves of a better place in the community of nations? And what types of support should Africa's development partners provide?

There are four fundamental challenges facing Africa in the 21st century: achieving sustainable economic growth and reducing poverty, so that an increasing number of countries join the ranks of emerging markets; meeting the challenge of globalisation and regional integration; establishing systems of good governance; and ensuring that development is environmentally sustainable.

For the few African countries that have joined the ranks of emerging markets, meeting the challenge of economic growth and globalisation requires undertaking further structural reforms to make their economies more competitive on the global market. This will require continued commitment to prudent monetary and fiscal policies, increasing the pace of privatisation, improving the legal and regulatory framework, and investing in human capital to endow the labour force with modern skills. These countries will also need to deepen their financial reforms and strengthen their capital markets. Such measures can be expected to lead to increasing diversification and greater integration into the global economy.

For the lower income countries of Africa, accelerating their rates of economic growth to 6 to 8 per cent per year — thus enabling them to make significant inroads in the reduction of poverty — will require concerted action in a number of areas. These include:

— raising current levels and productivity of investment by deepening financial sector reforms and by creating an attractive environment for foreign investment;

— enhancing the role of the private sector by strengthening legal, judicial, and regulatory frameworks;

— developing infrastructure by fostering public–private partnerships;

— increasing investments in human capital and promoting gender equity, particularly in primary education and primary health care;

— reversing Africa's marginalisation in world trade by rationalising trade regimes, bolstering traditional exports and by promoting the export of manufactures and services; and

— taking new initiatives to strengthen regional integration groupings and make them more efficient by encouraging "open regionalism" and by promoting the joint production of goods and infrastructural services.

A major challenge facing all African countries in the 21st century is establishing systems of good governance. It is now recognised that good governance is not only an important goal in itself but is essential for sustainable development and for the reduction of poverty in the longer term. Promoting good governance requires strengthening of public sector management, reforming the civil service, strengthening legal and judicial systems, and enhancing the participation of stakeholders in decision-making processes. In addition, a special effort has to be made to eliminate corrupt practices.

Finally, another important challenge facing African countries is ensuring that the acceleration of economic growth is environmentally sustainable. Africa today faces a number of serious environmental problems such as rapid deforestation, land degradation, declining water resource levels, and erosion of coastal areas. Every effort must thus be made not only to arrest these developments but also to ensure that the acceleration of economic growth does not exacerbate these environmental problems.

Support from the International Community

The efforts of African countries to develop and transform their economies and to reduce poverty will, for some time, require the support of the international community. For those countries that have joined the ranks of emerging markets — or will soon do so — the international community should provide assistance in the following areas:

— helping these countries expand their trade through the full implementation of existing trade arrangements, and by expanding the coverage of such arrangements to other countries;

— taking additional support measures to increase the flow of private capital; and

— providing assistance to the efforts of these countries to reduce their external debt through market–based mechanisms.

For the lower income countries, international support will be critical in three similar areas. The first is increasing the volume of concessional resources by reversing the unfortunate decline in official development assistance (ODA) of recent years. This now stands at 0.22 per cent of GNP in OECD countries, considerably lower than the goal of 0.7 per cent set by the United Nations. In this connection, OECD partners should reconsider their assistance to low income countries to meet the critical shortfalls in resources.

The second area is enhancing the exports of low income African countries. Currently, tariff and non–tariff barriers often constrain the growth of African exports. It is thus essential that the international community take steps to remove such barriers and open their domestic markets to African exports. The current negotiations between the European Community and ACP countries should indeed go some way to addressing these concerns.

The third area is debt relief for Africa's external debt, which is estimated to have reached $336 billion in 1999. The international donor community has recently taken a major step to strengthen earlier efforts to reduce the debt of heavily indebted poor countries (HIPCs). The enhanced HIPC framework, in which the African Development Bank participates, does indeed represent a major breakthrough. However, its success will depend on sufficient resources being made available by the international donor community. While we are encouraged by the expression of renewed support to the HIPCs made by the Finance Ministers of the G–7 countries at their recent meeting in Tokyo, there is still some distance to go before the HIPC Initiative is fully funded. In addition, tackling the debt problem of Africa in a comprehensive manner will require the resumption of earlier efforts to address the debt problem of post–conflict countries that, at present, are not covered under the HIPC framework.

A final area of co–operation that is critical for Africa's development efforts is support for improving systems of governance, fighting corruption, and reducing military expenditure. In this regard, I wish to express my appreciation for the efforts made by the OECD to tackle the problem of corruption at its roots. Additional measures will, however, have to be taken to ensure the application of various conventions. Also, the OECD countries could have a significant impact on Africa's development by taking measures to reduce arms exports.

The Role of the African Development Bank Group

Let us turn to the role we envisage for the African Development Bank in its mission of promoting economic growth and poverty reduction in Africa, thus assisting African countries in meeting their development challenge in the 21st century. In this regard, I wish to note that in 1999, following broad consultations with all shareholders and a large number of stakeholders, the Bank adopted a new *Vision*. This will guide its activities in the future and will help it to position itself better to meet the needs of its regional member countries. The *Vision* sets poverty reduction and sustainable economic growth in Africa as the overarching objective of Bank activities.

Since 1967, the Bank has approved more than 2 300 operations for a cumulative total of $35 billion. In 1998 and 1999, Bank Group approval for loans, grants, equity investments and debt relief amounted to $1.7 billion each year. To enable it to continue fulfilling its mission in the future, the Bank has in the last few years mobilised considerable resources. The 35 per cent increase in the capital of the Bank in 1999 has considerably enhanced its capacity to raise resources on international capital markets. Similarly, the eighth replenishment of resources of the African Development Fund (ADFVIII) will enable the Bank to make available $3.4 billion on concessional terms to low income countries during 1999–2001.

The Bank's non-concessional lending to creditworthy countries — some of whose members have joined the ranks of the world's emerging markets — has shown a marked resurgence in recent years. This is mainly because of the measures taken to introduce new loan products and the increased demand for resources by these countries. These products, which now include risk management products, are more flexible and respond better to the diverse needs of the Bank's clients.

During 1995-99, such lending reached $4 billion and has taken several forms. A major area of operations has been Bank's support to structural and sectoral adjustment programmes. These policy–based loans have contributed to the creation of stable macroeconomic conditions and to the reform of major sectors, such as the financial and external trade sectors. The Bank has also financed major infrastructure projects, with this sector accounting for 30 per cent of total Bank approvals in the period 1995–99. In addition, a total of $1.2 billion has been provided in the form of lines of credit to major national and sub-regional development banks for on–lending to small and medium enterprises.

In recognition of the central role that the private sector must necessarily play in achieving higher rates of economic growth, the Bank has strengthened this window and adopted a new private sector development strategy in 1996. Accordingly, the Bank now provides assistance to countries for building an enabling environment for private enterprise. It finances directly private sector projects with an expanded array of instruments and participates and assists with the financing of infrastructure projects including BOT schemes. In addition, the Bank extends assistance for privatisation programmes and promotes the development of small and medium-scale enterprises.

In recent years the Bank has stepped up its support to the private sector. Loans and investments to the sector have increased from $22 million in 1996 to $133 million in 1999 and now account for close to 10 per cent of Bank operations. Particular attention has been paid to financing infrastructure, by taking equity in large infrastructure funds such as the $500 million AIG Africa Infrastructure Fund, and focusing on financing small and medium–sized enterprises.

The lending operations of the Bank in low income countries have concentrated on supporting the efforts of these countries to promote economic growth and to reduce poverty. In recent years — in line with the Bank's *Vision* — priority has been given to the agricultural, social and transport sections. The Bank has also established the ADF

Microfinance Initiative for Africa (AMINA) to strengthen the capacity of existing microfinance institutions to lend to the poor who at present have no access to formal credit institutions.

In addition to providing such resources, the Bank, through the HIPC initiative, has also begun to play a major role in the reduction of the debt of regional member countries. The Bank is committed in the coming years to providing $2.3 billion of debt relief to eligible countries. Towards this end, the Bank has made considerable efforts to mobilise resources internally as well as from bilateral and multilateral donors.

Concluding Remarks

Africa will, in the coming decades of the 21st century, make significant progress in accelerating economic growth and reducing poverty. The fact that a significant number of African countries have begun to achieve higher rates of economic growth, leading to improvements in standards of living, does augur well for the entire continent. Despite the considerable progress of these countries, the challenge of sustaining economic growth and achieving significant reductions in poverty remains. African countries will thus need to continue to implement structural reforms, as well as to pursue sound economic policies. African leaders are indeed committed to taking the required steps as witnessed by their solemn pledge at the recent Economic Summit in Libreville, Gabon.

Meeting Africa's development challenges will also require continued support of Africa's development partners, particularly in the areas of concessional resource flows, trade and debt relief. For its part, the African Development Bank, much strengthened in the last few years by its own internal reforms, stands ready to assist its regional member countries face the challenges of the 21st century. It will also strive to continue to be a symbol of the new partnership that is emerging between Africa and the international community.

Emerging Africa: A Summary of the Debate

Colm Foy and Andrea Goldstein

Introduction

The economies of Africa are lagging behind those of other developing regions to a lessening, but still serious degree. Nonetheless, there are signs that some countries are adapting better to the requirements of a new global economy, seeking to follow a growth path traced out by successful Asian and Latin American economies. How to capitalise on these promising signs, and how to measure the signs themselves represent challenges for the African states and international institutions. This is the context in which the African Development Bank and the OECD Development Centre decided to establish the International Forum on African Perspectives, an annual opportunity for the confrontation of African and OECD views and analyses of current economic problems facing the countries of Africa. This volume is based on the first meeting of the Forum in February 2000.

It has become apparent that diversity is an important element in any analysis. This applies both to the approach to analysing economic growth and the conditions in which it takes place. Progress can be measured by defined factors, or indices, evaluated by econometric analysis, but socio–political factors, which lend themselves less to standardised measurement, are also important. The manner in which measurement techniques are applied, must also vary from country to country, from region to region, and even within countries themselves. The question of external influences must also be taken into account, and foremost amongst these factors is aid or, rather, the aid policies of both donors and recipient countries.

The strengthening of international economic interdependence, often shortened into “globalisation”, will require African economies to adapt to new opportunities and new dangers. The opportunities are opened by increasing access for African products in international markets, and by greater potential technology and financial transfer through foreign direct investment and other financial flows. The risk for African

countries is that their “traditional” markets, often based on post–colonial relationships, become more accessible to other producers, while local enterprises are forced to compete with imported products and, especially, services.

One thing is clear: those countries in Africa, just as anywhere else, which succeed in obtaining the greatest benefit from the conditions imposed by international economic interdependence, will achieve the growth levels necessary for sustainable development. The key to this success lies in approaches to governance issues in the public arena as well as in the corporate domain. The two are often linked, since public enterprises remain prominent in most developing countries, and Africa is no exception to this. They are also linked because of overt or discrete links of private owners with government officials and state structures. The Asian crisis has demonstrated the vulnerability which such links can engender, in spite of otherwise strong economic fundamentals. These economic fundamentals, however, are still inadequate in most African countries. Therefore, governance issues are even more important.

Of particular importance in virtually all African countries is official development assistance. In the decade since the end of the Cold War, and in the context of declining aid flows, aid policies themselves are being re–examined on both sides of the equation. In the context of the political imperatives imposed by the Cold War, almost no project was so poor that it could not find a donor somewhere. The result was the use of aid to support corrupt regimes whose governance was appalling. Such policies were responsible for the decline in the ethics of administrations. Thankfully for Africa and, incidentally, for the taxpayers of the donor countries, that era has ended, but it has left behind a legacy of dependency on aid which still has to be overcome. The recipient countries have to shift from simply spending aid, to attracting it through responsible government, financial and fiscal reform, and reform of the private sector. In short, without good governance, donor countries will restrict aid flows more and more. The implication of this is that aid must become more effective. “Doubling the effectiveness of aid,” says OECD Development Centre President Jorge de Macedo, “allows us to do more with less. This is a win–win situation.” Not only will more effective aid benefit the receiving countries, but it will restore legitimacy to the aid policies of donor countries in the eyes of their populations.

The International Forum on African Perspectives was designed to provide “... an opportunity to bridge the gap between the OECD and non–OECD world; to link the world of analysis to that of policy; to provide an arena for ideas”, concludes de Macedo.

The Reform Process: the Evidence

The progressive adoption of prudent macroeconomic policies, combined with structural reforms, has been assisting most African economies in recording positive growth, but this recovery has been threatened by effects of the Asian crisis, the shortcomings of governance mechanisms, and the limited alleviation of extreme poverty

to date. To identify the sources of vulnerability better, the process of structural reform in Africa must be quantified. Dividing reform into five areas, one of us presented a summary index for 23 countries over the period 1985–1997 showing:

— the period after 1990 witnessed a significant opening of domestic financial markets, substantial progress in trade reform, and the introduction of a VAT almost everywhere; by 1997 there was widespread policy convergence in these three areas of reform;

— there is more variation in the two remaining areas (privatisation and international financial liberalisation). Various forms of private sector participation in the utilities have been introduced, but public ownership has been maintained in mining and petroleum. In only a few countries have there been significant sales of government enterprises, and as monopolies still dominate in mobile telephones, the result is that the overall change in the regional index is still quite small; and

— Botswana, Mauritius, and South Africa had a relatively neutral policy stance in the mid–1980s.

The problem of any index, of course, is that it only provides a snapshot based on limited sets of data. As Daniel Cohen of the OECD Development Centre observed, there is a cascade of variables which needs to be disentangled in order to begin to define policy responses. This point was also emphasised by the African Development Bank's T.W. Oshikoya in his critique of the index: "How can reforms be measured in order to provide policy indications to decision makers?" In other words, even if the areas in which reforms can be compared according to their progress, within policy areas, indications are less clear. Different reforms can have different importance, depending on the country, including the influence which reform in one country might have on others in the region. An example of this is labour market reform in Nigeria, which can impact on the policies of neighbouring countries because of Nigeria's size.

An abiding problem associated with establishing an index or, indeed, producing any serious econometric analysis, is measurement. The methodology for measuring the impact of reforms is very important and quantitative measurement in itself is insufficient requiring an element of qualitative measurement. A simple measure of privatisation may be misleading if it cannot take into account the policy environment in which the measure is enacted. Privatisation of banks, for example, in Nigeria, Kenya and Zimbabwe has revealed and intensified weaknesses in the regulatory system. Thus, as IMF Executive Director Riccardo Faini told the Forum, quantification is extremely difficult, given the sample size and the quality of data. The value attached to individual variables can also be affected by their sequencing, and macroeconomic reforms, in order to produce their full effect, must precede structural reforms; just counting the number of either simply will not do.

The policy environment is a factor which influences the applicability of reforms, both macroeconomic and structural. The issue is, once again, one of governance. For Adrian Hewitt, from the British Overseas Development Institute (ODI), the decision

to change a tariff may be a political decision dictated by the regional alignment of force, rather than a decision made in line with the economic policies of a given state. A similar point was made by the Malawian Deputy Minister of Finance Jan J. Sonke, who pointed out that not only were regions rarely composed of countries of nearly identical size and influence, but also experienced liberalisation as a "big bang" effect, giving smaller countries little time to adjust and being obliged to react to the policies and reforms of larger neighbours. The political economy variable in this case takes on greater prominence which might not be adequately reflected by an index. Clearly, however, in the absence of quantification, measurement and analysis, no sound policy decisions can made, for policy should be based on information. The difficulty is in achieving a sufficiently high level of reliability and of avoiding the temptation, cited by ODI's Sheila Page and Ademola Oyejide of the University of Ibadan, among others, of trying to fit results into a predefined mould.

Finally, an index should also include data on bilateral and multilateral aid flows to test whether domestic reforms are complementary to international support. Foreign aid may have unintended negative consequences when recipient countries fail to put in place the necessary policy measures to improve the process of market allocation of scarce resources.

Governance and Human Capital Development

One of the main challenges facing international development agencies today is to make the notion of good governance operational. Many African countries have attempted to reform their governance systems with policies that surpass simple political reform and are attempting to modify the state–economy relationship as well as state–citizen relations. The record is uneven and some countries are experiencing a veritable governance crisis. There a need to move beyond general indices to more disaggregated indices of governance, particularly if effective policy instruments are to be developed and if the donor community is to use efficiently the scarce resources available for improving governance systems in African countries.

An effective strategy for poverty reduction calls for a sustained, broad–based, integrated approach which provides greater employment and entrepreneurial opportunities to promote accelerated economic growth and sustainable development at the level of nations and across the continent. This would also entail investing in building human capital through efficient delivery of social services. Nevertheless, the role of human capital will be stunted unless investment is increased and growth accelerated to the rates that can absorb the increasing supply of labour.

Responding to the findings presented by the African Development Bank's Henock Kifle, John Sender from London University's SOAS pointed out that there is insufficient clarity about the relationship between governance and economic growth. We now know that simply "getting the prices right" fails, by itself, to stimulate growth. Why should this be? The answer lies in the governance issue, but this element is very difficult

to measure and any system of governance indicators is bound to be suspect. For Mustapha Kasse of Cheik Antah Diop University in Senegal, old definitions of good governance are no longer useful because they do not place sufficient emphasis on the source of political power and competitive paradigms. If governance is going to become a condition for aid, a new conditionality, it has to be quantifiable in simple, workable, operational and transparent terms, to cite Sender again. Composite indicators, says Kasse, suffer from the incorporation of ideological prejudices. Getting around this problem implies the creation of national institutes of governance and the creation of anti–corruption bodies capable of establishing national and local indicators for use both by governments and outside funding agencies.

Without a local, African approach, the continent will again fall into the category of a laboratory where external institutions experiment with solutions whose eventual failures remain long after their designers have gone on to other things. The University of Abidjan's Allechi M'Bet cited the example of privatisation in Africa, a process which he said led to public enterprises from OECD countries coming to Africa to acquire privatised assets. Liberalisation, said M'Bet, has resulted in the appearance in Africa of the "working poor" in addition to the unemployed poor more traditionally encountered on the continent. This implies that the long–term effects of reforms on all sectors of society need to be estimated, before deciding on which reforms to implement.

For Jean–Claude Berthélemy of the OECD Development Centre, the choice of which governance measures to implement should depend on three things: government, which should try to eliminate poverty; the institutional framework, which should encourage growth; and transmission channels. According to this analysis, the influence of corruption in interfering with transmission is a key element for research because the reforms are unimportant in themselves if their effects are falsified by corruption. Thus, economics alone cannot provide sufficient depth of analysis to explain the effectiveness of either policy or structural reform, since politics and even social relations define the impact which any given measure might be expected to produce. Henri–Philippe Cart of the Swiss Co–operation Directorate pointed out that press freedom is only a public good if the media operates to ethical standards. Measures and analysis must, therefore, be more embracing and sophisticated, if a proper analysis of governance is to be made possible.

An approach to the analysis of good governance which takes into account the efficient provision of public goods through the public sector might be a place to start. This proposition by Joachim von Braun of Germany's ZEF, has the merit of lending itself to measurement by economic instruments and of giving priority to governance measures which tend towards this goal. Such an approach does contribute to other thinking on Africa's problems, notably that of continued conflict both between and, especially, inside countries. Failure to deliver public goods either equitably or at all leads to that total decline of governance standards which we describe as war. It also rather neatly attaches itself to the idea that privatisation does not relieve government

of its responsibility for adopting good policies, a point made by Mozambique's Pedro Couto. Letting the market take care of itself is not good governance but the abandonment of responsibility by governments.

If the effect of reforms is to weaken the state to the point where it can no longer carry out its basic responsibility of providing public goods to the population, the effect is to produce a bad, rather than a good governance effect. OECD Deputy Secretary–General Sally Shelton–Colby reinforced the observation by the African Development Bank's Hussain that human capital formation is about education; but it is also about health. Child malnutrition in Africa can be as high as 50 per cent, and the HIV–AIDS pandemic is having catastrophic consequences for African countries. The private sector cannot be expected to resolve these problems, and reform policies which reduce the role of the state in economic activity should not deprive the state of the means to combat such social problems whose economic consequences are almost immeasurable.

More research is required, indeed, into the link between human capital formation and growth. Club du Sahel Director Jacqueline Damon commented that cultural and social factors may have a significant impact on this particular question and the question itself implies that the region, rather than the nation–state should have a wider role in raising the level of human capital. Wars and natural catastrophes, to which Africa has been particularly prone in recent times can eliminate whole generations of human capital formation, and the response to them goes beyond the capacity of states alone. This is something which should be taken into account by the donor community, as well. Policies need to be drawn up which have a regional impact and require countries to co–operate in their implementation.

Soumana Sako, former Prime Minister of Mali, took this concept further when discussing the role of women in development. "Emphasising the role of women is not just a fashion," he said, "but a real challenge." He pointed out that women have a particular burden to carry in the light of the HIV–AIDS crisis, but they also have a much–neglected economic role. When women are educated, they are often lost to the labour market because employment opportunities for them do not exist. Education strategies have to include an employment dimension. If graduates either leave the country or become employed in non–productive public–sector jobs, the investment in them will have been largely lost and scarce resources wasted. Capacity building is crucial if human capital resources are not to be wasted. Thus, the question asked by Kasse: "Does education really contribute to growth and, therefore, to reduction of poverty?" While levels of spending on education in Africa have continued to grow since most countries won their independence, there is little proof that this expenditure has had a significant impact on growth levels. In East Asia, however, there is substantial evidence that the educational policies of the rapidly growing economies were significant. Capacity building implies training, as well as education, *per se*. Yet, there is little attention to vocational training in African countries and this might explain the

poor returns to investment in the sector. Where high levels of education and training are reached, the result is brain loss, as graduates seek to escape low income levels, poor prospects and, in the worst cases, war. This is, again, a governance issue.

Another governance issue, perhaps the most spectacular, is corruption. This is not an exclusively African preserve, and, indeed, high levels of corruption have been observed even in some of the successful Asian economies. In Africa, however, because of the weakening of the state and because of the dependence of African states on customs revenues, it takes on a new dimension in an African context. Mabousso Thiam, who heads the West African Enterprise Network, maintained that the state had been weakened to such an extent that it is no longer capable of delivering the means to encourage growth through the private sector. The function of the private sector is to create wealth and to pay taxes; that of the state is to allocate resources. Where states have become significantly weakened, the informal sector has grown, providing unfair competition to the "legitimate" private sector and depriving the state of tax revenue, thereby further weakening it.

The role of the private sector is not to change the environment in which it operates, but to work within it. Private business prefers a bad law which is none the less applied and whose effects are predictable, to a good law which is not implemented. The importance of the private sector is now being recognised by donors, but donors are applying the same principles of operation as they applied to their co–operation with states. The history of such co–operation, however, is less than perfect and a different approach to the private sector needs to be adopted with more emphasis on accountability, relevance and results. The private sector must by its nature survive on its own conditions, and those of the donors must be adapted to this reality. A case in point is the attitude to corruption, which is seen by some as a simple negative, but the private entrepreneur sees it as simply the price to pay in order to stay in business. Corruption is, thus, part of the business environment in which entrepreneurs must operate. The conclusion is that if corruption is to be eliminated, it must be replaced with something which is better. This is a far greater challenge than merely eliminating corruption as an end in itself.

Good governance should increase the capacity of the state to perform its duty of delivering public goods to the population, and such goods include human capital formation, peace and stability and a sound business environment. Failure to deliver these public goods diminishes the capacity of the economy to adapt to the needs of the global economy, and, therefore, to deliver growth which brings poverty reduction in its wake. Policy dialogue is one, important way of discovering the means by which good governance can be achieved in the context of each country, of each region. It is an imperative, therefore, that policy dialogue should intensify and continue to produce new ideas in the search for policy responses to Africa's development challenges.

Accelerating the Take–off

The East Asian growth experience for the past three to four decades has been a step–by–step process involving the economic catching–up of a whole region, starting from conditions of underdevelopment that were considered severe in the 1950s. Although sub–Saharan Africa as a region cannot yet be seen as a full–fledged candidate for economic emergence, in a limited number of countries the GDP per capita could at least double in two decades. Then, under the right circumstances, this economic progress could spread to the rest of the continent. Attaining lower–middle income status would put the countries in question in a much better position to start eradicating poverty, as shown by the experience of other lower–middle income countries such as Morocco, Sri Lanka and Tunisia.

The emergence of parts of Africa means that some economies can escape from a poverty trap and then satisfy the preconditions necessary for long–term economic progress. Breaking free from a poverty trap entails large–scale development of secondary education as well as capital mobilisation through a modern financial system, both of which are often lacking in low–income countries. Apart from South Africa, Mauritius and Botswana, no sub–Saharan African economy has started a sustained convergence process but economic progress has been noticeable in several sub–Saharan African countries in recent years. It is therefore useful to continue to assess the durability of this process, and whether it can be considered a preliminary step towards economic emergence.

Given the servicing of the large debt accumulated by many African countries, which drains a significant part of export revenue and other capital inflows, aid and debt forgiveness remain important tools for assistance in Africa. External relations in the form of preferential trade agreements can also help African countries enhance the level of diversification, as shown by the example of Mauritius. In the forthcoming international trade negotiations, securing free access to the world markets for manufactured goods will be a major issue for African countries aspiring to economic emergence. Nevertheless, African countries themselves will determine the fate of their economies so that it makes sense for donor countries to concentrate aid in countries fulfilling certain criteria which ensures efficient use of the funds provided. Again, institutions have a critical role to play by limiting waste. In particular, sound financial institutions are needed to facilitate the channelling of inflows of funds to the most productive areas.

Inflows of money, however, do not guarantee growth by themselves, especially if, as stressed by the French Treasury's Philippe de Fontaine Vive and Shell's Michael Klein, they cannot be used in a climate of prudent monetary and fiscal policies and within a satisfactory legal and regulatory framework. Those countries which will join emerging Africa will be precisely those which can achieve these conditions. What is required is the right set of incentives, based upon the individual needs of each country, to introduce appropriate reforms and reforms which are sustainable. Steve Kayizzi–Mugerwa from Gothenburg Univeristy observed that, some countries, Ghana, for example, which are still regarded as having implemented the right reforms at the right

time, are beginning to show less impressive results. There may be some kind of law of diminishing returns to reforms which should be taken into account when designing policies. This is a phenomenon which can be observed in other situations and which emphasises the need for reform during non–crisis periods, rather than waiting for collapse to happen and reacting to it.

A new and special role should be found for official development assistance and private flows for Africa. Apart from the governance “conditionality”, mentioned above, the overall efficiency of aid must be increased so that growth can be accelerated without increasing aid flows themselves. Then, of course, the temptation of donors to reduce their aid in consequence should be tackled. As Soumana Sako pointed out, improving the efficiency of aid is good publicity for the continent and strengthens the hand of donor agencies in mobilising funds for Africa’s development. If Africa’s take off is to be accelerated, aid must become a tool for achieving economic growth, not merely a palliative for disaster.

In the same vein, African countries must avoid the debt trap, another consequence of poor governance. The continent’s combined external debt stood at $336 billion in 1999, and much of this debt cannot be repaid under current circumstances. The highly indebted poor countries (HIPC) initiative, designed to ease the debt burden of the most severely affected countries, is important in that it recognises the size of this burden for a number of African countries. However, it does not cover all countries and its complexity has led to criticism that its requirements are insufficiently adapted to the specific requirements of individual countries. In addition, not only is the HIPC initiative not fully funded, it does not apply to some of the post–crisis countries whose needs are also substantial. The African continent would benefit from a comprehensive approach to debt not only by the international financial institutions and donor countries, but also by African countries themselves.

Conclusion

Globalisation is not a policy, it is a process and an economic reality. The countries of the world are now more openly trading with each other, stimulating and benefiting from financial flows, and exchanging information as never before. The potential benefits of this process are highest for those countries with the greatest capacity for growth and innovation; those countries with young populations; and those countries ready to diversify into new products and, especially new markets. All the countries of Africa satisfy these conditions.

There is, however, more. International financial flows, and especially the all–important foreign direct investment, require levels of good governance which are insufficient in most African countries. In the worst of cases, bad governance causes civil and international conflict, poor human capital development, and a trading environment hostile to sound business practices. In the past, these calamitous conditions could be blamed on the after effects of colonialism and the ruthless international policies

of the Cold War. Corrupt and inefficient governments in Africa continued to receive support from outside depending on which political camp they chose to support, and political élites became used to managing economies for their own, narrow benefit. Decades of aid and investment disappeared through civil strife, avoidable natural catastrophe and corruption. Only a few countries have managed over the last decade to begin to throw off this unfortunate inheritance.

These countries, those which gave the theme to the First International Forum on African Perspectives, are the proof that Africa in the 21st century need not resemble the continent in the 20th. These countries, through good governance, attention to the business environment, and investment in their peoples, demonstrate to their neighbours that there is a way out of the poverty cycle and that there is nothing extraordinary about Africa which somehow deprives its peoples of any hope for the future. Whether it be by the "flying wild geese" principle, often quoted in respect of the Asian economies, or by emulation, the mere existence of countries recovering from economic backwardness will stimulate others to rejoin the world economy.

That the process of adapting the challenges of globalisation will be complex and difficult should not deter governments and citizens from choosing this option, for, in reality, it is not an option at all. As the chapters in this volume reveal, globalisation will continue, whatever individual countries do, the only question is: to what extent will African countries be players, rather than observers? We have seen that there are no short and certainly no simple answers to the many problems faced by African countries as they attempt their transformation to growth and prosperity; we have seen that there is no mechanical way of designing policies which will be guaranteed to work. What we have also seen however, is that there is general agreement about the broad lines of policy change which has to be implemented, just as there is recognition of the complementarity between globalisation and governance.

Part One

Views on the Reform Process

The Ugandan Reform Experience

Gerald M. Ssendaula

Introduction

The theme of the reform process in Africa is particularly important for the future of Africa. Many African countries, including Uganda, have made serious efforts to implement far reaching economic and political reforms, with the support of donors including the OECD countries. Few people doubt the need for reforms in Africa, but it is pertinent to evaluate the nature and content of the reform progress given that, across Africa as a whole, the reform programmes have not yet brought about the major improvements in economic growth, development and poverty reduction that the continent requires. The need to re-evaluate reform programmes is recognised by the major international financial institutions — the IMF and the World Bank — who have placed increasing emphasis on the quality of economic growth and its impact on poverty reduction in their own lending programmes with developing countries.

Uganda has been more successful than most other African countries in both raising growth rates and reducing poverty. Real GDP growth in Uganda has averaged 6.5 per cent per annum since the country began to implement economic reform in 1987. Sustained rates of economic growth led to reduction of the incidence of poverty from 56 per cent to 44 per cent of the population during the 1990s, although we still have a long, way to go before we reach our goal of eradicating mass poverty. In this paper I want to examine the lessons that can be learned from Uganda's experience of implementing reforms, and to suggest areas where we need to focus attention in order to strengthen the reform process. I will focus on key areas of Uganda's reform process, macroeconomic policies, market liberalisation, budgetary reforms and human capital development. Three of the areas where I think that much more progress is required are agricultural development, boosting private investment and improving efficiency in the public sector.

Macroeconomic Stability

Maintaining macroeconomic stability, in particular low rates of inflation, is a prerequisite for generating the savings and investment which are needed to raise economic growth rates. It has been argued that the reform programmes adopted in Africa place too much emphasis on low inflation, but I do not agree with this argument. There is no empirical evidence to support the contention that there is a trade off between inflation and growth except in the very short ran: we cannot buy higher growth by raising inflation rates. Uganda has been successful in reducing inflation from over 100 per cent per annum in the late 1980s to an average of 5 per cent per annum in the last six years. The reduction in inflation has helped to boost the private investment rate, attract inflows of private foreign finance and accelerate GDP growth rates.

The key to macroeconomic stability is strict fiscal discipline. In countries where the domestic financial system is very shallow and there are few opportunities to borrow funds from the non–bank public, as is the case in many African countries, even relatively modest government domestic borrowing requirements can lead to large percentage increases in the money supply which fuel high rates of inflation. Inflation was only brought down in Uganda when control was exerted over aggregate government expenditures in 1992–93.

Fiscal discipline requires an effective system of expenditure control. This was achieved in Uganda through a centralised cash management system operated by the Ministry of Finance, and several other African countries have established similar cash management systems. However, centralised cash management systems, although effective in controlling cash outlays, are not the ideal form of budget management. The challenge we now face is to strengthen the institutional mechanisms for control over expenditure commitments and budget management in general in the line ministries.

Liberalising Markets

The liberalisation of key markets, notably trade and foreign exchange markets, agricultural exports marketing, and banking markets, has generated major benefits for the Ugandan economy for two reasons. First, it has improved the efficiency of resource allocation by removing some of major policy–induced distortions, such as the overvalued exchange rate. Second, liberalisation created new opportunities for private sector activities and provided incentives for the revival of existing industries. It has been argued that liberalising markets worsens income inequality and exacerbates poverty. That has not been our experience in Uganda. In fact the single most important factor contributing to the fall in the incidence of poverty in the 1990s was the liberalisation of coffee marketing, and the impact that this had on the incomes of coffee farmers.

Reforms to the Budget Process

The primary goal of economic policies in Uganda is poverty reduction. The government's poverty reduction strategy was set out in the Poverty Eradication Action Plan, drawn up in 1997 after widespread consultation with civil society and our donor partners, and which is now being revised as part of the process to develop a Poverty Reduction Strategy Paper. This strategy includes a key role for the government budget as a tool of poverty reduction through the allocation of expenditure to key services and projects which have the potential to make major contributions to poverty reduction; including primary education, primary health care, agriculture, water and sanitation and rural roads. The Poverty Eradication Action Plan sets out the sectoral priorities to guide budgetary allocations.

There have been radical changes in the way Uganda manages public expenditures and develops its budget since the mid 1990s. Uganda has developed a three–year medium–term expenditure framework (MTEF). Similar MTEFs are now being adopted in many African countries because they offer several important advantages for budget management.

First, the MTEF forces policy makers to make strategic medium–term choices over resource allocation within the budget, and helps to ensure that budgetary resources are allocated in line with national priorities, in particular to the key sectors identified as being most important for poverty reduction.

Second, the MTEF can help to improve the predictability of budgetary resource allocations to line ministries and thereby facilitate budget planning.

Third, by involving all stakeholders in the sector working groups which develop sector plans and budgets and monitor the performance of current programmes and projects, the MTEF can help to broaden the participation of civil society in economic decision making.

Fourth, the MTEF provides an opportunity to elicit greater clarity in donor financing plans. The government can present its MTEF to the donors at the annual Consultative Group and Public Expenditure Review meetings and ask the donors to provide commitments of support for the budget on the basis of its medium–term plans and strategic priorities. Donors, for their part, have a clearer idea of the type of expenditures which recipients will be undertaking with the aid of donor support.

Human Capital Development

A key government policy is the universal provision of primary education. As is widely acknowledged, universal primary education makes a major contribution to two, essential long–term economic and social development objectives: economic growth and poverty reduction, by improving the quality of the future labour force.

The success of some of the East Asian developing countries in achieving a pattern of rapid economic growth which reduced income inequalities and brought about major reductions in poverty levels has been attributed to the emphasis that these countries placed on primary education for all children from the 1960s onwards. There is also evidence to show that educating girls leads to improved health and nutrition, the greater use of family planning services and reduced birth rates, and population growth rates.

To achieve the objective of making primary education available to all children, the Ugandan government has substantially increased the budgetary resources channelled into the education sector, with the help of considerable support from our donor partners. Almost 30 per cent of the government budget is now devoted to education, more than double the sector's share of the budget in the late 1980s. This enabled the net primary school enrolment rate to be raised from 55 per cent in 1994/95 to 94 per cent in 1998/99. However, the constraints to the provision of universal primary education are not purely financial; there are shortages of teachers, classrooms and teaching materials which impact on the quality of education. Moreover, the completion rates for primary schooling are still too low — an estimated 50 per cent of children do not complete primary school — in part because the costs of schooling are too high for some poor families.

Agricultural Development

The vast majority of the poor still live in rural areas and earn their living from largely rain-fed smallholder agriculture, thus it will not be possible to eradicate mass poverty in the absence of rural development and agricultural modernisation. Reform programmes in Uganda and other African countries have revived cash crop agriculture, especially the traditional tree crop export sectors, but in most countries reforms have yet to make a major impact on smallholder food crop production. In Uganda, real output in the cash crop agricultural sector doubled during the 1990s, but real output in the food crop sector increased by only 33 per cent, which implies that real output per worker in that sector was stagnant. Consequently, whereas cash crop farmers enjoyed a 27 per cent decline in the incidence of poverty in this sector between 1992-93 and 1996-97, there was a negligible decline in the incidence of poverty among food crop farmers.

The development of the food crop sector faces severe constraints: rudimentary technology, poor access to markets and financial services, lack of supporting infrastructure and, in many areas, environmental degradation. To raise productivity and incomes in smallholder food crop agriculture, it will be necessary for farmers to adopt improved farm technology and produce cash crops for the market. Raising productivity in agriculture will entail basic improvements in crop and animal husbandry; increased use of higher-yield, disease and pest resistant crops; greater use of fertilisers and pesticides; cost effective water harvesting and irrigation infrastructure; and the use of better soil conservation techniques. Agricultural and rural development will

require public investment in rural infrastructure, especially feeder roads, and agricultural research and extension services. Governments, with the support of donors, will have to devote more resources to supplying these public goods and services. Reforms must also support the development of rural markets. The Ugandan government is now formulating a strategy for the modernisation of agriculture with the objective of assisting smallholder farmers to adopt improved farm technology and produce for the market rather than for subsistence.

Boosting Private Investment

Although private investment rates have more than doubled in Uganda since the economic reforms began in the late 1990s, this was from a very low base. Private investment was 13 per cent of GDP in 1998/99, which is low in comparison to the fast growing countries of East Asia which have been able to sustain private investment rates of between 20 per cent and 30 per cent of GDP. Despite the reform programmes, private investment rates have remained relatively depressed in most African countries, including those such as Ghana and Uganda whose economies have grown strongly. Uganda has attained robust rates of economic growth by improving the efficiency of existing factors of production, but this is unlikely to be sustainable in the long run without higher levels of investment. To sustain the rapid GDP growth needed to eradicate mass poverty, it will be necessary to boost private investment rates substantially, especially in sectors such as food processing, commercial agriculture and utility provision. However, beyond providing a framework of macroeconomic stability, open markets, competitive tax rates and a transparent and effective legal system, it is not clear what type of further policy reforms are needed to boost private investment.

Improving Efficiency in Public Service Provision

A key area on which future reforms must focus is the efficiency and quality of public services, which must be improved if the increased budgetary allocations to basic social services, such as education and primary health care, are to have maximum impact in raising the welfare of the poor. To boost efficiency and quality in public service delivery, radical solutions to public service reform should be considered; for example, we should consider introducing solutions which are effective in the private sector to motivate staff and improve efficiency. There is also an urgent need to reform public service salary structures to bring them closer into line with prevailing market levels. In Uganda, mean salary levels for public servants are only 40 per cent of private sector salaries for equivalent jobs, while for some key professionals — such as accountants, economists and engineers — public sector salary levels are only a third of market levels. With relative salaries as low as this, government cannot attract or

retain the most capable personnel, motivation of public servants is poor, and the incentive to moonlight or engage in corruption in order to supplement wages is high. However, pay reform should be linked to the introduction of result–oriented personnel management, with clear standards and benchmarks for staff performance, and rewards and sanctions linked to the achievement of these standards.

Conclusion

After more than a decade of reforms in Uganda we have learned important lessons. Macroeconomic stability, which is the foundation of sustained economic growth, depends upon fiscal discipline. Market liberalisation is also needed to raise growth rates but is not incompatible with poverty reduction. The public sector has a key role to play in poverty reduction but this requires reforms to budget management. The MTEFs, already in operation or currently being introduced in several African countries, are an important innovation which can enhance budget planning, ensure that budgetary resources are allocated according to strategic priorities and facilitate the involvement of civil society in the budget process. However, a second generation of reforms are now needed to complement those already implemented. These reforms should focus on the development of smallholder food crop agriculture — the sector where the majority of the poor in Africa earn their living, boosting private investment and improving the efficiency and quality of public services. Designing and implementing the second generation of reforms is the major challenge facing policy makers at the start of the 21st century.

The Reform Process in Sub–Saharan Africa

Uschi Eid

It is vital for us to examine the various different aspects of African reality. Africa's public image is mostly that of a continent in crisis. Wars, the collapse of the state, refugee movements, destitution and corruption are the main features of the picture. None of us can deny that this is indeed part of the African reality. Many African countries are currently undergoing an extremely difficult process of political and economic transformation. This process of transformation is being dealt with by the 48 countries south of the Sahara in a number a different ways.

Whilst the much–heralded renaissance may still be some time coming, it can nevertheless be said that the worldwide political and structural transformation that began more than ten years ago has also triggered far–reaching change in sub–Saharan Africa. As a result, there are now much greater differences between the social, economic and political conditions in the countries of the region than ever before.

The Africa of the early 21st century is thus not only marked by crises but also by the beginning of national reconciliation in South Africa where the apartheid regime has been removed; a new democratic beginning and combating of corruption in Nigeria; promising democratic and economic reconstruction in Mozambique; economic success in Ghana and Uganda; and an active process of democratisation in Benin, Mali and Malawi.

The different features specific to each of the countries make it extremely difficult to make a general analysis of the processes of reform in sub–Saharan Africa. Yet, what can be said, is that never before since the African countries gained their independence have so many reforms been introduced and implemented in the political and economic sphere than in the last decade.

Whether we consider the liberalisation of previously regulated markets, the banking sector and the foreign trade regime, the privatisation of state enterprises or political liberalisation and the introduction of multi–party democracies, the situation in many African countries today differs dramatically from that in the 1980s. Freedom House, an American institution that since 1973 has been assessing the degree of political freedom and civil rights in all countries of the world, has arrived at some very positive

conclusions on sub–Saharan Africa: whilst in 1989, 43 countries were still classified as not free and only two (Botswana and Mauritius) as free, by 1999 only 21 countries were classified as not free and nine as free (Benin, Botswana, Cape Verde, Madagascar, Malawi, Mauritius, Namibia, São Tomé & Principe, South Africa). Even in those countries classified as partly free, there is a greater degree of freedom of expression, freedom of the press, freedom of association and assembly than at any time since independence. This does not mean, of course, that we can now sit back and relax. Many new democracies are still extremely fragile and subject to considerable pressures.

In many countries, the state is weak and has only a limited capacity to perform its duties. "Good governance" cannot be said to exist everywhere. Difficult institutional and structural reforms, such as the reform of the civil service and the administrative apparatus, the establishment of an efficient social and economic infrastructure, tax reforms and land reforms are often only in their very early stages. Many countries have yet to start truly altering those structures that present an obstacle to development, and although some African countries are currently experiencing a modest economic recovery, the conditions in which many people in Africa live have deteriorated over the last decade or, at any rate, have not improved.

The World Bank refers to the "Africanisation of global poverty" and notes that, despite all the differences within and between its various countries, Africa, in comparison with all other regions of the world, "lags behind, and the gap is widening". The bottom of the UNDP human development index features 23 African countries. The human tragedies that lie behind these dry statistics are all too often neglected in academic debate.

If conditions are to be improved for the people in Africa, and particularly for the most vulnerable members of society — women, children, young people and the elderly — there can be no alternative to continuing with political, social and economic reforms. The primary responsibility for these reforms, of course, lies with the African countries themselves. As Nelson Mandela put it on his recent visit to Germany, "Leaders on the continent increasingly articulate the understanding that ... Africans will have to take the primary responsibility for their own futures. Good governance, respect for human rights, sound economic policies and practices, an end to debilitating conflicts and wars ravaging many parts of the continent, a concentration of efforts towards the betterment of the lives of the people — these are some of the areas to which attention is directed by African leaders".

It is this prospect which encourages us to continue offering our support to Africa's countries and people. What lessons can we learn from past experience and how can we be partners in the process of reform initiated by the African governments?

Genuine Democratisation is a Prolonged Process that Makes Demands on All Forces in Society

Most African countries have undergone a political transformation over the last few years and have made significant steps towards good governance and democratisation, even if some have experienced reversals. We know that democracy is not a case of simply holding elections. Democratisation is, instead, a process that takes time and can neither be decreed from above nor imposed by external forces. Rather it must be the desire of all social forces within the country, and the process must include:

i) *Development of a democratic culture*, tolerance, openness and the political participation of all groups, including minorities. Where there is no culture of democracy, a culture that must also be reflected in day–to–day life, there is a danger that autocratic practices will persist under the guise of multi–party democracy. This means that democracy must take root at the local level. For this to happen, it is also important that basic education and political education be improved, in rural areas, in particular:

ii) The *strengthening of democratic institutions*, such as parliament and an independent judiciary: a democracy thrives on the separation of powers and parliament's exercising effective controls over the government. In many African countries, parliaments are still weak and must be strengthened at both national and local level. They must be equipped with the resources they need to function professionally. The opposition must perceive themselves as a constructive force rather than simply shirking their responsibilities by taking an obstructionist stance.

iii) *Democratisation of the military and the police.* The forces of law and order have an important function to perform in maintaining internal and external security. Yet, in many African countries, the military and the police are often more a cause of social instability. Often, internal security is taken to mean the security of the regime rather than of the people. It is not uncommon for abuses of human rights to be committed by these very forces. Civil control of the military is important for a lasting process of democratisation. There must, in other words, be good governance in the military sphere, as well.

When closed, authoritarian systems become more politically open, the short–term result can be instability and outbreaks of violence. This process must therefore be supported by measures aimed at reducing the risk of violence. Particular attention needs to be paid to young boys and men aged between ten and 25 who, research shows, are often the main protagonists in violent conflicts and who display particularly violent tendencies.

Far too little attention continues to be paid to the role played by women in civil society and to their importance for development and peace in Africa. Democratisation means, among other things, improving women's position within society in order that they may claim their rights, become increasingly involved in political and social

processes, and have a say in decision making. Recognition of the particular commitment shown by women to a culture of peace and also of their active involvement in seeking peaceful solutions to conflicts could greatly help to stabilise societies.

Political and Economic Reforms Must Go Hand in Hand: Participatory Processes are a Vital Prerequisite for Broad–Impact Development

When political and economic transformations are carried out simultaneously, great demands are placed on all involved. The theory is constantly being mooted that premature democratisation is detrimental to economic growth. African countries, it is then concluded, should therefore concentrate, first, on economic improvements before even thinking about political reforms: bread first, then freedom. That view is false. It is no coincidence that Mauritius and Botswana, the countries in Africa with the best economic performance, have long since been able to call themselves democracies.

But for the sceptics, a further comment might be in order. Having analysed a number of different — and in some cases contradictory — empirical studies, Nobel Prize laureate Amartya Sen concluded that "the hypothesis that there is no relation between economic growth and democracy — in either direction — remains extremely plausible". No particular form of government, therefore, automatically generates economic growth. However — and this is something that seems to have been completely forgotten in some of the studies — economic growth is not the same thing as broad–impact development. Only open, transparent and participatory processes promote true, successful long–term development. Or, as Amartya Sen puts it, "A country does not have to be judged to be fit for democracy, rather it has to become fit through democracy. This is a truly momentous change". Development occurs when all sections of the population have a greater opportunity to act and make choices, thus taking improvement of their lives into their own hands. This is only truly possible in an open democracy.

The Design of Economic Reforms Must be Reviewed — from the Blue Print to Development–Friendly Structural Adjustment

In most African countries, economic reforms and structural adjustment have not achieved the success they promised. Various studies show that in many countries the expected impact of stabilisation and growth either failed to materialise, or occurred only after some considerable time and in a very diluted form.

What form should economic reform processes take in future if they are, firstly, to lay the foundations for long–term growth and, secondly, to be compatible with social needs, ecological needs and democracy — in other words, ultimately, compatible with development?

i) *Stable economic growth.* Even success stories, such as Uganda, where positive real growth rates are currently being achieved, do not provide the answer as to what form self–sustaining economic growth must take. The domestic savings and investment rates remain well below the average for emerging economies. Yet unless additional domestic resources are mobilised and internal financing is increased, any further development in the economy is dependent on external financing. Raising both the domestic savings rate and the level of domestic private investment is of the utmost importance for Africa's future economic development.

ii) *Socially acceptable economic reforms.* The debate on how to make economic reforms socially acceptable is not a new one. A whole range of studies has been conducted into the social impact of structural adjustment measures. The winners and the losers of reform measures are not always the same in all countries. In all cases, though, the reforms cause a considerable degree of redistribution. It is now regarded as "state of the art" for special measures to be introduced in order to cushion the social effects of structural adjustment programmes. Yet the following questions remain. Would it not make more sense to implement appropriate reforms policies that initiate "pro–poor growth" and integrate broad sections of the population into the economic process, instead of cushioning the badly affected groups afterwards? What form could such economic policies take?

It has now been accepted that expenditure on education and health should, as far as possible, be exempted from budgetary cuts. Education and health are social human rights. Yet they are also vital prerequisites for lasting economic development. Declining standards of education and health are not only socially but also economically detrimental. The World Bank puts it as follows, in its typically sober fashion: investment in education for girls is the one single most effective investment a country can make. Education for girls has an impact on all dimensions of development: lower child and maternal mortality, a lower fertility rate, higher levels of education for daughters and sons, greater productivity and better management of the environment. The fact that the school–enrolment rate in sub–Saharan Africa as a whole is lower than it was in 1980 and for poor girls in rural areas is no more than 23 pour cent is clear evidence of the urgent need to act and to remedy the situation. Uganda is proof that such changes are possible. There, enrolment has now been raised to 94 pour cent.

iii) *Ecologically acceptable economic reforms.* Economic reforms must not only ensure that the interests of different sections of the population are reconciled but must also bear in mind the interests of future generations. In other words, it must be ensured that reforms are ecologically sustainable. This is a dimension that has quite clearly been neglected in debate to date and must be accorded a great deal more attention in future.

iv) *Economic reforms compatible with democracy.* The way in which structural adjustment programmes were agreed upon between African governments and Bretton Woods institutions in the past tended in fact to be detrimental to the

democratisation process. Sustainable policy making requires participation, without which there can be no legitimised action in the long term. In many countries, however, neither parliament nor civil society's institutions were adequately involved in policy formulation. It is hardly surprising, then, that such policies never had the support of a broad political consensus within the country concerned, that the process of reform never took root within society and that it was therefore never lasting. We must, in the future, concern ourselves with the processes to a greater extent than we have done in the past. A positive step is that it was decided at the last annual meeting of the IMF and the World Bank (1999) that, in connection with the extended HIPC initiative, loans and grants provided as part of development co–operation will in the future be linked to poverty reduction policies that are formulated in the partner countries themselves. These are to be based on the partner countries' poverty reduction strategy papers, drawn up in a participatory process, rather than any World Bank or IMF documents. This approach would generate a new type of partnership with and within the countries of Africa: it is the countries themselves that draw up appropriate strategies for poverty reduction with the participation of civil society. This new approach, of course, makes great demands not only of our African partner countries but of us as well. "External" agents quite clearly have a supportive rather than a leading role in this process. However, this also means that we have to be patient if the participatory processes in these countries take longer than we would have liked and we must refrain from taking on the formulation of strategies ourselves. Rather, we should, where required, support the national players — be they governmental or non–governmental — in efficiently performing their own particular role. This is the only way to guarantee democratic legitimacy for the strategies.

External Factors that are Impossible or Difficult for Individual African Countries to Influence have a Massive Impact on the Success of Reforms

We ought not to forget that these reform processes do not take place in a vacuum. The regional and global context should not be neglected. The results of reforms in one country are influenced by the policies of its neighbours. Neighbours who are unstable, or even at war, can seriously limit development prospects.

Just as the scope for action available to people in African countries has been, and continues to be, severely limited by a lack of participation in the political and economic process, the development prospects of many African countries are impaired by international policies and structures. Without going into this point in any more depth, it suffices just to note that the deterioration in the terms of trade for raw materials has proved so painful to many countries and also to mention protectionist practices and export subsidies for agricultural products on the part of the industrialised countries. German development policy is therefore campaigning to enable African countries to

represent their legitimate interests in the WTO negotiation process and to ensure that a fair reconciliation of interests is achieved between industrialised and developing countries.

Past experience has shown that development co–operation does not automatically foster the process of reform. Indeed, in some isolated cases it has actually helped to stabilise governments that were resistant to reform and thus to delay the process of development. We have refined our policies in such a way as to encourage reform–oriented forces in African countries to make appropriate changes to political, economic, social and ecological conditions.

It is incumbent on us all to develop and strengthen global sustainable structures that serve to reconcile interests within and between the regions of the world and between present and future generations. We must join with our African partners in seeking creative new approaches so that our vision of peaceful and sustainable development will also become a reality for the people of Africa.

The Case for Privatisation

N.C. Nwokedi

Introduction

In Africa, Asia and Latin America, the use of public enterprises was considered the only way of achieving rapid economic development, particularly in the period after the Second World War when many of these countries attained political independence from their colonial masters. Statutory corporations and state–owned companies increasingly became a means of public intervention in the development process. Their primary purpose was to stimulate and accelerate national economic development under conditions of capital scarcity and structural defects in private business organisations. Another basic consideration was a perceived danger of leaving vital sectors of the economy under the direct control of remote, large–scale, foreign industrial combines. Public enterprises were thus seen as crucial in the quest by Nigeria and other African countries for true national economic independence and self reliance. Within this framework, successive governments in Nigeria encouraged the development of public enterprises.

By the 1980s, however, it had become obvious to most countries that far from promoting development, many public enterprises had become an impediment to progress because they were not achieving their objectives and were an increasingly heavy burden on public treasuries. In Nigeria, there are over 600 public enterprises at the federal level, and transfers from the treasury to these enterprises stood at well over naira 260 billion in 1998 alone. The problems of public enterprises such as ill–conceived investments, political interference in decision making, costly and inefficient use of public resources, a growing budgetary burden, over–extension of the government's managerial capacity, diversion of credit and other resources from the private sector, etc., were documented in a number of reports, notably the World Bank's *Development Report* of 1983 which became the launching pad for a global programme of public enterprise reform.

Throughout the world, the dilemma of a growing contrast between public waste and private thrift has encouraged governments to seek solutions to the problems of public enterprises via privatisation and commercialisation. There are over 70 countries around the world undertaking some form of economic reform, not to mention the wholesale economic restructuring taking place in eastern Europe and the former USSR.

It is widely believed that the public sector in many developing countries is too large, and that privatisation would benefit both users of individual services and the economy in general. However, enthusiasm for solutions based on private enterprise is not always matched by the requisite financial and economic technology. The sort of schemes appropriate for a country like China, with a highly planned public sector, and Jordan, for instance, where the private sector is dominant, are unlikely to be the same. Privatisation without reference to such differences would result in economic, administrative and organisational chaos rather than resolving problems.

The Case for Privatisation

The arguments generally advanced in favour of privatisation in the sense of denationalisation include the following:

— Many policy makers are disenchanted with the fact that a large number of public enterprises are making losses, and their financial performance has remained disconcerting. Hence, it is argued that the enterprises should be transferred to the private sector where they will be profit–making, resulting in the improvement of allocational efficiency of investments;

— The losses of public enterprises aggravate a government's problems of balancing the public budget. Financing these losses places the treasury under strain; hence, it is argued that privatisation would be in the interest of the government;

— The government may wish to keep its borrowing under strict control, and reducing government funds that can be allocated to public enterprises. It is argued that if they are privatised, private investors and lenders will supply the funds necessary for the enterprises' expansion and investment programmes;

— In some countries, it can be held that the original objectives for establishing public enterprises have been attained, or that further public aid is no longer necessary for those objectives; hence, the enterprises can be privatised;

— Some public enterprises have adopted input and output policies which have a dubious, if not a negative, influence on income distribution. If such enterprises are privatised, the new managers will be under no compulsion to continue such non–commercial policies: thus, it is argued that privatisation would be a step in the direction of reducing inequitable effects;

— A large public enterprise implies that senior civil servants have to spend a great deal of their time and energy in dealing with its problems. Two consequences follow: their main responsibilities in government departments tend to be neglected and their involvement in public enterprise matters tends to be less than fully competent. Privatisation, it is held, minimises the problem;

— Privatisation will attract fresh foreign direct investment flows into a country's economy, which is good in itself, for some of these incoming funds are used by foreign buyers to rehabilitate the companies which, in turn, leads to the creation of more jobs;

— Privatisation in developing countries has increased aggregate market capitalisation in the economies from less than $188 billion to over $1.976 trillion in the ten years from 1985 to 1994. This represents an increase from less than 4 per cent to 13 per cent of total world capitalisation, which for the period rose from $4.7 trillion to over $15.2 trillion. Trading in emerging markets also surged. The value of shares traded climbed from less than $48 billion (3 per cent) of the $1.6 trillion world total in 1985, to about $1.02 trillion (17 per cent) of the $9.6 trillion worth of shares traded on all world exchanges in 1994.

— Privatisation of public companies in Ghana and Uganda, for instance, almost doubled the total number of shares available to (and the level of market activity in) the stock exchanges of these countries. This has made equity investments in these markets less risky and more attractive because savers can acquire an enhanced portfolio of easily marketable assets; and

— At the same time, privatisation gives companies permanent access to capital raised from equity issues. By facilitating longer–term, more profitable investments, the enhanced liquidity of equity markets improves the allocation of capital by economic agents and increases the real prospects for long–term economic restructuring.

Privatisation in Some African Countries

While privatisation remains a global economic phenomenon, trends by region show considerable variation. An estimated 57 per cent of monopoly utility firms by value have been privatised in the Latin American and Caribbean region, for example, but few have been privatised in Sub-Saharan Africa, the Middle East or North Africa.

Nigeria

The government of Nigeria has long appreciated the acute need for privatisation. The government marked 110 public enterprises for privatisation when it embarked on its own programme some 13 years ago as an integral part of its home–grown Structural Adjustment Programme announced in the summer of 1986. By the completion of its first phase in 1993, over 70 public enterprises had been transferred to the private sector of the national economy.

These were mainly small and medium–sized enterprises in which the federal government invested jointly with foreign or private Nigerian investors. With the exception of the cement and the oil marketing companies, the capitalisation of most of them was small.

Thus far, the proceeds of that exercise amounted to over naira 4.66 billion, with some analysts calculating the resulting capital gain at over naira 3.66 billion. Equity sales in the first phase amounted to about 1.5 billion shares to some 800 000 individuals and institutional investors in all the 593 local government areas of the federation at that time. This activated the liquidity — volume, value, trading — and the number of companies and securities listed on the Nigeria Stock Exchange. These developments led to the growth of total market capitalisation of Nigeria's Stock Exchange from about naira 8 billion in June, 1988 to over naira 52 billion in the first quarter of 1994, which represents a nominal increase of over 555 per cent. However, the first attempts at privatisation in Nigeria raised questions with respect to the impact on income distribution and other equity concerns arising from the disposition of the assets of the privatised entities. They include the following:

- It is contended that privatisation did not permit broad–based participation by many local and international potential investors since interest rates, exchange rate requirements and the domestic capital market remain heavily regulated;
- There were institutional barriers and statutory decrees and acts that clearly marginalised prospective investors, particularly offshore investors. Until very recently, such constraints included the Foreign Exchange Control Act of 1962 and various other regulatory decrees; and
- Critics also highlighted the fact that earlier privatisation efforts largely resulted in mere ownership changes, without making a significant impact on the technological development or productive capacity of the enterprises concerned.

The current programme of privatisation in Nigeria, one of the present administration's cardinal policies, however, is aimed at raising funds for the government to reduce budget deficits, repay public debt, reduce new borrowing, finance the restructuring of certain public enterprises, and to support social sectors such as education, health, power and rural development. The programme is to be implemented in phases as follows:

Phase 1. Sale of shares listed on the Lagos Stock Exchange and owned by the Federal government and its agencies in commercial and merchant banks, cement plants, Nigeria Airways and petroleum marketing companies.

Phase 2. This will involve the privatisation of machine tools, minting, media, insurance, paper mills, agro–related industries, motor vehicle and truck assembly plants, and hotel and tourism facilities

Phase 3. This will cover telecommunications, electricity, petroleum, fertiliser companies, gas, steel and aluminium, mining and solid minerals, and transportation companies.

The sequencing of public offers has started with the quoted companies. No more than three enterprises are to be introduced to the market at any particular time, while minor restructuring of some enterprises will be carried out prior to sale.

M[illegible]

Morocco has had a broad privatisation programme that is not well–known at home or abroad. The programme has not attracted much attention because it has been largely devoid of ideological content. Morocco privatised early, using a variety of methods without any overall guiding policy. During the 1980s the pace of privatisation increased, still without an overall guiding policy.

The most important privatisations in Morocco, by far, have taken the form of portfolio restructuring or divestment of assets or subsidiaries of the major holding companies. These operations were primarily considered to be standard portfolio management practice, not privatisations. The Moroccan Parliament passed a law authorising privatisation on 11 December 1989, which evolved from a decade–long dialogue on the optimal mix between public and private sectors to bring about national development, with the aim of revitalising the public enterprises by reducing direct, central government controls over many of their affairs. Privatisation in Morocco is therefore still at a take–off point from the small, dispersed actions such as portfolio restructuring or management contracts to a full–fledged, well-oriented programme implemented by the Ministry of Privatisation.

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The approach to management and ownership turned towards privatisation in Algeria essentially because of the inefficiency of public enterprises in agriculture and other sectors, particularly industry. This inefficiency has been reflected at the practical level in shortages or poor quality of products and services. For a long time, these shortcomings were masked by the level of oil revenues; thus, in 1982 high oil prices allowed the government to institute a programme for the elimination of shortages by means of massive imports.

It was not until the 1980–90 decade that the means and will for “privatisation” emerged, although in practical terms the “denationalisations” proper only took place in 1988, in the agricultural sector”. Privatisation” in other sectors has been confined to the forms of management.

Egypt

Direct state ownership of economic enterprises in Egypt has its roots primarily in the early 1960s, during the era of “Arab Socialism”, when the government initiated an extensive nationalisation programme. State involvement in the economy expanded into industry, agriculture, banking, tourism, insurance, and much of wholesale and retail trade. There are over 393 state–owned enterprises in Egypt of which 200 are industrial enterprises. Most of these are in engineering (electronics) and food-processing sectors. The rest are in utilities, petroleum, building and construction. At the local level, the government owns and manages approximately 2 060 projects. President Mubarak had targeted these projects for divestiture. The state also has some equity ownership in 245 joint–venture firms.

Privatisation is therefore championed as a possible solution to many of Egypt’s economic problems. Some movement toward privatising Egypt’s public sector has occurred in joint ventures, private management contracts in public hotels, and the sale of tourist hotels. The potential forms of privatisation in Egypt are much the same as those found elsewhere, e.g. public offerings of shares, private sale of shares through negotiations, new private investment in public enterprises, or outright sale of assets. Leasing or “contracting out” represents the substitution of private contractors for in–house production (including management) and not the transfer of public assets to the private sector. This became a politically feasible and economically beneficial method of privatisation in Egypt in the mid–1980s especially in tourism. Employee buy–outs, notably in the form of an Employee Stock Ownership Programme (ESOP) is another potential form of privatisation, especially in industries. The USAID took the lead in setting up this ESOP, the first ever in Egypt, in order to promote privatisation and demonstrate benefits of such reform as well as different forms of privatisation.

Zambia

The programme of privatisation in Zambia is still in its initial stages. Specific references to privatisation in official policy documents and pronouncements can be traced back to the “New Economic Recovery Programme, Economic and Financial Policy Framework 1989–1993” of August 1989. This document reviews the measures taken by the Zambian Government to strengthen the operations of the parastatal sector. The landmark pronouncement on privatisation came during the opening address by President Kaunda to the Fifth Extraordinary Session of the Party National Council on 28 May 1990: “The State was to offer for sale up to 40 per cent of shareholdings in

public utilities (Zambia Railways, Tanzania-Zambia Railway, Zambia Electricity Supply Corporation, Broadcasting Corporation, etc.) and 49 per cent of the shareholding in Mining, Industrial and Commercial Enterprises (mostly companies in which the state has a controlling interest)". By 1991, two important organs were constituted by the Zambian government:

— The Steering Committee of the Restructuring of the Parastatal Sector preparatory to privatisation.

— The Technical Committee of Privatisation, a team of technocrats forming a full–time working group to do the necessary administrative work to get the privatisation programme underway.

Indications, so far, suggest that the Zambian government is quite serious about pushing ahead with the announced policy of privatisation.

Conclusion

Africa has witnessed some highly successful privatisations, including the celebrated Ashanti Goldfields Company and Kenya Airways. Ashanti Goldfields is today listed on several stock exchanges including the London, New York, Toronto, Ghana and Zimbabwe exchanges. One striking feature of privatisation in Sub–Saharan Africa is that the total sales value remains comparatively small in relation to the impressive number of enterprises that have been privatised. The reason is that African companies are small by international standards. It is reported that seven transactions as of mid–1999 in South Africa have generated $2.3 billion, while 253 Zambian enterprises fetched $700 million.

Though privatisation improves macroeconomic efficiency and performance, which is invaluable in accelerating the restructuring of any country, doubts remain in some quarters about its desirability. The prospects for accelerating economic restructuring of the economy, however, hinge squarely on the successful implementation of a well co–ordinated structural reform programme in which market–driven interest and exchange rate regimes, and concerted privatisation are key elements.

Privatisation is not merely desirable, it is a necessity. It will not solve all the macroeconomic problems hindering the realisation of an adequate growth rate or economic restructuring, but it can certainly prevent developing nations from experiencing the predictable disasters that result from perennial public sector inefficiencies.

Health, Conflict and Globalisation

Rino Serri

Health is the first major question to be dealt with in Africa because of its importance and urgency. The international community cannot allow an entire continent being condemned to endure the afflictions of malaria and AIDS, watching as these epidemics grow exponentially. Existing knowledge and experience of these dreadful diseases can be used in an effort to eradicate malaria, as was earlier done in Europe, and to greatly limit AIDS.

The data on how these diseases are decimating populations make any prospect of development unrealistic without long–term, generalised measures. Endemic in 101 countries, malaria is easy to treat if it is diagnosed and treated in time. Sub–Saharan Africa is the region most seriously affected with 90 per cent of the 400 000 to 500 000 new cases of malaria in the world each year. According to the estimates of the UNIAIDS as of the end of 1999, 32.4 million adults and 1.2 million children are infected by HIV. Seventy per cent of these people live in sub–Saharan Africa.

Concern is of course growing: AIDS has been considered by the UN Security Council, Secretary General Kofi Annan has issued an appeal on behalf of the struggle against AIDS in Africa, many political observers have characterised this disease as a menace to the continent's security, and African leaders themselves are aware of the extreme gravity of the situation in their countries. The Davos meeting also focused on this issue: the committee on the "Macroeconomy and Health" formulated some useful proposals for getting the pharmaceutical world to take into account the gravity of the diseases and the almost total lack of resources to combat them in the countries affected.

In any case, the European Union must adopt a strategic plan to fight malaria and AIDS. This issue should be at the centre of the European Union's dialogue with African countries by profiting, if possible, from the forthcoming EU–African summit, which will open a new phase in relations between the two continents.

Conflict is the other special characteristic of present–day Africa. Regional crises between ethnic groups and states have followed one after another almost everywhere on the continent. In this respect, the effort to understand must go beyond many traditional ways in which events are ordinarily viewed. Will the conflicts be resolved

by war or diplomacy? Will war lead to latent conflicts exploding and burning themselves out, or can diplomacy, early warning systems and peacekeeping contribute to breaking the pattern of conflicts gripping the continent? What is certain is that if we neglect Africa there will be war. Consider Somalia: it has been abandoned and there is only continuing intensification and extension of conflict. Consequently, action cannot be delayed while the patient recovers alone. It is necessary to find the roots of the conflicts in Africa to understand and help resolve them.

Africa should not only be viewed in terms of aid and from the point of view of donors, but in terms of a broader political dialogue and partnership. Thus the analysis of conflicts should first be deepened. They are caused by the poverty of so many African regions and also by the new imbalances due to changes in the world economy. The great unresolved difficulties in constituting stable states which many African societies have experienced with their different ethnic, tribal, religious and civil structures, are due to the obviously new aspects of their democracy, since the process of building nation–states which occurred in Europe did not occur in these countries. Now, even the conflicts which break out between states have overtones of seeking regional hegemony.

In such a situation, a combination of humanitarian and often abstract political proposals for embargoes and sanctions are not enough. A much more complex approach is needed which provides for real political dialogue, development support at least for the medium term, and collaboration for establishing public administration and minimal social protection. It is also necessary to collaborate with developing countries on security, including the creation of African peacekeeping forces.

Finally, there is globalisation, its consequences, the great prospects it creates, and its risks for the poorest countries. Globalisation will not automatically lead to an equitable distribution of benefits, and liberalisation of trade, finance and investment does not in itself imply an improvement of the economic performance of developing countries. The structural adjustment and liberalisation measures implemented in the Sub–Saharan African countries in the 1990s, for example, led to very little progress.

Now it is possible to evaluate the impact of globalisation on the dynamics of trade and development and define concrete measures which will guarantee an effective and necessarily gradual integration of all countries in the world economy. The challenge is finding tools to promote the development of poor countries in a globalised economy. This must be done by the industrialised and poor countries together, being completely convinced that full economic integration will satisfy the development needs of the former and also the long–term interests of the latter. This would be especially beneficial for the relationship of Europe and Africa.

In collaborating with the poor countries in the current situation, we must understand that the rules of the market in these countries should be discussed with them, especially taking into account their domestic market. The approach of the European Commission and members of the European Union for renewing the Lomé Convention with the ACP countries, provides for longer deadlines for establishing regional free–trade zones. Likewise, international financial institutions are giving more attention to social conditions in countries undergoing structural adjustment.

A similar positive sign is the increasing attention developed countries are giving to consistency. There must be greater consistency between what we ask developing countries to do, for example, in carrying out our recommendations, and what we are actually willing to do, for example, in opening our market to sensitive products. There is room for improvement at the international level with respect to international financial institutions, the UN and European Union, and between them and the policies of the various donor countries.

Finally, it is necessary to restore a better balance between the political and economic spheres. Economic power is increasingly concentrated and "irresponsible" in the sense that it is not subject to democratic control, and although democracy is spreading it seems to lack the power to assert its primacy.

The Role of the Private Sector

Mabousso Thiam

The enterprise network in Africa was formed in 1993 and is composed of several hundred entrepreneurs in 13 countries. We have two aims: to improve trade and investment in sub–region and to improve the business environment.

Naturally, the development of trade and investment is a little more important to us than the business environment, partly because an entrepreneur is not supposed to change the environment, but adapt to it.

These entrepreneurs all are owners of their own businesses. They are recruited on the basis of our charter, and with the passing of years have developed a solidarity which enables them to take advantage of opportunities in the sub-region. This solidarity also is based on a desire to create competitive enterprises, which is difficult within the narrow confines of our natural borders

Only a few years ago, the private sector was at best tolerated in the sub-region. Since then it has been rehabilitated and although there were initially some reforms, primarily macroeconomic, today it is understood that it is time to adopt consistent strategies for developing the private sector in the different countries.

In general, our countries do not have consistent strategies, and a number of programmes for supporting the private sector use a very bureaucratic approach because a good knowledge of concrete reality is lacking. They are often adopted without much consultation with the private sector. We even have examples of some programmes being established against the advice of the private sector. Thus the private sector is hardly associated with the design, setting up and implementation of these programmes, or with their evaluation. Often these programmes duplicate, compete with, and contradict one another, and are not renewed, or even end up by setting quantitative objectives that the entrepreneurs do not understand, or cannot even envisage. These programmes also fail because of their small real impact, for too often the project's cost and the number of the recipients are the only qualitative criteria.

These programmes very often are too ambitious. They can even be unrealistic because of a lack of good knowledge of the history and problems of the development of small and medium–sized enterprises in the countries of North. However, the basis

for establishing and ensuring good development of the private sector are universally known: promotion of exports, support for local products, promotion of investment, facilities for enterprises, technical support oriented towards financing, etc. Today, these functions are generally carried out by multiple divisions of the state directed by civil servants ignorant of the realities of the private sector and whose effectiveness is regularly called into question.

Experience shows that this system can be rationalised and strengthened to allow, on the one hand, a much closer association with the private sector, beginning with the creation of new structures, and on the other, an optimal allocation of resources based on objectives with deadlines, quantified and measured by performance criteria of the private sector. These should deal with sales, market shares, new lines of goods, etc.

Problems of regional integration are a second issue. In West Africa the rules have been drawn up. Freedom of circulation for people and goods has been long recognised. The enterprise network supports the creation or the merger of enterprises having a regional orientation.

However, the approach to questions of regional integration and decentralisation is still too bureaucratic. Consider, for example, the crossing of borders, where there is an accumulation of duplicative controls and fluctuating, discretionary interpretation of the customs regulations. The power of civil servants and corruption make all initiatives unnecessarily risky, unpredictable in terms of costs and unacceptable in terms of time. This malfunctioning primarily stimulates an informal sector whose importance continues to grow. That does not promote transparency of financial flows and tax receipts, and especially handicaps the circulation of the goods in the sub–region.

The enterprise network brought together three large sub–regional organisations, the UEMOA, the CILSS and the CEDAO, in order to explain to them our view of the constraints on the private sector. We decided to set up jointly a watchdog group on unfair practices, a mechanism for measuring the number of stops on sensitive transport arteries, the pretexts given, the taxes paid, the gratuity required, the time lost, the differences of interlocutors, etc. This watchdog group will compile monthly statistics in order to be able to measure progress over time. More fundamentally, it will be an instrument for evaluating the real political will of sub–regional governments and institutions.

For some time, Africa's private sector has been urged to assume a new role, a role for which it has not always been prepared. It is necessary to keep that carefully in mind and avoid asking the private sector to perform functions which are not part of its role.

The basic issue for promoting the emergence of entrepreneurs in West Africa is not so much using the laws of the market, but creating this market, as such. This is why the efforts which are currently being made for sub–regional economic integration are important: when the focus is on private sector performances, there is much less ado about the market. It is obvious that there cannot be a competitive private sector without a market.

The Importance of Financial Stability

Ismail Hassan Mohamed

The Main Characteristics of the African Economies

Africa, with an area of some 30 million square kilometres and whose population of about 800 million is equal to nearly 12 per cent of the world population, produces only 2 per cent of world output in GDP terms.

Real GDP growth has been on the rise lately, which is a very encouraging sign, but, unfortunately, real GDP per capita growth has not kept pace, as a direct result of annual population growth of about 2.7 per cent. Only recently has real GDP per capita growth been positive with a mere 0.9 per cent growth in 1999. The problems of poverty and illiteracy, added to the resurgence of conflict in some parts of the continent, are reflected in extremely low per capita incomes which are as low as $110 in countries like Congo and Ethiopia. For the continent as a whole, per capita GDP fell from $743 in 1990 to $713 in 1998 in real terms. According to 1995 statistics, only 56 per cent of the African population are literate.

African economies have a low investment ratio of barely 21 per cent of GDP in 1999, with no significant increase in total investment spending in any of the largest economies in the region.

This is below the level needed to sustain strong economic growth. Moreover, the low level of private investment is coupled with a sharp decline in public investment, especially in infrastructure, and with inefficient management of tax systems, reflected in the chronic budget deficits of most African states.

Savings behaviour is even more disappointing, with an average savings rate of 16 per cent of GDP in 1998, which is only two–thirds of the 24 per cent average of developing countries. The big gap between the investment and savings ratios reflects low income, underdevelopment, and the weak domestic financial markets.

African economies suffer from current account deficits. These deficits result mainly from the trade imbalances caused by fluctuations in prices of commodities, which represent the bulk of Africa's exports. Declining oil revenues in the 1990s placed particular pressure on oil exporting countries in the continent like Gabon, Nigeria, Congo and Egypt. This has been translated into a widening of the current account deficit during the last decade to 3.8 per cent of GDP in 1999. During the same period, several African countries started comprehensive adjustment and reform programmes mostly supported by the IMF.

The share of African countries in trade both globally and regionally, is meagre. The former does not exceed 2 per cent and Africa supplies only 5.5 per cent of all developing countries' exports.

The weakness of the financial sector in most African countries is clear: monetary instability, poor performance of the banking system, an absence of regulated capital markets and permanent budget deficits. Such deficits exerted a lot of pressure on many African countries' fiscal positions, leading to monetary policy decisions to introduce tightening measures.

The external indebtedness of the African countries reached $336 billion in 1999, equivalent to 58 per cent of the combined GDP of all African nations and 222 per cent of their exports of goods and services in that same year.

The large debt stock has often entailed significant real income reduction and underscores the importance of new initiatives to reduce the debt burden of many of the poorest countries, as well as of exploring new methods for debt management.

Those are the main characteristics of African economies today. We all realise the need for sustaining high rates of growth in Africa at least in the next five to seven years. We also realise that we are facing a number of challenges in order to reach that target.

Challenges of the 21st Century Facing Africa

Foremost among the challenges of the 21st century facing Africa is the increasing trend towards globalisation. African leaders have worked together to tackle many of Africa's problems by co–operating within different groupings and organisations. The most important and comprehensive of these is the Organisation of African Unity (OAU), founded in 1963 to promote unity and solidarity among African states, intensify and co–ordinate efforts to improve living standards of Africans and promote international co–operation.

Twenty years ago, a summit of African states adopted an important resolution to establish an African common market. In 1991, the African states took another significant step by signing an African community treaty with the objective of establishing the African community by the year 2025.

A number of groupings already exist in Africa: the Economic Community of West African States (ECOWAS), the Economic Community of Central African States (ECCAS), the Central African Economic & Monetary Community (CAEMC), the Common Market of East and Southern African Countries (COMESA), the Southern African Development Community (SADC), the Arab Maghreb Union and the AfDB group.

A real challenge facing Africa is to review the performance of all those institutions and groups to make sure that their roles and activities have a positive impact on African nations in the new global environment. We should be open to accepting the outcome of such reviews even if they suggest unification or integration of groups or institutions, or changing their roles in the interest of having strong and effective bodies working for the whole continent, making best use of all the available African resources.

Several African states have embarked on structural reform programmes leading to privatisation. The increasing involvement of the private sector will produce new challenges related to the promotion of financial markets integration and development. It should be emphasised in this respect that involving the private sector in the development process should be accompanied by the development of a strong and clear regulatory framework, increased transparency, and the provision of information on both formal and informal sectors of the national economies.

Another challenge for African countries is related to the revolution in information and communications technology. We know that technological progress has become a prerequisite for achieving and maintaining sustainable economic development. Technology helps improve the efficiency of the aggregate economy in general and of the financial sector specifically. The technological revolution has truly transformed the world into a global village. Among the first things to be integrated were the financial markets and it can safely be said today that no financial market is an island. We may recall the crises of the past decade: the ERM crisis in September 1992, the Mexican crisis in December 1994, the Asian crisis in July 1997, the Russian crisis in August 1998 and the somewhat reduced Brazilian crisis of January 1999. A number of economies experienced foreign exchange market pressure or pressures in their capital markets as a result of contagion effects which in turn was reflected in capital flight from many, including some African countries.

The increasing trend towards globalisation and economic integration in the last decade demonstrates that more participation from the African side is needed. Africa's problems are not all African–made, although a number of them result from the weak position of the African countries in the decision–making process of the international institutions. Hence the International Forum on African Perspectives is valuable as it gives Africa the chance to address an international and multinational audience.

African Perspectives in the 21st Century

Certain elements must be included in any strategy designed to avoid the risk of marginalisation of our continent. They include:

- Promotion of African exports, both in quantity and quality. While Africa has comparative advantages in natural resources, the continent is a net importer of goods and services. During the 1990s, the terms of trade of African countries deteriorated. This entailed significant real income reduction. Such a situation underscores the importance of improving market access for African exports to the industrial countries.
- African states should direct their efforts to reducing their dependence on exporting a limited range of commodities, which exposes them to harmful price fluctuations. At the same time, they should increase their exports of finished products. Not only do the latter enjoy more stable prices, but they also create higher value added which translates into higher stability in GDP growth.

In order to achieve these above objectives African states should seek efficient management of resources through the continuing serious comprehensive reform programmes. It is noteworthy that successful reform programmes during the 1990s — such as those of Ghana, Senegal, Kenya and Egypt — have paved the way for improved macro and microeconomic policies and for reduced risks.

Increasing foreign direct investment to Africa is essential. To help achieve this goal, restructuring the institutional, legal, and organisational frameworks is essential for creating favourable conditions to attract both domestic and foreign investment.

Consistency, consolidation and harmonisation of fiscal, monetary and exchange rate policies among African countries have always been among the main objectives of several African treaties such as the COMESA treaty. Such objectives will be translated into action programmes to be implemented within a specific timeframe. The development and integration of financial markets are expected to take place initially at the level of sub–regions. Obviously harmonisation of exchange rate regimes would be a principal objective as well.

Strengthening the financial systems is a major task and constitutes a cornerstone of the development process. Accordingly, it is expected that all Basel accord measures for the improvement of prudential regulation will soon be applied in full by the African states that have not yet done so. Harmonisation of banking supervision in line with international practice is needed, the start of which may be done at the sub–regional level in the context of existing groupings.

One of the areas in which Africa shows a significant lag is technology. Our continent has been dependent on labour–intensive production techniques. Africa needs to invest heavily in technology with the help of the developed world. Technology is no longer a luxury, but a prerequisite for development. In the United States, technology is partially responsible for the longest post war expansion. While transferring

technology, we nonetheless have to be careful that it will not cause a disruption to the development process and we also need to make sure that the number of victims of this transfer is kept at a minimum.

The above targets can only be achieved through the development of human resources which will need more attention during the first decade of the new millennium and beyond to enhance the human capital of Africa. The strategy for building human capital has to be country–specific. There are some important policy approaches in this respect. These include extending basic education to all children, finding means of financing the expansion of education, raising the quality of higher education, integrated health care and nutrition programmes and rehabilitation of the existing workforce, all of which should cope with the changes transfer of technology would bring about.

Africa in the 21st century should seek leveraging external participation through new initiatives based on more financing of productive projects, the creation of new financing facilities and new methods of debt relief. In that context, the June 1999 G–7 summit in Cologne pledged to help developing nations and agreed upon a debt relief programme for countries dedicated to fundamental reform. US President Clinton, for his part announced US plans to commit nearly $1 billion over four years for poverty reduction during the IMF and World Bank annual meeting in September 1999. Debt forgiveness of up to 100 per cent of debt owed to the United States by the poorest countries is also a matter that needs more consideration, alongside help to finance their basic needs and facilitate their implementation of reform programmes.

The 20th century has closed on a note of crisis and growing unease about the level of official development assistance from the donor countries that dropped to $26 per capita in 1997 from $40 per capita in 1990 for Sub–Saharan Africa. The leaders of the OECD countries should reaffirm their commitment, to act on generous statements made by many industrialised countries' leaders, especially their commitments to meet the recommended level of 0.7 per cent of GNP in overseas development assistance. Such action would maximise the benefits of assistance for both sides: the beneficiaries and the donor countries.

Transforming Africa from an underdeveloped region to the developed league is a huge process and we need all the help that we can get, not just financial assistance. Africa needs technology transfer and the developed world's experience in improving the human resources which are the cornerstone of any development process.

Such co–operation is, indeed, mutually beneficial. We would be able to provide our peoples with better standards of living and make Africa a better place to live in. On the other hand, a richer, more developed Africa would open more markets for products and services from the developed countries, benefiting their peoples as well. After decades, if not centuries, of supplying the developed world with the raw materials necessary for its development, the developed world owes this to Africa.

Rethinking the Euro–African Relationship

Luís Filipé Marques Amado

Most of the central economic problems that we are discussing today cannot really be understood without analysing the African continent's own dynamics. That continent is still marked by the decolonisation process and its consequences, by the end of the Cold War and by the effects of globalisation. The decolonisation process is still being felt; the disengagement of the continent's links with the Cold War international system is still being felt (some conflicts can be explained in that context); and finally the pressure of globalisation on economic and political systems is already being felt. We Europeans should understand the extraordinary pressure on the African continent's economies and societies for economic and political openness. For a decade, closed and planned economies have been encouraged to develop open economic systems, subject to the laws of the market. At the same time, there has been pressure on their political systems to move towards pluralist democracy, open to the different domestic ethnic groups, language groups and nationalities.

These pressures have existed for a relatively brief period, but the impact of the changes affect the continent's current experience. Moreover, these societies have participated in regional integration which can lead to an identity crisis. Democracy cannot be built without states; and strong states become democratic. Weak states do not have the capability to assert the values and principles necessary for national identity.

These considerations can be used to interpret conflict in Africa, which is strewn with civil wars and ethnic conflicts. Development policy has a tendency to explain civil war as a phenomenon pitting civil society against the state and the state against civil society. This is totally incorrect and explains nothing. What is needed are instruments, policies and projects to strengthen civil society. But that cannot be done by opposing the state or opposing a strengthening of the state's capacity to implement projects and programmes and carry out its functions and public responsibilities.

There is also a need for understanding the role of the new protagonists in the African continent's political context. Should not the relationships with the former colonial powers be evaluated to see how they have made the political adjustments necessary for the new relationship? It is probably also necessary to take into account the Islamic factor in the continent's dynamics as well as the role that new powers such

as the United States as well as Japan and China want to play in Africa. It should be understood how these dynamics affect African organisations like the OAU and also regional organisations.

The relationship between Europe and Africa needs rethinking. Partnerships that are still based on colonial and neocolonial relationships should be revised. There is no European policy, as such, which could lead to a new relationship between Europe and the African continent and its countries. European policy is based on the instruments of co–operation which govern European relationships with the sub–Saharan African countries: the Lomé Convention and its antecedents. However, this partnership and this type of co–operation are changing. The new convention, to some extent, has already introduced a dynamic of renewal. In the coming years, Europeans and Africans will have to discuss the conditions for changing this new partnership in the framework of the new convention. Relations have to be rethought so there can be better integration on several levels. Development assistance is completely disjointed. We have a policy for preparing a common strategy for the Mediterranean. There is a political dialogue with South Africa and the vicissitudes concerning the new agreement are well–known. Between the Mediterranean and South Africa, however, there is a vacuum or at least an unacceptable slackening of political relations. Some problems in Africa cannot be overcome if the political relationship of Europe and African is not integrated with the instruments of development co–operation. Economic development, development of the private sector and investment must take into account the political problems having an impact on those questions. It is unreasonable to invest and trade with sub–Saharan Africa if conditions remain, or could become, unstable. That would entail intervention for security which involves another political dimension which is beyond us today.

Challenges Ahead

Ahmed El Madani Diallo

The end of the twentieth century was marked by spectacular progress in communications, science and technology. This progress encouraged economic globalisation. Although globalisation provides some undeniable advantages, especially for economic growth and the expansion of international trade, it is also recognised that many perverse effects accompany this phenomenon: unemployment, poverty, criminality, wars, conflicts, corruption, etc. In this respect, the last quarter of the twentieth century was a period of great challenges, among which poverty was certainly the greatest.

In May 1996, the 34th High–Level meeting of the OECD Development Assistance Committee adopted a report, *Shaping the 21st Century: The Contribution of Development Co–operation*, which said: "In the year 2000, four–fifths of the world's population will be living in developing countries, most with improving conditions. But the number in absolute poverty and despair will still be growing". This lucid analysis raises questions about the strategy to adopt for sustainable development, for an implacable fight against corruption, for combating poverty and for effective co–operation. Today, the predictions of May 1996 have become reality and are even starker. That is why it is not surprising that the African Development Bank and the OECD Development Centre have jointly organised this forum.

Are the strategies advocated to achieve success still relevant today. Have they been implemented? and with what results? If they were not, why? These strategies are based on a number of elements:

— a healthy framework for the public authorities to take steps to promote stability and economic growth, leaving a vigorous private sector to assume its full role, and a strict budget policy;

— investments in social development, in particular in education, primary health and activities in the domain of the population;

— strengthening of participation by all citizens, especially of women, is very important for the economy and political life and the reduction of the social inequalities;

— good management of the public sector, democratic and responsible institutions, protection of human rights and respect for the rule of law;

— respect for the environment;

— an effort to remedy the causes of potential conflicts, to limit military expenditure and to steer the process of restoration and consolidation of peace towards longer–term reconciliation and development; and

— creating a true culture of peace.

These elements of course are not exhaustive. One could add: strengthening of sub–regional and regional capacities and co–operation, and sub–regional and regional integration; and finding sufficient, efficient, reliable and sustainable resources to finance multilateral and bilateral development co–operation, i.e. official development assistance adequate for actual needs.

Near the end of the 1970s, it became evident that macroeconomic reforms were needed for achieving sustainable growth and fighting poverty in the majority of sub–Saharan African states mainly because of inappropriate development strategies, poor governance, over–indebtedness and inadequate technical aid. These market–based reforms, supported by bilateral and multilateral development partners, produced encouraging results characterised by more regular growth, reduction of the public sector's weight in the economy, greater competitiveness of enterprises because of privatisation and improvement of the legal and regulatory framework, and a gradual recovery of the financial sector. These gains nonetheless remain fragile and should be consolidated.

There has been increasing impoverishment of some social strata as a result of rapid population growth combined with perverse effects of the reforms, less mobility of the factors of production in Africa, little domestic and foreign private investment, natural disasters and unfavourable prices of export products. Thus there are few tangible results of the reforms, but this does not mean they should be called into question. On the contrary, the reforms should be extended.

The challenges for Africa in the 21st century, the revival of sustainable economic growth and reduction of poverty, can be only be dealt with jointly by the domestic authorities, development partners, the people and foreign direct investors, attracted by active privatisation policies, among other measures.

The international development institutions, the International Monetary Fund, World Bank, and African Development Bank, and the international community in general seem to be highly sensitive to this question, especially since the IMF and the World Bank decided to make the fight against poverty the fundamental objective. These concerns also appear in the debates on the redefinition of assistance and the initiative for the heavily indebted poor countries.

It is obvious that the most significant factor for growth and development is the human element. Africa will not develop with a schooling rate of less than 60 per cent or an unhealthy population. In the educational sector, Africa will continue to provide active support for basic education, and also for vocational training and higher education, which suffer from a serious shortage of competent personnel, and also for research.

Primary health care, family planning, the fight against AIDS and the other incapacitating diseases will have to be strengthened. The gradual orientation of public expenditure towards the health sectors and education, combined with the launching of vast sectoral projects supported by the development partners, must be increased to support sustainable and efficient economic growth. This means moving towards achieving the 20/20 initiative proposed at the 1995 Copenhagen World Summit on the Social Development. As the world moves into a post–industrial era dominated by knowledge and information technologies, Africa should spare no effort for good training and good health of its human resources. The spectacular evolution of Japan and the surrounding countries of Southeast Asia demonstrate that an adequate development of the human skills can compensate for a lack of natural resources.

Economic integration has great importance for Africa. Economies of scale and productivity gains can only occur in an environment where consumption, production, investment and trade are large, something not possible in countries by themselves. To participate more actively in the global economy, Africa must regionalise like the planet's other geographical groupings.

The Union économique et monétaire Ouest–africaine (UEMOA), the Communauté économique des États de l'Afrique de l'Ouest (CEDEAO), the Southern African Development Community (SADC), the Communauté économique et monétaire de l'Afrique Centrale, (CEMAC) and the Arab Maghreb Union are all significant bodies. The coming two decades should see the formation of solid development groupings with Africa–wide links between the different sub–regional organisations. Most of Africa's major problems can only be solved by speeding up regional integration. Only a regional approach will enable solutions to be found for problems of energy, transportation, communications, the environment and health, especially the fight against AIDS.

As regards good governance, decentralisation and participation of the population, we reiterate that Africa must endeavour to do more for good governance owing to the fact that macroeconomic reforms alone are insufficient for achieving sustainable growth. African countries have to establish an economic and legal environment attractive to foreign direct investment, and for stimulating competition, individual initiative and economic growth. Several African countries also count on a process of democratic decentralisation to bring the government and people closer, give local populations more to say in the management of their resources, and to associate them directly in decision making. In the future, decentralisation would be a guaranty of

good governance, necessary for increasing business confidence, discouraging corruption and helping create conditions favourable to the rise of a dynamic private sector.

The 21st century provides Africa with an opportunity to move towards sustainable development. As the president of the African Development Bank has said, Africa, African countries and their authorities are in agreement to do everything possible to move towards sustainable development. The regionalisation and regional integration which have begun are going to provide Africa with a new opportunity to advance towards sustainable development and to make progress in the struggle against poverty.

Risks and Opportunities for Investors

Jean–Louis Terrier

What are the risks and the opportunities of sub–Saharan Africa which are perceived by western economic agents?

A Brief Overview of Country Risks

Country risks as they were defined in the 1970s cover three principal risks:

— the risk of political breakdown, susceptible of affecting the right of ownership by confiscation, expropriation or nationalisation. It can occur with or without compensation by repudiation of a contract or debt.

— the risk of non–transferability or inconvertibility, when the central bank of a country is incapable of transferring local currency resources into hard currencies;

— the risk of non–payment by the state or one of its public enterprises, when the purchaser or the public debtor does not honour its obligations in foreign currency.

An international lawyer would refer to government prerogative, because it has been proven numerous times that it is difficult to take a foreign government to court. Bankers refer to sovereign risk, because many syndicated loans of the 1970s were linked to sovereign state guarantees. Insurers, for their part, call them political risks and to some extent treat them like risks of natural disasters because a probability cannot be assigned to them. Only export credit agencies will deal with them for their own country to provide guarantees for its exporters. The great debt crisis of the 1980s was resolved by adopting the model of economic liberalism, which was a real revolution in outlook: *i)* opening borders, whereas all development models had been based on closed borders and protection of infant industries under import–substitution industrialisation, *ii)* opening to foreign capital and foreign investors, and *iii)* privatisation of public enterprise and also projects (CET). As a result, the nature of country risk changed with the Mexican crisis, the Asian crisis in late 1997, the Russian crisis in mid–1998 and the Brazilian crisis at the beginning of 1999. These were not country risk crises *stricto sensu*, but were considered financial market crises.

The Risks of Investment in Africa

Today, Africa has the unfortunate privilege of combining old and new risks for western economic agents. More than the risk of nationalisation, property is endangered by the risk of damage associated with riots, civil wars, or vandalism pure and simple, and it also faces a risk of predatory action by the host state.

The second type of country risk in Africa is the risk of non–payment by the state, which persists because of importance of the public authorities on this continent. The state's omnipresence results in a domination of public capital over private capital arriving on this extremely poor continent. But public capital, or rather, official development assistance (bilateral, European or multilateral), involves another type of risk for those enterprises which depend on multilateral financing, that of suspension of aid disbursements.

The third type of risk is that of non–transferabilty or inconvertibility. This risk does not exist in the franc zone, but it does elsewhere in Africa and it is coupled with a risk of devaluation. Sub–Saharan Africa appeared to have been sheltered from the great financial market crises of 1995, 1997, 1998 and 1999 because of its own problems, but it did experience a number of monetary collapses. Those are accompanied by a devaluation of assets and a considerable increase of debt service when the debt is in foreign currency, which cause sudden reversals of economic trends. All that is dramatic for enterprises and their subsidiaries.

The fourth type of risk, performance risks, is related to the problem of good governance. Good governance is quite a real obsession among all private operators in Africa because it involves two highly constraining risks: *i)* a lack of rule of law, or more precisely, a lack of consistency in local commercial law and lack of respect for the matter to be judged, meaning that one should not only know one's lawyers but also the judges; *ii)* the power of administrative barriers and the corruption which accompanies them and which literally infects all relations between the business world and public authorities.

What Opportunities Exist for Investors in Africa?

The majority of private operators see the risks in sub–Saharan Africa, but the next century should also offer many opportunities and there are many reasons for being an "Afro–optimist".

It is necessary to start from a reality that economic growth in a country over a long period has never been less than the rate of demographic growth. This is exactly what is happening in Africa. The beginning of demographic transition almost automatically results in an increase in the GDP per capita and an economic takeoff. On this basis, it is possible to make a reasonable forecast. For the future of sub–Saharan Africa, it is necessary to consider demographic growth, economic growth

and especially the fundamental element, urban demography. The rate of urbanisation in Africa is twice that in Asia, and it is expected to rise from 30 per cent in 1965–70 to 65 per cent in 2015. That will automatically produce some incredible results for the whole of Africa. To remain in, or come to, sub–Saharan Africa is undoubtedly a very good investment.

The combination of two factors, rapid urbanisation and regional integration (UEMOA and CEDAO), can produce extraordinary effects. Sub–Saharan Africa will become a true market, and when all is said and done this market will attract industrial investors as much, if not more, than the way in which they are welcomed.

The market risk in sub–Saharan Africa is not the same as the market crises of recent years in the emerging countries. The risk is a lack of a market, because there are too many scattered, small markets, which make unviable economies. Regional integration and urbanisation will facilitate the creation of markets which will have considerable attraction for foreign investors.

Part Two

Policy Achievements and Challenges

Measuring Reform

*Federico Bonaglia, Andrea Goldstein and Christine Richaud**

Introduction[1]

During the past 10 to 15 years a dramatic change in development policy has occurred in Africa. The former strategy of state–led import substitution industrialisation (ISI), which had been adopted at independence in all countries (with Mauritius being the only major, and possibly partial, exception), was increasingly recognised as unsustainable and in urgent need of replacement. In the wake of the mid–1980s debt crisis, most countries adopted structural adjustment programmes in agreement with international financial institutions. These programmes were designed to pave the way for long–term development and prosperity by fundamentally altering the institutions for managing the economy. The fall of the Berlin Wall in 1989 accelerated and deepened the process of structural transformation in countries like Ethiopia, Madagascar and Mozambique, which had most closely adhered to the planning credo. But geopolitical developments of that period also had a large impact in other countries which, in theory, followed more market–friendly policies, as western governments progressively stopped supporting regimes that were in practice unable to achieve any growth, with Zaire being the best–known example of such a predatory state.

The common aims of these reforms are: *i)* to open up the internal economy to foreign competition, *ii)* to reduce the role of the government in directing the allocation of resources and production in the economy, and *iii)* to reduce the distorting effect of the tax system on private decision making. Moving from a state–led to a market–enhancing view of economic development has therefore led to profound structural reforms in tariffs, taxes, the control of the international and internal financial system, and to a lesser extent, the role of state enterprises and the stringency of labour regulation. Nonetheless, despite the importance of the reforms, thus far there has been no systematic attempt to measure what has been reformed, or what still remains to be reformed in the various structural policy areas.

In the face of continuing continent–wide low growth of gross domestic product (GDP) per capita, the World Bank made a comprehensive analysis of the progress in implementing (rather than just simply adopting) these programmes in 1994. The Policy Research Report on *Adjustment in Africa* revealed the uneven pace of policy reform in different sectors and countries, but pointed out that reforms had been paying off in terms of higher GDP and sectoral growth rates, as well as in the pace of poverty reduction. The improvement of African growth performance in the second half of the 1990s seems to confirm this observation. In 1998, the GDP grew faster than population for the fourth consecutive year, contrasting markedly with a decade and a half of declining per capita income[2]. The 3.3 per cent growth in GDP, compared with 2.9 per cent growth in 1997, was the highest among regions of the world. While a very welcome achievement for Africa, this growth is still much less than the level necessary to have a significant impact on poverty. If Africa were to reduce poverty by half by the year 2020, it would need to attain and sustain an average growth of 7 per cent per annum.

This means that the major challenge for African policy makers and their development partners is to improve the economic policy framework to accelerate growth on a sustainable basis. Even people harbouring the greatest doubts about the validity of trickle–down theories do not question the need for growth. Yet it has taken a long time for countries in the region to decide what should replace the former development strategy. The lack of direct measurements of structural policies has been a hindrance to making an adequate evaluation of the effects of reforms and assigning priorities to the various areas of reform. Despite an increasing convergence in the region towards a particular view of the economy and the government's role in managing the economy, contrasting national styles remain. The few studies that have sought to analyse the effects of the reforms have used outcome variables as indicators of structural policies, such as the level of foreign trade in the economy, the size of public spending, or financial depth. Essentially, this paper seeks to fill a vacuum by constructing an index of structural policies synthesising the state of progress on policies in the areas of trade, taxes, domestic and international finance, and privatisation. The index is based directly on policy variables, such as tariffs, taxation rates, or government ownership, and not on outcome variables which may or may not reflect the state of the policies.

The indices being presented extend and refine earlier work done on Latin America by Eduardo Lora at the Inter–American Development Bank and Samuel Morley *et al*. at the UN Economic Commission for Latin America[3]. Exercises of this kind have all the weaknesses of any summary measures in that they leave out a good deal of information that cannot easily be expressed numerically. Moreover, they involve a considerable degree of subjective judgement. For instance, even if the IMF reports information on some well–defined categories, many different regimes exist in our sample of countries and sometimes they are difficult to compare. How, for instance, should the degree of openness to foreign investment or to external borrowing be evaluated? Finally, it should be noted that the index only seeks to measure the neutrality of policies. We assume that the primary objective of economic reforms has been to achieve greater efficiency in the allocation of resources by eliminating or reducing policy–induced distortions that obstruct the functioning of markets or increase

transaction costs. The index does not seek to measure other aspects of the quality of economic policies. For example, it does not take into account that tax policies may have redistributive aims. Nonetheless, we believe that these difficulties are more than offset by the advantages of being able to compare the extent of reform across countries and over time[4].

We present results for five areas for 23 countries for the 1985–1997 period[5], and make comparisons of the degree of reform across countries over time. We also include some comparative considerations on timing and ranking of reform with respect to Latin America, a region that has been at the forefront of reforms. The indices show that the reform process has not been uniform across time, country, or area of reform. On a scale of 0 to 1, the average index for all the countries and all structural policy areas stood at 0.208 in 1985. Twelve years later it had reached 0.662. This change implies noteworthy progress, but it also indicates that a significant potential remains to be realised.

The first section of this paper synthesises the methodology for constructing the index, highlighting the differences with the recent literature on Latin America. The following one presents and displays overall trends in each of the areas over time, and by groups of countries in the region. In the conclusion, while acknowledging the weaknesses of this approach and the need for further work in assembling even more precise institutional data, we present some tentative considerations from a comparative angle and suggest some avenues for future research.

Methodology

Various studies have sought to analyse the effects of structural reforms on growth, investment and other economic variables. The main difficulty that they have encountered has been how to measure the magnitude of the reforms. This is because available economic statistics measure economic outcomes, such as growth, inflation or foreign trade, and not the policies that have an impact on these results. In fact, the variables that are generally regarded as policy indicators, such as the fiscal deficit or the financial depth of the economy, are really outcome variables that are influenced not only by policy decisions but also by a variety of other domestic and foreign factors, such as the economic cycle, terms of trade, and foreign interest rates. The area where the greatest efforts have been made to measure policy variables directly has dealt with import and export systems[6].

The lack of accurate and homogeneous information on the magnitude of reforms has prevented assessing the relative importance of the various reform areas, and distinguishing between the effects of the structural reforms *per se* and those from macroeconomic stabilisation. For that reason, empirical studies are often unable to offer sufficiently precise recommendations about controversial and critical issues like the sequence and pace of reforms, or on the complementarity between the distinct areas of reforms and between the latter and macroeconomic stability.

With a view to overcoming such deficiencies, in this study we calculate a structural policy index for each year since 1985 for most large countries in Africa. As a general prescription, in order to build a synthetic index, for each policy area a small number of indicators or categories must be identified. These categories have to be comparable across time and countries. The policy variables that have been considered in each of the areas are the following (for greater details see the Appendix):

— **Trade Liberalisation.** Building on previous work by Sharer *et al.* (1998), we assess the openness of the trade regime, considering both imports and exports, tariff and non–tariff barriers (NTBs). First, by considering the unweighted average tariff on imports (duties and other specific taxes), as well as tariff dispersion and exemptions, schemes were classified as restrictive, relatively restrictive, moderate, relatively open, and open. Regarding dispersion, two criteria have been used: the extent of import duty exemptions and the qualitative information provided by IMF and WTO. Second, we analysed NTBs on imports and exports (including quotas, bans, licensing schemes, foreign exchange allocation, government controls on export and import marketing) to classify trade regimes as restrictive, moderate, and open. Concerning NTBs, we tried to use the same criteria as the IMF, but the information was not always available, and there are countries where some criterion is not relevant[7]. While criteria may vary across countries, they are consistent. An overall index ranging from zero to 10 (most open) was then built by aggregating the individual components[8].

— **Liberalisation of external capital transactions.** This sub–index is based on information on both inward and outward capital flows from the IMF *Annual Report on Exchange Arrangements and Exchange Restrictions*[9]. We built two sub–indices of exchange controls[10]:

i) controls on current payments and transfers (status of acceptance with regard to Article VIII of the IMF Agreement; existence of different exchange rates for different transactions; controls on payments for invisible transaction and current transfers);

ii) controls on capital movements (repatriation and/or surrender requirements applied to proceeds from exports, invisibles, and current transfers; controls on external borrowing; controls on inward foreign direct investment (FDI); controls on liquidation of FDI; and controls on capital outflows by residents).

For each category we assign a value of one when controls exist, zero otherwise. The overall index of exchange liberalisation is therefore given by the arithmetic average of the two sub–components. In principle, we should take into account a wider range of categories — such as portfolio investment, real estate transactions, and regulation of banks and non–banking financial institutions — but this was not possible due to data limitations.

— **Liberalisation of domestic financial markets.** The index refers to interest rate determination on both deposits and lending, assigning a value of one where these are set according to policies. The reserve requirement coefficient was considered to be largely irrelevant in Africa, for two reasons. First, many African countries, especially francophone countries, have introduced this coefficient after liberalisation to control bank liquidity and conduct monetary policy through indirect instruments. For them it represents progress compared to previous quantitative restrictions. In contrast, in other (mostly English–speaking) countries, the reserve requirement ratio has always been very high. These countries struggle to reduce their reserve requirements and voluntary reserve levels. How can one compare countries so different[11]? Secondly, this coefficient does not take into account whether reserves are remunerated or not. The consequences for banks of the existence of reserve requirements are therefore very different and cannot be compared. Supervision and interest rate ceilings are far better indicators. Provided enough information was found, the quality of bank supervision and auditing (e.g. if central banks submit their annual reports to external audit companies; information on the frequency of on–site inspections is much more scant, even in BIS countries) could be introduced.

— **Reform of the taxation system.** This index is obtained by combining information on direct and indirect taxation. Uneven tax administration in Africa is a major contributor to revenue shortfalls that augment inflationary pressure while depriving governments of resources for providing public goods. It also stimulates resort to more easily collected taxes on foreign trade, with associated efficiency losses. Reducing evasion should ease the burden on economic agents who currently pay relatively high proportions of their tax liabilities, thus increasing allocative efficiency, enhancing incentives for those agents to invest and produce, and promoting growth with equity. Therefore, a more complete specification should also include information on the efficiency of tax collection and on the simplification of the taxation system. Another useful indicator of the advancement of the reform process, especially insofar as it provides interesting information on its political acceptance, would be real estate taxation. For the sake of simplicity we only consider the following indicators:

i) highest marginal tax rate on personal income;

ii) highest marginal tax rate on corporate income (if different sectoral rates exist, we consider the one applied to manufacturing or non–agricultural companies);

iii) standard rate of the value added tax; and

iv) a measure of efficiency/neutrality of indirect taxation, defined as the ratio of VAT revenue as percentage of GDP over the VAT rate.

— **Ownership.** This index, intended to measure the extent to which fixed assets are still state–owned, was constructed using a qualitative approach, but one which greatly differs from those contained in Lora (1997) and Morley *et al.* (1999)[12]. A list of economic activities was defined as those where public enterprises usually play the most important role — i.e. utilities (electricity, fixed and mobile telecommunications, and water supply), rail and air transport, intermediate manufacturing (cement), agro–industry (sugar or tobacco, depending on data availability), upstream oil (extraction or refining, depending on whether the country is an oil–producer), and the major primary commodity (either mining or tropical[13]). For each sector and country, information was then assembled on ownership in 1985 and then traced until 1998[14]. An additional refinement of the privatisation index is the degree of *de jure* competition to the state–owned incumbent provider of mobile telephony. Applying subjectively determined weights, the raw index would be equal to one when all industries are fully privately owned and there is competition in the cellular market[15].

The index seeks to reflect the degree of neutrality of economic policies in each of these five areas on a scale from zero to 1 for each policy variable. Normalisation is obtained by considering the best and the worst observations of the relevant variable in the entire sample of countries and years. Note that, in the case of trade, the maximum observed value is 8 on a scale of 10: thus, even if the normalised index is equal to one for some countries, this does not mean that full trade liberalisation has been achieved. The same caveat holds in the case of the normalised ownership index. In formal terms, the normalised index value for policy area *j*, country *i*, year *t* is:

$$I_{jit} = (Max_j - IR_{jit})/(Max_j - Min_j)$$

I_{jit} = normalised index value for policy area *j*, country *i*, year *t*.

IR_{jit} = raw value of reform measure, policy area *j*, country *i*, year *t* [16].

MAX_j = maximum raw value of reform measure for policy area *j*, all countries, all years.

MIN_j = minimum raw value of reform measure for policy area *j*, all countries, all years.

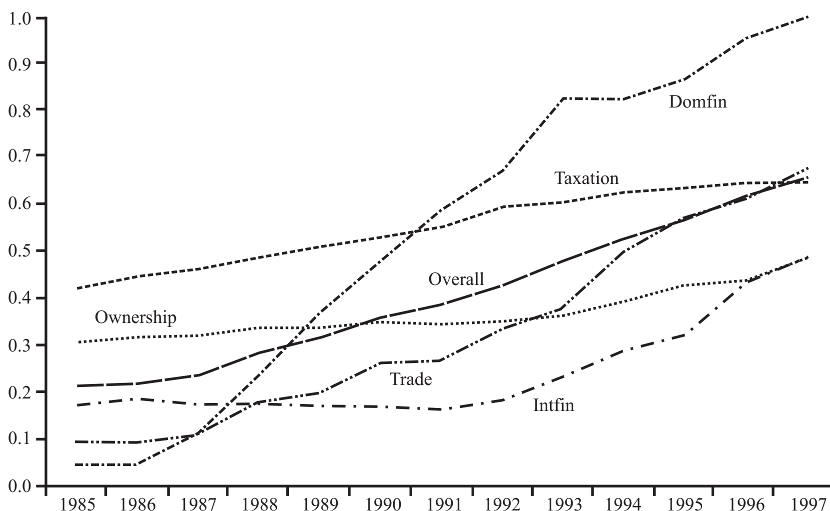
The total structural policy index is the simple average of the indices of the five areas (see the Appendix for more details).

Results

Results from six reform indexes are given in the Appendix. Table A1 presents the values of the general index, which is constructed as the simple average of the five underlying sub–indices shown in Tables A2–A6. Using a simple average is obviously arbitrary, as some policy variables have more impact on sustainable economic growth than others. Providing raw values may allow other researchers to derive the overall reform index using different weightings.

Figure 1 gives a summary view of the evolution and timing of structural reforms. The overall index, which shows a steady evolution of economic policies towards a neutral stance, masks some important differences. In particular, the index of domestic financial liberalisation, whose value in 1985 indicated a completely *dirigiste* stance, reached the highest possible value by 1997, as well as being the highest among all variables. The tax and trade components are also above the 0.600 threshold, whereas progress in international financial liberalisation and, especially, privatisation has been much more modest. It is important to note that ownership in 1985 showed the second most neutral policy stance. While the actual numbers may not be strictly comparable with those presented by Lora (1997) and Morley *et al.* (1999), it is possible to make some comparisons with Latin America. The ranking of components differs slightly, although in both regions trade and domestic financial liberalisation are the areas where the most progress has been achieved. On the other hand, in Latin America capital flows are less restricted than in Africa, whereas Latin American countries adopted a VAT without necessarily reducing the marginal tax rates on income. Of course, such differences between the two regions may be partly due to the different methodology used in evaluating divestiture and other policies.

Figure 1. **Status of Structural Reforms (1985–97)**



Source: Authors' calculations based on the data in the Appendix.

Tables 1 and A1 show the implementation of reforms by policy and geographical areas. In 1985, only two countries in southern Africa had adopted a relatively neutral stance, arbitrarily defined as an overall index of at least 0.500. While in Mauritius there was an effectively neutral stance by this measure in three areas (trade, tax, and ownership), in South Africa only the values for domestic finance and ownership were above the neutrality thresholds. Progress in Botswana and South Africa was rather muted during the 1985–97 period, and according to our approach they still have moderately restrictive trade and international financial policies. Botswana finally abolished all its remaining exchange control regulations on 8 February 1999. South

Table 1. **Chronology of the Adoption of Reforms**

	Trade	International Finance	Domestic Finance	Taxation	Ownership	Overall
1985	Mauritius	No country	South Africa	Côte d'Ivoire, Burkina Faso, Mauritius	Mauritius, South Africa, Zimbabwe	Mauritius
1986–1990	Ghana, Mali	No country	Ghana, Nigeria, Malawi, Mauritius, Tunisia, Côte d'Ivoire, Mali, Senegal, Togo, Burkina Faso, Benin, Algeria, Cameroon, Madagascar	Botswana, Madagascar, Senegal, Tunisia		
1991–1995	Benin, Kenya, Tanzania, Zambia, Uganda, Cameroon, Senegal, Togo	Mauritius	Egypt, Kenya, Tanzania, Zambia, Uganda, Zimbabwe	Ghana, Benin, Zambia, Nigeria, Malawi, Tanzania, Uganda, Egypt, Mali, Kenya, Togo, Zimbabwe,	Senegal	Ghana, Kenya, Zambia, Uganda, Tanzania, Mali, Senegal, Benin, Zimbabwe, Togo
After 1996		Kenya, Uganda	Morocco, Botswana		Botswana	Botswana

Notes: Trade: the threshold (0.714) corresponds to a trade regime falling in one of the two following cases: relatively open tariff barriers ($0.1 \leq t \leq 0.14$, low dispersion) and moderate NTBs; or restrictive tariff barriers ($t \geq 0.25$, or $0.2 \leq t \leq 0.24$, and high dispersion) but open NTBs. International Finance: the threshold (0.708) corresponds to absence of controls on FDI, capital outflows, and acceptance of Article VIII of the IMF Agreement. Domestic Finance: the threshold (0.500) means that at least one of deposit and lending rates has been liberalised. Tax: the threshold (0.600) corresponds to a situation where the maximum tax rates on personal and corporate income are not higher than 50 per cent and 35 per cent.
Ownership: the threshold (0.750) is not very stringent, since it is compatible with most of the economy being still state-controlled (in terms of the raw index, the threshold is 0.400). Anyway, even such a low value shows that only very few countries have reduced the government weight in productive activities.
Overall: the threshold corresponds to a situation where at least three of the previous thresholds are overcome.

Africa's relatively restrictive policies on international economic issues may be expected as this is a large country; and its limited progress in tax reform may be due to the difficult policy choices that confront the authorities as the end of racial exclusion unleashes a pent–up demand for public services. Second, our index clearly shows the progress made by the countries usually associated with the "emerging Africa" label, such as Côte d'Ivoire, Ghana, Senegal and Uganda. The case of Ghana is of particular interest insofar as in the mid–1980s it had one of most interventionist stances, while by 1990 it had leapfrogged into the selected group of countries that had adopted the policy measures commonly advocated by Bretton Woods institutions. On the other hand, Kenya and Zimbabwe, countries that are perceived as departing from sound policies, exceed our reform benchmark. Third, North Africa, with the partial exception of Tunisia, appears to fall behind for reasons that will be made clearer in the discussion concerning the individual components of the index.

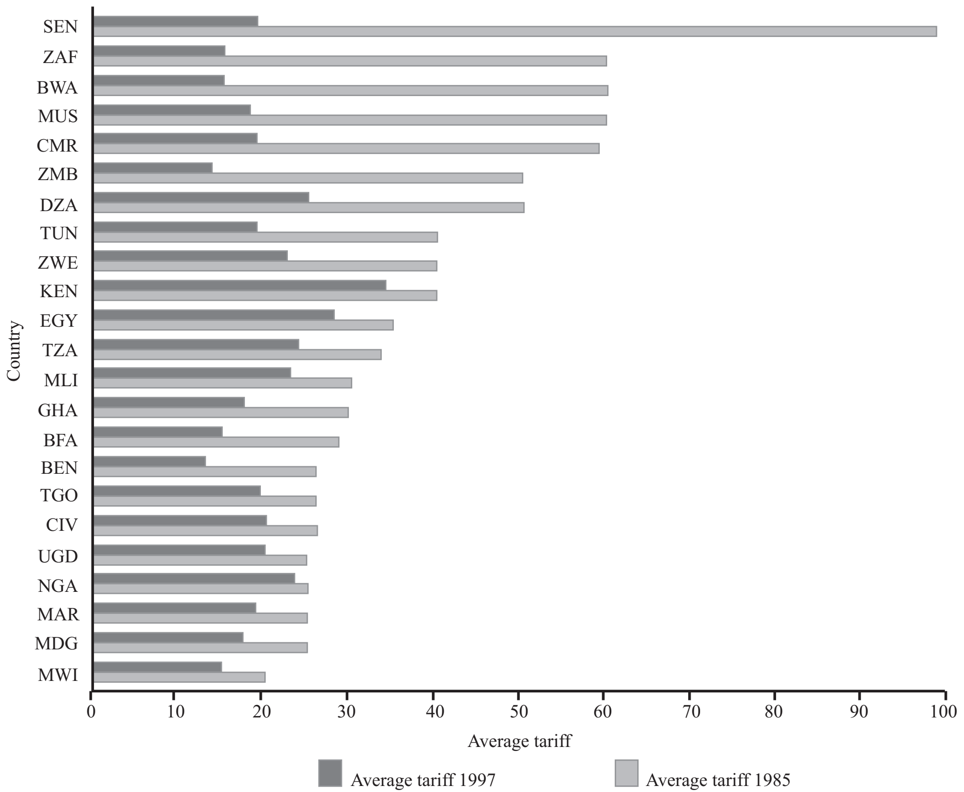
Our results support the conclusions from the Latin American studies that there is a pattern of convergence over time. In Table 2 we classify countries by their level of reform in 1985 and by their rate of change between 1985 and 1997. Countries that had relatively liberalised economies in 1985 tended to introduce fewer additional reforms (SW–quadrant), while those that were relatively unreformed in 1985 made a significant effort to catch up over the subsequent 12 years (NE quadrant). It is interesting to note that the only countries that have been falling behind are Nigeria and its neighbours.

Table 2. **Levels and Changes of Reform**

1985 Level \ Rate of change	Below Average	Average	Above Average
Below Average	Benin, Burkina Faso, Cameroon, Nigeria, Togo		Algeria, Egypt, Ghana, Kenya, Morocco, Madagascar, Mali, Tunisia, Tanzania, Uganda, Zambia
Average	Zimbabwe		
Above Average	Botswana, Côte d'Ivoire, Mauritius, Malawi, Senegal, South Africa		

Trade Reform. Prior to adopting reforms, most African countries used extensive tariff and non–tariff restrictions on both imports and exports, with a high degree of dispersion and wide resort to state marketing monopolies and foreign exchange rationing. The most significant exception was Mauritius, which had a relatively open trade regime, although it also had a rather high 60 per cent average import tariff. The most important achievement on the way towards more open trade regimes has probably been a sharp reduction in foreign exchange restrictions, mostly through the replacement of administrative licensing schemes with auction markets and legalised private bureaux. Similarly, import bans, quotas, and authorisations have been sharply reduced or eliminated. This process has accelerated during the 1990s, so that highly restrictive quantitative regimes have now been abolished in almost all countries. Additionally, as shown in Figure 2, import tariffs have fallen everywhere by very considerable margins.

Figure 2. **Import Tariff Reduction (simple average)**

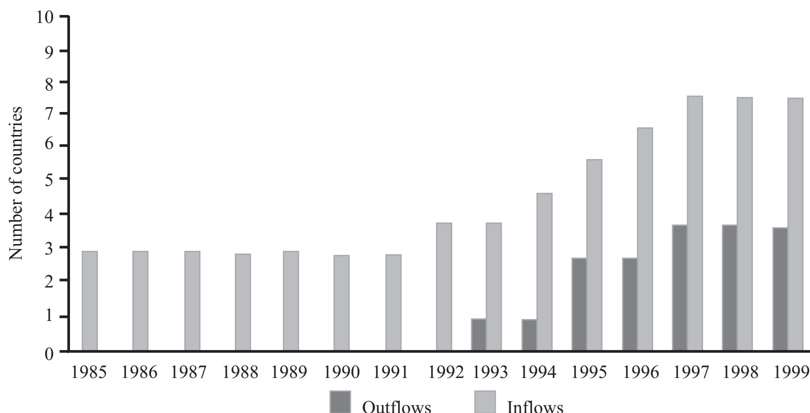


Source: WTO *Trade Policy Review* (various issues) and IMF *Staff Country Reports* (various years).

When looking at country–level evidence, the normalised index of trade reform is associated with interesting developments (Table A.2.1). Ghana's progress in the second half of the 1980s was particularly impressive, the index rising from zero to 0.714 in 1989. Nigeria was also among the very earliest countries to start liberalisation, by lifting licensing restrictions and bans on the export of particular goods in 1986, but after 1987 they were reinstated, if not widened. Despite the significant progress being made, the index had reached unity in only seven countries by 1997 — Cameroon, Mali, Mauritius, Senegal, Tanzania, Uganda and Zambia — none of them in North Africa. Because of normalisation, this does not correspond to the highest possible level of trade neutrality. It is also worth noting that at 0.677, the overall average is still lower than Mauritius's 1985 score.

International Financial Liberalisation. Opening the internal financial market to external capital is more recent and more controversial, as reflected by the fact that it is not an IMF conditionality. During the 1980s very little changed, but around the mid–1990s most countries undertook at least partial reforms, which in some cases (e.g. Zambia) have been substantial. In 1992 only two countries in the sample had accepted Article VIII, but there are now only three which have not. On the other hand, as regards the opening of the capital account, two–thirds of countries still subject the acquisition of domestic firms by foreign investors to prior authorisation by the central bank, the Minister of Finance, or some special authority (Figure 3). In principle no restrictions are placed on making investments, but only those that have an "approved status" are guaranteed the right to transfer profits and liquidation proceeds. This is more or less the case in Algeria, Ghana (where the local Investment Centre is vested with such powers), Kenya, Madagascar, Nigeria, Tanzania, Tunisia and Uganda. With regard to the degree of openness to foreign portfolio investment, the IFC's *Emerging Stock Market Factbook*, which does not cover all the countries and years in our sample, presents a similar picture. While only three African countries had a free entry status (Botswana, Ghana and South Africa) in 1993, nine were classified as open in 1997 (Botswana, Côte d'Ivoire, Egypt, Ghana, Mauritius, Namibia, Nigeria, South Africa and Zambia), with two more considered relatively free (Kenya and Zimbabwe)[17].

Figure 3. **Elimination of Controls on Capital Flows (outflows and inflows)**



Source: Authors' calculations based on IMF *Annual Report on Exchange Arrangements and Exchange Restrictions* (various years).

Only four countries (Mauritius, Kenya, Zambia and Uganda) are classified as open with respect to financial outflows in 1997 (Figure 3). Elsewhere, various types of restrictions apply. For example, currency exports, portfolio and fixed investment abroad, and repatriation of liquidation proceeds are often subject to outright bans or strict regulations[18]. Our index shows that in 1997 only Mauritius achieved full convertibility, having lifted all existing restrictions and controls (Table A.3)[19]. Kenya and Uganda approach this status, while in the BCEAO and UEMOA countries there are special controls over both inward and outward investments[20]. On the other end of the spectrum, in Nigeria only the repatriation of proceeds from FDI liquidation is partly liberalised.

Domestic Financial Liberalisation. In the mid–1980s, there were government ceilings on interest rates, particularly on loans, in most countries in the region. A good deal of credit was allocated by government decision — and quite often extended by state–owned credit institutions to state–owned non–financial companies — rather than by market mechanisms. As a result, the typical African financial system was characterised by financial repression, negative real interest rates and a small number of concentrated, fragile financial institutions; inefficient or no supervision; and a lack of formal alternatives to bank financing for corporations and households.

In constructing the index, we concentrated on interest rate liberalisation, not least because of the difficulty in obtaining sufficiently detailed and coherent institutional information. While all countries except South Africa imposed controls on both deposit and lending rates in 1985, by 1997 no country had them (Table A.4). The reform process began in earnest in the late 1980s, and Ghana and Nigeria were again the first to act, although political developments soon derailed the adjustment in the latter. Francophone countries joined the reform bandwagon with the unification of rates on deposits (*taux debiteurs*) in 1989, and a full liberalisation of lending rates (*taux crediteurs*) and the removal of credit coefficients for priority sectors in 1993. Botswana was the last country in our sample to remove such controls in 1997. A few additional points are worth mentioning (Table 3). First, all countries have adopted new banking laws, which often grant more operational flexibility and autonomy to the central bank authorities. Such changes are too recent, however, to be fully confident about their effects, and some recent banking crises raise some concern about the independence of supervisory authorities. Moreover, state–owned institutions still intermediate a sizeable portion of domestic credit and usually maintain a virtual monopoly on medium– and long–term lending, partly because of their role in channelling multilateral and bilateral aid. Finally, new stock exchanges have been created in many countries. However, most African equity markets are characterised by a small number of listed firms, thin and erratic trading, inadequate disclosure and transparency standards, and relatively high volatility. Their potential is uncertain and there is reluctance to merge national exchanges into larger, more viable regional ones.

Tax Reform. The fourth component of the reform package is tax reform. Two major components have been widely adopted. The first was a value–added tax. Although taxes may have distorting effects on economic agents' decisions, an across–the–board

VAT is favoured by reformers as less distorting than tariffs or high marginal income taxes. In addition, with a VAT, tax evasion can be reduced relatively more than under a system based on a sales tax or an income tax. While only Côte d'Ivoire, Madagascar and Senegal had a VAT in 1985, five years later Kenya, Malawi, Morocco and Tunisia had also introduced it. By the end of the period covered in this study, only six countries did not have a VAT, but Cameroon, Mauritius and Tanzania introduced it in 1998–99, leaving Botswana, Egypt and Zimbabwe as the only exceptions.

Table 3. **Financial Market Reforms**

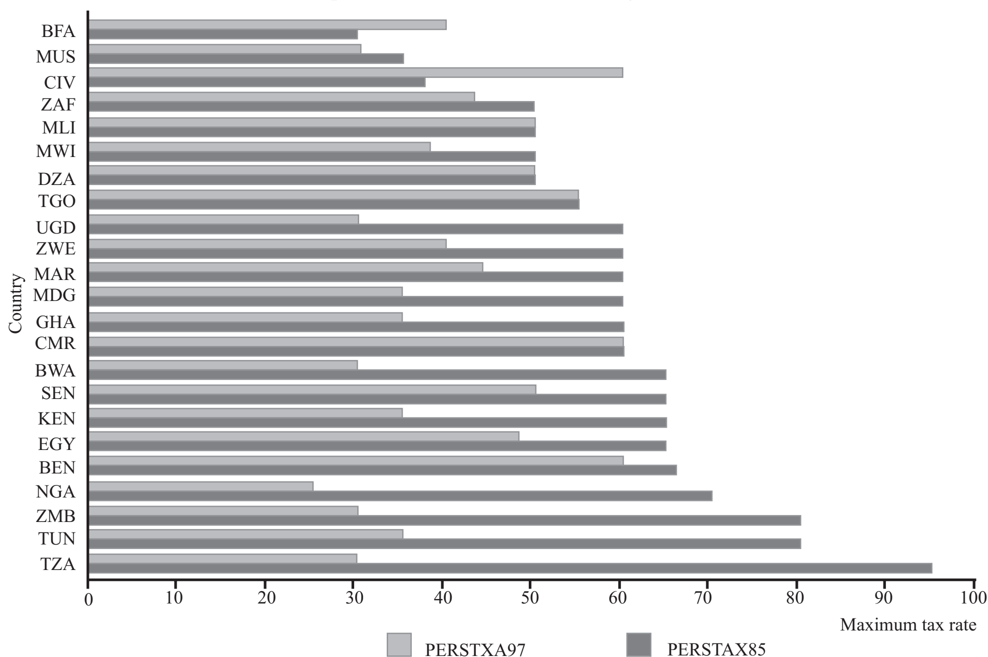
Country	When were interest rates liberalised?		Was banking legislation modernised?	Does gov't own biggest banks?	Is there a stock exchange?
	Deposits	Lending			
Algeria	1990	1995	n.a.	●	YES
Benin	1989	1993	1990	n.a.	NO
Botswana	1997	1997	1995	❍	1989
Burkina Faso	1989	1993	1990	◎	NO
Cameroon	1989	1993	1990	n.a.	2000
Côte d'Ivoire	1989	1993	1990	◎	1976
Egypt	1991	1991	1992	●	YES
Ghana	1988	1987	1989	●	1990
Kenya	1991	1991	1991	●	1954
Madagascar	1990	1990	1996	●	NO
Malawi	1988	1988	1989	●	1995
Mali	1989	1993	1990	◎	NO
Mauritius	1988	1988	1988	❍	1989
Morocco	1996	1996	1993	◎	YES
Nigeria	1987	1987	1994	●	YES
Senegal	1989	1993	1990	n.a.	NO
South Africa	1980	1980	1990, 1993	❍	1897
Tanzania	1993	1991	1991	●	1998
Togo	1989	1993	1990	●	NO
Tunisia	1987	1994	1994	◎	YES
Uganda	1992	1992	1993	◎	YES
Zambia	1992	1992	1994	◎	1994
Zimbabwe	1995	1994	1965	❍	1946

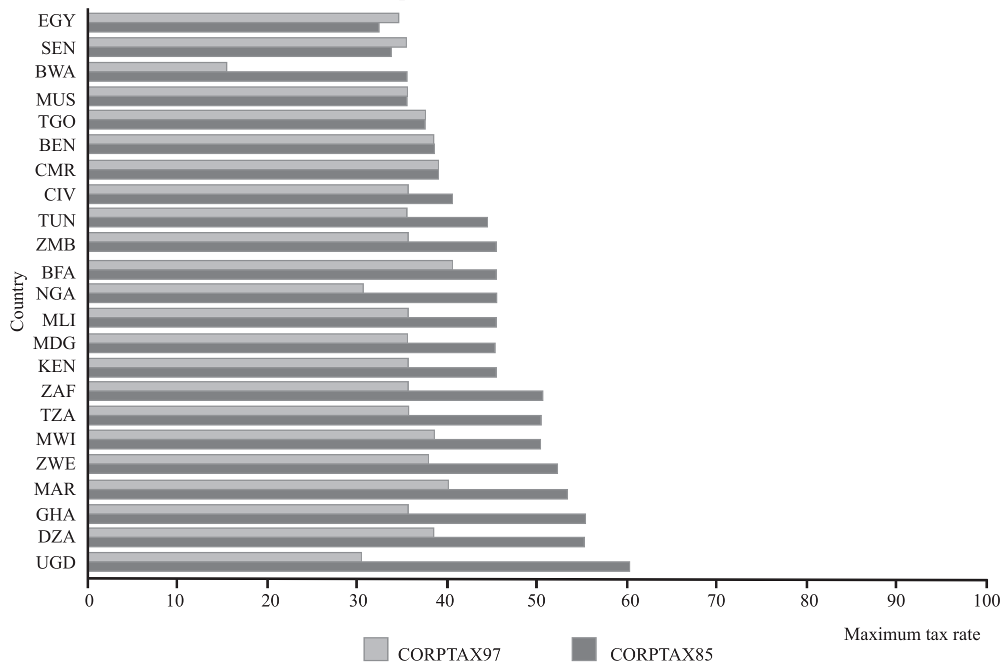
Notes: ❍ market share < 15%; ◎ 15% < market share < 50%; ● market share > 50%

Sources: Mehran *et al.* (1998).

A second element of tax reform was the reduction in marginal tax rates on corporate and personal income, which significantly reduced the progressivity of the income tax but also reduced its disincentive effects, as well as the incentives for tax evasion. Every country in the sample except two has reduced its maximum marginal tax rate since 1985. The two exceptions are Burkina Faso (from relatively low levels) and Côte d'Ivoire, although the complexity of the Ivorian personal income tax regime makes generalisations difficult[21]. The highest corporate income tax rate has fallen almost everywhere, Egypt and Senegal being the only exceptions (Figure 4). Looking at the normalised index, the degree of progress is clear. All countries except one exceeded the 0.500 threshold in 1997, whereas only five did in 1985 (Tables 1 and A.5). The case of Nigeria, which has the second most neutral tax regime, appears noteworthy, as in general this country does not rank amongst the major reformers. But note that this result mainly stems from the fact that the 5 per cent VAT in Nigeria is the lowest among the 20 countries that have adopted it.

Figure 4. **Maximum Household and Corporate Income Tax Rates**





Source: Based on Appendix data.

Ownership. The last component of reform being considered is the private–public ownership mix. As elsewhere in the developing world, public ownership of non–financial enterprises was an important principle of the post–independence development strategy. State ownership and control of non–renewable primary goods (mining and petroleum) was perpetuated, while state ownership or control was supposed to compensate for market failures in natural monopolies (public utilities), maximise fiscal revenues (export crops), and substitute for the alleged lack of native entrepreneurship in manufacturing. Most, if not all, state enterprises performed poorly, running large deficits which compounded government fiscal problems. Being chronically short of capital for expansion, modernisation and maintenance, they failed to provide utility services at the level and quality necessary to meet public expectations and demand. Employment at all levels followed notoriously unclear criteria, not strictly according to qualifications. Demand for accountability and more objective standards of resource allocation increased with the growth of democracy and greater emphasis on conditionality by international financial institutions. This brought about decisions to turn these companies into public limited enterprises (corporatisation), to sign management contracts of various types with private, most often foreign, partners, or to transfer control outright to private investors, again through a variety of methods.

A recent study by the World Bank documents advances being made in this process, as well as the difficulties in surmounting political opposition by vested interests that flourished under the state's umbrella, in ensuring transparent rules for divestiture to prevent capture by cronies of the ruling elite, and in assuring serious foreign investors of the irreversibility of the authorities' commitment to a more liberal regime[22]. Another recent study by the African Development Bank also surveys the different deals being concluded with private companies for the management of infrastructure. Our index, which focuses on ownership in order to maintain the highest level of comparability and consistency, shows that change remains excruciatingly slow. Two groups of countries — in southern Africa (South Africa, Zimbabwe, Botswana, and Mauritius) and in francophone West Africa (Côte d'Ivoire and Senegal) — stand out for the relative neutrality of their policy stance (Table A.6.1). Interestingly, countries like South Africa and Zimbabwe remain the most liberal even if their effort, expressed as the difference between the 1985 and 1997 values, has been very limited (Figure 5). A separate paper by one of us analyses in greater depth the difficult transition of South African big business, including state–owned enterprises, following the demise of apartheid and the opening up of the economy[23]. Senegal, Côte d'Ivoire, and Zambia also stand out for the progress they have accomplished although, to paraphrase the title of a well–known study on this subject, bureaucrats remain well entrenched in the business of running enterprises. On the other end of the scale, most North African countries still trail well behind the rest of the continent, and *a fortiori* the Latin American emerging economies to which they could be reasonably compared in terms of income levels, financial market depth, integration into the world economy and sophistication of market institutions. In general, very few countries have made substantial progress in regulatory reform which includes opening of utility markets, issuing new laws on competition and related issues, creating independent agencies, and establishing clear rules for determining competencies and solving disputes (Table 4).

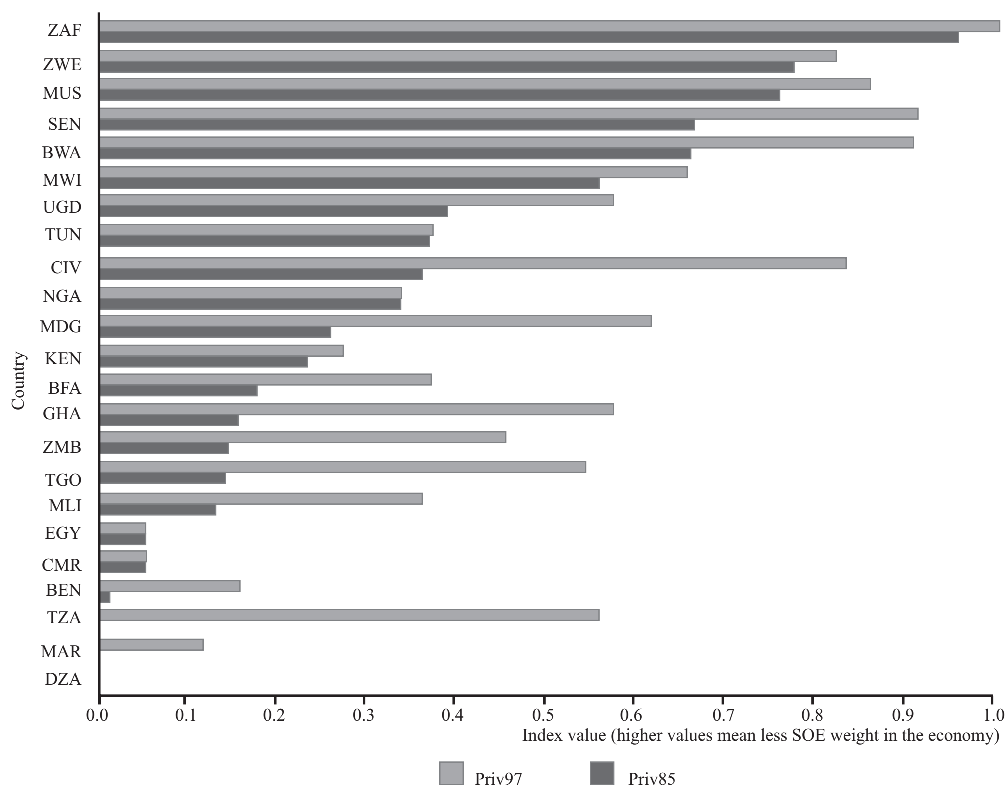
Table 4. **Ownership of Public Utilities**

	Fixed telecoms	Mobile telecoms	Electricity	Water & sanitation	Air transport	Rail transport
Algeria	●	●	●	●	●	●
Benin	◎	●	●	●	●	●
Botswana	◎	❍	●	●	●	●
Burkina Faso	●	●	●	●	●	◎
Cameroon	◎	❍	●	◎	●	◎
Côte d'Ivoire	◎	❍	◎	◎	●	◎
Egypt	●	❍	●	●	●	●
Ghana	❍	❍	◎	●	●	●
Kenya	◎	●	◎	●	❍	●
Madagascar	◎	❍	●	●	◎	●
Malawi	◎	◎	●	●	●	◎
Mali	●	●	◎	◎	●	●
Mauritius	◎	❍	●	●	●	●
Morocco	◎	❍	◎	◎	●	●
Nigeria	◎	◎	●	●	●	●
Senegal	❍	◎	●	❍	●	●
South Africa	◎	❍	●	◎	◎	●
Tanzania	◎	❍	●	◎	●	◎
Togo	●	●	●	●	●	◎
Tunisia	●	●	◎	●	●	◎
Uganda	❍	❍	◎	●	◎	●
Zambia	◎	❍	●	●	❍	●
Zimbabwe	◎	❍	◎	●	●	●

Notes: ● fully public sector; ◎ mixed sector (including partial privatisation and private management contracts); ❍ fully private sector

Sources: African Development Bank (1999), *African Development Report*, Oxford University Press; Plane, P. (2000), "La réforme des télécommunications en Afrique subsaharienne", *mimeo*, OECD Development Centre; and national sources.

Figure 5. **Privatisation Effort**



Source: Authors' calculations.

Conclusions

This paper has quantified the process of structural reform in Africa in five areas — trade reform, liberalisation of external capital transactions, financial liberalisation, tax reform, and privatisation — for 23 countries for the period 1985–1997. The indices show that the reform process has not been uniform over time, across countries, or by area of reform.

— Mauritius and, to a far lesser extent, two other southern African countries in our sample (Botswana and South Africa), already had a relatively neutral policy stance in the mid–1980s, at least insofar as corporate ownership, taxation and domestic financial liberalisation are concerned.

— In the period after 1990, everywhere there was a significant opening of domestic financial markets and marked progress in trade reform, while a VAT had been introduced almost everywhere. By 1997 there was widespread agreement and policy convergence with respect to these three areas of reform.

— However, there is much less convergence and more variation in the indices of privatisation and international financial liberalisation. Various forms of private sector participation in the utilities have been introduced, but public ownership persists in mining and petroleum, there have been significant sales of government enterprises in only a few countries, monopolies still dominate in mobile telephony, and the overall change in the regional index is still quite small. With respect to international financial liberalisation, only three countries in our study reached the reform threshold that we used, which corresponds to acceptance of Article VIII of the IMF Agreement and the absence of controls on FDI and capital outflows.

We recognise that our approach has various limits, including having to select policy measures in terms of data availability, rather than exclusively by their economic relevance; making some subjective classification of policy measures, e.g. in deciding the year of interest rate liberalisation, although in most cases some categories of deposits and loans have remained under more or less control; and sometimes interpreting contradictory information on the ownership structure of rather small companies. Nonetheless, we are confident that the normalisation of our raw data has considerably reduced the risk of serious misrepresentation. Having said this, we encourage others to improve our dataset, by subjecting the information to further checks, extending and improving the policy components, increasing the number of countries and extending the period covered. For example, the weighting system could be endogeneised by testing the importance of each policy measure in a reduced–form growth model[24].

We intend to use the index to analyse the effects of structural reforms on growth, stability, and equity in Africa, as well as the determinants of the reform effort. A rigorous econometric approach would be necessary to assess and separate their effects, since growth does not only depend on structural reform, but also (and possibly mainly) on the educational level of the workforce, macroeconomic stability, and the evolution of the world economy. As far as the trade policy sub–index is concerned, one of us has applied such methodology to show the benefits and costs associated with liberalisation[25]. Another way of evaluating the effects of structural reforms is to look at how international donors reward these efforts. It is widely acknowledged that foreign grants are needed to lessen the cost associated with the implementation of reforms and that conditional aid should act as a signal to economic agents that a government wants to tie its hands (Dollar and Svensson, 1997)[26]. Nonetheless, the effectiveness of international aid in improving the standard of living in least developed countries has recently come under growing scrutiny. Recent work shows that aid is growth–enhancing only when coupled with good policies and that donors should not use aid as a mean to induce reforms. The possible endogeneity of policies leads to considering the causal relationship between aid and policy (has aid induced policy change?) and the factors governing aid allocation (do donors reward good policies?). On the first aspect, since international donors do not know perfectly the characteristics of the recipient government, the latter has a strong incentive to accept the conditionality and then shirk, a moral hazard problem. On the second, donors may consider factors other than the economic policy stance when allocating aid. For instance, Thacker (1999)

investigates the degree to which politics affects IMF lending behaviour. His findings suggest that “the end of the cold war has been associated with the increasing politicisation of the IMF”[27]. Burnside and Dollar (1998) also find that “while donors have made some effort to reward good policy, they are pursuing other interests as well” and that “there has not been any systematic influence of aid on policy”[28]. As a result, threats addressed at uncomplaining governments will not be credible and the allocation of resources will be sub–optimal. Our index could be very useful to further investigate how policy reforms affect the transmission mechanism from aid to growth. First, it allows to clearly distinguish between structural and macroeconomic policies. By interacting aid with two separate policy indices, it is possible to evaluate their relative importance in making aid successful. Second, our index is obtained using the same criteria for the whole 1985–1997 period, allowing a finer analysis of policy changes on a year–on–year basis.

African governments have often tried to do too much, and then do many things poorly. We have documented that a lot of progress has been made in reducing the scope of privileges, and making government policies more neutral. Persisting institutional shortcomings, however, still contribute to the continent’s inadequate economic performance. Africa, for example, still trails well behind other developing and emerging economies in substituting private capital and management for cash–starved treasuries and inefficient government bureaucrats. Governments’ errors of omission have received less attention, which is unfortunate because African states need to do more than simply sit back and refrain from inappropriate activities[29]. They need to engage in parallel efforts to improve their behaviour towards their citizens and create a market–friendly institutional framework. It is a daunting task to break the mould of public institutions that have hardened around personalised power, arbitrary and unaccountable decision making, widespread dishonesty, and repression of dissent.

Notes

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1. We would like to thank Riccardo Faini, Augustin Fosu, Colm Foy, David O'Connor, T.W. Oshikoya, Patrick Plane, and participants at the First International Forum on African Perspectives for comments on earlier drafts; Sabine Le Bayon for research assistance; and friends and colleagues in Africa and elsewhere for their valuable help in gathering information.

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2. Africa's positive aggregate economic performance in 1998 was not shared evenly across the continent. Only the northern and central African sub–regions grew in 1998; the oil–exporting countries maintained their growth momentum as a group (3.7 per cent in 1998 versus 3.6 per cent the previous year), although growth in the Republic of Congo and Algeria continued while in Gabon and Angola it declined by 50 per cent. Largely because of the recovery in agriculture and the decline in oil prices, growth in the non–oil–exporting countries was 2.9 per cent, up from 2.3 per cent in 1997. It is encouraging that the GDP growth rate in the 33 LDCs increased from 2.4 per cent in 1997 to 4.1 per cent. Growth in the five largest economies increased from 2.2 per cent to 3.1 per cent. Only two economies (Comoros and Democratic Republic of the Congo) had negative GDP growth in 1998 compared with four (Comoros, Democratic Republic of the Congo, Republic of Congo, and Morocco) in 1997. Still, only three countries (Botswana, Republic of Congo, and Equatorial Guinea) had growth of 7 per cent or more in 1998.

3. See E. Lora (1997), "A Decade of Structural Reforms in Latin America: What Has Been Reformed and How to Measure It", Inter–American Development Bank, *Working Papers*, No. 348, and S. Morley, R. Machado and S. Pettinato (1999), "Indexes of Structural Reform in Latin America", UN Economic Commission for Latin America, *Serie Reformas*

Económicas, No. 12. An influential work on a world level is J. Sachs and A. Warner (1995), "Economic Reform and the Process of Global Integration", *Brookings Papers on Economic Activity*, Vol. 1.

4. A good general treatment of structural reform is UN Economic Commission for Africa (1999), *Economic Report on Africa 1999: The Challenges of Poverty Reduction and Sustainability*. The *Report* also develops a set of indices for evaluating both short–term performance and long–term sustainability. The analysis of sustainability evaluates social, economic and other performances, outcomes, and policy efforts of countries in terms of progress towards a well–defined long–term goal of halving poverty by the year 2015. The central message is that despite recent progress in economic policy reforms, most of the countries of the continent lack the fundamentals for sustained future growth. Not surprisingly, the countries scoring lowest on all the indices were those significantly affected by civil conflict. Other recent wide–ranging studies are P. Collier and J. Gunning (1999), "Explaining African Economic Performance", *Journal of Economic Literature*, Vol. 37, No. 1; and *idem* (1999), "Why Has Africa Grown Slowly?", *Journal of Economic Perspectives*, Vol. 13, No. 3.

5. Algeria, Egypt, Morocco, and Tunisia in Northern Africa; Benin, Burkina Faso, Cameroon, Côte d'Ivoire, Ghana, Mali, Nigeria, Senegal, and Togo in West Africa; Kenya, Madagascar, Tanzania, and Uganda in Central–Eastern Africa; Botswana, Malawi, Mauritius, South Africa, Zambia, and Zimbabwe in Southern Africa. The continent's five largest economies (South Africa, Nigeria, Algeria, Egypt, and Morocco) account for 37 per cent of the population, and 59 per cent of GDP. From another perspective, the 11 oil–exporting countries (Algeria, Egypt, Libya, Tunisia, Côte d'Ivoire, Nigeria, Cameroon, Gabon, Republic of Congo, Angola, and Equatorial Guinea) account for 49 per cent of GDP, and 36 per cent of the population.

6. For example, see S. Edwards (1993) "Trade and Growth in Developing Countries", *Journal of Economic Literature*; W. Easterly *et al.* (1993), "Good Policy or Good Luck? Country Growth Performance and Temporary Shocks", *Journal of Monetary Economics*, Vol. 32, No. 3.; and Sachs and Warner, *op. cit.*. See also P. Collier and D. Dollar (1998), "Aid Allocation and Poverty Reduction", *mimeo*, The World Bank, Development Research Group. They use the 1997 World Bank's *Country Policy and Institutional Assessments* to develop an index ranking countries according to the quality of 20 components of economic policy, grouped in four areas (macroeconomic management and sustainability of reforms, policies for sustainable and equitable growth, policies reducing inequalities, and public sector management). The policy rating is available for 1997 only and the data is unfortunately not available for use outside of the World Bank group.

7. For instance, in one North African country all quotas and quantitative restrictions (QRs) were abolished, but they were then replaced with very restrictive quality controls on imports: in this case, while strictly speaking there are no QRs, we decided that there were still moderate or restrictive NTBs.

8. We followed the classification scheme introduced by R. Sharer *et al.* (1998), "Trade Liberalization in IMF–Supported Programs", IMF, *World Economic and Financial Surveys*, February. Our classification scheme, however, differs slightly, since tariff dispersion and exemptions were taken into account as much as possible. In addition, we use a classification scheme of import and export restrictions to assess the restrictiveness of NTBs.

9. Reflecting the fact that defining capital account convertibility has generally proven to be easier to put into practice than to measure, there are broadly speaking two key approaches, which look at either *de jure* or *de facto* liberalisation. The latter, in particular, implies the existence of financial integration by looking at its practical implications. If countries were to be financially integrated, for instance, no arbitrage opportunities should remain. This hypothesis is tested by checking if there is interest parity. Our index of capital account liberalisation belongs to the first group. A second and more general problem, affecting all the attempts to build this kind of index, concerns the subjective translation of verbal description into quantitative measures (usually bi–variate dummies). We assigned a value of one when controls/restrictions were in place, according to the information provided in the summary tables and country pages of the *Annual Report on Exchange Arrangements and Exchange Restrictions.* We use a finer classification (0, 0.5, 1) for profit repatriation.

10. Following N. Tamirisa (1998), "Exchange and Capital Controls as Barriers to Trade", IMF, *Working Paper*, No. 98/81. However, since our analysis covers a longer period, only fewer indicators could be used.

11. Given the difficulties in obtaining *de jure* reserve to deposit coefficients, an alternative could be to analyse *de facto* reserve to deposit ratios using more readily available sources. This proxy, however, is problematic, particularly in African countries which do not have a viable treasury bill system and where banks, for several reasons, hold huge amounts of excess liquidity. We thank Jerry Caprio for drawing our attention to this point.

12. Lora uses the cumulative revenues from post–1988 privatisation as a proportion of 1985–87 average public investment. That measure has two problems. First, we are not particularly interested in the proceeds of the sale of state enterprise as a means of financing government investment; rather we want a measure that reflects public sector's size in the economy. For example, if a high index value is intended to reflect an economy with a small degree of government intervention, or in this case a small government enterprise sector, the Lora index is very misleading. It is high in countries that are reducing the size of the sector through sales. But it will be zero in countries that do not have public enterprises to sell. Our alternative does not have this problem. Secondly, Lora used the accumulated value of the proceeds of public enterprise sales as the *numeraire* of his index, thus exaggerating the upward trend in privatisation. Morley *et al.*, using the information provided by the World Bank database, measure the privatisation index as one minus the ratio of the value added of SOEs (estimated as their sales revenue minus the cost of their intermediate inputs, or as the sum of their operating surplus and wage payments) to non–agricultural GDP. This index has some measurement problems of its own, the most serious being that it is sensitive to inflation and to exogenous trends in primary product prices. For example, typically during periods of severe inflation, governments attempted to hold down the prices of public services provided by state–owned companies. As a result, the companies had operating losses and consequently negative value added. In the index, this will look like a reduction in the size of the state–owned sector, when actually some companies are running at a loss. The same effect can be seen in countries that are important mineral producers. When prices are set by world markets, the index will show a rise in share of state enterprise if there is a commodity boom. While in one sense that is true, it does not mean a reversal of privatisation. At any rate, for the 23 African countries that compose our sample, the World Bank database does not contain enough information to apply the Morley *et al.* methodology.

13. The list of such commodities can be found in A. Deaton (1999), "Commodity Prices and Growth in Africa", *Journal of Economic Perspectives*, Vol. 13, No. 3, Table 1. When oil is the largest export, we considered the ownership of the second–largest exporting sector, except for Algeria and Nigeria where oil revenues account for more than 30 per cent of total GDP.

14. We considered the liquidation of a state–owned enterprise as ownership transfer.

15. Obviously, it would be better to determine such weights by looking at the contribution of each sector's value added to the GDP, but this proved to be not feasible.

16. For all policy areas, an increase in the value of the corresponding sub–index must correspond to a move to a more neutral policy stance. In order to satisfy this rule in the case of trade, where the raw value increases as policy becomes more neutral, we use 1 minus the value of the normalised trade index.

17. This classification is not strictly comparable with ours, since the IFC assigns a free entry status to a country even when some industries are not open to foreign investors and/or national laws or corporate policies restrict them to minority positions.

18. In Malawi and Zambia, for instance, non–resident investors have to prove that the original investment was made using foreign funds only. In Zimbabwe, the repatriation of capital invested prior to 1979 is prohibited; investments undertaken after 1979 can be considered for repatriation after two years, provided that the amount to be repatriated will be reduced by any profits remitted in the interim, and repatriation is possible only by means of government bonds.

19. Capital invested before 1966, however, cannot be repatriated.

20. FDI must be declared to the Ministry of Finance (MOF), which has a period of two months to request a postponement. Both the making and the liquidation of the investment must be reported to the MOF and to the BCEAO within 20 days of each operation. Investment codes usually establish preferential conditions to promote foreign investment deemed to contribute to national development.

21. In 1985 residents were subject to the progressive general revenue tax with a maximum rate of 37.5 per cent, and to three additional taxes on earned income: the salary tax (1.2 per cent), the national contribution (8 per cent), and the solidarity contribution (1 per cent). The maximum marginal rate was raised to 60 per cent in 1994 when the general income tax was changed.

22. See O. Campbell White and A. Bhatia (1998), *Privatization in Africa*, The World Bank.

23. A. Goldstein (2000), "Big Business and the Wealth of South Africa: Policy Issues in the Transition from Apartheid", *mimeo*, OECD Development Centre.

24. We thank Patrick Plane for this suggestion.

25. C. Richaud and A. Varoudakis (2000), "Trade Liberalisation, Exchange Rate Policy and Growth: The Case of Africa", *mimeo*, OECD Development Centre. An empirical use of the index is made by E. Lora and F. Barrera (1997), "A Decade of Structural Reform in Latin America: Growth, Productivity, and Investment are not What they Used to Be", Inter-American Development Bank, *Working Papers*, No. 350.

26. D. Dollar and J. Svensson (1997), "What Explains the Success or Failure of Structural Adjustment Programs?", The World Bank, *mimeo*.

27. S. Thacker (1999), "The High Politics of IMF Lendings", *World Politics*, Vol. 52, No. 1, p. 70.

28. C. Burnside and D. Dollar (1998), "Aid, Policies, and Growth", The World Bank, *Policy Research Paper*, No. 1777, pp. 27, 29.

29. See also B. Ndulu and S. O'Connell (1999), "Governance and Growth in Sub–Saharan Africa", *Journal of Economic Perspectives*, Vol. 13, No. 3.

Appendix

[illegible] . Most information was found in UNCTAD (1987), *Répertoire des mesures de réglementation commercial appliquées par les pays en développement* and WTO, *Trade Policy Review*, Cameroon, Côte d'Ivoire, Mauritius, Uganda (1995), Morocco, Zambia (1996), Benin (1997), Burkina Faso and Mali, Nigeria, SACU (1998), Egypt, and Togo (1999).

[illegible] Controls on the movement of foreign and domestic capital are described in IMF (various years), *Annual Report on Exchange Arrangements and Exchange Restrictions*.

[illegible] Information on the timing of financial liberalisation was drawn from a number of World Bank and IMF country economic studies, as well as national sources. We also consulted H. Mehran *et al.* (1998), "Financial Sector Development in Sub–Saharan African Countries", IMF, *Occasional Paper*, No. 169.

[illegible] For corporate and personal income taxes, G. P. Sicat and A. Virmani (1987), "Personal Income Taxes in Developing Countries: International Comparisons", The World Bank, *DRD Discussion Paper*, No. 265; Coopers and Lybrand (various issues), *International Tax Summaries*; Price Waterhouse (various issues), *Individual Taxes: A World Wide Summary* and *Corporate Taxes: A World Wide Summary*; and Ernst&Young (various issues), *Doing Business*. VAT rates are taken from M. Casanegra de Jantscher (1987), "Problems in Administering a Value–Added Tax in Developing Countries: An Overview", The World Bank, *DRD Discussion Paper*, No. 246; A. Tait (1991), *Value–Added Tax: Administrative and Policy Issues*, IMF; and national sources. The VAT productivity indicator was calculated from data in various IMF documents, including *Government Finance Statistics Yearbook* and *Recent Economic Developments*, as well as from national sources.

[illegible] One basic source are the national privatisation and investment agencies in various countries, as well as various IMF *Staff Country Reports*. For utilities and infrastructure, we also relied on African Development Bank (1999), *African Development Report*, as well as the World Bank African Telecommunications Research Dataset. See also C. Fundanga and A. Mwaba (1997), "Privatisation of Public Enterprises in Zambia", African Development Bank, *Working Paper*, No. 35.

Complementary information was collected from various press sources (in particular *African Business*, *Financial Times*, *Jeune Afrique Economie*, *Le Monde*, and *Marchés Tropicaux*).

The overall index of structural reform is the simple average of five sub–indices, one for each policy area. We built it in such a way that a movement towards a more neutral policy stance is reflected by an increase in the overall index value (i.e. due to normalisation, a movement towards 1). A sub–index is obtained for each one of the five policy areas considered, by combining various indicators. The sub–indices are labeled I_{TAX}, I_{DOM}, I_{INT}, I_{TRADE}, and $I_{OWN.}$

Trade Liberalisation. This sub–index is derived from the following matrix, which include tariff and non–tariff barriers described above.

Tariff barriers / NTBs	Restrictive	Moderate	Open
Restrictive	1	3	6
Relatively restrictive	1	4	7
Moderate	2	5	8
Relatively open	3	6	9
Open	4	7	10

Source: Adapted from R. Sharer *et al.* (1998), "Trade Liberalization in IMF–Supported Programs", IMF, *World Economic and Financial Surveys*, February.

Using this matrix we classified trade regimes on a scale ranging from zero to ten, normalisation yields:

$$IT_{TRADE\ it} = (MAX_{TRADE} - IR_{TRADEit}) / (MAX_{TRADE} - MIN_{TRADE})$$

Note that, in this case, a movement towards a more neutral trade regime is reflected by an increase in the raw component *(IR)*. In order to aggregate this sub–index with the others, we have to take its complement to one:

$$I'_{TRADEit} = 1 - I_{TRADEit}$$

International Financial Liberalisation

Two sub–indices are developed: CI (current account) and KI (capital account).

— Current account (controls on current payments and transfers). The following information is considered:

a) Status of acceptance with regard to Article VIII of IMF Agreement;

b) Exchange arrangement: different rates for different transactions[1;]

c) Payments for invisible transaction and current transfers[2].

$CI_{it} = AVERAGE\ (x_{it})$ where x refers to a, b, and c and we set:

$x_{it} = 0$ if no controls/restrictions are in place

$x_{it} = 1$ otherwise

— Capital account (controls on capital movements). The following information is considered:

a) Proceeds from exports, and current transfers[3];

b) Controls on credit operations[4];

c) Controls on inward foreign direct investment;

d) Controls on liquidation of FDI;

e) Controls on capital outflows:

$KI_{it} = AVERAGE\ (y_{it})$ where y refers to *a, b, c, d,* and *e* and we set:

$y_{it} = 0$ if no controls/restrictions are in place

$y_{it} = 1$ otherwise

The sub–index is given by the average of the former:

$IR_{INTit} = 0.5*(CI_{it} + KI_{it})$

Normalisation yields:

$I_{INT\ it} = (MAX_{INT} - IR_{INTit}) / (MAX_{INT} - MIN_{INT})$

Domestic Financial Liberalisation. The components are interest rate on deposit and lending.

— Liberalisation of deposit interest rates

$DD_{it} = 0$ if no controls/restrictions are in place

$DD_{it} = 1$ otherwise

— Liberalisation of lending interest rates

$DL_{it} = 0$ if no controls/restrictions are in place

$DL_{it} = 1$ otherwise

The sub–index is the average of the former:

$IR_{DOM\ it} = 0.5*(DD_{it} + DL_{it})$

Normalisation yields:

$$I_{DOMit} = (MAX_{DOM} - IR_{DOMit}) / (MAX_{DOM} - MIN_{DOM})$$

Taxation. The components are maximum marginal rate on personal income, maximum rate on corporate income, standard VAT rate, and VAT neutrality (VAT revenue as a percentage of GDP over the VAT rate).

Corporate income taxation $TC_{it} = (MAX_{CORP} - CORPTAX_{it}) / (MAX_{CORP} - MIN_{CORP})$

Personal income taxation $TP_{it} = (MAX_{PERS} - PERSTAX_{it}) / (MAX_{PERS} - MIN_{PERS})$

VAT $TV_{it} = (MAX_{VAT} - VATRATE_{it}) / (MAX_{VAT} - MIN_{VAT})$

VAT collection (neutrality) $TN_{it} = (MAX_{COLL} - COLL_{it}) / (MAX_{COLL} - MIN_{COLL})$

The sub–index is the simple average of the former:

$$IR_{TAX\,it} = Average\,(TC_{it}; TP_{it}; TV_{it}; TN_{it})$$

Normalisation yields:

$$I_{TAXit} = (MAX_{TAX} - IR_{TAXit}) / (MAX_{TAX} - MIN_{TAX})$$

Ownership mix. The index is a weighted average of seven subcategories.

S_{ist} = government share in the *s* sector for country *i*, year *t*.

S is equal to 100 if the sector in question is completely state–owned.

$$IR_{OWNit} = \sum \omega_S S_{ist}$$

ω_s = weight attached to sector *s* (assumed time and country invariable)

Therefore, if the economy is fully privatised, $IR_{OWN} = 0$. Normalisation yields:

$$I_{OWN\,it} = (MAX_{OWN} - IR_{OWNit}) / (MAX_{OWN} - MIN_{OWN})$$

As in the case of the trade index, the raw values express the “true” degree of state ownership. Due to the normalisation procedure, the final index gives only a relative picture.

Notes to Appendix

1. Existence of "separate exchange rate(s) for some or all capital transactions and/or some or all invisibles". From 1997, the IMF gives more detailed information on the exchange rate regime, distinguishing among unitary, dual, and multiple.

2. Procedures for effecting payments abroad for current transactions in invisibles with reference to prior approval requirements, the existence of quantitative and indicative limits, and/or bona fide tests. This category includes interest and profit/dividends payments abroad, foreign workers' wages, pensions, payments for travels, medical costs, and the like. More detailed information is given in Appendix II of *Annual Report on Exchange Arrangements and Exchange Restrictions* (1997).

3. Regulations governing exchange derived from transactions in invisibles, and limitations on the importation of foreign and domestic banknotes. In particular, existence of repatriation and surrender requirements for receipts from services and income earned abroad.

4. Constraints or control concerning borrowing abroad. When available, we gathered all the information concerning borrowing by banks and financial institutions, enterprises, and individuals.

Table A.1. **Index of Structural Reforms**

Country	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
BEN	0.156	0.156	0.156	0.242	0.342	0.371	0.455	0.453	0.536	0.536	0.535	0.558	0.562
BFA	0.186	0.211	0.211	0.211	0.311	0.311	0.311	0.311	0.482	0.489	0.533	0.591	0.589
BWA	0.312	0.319	0.334	0.323	0.323	0.337	0.337	0.337	0.337	0.337	0.409	0.478	0.762
CIV	0.322	0.322	0.297	0.240	0.340	0.382	0.373	0.377	0.504	0.552	0.560	0.621	0.656
CMR	0.174	0.174	0.149	0.149	0.206	0.406	0.406	0.406	0.431	0.517	0.545	0.570	0.599
DZA	0.084	0.084	0.084	0.109	0.120	0.220	0.180	0.209	0.230	0.292	0.391	0.409	0.447
EGY	0.115	0.115	0.115	0.115	0.115	0.111	0.311	0.368	0.368	0.425	0.425	0.475	0.521
GHA	0.100	0.201	0.315	0.415	0.495	0.495	0.538	0.555	0.553	0.687	0.707	0.707	0.718
KEN	0.155	0.155	0.155	0.234	0.234	0.238	0.432	0.533	0.429	0.553	0.606	0.615	0.701
MAR	0.066	0.094	0.118	0.182	0.186	0.185	0.186	0.219	0.295	0.327	0.329	0.530	0.530
MDG	0.160	0.160	0.171	0.252	0.273	0.500	0.474	0.491	0.492	0.506	0.582	0.634	0.692
MLI	0.182	0.227	0.227	0.284	0.384	0.470	0.490	0.491	0.590	0.633	0.631	0.649	0.679
MUS	0.502	0.502	0.502	0.702	0.702	0.702	0.702	0.709	0.759	0.768	0.822	0.902	0.919
MWI	0.313	0.256	0.256	0.513	0.507	0.518	0.562	0.578	0.578	0.603	0.628	0.657	0.671
NGA	0.161	0.247	0.479	0.393	0.368	0.368	0.368	0.408	0.408	0.231	0.280	0.488	0.501
SEN	0.301	0.301	0.301	0.365	0.408	0.421	0.421	0.421	0.540	0.598	0.681	0.724	0.787
TGO	0.170	0.170	0.170	0.237	0.394	0.394	0.394	0.394	0.494	0.494	0.592	0.614	0.623
TUN	0.155	0.155	0.155	0.296	0.299	0.341	0.337	0.339	0.447	0.549	0.550	0.578	0.605
TZA	0.056	0.084	0.084	0.141	0.170	0.177	0.291	0.395	0.509	0.516	0.570	0.595	0.726
UGD	0.152	0.152	0.152	0.152	0.186	0.283	0.272	0.472	0.625	0.698	0.698	0.737	0.843
ZAF	0.536	0.536	0.536	0.543	0.543	0.543	0.538	0.577	0.579	0.678	0.712	0.713	0.741
ZMB	0.166	0.153	0.153	0.153	0.153	0.235	0.238	0.470	0.564	0.659	0.653	0.748	0.763
ZWE	0.222	0.220	0.220	0.226	0.226	0.226	0.237	0.322	0.322	0.452	0.590	0.590	0.599
AFR_AVE	**0.206**	**0.217**	**0.232**	**0.282**	**0.317**	**0.358**	**0.385**	**0.428**	**0.481**	**0.526**	**0.567**	**0.617**	**0.662**

Table A.2.1 **Index of Trade Liberalisation (normalised)**

Country	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
BEN	0.143	0.143	0.143	0.571	0.571	0.571	0.714	0.714	0.714	0.714	0.714	0.714	0.714
BFA	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.286	0.286	0.429	0.571	0.571
BWA	0.286	0.286	0.286	0.286	0.286	0.286	0.286	0.286	0.286	0.286	0.429	0.429	0.571
CIV	0.286	0.286	0.286	0.000	0.000	0.000	0.000	0.000	0.000	0.286	0.286	0.429	0.429
CMR	0.000	0.000	0.000	0.000	0.286	0.286	0.286	0.286	0.286	0.714	0.857	0.857	1.000
DZA	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.286	0.286	0.286	0.286
EGY	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.286	0.286	0.286	0.286	0.286	0.429
GHA	0.000	0.286	0.429	0.429	0.714	0.714	0.714	0.714	0.714	0.857	0.857	0.857	0.857
KEN	0.000	0.000	0.000	0.286	0.286	0.286	0.286	0.714	0.286	0.714	0.714	0.714	0.714
MAR	0.000	0.000	0.000	0.286	0.286	0.286	0.286	0.286	0.286	0.429	0.429	0.429	0.429
MDG	0.000	0.000	0.000	0.286	0.286	0.429	0.286	0.429	0.429	0.571	0.571	0.571	0.571
MLI	0.000	0.000	0.000	0.286	0.286	0.714	0.714	0.714	0.714	0.857	0.857	0.857	1.000
MUS	0.714	0.714	0.714	0.714	0.714	0.714	0.714	0.714	0.714	0.714	0.857	1.000	1.000
MWI	0.286	0.000	0.000	0.286	0.286	0.286	0.429	0.429	0.429	0.571	0.571	0.571	0.571
NGA	0.000	0.429	0.429	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.286	0.286	0.286
SEN	0.000	0.000	0.000	0.286	0.000	0.000	0.000	0.000	0.000	0.286	0.714	0.714	1.000
TGO	0.000	0.000	0.000	0.000	0.286	0.286	0.286	0.286	0.286	0.286	0.714	0.714	0.714
TUN	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.286	0.286	0.286	0.429	0.571
TZA	0.000	0.000	0.000	0.286	0.286	0.286	0.286	0.714	0.714	0.714	0.714	0.714	1.000
UGD	0.000	0.000	0.000	0.000	0.000	0.429	0.429	0.429	0.857	0.714	0.714	0.857	1.000
ZAF	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.286	0.429	0.429	0.571
ZMB	0.286	0.000	0.000	0.000	0.000	0.429	0.429	0.429	0.857	1.000	0.857	1.000	1.000
ZWE	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.286	0.286	0.286	0.286	0.286	0.286
AFR_AVE	**0.087**	**0.093**	**0.099**	**0.174**	**0.199**	**0.261**	**0.267**	**0.335**	**0.379**	**0.497**	**0.571**	**0.609**	**0.677**

Table A.2.2 **Index of Trade Liberalisation (raw values)**

Country	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
BEN	2	2	2	5	5	5	6	6	6	6	6	6	6
BFA	1	1	1	1	1	1	1	1	3	3	4	5	5
BWA	3	3	3	3	3	3	3	3	3	3	4	4	5
CIV	3	3	3	1	1	1	1	1	1	3	3	4	4
CMR	1	1	1	1	3	3	3	3	3	6	7	7	8
DZA	1	1	1	1	1	1	1	1	1	3	3	3	3
EGY	1	1	1	1	1	1	1	3	3	3	3	3	4
GHA	1	3	4	4	6	6	6	6	6	7	7	7	7
KEN	1	1	1	3	3	3	3	6	3	6	6	6	6
MAR	1	1	1	3	3	3	3	3	3	4	4	4	4
MDG	1	1	1	3	3	4	3	4	4	5	5	5	5
MLI	1	1	1	3	3	6	6	6	6	7	7	7	8
MUS	6	6	6	6	6	6	6	6	6	6	7	8	8
MWI	3	1	1	3	3	3	4	4	4	5	5	5	5
NGA	1	4	4	1	1	1	1	1	1	1	3	3	3
SEN	1	1	1	3	1	1	1	1	1	3	6	6	8
TGO	1	1	1	1	3	3	3	3	3	3	6	6	6
TUN	1	1	1	1	1	1	1	1	3	3	3	4	5
TZA	1	1	1	3	3	3	3	6	6	6	6	6	8
UGD	1	1	1	1	1	4	4	4	7	6	6	7	8
ZAF	1	1	1	1	1	1	1	1	1	3	4	4	5
ZMB	3	1	1	1	1	4	4	4	7	8	7	8	8
ZWE	1	1	1	1	1	1	1	3	3	3	3	3	3
AFR_AVE	**1.61**	**1.65**	**1.70**	**2.22**	**2.39**	**2.83**	**2.87**	**3.35**	**3.65**	**4.48**	**5.00**	**5.26**	**5.74**

Table A.3 **Index of International Financial Liberalisation**

Country	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
BEN	0.292	0.292	0.292	0.292	0.292	0.292	0.292	0.292	0.292	0.292	0.292	0.417	0.417
BFA	0.125	0.250	0.250	0.250	0.250	0.250	0.250	0.250	0.250	0.250	0.250	0.375	0.375
BWA	0.125	0.125	0.125	0.125	0.125	0.125	0.125	0.125	0.125	0.125	0.250	0.375	0.375
CIV	0.333	0.333	0.208	0.208	0.208	0.208	0.208	0.208	0.333	0.333	0.333	0.458	0.458
CMR	0.333	0.333	0.208	0.208	0.208	0.208	0.208	0.208	0.333	0.333	0.333	0.458	0.458
DZA	0.042	0.042	0.042	0.167	0.167	0.167	0.167	0.167	0.167	0.167	0.167	0.250	0.375
EGY	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.167	0.167	0.417	0.500
GHA	0.042	0.167	0.042	0.042	0.042	0.042	0.042	0.083	0.083	0.333	0.458	0.458	0.458
KEN	0.167	0.167	0.167	0.167	0.167	0.167	0.167	0.167	0.042	0.250	0.458	0.458	0.875
MAR	0.000	0.000	0.125	0.125	0.125	0.125	0.125	0.292	0.542	0.542	0.542	0.542	0.542
MDG	0.125	0.125	0.125	0.125	0.125	0.125	0.125	0.125	0.125	0.125	0.125	0.333	0.583
MLI	0.292	0.292	0.292	0.292	0.292	0.292	0.292	0.292	0.292	0.292	0.292	0.417	0.417
MUS	0.333	0.333	0.333	0.333	0.333	0.333	0.333	0.333	0.583	0.583	0.708	0.917	1.000
MWI	0.292	0.292	0.292	0.292	0.292	0.292	0.292	0.292	0.292	0.292	0.417	0.542	0.542
NGA	0.125	0.125	0.125	0.125	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.042
SEN	0.333	0.333	0.333	0.333	0.333	0.333	0.333	0.333	0.333	0.333	0.333	0.458	0.458
TGO	0.167	0.167	0.167	0.167	0.167	0.167	0.167	0.167	0.167	0.167	0.167	0.292	0.292
TUN	0.125	0.125	0.125	0.125	0.125	0.125	0.125	0.125	0.458	0.458	0.458	0.458	0.458
TZA	0.167	0.167	0.167	0.167	0.167	0.167	0.167	0.167	0.125	0.125	0.208	0.333	0.333
UGD	0.125	0.125	0.125	0.125	0.125	0.125	0.000	0.000	0.208	0.458	0.458	0.583	0.917
ZAF	0.292	0.292	0.292	0.292	0.292	0.292	0.292	0.417	0.417	0.542	0.542	0.542	0.542
ZMB	0.125	0.125	0.125	0.125	0.125	0.125	0.125	0.125	0.167	0.333	0.333	0.667	0.667
ZWE	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.125	0.250	0.250	0.250
AFR_AVE	**0.172**	**0.183**	**0.172**	**0.178**	**0.172**	**0.172**	**0.167**	**0.181**	**0.232**	**0.288**	**0.328**	**0.435**	**0.493**

Table A.4. **Index of Domestic Financial Liberalisation**

Country	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
BEN	0	0	0	0	0.5	0.5	0.5	0.5	1	1	1	1	1
BFA	0	0	0	0	0.5	0.5	0.5	0.5	1	1	1	1	1
BWA	0	0	0	0	0	0	0	0	0	0	0	0	1
CIV	0	0	0	0	0.5	0.5	0.5	0.5	1	1	1	1	1
CMR	0	0	0	0	0	1	1	1	1	1	1	1	1
DZA	0	0	0	0	0	0.5	0.5	0.5	0.5	0.5	1	1	1
EGY	0	0	0	0	0	0	1	1	1	1	1	1	1
GHA	0	0	0.5	1	1	1	1	1	1	1	1	1	1
KEN	0	0	0	0	0	0	1	1	1	1	1	1	1
MAR	0	0	0	0	0	0	0	0	0	0	0	1	1
MDG	0	0	0	0	0	1	1	1	1	1	1	1	1
MLI	0	0	0	0	0.5	0.5	0.5	0.5	1	1	1	1	1
MUS	0	0	0	1	1	1	1	1	1	1	1	1	1
MWI	0	0	0	1	1	1	1	1	1	1	1	1	1
NGA	0	0	1	1	1	1	1	1	1	0	0	1	1
SEN	0	0	0	0	0.5	0.5	0.5	0.5	1	1	1	1	1
TGO	0	0	0	0	0.5	0.5	0.5	0.5	1	1	1	1	1
TUN	0	0	0	0.5	0.5	0.5	0.5	0.5	0.5	1	1	1	1
TZA	0	0	0	0	0	0	0.5	0.5	1	1	1	1	1
UGD	0	0	0	0	0	0	0	1	1	1	1	1	1
ZAF	1	1	1	1	1	1	1	1	1	1	1	1	1
ZMB	0	0	0	0	0	0	0	1	1	1	1	1	1
ZWE	0	0	0	0	0	0	0	0	0	0.5	1	1	1
AFR_AVE	**0.043**	**0.043**	**0.109**	**0.239**	**0.370**	**0.478**	**0.587**	**0.674**	**0.826**	**0.826**	**0.870**	**0.957**	**1.000**

Table A.5. **Index of Tax Reform**

Country	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
BEN	0.340	0.340	0.340	0.340	0.340	0.340	0.617	0.608	0.518	0.523	0.515	0.508	0.524
BFA	0.631	0.631	0.631	0.631	0.631	0.631	0.631	0.631	0.631	0.666	0.665	0.644	0.631
BWA	0.492	0.528	0.599	0.544	0.544	0.615	0.615	0.615	0.615	0.615	0.706	0.929	0.964
CIV	0.633	0.633	0.633	0.633	0.633	0.633	0.590	0.609	0.618	0.574	0.570	0.559	0.563
CMR	0.489	0.489	0.489	0.489	0.489	0.489	0.489	0.489	0.489	0.489	0.489	0.489	0.489
DZA	0.377	0.377	0.377	0.377	0.433	0.433	0.234	0.379	0.482	0.508	0.502	0.507	0.573
EGY	0.525	0.525	0.525	0.525	0.525	0.503	0.503	0.503	0.503	0.625	0.625	0.625	0.625
GHA	0.306	0.397	0.452	0.452	0.563	0.563	0.778	0.778	0.706	0.728	0.706	0.706	0.706
KEN	0.381	0.381	0.381	0.488	0.488	0.511	0.480	0.557	0.586	0.572	0.629	0.634	0.649
MAR	0.330	0.470	0.466	0.497	0.521	0.517	0.519	0.518	0.536	0.554	0.561	0.567	0.567
MDG	0.417	0.417	0.472	0.592	0.698	0.690	0.702	0.677	0.684	0.608	0.602	0.654	0.693
MLI	0.488	0.488	0.488	0.488	0.488	0.488	0.589	0.592	0.589	0.661	0.651	0.616	0.620
MUS	0.706	0.706	0.706	0.706	0.706	0.706	0.706	0.742	0.742	0.742	0.742	0.742	0.742
MWI	0.433	0.433	0.433	0.433	0.402	0.457	0.533	0.616	0.617	0.599	0.600	0.616	0.587
NGA	0.345	0.345	0.508	0.508	0.508	0.508	0.508	0.706	0.706	0.821	0.782	0.822	0.844
SEN	0.511	0.511	0.511	0.547	0.547	0.613	0.613	0.613	0.596	0.601	0.586	0.583	0.571
TGO	0.541	0.541	0.541	0.541	0.541	0.541	0.541	0.541	0.541	0.541	0.606	0.589	0.569
TUN	0.285	0.285	0.285	0.489	0.505	0.711	0.695	0.705	0.626	0.634	0.638	0.637	0.630
TZA	0.111	0.254	0.254	0.254	0.397	0.433	0.504	0.595	0.706	0.742	0.742	0.742	0.742
UGD	0.250	0.250	0.250	0.250	0.417	0.472	0.544	0.544	0.671	0.798	0.798	0.728	0.731
ZAF	0.433	0.433	0.433	0.468	0.468	0.468	0.446	0.515	0.523	0.562	0.589	0.593	0.591
ZMB	0.274	0.492	0.492	0.492	0.492	0.472	0.488	0.651	0.651	0.706	0.669	0.672	0.697
ZWE	0.342	0.329	0.329	0.361	0.361	0.361	0.417	0.552	0.552	0.579	0.643	0.643	0.643
AFR_AVE	**0.419**	**0.446**	**0.461**	**0.483**	**0.509**	**0.529**	**0.554**	**0.597**	**0.604**	**0.628**	**0.635**	**0.644**	**0.650**

Table A.6.1 **Index of Ownership (normalised)**

Country	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
BEN	0.007	0.007	0.007	0.007	0.007	0.153	0.153	0.153	0.153	0.153	0.153	0.153	0.153
BFA	0.174	0.174	0.174	0.174	0.174	0.174	0.174	0.174	0.242	0.242	0.320	0.366	0.366
BWA	0.659	0.659	0.659	0.659	0.659	0.659	0.659	0.659	0.659	0.659	0.659	0.659	0.901
CIV	0.359	0.359	0.359	0.359	0.359	0.568	0.568	0.566	0.566	0.566	0.613	0.659	0.830
CMR	0.047	0.047	0.047	0.047	0.047	0.047	0.047	0.047	0.047	0.047	0.047	0.047	0.047
DZA	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
EGY	0.050	0.050	0.050	0.050	0.050	0.050	0.050	0.050	0.050	0.050	0.050	0.050	0.050
GHA	0.154	0.154	0.154	0.154	0.154	0.154	0.154	0.200	0.259	0.516	0.516	0.516	0.571
KEN	0.229	0.229	0.229	0.229	0.229	0.229	0.229	0.229	0.229	0.229	0.229	0.266	0.266
MAR	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.112	0.112	0.112	0.112	0.112
MDG	0.257	0.257	0.257	0.257	0.257	0.257	0.257	0.224	0.224	0.224	0.611	0.611	0.611
MLI	0.130	0.357	0.357	0.357	0.357	0.357	0.357	0.357	0.357	0.357	0.357	0.357	0.357
MUS	0.755	0.755	0.755	0.755	0.755	0.755	0.755	0.755	0.755	0.802	0.802	0.854	0.854
MWI	0.555	0.555	0.555	0.555	0.555	0.555	0.555	0.555	0.555	0.555	0.555	0.555	0.653
NGA	0.334	0.334	0.334	0.334	0.334	0.334	0.334	0.334	0.334	0.334	0.334	0.334	0.334
SEN	0.661	0.661	0.661	0.661	0.661	0.661	0.661	0.661	0.771	0.771	0.771	0.864	0.906
TGO	0.141	0.141	0.141	0.475	0.475	0.475	0.475	0.475	0.475	0.475	0.475	0.475	0.540
TUN	0.367	0.367	0.367	0.367	0.367	0.367	0.367	0.367	0.367	0.367	0.367	0.367	0.367
TZA	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.187	0.187	0.554
UGD	0.387	0.387	0.387	0.387	0.387	0.387	0.387	0.387	0.387	0.518	0.518	0.518	0.567
ZAF	0.954	0.954	0.954	0.954	0.954	0.954	0.954	0.954	0.954	1.000	1.000	1.000	1.000
ZMB	0.147	0.147	0.147	0.147	0.147	0.147	0.147	0.147	0.147	0.257	0.404	0.404	0.450
ZWE	0.771	0.771	0.771	0.771	0.771	0.771	0.771	0.771	0.771	0.771	0.771	0.771	0.817
AFR_AVE	**0.310**	**0.320**	**0.320**	**0.335**	**0.335**	**0.350**	**0.350**	**0.351**	**0.366**	**0.391**	**0.428**	**0.440**	**0.492**

Table A.6.2 **Index of Ownership (raw values)**

Country	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
BEN	100	100	100	100	100	92	92	92	92	92	92	92	92
BFA	91	91	91	91	91	91	91	91	87	87	83	80	80
BWA	64	64	64	64	64	64	64	64	64	64	64	64	61
CIV	80	80	80	80	80	69	69	69	69	69	67	64	55
CMR	97	97	97	97	97	97	97	97	97	97	97	97	97
DZA	100	100	100	100	100	100	100	100	100	100	100	100	100
EGY	97	97	97	97	97	97	97	97	97	97	97	97	97
GHA	92	92	92	92	92	92	92	89	86	72	72	72	69
KEN	88	88	88	88	88	88	88	88	88	88	88	85	85
MAR	100	100	100	100	100	100	100	100	94	94	94	94	94
MDG	86	86	86	86	86	86	86	88	88	88	67	67	67
MLI	93	81	81	81	81	81	81	81	81	81	81	81	81
MUS	59	59	59	59	59	59	59	59	59	56	56	53	53
MWI	70	70	70	70	70	70	70	70	70	70	70	70	64
NGA	82	82	82	82	82	82	82	82	82	82	82	82	82
SEN	64	64	64	64	64	64	64	64	58	58	58	53	51
TGO	92	92	92	74	74	74	74	74	74	74	74	74	71
TUN	80	80	80	80	80	80	80	80	80	80	80	80	80
TZA	100	100	100	100	100	100	100	100	100	100	90	90	70
UGD	79	79	79	79	79	79	79	79	79	72	72	72	69
ZAF	64	64	64	61	48	48	48	48	48	46	46	46	46
ZMB	92	92	92	92	92	92	92	92	92	86	78	78	76
ZWE	58	58	58	58	58	58	58	58	58	58	58	58	56
AFR_AVE	**84**	**83**	**83**	**82**	**82**	**81**	**81**	**81**	**80**	**79**	**77**	**76**	**74**

Governance and Growth

Abdallah Hamdok and Henock Kifle

Introduction

In recent years, the concept of good governance and the appropriate ways of fostering it, have become a major object of development discourse. International development cooperation is also increasingly influenced by the principles associated with good governance. Consequently, multilateral and bilateral development institutions, as well as the donor community at large, are now supporting programmes and projects that seek to promote it. The African Development Bank, for example, adopted a policy on good governance in 1999[1]. Indeed, measurable progress towards improved governance, as well as acceptance of the broader principles and practices of democracy, are becoming part of the conditions that are being attached to the allocation of international financial assistance[2].

While the importance of good management has long been a central tenet of the development literature, a number of recent developments account for the new emphasis that is being placed on good governance. In the first place, there appears to be a greater appreciation of the *non–economic* conditions that are necessary for sustained economic development. In this respect, there is a growing consensus that while economic growth is necessarily dependent on such strictly economic factors as a stable macroeconomic framework, functioning markets, and adequate levels of savings and investment, these factors, by themselves, may not be sufficient. Rapid and sustainable development requires, in addition, that other non–economic elements such as an effective public administration, a functioning legal framework, efficient and predictable regulatory structures, and transparent systems for both financial and legal accountability. As governments necessarily provide the general environment within which all actors operate, most of these services are in the nature of public goods. While all governments would claim to supply them to some degree, the quality of such public goods and their contribution to development will necessarily depend on the extent to which the principles of good governance are actually followed.

The momentous global political and economic developments of the last decade have also contributed to the increased recognition of the importance of good governance. The end of the Cold War and East–West rivalry has resulted in the cessation of support for authoritarian regimes that had been formerly justified on geo–political grounds[3]. In turn, this has emboldened latent democratic forces to challenge and, in many cases, to replace authoritarian political systems and establish democratic systems in their place. The latter emphasise such values as public choice, accountability, the rule of law, and freedom of expression and association, all essential conditions for, or components of, good governance.

Although good governance is crucial for economic reforms and sustainable growth, we argue that one of the main challenges facing the international development organisations today is to make the concepts of governance operational. There is a need to move beyond general indices to more disaggregated indices of governance so that effective policy instruments can be developed and the donor community can use effectively scare resources for improving systems of governance in African countries.

The paper is organised as follows. The next section gives a brief discussion of the concept of good governance and allied notions. An attempt is made to disaggregate conceptually broad notions of governance. Similar recent attempts are also discussed. The third section provides a brief survey of recent developments in Africa in relation to these disaggregated notions of governance. The fourth section discusses the limits of general indices of governance for policy making and stresses the need to devise more robust and disaggregated indices that more specifically link governance, economic reform and sustainable growth. In this connection, the attempt by the African Development Bank to develop such an index is discussed. The fifth section reviews the recently adopted governance policy of the African Development Bank. It discusses the difficulties that will probably be encountered in implementing such a policy in the absence of specific indicators linking governance to economic reform

Towards Disaggregated Notions of Governance[4]

The notion of governance in everyday usage refers broadly to the manner in which a government or state governs the territory and people that it juridically controls. A more useful definition, and one germane to the issues discussed in this paper, is the one initially put forward by the World Bank and discussed further by Landell–Mills and Serageldin. The latter refer to governance as: "The exercise of political power to manage a nation's affairs … It encompasses the state's institutional and structural arrangements, decision–making processes, and implementation capacity, and the relationship between government officials and the public"[5]. Governance, so broadly defined, clearly covers all aspects of the complex and myriad relationships between a government, civil society and citizens.

The notion of good governance, on the other hand, involves a normative judgement about what should ideally govern relations between state and society, and between a government and its citizens. Good governance is normally used in the literature to refer to one or all of the following attributes: accountability based on the notion of popular sovereignty and public choice; a legal framework that guarantees the rule of law and due process; popular participation in decision–making processes based on political and social pluralism and on freedom of assembly and speech; and bureaucratic accountability based on impersonality of office, uniform application of rules, and rationality of organisational structure.

The nature of governance — good or bad — is obviously determined at a more general and higher level by the basic characteristics of the existing government, namely democratic, authoritarian or totalitarian. Under authoritarian systems, where power is exercised by a ruler or a single party, as opposed to the people, there is obviously little real, as opposed to formal, accountability by the government to the people. Freedom of assembly and freedom of the press may also be severely restricted, particularly at the higher/central levels of the social order. This, in turn, will affect governance, as the rights and ability of the people to have a say in matters of government will be limited.

More fundamental issues of accountability and the nature of the relationship between a government and a people are obviously closely linked to the system of government. It does not follow, however that certain aspects of good governance — for example, the rule of law and administrative accountability — will always be lacking within such systems. This may particularly be the case at the middle and lower levels of government and society.

Authoritarian systems, particularly those that are development–oriented, could indeed practice a high order of good governance at the middle and lower levels of generally accepted democratic practices. The historical experience of some countries in Asia seems to support this thesis. In these countries, while there was, until very recently, little formal public choice or popular accountability at the higher levels of governments, they did establish efficient bureaucratic and administrative systems that came close to the Weberian ideal of bureaucracy. They also established the rule of law for large strata of the "social space".

Conversely, it can be shown that bad governance could well exist in systems of government that are formally democratic, and where, consequently, the notion of popular sovereignty is broadly accepted and adhered to. For even in such societies, unless the structure of government permits a real diffusion of power among the different echelons of government and an effective system of checks and balances, the government administrative machinery may become venal and the legal system inefficient and cumbersome. This may then vitiate in practice the very principle of legal and popular accountability.

A lack of a strict correspondence between all aspects of good governance and type of government necessitates using concepts that permit a more nuanced analysis of governance. At a first level of abstraction, these should allow a more precise examination of the determinants of governance at different levels of the social order. They should also allow a more in–depth analysis of the interactions between the different levels as well as the effects of such interactions. One possible approach is to introduce the notions of macro–, meso– and micro–governance to allow for the possibility of existence of different forms of governance at the various levels or hierarchy of the analysis of both positive and negative governance. For example, they can allow aspects of democracy that may contribute to good governance at all levels of society to be studied better. Conversely, they can also help define the minimum conditions that are required for good governance at the meso and micro levels, even in the absence of certain aspects of good governance at the macro level. These concepts are also useful in helping to define the appropriate policies for multilateral and bilateral institutions, in their effort to promote good governance in developing countries.

Within such a framework, macro–governance would essentially refer to the fundamental attributes of the system of government, for example, whether it is democratic or authoritarian. As such, it refers to the presence or lack of basic conditions and elements of good governance, such as public choice in the selection of the government, adherence to the rule of law, administrative accountability at the higher levels of government, and freedom of association and speech. Meso– and micro–governance, by contrast, would refer to the presence or absence at the middle or lower levels of government and society of the following: administrative and bureaucratic systems that permit some degree of legal and popular accountability; effective enforcement of criminal and commercial legal codes to govern ordinary social and economic transactions among citizens; and systems of information that give some transparency to the actions of governments and social bodies.

G. Hyden (1999) also attempts to delineate notions of governance as it relates to other concepts and activities[6]. Arguing that the concept of governance as it has come to be used by the international community is not discerning enough, Hyden proposes an alternative definition of governance, viz., "… the conscious stewardship of regime structures (rules) with a view to regulating the public realm, i.e. the arena in which state and society actors operate and interact to make authoritative decisions"[7]. He argues further that governance deals with the overarching concerns that bear on everything else actors do in politics — the meta policies. He goes on to propose the following scheme for understanding the relationships between governance, other concepts and activities:

Governance and its Relationships to Other Concepts and Activities

Level	Activity	Concept
Meta	Politics	Governance
Macro	Policy	Policy making
Meso	Programme	Public administration
Micro	Project	Management

Source: Hyden (1999).

An alternative and perhaps simpler way of disaggregating governance would be to use Hyden's notion of the management of regime structures to disaggregate governance into its political, economic, and administrative components. Within such a framework, political governance would refer to the process of rule–making at the meta level, i.e. politics; economic governance would refer to management of economic resources and activities; and administrative governance would refer to the manner and the degree to which these policies are implemented.

The main advantage of such a disaggregation is that it allows fine–tuning and adapting of policy instruments that could be used for promoting systems of good governance and designing appropriate responses in times of slippage or a failure of governance. For example, relations between developed and developing countries are increasingly dependent on assessments of the degree to which political governance adheres to generally accepted precepts of democracy[8]. On the other hand, although political developments clearly have an impact on other aspects or components of governance, the lack of a clear one–to–one relationship implies that multilateral financial institutions have to use a more nuanced approach towards systems of governance, as well as reacting to failures.

Recent Developments in African Governance

The quality of governance in African countries, and its positive and negative impact on development, has been a major concern for both analysts and practitioners. Although the question of good governance in Africa has obviously been influenced by progress in development thinking and world trends, it has its own history. For some time, analysts have argued that Africa's development management must be improved, if the continent is to achieve rapid, sustainable economic growth[9]. They have pointed to the harmful impact that political instability and frequent changes of governments and policies have had on development. They have further noted that administrative systems in many African countries have suffered from the tension and unrest of such frequent political changes. By contrast, in the few countries (e.g. Botswana and Mauritius) having stable governments and where, over the years, administrative capacity has been maintained and developed, the record of development has on the whole been markedly better.

While the close relationship between the quality of governance and development is clear enough, the greater emphasis on good governance nowadays is in part a consequence of the severe economic and political crisis that the continent has experienced in the recent past. The initial attempts to help Africa resolve the economic crisis primarily involved making fundamental economic reforms. Comprehensive, deep macroeconomic reforms were given considerable emphasis, since it was believed that the overall macroeconomic situation had hindered successful implementation of development projects and, consequently, economic growth, But as the results of such reforms have, on the whole, been less positive than expected, there has been growing recognition of the importance of non–economic factors that influence and, in part,

determine the pace of development. Thus a need for reforms and adjustment at the political and administrative levels as well has been increasingly recognised. As Goran Hyden maintains, the emphasis on governance essentially consists of "getting the politics right"[10].

Africa experienced considerable changes in systems of governance at the political, economic, and administrative levels in the 1990s. Nearly all countries have been involved in some type of political and institutional changes. Indeed, after years marked by authoritarian rule, the majority of the countries have held multiparty elections, with average voter turnout exceeding 76 per cent (Chege, 1999). Many African countries are now trying to institute and maintain democratic governance. The wide variations, however, make it useful to group African countries into three broad categories. First, there are countries that have made progress in governance in a range of areas, as a result of deep economic, political and administrative reforms. Second, a large number of countries made major reforms but had mixed results. Finally, there are the countries where the state and government has collapsed

The momentum of reform has been generally maintained and consolidated in countries that underwent major political changes in the early 1990s. Mali, Kenya, Malawi, Ethiopia and South Africa, in particular, successfully consolidated the achievements of the early 1990s, as they adopted new constitutions and held multiparty elections. Benin, Botswana, Mauritius and Senegal continue to enjoy open, accountable and democratic multiparty systems of government. There have also been notable improvements in human rights in some countries like Nigeria, Uganda, Gambia, Namibia, Mozambique and Malawi.

As was already noted, there are great disparities in the experience of different countries. At one extreme countries like Botswana and Mauritius have efficient national governance based on a competitive democracy and rule of law. At the other extreme are countries where the state and institutions collapsed, giving way to protracted civil wars and protracted lawlessness. Among these countries are Liberia, Sierra Leone, Angola, Sudan, Burundi, the Democratic Republic of the Congo and Guinea Bisseau. Moreover, large parts of other states bordering these countries have suffered from the collapse of the neighbouring states. In this respect, Africa mirrors a global pattern. Fifteen of the world's 20 poorest countries have experienced long conflicts since 1980, and more than half of all low income countries have been involved in conflicts in that period. As of 1999, 20 per cent of Africa's population lived in countries severely disrupted by wars or civil conflicts, and 90 per cent of the casualties were civilians. It is estimated that there were over 3 million refugees and 16 million displaced persons in their own countries (*Africa in the 21st Century*,1999).

A majority of African states have not experienced either full success or the risks inherent in civil conflicts. By the end of the 1990s, however, many of these countries were in a precarious equilibrium of weak institutions and inefficient economic transformation. Some of the most economically promising states in Africa find

themselves in this situation. It is important to underline, however, that no country is condemned to permanent institutional decay or decline. The period between independence and the 1990s provides ample evidence of this from countries as diverse as Ghana, Uganda and Mozambique. They have demonstrated that judicious leadership and the right institutional mix can reverse political and economic decline.

Along with these political changes, many countries have begun to address issues of governance affecting economic relationships and administrative systems. Often, political liberalisation and democratisation have been accompanied by major changes in relations between the state and economy. A decade or more of far–reaching economic reform programmes has fostered a growing awareness among political leaders of the value of strengthening private sector's role in the economy along with a corresponding reduction in the state's role in the productive sector. In an attempt to create a more market– and investor–friendly climate, countries have made great changes in their investment codes and established investment centres to serve as focal points for the promotion of domestic and foreign investments. Large state enterprises increasingly are being privatised, and loss–making parastatals and public enterprises are being restructured or liquidated. Côte d'Ivoire, Ghana, Mali, Tanzania, Ethiopia, Zambia and Zimbabwe have made remarkable progress in this domain.

Governments have also taken steps to decontrol and liberalise the economy, and to reduce the size of government bureaucracies to create more effective and efficient public institutions. Moreover, many governments have recognised the inadequacies of public sector agencies and that it is necessary to make them more responsive to development needs. Public sector management reforms, including personnel reductions, cost reductions, stricter financial controls, improved management and other measures, have been implemented in many countries including Kenya, Uganda, Zimbabwe, Mali, Ghana, Côte d'Ivoire and Tanzania. Rationalisation measures implemented by countries in the late 1980s and early 1990s, abolished many public agencies, amalgamated others and reduced the size of civil services (e.g. Ghana, Côte d'Ivoire, Uganda, Ethiopia, Mozambique and Zambia).

To address issues of corruption and raise professional ethics and principles in the public sector, governments have also taken other measures. These include review and adjustment of the compensation package for employees, merit–based recruitment and promotion, establishment of public assistance and complaint services, and continuing technical and management training for staff. In a number of countries (e.g. Botswana, South Africa, Tanzania, Ghana and Mali), governments, donors and groups in civil society have mounted very active on–going campaigns to promote integrity, transparency and accountability in public affairs and to combat corruption and bureaucratic red tape. Furthermore, governments have taken steps to build capacity in policy analysis and review, performance evaluation and monitoring, strategic planning and management, and modern information management systems.

In addition to civil service reform, there has also been a movement towards popular participation and the empowerment of civil society in a number of countries. For many decades, ordinary citizens had not been able to participate in the making of decisions on vital issues affecting their lives. Indeed, the absence of vibrant organisations in civil society could have been one of the major factors underlying the political and economic crises that many countries faced. It is now widely accepted that the pursuit of democracy and good governance cannot be sustained without broad popular participation and support.

Governance, Economic Reform and Sustainable Growth: The Need for Specific Linkages

As the brief review of recent developments in African countries has shown, political, economic and social relationships are indeed in a state of profound change. Current movement towards more liberal political and economic systems, and reforms of public administration — in brief, the movement towards good governance — has been supported by the international donor community. The rationale for such support goes beyond considering good governance as an end in itself, but as a necessary condition for sustainable development[11]. The economic reform programmes adopted by many countries in the last decade have produced significant turnarounds, but will not realise their full expected potential unless accompanied by governance reforms.

As donor funds are increasingly used to promote good governance — and as progress towards systems of good governance has become an important conditionality for such funds — a major policy challenge that multilateral and bilateral donor organisations face is demonstrating specific linkages between governance, economic reforms and sustainable growth. Such linkages need to be determined if donor funds are to be used effectively. Given the increasing scarcity of donor funds, and the dependence of many low–income countries on such assistance, it is essential that such scarce resources be used efficiently and effectively.

At the general — or meta/macro level — a strong positive correlation between systems of good governance, broadly defined, and sustainable economic growth can be demonstrated. Considerable historical evidence also shows that the economic development of the developed countries was associated with the establishment of systems of good governance. Kauffman, Kray and Zoido–Loabaton (1999) seek to investigate the relationship between six aggregate indicators of governance — "Voice and Accountability", "Political Instability and Violence", "Government Effectiveness", "Regulatory Burden", "Rule of Law" and "Graft" — and economic outcomes as measured in terms of per capita incomes, lower infant mortality, and higher literacy[12]. Using a governance database containing over 300 subjective governance measures compiled from many sources, the authors conclude that "governance matters a great deal for economic outcomes". They further conclude that "a one standard deviation increase in any one of the governance indicators causes between a two–and–a half

and four–fold increase (decrease) in per capita incomes (infant mortality) and a 15 to 25 per cent increase in literacy"[13]. We also investigated whether improvements in systems of governance at the political level can indeed be associated with improvements in economic indicators for in selected African countries (see Appendix). Data from the Freedom House Index on political rights and civil liberties was used along with indicators of economic performance. For most countries, there is a positive correlation between the Freedom House Index[14] and selected economic indicators (per capita income growth, share of investment in GDP, and the share of the budget in GDP).

As important as these results are in indicating that "governance does indeed matter", they are of limited usefulness in guiding specific development policies, except in the extreme cases. It is evident, for example, that there can be no development in the extreme case of complete absence of the rule of law (i.e. Somalia and Sierra Leone during most of the 1990s). Similarly, corruption can reach such a level as to render the allocation of government resources meaningless. Nonetheless, the actual situation is much more complex in the large majority of African countries dealing with the international donor community. Formal laws and regulatory frameworks may exist, but the inefficiency with which they are implemented may render them ineffective. The ability of the state to impose law and order may have eroded so much over time that there is a state of latent violence even without actual civil war. Similarly, while there may be formal public institutions and standards for their operations, governments may be unable to ensure that their directives are followed.

In an attempt to come up with more disaggregated governance indicators that would assist in the allocation of scarce concessional resources, the African Development Bank, in close consultation with the World Bank, has developed its own Country Policy and Institutional Assessment matrix. This assessment is carried out annually and consists of four clusters of performance indicators: macroeconomic policies, structural policies, policies for growth with equity and poverty reduction, and good governance and public sector performance[15]. With respect to the latter, a cluster of six indicators is used to assess progress in good governance. These consist of the following:

— *Political and Institutional Framework:* This seeks to assess the extent to which the government has set up institutions and policies that support effective participation by citizens and civil society organsations in the political and economic decision–making processes.

— *Property Rights and Rule–based Governance:* This indicator assesses the extent to which private economic activity is facilitated by a rule–based governance structure. It evaluates the predictability of the legal environment and adequacy of regulatory frameworks, and whether these are uniformly applied through an independent judiciary.

— *Quality of Budget and Public Investment Process:* This assesses the quality of the budgetary process for both public investments and public expenditures. It also assesses whether resources are adequately shared between national and sub–national governments.

— *Revenue Mobilisation Efforts and Rationalisation of Public Expenditures:* This cluster evaluates the overall pattern of revenue mobilisation, not only the tax structure as it exists on paper, but revenue from all sources, as actually collected. It also addresses the overall equity and efficiency of public expenditure as a whole, with national and sub–national governments appropriately weighted. It includes the adequacy of spending on, and the quality of, general social sector programmes for the population at large.

— *Accountability and Transparency of the Public Service:* Accountability of the civil service focuses on the ability to account for the allocation, use and control of public assets and properties in accordance with accepted standards of budgeting, accounting, and auditing. In a broader sense, it is also concerned with the establishment and enforcement of rules of corporate governance.

— *Anti–Corruption Policies:* This indicator assesses whether the adoption of policies to fight corruption are in place and whether there is a satisfactory anti–corruption programme. It assesses the existence of adequacy of laws on bribery, and the willingness to extend the "No Bribery Pledge" to all forms of procurement,

The six indicators of governance that the African Development Bank currently uses can be conveniently combined into two indicators each for political, economic, and administrative systems of governance. The first two, political and institutional framework and rule–based governance, are general indicators of the *political system*. The indicators of resource mobilisation, public expenditure and budgetary processes, are essentially measures of the practices of good governance as applied to *public finance*. Finally, the last two relating to public service and anti–corruption practices seek to assess governance with respect to systems of *public administration*.

This is clearly an initial attempt to go beyond aggregate indicators to develop specific indicators of those critical aspects of governance that are believed to have the greatest impact on the development process. A major difficulty with such indicators is the formidable challenge of collecting data that is measurable and comparable across countries. Similarly, an important methodological issue is the relative weights that should be given to the individual indicators for making a general assessment of governance. In addition to such methodological problems, however, there is a more fundamental issue of establishing the specific linkage between systems of governance, economic reform and sustainable growth. This is essential if indicators of governance are to be used to guide actual development policies. Current indicators of governance could broadly serve the purpose of rewarding those countries that are making progress in governance. However, they are inadequate if they are to serve as a guide to the allocation of scarce resources for specific projects and programmes that seek to improve systems of governance and hence accelerate the process of economic growth and development. The problems become more apparent in the next section where we review policies adopted by the African Development Bank to support good governance in its regional member countries.

Policies and Measures to Promote Good Governance: the Approach of the African Development Bank

In attempting to make its support for governance operational, the African Development Bank has decided to focus its action in five broad domains: accountability, transparency, combating corruption, stakeholder participation, and legal and judicial reforms. It is envisaged that the Bank's actions in these five areas, to be determined on a country–by–country basis, will include the following specific measures:

— *Accountability:* Bank measures will stress improvements in accountability in public sector and enterprise management, public financial management, and civil service reform.

— *Transparency:* The Bank will foster transparency through information disclosure, public expenditure reviews, and helping build capacity in public policy analysis and dissemination.

— *Combating Corruption:* Efforts will focus on prevention and control of corruption relating to Bank–financed projects and programmes; reduction of opportunities for bribery and corrupt practices; consideration of initiatives taken to combat corruption as a condition for the allocation of concessional resources; and informing its regional member countries of the aid for those wanting to combat corruption.

— *Participation:* Bank actions to enhance participation will focus on increased stakeholder participation in policy and project cycle activities; expanded co–operation with civil society; support to economic co–operation and regional integration; support to decentralisation through capacity building at the various sub–national levels; and discussion of public/private sector interface in policy dialogues with regional member countries.

— *Legal and Judicial Reform:* The Bank Group regards the creation and maintenance of a predictable legal environment with an objective, reliable, and independent judiciary as an essential component of good governance.

It is envisaged that the adoption of this policy on good governance will result in specific lending and non–lending operations. While the Bank has for some time been supporting activities and programmes to improve governance, they have been largely designed as components of larger structural or sectoral adjustment programmes. Although policy–based lending has recently begun to address issues of governance more directly, projects that give matters of governance their due priority and importance are still rare. Thus it planned that under its new policy the Bank will begin to tackle the issues of governance in a more dynamic, direct and integrated manner. In this regard, the issues of civil service restructuring, reform of the legal and judicial systems, strengthening financial management capacity, and instituting participatory approaches will be given priority for sustained support. Similarly, it is envisaged that in the design

of governance projects and programmes in regional member countries, greater attention will be given to the creation of transparent systems of administration and to public authorities who are accountable as well as institutional decentralisation.

The Bank will also focus on capacity–building activities, and assistance for legal and judiciary reforms. The Bank's activities will aim at enhancing the effectiveness of public administration and development management. They will promote institutional support for capacity building for policy analysis, oversight and audit functions.

It goes without saying that the Bank's policy on good governance is broadly defined. Although specific areas of action have been identified, there will be a need to refine the Bank's measures as specific lending and non–lending instruments are devised to assist African countries improve their systems of governance. Given the scarcity of resources that will be devoted to projects and programmes in support of good governance, there will obviously be a need to concentrate resources in those areas that are expected to produce significant results. Donor agencies, for example, may well have to choose between financing improvements in the legal framework or the management of public finances.

A major challenge that the African Development Bank and other international development institutions will face in the coming years is improving their instruments for supporting good governance. As development institutions promoting economic and social well–being, they will have to develop more robust indicators for linkages between good governance and economic reform for sustainable growth. Further research will be needed to develop more detailed indicators if their use is to be effective.

Summary and Concluding Remarks

This paper has sought to raise issues related to the application of policies for good governance by international and regional development institutions such as the African Development Bank. It has argued that although good governance is generally accepted as a *sine qua non* of sustainable development and now occupies centre stage in Africa's development policy agenda, there are still difficulties at the conceptual and operational level. At the conceptual level, there is a need to disaggregate notions of good governance into its political, economic and administrative components if they are to serve as a guide for policies and programmes. Recent attempts in this direction have been discussed.

A brief review of recent developments on the African continent has shown that many African countries have attempted to reform their systems of governance. These go beyond political reforms to changing relationships between the state and economy and between the state and citizens. Although sustained progress has been made in some countries, the record is uneven in most, and in a few countries there is a veritable crisis of governance. There can thus be little doubt that international development agencies have to devise policies and programmes to assist African countries improve their systems of governance.

There is now ample evidence showing that good governance does indeed matter. The attempts at linking governance to development, however, remains at a general level, limiting its usefulness for defining policies and programmes. The African Development Bank's policies in support of good governance, too, remain broadly defined. Finally, the scarcity of potential resources for supporting good governance will require the development of more specific indicators of the linkages between good governance and sustainable economic development so that resources can be used efficiently. Thus the development of such indicators will be a major challenge facing international development institutions in the coming years.

Notes

1. The policy was adopted after a wide consultation process involving representatives of regional member countries, NGOs, and CSOs.
2. As will be discussed below, indicators of good governance are now taken into account in the allocation of concessional resources among African countries both by the African Development Bank and the World Bank.
3. For example, US legislation currently prohibits assistance to any regime that assumes power through a military take–over. The intense pressure by various governments on the military not to assume power in the context of the recent political crisis in Ecuador is a case in point.
4. This section of the paper draws on an earlier AfDB paper on governance.
5. Landrell–Mills and Serageldin (1991). See also World Bank (1992).
6. Hyden (1999).
7. *Ibid*., p. 3.
8. For example, note the reaction of developed countries to the recent military take–over in Côte d'Ivoire.
9. For example, see World Bank(1989), *Sub–Saharan Africa*.
10. See Sandbrook (1993), *The Politics of Africa's Economic Recovery,* for a good historical review of the "rediscovery of politics" in African development discourse.
11. See Stiglitz (1998).
12. Kaufmann, Kraay and Zoido–Lobaton (1999).
13. *Ibid*., p. 3.
14. Freedom House (1999*a*).
15. African Development Bank (1999*a*).

Appendix

Good Governance and Economic Performance: Correlation Matrices for Selected African Countries

As discussed above, various proxy indicators and indices of subjective assessments have been used as indicators or measurements for good governance. One such proxy measure of good governance is provided by the comprehensive, long–term data assembled by Freedom House for 1972–73 to 1998–99 (Freedom House, 1999*a*). The composite index of Freedom House, which concentrates on issues of democracy and good governance, has been used to determine a correlation between good governance and economic performance in selected African countries. This index collects information on about 186 countries of the world and provides time series data starting from 1972 to 1999. In particular, the index provides data on 53 African countries.

The survey defines freedom by two general series of characteristics grouped under political rights and civil liberties. Political rights enable people to participate freely in the political process. Civil liberties include the freedom to express views, to establish institutions, and to have personal autonomy apart from the state. The survey employs two series of reference lists, one for questions regarding political rights and the other for civil liberties, and assigns each country or territory considered a numerical rating for each category. Major political rights taken into account include the existence of free and fair elections for governments and legislative representatives. The people should have the right to organise political parties or other competitive political groupings of their choice, and the system should allow the rise and fall of these competing parties or groupings. Cultural, ethnic, religious, and other minority groups should have self–determination, self–government, autonomy, or reasonable participation through informal consensus in the decision–making process.

The civil liberties reference list includes freedom of expression and belief (e.g. free and independent media and other forms of cultural expression, free religious institutions and free private and public religious expression); rights to freely associate and organise (e.g. freedom of assembly, right to demonstrate, and the right to have

open public discussion), freedom for political or quasi–political organisation (this includes political parties, civic organisations, ad hoc issue groups, etc.); respect for the rule of law and human rights (e.g. independent judiciary, the rule of law prevailing in civil and criminal matters); freedom from extreme government interference and corruption, existence of personal autonomy and economic rights (e.g. open and free private discussion, secure property rights, personal social freedoms, including gender equality); prevalence of equal opportunities, including freedom from exploitation by, or dependency on, landlords, employers, union leaders, bureaucrats, or other types of obstacles to enjoying a part of legitimate economic benefits.

The index gives scores to each country on political rights, civil liberties and freedom. The first two, political rights and civil liberties, are measured on a scale of one to seven, with one representing the highest degree of freedom and seven the lowest. The ratings on political rights and civil liberties are then averaged and used to categorise each country and territory as "free," "partly free," or "unfree". Countries whose combined average for political rights and for civil liberties falls between 1.0 and 2.5 are designated "free", between 3.0 and 5.5 "partly free", and between 5.5 and 7.0 "unfree".

The trend over time for a country having a continuous improvement in the issues covered in the index would thus have a downward negatively sloping graph. The idea here is to plot the trend over time of some economic indicators for the selected countries against this freedom index and examine any possible correlation. The selected economic indicators include the growth rate of the gross national product per capita, gross domestic investment as percentage of gross domestic product, government budget as a percentage of gross domestic product and the UNDP human development index.

In general, a close correlation is observed between the freedom index and the economic indicators. It actually shows that as the freedom index goes down (i.e. improving) most of the other indicators go up. Also the correlation matrix reflects the same relationship, providing a negative sign. This appendix discusses the results of the correlation exercise for six selected countries — Benin, Botswana, Mali, Mauritius, Mozambique and Uganda. It is interesting to note that these six countries could be classified further into three groups, with Botswana and Mauritius representing a group having experienced long–term stability, while Benin and Mali represent emerging democracies. Mozambique and Uganda, on the other hand, represent countries that have managed to achieve remarkable success in a relatively short period of time.

Botswana and Mauritius both have a long–term average of less than 2.5 on the freedom index for the entire period of the freedom survey of about 30 years. Such a record reflects long–term political stability as the two countries have been classified as "free" for the whole period since the beginning of the index. On both political rights and civil liberties the record of the two countries is quite impressive. The economic indicators of both countries showed average GDP growth of over 7 per cent per annum.

Benin and Mali are examples of emerging democracies, as both had been under authoritarian rule from independence up to the end of the 1980s. In examining the index, it was very high at around 7 for both countries from 1972 up to the early 1990s, when it started to come down to stabilise at around 2.5. Effectively, the two countries moved from a being "unfree" in the 1970s and 1980s to a "free" classification in the 1990s. It is also clear that the economic indicators started to pick up around the same time as the improvement in the freedom index. In both countries the correlation matrix had a negative sign, confirming the link between the improvement in governance and the selected economic indicators.

Mozambique and Uganda provide another interesting and useful lesson, as both countries suffered for a long period from internal conflict and war. The obvious lesson is that changes can occur remarkably quickly with the right policies. The freedom index for Mozambique started to improve from the mid–1990s, dropping from 7 to around 3, coinciding with the settlement of the civil conflict and also reflecting the adoption of a more open and pluralistic system of government. The same period was marked by an improvement in the economic indicators under consideration. The freedom index and the economic indicators began to improve in Uganda from the end of the 1980s. The correlation matrices for both countries have the expected sign and magnitude.

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Human Capital Development

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Introduction

The close and transparent relationship between investments in human capital and poverty reduction is an underlying tenet of recent economic development thinking. A number of people have observed that since the latter part of the twentieth century we have been in the "age of human capital", meaning that the primary determinant of a country's standard of living is how well it *develops* and *utilises* the skills, knowledge, health and work ethics of its population.

Africa remains disadvantaged in both material wealth and human capital formation. In the period immediately after independence many African countries were able to raise per capita income. They also achieved marked progress in health standards, as measured by life expectancy and mortality of children under five, well above the level that might have been expected on the basis of their per capita incomes. African countries also made significant strides in education. Since the early 1980s, however, Africa has experienced reverses in these and other areas. Over 45 per cent of the population is still living in abject poverty and, based on present trends, Africa could be the only region that may fail to meet the poverty reduction and other social targets set for the year 2015 by the international community. African countries thus will require large improvements in rates of economic growth and in patterns of growth if the incidence of poverty is to be reduced. An effective strategy for accelerated economic growth and poverty reduction calls for a sustained, integrated approach which provides greater employment and entrepreneurial opportunities. Besides addressing the long–term foundations of development, this will also entail investing in human capital through efficient delivery of social services.

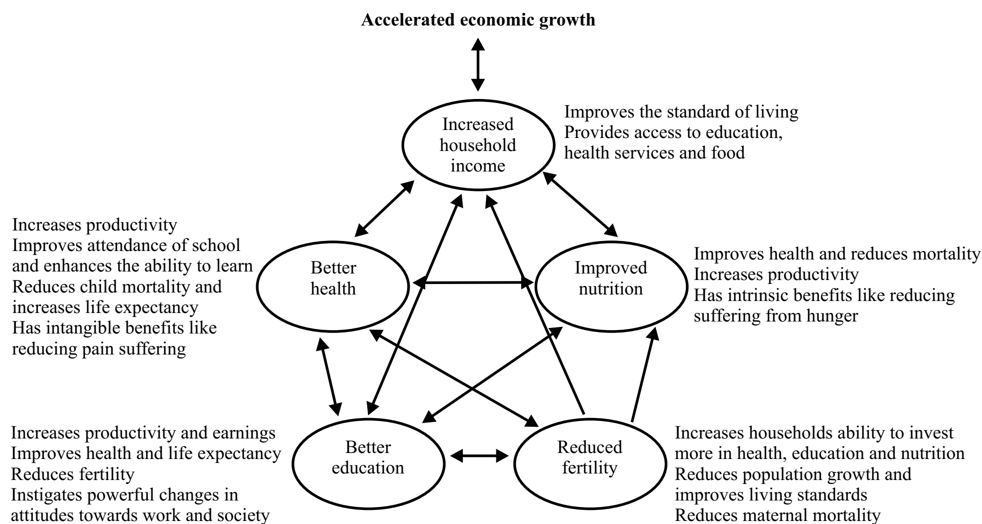
The next section examines the strategies and policies that are required to enhance human capabilities and achieve the social goals set for the 21st century. The positive contribution of human capital will not materialise unless investment is increased and growth accelerated to rates that can absorb the increasing supply of labour. The section

after that explores the significance of investing in human capital in the specific context of Africa, and presents information on the present state of human capital development. In the fourth section, we outline the basic strategies and policies needed to build human capital with the aim of achieving economic growth and reducing poverty. The section after that discusses the resources required to attain international development goals and some related matters, and briefly examines the question of resources for achieving the desired improvements in human capital. Then the role of the African Development Bank Group in human capital development is discussed. A final section presents some concluding remarks.

Why Invest in Human Capital?

Investment in health and education not only directly improves people's well being, but also indirectly as the human capital stock contributes to increases in income. Human capital development is essential for sustained economic growth and reduction of poverty, and is an important end in itself. The arguments for investing in human capital are derived from the material and non–material benefits of education and health, as summarised in Figure 1. For the sake of simplicity, these benefits might be grouped under three interrelated headings: direct returns, indirect returns and overall effects on growth.

Figure 1. **Inter–relationships Among Aspects of Human Capital**



Direct Returns to Human Capital

Education

The analysis of the value of educational investments is often confined to a quantification of the total increment of earnings that accrues from an additional year of education. According to Psacharopoulus (1994), for example, there is a positive correlation between education and earnings for both developed and developing countries and each additional year of schooling corresponds to an increase in earnings of 10 per cent or more. Evidence from Africa is mixed. In the case of Côte d'Ivoire, a one–year increase in schooling can raise earnings by more than 10 per cent (Komenan, 1987). A survey of recent measures of the private returns to education in Africa, on the other hand, suggests that in some countries the returns may be substantially lower than previously estimated (Appleton and Teal, 1997). Recent evidence obtained from surveys of the manufacturing sector in five African countries (Cameroon, Ghana, Kenya, Zambia and Zimbabwe) also suggests that returns to some levels of education may now be lower than past estimates (Bigsten *et al*. 1997). If this is so, it could reflect a decline in the demand for skilled labour relative to supply caused by the limited growth of the sectors which use skilled labour more intensively[1].

Health

Less research has been done on the returns to health and nutrition than on the returns to education. This is partly because the non–monetary aspects of these returns — greater longevity, reduced suffering and absence of disability—are arguably more important than in the case of education. Attempts have been made to put financial values on these non–monetary outcomes, but the judgements involved are complex and subject to considerable controversy. One direct monetary effect of health is on labour supply and earnings, which can be negatively affected by ill health in various ways. Estimated income losses arising from absence due to illness range from around 5 per cent in Côte d'Ivoire and Mauritania, to over 10 per cent in Ghana (see ADR, 1998). These figures are probably underestimated, since they exclude a number of other important effects of ill health. Often people may continue to work when ill, but with lower productivity. Healthy workers may have to stop working to care for sick household members (particularly children). Invalidity and premature death may also substantially reduce labour supply. Low life expectancy and the risk of serious illness (particularly when epidemics like AIDS are rampant) may also reduce incentives to undertake longer–term investments.

Evidence of the effects of nutritional status on labour productivity and wages is well documented (Behrman, 1993). A study on Sierra Leone, for instance, examined the link between calorie intake and agricultural labour productivity (Strauss, 1986). A one standard deviation increase in calories per equivalent adult was found to raise farm output by 20 per cent, compared to the 33 per cent impact of a one standard deviation in labour input. A study of farm productivity in Ethiopia concluded that a

one standard deviation increase in the household heads weight–for–height would increase output by 27 per cent (ADR, 1998). However, in assessing the direct returns from investment in human capital five points should be taken into account:

— Because the education of a generation takes many years to complete and adult education does not appear to be a close substitute for educating youth, the supply of education may adjust more slowly than changes in demand, causing over–supply or shortages in the labour market. The assessment of the rate of return will be influenced by such a mismatch between supply and demand, which might be transitory.

— The value of investment in human capital depends on investment in other forms of capital. While human capital may have an important role to play, this role will be debased unless there are policies to ensure productive investment in complementary forms of capital.

— Calculations of the return to additional years of schooling may be of little use without information on school quality (Glewwe, 1996). When school quality varies widely across time and space, years of schooling may be a very imperfect indicator of human capital attained, and simple estimates of the private rate of return to schooling may be misleading. Data from Ghana indicate that improvements in quality of schooling have higher rates of return than additional years of schooling at the current level of quality.

— There are other factors besides additional quantity and quality of schooling that raise earnings, such as migration or employment in particular sectors.

— Indicators of nutrition and health status, such as height, education and mobility are all positively correlated with each other across individuals in a society. Therefore, it is possible that some effects of increased earnings and productivity which have been attributed to education are due to health status.

Indirect Returns

As shown in Figure 1, there are multiple linkages between education, health, nutrition and fertility. Expenditure on education may affect health, while parental education may benefit children. Health expenditure may affect the value of education. Despite the multiple relationships of the different aspects of human capital, four main linkages can be identified.

Effects of Education on Health and Nutrition. One indirect effect of expenditure on education is its impact on health. In developing countries, the children of educated parents face lower risks of premature death. The relationship between parental education and child mortality may in part be explained by household income. But many studies have found education to have a stronger direct effect on child health than income. The direct effect of education may be informational: educated parents are better at recognising medical problems in their children. For instance, a mother's education is

found to be so critical in determining her child's risk of death that it may even compensate for the absence of community medical facilities. In Uganda and Morocco, recent work found educated mothers to be better informed about various diseases and that such information was closely associated with lower child mortality (see ADR, 1998).

Effects of Health on Child Schooling. Ill health and poor nutrition may have indirect effects on productivity by adversely affecting schooling. Illness often leads to absence from school, and nutritional deficiencies can reduce the ability to learn. For instance, studies on Kenya found positive effects of medication and calorie intake on school attendance and achievement (Jamison and Leslie, 1990 and Sigman *et al.*, 1989). Glewwe and Jacoby (1995) attribute delayed primary school enrolment in Ghana to low height–for–age. Increased adult mortality is likely to pose grave threats to the schooling of orphaned children (Ainsworth and Koda, 1993).

Effects of Education on Fertility. Educated women commonly tend to have smaller families than others, although this is less marked in Africa than elsewhere. Women with post–primary education have markedly fewer children. These relationships persist even after allowing for other variables (Ainsworth *et al.,* 1996). The association between female education and fertility, at least in part, may be explained by the higher wages that theymay be able to obtain, increasing the opportunity cost of time spent rearing children. Educated women may also have a preference for more educated children, making it more expensive to have large families. Education may also change knowledge of, and attitudes towards, the use of modern contraception. Although the increase in child survival associated with advances in women's education might contribute in the short run to an increase in population growth, the combined effects of female education on fertility and on child survival will markedly slow the current rate of population growth.

Effects of Education on Child Schooling. Children are more likely to attend school if their parents are educated. A mother's education, however, seems to have a greater effect on the enrolment of girls than of boys, and the father's education has a greater effect on the enrolment of boys than of girls at the secondary school and higher education levels. Children of educated parents also tend to perform better in school, and in some cases may earn higher incomes as adults, than the children of uneducated parents. For example, a study of Kenya and Tanzania compared the probability of manufacturing workers having completed lower secondary schooling as a function of the education of their parents. In Kenya, those entering school around 1960 were predicted to have a 21 per cent chance of completing lower secondary if both their parents were uneducated and an 83 per cent chance if one of their parents had at least secondary education and the other at least primary education.

Effects on Overall Economic Growth

The discussion of the direct and indirect effects of investment in human capital has so far concentrated on micro–level evidence. Although such evidence can provide guidance for public policies, it is also important to note the effect of human capital on

macroeconomic growth, and the effect of that on human capital development. Periods of sustained growth in national output per unit of input are closely associated with improvements in a population's schooling, nutrition, health, and mobility (Schultz, 1998). The positive correlation between investment in education and economic growth has been demonstrated for both industrialised and developing countries (Haddad *et al.,* 1990). Between 1950 and 1962, education's contribution to economic growth was 12 per cent for the United Kingdom, 14 per cent for Belgium, 14 per cent for the United States, and 25 per cent for Canada. For five developing countries (Ghana, Kenya, Nigeria, Malaysia and Korea), education's contribution to economic growth has been estimated to range between 12 to 23 per cent during the same period (Psacharopolous and Woodhall, 1983).

Endogenous growth theory emphasises human resources and specific institutions that give rise to technological innovations as the engine of long–term economic growth. The theory builds on the notion that an economy might have to acquire a critical mass of skilled persons, including scientists and engineers, before an economic take–off can occur. While traditional Solow models assume a decline in the rate of return to investments, endogenous growth models postulate that investment in knowledge might have a constant or even an increasing rate of return, since a higher knowledge base is likely to generate more innovations in the future. As international competitiveness becomes increasingly dependent on knowledge and information technology, education is thus likely to become more important in the 21st century. The returns on human capital investments in Africa are potentially very high if they can be linked to more rapid growth of incomes and an economic climate that encourages innovation and investment.

The Record of Human Capital Development in Africa

After independence and until the early 1980s, Africa achieved remarkable progress in human capital development and reducing poverty through increased provision of public educational and health services. In education, for instance the proportion of children in primary school virtually doubled during the 1960-80 period, while the proportion in secondary school increased by a factor of more than four. During the same period, life expectancy increased from 40 to 48 years, while infant mortality rates declined by more than a quarter (see Table 1 for social and poverty indicators). Three observations can be made about those gains.

- The post–independence gains are evident, whether assessed by GDP per capita or by the broader UNDP Human Development Index, which gives equal weight to three indicators: real GDP per capita, life expectancy at birth and educational attainment.
- From 1960 until the early 1980s Africa experienced more improvements in the composite human development index than in GDP per capita, which might be taken to indicate that the pattern of growth in that period was pro–poor.

— Africa's gains in human capital formation in that era were larger than those achieved by many developing regions. For instance, taking a population weighted average for the 33 African countries with available data, GDP per capita rose by around 40 per cent between 1960 and 1980. For the five South Asian countries on which data are available, the rise in incomes was smaller, amounting to roughly 30 per cent (see Appleton and Teal, 1997).

However, two oil shocks, the debt crisis, and a steady worsening in the quality of governance halted, and in many cases reversed, the post–independence gains in human capital formation. In education, primary enrolment ratios stagnated at around 78 per cent, while secondary enrolment ratios increased, but at a much slower rate, reaching 31.1 per cent in 1994 compared with 21.9 per cent in 1980. Higher education, which had experienced a notable expansion in the earlier two decades, encountered difficult problems, particularly with regard to finance, the quality of education, and its relevance to employment opportunities. In health, the probability of a child dying before the age of five remained high at 143 per 1000 live births in 1998, reflecting a combination of poor nutrition, unhealthy environmental conditions and inadequate health services. The maternal mortality rate in Africa was about 630 per 100 000 live births, 50 per cent higher than in less developed regions as a whole (420 per 100 000 live births) and 24 times higher than in the most developed regions (26 per 100 000 live births). Furthermore, HIV and its associated disease, AIDS, emerged as one of the greatest threats to the health of African populations. Tuberculosis also re–emerged to become one of the leading infectious diseases killing adults and children. Malaria remained one of the most important causes of mortality and morbidity in Africa. Malnutrition affects about a third of the region's children.

Human capital development has also been hampered by conflicts that have affected and continue to affect many parts of Africa. For instance, armed conflict claimed close to one million fatalities in Rwanda. In recent years, one of the most visible consequences of social strife has been the creation of massive flows of refugees and displaced persons. The UN High Commission for Refugees estimates that in the decade up to 1995, the number of refugees and displaced persons across and within national borders in Africa multiplied four–fold to nearly 12 million, well over 40 per cent of the world's total.

The decline in Africa's human welfare is to be contrasted with gains in other developing regions. Until 1980, life expectancy in Africa was only slightly lower than in South Asia. Thereafter, trends in the two regions diverged sharply. Life expectancy in Africa rose by only 3.5 years between 1980 and 1994. In contrast, the rate of increase in longevity accelerated in South Asia, rising from 51.5 years to 61.3 years. In 1997, life expectancy in Africa was 53 years, compared to 61 in South Asia. In 1965, both Africa and South Asia had 70 per cent of their population aged over 15 years with no education. By 1990 this per centage was 46 per cent in Africa as compared with 55 per cent in South Asia, but only a quarter of Africa's population had completed primary school, while in South Asia it was about a third. Although Africa has performed relatively better in getting children into primary school, the region has not fared well at inducing them to complete it[2].

The setbacks in improving the livelihood of people in the region have taken place against a backdrop of dynamic demographic changes. For instance, in 1960, 280 million people lived in Africa, 9 per cent of the world's inhabitants. In mid–1997, the number of people living in Africa had reached an estimated 758 million, or 13 per cent of the world total. At the present growth rate of 2.8 per cent, the region's population doubles in almost every generation. Under current projections, by 2025 the population of Africa will be slightly under one and a half billion people, more than a fifth of the world's total. The unprecedented rate of population growth in Africa during the past three decades is the result of sustained high fertility and sharply declining mortality. The total fertility rate (TFR), estimated at 5.3 for the 1995–2000 period, is still the highest in the world. Of the six countries in the world where the TFR is 7 and above, four are in Africa; and so are 14 of the 16 countries where the TFR is between 6 and 7. Childbearing rates are higher in Africa than elsewhere in the world at all reproductive ages, the difference being greatest for the 20–35 year age group, which corresponds to the ages of maximum fertility. The fertility rate exceeds 100 births per 1 000 women of adolescent age (15–19) in most low income countries.

All these factors combine to make Africa the region that has the lowest level of human development (Table 1). It is important to note that this is not due to having the lowest per capita income. It is rather the result of having the lowest life expectancy and the lowest level of combined educational enrolments. Such figures imply that, at least for some countries, better policies should enable higher levels of investments in health and education even allowing for low–income levels. It is also important to note that there are considerable variations between African countries. There are countries like Mauritius, which score relatively high on the HDI while countries such as Burkina Faso, Niger, Sierra Leone, Mali and Ethiopia are at the bottom of both GDP per capita and the HDI indices (see Figure 2).

Policies for Human Capital Development

The challenges facing Africa and its development partners in building human capital can be gauged by comparing the present situation with the conditions that the international community has defined as necessary for establishing by 2015 a stable and sustainable global future. These goals include:

- a reduction by one–half in the proportion of people living in extreme poverty;
- universal primary education in all countries;
- a reduction by two–thirds in the mortality rates for children under five and maternal mortality by three–fourths; and,
- access for all to reproductive health services.

Table 1. **Social Indicators in Africa**

Country	GNP per capita ($)		Human Poverty Index (HPI–1) Value (%)	Infant Mortality Rate both sexes (per 1 000)		Primary Total		Secondary Total		Adult Illiteracy Rates (%)
	1980	1998	1997	1985	1998	1985	1996	1985	1996	1998
Algeria	2 080	1 550	29	67	40	94	107	51	63	39
Angola	n.a.	340	n.a.	138	117	106	74	14	12	n.a.
Benin	410	380	51	104	84	68	76	18	17	65
Botswana	1 030	3 600	28	57	59	105	112	29	66	25
Burkina Faso	260	240	59	110	94	27	39	4	9	79
Burundi	220	140	46	114	114	53	49	4	8	54
Cameroon	680	610	38	92	70	103	85	23	26	27
Cape Verde	n.a.	1 060	25	74	52	117	135	13	28	28
Central African Rep.	340	300	54	104	94	75	60	16	10	56
Chad	240	230	52	131	107	44	65	6	10	n.a.
Comoros	370	370	35	95	71	84	73	29	24	44
Congo	880	690	32	87	87	147	111	75	52	22
Congo (DRC)	620	110	n.a.	100	82	87	70	23	30	n.a.
Côte d’Ivoire	1 140	700	47	98	83	72	71	20	24	56
Djibouti	n.a.	n.a.	41	122	101	40	39	12	14	n.a.
Egypt	520	1 290	33	75	44	85	102	61	75	46
Equatorial Guinea	n.a.	1 500	29	127	103	114	n.a.	n.a.	n.a.	19
Eritrea	n.a.	200	n.a.	112	86	n.a.	54	n.a.	21	n.a.
Ethiopia	n.a.	100	56	133	108	37	43	13	12	64
Gabon	4 750	3 950	n.a.	101	83	n.a.	n.a.	n.a.	n.a.	n.a.
Gambia	380	340	50	143	116	68	78	16	15	66
Ghana	430	390	36	82	61	76	76	40	31	32
Guinea	n.a.	540	51	145	118	35	50	13	12	n.a.
Guinea Bissau	150	160	52	151	125	63	70	9	11	65

Table 1 (continued 1)

Country	GNP per capita ($)		Human Poverty Index (HPI–1) Value (%)	Infant Mortality Rate both sexes (per 1 000)		Primary Total		Secondary Total		Adult Illiteracy Rates (%)
	1980	1998	1997	1985	1998	1985	1996	1985	1996	1998
Kenya	450	330	32	73	64	99	84	21	24	20
Lesotho	440	570	23	107	90	110	97	23	29	17
Liberia	620	n.a.	n.a.	104	91	37	33	16	14	50
Libya	10 460	n.a.	16	37	26	109	112	59	100	30
Madagascar	460	260	n.a.	104	77	104	73	26	13	n.a.
Malawi	190	200	42	153	131	60	133	4	5	41
Mali	250	250	53	145	113	23	37	6	11	63
Mauritania	460	410	48	110	87	48	83	15	16	61
Mauritius	1 240	3 700	12	24	14	110	107	49	65	17
Morocco	990	1 250	39	75	45	77	84	35	39	53
Mozambique	n.a.	210	50	125	115	87	62	7	7	58
Namibia	n.a.	1 940	25	68	70	133	131	40	61	19
Niger	440	190	66	135	110	26	29	5	7	85
Nigeria	710	300	38	92	78	96	87	33	34	39
Rwanda	250	230	n.a.	115	119	63	94	6	13	36
São Tomé & Principe	540	280	n.a.	66	55	n.a.	n.a.	n.a.	n.a.	n.a.
Senegal	540	530	50	76	60	56	69	14	16	65
Seychelles	2 110	6 450	n.a.	18	17	n.a.	n.a.	n.a.	n.a.	n.a.
Sierra Leone	370	140	58	180	156	63	52	18	17	n.a.
Somalia	100	n.a.	n.a.	132	116	12	8	7	5	n.a.
South Africa	2 500	2 880	19	62	61	92	116	54	84	16
Sudan	430	290	37	86	67	50	53	20	20	45
Swaziland	970	1 400	28	85	60	102	129	39	52	22
Tanzania	n.a.	210	30	92	77	75	66	3	5	27
Togo	440	330	38	96	79	93	133	21	27	46
Tunisia	1 360	2 050	23	49	28	115	114	39	66	32
Uganda	n.a.	320	41	124	99	73	74	10	12	35
Zambia	630	330	38	85	77	104	88	19	29	24
Zimbabwe	950	610	28	69	68	136	113	41	48	9
Africa	**899**	**663**	**39**	**99**	**81**	**79**	**78**	**28**	**33**	**42**

n.a. = not available.

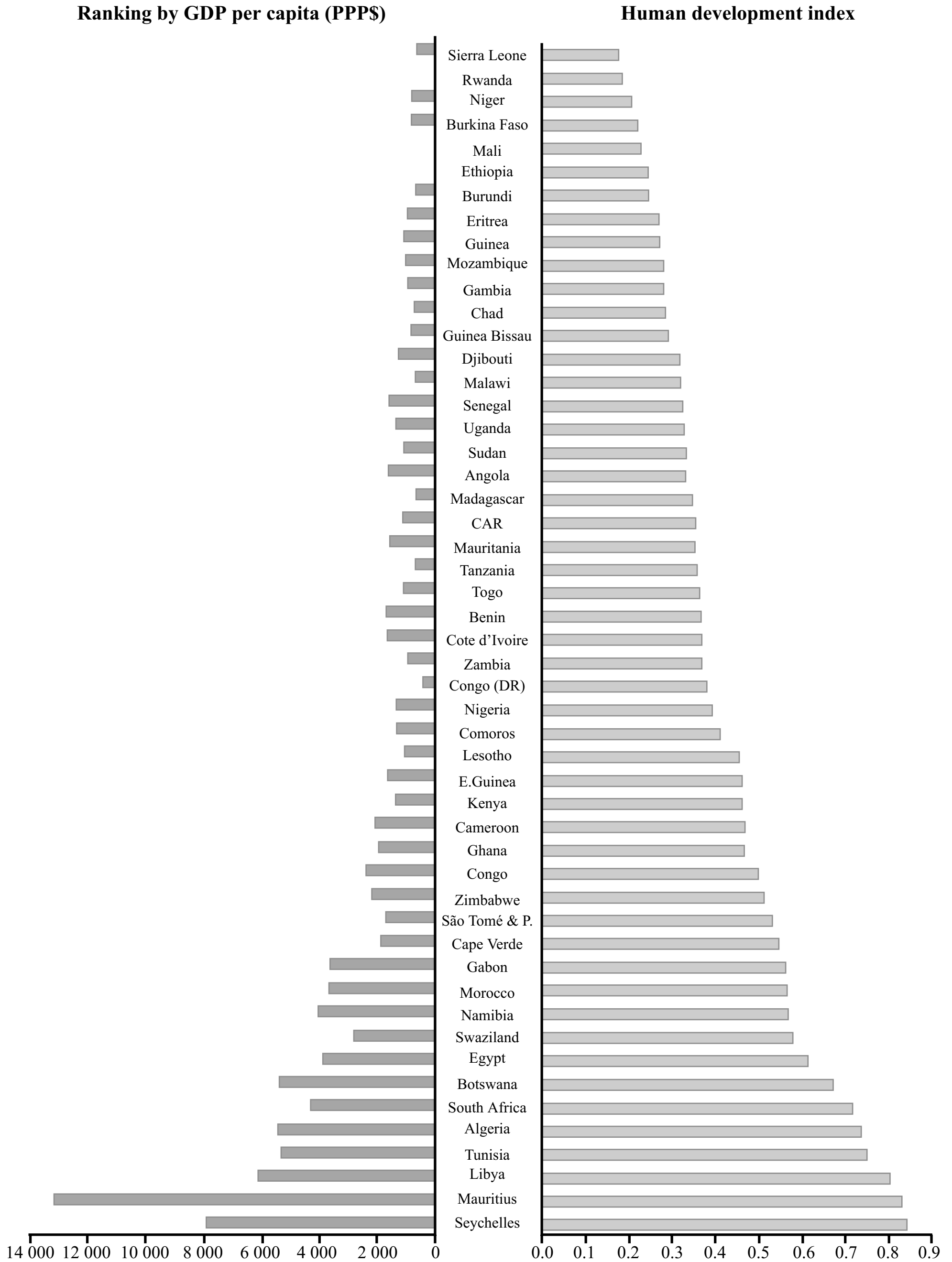
Table 1 (continued 2)

	Population below the poverty line				Maternal mortality rate (per 100 000 live births)		Life expectancy at birth Total	
	Survey year	Rural %	Urban %	National %	1985	1996	1970	1998
Algeria	1995	30.3	14.7	22.6	130	160	54.5	69.7
Angola	n.a.	n.a.	n.a.	n.a.	1 680	1 500	38	48.0
Benin	1995	n.a.	n.a.	33.0	300	500	44	53.6
Botswana	n.a.	n.a.	n.a.	n.a.	250	250	53.2	43.8
Burkina Faso	n.a.	n.a.	n.a.	n.a.	810	930	40.9	45.4
Burundi	1990	n.a.	n.a.	36.2	n.a.	1 300	44	43.3
Cameroon	1984	32.4	44.4	40.0	300	550	45.8	54.1
Cape Verde	1989–94	n.a.	n.a.	44.0	134	n.a.	57.5	69.9
Central African Rep.	n.a.	n.a.	n.a.	n.a.	600	700	43	44.8
Chad	1995–96	67.0	63.0	64.0	960	900	39	48.2
Comoros	n.a.	n.a.	n.a.	n.a.	500	n.a.	48.9	60.0
Congo	n.a.	n.a.	n.a.	n.a.	900	890	46.7	49.6
Congo (DRC)	n.a.	n.a.	n.a.	n.a.	110	n.a.	46.1	51.9
Côte d'Ivoire	n.a.	n.a.	n.a.	n.a.	n.a.	600	45.4	47.2
Djibouti	n.a.	n.a.	n.a.	n.a.	129	n.a.	41	51.6
Egypt	n.a.	n.a.	n.a.	n.a.	320	170	52.1	67.5
Equatorial Guinea	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	40.5	51.2
Eritrea	n.a.	n.a.	n.a.	n.a.	n.a.	1 400	44.3	51.6
Ethiopia	n.a.	n.a.	n.a.	n.a.	500	1 400	41	43.6
Gabon	n.a.	n.a.	n.a.	n.a.	190	500	45	52.3
Gambia	1992	n.a.	n.a.	64.0	2 000	1 100	37	48.2
Ghana	1992	34.3	26.7	31.4	1 000	740	50	61.2
Guinea	n.a.	n.a.	n.a.	n.a.	n.a.	880	37.3	47.7
Guinea Bissau	1991	60.9	24.1	48.8	1 070	910	36.5	44.9

Table 1 (continued 3 and end)

	Population below the poverty line				Maternal mortality rate (per 100 000 live births)		Life expectancy at birth Total	
	Survey year	Rural %	Urban %	National %	1985	1996	1970	1998
Kenya	1992	46.4	29.3	42.0	510	650	51	49.9
Lesotho	1993	53.9	27.8	49.2	510	610	49.5	53.7
Liberia	n.a.	n.a.	n.a.	n.a.	173	n.a.	47.5	51.9
Libya	n.a.	n.a.	n.a.	n.a.	80	220	52.9	70.6
Madagascar		n.a.	n.a.	n.a.	240	660	46.5	58.7
Malawi	1990–91	n.a.	n.a.	54.0	100	620	41	40.0
Mali	n.a.	n.a.	n.a.	n.a.	250	580	42.9	54.5
Mauritania	1990	n.a.	n.a.	57.0	n.a.	800	43.5	54.7
Mauritius	1992	n.a.	n.a.	10.6	100	112	62.9	72.1
Morocco	1990–91	18.0	7.6	13.1	300	372	52.9	67.9
Mozambique	n.a.	n.a.	n.a.	n.a.	300	1 500	42.5	41.0
Namibia	n.a.	n.a.	n.a.	n.a.	479	220	48.7	45.3
Niger	1989–93	66.0	52.0	63.0	420	593	39	49.7
Nigeria	1992–93	36.4	30.4	34.1	1 500	1 000	43.5	50.2
Rwanda	1993	n.a.	n.a.	51.2	210	1 300	44.6	40.8
São Tomé & Principe	1989–94	n.a.	n.a.	46.0	166	n.a.	n.a.	n.a.
Senegal	1991	40.4	16.4	33.4	600	510	41.8	53.5
Seychelles	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Sierra Leone	1989	76.0	53.0	68.0	450	1 800	35	39.3
Somalia	n.a.	n.a.	n.a.	n.a.	1 100	n.a.	41	48.2
South Africa	n.a.	n.a.	n.a.	n.a.	83	230	53.6	50.0
Sudan	n.a.	n.a.	n.a.	n.a.	600	370	43.7	56.2
Swaziland	n.a.	n.a.	n.a.	n.a.	120	n.a.	47.3	61.7
Tanzania	1991	n.a.	n.a.	51.1	340	530	46.5	47.9
Togo	1987–89	n.a.	n.a.	32.3	370	640	45.5	49.4
Tunisia	1990	21.6	8.9	14.1	310	n.a.	55.6	70.3
Uganda	1993	n.a.	n.a.	55.0	300	550	46.5	42.7
Zambia	1991–93	88.0	46.0	86.0	150	230	47.3	41.2
Zimbabwe	1990–91	n.a.	n.a.	25.5	480	280	51.5	42.4
Africa					**392**	**698**	**45.8**	**52.0**

Figure 2. **Human Development Index and GDP Per Capita**



It is now widely accepted that a successful strategy for human capital development which aims to achieve these goals must stem form the premise that human and physical and social capital are complementary. Investing in people will falter if too few employment opportunities are being generated to make full use of existing human capital. Moreover, economic growth will be unsustainable if there are too few competent people with knowledge and skills to capitalise on new employment opportunities. Thus to achieve progress in the period ahead requires intensive action on two fronts simultaneously: increasing investments in human capital through improved provision of education, health, nutrition and other social services; and stimulating economic growth through sound policies that promote private investment and physical capital accumulation. We concentrate here on the former by summarising the sector–specific policies required to bring about improvements in education and health.

Sector–specific Policies

Towards More Educated Citizens

The current educational situation in Africa means that a large proportion of the labour force is not well prepared to contribute to development, or benefit from it. If social and private investment in basic primary and secondary schooling have relatively high returns in many African settings, more public resources should be directed towards primary education. In order to promote efficient and equitable public spending on education, more reliance should be put on private funding at secondary and higher levels. There is also a need to place emphasis on outcomes and quality of schooling. The policies required in these areas are summarised below.

Establishing Priorities and Promoting Equity and Efficiency. The importance of basic education for all children cannot be over–emphasised. Public resources need to be redirected with the aim of every child completing primary school. In addition to its economic returns, primary education deserves high priority on grounds of equity, externality effects and non–wage benefits. Primary education is the foundation on which further formal education and on–the–job training can be built. In the African socio–economic context, there is evidence that the poor in particular benefit from public spending on primary education. African countries with near universal primary school enrolments have to maintain such achievements and arrive at feasible means of financing expansion and improvements of secondary and higher education. Given budgetary constraints, there is some justification for mobilising private funds by facilitating the establishment and licensing of private schools as well as introducing cost recovery in government secondary schooling.

The emphasis on basic education should not be to the detriment of higher education. A good higher education is critical, not only for producing teachers and other personnel for basic education, but also for longer–term capacity development. The overall state of the economy, including the provision of services and other activities which affect all strata of society, are heavily dependant on the availability of higher

level graduates. In many African countries, however, tertiary educational institutions, particularly universities, face serious problems. The nature of these problems and the measures needed to address them differ from country to country in accordance with national circumstances and priorities. However, there is a general view that the principal problems include equity, quality, relevance, finances, efficiency and governance.

Emphasising Outcomes and Quality of Schooling. Many of the actions that are required to improve the quality of education may call for government intervention. Governments can promote quality education in a number of ways. They need to establish nationally acceptable standards of performance for core subjects and ensure that the standards are evaluated objectively, and focus on providing the necessary educational inputs to schools. While the identification of the inputs required to bring about improvements in the quality of education may depend on the circumstances of the individual countries, there are six main inputs which might be important throughout the continent: improving provision of adequate instructional material, raising the morale of teachers and school management by improving work conditions and strengthening accountability, modifying student–teacher ratios with the aim of obtaining an optimal balance between quality and expenditure–reduction, improving and reorienting curriculums and syllabuses, adopting creative solutions to peculiar problems, and harnessing the benefits of information technology which holds large potential for improving education in Africa.

Towards Healthier Citizens

The health of households and communities in Africa could be greatly improved through reinforcing steps that would enhance the effectiveness of health services.

Prevention and control of major diseases. One approach to the prevention and control of major communicable and non–communicable diseases is behavioural change. With respect to communicable diseases, use of mosquito nets can prevent malaria, promoting breast–feeding rather than bottle–feeding can reduce the incidence of infant diarrhea, and providing information on the causes of diseases such as HIV/AIDS can promote healthy behaviour. The prevention of HIV is feasible with changes in sexual habits and promoting the use of condoms, while early treatment can cure other sexually transmitted diseases. For non–communicable diseases, changes in life–style can help lessen the incidence of cancer, heart disease, mental disorders and conditions aggravated by substance abuse, including tobacco and alcohol.

Priority for essential clinical services. Many preventive and control measures have been developed as vertical programmes addressing specific diseases, but there is now a clear consensus that the best results are obtained when programmes are integrated. Governments should therefore aim at funding a package of basic personal health care which will be made available to the majority of the population. The services provided should be selected according to their cost–effectiveness, measured in terms of lives saved or quality–adjusted years of life. Recent work in this field suggests that a basic package should include prenatal and delivery care, family planning, care of sick children

and treatment of malaria and tuberculosis, sexually transmitted diseases and acute bacterial infections such as meningitis and pneumonia. The package could be administered by decentralised community health centres, by equipping them with the appropriate drugs and providing clear instructions about their use. The basic health package could also cover vaccinations, oral rehydration therapy and prevention of iron deficiency. Essential drugs which have proven effective against Africa's major afflictions should be used, but new therapies and strategies applicable to Africa's conditions need to be developed for combating AIDS. Such basic health packages would have to be supplemented by supportive services, including heath education.

Strengthening health systems. Comprehensive health policies, accompanied by realistic goals and sound financial plans, which take into account macroeconomic constraints, provide the framework for institutional reform. The prevailing view is that health–related goods and services are delivered to communities and households by well–functioning, primary–level health facilities supported by a first referral hospital. This system would meet most local health needs, particularly those of the most vulnerable groups (the newborn, children under five and women of reproductive age). Views on the role and functions of government in the provision of health systems are shifting. There is need to anchor health reforms to the core objectives of focusing on primary health care which lays a firm foundation for achieving behavioural change and environmental control, and making immunisation and prophylactic treatment available and accessible. The main priorities for reform are as follows:

— Governments should pursue their comparative strengths in providing goods and services that give health benefits to the society at large. They should ensure the financing and provision of public goods known to have substantial impacts on health and social well–being, such as safe drinking water, sanitation, roads and communication systems.

— In the health sector, governments' comparative strength lies in carrying out epidemiological data collection (information crucial to setting health targets and indicating what actions are appropriate), and health system planning, regulation, licensing and legislation. Prevention of communicable diseases, health education and information about the health market in general are also important.

— In the context of promoting good health, governments can develop the potential of traditional health systems to contribute to safe, effective and affordable health care. Governments also have a critical role to play in supporting activities that benefit individuals and society at the same time. These include family planning, maternal and child health, infant nutrition, immunisation and the treatment of communicable diseases.

— To promote equity, governments have a responsibility to ensure that the poor and vulnerable sectors of the population have some access to health care.

Resources and Related Issues

It is extremely difficult to estimate the amount of resources required for improving human capital development to encourage economic growth. One source of this difficulty is the two–way relationship between economic growth and social factors (see Figure 1). For instance, economic growth can reduce poverty and improve social indicators, notably through increased public and private spending out of rising income and tax revenue. In this case, estimates of the resources required for achieving a given increase in growth encompass estimates of resources to attain some improvements in social indicators. Another complication is relationships between social factors themselves. For instance, as already noted, better education for women has a powerful influence on improving child health and reducing fertility, independent of income. Estimating the resource requirements of each separately and summing them would involve double counting. A third complication is the time lag between increased growth and improvement in social indicators, on the one hand, and the linkages between different social factors, on the other.

Because of these complications, available estimates of resources tend to concentrate on the direct relationship between growth and poverty reduction, with the latter representing all other social indicators (for instance, see World Bank, 1998 and UNECA, 1998). UNECA estimates that Africa would have to reduce poverty by an average of 4 per cent each year in order to meet the international development target of reducing poverty by half by 2015. The annual growth rates required to do this range between 5.6 per cent for North Africa and 8 per cent for Central and East Africa (Table 2). For Africa as a whole, the required growth rate is about 7 per cent per annum. These rates of growth require investment–to–GDP ratios of 21 and 46 per cent for the two regions respectively. The desired investment ratio for Africa averages 33 per cent.

After taking into account domestic savings, the investment ratios required for achieving the targeted growth rates to reduce poverty cannot be realised unless they are supplemented by inflows of capital from abroad to bridge the resource gap. The required external financing gap ranges from 5.4 per cent of GDP for North Africa to 35 per cent of GDP for Central and East Africa. External resource requirements average about 9 per cent of GDP per annum for Africa as a whole. Compared with present flows of overseas development assistance, this means that additional foreign assistance of about 2 per cent of GDP per annum is required in the case of North Africa, and 24 per cent of GDP in the case of Central and East African countries. On average, the continent would require additional foreign assistance of about 9 per cent of GDP per annum. These estimates suggest the following:

— They show that development goals with regard to the core goal of poverty reduction depends critically on increased foreign assistance. This implies that a central challenge African countries must address is how to raise domestic savings to the levels that could support growth rates that would reduce poverty. The persistent saving investment gap in Africa is the mirror image of the continent's export–import gap. African countries must therefore strive to build dynamic

Table 2. **Development Finance Requirements for Reducing Poverty**

Africa Region	Number of countries	Required GDP growth rate	ICOR[a]	Domestic savings rate (%)	Required investment/ GDP rate (%)	Required external finance (% of GDP)	Current ODA flows (% of GDP)	Residual finance (% of GDP)
North	7	5.60	3.8	15.9	21.3	5.4	3.8	1.6
West	15	7.61	4.8	7.8	36.5	28.7	13.5[b]	15.2
Central	7	6.70	7.3	15.0	48.9	33.9	7.3	26.6
East	13	8.12	5.6	7.7	45.5	37.8	15.6	22.2
Southern	11	6.20	6.1	19.6	37.8	18.2	11.8[c]	6.4
Total/Average	53	6.79	5.0	14.9	33.0	18.1	8.9	9.2
(SSA)	(46)	(7.16)	(5.8)	(14.2)	(40.4)	(26.2)	(12.3)	(13.9)

a. ICOR = incremental capital output ratio.
b. Excluding Nigeria.
c. Excluding South Africa.
Source: UNECA (1998).

export sectors and acquire new competitive advantages in products and services in areas in which there will be high world demand, rapid technological progress and accelerating labour productivity. They would also need to adopt policies that would attract foreign direct investment which could supplement domestic resources, reduce the dependency on foreign aid and stimulate the process of growth through improved management and managerial know–how.

— The projected growth rates to reduce poverty are based on the relationship between per capita income and poverty after taking into account the change in income distribution (UNECA, 1998). However, as income per capita rises, progress also has to be made in achieving other targets. For instance, infant mortality tends to fall by between 0.6 and 0.2 for a one per cent increase in per capita income (see Filmer and Pritchett, 1997 and Pritchett and Summers, 1997). Yet a World Bank study has shown that the effect of per capita income on child mortality would be insufficient to attain the targeted reduction in the latter by 2015 (World Bank, 1998). The question is whether resources in addition to those estimated above will be required to realise social objectives other than poverty reduction.

— As noted before, the projected faster growth rates would also make it easier to increase expenditure on human capital projects. If the targeted growth rate cannot be achieved, a government will be left with three difficult options for providing increased resources for human capital formation: reallocating within existing budgets, increasing taxes and introducing cost recovery. All three options present problems in the African context (Appleton and Teal, 1997). The first two options seem to be limited by the low revenue and narrow tax base of many African countries. Also, the introduction of user charges and cost recovery to offset low levels of public expenditure for basic education and health services is a controversial approach that should be handled only with great sensitivity to local conditions. Given budgetary constraints, however, there is some justification for mobilising private funds by facilitating the establishment and licensing of private schools and medical services. But the contribution of such schemes in helping to attain reduction of poverty will depend on the accessibility of such services by the poor.

Human Development: The Role of the Bank Group

The African Development Bank Group recently adopted a new Vision Statement to deal effectively with the challenges and opportunities facing the continent in the first decades of the new century. The Vision aims at making the Group the leading development finance institution in Africa, and has as its overriding objective support for poverty reduction and sustainable economic growth in regional member countries[3]. Bank Group operations, at the country level, will focus on agriculture and rural development, investment in human capital and private sector development. In parallel with these sectoral priorities, the Vision also underscores the centrality of good governance, gender equality and participation, and environmental management in the development process. At the regional level, Bank Group operations will give priority to fostering economic integration and co–operation among African countries.

Bank operations concentrate on the activities that promote the process of growth (agriculture, industry, infrastructure, private sector development and policy–based lending) as well as on the sectoral policies that enhance human capabilities. Nearly a quarter of the Bank's cumulative commitments have been used for the promotion of agricultural production and food security (see Table 3 for a summary of Bank Group operations). Bank operations in this sector stem from the recognition that poverty is predominantly a rural phenomenon and that its reduction hinges critically on the revival of rural activities through the stimulation of agricultural production. Bank operations are also directed to the development of infrastructure with the aim of promoting economic growth by providing a favourable environment for productive activities, integrating national markets in order to spread the benefits of economic growth, and commercialising and diversifying the economies of the region. Bank commitments for the development of infrastructure, including water supply, electrification and road construction, as well as the maintenance and rehabilitation of existing road networks, amounted to over $12.8 billion, or 37 per cent of cumulative Bank commitments.

Through its policy–based operations, the Bank Group has encouraged countries in the region to adopt macroeconomic policies that create a favourable environment for production activities and private sector operations. This includes institutional reforms, strengthening fiscal discipline, measures to liberalise economies and reduction of excessive public sector involvement in economic activities. There are also direct anti–poverty programmes aimed at protecting vulnerable groups of society from the adverse impact of macroeconomic adjustment. Such policy–based operations amounted to about $5.3 billion, accounting for over 15 per cent of the cumulative Bank commitments.

Moreover, to help diversify the pattern of production and exports in the region, the Bank extends industrial sector loans and lines of credit. Loans to the industrial and banking sector total about $6 billion, representing about 17 per cent of Bank Group commitments. Recognising that accelerated growth is the first line of attack in the fight against poverty and that the private sector can play a leading role in promoting faster growth the Bank has intensified its private sector operations in recent years. Direct private sector loans and investments increased from less than 3 per cent of total approvals in 1996 to 9 per cent in 1998. Furthermore, the Bank Group plays a catalytic role in increasing financial flows to African countries through collaboration with other agencies. Over 500 projects and programmes valued at $80 billion have been co–financed, with the Bank Group contributing some $15 billion.

In the social sector comprising education and health, cumulative Bank commitments amounted to about $3.8 billion. In this field, Bank Group operations are guided by recently formulated policy papers, which incorporate several concerns that have emerged in recent years. In education, Bank Group operations basically aim at fostering economic development. Bank priorities encompass three major groups:

— basic education including primary and non–formal education;

— labour force development including technical and vocational training, teacher training, particularly in science and mathematics, and women in development; and

Table 3. **Bank Group Cumulative Loans, Grants and Equity Approvals, 1967–99**
($ million)

	African Development Bank		African Development Fund	Nigeria Trust Fund	Bank group	Bank group (%)	Bank operations (number)
	Public	Private					
Agriculture	3 239	8	3 586	44	6 877	20	60
Industry	1 908	101	252	31	2 294	7	12
Transport	3 327	28	2 359	107	5 823	17	41
Public	5 161	13	1 847	72	7 095	20	44
Finance	3 319	0	420	24	3 763	11	18
Social	1 094	2	2 600	67	3 765	11	35
Multi–sector	3 350	0	1 907	0	5 257	15	18
Total	21 401	154	12 974	348	34 878	100	231

Note: Approvals have been converted to US dollars on the basis of 31 December.
Source: ADB Statistic Division, Palms.

— institutional development including educational management and administration, financial administration, assessment of the education sector and preparation of sectoral policies.

In the education sector, the Bank Group's activities are guided by the basic principles of equity, efficiency, relevance and quality. Emphasis is placed on the vast majority of the population, including the female population who have too often been neglected. The Bank Group thus gives priority to projects that are integrated into a comprehensive rural development strategy. Women's education is taken into account as a priority issue in all forms of education: basic education, technical and vocational training, teacher training and institutional development. Greater attention is also paid to regional projects, particularly relating to human resource development. Further, population control receives a great deal of attention in the Bank Group's education financing policy. In this respect, emphasis is given to projects aiming at diffusing family planning and enhancing demographic analysis capability in member countries. The Bank Group attempts to reconcile education as a learning process and as an institution with local values and needs, thereby strengthening its appropriateness, relevance and utility.

In the health sector, the Bank Group focuses on primary health care such as communicable disease control, health worker training, and population and nutrition. It is worth noting, in this respect, that Bank Group has introduced a revised Health Sector Policy which emphasises the need to increase investments in primary health care, including the following areas:

— women and children with respect to reproductive health, with priority support for measures which strengthen family planning efforts, promote maternal health, enhance nutrition and increase child survival rates;

— AIDS and other sexually transmitted diseases;

— malaria, tuberculosis and other diseases with high mortality rates;

— education, information and communication to reduce other preventable diseases;

— studies, research, training and infrastructure; and

— institutional reforms and capacity building, with priority support to those countries undertaking health sector reforms.

In addition to the above, the Bank Group will give support to traditional health systems — including research on herbal medicine — in combating diseases such as malaria. Furthermore, the Bank Group will promote the active involvement of all partners and stakeholders in designing health programmes as well as in monitoring and evaluation of them. Special efforts will be made to involve NGOs, women's organisations, traditional health organisations, and other community organisations in these aspects of health programmes.

Concluding Remarks

The return on investments in human capital depends on other forms of investment. Investing in human capital alone is insufficient for development but it is wrong to argue that investments in human capital must wait for economic growth. Progress in the period ahead requires both stimulating economic growth and developing human capital though improved education and health services. In education, public resources need to be directed towards attaining universal primary education which, in addition to its high economic returns, deserves high priority on grounds of equity and external benefits. The emphasis on basic education, however, should not be to the detriment of higher education. A good system of higher education is critical not only for producing teachers and other personnel for basic education, but also for longer–term capacity development. In health, governments should aim at funding a package of basic personal health care to be made available to the majority of the population. Such a package should include prenatal and delivery care; family planning; care of sick children; and treatment of malaria and tuberculosis, sexually transmitted diseases, and acute bacterial infections such as meningitis and pneumonia. Basic health packages would need to be supplemented by supportive services, including heath information and family planning. In these and related areas, Africa continues to need external assistance if the internationally agreed upon social targets are to be attained.

Notes

1. Such a mismatch between supply and demand in the labour market can partially explain the problems of brain drain and economic refugees. There are also many pull and push factors beyond the scope of this paper that are major causes of these two problems.
2. Although it is convenient to consider Africa as a whole, there is considerable variation in human and economic development within the continent and between males and females.
3. Bank Group operations take the form of project and policy–based lending, technical assistance for pre–investment studies and capacity building, equity participation, and debt relief. The financing for operations is provided through the African Development Bank, which offers non–concessional loans financed from its ordinary resources, and through the African Development Fund and Nigeria Trust Fund, which provide concessional financing to low–income countries. At the end of 1999, the Bank Group had approved loans and grants for a total cumulative amount of close to $35 billion, of which nearly two–thirds was financed on non–concessional terms and the rest on concessional terms. Bank Group commitments were granted to 50 countries and multinational institutions to finance projects and programmes, which support the foundations of long–term development and reinforce sustainable economic growth and poverty reduction.

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Simulating the Next 20 Years

Jean–Claude Berthélemy and Ludvig Söderling

Introduction

This paper discusses whether, and under what conditions, a group of African countries will be able to start emerging relatively early in this new century. Although sub–Saharan Africa as a whole cannot yet be considered a promising candidate for economic emergence, our assumption is that a limited number of countries could begin emerging within the next two decades. Then, under the right circumstances, this economic progress could spread to the rest of the continent. The experience of East Asia in the past three to four decades has involved such a step–by–step process in which there has been economic catching–up in a whole region, starting from conditions of underdevelopment that were still considered rather desperate in the 1950s.

We consider an emerging country as one whose economy can sustain a dynamic growth process for a long period of time, so that in two decades or so the GDP per capita can at least double. Eventually, it is hoped that this will trigger a catching–up process in which the economy converges to the level of development of an OECD country. In sub–Saharan Africa, a doubling of the GDP per capita would still not give these countries an income level comparable to that of the emerging East Asian countries. However, the most successful African countries would then have become lower– middle–income countries, whose average income was about $1 200 per capita in 1997, as compared with a range of $200 to $700 in sub–Saharan Africa (except for South Africa, Botswana and Mauritius).

Attaining lower– middle– income status essentially would serve two purposes. First, it would put the countries in question in a much better position to start eradicating poverty, as shown by the experience of other lower middle income countries such as Morocco, Sri Lanka and Tunisia. As long as the average income is around $1 or $2 a day, pervasive poverty is virtually inescapable. If the average income doubles, however, realisable policies for poverty alleviation can be implemented.

Moreover, several studies on economic convergence have pointed to the existence of convergence clubs, where low–income countries are trapped in a low–equilibrium club while middle income countries may be able to catch up to higher levels of development (e.g. see Berthélemy and Varoudakis, 1996). Thus the emergence of (part of) Africa would mean that these economies could escape from a poverty trap and then satisfy the preconditions necessary for long–term economic progress. According to the findings of Berthélemy and Varoudakis (1996), breaking free from a poverty trap to a higher equilibrium entails large–scale development of secondary education as well as capital mobilisation through a modern financial system, which are lacking in a low income countries. Apart from South Africa, Mauritius and Botswana, presumably today no sub–Saharan African economy can be considered a member of the club of countries that have started a convergence process to a significantly higher level of development. Still, economic progress has been noticeable in several sub–Saharan African countries in recent years. It is therefore useful to assess the durability of this process, and whether it can be considered a preliminary step towards economic emergence.

We have decided to make an in–depth investigation of the growth prospects of six countries that were in one sense or another promising when the project was launched. These countries are Burkina Faso, Côte d'Ivoire, Ghana, Mali, Tanzania and Uganda. A few other countries could have been chosen, but the rather wide variety of experiences available in these six countries make them reasonably representative of the possible candidates for emergence in sub–Saharan Africa.

For the sake of comparability, we have chosen to study growth prospects of these six countries in a single analytical framework, although the quantitative assessment of the potentials of each country is specific. This amounted to constructing a common growth model for a typical sub–Saharan African country. This model was estimated using panel data from 27 African countries for which the necessary information was available. With this model, we have subsequently built country–specific alternative growth scenarios, based on a number of assumptions regarding the relevant exogenous variables.

A Simple African Growth Model

Our model is based on three equations: a production function, an investment function and a balance–of–payments identity.

Production Function

GDP is a Cobb–Douglas function of capital, labour and imports. We impose constant returns to scale, which is consistent with our data; this means that GDP per labour unit (*LYL*, all variables in logarithms) is a function of the capital/labour ratio (*LKL*) and the import/labour ratio (*LML*), with a residual which defines total factor productivity (*TFP*).

$$LYL = \alpha LKL + \beta LML + TFP \quad (1)$$

In the countries considered, where agriculture still occupies a majority of the active population, total factor productivity may be improved simply by moving labour out of agriculture (where it is underemployed and has a low productivity) to non–agricultural sectors. In order to take this factor reallocation effect into account, we computed its size according to the Syrquin (1986) method (see the appendix for details), and then deducted this measure from output. Therefore, in our econometric estimation, the dependent variable is GDP per unit of labour, net of the Syrquin effect (*LYLA*).

Total factor productivity net of the Syrquin effect (TPFA) in turn can be explained by a number of economic and political variables. The explanatory variables of TFPA used here are: the level of human capital available in the economy, measured by the average number of years of schooling of the adult population (*LH*), a diversification index (*LDIV*), a measure of distortions, based on the forex black market premium (*LBMP*)[1] and finally a measure of political instability, defined as the number of revolutions and coups.

The introduction of a diversification index deserves further comment. Diversification is defined as the spreading of production to a growing number of different outputs, which in themselves do not necessarily imply different productivity levels. The reason for testing the impact of diversification on productivity is principally empirical. It derives from the observation that rapid economic growth seems to be accompanied by a higher degree of diversification (for instance, Mauritius provides an illustration of this, in contrast to the absence of diversification in countries in our sample, such as Côte d'Ivoire or Ghana).

The impact of diversification on income may be transmitted mainly through two mechanisms. Lucas (1993) emphasises the effect of learning by doing by constantly introducing new, higher quality goods in the production mix of a country. The second mechanism by which diversification can increase income is by providing greater possibilities for spreading investment risks over a wider portfolio. In other words, greater diversification will enhance average capital productivity in the long run by providing better investment opportunities at lower risk. Acemoglu and Zilibotti (1997) used a model to show that lack of diversification leads economic agents to invest in low return, safe traditional projects, rather than in riskier projects with higher growth potential.

We estimated the parameters of the production function using panel data from 27 African countries during the 1960–1996 period, with a fixed–effects specification. This amounts to assuming that all parameters but the intercepts are constant across countries. The parameter estimates are given in Table 1:

Table 1. **Panel Data Estimates of the Production Function**
Dependent variable: LYLA

Variable	Coefficient	Standard error	t-statistic
LKL	0.397	0.032	12.60
LH	0.251	0.044	5.75
LDIV	0.043	0.013	3.48
LML	0.123	0.015	8.19
LBMPCFA	0.007	0.156	0.05
LBMPNCFA	-0.041	0.009	-4.76
REVCOUP	-0.014	0.007	-2.13

Estimation method: within (fixed effects)
Number of observations: 760
Number of countries: 27
Adjusted R^2: 0.99
Hausman test: $\chi 2(8)=1001$
Notes: *LYLA=ln*(GDP/Labour)–ln(Reallocation effect, see above); *LKL=ln*(Capital stock/Labour); *LH=ln*(average number of years of schooling in active population); *LDIV=ln*(diversification index), *LML=ln*(Imports/Labour); *LBMPCFA/NCFA=ln*(1+black market premium in forex market) for CFA and non CFA countries respectively; *REVCOUP*=dummy for revolutions and *coups d'états*. Trends and fixed effects are not reported.

Balance–of–Payments Equilibrium

The condition that the balance of payments be in equilibrium will determine the long–term level of imports. Neglecting short–term capital flows, and assuming that the variation in reserves will be zero in the long run, this equation is written as:

$$M*Pm - X*Px - LTFLOWS = 0 \quad (2)$$

where *M* and *X* are imports and exports respectively, expressed in volume, *Pm* and *Px* are import prices and export prices respectively, *LTFLOWS* is net long–term capital flows (foreign aid, loans and investment). Rearranging this equation gives:

$$M=X*TOT+LTFLOWS/Pm \quad (3)$$

where we have used the fact that the terms of trade (*TOT*) are equal to *Px/Pm*.

In this equation, an economy's openness will be defined as the ratio of exports to GDP(x), rather than the volume of exports itself. (See the Appendix for details of the simulation of the export ratio.)

Capital Accumulation

Finally, in order to simulate investment behaviour, we estimated a function determining the growth rate of the capital stock. This equation can be considered a reduced form of a model encompassing the investment demand and savings supply behaviours. It is assumed that capital accumulation depends positively on the marginal productivity of capital, terms of trade and volume of long–term foreign savings (measured by the ratio of long–term capital flows to capital stock). The first and second terms account for investment demand behaviour

(firms invest more if capital becomes more profitable). The third variable accounts for the constraint from the lack of savings, keeping in mind that in the majority of African countries, investment needs to be financed principally by foreign savings, for lack of sufficient domestic savings. We also observe that capital accumulation is negatively affected by political instability, as measured by the REVCOUP variable, with a lag of one year.

Table 2. **Determinants of Capital Accumulation**
Dependent variable: DLK

Variable	Coefficient	Standard error	t–statistic
LTFLOWSK(–1)	0.170	0.066	2.58
LKPROD(–1)	0.113	0.010	11.65
LTOT(–1)	0.034	0.006	5.70
REVCOUP(–2)	–0.007	0.003	–2.35

Estimation method: within (fixed effects)
Number of obs: 566
Number of countries: 26
Adjusted R^2: 0.50
Hausman test: $\chi 2(2)=18.1$

Notes: *DLKL*=variation in ln(Capital stock); *REVCOUP*=dummy for revolutions and *coups d'états*; *LTFLOWSK*=Real net long–term capital flows (loans, aid and foreign investment) as a ratio of the capital stock; *LKPROD=ln*(0.4*GDP/Capital stock); *LTOT=ln*(terms of trade). The numbers between parentheses indicate a lag operator. Fixed effects are not reported.

To summarise, the production function, the investment function and the balance–of–payments identity combined with the simulation of the export ratio gives the following system of equations:

$$ln(Y)=a*ln(K)+ b*ln(M) + (1-a- b)*ln(L) + TFP \quad (4)$$

$$M=x*Y*TOT+LTFLOWS/Pm \quad (5)$$

$$dln(K_t)= e_1*ln(a*Y_{t-1}/ K_{t-1}) +e_2*(LTFLOWS_{t-1}/Pm_{t-1})/K_{t-1}+E \quad (6)$$

where *Y* is *GDP*, *K* is capital stock, *L* is labour, *M* is imports, *TFP* is total factor productivity, which is a (log) linear combination of the reallocation effect, the human capital stock, the diversification index, the black market premium and the number of revolutions and coups. Furthermore, *x* is the export to GDP ratio, *TOT* is the terms of trade, *LTFLOWS* is net long–term capital flows, *Pm* is import prices, and *E* is a combination of other determinants of investment (*TOT* and *REVCOUP*). Time indexes have been omitted whenever this does not cause any confusion.

This system can now be solved by iteration.

Results from the Scenarios

We will now use the model described above to make scenarios for future growth until the year 2020 in six countries. These countries — Burkina Faso, Côte d'Ivoire, Ghana, Mali, Tanzania and Uganda — all have had good recent records in terms of economic growth. We construct two main scenarios, of which one with two variations. The first scenario essentially assumes a continuation of current trends in the underlying determinants for growth. We call this the baseline scenario. The second scenario, which is called "high" in the figures below, is more optimistic and assumes improvement in certain variables, in particular relating to structural change, such as human capital and diversification of the economy. Two variations of the high scenario are constructed in order to isolate the effect of diversification in one case and aid efficiency in the other. In all scenarios, we assume an absence of revolutions or coups, unchanged terms of trade, and a zero black market premium[2]. The results are shown below.

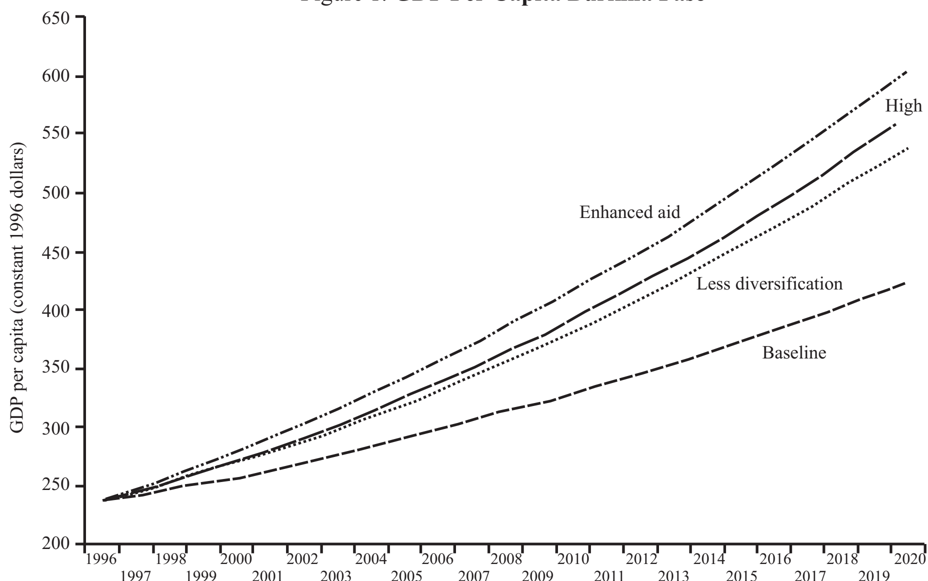
A few characteristics of the results from the scenarios deserve attention before we analyse the sources of growth in more detail. Table 3 summarises the scenarios by giving some key indicators for the year 2020, which should be reasonably close to the steady state. Moreover, investment rates are given for the year 2000 in order to show the impact of enhanced aid on the investment ratio[3]. Uganda achieves the highest long–term growth of GDP per capita under the baseline scenario, about 0.5 percentage points greater than Côte d'Ivoire and Mali on an annual basis, and as much as one percentage point greater than Ghana. This can be explained mainly by Uganda's strong commitment to education, and a demonstrated greater progress in terms of diversification compared to the other countries in the sample with the exception of Ghana.

Table 3. **Scenario Overview**
(Percentages)

	Baseline	High	Enhanced aid	Less diversification
GDP/capita growth in 2020				
Burkina Faso	2.49	3.67	3.64	3.44
Côte d'Ivoire	2.06	3.09	3.09	2.85
Ghana	1.59	2.59	2.61	2.40
Mali	1.99	2.88	2.88	2.65
Tanzania	1.66	2.43	2.44	2.20
Uganda	2.61	3.42	3.39	3.20

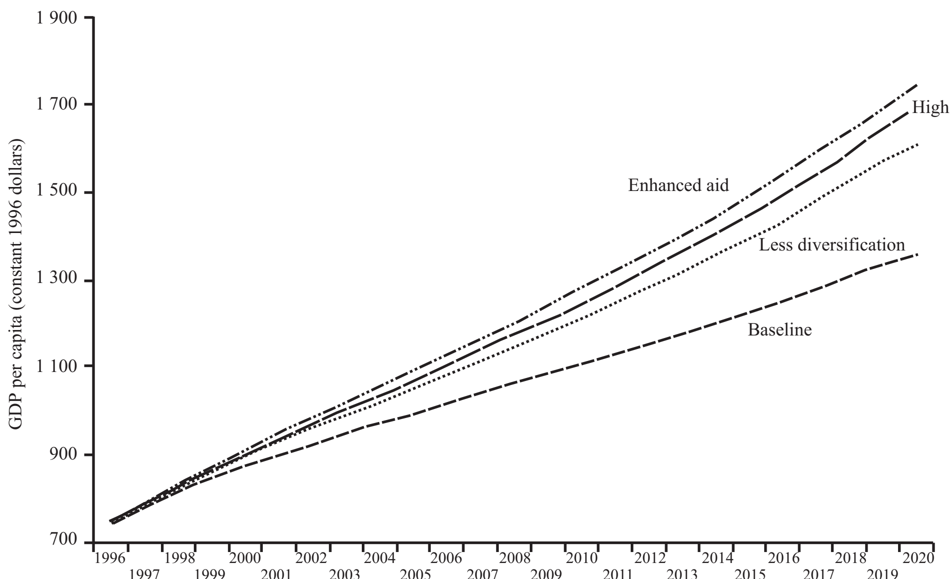
	Baseline		Enhanced Aid	
	Year 2000	Year 2020	Year 2000	Year 2020
Investment/GDP				
Burkina Faso	18.4	18.1	22.0	19.6
Côte d'Ivoire	20.1	19.7	21.7	20.7
Ghana	15.4	15.5	19.1	17.4
Mali	20.7	21.3	24.7	23.2
Tanzania	24.2	23.5	27.3	25.3
Uganda	12.1	11.9	15.0	13.1

Figure 1. **GDP Per Capita Burkina Faso**



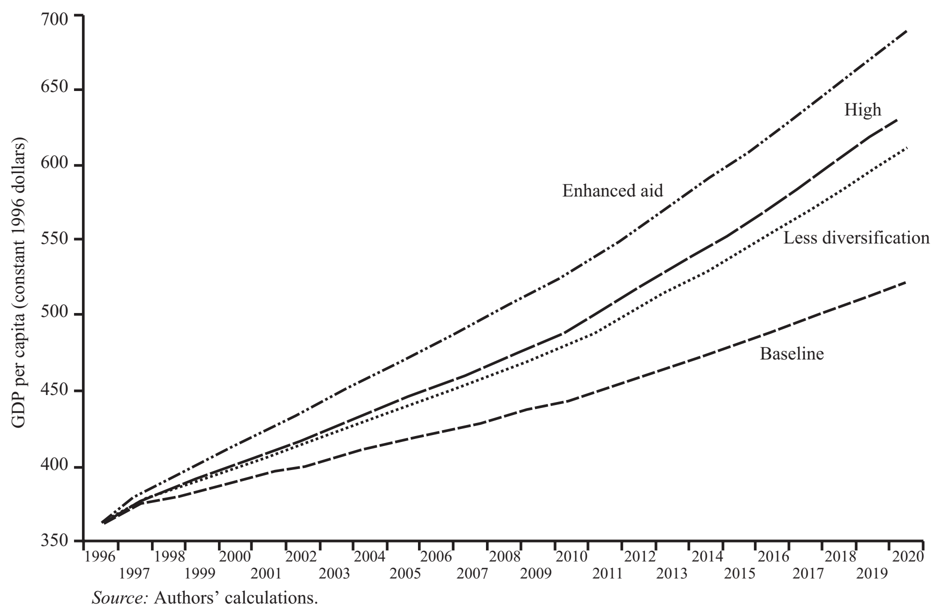
Source: Authors' calculations.

Figure 2. **GDP Per Capita Côte d'Ivoire**



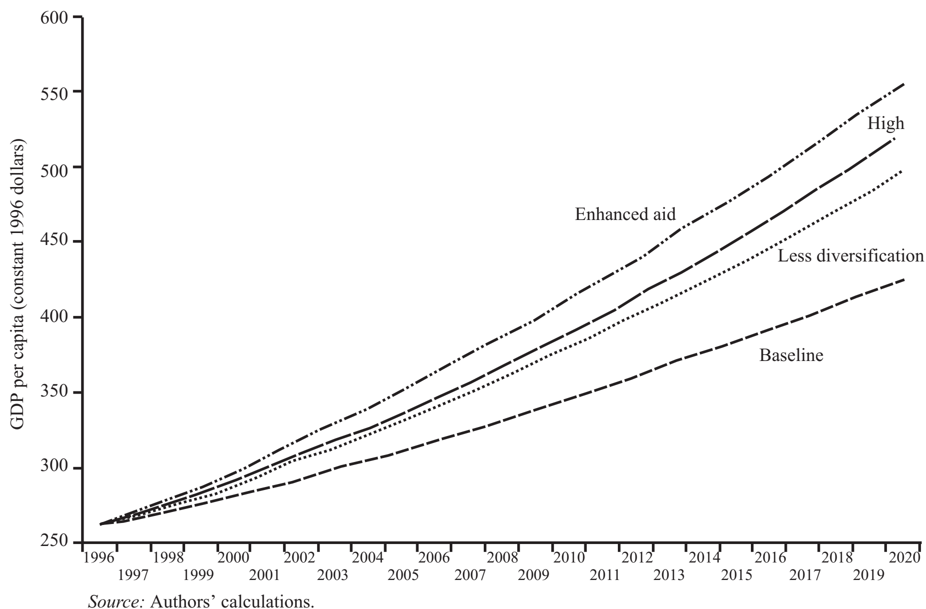
Source: Authors' calculations.

Figure 3. **GDP Per Capita Ghana**



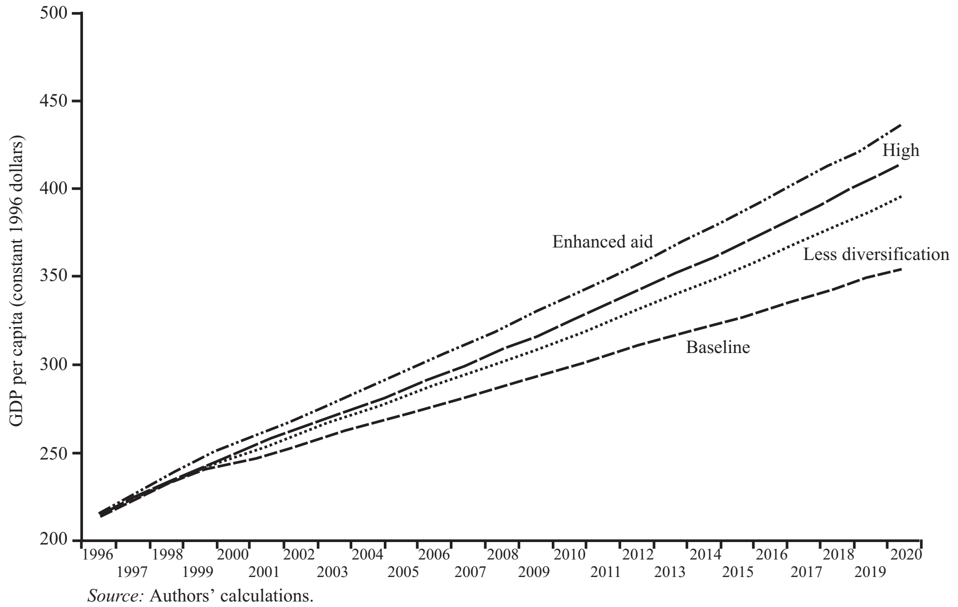
Source: Authors' calculations.

Figure 4. **GDP Per Capita Mali**



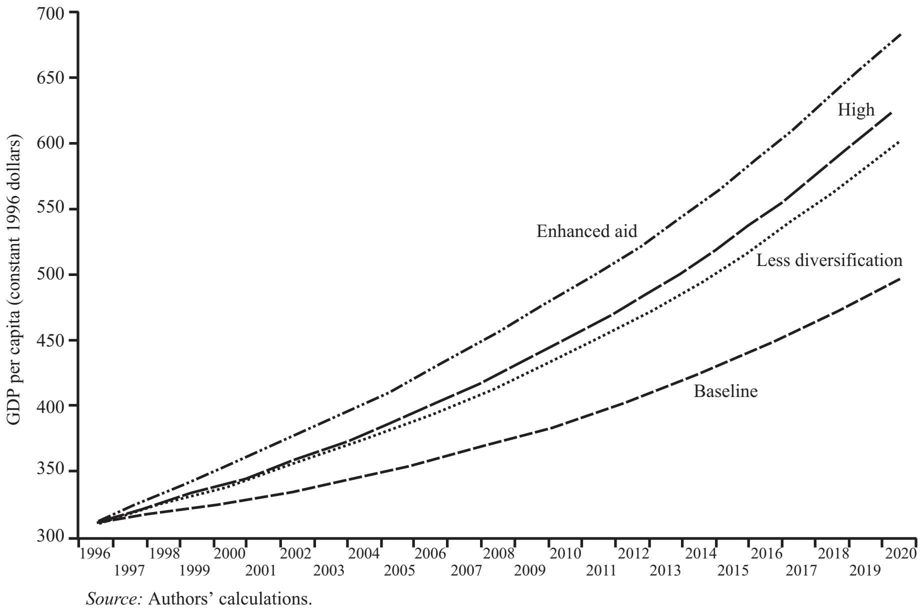
Source: Authors' calculations.

Figure 5. **GDP Per Capita Tanzania**



Source: Authors' calculations.

Figure 6. **GDP Per Capita Uganda**



Source: Authors' calculations.

Ghana's GDP per capita growth rate is the lowest among the countries studied in the baseline scenario despite its better ranking in terms of productivity growth. This is principally attributable to the low investment rate in the country. In fact, the capital stock in both Ghana and Uganda has scarcely kept up with the growth of the labour force since the introduction of reforms in the 1980s. Moreover, the gains from reallocating labour from agriculture to the modern sector are expected to be less in Ghana than in the other countries. The difference in productivity between the two sectors is the lowest among all studied countries, mainly due to the substantial comparative advantages of Ghana's cocoa sector.

Tanzania's growth prospects are the second lowest in the baseline scenario and the lowest in all other scenarios, despite the fact that it starts from a comparatively low level[4]. This is because there has been very little structural change in the country recently — in particular regarding education — and this is factored into the assumptions for the future. As a result, productivity growth is the lowest in the sample. By contrast, Tanzania has the highest investment rate, at around 24 per cent of GDP under the baseline scenario. According to our data, Tanzania has a relatively high capital to GDP ratio (around 3) requiring a higher investment rate in order to replace depreciated equipment and sustain a given growth rate than in other countries.

Conversely, Burkina Faso — which also starts from a very low level, but has recently shown better a performance in terms of structural change — has the second fastest growth in our sample. It must be noted, however, that Burkina Faso will still be far from its steady state in 2020, in particular in terms of openness and factor reallocation, which to some extent explains its relatively high growth rate reported in Table 3.

Table 4. **Baseline and High Scenarios**

	GDP/capita in 2020 (1996 $)			Total structural gap	Total structural gap (%)
	Memo:1996	Baseline	High		
Burkina Faso	237	423	566	143	34
Côte d'Ivoire	745	1 358	1 693	335	25
Ghana	362	522	635	114	22
Mali	264	424	521	97	23
Tanzania	214	356	415	59	17
Uganda	311	496	629	133	27

Comparing the baseline and the high scenarios for all countries in the figures above, the crucial importance of structural change for growth becomes evident (Table 4). This is particularly relevant for the countries studied here, given the lack of structural change in their growth processes so far. As demonstrated by Berthélemy and Söderling (1999*a*), the recent rebound of a number of African economies has mainly been attributed to catch–up effects in the form of one–off productivity gains from adjustment measures, while an increase in investment and structural change has largely been absent. As already mentioned, the high scenarios are distinguished from the baseline scenarios by an acceleration of structural change. The kinds of structural change which will be analysed in more detail here are related to human capital accumulation, development of exports and diversification of the economy.

The Role of Domestic Policies and Institutions

The Importance of Education

The level of education in our model is represented by the human capital stock, measured as the average number of years of schooling among the population aged 15–65 years. We used the data from Nehru, Swanson and Dubey (1993) for the 1960–87 period. In order to extend the series up until 1996, we estimated a relationship between the growth in human capital stock on one hand and enrolment rates, demographic variables, the duration of schooling and the current level of human capital stock on the other (see Berthélemy and Söderling 1999*a*). This relationship is further used to simulate the future human capital stock under the following base line assumptions[5]: the duration of primary schooling will remain constant throughout the period. The enrolment rate for primary school will continue at its current trend unless this trend is negative, in which case we assume that it stays flat. Furthermore, the UN World Population Prospects has been used to forecast population growth and dynamics in the demographic structure. The human capital from secondary and higher schooling is extended by simple extrapolation. Under the assumptions of the optimistic scenario, the enrolment rate in primary school attains 100 per cent in 2010. Table 5 shows the development of the human capital stock and its resulting influence on productivity growth under the two scenarios (for more details, see appendix). The substantially higher impact on growth in Burkina Faso and Mali is reflected partly by the fact that both countries start from a significantly lower level but also with a demonstrated commitment to improving educational standards. Gross enrolment in primary school has increased from around 25 per cent in both countries in the mid–1980s to over 40 per cent in 1996. The estimated accumulated impact on total factor productivity from 1996 to 2020 is estimated at over 18 per cent in the baseline scenario and around 22 per cent in the high scenario.

Table 5. **The Impact of Education**

	Human capital stock			Accumulated impact on TFP (%)	
	1996	2020 baseline	2020 high	Baseline	High
Burkina Faso	1.0	2.2	2.5	18.7	22.2
Côte d'Ivoire	2.8	3.5	4.4	5.4	10.9
Ghana	4.2	5.9	7.0	8.7	12.9
Mali	1.0	2.1	2.5	18.4	21.8
Tanzania	3.2	3.7	4.2	3.4	6.5
Uganda	3.1	5.0	5.0	11.9	11.9

Note: The human capital stock is measured as the average number of years of schooling among the population aged 15–65.

Ghana has the highest level of human capital stock among the sample countries. Nevertheless, the country is assumed to continue to make significant gains in the near future. The primary school enrolment rate is currently around 75 per cent, which ensures a slow but steady growth of the human capital beyond 2020. However, the main strength of Ghana's educational system compared to the other countries studied here is the

extent of its secondary schooling. According to our data, the average number of years of secondary schooling among the active population is as high as 1.2 years and is assumed to double around the year 2020. In the high scenario, we assume that human capital in secondary schooling accelerates in 2010 — after enrolment in primary school has reached 100 per cent — to attain three years in 2020, based on a trend comparable to the rate of progress observed in Mauritius in the 1980s.

In the case of Uganda, we have used a different approach in constructing scenarios, given the country's recent efforts to provide free primary education up to a limit of four children per family. Although this has already been implemented in 1997, we assume a gradual increase in primary school enrolment to 100 per cent by 2010. This is done in order to compensate for some of the loss in quality of the education, given the higher pupil to teacher ratio and to allow some time for hiring more teachers. Moreover, Uganda plans to extend the time in primary education from 7 to 8 years by the year 2010 (Bigsten and Kayizzi–Mugerwa, 1999). From the moment universal primary education is obtained, we assume that efforts will be directed towards secondary education. Therefore, from the year 2010 onwards, we assume a growth rate in secondary human capital equal to the rate observed in Ghana during the last ten years, i.e. 3 per cent per year. Accordingly, Uganda stands to gain more under the baseline scenario than all other sample countries with a similar or higher level of human capital stock. However, given the substantial efforts implied under the baseline scenario, we did not find it reasonable to construct a more optimistic scenario.

The two laggards among the countries studied are Côte d'Ivoire and Tanzania which have actually seen a decline in primary school enrolment rates since the beginning of the 1980s. Under the baseline assumption that they maintain the enrolment rates at their current level, we observe much more moderate gains in TFP than for the other countries.

Openness To Trade, Diversification and the Role of Institutions

Exports do not enter our production function directly. Rather, we assume that trade promotes economic progress through the technological transfer induced by imported products. Hence, the principal direct link between trade and GDP comes from the volume of imports that the economy can purchase, financed by exports and capital inflows. In our model, the volume of exports as a share of GDP tends towards an asymptotic maximum which is determined, based on the current level of a relevant benchmark country (see Appendix for more details). This means that our model does not allow for any long–term growth effect from trade openness since exports and GDP are assumed to grow at the same rate in the long run. An alternative assumption would not be compatible with a steady–state growth path, because either the ratio of exports to GDP would fall to zero or it would grow indefinitely. Nevertheless, since the countries studied here are all far from their steady states, medium–term growth — and consequently the level of income per capita in our scenarios — will be influenced by

export growth. However, Berthélemy and Söderling (1999*b*) showed that an increase in export volume would have a limited impact on growth, much smaller than what would be obtained by enhancing diversification of exports. For instance, in the case of Côte d'Ivoire, an increase of the asymptotic level of the export ratio from the current value to a value corresponding to the average of a number of Asian NICs would lead to an increase in income levels per capita of 5 per cent by the year 2020. If diversification were also gradually increased to attain the level of the same NICs by 2020, an additional gain in income of 11 per cent would be obtained. Hence, in this example the effect from diversification would be more than double the effect from a pure increase in volume.

In light of these findings, we concentrate our analysis on diversification rather than on export growth, as such. However, the fact that diversification leads to greater gains than a pure volume increase does not imply that export growth should be de–emphasised to the exclusive benefit of diversification. Indeed, openness to trade is a prerequisite for diversification, given the small size of the markets in the African countries being studied.

The question is then: what can policy makers do to enhance diversification? Numerous examples of African countries demonstrate that diversification cannot be created by government decree. These countries include Algeria, Côte d'Ivoire (see Berthélemy and Bourguignon, 1996) and Senegal (see Berthélemy and Vourc'h, 1996) where attempts to diversify the economy by government–directed investment resulted in distortions and substantial inefficiencies. The driving force must no doubt come from market incentives. In other words, the government's role will be to create an economic environment conducive to private enterprise. One way it can do this is by creating an export processing zone (EPZ)[6].

Mauritius is a well–known African economic success derived from a soundly implemented EPZ. Since the 1970s, Mauritius has developed from an economy based on sugar exports to a diversified producer of manufactured products, attributable to an EPZ scheme. The success of the Mauritian EPZ hinges on a number of factors. Contrary to several less successful cases[7], the Mauritian policy makers understood that although EPZs are enclaves, their efficiency is not isolated from overall macroeconomic policies and other measures implemented in the non–EPZ part of the economy. Hence, outward–looking policies were adopted and — with the exception of a few setbacks — competitiveness was ensured through proper exchange rate management, investment in education, health care and transportation and by containing inflation (see Alter, 1990). The key to the success of the Mauritian EPZ was that the government provided a policy environment conducive to investment, while allowing market forces to make the business decisions and reap the benefits therefrom. Johansson and Nilsson (1997), show that out of a number of EPZs studied, it was generally those countries that implemented accompanying liberalisation measures that saw positive effects, while an EPZ may even have been detrimental to others.

To sum up, diversification can be viewed as the result of a combination of high quality production factors (in particular skilled labour and well–functioning infrastructure), a macroeconomic climate favourable to investment, openness and access to non–traditional export markets, and finally institutions favourable to risk taking. Therefore, since promotion of diversification is dependent on a number of policy measures, it is difficult to disentangle its influence from other sources of growth.

However, the way we have designed the scenarios gives us an opportunity to study the institutional aspects of encouraging diversification. In the scenario called "less diversification", we make the same assumptions as in the "high" scenario, except that the degree of diversification in the economy follows the same trend as in the baseline scenario. As we have argued, an increase in diversification depends on a number of structural factors, such as the availability of skilled labour and infrastructure, on external factors such as capital inflows and access to export markets and imported technology, as well as on factors related to risk and political and economic stability. In the latter category we also include the quality of institutions. The business climate, and thereby the incentives for entrepreneurs to undertake investments in new areas, will be negatively affected by corruption and rent seeking, a poor judicial system, red tape and other distorting effects of heavy government intervention. One concrete example of institutional malfunctioning relevant to Africa is the weak protection of property rights, which increases the risks faced by banks and other financial institutions in their loan operations. Diversification will suffer as a result. Note that in constructing the "high" scenario and the "less diversification" scenario we have assumed the same level of human capital and openness to trade, as well as the same level of macroeconomic and political stability. Moreover, capital flows are unchanged between the two scenarios, implying that investment in infrastructure remains essentially unchanged[8]. In other words, the difference in growth of diversification of the two scenarios can come only from institutional improvements, or from better access to export markets for non–traditional products. Note, however, that the total volume of exports as a ratio of GDP is the same in the two scenarios.

Given the institutional character of this variation of the "high" scenario we will call the difference between the "less diversification" and the "high" scenario the diversification–institutional gap (see Table 6). This institutional gap is of course additional to the more direct impact institutions may have on growth through misuse of public funds, or the deterring effect poor institutions may have on investment. In other words, good institutions not only enhance the volume but also the diversification of investment.

Table 6 clearly points to the importance of the quality of institutions for economic growth, although we only show a fraction of the effect here. In all the countries studied, the accumulated effect on income by enhanced diversification resulting from an improvement in institutions is as much as approximately 5 per cent by the year 2020.

Table 6. **Institutional Aspects of Diversification**

	GDP/capital in 2020 (1996 $)		Diversification institutional gap	Diversification institutional gap (%)
	Less diversification	High		
Burkina Faso	540	566	26	5
Côte d'Ivoire	1 612	1 693	81	5
Ghana	611	635	24	4
Mali	497	521	24	5
Tanzania	396	415	19	5
Uganda	601	629	18	5

As indicated previously, there is also an aspect of external co–operation involved in increasing diversification. For instance, Uganda is a landlocked country, which makes it dependent on Tanzania and Kenya for access to the sea. Hence, without some sort of concerted initiative for investment in infrastructure Uganda's prospects for export growth becomes difficult, which in turn imperils its potential for diversification. Undeniably, the relationship with potential trade partners also affects diversification of an economy. A key factor for the success of the EPZ in Mauritius was the fact that the country gained preferential access to export markets, in particular in Europe by various international trade agreements. Nonetheless, it is doubtful that trade agreements will have any major impact without a certain level of quality of domestic institutions. Hence, well–functioning domestic institutions are a prerequisite for trade and regional co–operation agreements having the desired effect on diversification. The role of international trade agreements will be discussed in some detail below.

What Can Donor Countries Do?

We have discussed the lack of structural change and investment in recent African growth processes. Moreover, our scenarios clearly showed the importance of structural change for development. A major obstacle in this respect is obviously the lack of domestic savings for the great majority of African countries. In addition, a substantial part of investments involve imports, which require an availability of foreign exchange. Berthélemy and Söderling (1999*b*) demonstrated that foreign aid could not be a realistic alternative to export growth for achieving a greater volume of imports. Nevertheless, given the servicing of the large debt accumulated by many African countries, which drains a significant part of export revenue and other capital inflows, aid and debt forgiveness remain important tools for assistance in Africa. However, previous experience has shown that domestic conditions must be right for foreign aid to have the desired impact. The following section will analyse three aspects of the relationship between donor countries and Africa: debt forgiveness and the HIPC initiative, aid efficiency[9] and integration of Africa into the global economy through trade agreements.

Debt Relief

The heavy debt burden inherited from previous decades has been an obstacle to economic growth for many African countries in recent years. However, the Cologne initiative, which will enhance the 1996 Highly Indebted Poor Countries (HIPC) initiative, should help these countries solve their debt overhang problem.

Our model is not specifically designed to analyse debt overhang, which can be considered a result of multiple equilibria, where high debt prevents growth, which in turn prevents a solution of financial difficulties (e.g. see Berthélemy and Vourc'h, 1994; for a discussion of the Cologne initiative, see Berthélemy, 1999).

Reducing the debt burden can have direct and indirect positive consequences for an African economy. Lower debt — or more precisely, a lower net present value of debt — directly frees resources that can be invested in productive projects. Moreover, solving the debt overhang should, in principle, have an indirect positive impact on investment, insofar as large debt stocks create negative incentives for private investment. This indirect mechanism is not incorporated in our model, as its quantification would be difficult. However, a quantitative assessment of the direct effect can be attempted.

The Cologne initiative will provide highly indebted poor countries with debt relief that would reduce the net present value (NPV) of the total debt stock to a level considered as sustainable. While in the 1996 HIPC initiative, the principal sustainability criteria was a NPV/export ratio lower or equivalent to 200 per cent, in the Cologne initiative, the threshold ratio has been lowered to 150 per cent. A second criteria is, for countries that are highly open to foreign trade, a NPV/fiscal resources ratio lower than 250 per cent (as compared with 280 per cent in the 1996 HIPC initiative). This second criteria is relevant only to Côte d'Ivoire in our sample.

In our sample, Uganda had already received a debt relief package based on the 1996 HIPC programme before the Cologne initiative was launched. In order to take account of the enhancement of the previous scheme, Uganda's current debt relief package will be modified to take into account the new rules adopted at the Cologne summit. Three other countries — Burkina Faso, Côte d'Ivoire and Mali — have already reached the point of decision and the process should be completed this year or the next. Finally, Ghana and Tanzania are also eligible for the initiative, and the IMF expects them to reach the decision point this year[10]. An evaluation of the amount of the NPV debt reduction proposed in the Cologne initiative is provided below. This evaluation is based on the Cologne debt sustainability criteria and on estimates of the NPV/export and NPV/fiscal income ratios that can be forecast at the completion point of the initiative (for countries that have reached the decision point) or at the decision point (for other countries), as they are reported in the IMF assessments of foreseeable debt relief packages.

This evaluation is an upper limit of the direct impact of Cologne, inasmuch as we compare the NPV of debt after the completion point with the previous level of the NPV of debt, without taking account of what would have been provided in previous debt relief schemes, such as in the 1996 HIPC programme. Table 7 reveals wide variations in the amount of debt relief that would be provided to different countries. In our sample, Tanzania will be the largest recipient, by far, due to the current high level of its indebtedness. The amount expected to be received by Tanzania would be even higher than the largest HIPC package given so far (for Mozambique, which received $1 442 million). Burkina Faso and Mali, which have much lower debt levels (partly attributable to previous bilateral debt reductions granted by France, and partly to a stricter financial control in previous years), would receive much less debt relief.

How would such a decline in the stock of debt affect the economy? In our model debt relief will essentially act the same way as an increase in aid flows. Therefore, it should improve the balance of payments and to some extent enhance the financing of investments. A difficult question, however, is to compare this relief to the flow of resources that the countries under study are assumed to receive in the years to come in our scenarios.

Although debt relief will be based on a stock reduction, its direct impact on the economy will not appear up–front, because the flow of debt service that will be eliminated, in principle, will be stretched over a long period of time. In the framework of our model, the amount of debt relief provided by the Cologne initiative needs to be compared to the flow of aid that the economy will receive. Therefore, we propose to estimate the flow of grant aid that would have the same net present value as the debt relief provided by the Cologne scheme. This flow will be compared with the flow of net transfer of resources that each economy will receive in our scenarios. For the sake of comparison, we compute this equivalent flow of grant aid assuming that it will grow at the same rate (2.5 per cent a year) as other net resource flows. Table 7 provides such a comparison, based on a discount rate equal to 6 per cent a year. The comparison is clear: the direct impact of the Cologne initiative is rather small in terms of equivalent supplementary resource flows. For Tanzania, which would receive the highest debt relief in the Cologne scheme, it is equivalent to 13 per cent of the flow of resources assumed in our baseline scenario. For Burkina Faso, Ghana, Mali and Uganda, it is as low as 3–4 per cent of the corresponding flow.

In other words, the direct impact of the Cologne initiative will be modest for the countries being studied, and this does not justify creating a new scenario that would specifically take into account this new debt relief package with greater precision than in the rough calculations that we have just presented. However, one should not disregard the possibility of a greater indirect impact that would facilitate future growth through better incentives to invest.

Table 7. **Direct effect of the Cologne Initiative on Financial Flows**

	NPV of debt before relief	NPV of debt after relief	Cologne NPV Equivalent		New financial flows (1997)	% aid flow increase equivalent to Cologne
			Debt relief	Aid flow		
	[1]	[2]	[3]=[1]–[2]	[4]=[3]*(ρ–g)/(1+ρ)	[5]	100*[4]/[5]
Burkina Faso	833	525	308	10	339	3
Côte d'Ivoire	7 837	6 689	1 148	38	567	7
Ghana	5 982	5 127	855	28	969	3
Mali	1 403	956	447	15	382	4
Tanzania	7 177	4 238	2 939	97	758	13
Uganda	1 796	1 076	720	24	665	4

ρ = discount rate (6%), g=growth rate of foreign resource transfers (2.5%)
Note: columns [1] to [5] are in $ million.

Aid Efficiency

In order to study the importance of aid efficiency, we assess the impact of an improvement in the coefficient measuring the effect of aid and other capital flows on investment (see Table 8). This parameter can be interpreted as the share of foreign capital inflows that is actually invested in the economy, with the rest going to consumption through various leakages as well as through general equilibrium effects. In going from the high scenario to the "enhanced aid" scenario, this parameter is increased from the rather low estimated level of 17 per cent to 50 per cent. It should be pointed out that the estimated coefficient is to some extent an average for a relatively large number of countries during a fairly long period and that this coefficient may vary substantially between countries and over time.

Moreover, governments are likely to have a greater influence on this coefficient than on other parameters estimated in the model. Hence, it may be unfair to suggest that all countries in our sample are currently at the low level of aid efficiency revealed by the estimated coefficient. The difference in income per capita between the two scenarios should therefore be interpreted purely as an indication of the importance of good aid efficiency, rather than as a measure of how much the countries in question would actually gain if they improved their aid efficiency to a reasonable level.

The remarkable importance of aid efficiency is made obvious in Table 8. In order to compensate for more efficient aid, roughly a doubling in volume is required for the countries under review. Naturally, the countries receiving the most aid — Ghana, followed by Tanzania and Uganda — would need the most supplementary aid in absolute terms in order to compensate for enhanced aid efficiency. The volume of aid and other capital flows becomes unrealistic, exceeding $1.5 billion per year in four out of the six countries in the sample. One obvious problem from the donors' point of view is that there is very little they can do to influence aid efficiency in recipient countries, at least in the short run. However, they can target aid to countries which have a demonstrated record of making sensible use of aid funds (cf. World Bank, 1998).

Table 8. **Net Aid and Other Capital Flows**
(Annual average for 1996–2020, constant 1996 $ million)

	Assumption in scenarios	Equivalent to enhanced aid efficiency		
		Level	Difference	Difference %
Burkina Faso	462	854	393	85
Côte d'Ivoire	761	1 675	914	120
Ghana	1 316	2 697	1 381	105
Mali	519	960	441	85
Tanzania	1 028	1 696	668	65
Uganda	906	1 767	861	95

Integrating Africa into the Global Economy

Compared to other developing countries, African countries have so far enjoyed relatively easy access to world markets, attributable to a large extent to the preferential trade treatment granted by the European Union under the Lomé EU–ACP conventions. Until now, only Mauritius has actually taken advantage of these facilities, through the development of its exports of manufactured goods such as textiles. Overall, Africa's share in world trade has declined in the recent decades, due to poor macroeconomic performance.

This does not mean, however, that the question of access to world markets will not be an issue for African countries in the future. The principal policy issue today concerns the renewal of the Lomé convention, which must be made compatible with WTO rules. The previous agreement is incompatible with these rules because it implies discrimination against other developing countries, which face less generous customs treatment under the GSP. For economies which belong to the so–called least developed countries (LDCs), this should not be much of an issue, because all LDCs will likely enjoy the same access to the EU market. However, for non–LDC ACP countries, a new system needs to be developed. In our sample, this concerns Côte d'Ivoire and Ghana.

Essentially, the EU proposes two solutions for non–LDC ACPs: either to abandon their preferential treatment and access the EU market under the GSP rules or to sign reciprocal free trade agreements with the EU (Regional Economic Partnership Agreement, or REPAs). A REPA would imply that EU products could enter free of charge into these economies, after an adaptation period. This is considered unacceptable by a number of countries which want to protect their "infant" industries. However, given the limited size of the economies under study, the infant industry argument can not be considered pertinent. Rather, openness to trade is a prerequisite for the development of non–traditional industries.

On the other hand, under the GSP, non–LDC ACP countries such as Côte d'Ivoire and Ghana would possibly face two limits to their diversification process.

First, the GSP provides duties on imports that compete with European products. Production that would result from a diversification process would inevitably fall into this category. This would be a serious impediment to diversification.

Second, the GSP is unilateral, rather than negotiated with developing countries. Alternatively, if these countries negotiate REPAs, they would have the opportunity to include a discussion of non–tariff barriers in the negotiations. Non–tariff barriers could become an even greater impediment to their exports of diversified manufactured products in the future. It is clear that tariffs are decreasing in importance in overall protection, which nowadays takes the form of various non–tariff barriers. Anti–dumping duties are a good example. The EU protection through such measures is often high and affects principally the textile, chemical and electronic industries, rather than high tech industries. The same applies to the United States. The countries currently most affected are Asian NICs and China. Africa is not affected to any great extent, but this is simply because Africa is not yet competing with European manufacturers in the European market. If African countries such as Côte d'Ivoire and Ghana were to diversify and follow the path of the Asian NICs, they would likely face the same reactions from European companies in the future and would in turn be affected by such non–tariff barriers, which are not only high but also unpredictable and to some extent beyond the control of governments. However, if they secure preferential access to the European market within the boundaries of free trade areas with the EU, they will better escape such measures. The experience of Mauritius, which in the 1980s and 1990s avoided the impediments created by the Multifibre Agreement, again provides a good example of the benefits of securing preferential access to the EU market.

Conclusions

We have pointed out the crucial role of structural change for sustaining economic growth in the countries studied. The argument that development of human capital is of utmost importance for the future of African economies is not new but still highly relevant, as demonstrated by the simulations in the study. We have further argued that the promotion of a greater degree of economic diversification is necessary in order to sustain long–term growth. It is important to underline that the effect of diversification on growth is not neutral with respect to its source. Diversification must come from market incentives so as to have a positive impact on growth. For this reason the quality of institutions is critical, essentially as a means to limit risks for entrepreneurs. Institutional shortcomings that hinder growth prospects in Africa include corruption and rent seeking as well as inadequate protection of property rights.

External relations in the form of preferential trade agreements can also help African countries enhance the level of diversification, as shown by the example of Mauritius. In the forthcoming international trade negotiations, securing free access to the world markets for manufactured goods will be a major issue for African countries aspiring to economic emergence.

One important lesson from our scenarios is that although foreign aid will continue to play a decisive role in the near future, it is ultimately African countries themselves which will determine the fate of their economies. The recent Cologne initiative will only have a limited direct effect on investment and growth, although we emphasise that our model is inadequate to measure the indirect effects on investment incentives. Furthermore, we showed that increased amounts of aid cannot be a substitute for improved aid efficiency. The obvious implication for donor countries is that it makes sense to concentrate aid in countries fulfilling certain criteria which ensures efficient use of the funds provided. Again, institutions have a critical role to play by limiting waste. In particular, sound financial institutions are needed to facilitate the channelling of inflows of funds to the most productive areas.

Notes

1. In franc zone countries, the black market premium is negligible even in the presence of distortions, because the French Treasury guarantees the CFA franc's convertibility, eliminating foreign exchange shortages. Therefore, *LBMP* is split into two variables, one for non–CFA and the other for CFA countries (*LBMPNCFA* and *LBMPCFA*).
2. There seems to be some evidence of a re–emergence of a parallel foreign exchange market in Ghana, resulting from heavy intervention by the central bank to slow the depreciation of the cedi. However, we assume any such tendencies to be transitory.
3. As the table shows, the effect of enhanced aid on the investment rate is decreasing over time. This is due to two features in our model: first, capital inflows enhance the import capacity, which directly affects production, and hence the denominator of the investment ratio. Secondly, the importance of aid and other capital flows for investment gradually decreases if the capital stock grows more rapidly than these flows.
4. Note, however, that the income levels shown in the table are not measured in PPP terms and are therefore not directly comparable.
5. Except for Uganda, for which we have used a different approach, see below.
6. It should be mentioned that an EPZ exists in Ghana but that it is too early to draw any firm conclusions regarding its potential for increasing diversification in the Ghanaian economy.
7. The Senegalese "Zone Franche de Dakar" is a well–known failure.
8. In fact, according to the investment function in our model, total capital stock will remain unchanged between the two scenarios, with the only exception being the beneficial impact on investment incentives of a higher capital productivity. This improvement in productivity is the direct effect of a higher degree of diversification.
9. Actually, the analysis concerns the efficiency of all kinds of long–term capital flows in terms of their impact on gross domestic fixed investment. Nevertheless, given the dominant proportion of aid and concessional loans in these flows, here we will refer to aid efficiency.
10. Ghana has recently declared that it will decline debt relief under the Cologne initiative in order to protect its financial creditworthiness. We nevertheless estimated the potential gains from the scheduled debt relief for the country.
11. Similarly, Coe and Hoffmaister (1998) find that bilateral trade flows of African countries can simply be explained by a gravity model .

Appendix

Hypotheses for the Baseline Scenarios

Production Function Equation

Diversification

The diversification indexes in Uganda and Ghana have improved quite substantially since the beginning of their respective reforms. However, the indexes are still at very low levels, indicating that there is a great potential for improvement. Hence, in our baseline scenarios we assume a continuation of the trend observed since the beginning of the reforms, i.e. a yearly growth rate of 2.8 per cent and 3.1 per cent for Ghana and Uganda respectively. However, Burkina Faso, Côte d'Ivoire, Mali and Tanzania have not demonstrated any tendency to enhance diversification and their indexes are therefore assumed to remain constant. Under the "high" scenario, we assume that in the year 2020 Ghana attains a level of diversification comparable to the current level of a number of Asian newly industrialised countries (NICs). Uganda attains the current level of Mauritius in 2020 and the other countries obtain a growth in the diversification index of 3 per cent, corresponding to Uganda's and Ghana's recent record. The assumptions are summarised in Table A.1 below.

Table A1. **Assumptions for the Diversification Index**

	Annual growth of index (%)		Accumulated TFP gain (%)	
	Baseline	High	Baseline	High
Burkina Faso	0	3	0	3.1
Côte d'Ivoire	0	3	0	3.1
Ghana	2.8	5.2	2.9	5.4
Mali	0	3	0	3.1
Tanzania	0	3	0	3.1
Uganda	3.1	6	3.2	6.2

Labour Reallocation

In order to measure the effects on growth derived from reallocation of labour from the agricultural sector to the more productive modern sector, we applied the following equation, adapted from Syrquin (1986):

$$\rho_t = (1-\alpha) \sum_{i=Ag,non-Ag} \upsilon_{i,\,t-1} \frac{\ell_{i,t} - \ell_{i,t-1}}{\ell_{i,t-1}}$$

where ρ_t is the TFP gain due to labour reallocation from agriculture to non–agriculture at time *t*, $\ell_{i,t}$ is sector *i*'s share of total labour force and $\upsilon_{i,t}$ is the contribution to GDP by sector *i*. A level index of the effect of sectoral labour allocation is then computed by calculating cumulated annual increments. This index is one explanatory variable of TFP, with a theoretical parameter equal to 1. For the baseline projections, we extrapolate the trend in the part of total labour in agriculture observed since 1990 in the case of Burkina Faso, Côte d'Ivoire, Mali and Tanzania, 1983 for Ghana and 1987 for Uganda. Furthermore, we assume that the relative productivity between the two sectors remains unchanged.

The high scenarios are mainly based on hypotheses regarding the growth of productivity in agriculture and its effect on labour reallocation. We assume that productivity gains in the agriculture sector are necessary in order to allow for reallocation of labour out of the sector, while ensuring an adequate level of supply. According to our estimations, based on data from 46 African countries between 1966 and 1990, one percentage point of productivity growth is associated with a decrease in the share of labour in agriculture of 0.5 percentage points. We assume that Mali, Tanzania and Uganda obtain a long term growth rate in agriculture equal to the rate observed in Mali in the 1966–90 period, i.e. 2 per cent per year. According to our estimated elasticity, this implies a decrease in the share of agriculture in total labour of one per cent per year. In Burkina Faso, which sees a substantial amount of migration to Côte d'Ivoire, labour reallocation is likely to be less than what the agricultural productivity growth rate would indicate. Instead, we assume that the non–agricultural sector develops at the same pace as in Mali, i.e. that the ratio of the percentage of labour in the modern sector between the two countries remains constant. This assumption amounts to halving the rate of decrease of labour in agriculture compared to the rate of Mali. In the case of Ghana, we used the objective of their own vision 2020 economic plan, as expressed in the International Herald Tribune of 27 July 1999, where the Minister of Employment and Social Welfare suggested a reduction in the share of labour in agriculture of about 3.5 per cent per year. The same rate was applied to Côte d'Ivoire.

Table A2. **Labour Reallocation Effect**

	Share of labour in agriculture (% of total)			Relative productivity	Accumulated TFP gain	
	1996	2020 Baseline	2020 High		Baseline	High
Burkina Faso	91.3	8.1	80.9	2.6	12.2	24.5
Côte d'Ivoire	54.4	36.9	23.1	2.0	8.8	14.3
Ghana	58.2	53.6	24.7	1.3	1.6	7.7
Mali	83.7	75.8	65.8	1.7	7.3	14.2
Tanzania	81.3	70.1	63.9	1.7	10.0	14.1
Uganda	83.5	78.8	65.6	1.8	7.9	18.6

Human capital

The underlying assumptions for the projection of the human capital stock are described in the text. (The data used and the resulting human capital stock are available from the Development Centre upon request.) The variables are defined as follows: Hum 0=total human capital stock; Hum 2=human capital stock in primary school; grosenr1=gross enrolment rate in primary school. "High" indicates high scenario. Note that no high scenario has been constructed for Uganda (see text).

Balance–of–Payments Equation

Export Performance

Rather than simulating the absolute value of exports, a more reliable way is to estimate the export to GDP ratio. It should be mentioned that attempts to estimate an export function were unsuccessful. Prior studies (e.g. see Rodrik, 1998) have revealed difficulties in explaining exports by trade policy variables, in particular in the long run[11]. In order to simulate the development of the export to GDP ratio, we assume that in the case of countries currently in the process of improving their economic performance, the export ratio will tend towards an asymptotic maximum. This maximum will be chosen subjectively either as the maximum level obtained in the period studied or as the current level of a country, which can reasonably be considered as a "catch–up target" in the long run. The speed of convergence towards this maximum will be determined on historical data during a relevant period. More precisely:

$$lxy_t = \bar{x} - \frac{a}{t+b} \qquad (A1)$$

where t denotes time, $\bar{x}$ is the asymptotic maximum value and a and b are parameters. Moreover, the speed of convergence at time t equals:

$$v_t = \frac{dlxy}{dt} = \frac{a}{(t+b)^2} \qquad (A2)$$

From (*A1*), one deduces:

$$lxy_0 = \bar{x} - \frac{a}{t} \qquad (A3)$$

and from *(A2)*:

$$v_0 = \frac{a}{b^2} \qquad (A4)$$

$\bar{x}$ and v_0 are then easily calculated from *(A3)* and *(A4)*.

(Illustrations of the hypotheses used in the scenarios are available from the Development Centre upon request.)

In order to forecast imports, we used the simulated level of exports and made some assumptions regarding the terms of trade and long–term capital flows. Given the inherent uncertainties about future commodity prices, we assume that the terms of trade will remain constant. Moreover, we assume that capital flows to Africa will remain more or less constant as a share of aggregate GDP of the OECD countries. It is also reasonable to assume that import prices will progress at the same rate as prices in the OECD. Taken together, these assumptions imply forecasting a rate of growth of *LTFLOWS/Pm* equal to the aggregate rate of real GDP growth in the OECD countries. A reasonable long–term growth rate for the OECD would be around 2.5 per cent annually. As a starting point, we use the average capital flows during the 1994–96 period. (The resulting simulations are available from the Development Centre upon request.)

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First International Forum on African Perspectives

PROGRAMME

First International Forum on African Perspectives

Co–chairs of the Forum: Jorge Braga de Macedo, President, OECD Development Centre
Omar Kabbaj, President, African Development Bank

Experts' Seminar

Thursday, 3 February 2000

Session I: The Reform Process in Emerging Africa

Chair: Omar Kabbaj, President, African Development Bank

Presentation: Andrea Goldstein, Senior Economist, OECD Development Centre

Discussants: T.W. Oshikoya, Manager, Research Division, African Development Bank

Riccardo Faini, Executive Director, IMF

Session II: Governance Economic Reform and Sustainable Growth

Chair: Jorge Braga de Macedo, President, OECD Development Centre

Presentation: A. Hamdok, Principal Policy Economist, African Development Bank

Discussants: John Sender, School of Oriental and Asian Studies, London, United Kingdom

Mustapha Kasse, University Cheik Antah Diop, Dakar, Senegal

Session III: Capital Market Development

Chair: Sally Shelton–Colby, Deputy Secretary General, OECD

Presentation: M.N. Hussain, Chief Economist, Research Division, African Development Bank

Discussants: Jacqueline Damon, Director, Club du Sahel, OECD

Soumana Sako, Executive Secretary, African Capacity Building Foundation (ACBF), Zimbabwe

Session IV: Corporate Governance and Restructuring

Chair: Henock Kifle, Director, African Development Institute

Presentation: Jean–Claude Berthélemy, Consultant, OECD Development Centre and Ludvig Söderling, Economist, OECD Development Centre

Discussants: Michael Klein, Chief Economist, Shell, London, United Kingdom

Steve Kayizzi–Mugerwa, Associate Professor, University of Gothenburg, Sweden

Public Conference

Friday, 4 February 2000

Inaugural address: Philippe de Fontaine Vive, Deputy Director of the Treasury, Debt, Development and Emerging Markets, Ministry of Economy, Finance and Industry, France

Welcoming Remarks: Jorge Braga de Macedo, President, OECD Development Centre

Keynote Address: Omar Kabbaj, President, African Development Bank

Session I: The Reform Process in Africa

Chair: Jorge Braga de Macedo, President, OECD Development Centre

Gerald M. Ssendaula, Minister of Finance, Planning and Economic Development, Uganda

Uschi Eid, Secretary of State for Economic Development, BMZ, Berlin, Germany

S.C. Nwokedi, Permanent Secretary, Ministry of Finance, Nigeria

Rino Serri, Deputy Minister for Foreign Affairs in charge of African Affairs and Aid to Developing Countries, Italy

Mabousso Thiam, Executive Secretary of the West African Enterprise Network, Senegal

Session II: Africa in the 21st Century

Chair: Omar Kabbaj, President, African Development Bank

Ismail Hassan Mohamed, Governor of the Central Bank of Egypt

Luís Filipe Marques Amado, Secretary of State for International Economic Affairs and Co–operation, Portugal

Ahmed El Madani Diallo, Minister of the Economy, Plan and Integration, Mali

Jean–Louis Terrier, President, Credit Risk International, France

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Co–Chairs of the Forum	Jorge Braga de Macedo, President, OECD Development Centre Omar Kabbaj, President, African Development Bank

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Thursday, 3 February 2000

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High–level Panel (4 February 2000)

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