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Overcoming Low Political Equilibrium in Africa: Institutional Changes for Inclusive Development

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July 2013

WORKINGPAPER SERIES

Number 331

POLITICAL ECONOMY RESEARCH INSTITUTE

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Overcoming Low Political Equilibrium in Africa:

Institutional Changes for Inclusive Development

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Abstract

This paper examines the role that institutions have played in the performance of African economies over the past decades. It discusses the institutional changes needed to enable African countries to reach inclusive development in the near future. The paper starts from the premise that growth and development are the outcomes of policy choices, which in turn are the outcome of a complex process of political negotiation among various stakeholders – both domestic and foreign – who have interests that may be divergent. In other words, policy choices and the resulting development outcomes constitute a political equilibrium. It is therefore important to understand how such political equilibria arise, how they persist, and how they can be shaped or altered to achieve national goals. Understanding the forces that govern policy making and the factors that drive growth and its distributional impact can shed light on how African countries can definitively overcome secular low growth and pervasive inequities; in other words how they can overcome low-development political equilibrium and achieve inclusive development.

JEL classification: O1; O55; O11; O43

Key words: political equilibrium; Africa; institutions; growth

* The author is grateful for comments on an earlier draft of this paper from Motoki Takahash (Kobe University), Alice Sindzingre (CNRS) and participants to JICA/SOAS workshop in London on February 14-15 2013. He also appreciates excellent research assistance from Theresa Owusu-Danso, Ph.D. candidate in the Department of Economics at the University of Massachusetts. The author acknowledges with gratitude financial support from JICA for the preparation of this paper. The views expressed in this paper are those of the author and do not reflect the opinions of the institutions with which he is affiliated.

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1. Introduction

A country's ability to sustain high levels of growth over an extended period is a pre-condition for sustainable development. In its *Growth Report*, the Commission on Growth and Development (CGD 2008: 14) concludes that "growth is, above all, the surest way to free a society from poverty." The CGD identifies only one African country, Botswana[1], out of 13 "success stories of sustained high growth". As the report notes, while these performances are remarkable, they are not "miracles", in the sense that they can be explained and repeated. The question is "what can other African countries learn from these experiences to inform their development strategies?"

There are three important characteristics of successful growth experiences that are particularly pertinent for thinking about development policy in Africa. The first is *catch up growth* driven by gains from linkages with the global economy in the form of knowledge and technology transfer and mostly channeled through trade and capital flows.[2] To the extent that "it is easier to learn something than it is to invent it" (CGD 2008: 22), African countries, as 'late comers', could leverage their 'technological backwardness'. They should be able to learn, copy, and adapt technology to spur growth without having to incur the high costs associated with developing and experimenting new technology (Griffin 1989: 6; Juma 2011).

Second is *transformational growth* accompanied by diversification of the production system through dynamic creation and destruction.[3] In the case of the majority of African countries, failure to sustain high growth is to a large extent a result of failure to transform. Thus not enough 'new limbs' are created and 'deadwood' is not cleared away due to inefficient policy frameworks and bad institutional environment.

Third, successful growth is *distributional growth*, where the growth tide lifts up the bottom of the income distribution. In African countries growth is characterized by high and stubborn vertical and horizontal inequalities. These inequities in turn undermine the sustainability of growth and development because of the social and political instability that they generate. Indeed Africa has received more than its fair share of violent conflicts arising from distributional inequities.[4]

The record of growth and development in Africa over the past five decades has been largely disappointing. Growth has been inadequate to generate meaningful reduction in poverty. In addition African economies have exhibited little resilience, as a result of the lack of economic transformation and slow productivity growth resulting from inadequate investment in

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[1] High-growth countries are those posted an average growth rate of 7 percent or above for over three decades.

[2] See Reynolds (1983).

[3] The CGD report points out that "the growth of GDP may be measured up in the macroeconomic treetops, but all the action is in the microeconomic undergrowth, where new limbs sprout, and deadwood is cleared away" (CGD 2008, 44).

[4] An example of conflicts arising from inequitable horizontal distribution of national wealth and political power is the case of ethnic conflicts. For an illustration with the case of Burundi, see Ndikumana (2005) and Nkurunziza and Ngaruko (2008).

technological innovation. In fact, African countries have experienced de-industrialization albeit from a very low base. At the same time, productivity in agriculture is declining, and the expanding service sector is generating inadequate decent jobs. Thus, even as agriculture contributes a declining share to GDP it remains the main source of livelihood for the majority of the population. To a large extent the lack of economic transformation is a result of failure to design a clear industrial policy to shape sectoral allocation in the economy and strengthen African countries' competitive position globally.

More recently, Africa has experienced growth resurgence, which has ignited optimism about the continent's future trajectory. Some refer to Africa as a "new growth pole" that can energize the ailing global economy following the great recession (UNECA and AUC 2012; AfDB et al 2012). Renaissance Capital is even more bullish about Africa's macroeconomic environment. They claim, quite controversially, that "If developed-market finance ministers were offered three wishes today, many would ask for Africa's public debt ratios, Africa's budget balances and Africa's growth rates" (Roberston and Mhango, 2012: 20). That is genuine exuberance. In any case, while this enthusiasm may be warranted to some extent, the question remains as to how African economies can sustain the growth momentum so as to achieve sustainable development. This question is likely to dominate the policy discourse in the near future.

The discussion in this paper starts from the premise that growth and development are the outcomes of policy choices, which in turn are the outcome of a complex process of political negotiation among various stakeholders – both domestic and foreign – who have interests that may be divergent. In other words, policy choices and the resulting development outcomes constitute a political equilibrium. It is therefore important to understand how such political equilibrium arises, how it persists, and how it can be shaped or altered to achieve national goals. Understanding the forces that govern policy making and the factors that drive growth and its distributional impact will shed light on how African countries can overcome secular low growth and pervasive inequities; in other words how they can overcome low-development political equilibrium.

An important issue in African countries is the configuration of political systems, especially the interface between the state and domestic non-state actors, namely the business community, civil society organizations, the intellectual elite and the media. These groups are important for the establishment of mechanisms for disciplining and restraining the state. The emergence of a developmental state and the success of development policy require productive synergy and cooperation between the state and these domestic non-state actors. Far too often, African states have repressed the development of these agents of development by co-opting the intellectual elite, by obstructing civil society and media activity, and by repressing business sector development through rigid economic regulation and erection of state monopolies as well as business empires controlled by politicians, their families and their associates. Thus, the "missing middle" in African political systems – the absence of dynamic independent non-state agents of development – has made it possible for states to ignore and even suppress people's voice and domestic demand for change. Going forward, what African countries need most is to figure out how to nurture developmental states that are supportive of the emergence of dynamic non-state

agents of development. This is the key to reaching an optimal political equilibrium or a utilitarian optimum.

The rest of the paper proceeds as follows. The next section provides a brief characterization of a political equilibrium, its determinants and what causes low political equilibrium to persist. Section 3 analyzes the growth record of African countries since the 1960s and its characteristics with a focus on transformation and distribution. Section 4 reviews the development record and discusses the problem of equity which is paramount for sustainability of development. Section 5 provides a historical perspective of institutions and policy making in Africa as they drove and shaped economic growth and development over the past decades. Section 6 discusses what can be done to overcome low-growth low-development political equilibrium in Africa. Section 7 concludes.

2. Characterizing low political equilibrium

One of the most important determinants of economic performance over time and across countries is "variation in economic institutions, construed broadly enough to include economic policies" (Robinson 2010).[5] It is therefore important to understand how economic policies and decisions emerge in a particular society through the confluence of forces governed by the interests of various groups.

2.1. Political equilibrium as a social allocation

Economic policies are the outcome of decisions reached through political interactions among many agents, including ethnic groups, religious groups, geographical regions, professional groups (e.g., military vs. civilians), as well as external agents such as donors and private corporations. These interactions are governed by established rules in the particular country. Thus, economic policies are outcomes of political transactions among groups having group-specific preferences over the set of feasible policies (instruments), the set of policy outcomes (results), given constraints, endowments and distribution of costs and gains. The negotiation over economic policies involves political transaction costs associated with the resources invested and sacrifices incurred to reach and enforce collective agreements. Therefore, decision making over economic policies entails a cost-benefit analysis associated with the production of a given 'public good', such as social service delivery, public infrastructure, peace agreements (after conflict for example), growth, social welfare or economic development. Policies and their outcomes therefore consist of a *political equilibrium*, an outcome of collective choice given established rules, preferences, and the distribution of costs and benefits among individuals and groups.

In the process of negotiating policies, individuals in each group are driven not only by their own preferences, but also by group preferences. Individual preferences may differ from group preferences, requiring an arbitrage between pursuing individual preferences and abiding with

[5] See Acemoglu, Johson, and Robinson (2001, 2002, 2005).

group identity. Leaders sometimes have to take the hard position of following their preferences against those of their group in the interest of national goals. Thus, after his liberation from prison, Nelson Mandela decided to follow his preference for a negotiated settlement giving priority to the stability of the country although members of his party probably would have favored a winner-take-all outcome where the blacks would take over the command of the politics and the economy of South Africa. In other countries, rebel leaders often fail to become national leaders, unable to impose a nationalistic vision over sectarian interests. The nature of the political equilibrium is therefore contingent on whether leaders have the capacity to look beyond sectarian interests and advance national goals.

In the ideal situation, the political equilibrium would be or at least approximate a *utilitarian optimum* where the wellbeing of society as a whole is maximized under existing constraints and endowments. As a negotiated *social allocation*, the utilitarian optimum would be an intermediate outcome between the most preferred individual/group outcome and the least desirable individual/group outcome. Given that both the most preferred outcome and the least desirable outcome vary by group, the utilitarian optimum is indeed the result of a complex process of negotiation, a process of give and take under established rules of collective choice. The complexity of this process is the very reason why, in practice, political negotiation of policies often yields sub-optimal political equilibrium, or low political equilibrium. As a result, individual and groups incur political externalities or welfare losses as they are forced to settle with less than their most preferred outcomes given their contribution to social production. These losses may be real or perceived. Whichever is the case, they may generate grievances which can destabilize the political equilibrium. Thus some political equilibria are stable, while others are unstable or even 'indifferent' (Nilson 1959).

2.2 What determines a political equilibrium?

The type of political equilibrium reached in a given country at a given time depends on many factors. The main factors are described in this section.

(1) Power and its distribution among groups The political equilibrium can be influenced by *de jure* and *de facto* economic and political power. *De jure* power is derived from formal institutions, such as the power of a monarch or the power of a ruling party or ethnic group. *De facto* power is derived not from explicit legal or institutional dispositions but from acquired influence arising notably from wealth. Thus economically affluent individuals and groups may influence the political equilibrium in a country by forcing individuals and groups that have *de jure* political power to take favorable decisions. In mature democracies an example of this process is what is referred to as 'lobbying', which is legal. Under weak institutions this becomes an avenue for corruption, and it distorts the playing field and even breaks the established laws. The distribution of power among groups is therefore a critical factor in the determination of the political equilibrium.

(2) Group identity, preferences and inter-group dynamics The strength of group identity and the nature of inter-group dynamics – antagonistic or cooperative – determine the ability of a society to negotiate a political equilibrium that is close to the utilitarian optimum. Thus for

example, countries plagued by ethnic conflicts tend to settle with sub-optimal outcomes or low political equilibrium. In this case, individuals and groups push for their most preferred outcome, which, while maximizing their short-run wellbeing, may run against the interests of other groups and the nation. Thus, winner-take-all strategies after conflicts or following an election are typically preferred by the winning coalition although they lead to social instability in the long run. This is especially the case in underdeveloped political systems where, unlike in advanced democracies, the loser in the electoral process has little chance of reclaiming control in the future given the uncertainty of the succession process. Thus we may characterize the low economic performance and political instability in ethnically divided societies as low political equilibrium arising from the predominance of group identity over national interests and the predominance of inter-group antagonism over cooperation.

(3) Distribution of benefits and costs Economic policy and the provision of public goods entail costs and benefits, which are generally not equally distributed across groups and individuals. In the ideal scenario, each individual or group pays its fair share (i.e., tax) and collects its fair benefits (i.e., access to social services). The expectation of equity in the distribution of benefits facilitates the negotiation of a political equilibrium that approaches a social utilitarian optimum. In contrast unequal distribution of gains, whether real or perceived, makes it harder to rally various groups around an optimum political equilibrium. In societies characterized by high inequality, policies are likely to be socially sub-optimal. Thus, for instance, such societies tend to adopt a natural resource exploitation strategy that is biased towards the short run which benefits the ruling elite to the disadvantage of future generations. High inequality is also associated with policies that give priority to urban development over rural development, industry and business over agriculture, etc. The marginalization of agriculture in Africa over the past decades may indeed be seen as a low political equilibrium arising from perverse incentives perpetuated by inequality. And so is the inefficient exploitation of natural resources in African countries.

(4) Public information about costs and benefits of policies Given the importance of the distribution of costs and benefits for the behavior of various stakeholders in political transactions, it follows that the knowledge about these costs and benefits matters for the final outcome, i.e., the political equilibrium. In practice, there is asymmetric and incomplete information regarding these costs and benefits. In particular, policy makers willing to push for a particular outcome conceal information on the true costs while exaggerating the benefits. Thus even in mature democratic regimes, incumbent rulers tend to claim a 'you-never-had-it-so-good' record portraying an exaggerated view of their accomplishments. In non-democratic regimes, the rulers often simply obstruct the information flow to the public for the same purpose. Thus, the repression of free press and freedom of speech is a tool for perpetuating low political equilibria.

(5) Public choice rules and institutions The political equilibrium reached in a country and at a particular time depends on the nature of rules and institutions governing public choice. Inclusive institutions are likely to produce a political equilibrium that is closer to the social utilitarian optimum than institutions that repress political rights. Thus, countries that repress freedom of speech not only prevent the public's input into the policy decision process, but also shield decision makers from public accountability for inefficient decisions. A low political

equilibrium is therefore typically a result of failure of institutions governing the rules of public choice.

(6) External actors In many instances, policy choices and their welfare implications are also influenced by actions by external agents. In the case of African countries, key external agents are donors and major multinational corporations. National policies, the type of institutions promoted, and the leaders supported are the outcome of considerations of economic and political interests of external agents, often in contrast with national goals. It is in this context that we can explain the ascent to and longevity in power by leaders such as Mobutu of former Zaïre, who served as an agent of the global fight against communism. As a result, leaders become accountable to these external agents rather than the people. And so long as the external agents are content that their interests are served, autocrats are able to oppress people's rights and mortgage the country's resources to serve their own interests.

2.3 Persistence of low political equilibrium

Given that a low political equilibrium is undesirable, the question is why such an equilibrium persists over time. Why do bad regimes persist and why are inefficient policies implemented over and over again despite their negative outcomes? Answering these questions could help us to understanding why some countries are stuck at low levels of growth and development while others develop rapidly. There are many reasons why low political equilibria persist; here we single out the following factors that are especially pertinent in the case of African countries: path dependence and endogenity of institutions and policy; leadership, rent-seeking and capture of the state; the role of domestic non-state actors; and global geopolitics.

(1) Path dependence and endogeneity of policy Policy choices generate outcomes that have an impact on the distribution of power and wealth, which in turn influences subsequent policy choices over time. As a result, a political equilibrium is endogenous in relation to earlier policy decisions, and it also predicts the nature of subsequent political equilibria.

Path dependence and endogeneity of the political equilibrium arise from the fact that vested interest groups benefiting from the current social allocation invest in promoting policies that preserve the status quo. Thus the "top 1 percent" of the population invests heavily in lobbying for keeping low marginal tax rates on wealth and income, which perpetuates income inequality and political inequality. Dictatorships are perpetuated because the political and economic elites invest in oppressing political emancipation movements to preserve monopoly control over the economic system. Thus an undemocratic system has built-in features that perpetuate its undemocratic character. Similarly, bad economic policies that generate unequal distribution of wealth are likely to be perpetuated due to actions by the groups that benefit from inequality.

(2) Leadership, rent seeking and capture of the state When most leaders come in power, they claim to be driven by the commitment to advance the interests of the people. Even autocrats who eventually declared themselves 'kings for life' had initially vowed to hand over power at a pre-determined date. For example, when Mobutu took over power in Congo in 1965, he declared that the military had taken over to establish political order and that he would hand over power back to civilian authorities as soon as order was restored.[6] He nonetheless stayed in power for 32 years. The question is how do bad leaders emerge? How do bad leaders stay in power? How do leaders lose vision? Below we attempt to answer these questions.

Effective leaders build strong state institutions to drive growth, and to ensure that the development agenda will be sustained after they leave office. As Walter Lippman so eloquently said, "The final test of a leader is that he leaves behind him in other men the conviction and the will to carry on."[7] In practice, however, leaders often use the state to extract rents for accumulation of personal wealth and political power. In order to preserve the privilege of access to the state, leaders build around themselves a security apparatus and a political system that make it impossible for others to effectively contest power. Thus the incumbent ruler becomes the "only lion in the forest", which gives him/her the freedom to exploit national resources in his/her personal interests. To perpetuate the hold on power, such rulers cultivate the illusion that their power is a 'divine right'. As Olson (1993: 568) puts it: "Autocrats of all kinds usually claim that their subjects want them to rule and thereby nourish the unhistorical assumption that government arose out of some kind of voluntary choice." For example, at the peak of his reign, Mobutu was referred to as the 'father of the nation', and his power was believed to transcend humanity. By the end of his reign, he had accumulated wealth beyond human comprehension and had erected a "kleptocracy to end all kleptocracies."[8] In such a system, a low political equilibrium will necessarily persist, leading to even lower political equilibria and, in essence, a disintegration of the economy and state institutions, as it indeed happened in the case of the Congo by the time Mobutu was deposed in 1996.

In many cases, autocrats use repression and oppression to obstruct political competition because they do not feel secure in their capacity to compete on a level playing field. Moreover, they erect autocratic regimes to ensure that they remain in power, partly because they see no appealing exit option. This is partly because such leaders ascend to power not because of their capacity but often despite their lack of merit for the position. Because of their lack of confidence, they then

[6] When he announced his military coup in 1965, Mobutu declared the following: "The High command of the National Army of Congo strongly emphasizes that the decisions that it has undertaken [military coup] will not result in a military dictatorship. Only love for the nation and sense of responsibility vis-à-vis the Congolese nation guided the decisions. The High Command is responsible before history, Africa, and the world." (Tshibangu, 1976: 174)

[7] *Encyclopedia Britannica*, online: http://www.britannica.com/EBchecked/topic/342965/Walter-Lippmann/342965suppinfo/Supplemental-Information

[8] US Congressman Stephen Solarz, a member of the Africa subcommittee, claimed in 1991 that Mobutu `has established a kleptocracy to end all kleptocracies, and has set a new standard by which all future international thieves will have to be measured' (quoted by Richburg, 1991).

use power to oppress potential contenders. Oppression and repression serve as means to conceal rulers' incompetence and are also the outcome of the rulers' incompetence.

(3) The role of domestic non-state actors

In modern democracies, non-state agents play an important role in not only holding governments accountable but also in actively providing input into policy making. In particular, elites play a critical role in the determination of the political equilibrium and the transition from one political equilibrium to another. By elite, we mean "a distinct group within a society which enjoys privileged status and exercises decisive control over the organization of that society" (Robinson 2012: 31). In the colonial era, African elites consisted of the few educated indigenous people who served in the colonial administration. In modern day Africa, the elites consist of the business class, the upper income individuals in the civilian population, the top military officials, and the political class.[9] These groups wield substantial economic and political power and they are the key building blocks of the political equilibrium. Disputes among the elites can trigger disorderly changes in the political equilibrium, such as civil wars, military coups and even revolutions. At the same time, the elites tend to be co-opted by incumbent regimes as they enjoy privileged advantages and therefore are content with maintaining the status quo. African elites rarely have a unifying ideology or a common political agenda, and therefore it becomes easy for the regimes to buy their support, either tacitly or explicitly.

In mature democracies, a key stabilizing factor has been the rapid expansion of the middle class, which serves as a disciplining force on the political leadership. In African countries, such a class remains thin and has weak organizational capacity, which limits its capacity to influence the political process. Some have argued that there is a new generation of African elites – 'the cheetahs' – that is not only energizing the private sector with new technology ideas but is also "leading the charge for greater transparency, accountability, and honesty" (Redelet 2010: 137). This new generation of young Africans is seen as a potential source of yet another African renaissance not only in politics but also in business. While these African 'cheetahs' can contribute to change, they still do not have the required leverage to lead the institutional revolution on the continent. We elaborate on this issue in more detail in Section 5.4.

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[9] Elites could even be more circumscribed entities within the political and economic system. Tomas Cantens (2012), for example, argues that customs officials in Cameroon constitute an elite due to the "relative financial autonomy of their institution and their potential individual wealth." (p. 286).

(4) Global actors Low political equilibria are also often perpetuated by global geopolitical interests. For example, Mobutu's regime in the Congo was sustained because of his strategic position in the fight against the expansion of communism in the region. His regime deteriorated later partly because he became irrelevant with the fall of communism and the end of the cold war. We can also argue that the fall of the Apartheid regime in South Africa was a result of pressure on the white government from African governments, especially in the "front line states", and the international community.

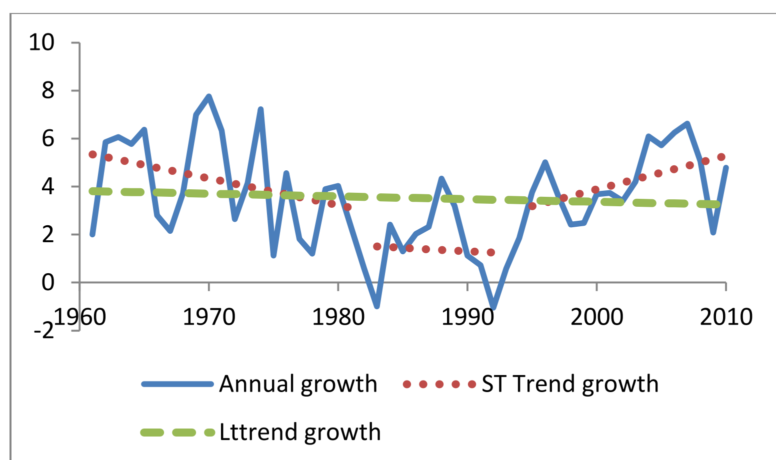
The main mechanisms through which global forces influence the political equilibrium and its persistence are official development assistance and military aid. Development assistance enables inefficient regimes to sustain higher public spending than they could otherwise afford, while also reducing pressure to collect domestic revenue through taxation which is more politically challenging. Aid also displaces the locus of accountability as governments become more accountable to donors than to the local population. Military aid strengthens the repressive capacity of the state, thus suffocating domestic demand for improved economic and political governance. In most cases, whether bad regimes remain in power or fall depends very much on the position of the international community.

3. A record of low-growth political equilibrium in Africa

3.1 A relatively disappointing growth history, but a potentially promising future

Two conclusions emerge from the analysis of the data on long-run growth in Africa. First, growth has been low from a long-run perspective. Since 1960, sub-Saharan Africa's GDP grew on average by only 3.5 percent annually (Figure 1). North Africa grew by one percentage point faster (by 4.5%) and it suffered less from shocks during the 'lost decade' of the 1980s. Second, growth in Africa has been volatile, a result of the high dependence on primary commodity exports and rain-fed agriculture. As a result of low and volatile growth, the income gap between Africa and other developing regions has been widening. In 1960, per capita GDP of East Asia and Pacific was 3.3 times that of sub-Saharan Africa. In 2010 it was 8.1 times, representing a 2.5 times increase in the gap. The gap between SSA's per capita GDP and that of Latin America and the Caribbean was 1.5 times larger in 2010 than in 1960.

Figure 1: GDP growth in sub-Saharan Africa, 1960-2010



Source: World Bank, African Development Indicators (online).

The average performance at the continental level, however, conceals vast diversities across countries. Over the past five decades, very few countries have been able to sustain the high growth rates necessary to support sustainable economic development. While most countries in Africa have recorded growth rates in excess of 7 percent some time, only a few have sustained high growth rates for more than a few years. The exception is Botswana which maintained a growth rate of 7% or above for 22 years from 1969 to 1990. Equatorial Guinea grew by 7% or more for 11 years from 1995 to 2005. Eight other countries recorded a 7% growth streak of 5 to 9 years during 1960-2011. In other words, 44 African countries have never been able to sustain a 7% growth for 5 consecutive years. Even if we consider a lower growth rate of 5%, only 6 countries sustained such a growth rate for 10 or more years, namely Botswana, Cape Verde, Equatorial Guinea, Mozambique, Tanzania and Uganda (Table 1).

Table 1: Record of sustained high growth – old and new fast growers

	Old fast growers			**New fast growers**		
	Country	***Growth streak (# of years)***	***Period***	***Country***	***Growth streak (# of years)***	***Period***
Recording 7 percent GDP growth streaks	Congo, Rep.	5	1971-75	Angola	5	2004-08
	Chad*	5	2001-05	Sierra Leone	6	2001-06
	Gabon	8	1969-76	Liberia	7	2005-11
	Botswana	22	1969-90	Ethiopia	8	2004-11
				Rwanda**	8	1995-2002
				Equatorial Guinea**	11	1995-2005
Additional countries recording 5 percent GDP growth streaks	Burkina Faso	5	1995-99	Malawi	5	2006-10
	Swaziland	5	1971-75; 1986-90	Congo, Dem. Rep.	6	2003-08
	Egypt	6	1975-80	Ghana	6	2003-08
	Algeria	6	1974-79	Nigeria	9	2003-11

Cameroon	6	1981-86	Zambia	9	2003-11
Togo	6	1964-69	Cape Verde	10	1993-2002
			Mozambique	11	2001-11
			Tanzania	11	2001-11
			Uganda	11	2001-11

Source: World Bank, World Development Indicators (online).

Notes: *Chad's growth has been anemic since 2005 (between -1.2 and 3.1, except for 2010 at 13%). It is therefore classified as 'old fast grower'. **Rwanda and Equatorial Guinea are still recording high growth rates though with shorter streaks. They are therefore retained in the category of 'new fast growers'.

High growth in Africa was recorded before the crisis of the 1980s or over the past two decades starting from the mid-1990s. There has also been a major change in the club of 'fast growers'. All the countries that recorded high growth in the past ('old fast growers') have fallen off the list of fast growers today, with the exception of Botswana. The question is why did these early fast growers lose steam? Most of these countries benefited from the resource boom of the 1970s, especially oil exporters: Algeria, Cameroon, the Republic of Congo, Egypt, and Gabon. They have been unable to sustain high growth in subsequent years, despite the fact that commodity prices have steadily increased over the past decade before the global economic crisis.

The group of 'new fast growers' is much more diverse than the 'old fast growers'. The new growth is not solely a resource phenomenon. Certainly, Angola, Equatorial Guinea and Nigeria benefited from high oil exports. High growth in Zambia and the Democratic Republic of Congo is also to a large extent driven by mineral resources. But for other countries in this group, growth resurgence is due to high performance in other sectors such as agriculture and manufacturing, as well as improvement in the overall macroeconomic environment accompanied by an increase in private investment. An analysis of this group of the determinants of economic performance of these countries can shed light on Africa's chances to sustain high growth in the future.

3.2 Factors behind low-growth political equilibrium in Africa

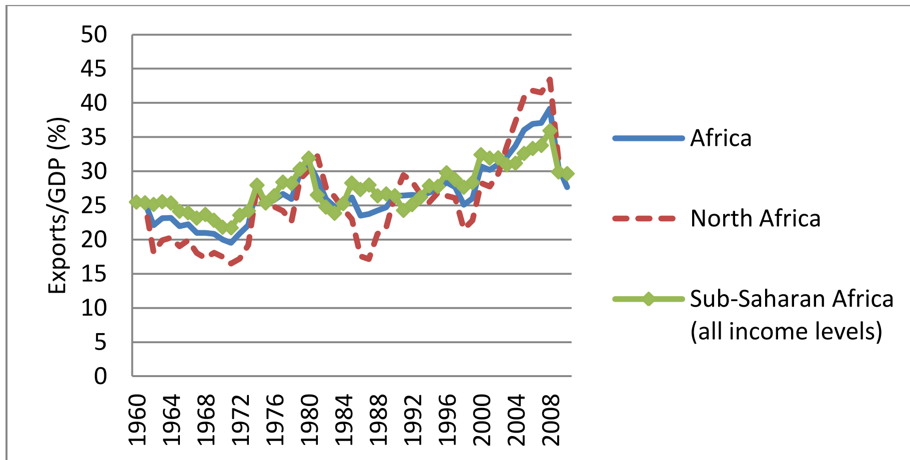
We now examine the factors behind the inability of African countries to achieve and sustain high growth, or the causes of low-growth political equilibrium.

i) Inability to take advantage of globalization

Historically, fast growers are countries that have been able to take advantage of globalization to expand their export markets and attract foreign capital, thus benefiting from technology transfer and increased know-how, which increases productivity. In the case of African countries, high growth has indeed been characterized by rising exports. At the continental level, the trend in exports tracks GDP growth. Following a steep rise in the 1970s, exports declined in the 1980s and steadily increased since the mid-1990s, corresponding to the recent growth surge (Figure 2). The new growth spurt has been witnessed among non-resource rich countries such as Mozambique, Tanzania and Uganda as well as resource-rich ones such as Angola, Nigeria and Zambia. Curiously, among the 'old fast growers/current lagers', exports have been rising during the recent growth spurt, especially for resource-rich countries such as Algeria, Republic of

Congo and Gabon. The message is that while natural resource exports can yield high growth, they do not necessarily sustain growth. In contrast, countries that are not rich in natural resources appear to have been more successful in sustaining high growth.

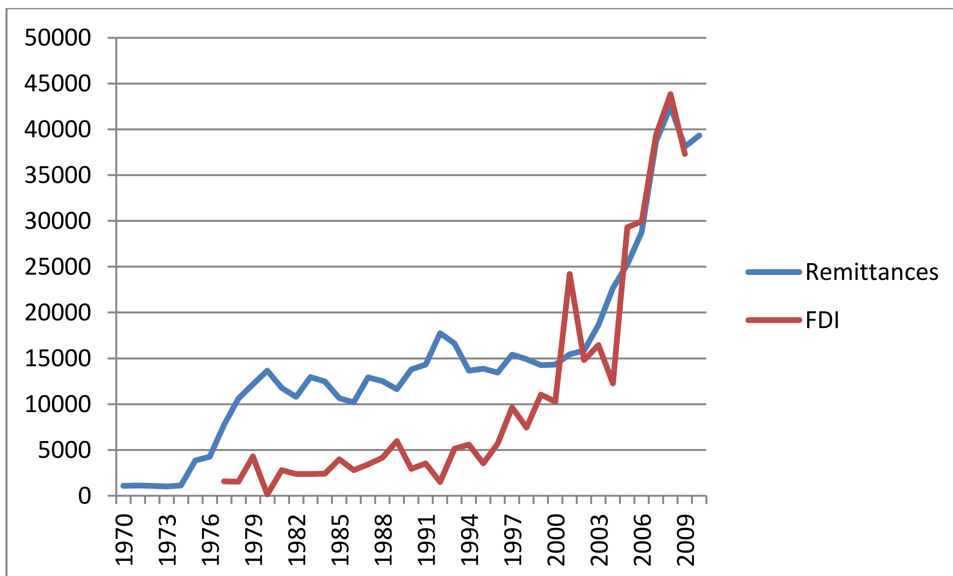
Figure 2: Export/GDP (%): Africa, SSA, and North Africa, 1960-2010



Source: World Bank, African Development Indicators (online)

Another global driver of Africa's growth is capital inflows, which have also increased starting from the mid-1990s (Figure 3). While attention has traditionally been focused on foreign direct investment, remittances are an equally important source of external capital. In fact remittances have been higher than FDI until 2000. In 2009, the two flows combined reached $75.4 billion. Today some countries receive more remittances than aid and FDI.

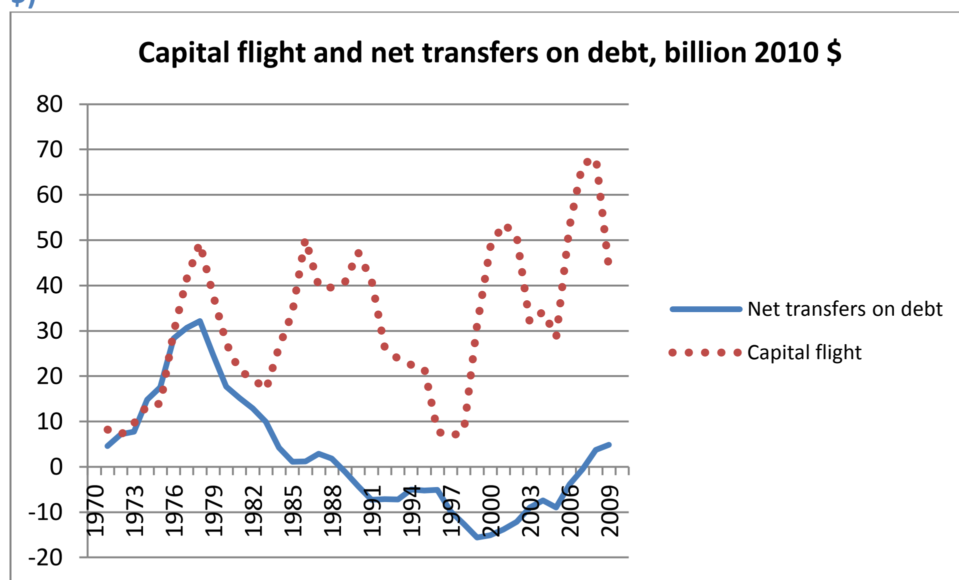
Figure 3: FDI and workers remittances flows to Africa, 1970-2010 (million, constant 2010 $)



Source: World Bank, African Development Indicators (online)

On net basis, however, Africa has not benefited from financial globalization. In fact the continent has transferred more capital to the rest of the world than it has received. During the decades of stagnation of the 1980s to mid-1990s net transfers on debt declined systematically, and only recovered in the HIPC initiative era (Figure 4). At the same time, the continent has experienced financial hemorrhage through capital flight, a phenomenon that exploded during the last decade amid growth acceleration. Over the last four decades from 1970 to 2010, the continent lost $1.3 trillion through capital flight (Ndikumana and Boyce 2012; Boyce and Ndikumana 2012a).[10] Assuming that past capital flight has accumulated interest at the conservative rate of the United States Treasury bill rate, the stock of capital flight in 2010 would amount to $1.7 billion for this group of countries. This amount exceeds the combined debt liabilities by these 39 countries of $283 billion, making the group a 'net creditor' to the rest of the world. The leakage of capital out of Africa is one of the factors that have prevented the continent from reaching its optimal levels of investment and growth (Fofack and Ndikumana 2010).

Figure 4: Capital flight from Africa and net transfer on debt, 1970-2010 (billion, constant 2010 $)



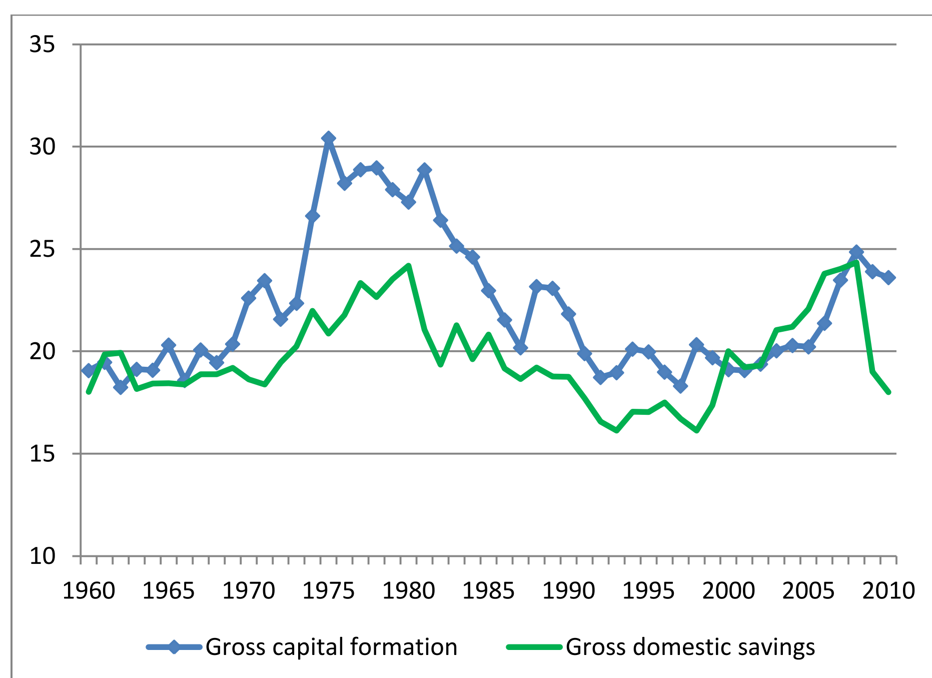
Source: Data on net transfers on debt are from the World Bank's Global Development Finance (online). Data on capital flight are from Ndikumana and Boyce (2012), and Boyce and Ndikumana (2012a).

[10] These figures refer to 33 SSA countries and 4 North African countries (Algeria, Egypt, Morocco and Tunisia).

ii) Inadequate investment and saving

Investment and saving have been the mirror image of growth in African countries. Following a steady increase during the early growth period of the 1960s to mid-1970s, investment and saving declined steadily in the second half of the 1970s through the early 1990s (Figure 5). They picked up in mid-1990s, thus supporting the growth recovery. Compared to other regions, however, Africa trails behind in capital accumulation and saving. The lower growth rates in Africa compared to other region may therefore be attributed to lower investment and saving rates. Many factors have contributed to this outcome. The first arises from the two-way relationship between income and savings; so low saving is a direct outcome of low per capita income. The second category of factors includes demographic characteristics of African populations. In particular, a high dependency ratio is a constraint to saving for any given level of income. The third key factor is the inefficiency of financial intermediation in the majority of African countries, which constrains both savings mobilization as well as allocation of savings into investment.

Figure 5: Investment and Saving in Africa, 1960-2010 (% of GDP)



Source: World Bank, African Development Indicators (online).

iii) Aid – low and ineffective

In his landmark speech on 5 June 1947 at Harvard University, George Catlett Marshall called for massive assistance to Europe from the United States to finance post-war recovery. He emphasized that "such assistance must not be on a *piecemeal* basis as various crises develop," and that "any assistance that this Government [the United States] may render in the future should

provide a cure rather than a *mere palliative*."[11] This proposal was the genesis of the historic "Marshall Plan" that helped rebuild Europe after World War II. A key point in Marshall's speech is that the volume of foreign aid must meet the needs of the recipient country in order to support sustainable development.

In the case of Africa, contrary to the common perception that African countries are heavily dependent on aid, external assistance to the continent has typically been provided on a 'piecemeal basis', and many times it has been more a mere palliative than a cure. On the one hand, the volumes of aid inflows fall short of the financing gaps faced by African countries. For example, estimates of infrastructure investment needs at the continental level range from $75 billion to $93 billion annually, of which only about half are currently met. On the other hand, donors have failed to meet their own pledges for scaling up aid to Africa. Today only 5 bilateral donors have met the target of 0.7 percent of their GNI in aid as pledged in 1970, while 6 countries have not even set the dates for reaching the target.[12] Donors have also failed to double the flow of aid to Africa as pledged in Gleneagles in 2005.

The effectiveness of aid also remains an issue. Evidence on the impact of aid has been mixed (see Alonso 2012). More specifically, while it is possible to document positive effects aid at the micro level (project level), it has been more difficult to establish consistent evidence on the gains from aid at the aggregate level. This *micro-macro paradox* has perpetuated doubts on the role and benefits of aid for economic development (Clemens, Raveled and Bhavnani (2004). One of the reasons of the failure of aid to produce tangible results at the macro level is exactly because aid volumes have been inadequate (Ndikumana 2012). Another reason is the failure of aid to spur the development of efficient national institutions required for effective design and implementation of good development policies. Instead, the process has been turned on its head by conditioning aid on the existence of good institutions rather than using aid to help develop good institutions. This has partly contributed to the low-aid low-growth trap that many African countries face, especially 'fragile states' and post-conflict countries. If aid is to make a meaningful impact in Africa, while it has to be more effective, its level has to be scaled up to meet the continent's financing gaps. There is only so much that *trickle-in aid* can do for Africa.

iv) Allocational inefficiencies

During the 1960s and 1970s, most African countries followed a state-led growth strategy characterized by pervasive government interventions, where state-owned companies were erected in most sectors and functioned as monopolies. Most of these state-owned companies

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[11] http://www.oecd.org/general/themarshallplanspeechatharvarduniversity5june1947.htm. Emphasis added here (not in the original text).

[12] Resolution 2626 of the United Nations Assembly in 1970 established the target of 0.7 percent of donor's GNI in aid, following the recommendation by the World Bank's Commission on International Development (led by Canadian Prime Minister Lester Pearson). The pledge has been reiterated at various summits including at the Gleneagles G8 summit in 2005. Countries that have met the target are: Sweden (1.02%), Norway (1%), Luxemburg (0.99%), Denmark (0.86%), The Netherlands (0.75%). The six that have not set a timeline for the target are: Australia, Canada, Japan, New Zealand, Switzerland, and the United States.

were kept afloat by chronic infusion of government subsidies and they were maintained for national prestige or for the distribution of rents. The economic reforms of the 1980s were intended to correct these inefficiencies by rolling back the state through privatization, downsizing the civil service, and streamlining regulation with the expectation that private sector activity would subsequently take off.

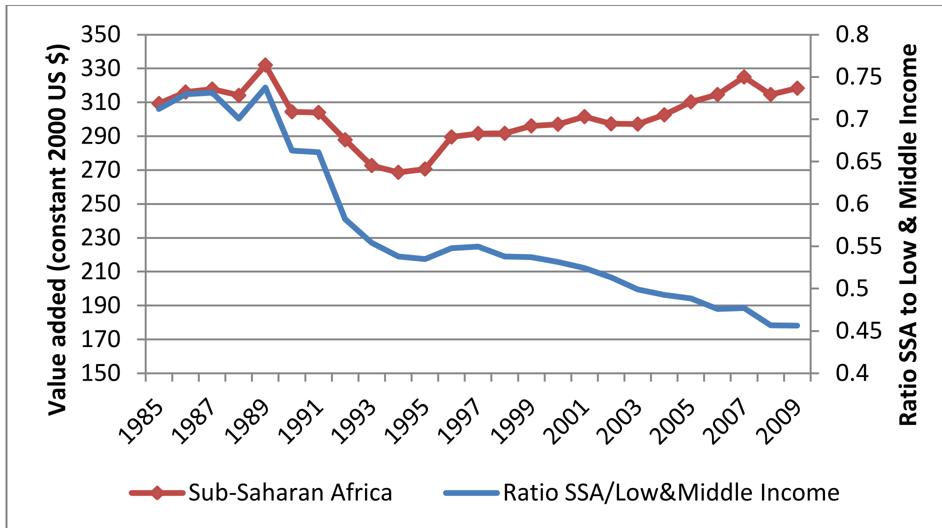
Despite the reforms, however, pervasive inefficiencies remain in the public sector and the private sector has not taken off. In the financial sector, for example, liberalization reforms were intended to remove interest repression, distortions in credit allocation and promote market-based policies. But in many cases, distortions remained even after the reforms. An example is the high interest rate spreads prevailing in the majority of countries partly due to lack of competition in the banking sector. Inefficiencies are also illustrated by the skewed allocation of resources to the detriment of productive activities such as industry and agriculture. In Burundi, credit to agriculture between 1980 and 2008, shrunk from a low 2% to a meager 0.7 percent of total bank credit. Over the same period credit to industry also dropped from 16% to 2% (Nkurunziza, Ndikumana, and Nyamoya 2012). The beneficiary of bank credit was commerce whose share rose from 43% to 67% during that period. The case of Burundi is representative of pervasive allocational inefficiencies in most sub-Saharan African countries.

3.3 Growth without economic transformation

For high growth to be sustained over time and spur economic development, it must be accompanied by gradual transformation of the economy from low-productivity unskilled-labor-intensive activities to high-productivity technology-intensive activities. In the case of African countries, even when growth has occurred, it has not been accompanied by economic transformation.

Africa has followed the global trend exhibiting a declining relative size of agriculture in the economy. In 2011, the share of agriculture in total GDP was 11%, half of its value in 1965. Similar to the global pattern, services in Africa have become a bigger component of total output, representing 59 percent of GDP, up from 47% in 1965. The share of manufacturing has declined, from a peak of 17.8 percent of GDP in 1989 to 11% today. In the case of Africa, however, this process is not driven by increasing productivity in agriculture which facilitates the transition of labor to higher-productivity sectors. In fact, the gap in labor productivity between Africa and other regions has deepened over time (Figure 6). This pattern of transformation is problematic in many ways. First, even as agriculture contributes an increasingly smaller share of GDP, it remains the main employer and the main source of livelihood for the majority of the population. Low productivity in agriculture therefore is a constraint to improvement of living standards. Second, while the service sector in Africa is expanding rapidly, it is unable to absorb the growing demand for labor and it offers limited job security and inadequate compensation packages. Thus the unfolding leapfrogging of African economies from agriculture to services does not augur well for the continent’s future in the face of rising unemployment.

Figure 6: Agriculture value added per worker in SSA, 1985-2010 (constant 2000 US$)



Source: World Bank, World Development Indicators (online).

3.4 Unequal distribution of the gains from growth

While the continent has experienced a resurgence in growth recently, this has not yet been translated into sustained reduction in poverty. In other words, growth has not been equitable. While some African countries have experienced substantial reduction in poverty headcounts, progress has been much more modest in the majority of countries.[13] At the continental level, the growth resurgence since the mid-1990s has been accompanied by a steady decline of the poverty headcount, from 59% in 1994 to 48% in 2008 (Figure 7). However, even as the poverty headcount declined, the absolute number of the poor has increased steadily from 205 million to 386 million during this period. The stubbornness of poverty is to a large extent a growth story. It is clear that the decline in poverty has typically followed growth surges (as in the last decade) while growth decelerations were accompanied by a rise in poverty (as in the 1980s and the first half of the 1990s). Moreover the new 'fast growers' have generally recorded substantial decline in poverty over the recent decade (World Bank, POVCALNET (online); World Development Indicators (online)

Table 2).

Figure 7: Declining poverty rates but increasing number of poor people, 1981-2008

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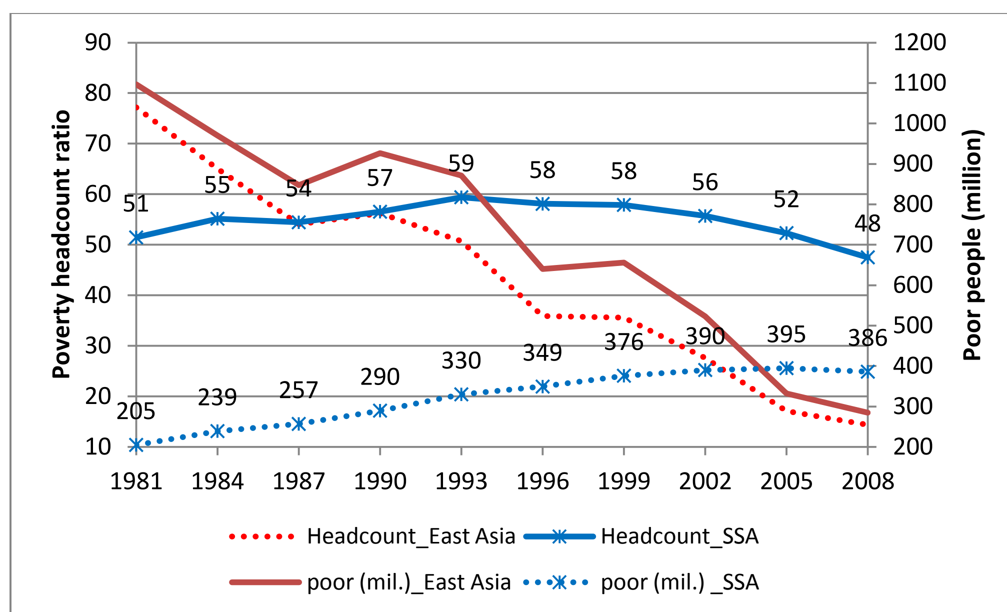
[13] See AfDB, UNECA, African Union (2011), MDG Report 2011.



Source: World Bank, POVCALNET (online); World Development Indicators (online)

Table 2: Change in poverty headcount and GDP growth over 1990-2011[a]

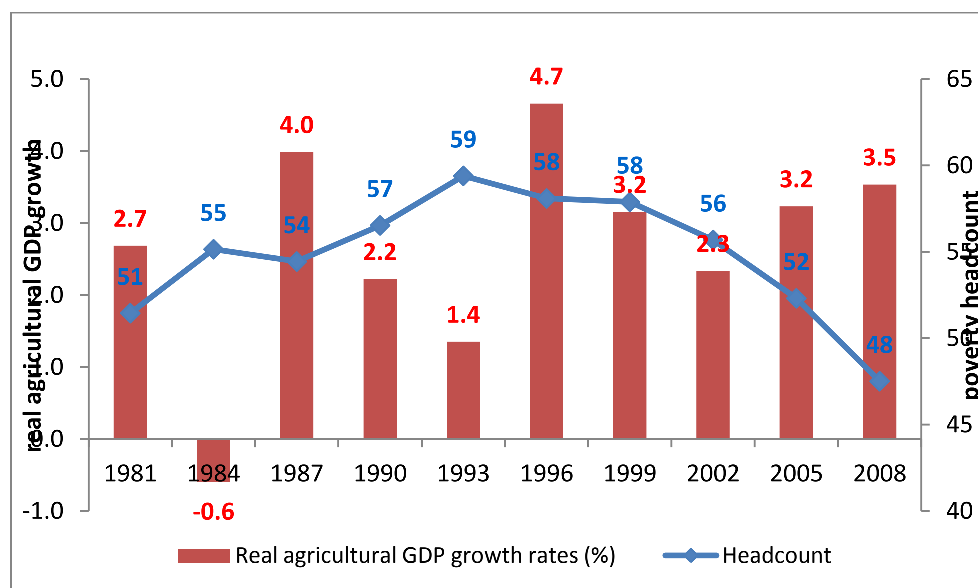
Country	Headcount in early 1990s (%)	Latest value (%)	change in poverty headcount (%)	GDP growth rate 2000-10 (%)
Guinea	92.5 (1991)	43.3 (2007)	-49	5.1
Swaziland	78.6 (1995)	40.6 (2010)	-38	3.4
Mali	86.1 (1994)	50 4 (2010)	-36	4.5
Senegal	65.8 (1991)	33.5 (2005)	-32	3.4
Uganda	70.0 (1992)	38.0 (2009)	-31	6.9
Niger	72.8 (1992)	43.6 (2008)	-29	2.9
Ethiopia	60.5 (1995)	38.9 (2005)	-27	5.7
Burkina Faso	71.2 (1994)	44.6 (2009)	-27	5.4
Ghana	51.1 (1992)	28.6 (2006)	-22	5.4
Central African Rep.	83.1 (1992)	62.8 (2008)	-20	1.2
Mauritania	42.8 (1993)	23.4 (2008)	-18	3.8
South Africa	24.3 (1993)	13.8 (2009)	-11	2.6
Kenya	38.4 (1992)	43.3 (2005)	5	3.1
Cote d'Ivoire	17.8 (1993)	23.7 (2008)	6	1.3
Nigeria	61.9 (1992)	67.9 (2010)	6	4.9

Zambia	54.4 (1990)	74.5 (2010)	37	3.1
Madagascar	72.5 (1993)	81.3 (2010)	9	2.2

Source: World Bank, POVCALNET (online). Note: [a] The reference years vary by country. For each country, the change in poverty is calculated using the earliest observation in the 1990s and the most recent available observation.

The slow progress in poverty reduction in the majority of African countries is also attributable to high volatility of growth, which is a result of the concentration of production and exports. The main sources of growth volatility are the booms and busts of commodity prices and weather shocks to agriculture. Indeed the recent gains in poverty reduction coincided with a higher performance of agriculture (Figure 8). From a long-term perspective, the low performance in poverty reduction and growth sustainability is to a large extent due to policy biases against agriculture. In the 1970s African governments jumped on the modernization bandwagon and underinvested in agriculture. In the 1980s, structural adjustment programs pushed for the retrenchment of the state and removal of support for agriculture (UNDP 2012, chapter 3). Thus today African countries are suffering from the negative impact of this double blow to agriculture in terms of retarded poverty reduction.

Figure 8: Poverty and agriculture growth in SSA, 1981-2010



Source: World Bank, POVCALNET (online); World Development Indicators (online)

Improvement in poverty is further constrained by inadequate employment creation due in major part to the resource-intensive nature of growth. In addition, resource-rich countries have not harnessed the natural resource bonanza to stimulate investment and employment creation in new sectors. Thus the resource booms have not created new capabilities for growth and employment generation. As indicated earlier, the leap from agriculture to services - bypassing industry – has compromised job creation.

The failure of growth to generate proportionate reduction in poverty is also an inequality story. Due to high inequality, the growth tide has not lifted the poor out of poverty. To a large extent, it is also an institution story in the sense that bad institutions prevent the emergence of pro-poor policies and are associated with low capacity to implement poverty reduction policies. Specifically, when the predominant institutions are 'extractive institutions' rather than 'inclusive institutions' (Acemoglu and Robinson 2012), the gains of growth will ultimately be unequally distributed. In that context, poverty traps are indeed "institutional poverty traps" (Bowles, Durlauf and Hoff 2006).

The analysis implies that maximizing the poverty reduction dividend from growth requires addressing vertical and horizontal inequalities that are pervasive in the majority of African countries. But addressing these inequalities requires deep institutional reforms, and the task is as much an economic problem as it is a political problem as we discuss further in Section 5.

4. Low-development political equilibrium

4.1 Recent improvements in human development

Sub-Saharan Africa (SSA) has recorded some improvement in human development since the turn of the century, posting the second highest increase in the human development index (HDI), 15.5% between 2000 and 2011 after South Asia with 17% (Table 3). During the 1980-2000 period, HDI had increased by 9.9% in SSA, placing the sub-region second to last among developing regions.

Table 3: Trends in human development (HDI) by region, 1980-2011

Year	SSA	South Asia	Arab States	East Asia and Pacific	Latin America and Caribbean	Europe and Central Asia
1980	0.365	0.356	0.444	0.428	0.582	0.644
1985	0.374	0.389	0.481	0.463	0.604	0.665
1990	0.383	0.418	0.516	0.498	0.624	0.68
1995	0.395	0.444	0.545	0.544	0.65	0.672
2000	0.401	0.468	0.578	0.581	0.68	0.695
2005	0.431	0.51	0.609	0.622	0.703	0.778
2011	0.463	0.548	0.641	0.671	0.731	0.751
% change 2000-11	15.5	17.1	10.9	15.5	7.5	8.1
% change 1980-2011	26.8	53.9	44.4	56.8	25.6	16.6
% change 1980-2000	9.9	31.5	30.2	35.7	16.8	7.9

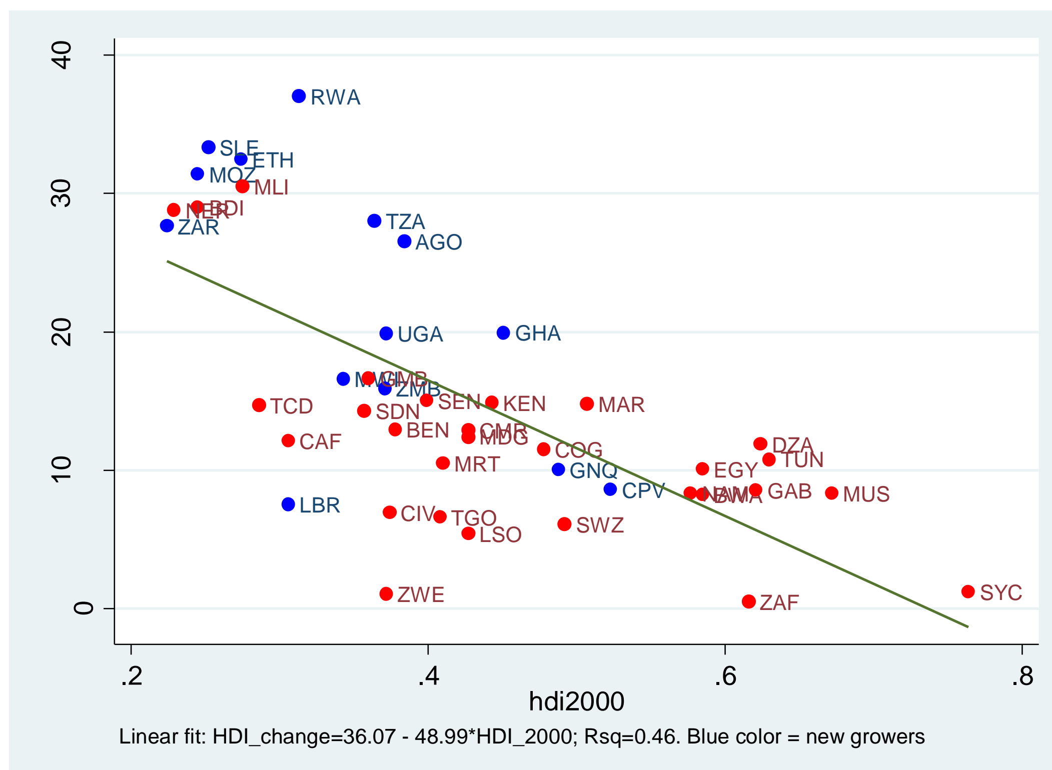
Source: UNDP, Human Development Report database (online)

However, the general picture conceals substantial diversities across countries. On the positive side, more than 30 African countries recorded improvement in the composite measure of human development by 10% or more during 2000-11 (see Table A.1 in the annex). The largest improvements in HDI are recorded in countries that were at the bottom of the scale a decade ago: Ethiopia, Sierra Leone, Mozambique, Burundi, the Democratic Republic of Congo, and Rwanda. This includes post-conflict countries that have benefited from the peace dividend, such as Burundi. But most importantly the highest performers include many of the 'new fast growers', namely Ethiopia, Rwanda, Mozambique, Sierra Leone, and Uganda (Figure 9), suggesting substantial growth dividend.

Naturally improvements in the HDI have been lower in middle income countries which already enjoyed high levels of living standards, educational attainment, and health. There seems to be a catch up process driven partly by performance in economic growth. While the level of human development in 2011 is positively correlated with the initial level, it is negatively related to the change in human development (Table A. 3 in the appendix), suggesting catch up in human development. The growth rate of per capita GDP is a significant determinant of both the level of HDI and its growth rate. In contrast, the catch up process is unrelated to growth in the case of education and health development. In other words, higher growth has not been a factor of improvements in education and health. This evidence suggests that while there appears to be a process of catch up in human development, growth in income is only part of the story.

Many countries are stuck at low levels of development, especially fragile states, which confront many structural constraints as well as weak institutional capacity to design and implement sound economic policies (Chad, Central African Republic, Liberia, Sudan and Zimbabwe). The low-development trap in these countries is a result of high economic, political and social vulnerability along with lack of adequate funding to kick start economic activity.

Figure 9: Convergence in human development, 2000-2011



Linear fit: HDI_change=36.07 - 48.99*HDI_2000; Rsq=0.46. Blue color = new growers

Source: UNDP, Human Development Report database (online)

Among the individual dimensions of human development, the most noticeable progress has been recorded in education in terms of school enrollment and school completion rates. In middle-income countries (except Botswana) primary school completion rates exceed 80 percent. At the sub-continental level, SSA recorded a 16 percentage point increase in primary school completion rate (from 51% to 57%) from 1999 to 2009 (Table 4). However, there are wide disparities across countries and between rural and urban areas. Moreover, a substantial gender gap remains, especially with high dropout rates for girls in high school.

Table 4: Primary school completion and high school enrollment by region, 1999-2009

Region	1999	2005	2009
Primary completion rate, total (% of relevant age group)			
Sub-Saharan Africa	51	58	67
East Asia & Pacific	95	97	97
Middle East & North Africa	83	92	88
South Asia	65	79	86
Latin America & Caribbean	95	98	101
School enrollment, secondary (% gross)			
Sub-Saharan Africa	24	31	36
East Asia & Pacific	63	71	78

Middle East & North Africa	66	72	74
South Asia	42	50	55
Latin America & Caribbean	80	88	89

Source: World Bank, World Development Indicators (online).

4.2 Inequitable development

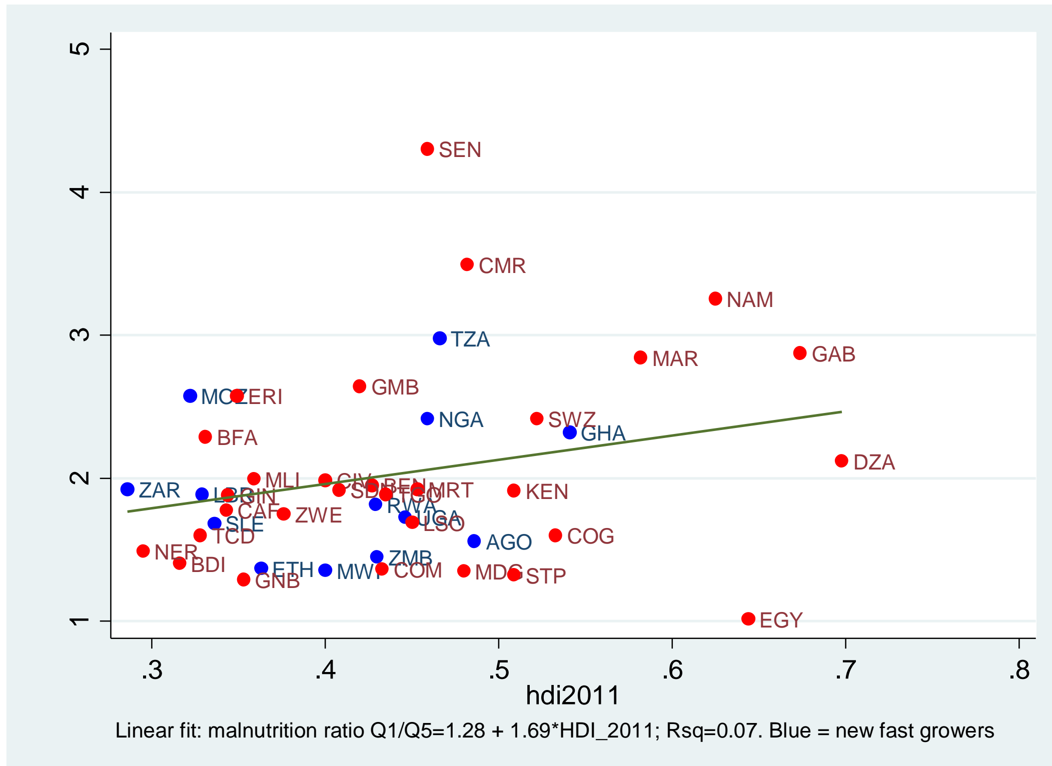
Despite visible overall progress, human development in Africa has not been equally shared among the population. Horizontal and vertical inequalities remain pervasive across the continent, and the growth resurgence over the past decade has not ameliorated inequality.

i) Vertical inequality in human development

While attention is typically focused on income inequality, non-income inequities are equally if not more relevant. Even as the provision of social services such as education and health has improved, this has not systematically benefited the poorest of the population. Building more schools and clinics closer to communities has helped increase school enrollment and access to health care. But development remains unequal. In poor and remote communities, schools and clinics are poorly equipped with supplies, and teachers and health practitioners are more absent at work (Majgaard and Mingat 2012). This results in lower quality of services in these communities. Thus, while more children are in school, this does not translate into improvement in effective literacy and numeracy, with attendant consequences on employment prospects and lifestyle. Similarly, more people can go to health facilities, but they get sub-standard treatment. Moreover, given that social programs are typically not needs-based, poor households still have difficulty paying the fees required to access these services.

Inequality in human development can also be illustrated in the large gap in malnutrition prevalence between high-income households and the poorest (measured as the ratio of the score for the fifth income quintile relative to first quintile). The gap tends to be higher among countries at the top of the scale in overall human development (Figure 10). Moreover, the gap is high among many of the ‘new fast growers’, such as Ghana, Mozambique, Nigeria and Tanzania, suggesting that fast growth has not trickled down to the poorest.

Figure 10: Gap in malnutrition vs. level of human development, 2011



Linear fit: malnutrition ratio Q1/Q5=1.28 + 1.69*HDI_2011; Rsq=0.07. Blue = new fast growers

Source: World Bank, World Development Indicators; UNDP, Human Development Report database (online).

The prevalence of vertical inequality in human development suggests that policy interventions need to target the very poor over and beyond efforts to improve overall wellbeing. It is necessary to increase the supply of pro-poor services while also reducing the cost of these services for the poor. It has been demonstrated, for example, that adoption of community based health insurance (CBHI) can greatly help the poor access modern health care. Evidence from Rwanda proves that such schemes increase effective use of modern health care by poor households (Shimeles 2010). Such a program represents a best practice that can be emulated by other African countries.

ii) Inequality and unemployment: the working poor and the unemployed youth

Another illustration of unequal development in Africa is the emerging phenomena of the working poor and youth unemployment. The challenge of unemployment in African countries is not just a matter of inadequate creation of jobs. It is also a matter of creation of "good jobs for development", jobs that add value not just for those who hold them but also have positive spillovers on others (see World Bank 2012). These are the jobs that can contribute to reducing poverty and enable African economies to compete in the global economy. In 2009, about 76 percent of employed Africans were in jobs that were considered vulnerable. The share was 84% for women and 69% for men (MDG Report 2011). The majority of these jobs are in the informal sector or in formal sector jobs that are temporary. In addition to job insecurity, a large number of employed Africans are unable to make a decent living with their work earnings. From 1999 to 2009, the number of employed Africans living on less than $2 (PPP) per day increased from 210

million to 264 million (Table 5). This was in contrast to a global declining trend during the same period.

The phenomenon of working poor exemplifies inequality arising from the global shift in the distribution of incomes from labor to capital. African economies exhibit the worst example of the global phenomenon of pauperization of the working majority and a thin middle class, contrasting with the increasing enrichment of the economic elite – or the 'top 1 percent'. As Nancy Birdsal (2007) pointed out, the middle strata of the income distribution (the three middle income quintiles) in Africa commands a relative low share of national income, even lower than in other parts of the world: "not only in absolute but even in relative terms, i.e., relative to the top quintile, the 'middle' in many African countries has relatively limited economic power compared with the middle elsewhere" (p. 588). In South Africa, for example, the three middle strata's share of income was only 30 percent in 1995-2003, compared to 41% for low-income SSA countries in the same period (Birdsal 2007: 588).

Table 5: The working poor and vulnerable unemployment in Africa, 1999-2009

	1999		2009	
	SSA	North Africa	SSA	North Africa
Working poor living on less than $2/day (million)	189.6	20.7	243.2	20.7
Working poor living on less than $2/day (% of total employment)	86.1	42.2	81.5	31.2
Vulnerable unemployment, male (% of total employment)	75.5	40.1	69.5	34.9
Vulnerable unemployment, female (% of total employment)	87.3	55.4	84.0	56.7

Source: AfDB, UNECA, AUC, UNDP (2011) *Assessing Progress in Africa toward the MDGs, 2011*.

Another manifestation of inequity in Africa is the growing unemployment of the educated youth, implying a deterioration of the returns to education. Yet, education is traditionally the most secure means of social upward mobility. In the case of African countries, the majority of graduates are the first college laureates in their family. Thus, the increasing unemployment of the educated youth perpetuates and even deepens inequality across generations. Youth unemployment also has social and political implications as was illustrated in Tunisia in 2011, the birthplace of the 'Arab Spring'.

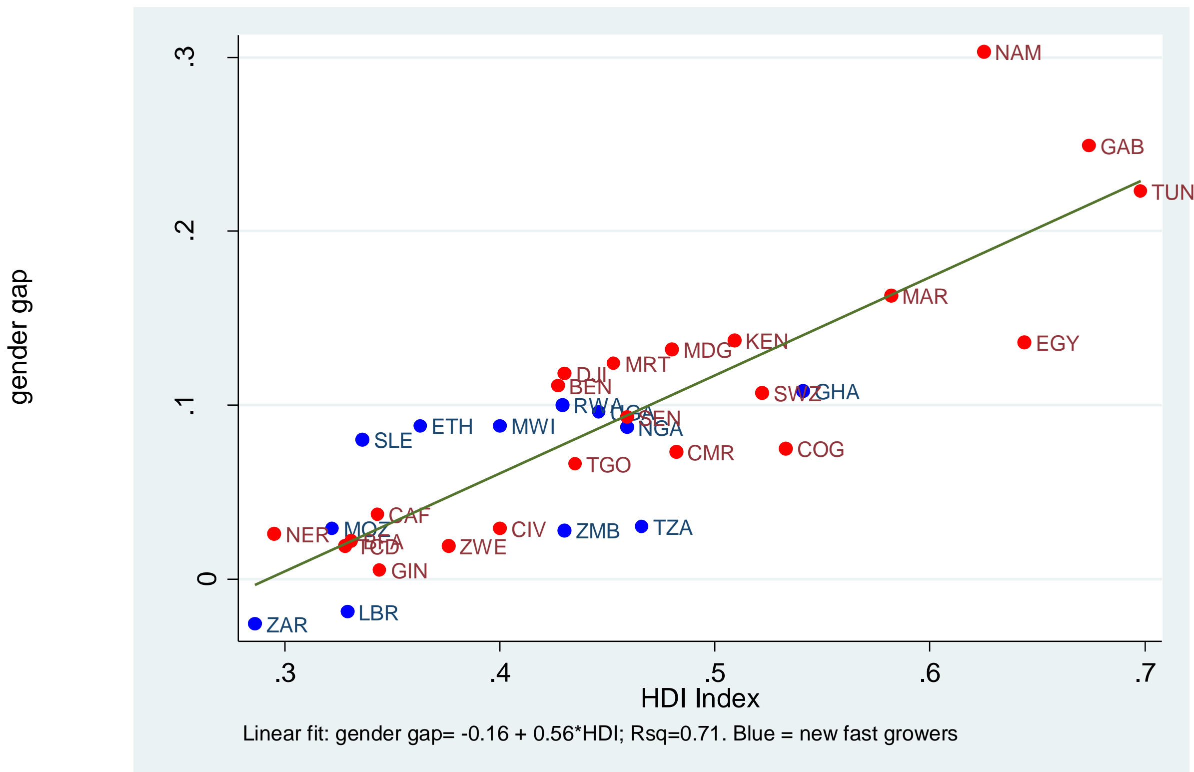
Gender equity

While gender equity is improving in important dimensions of social development, a large number of African women and girls are literally still 'left behind' in important dimensions of social development. In education, while overall enrollments have increased, girls move up the education ladder at a lower rate than boys. A study by the World Bank finds that at the average gender parity in education in Africa is as high as 0.95 in the first grade of education (Majgaard

and Mingat 2012). However, the index drops to 0.91 at the end of elementary school, 0.78 at the end of secondary school and 0.65 in post-secondary education. It is clear that looking at national averages can give a misleading picture of gender equity.

Gender inequity is prevalent in all countries and at all levels of development. In fact the gender gap seems to be higher among countries with higher levels of human development, namely middle income countries, especially in North Africa (Figure 11).[14]

Figure 11: Human development and the gender gap in 2011



Source: UNDP, Human Development Report database (online)

Globally African countries perform poorly in gender development, and the ranking has deteriorated over the past years and these include even countries that are otherwise classified as good performers in overall economic growth such as Botswana (with the largest deterioration in ranking in gender equity), Tanzania, Ghana and Egypt (Table 6). African Women remain disadvantaged in the areas of economic participation (such as access to employment and equal pay for equal work) and health (access to curative and preventive care and reproductive health). There is more visible progress in the areas of educational attainment, with an increasing number of countries nearly reaching gender parity in primary

[14] The gender gap is the difference between the overall human development index and the index excluding gender.

school (MDG Report 2011). Some countries have also made strides towards gender equity in political empowerment, with increasing representation of women in the executive and legislative branches of government. The most prominent examples are Liberia and Malawi with female presidents, as well as Burundi, Rwanda and South Africa which have established statutory provisions for minimum female representation in government. But certainly more needs to be done to translate these institutional provisions into effective improvement in overall wellbeing of women and girls.

Table 6: Gender gap in 2012 (world rank) and improvement over 2006-12 (%)

country	Overall rank in 2012	Improvement 2006-2012 (%)	Economic participation and opportunity	Educational attainment	Health and survival	Political empowerment
Lesotho	14	67.4	6	1	1	33
South Africa	16	11.1	69	87	103	7
Mozambique	23	46.5	9	123	111	12
Burundi	24		3	117	100	30
Uganda	28	40.4	37	112	1	28
Cape Verde	35		84	97	1	25
Malawi	36	55.6	5	111	102	53
Namibia	41	-7.9	43	31	106	49
Tanzania	46	-91.7	60	105	111	31
Madagascar	58	31.0	51	93	77	56
Ghana	71	-22.4	26	113	105	100
Kenya	72	1.4	35	106	103	103
Botswana	77	-126.5	45	1	125	124
Senegal	90	11.8	59	122	75	41
Gambia	93	-17.7	18	127	1	70
Mauritius	98	-11.4	108	73	1	88
Burkina Faso	104	0.0	32	125	100	94
Nigeria	110	-17.0	81	124	121	83
Cameroon	112	-8.7	52	126	111	92
Zambia	114	-34.1	89	120	99	106
Benin	117	-6.4	23	134	111	69
Ethiopia	118	-18.0	85	130	72	62
Mauritania	119	-12.3	119	119	1	82
Algeria	120	-23.7	131	103	108	57
Egypt	126	-15.6	124	110	54	125
Mali	128	-29.3	103	132	57	101
Morocco	129	-20.6	128	115	88	108

Côte, d'Ivoire	130	0.0	111	131	1	104
Chad	133	-17.7	56	135	111	102

Source: Hausman, Tyson, and Zahidi (2012). *The Global Gender Gap Report 2012*. Geneva: World Economic Forum

Other horizontal inequalities

Another concern with regard to inequality in human development is horizontal inequality, notably across ethnic groups and regions. These inequities are a direct result of biased allocation of investment in economic and social infrastructure. The marginalization of disadvantaged groups and regions further perpetuates alienation and deprivation. There are large rural-urban gaps in human development in most African countries and this is independent of the level of development. In addition to the urban-rural divide, there are also regional inequalities driven by unequal regional distribution of political power, as in the case of Kenya (Kikuyu land vs. other regions), Burundi under the military regimes (south vs. other regions), Mozambique (south vs. north), Uganda (conflict-ridden north vs. the more prosperous south and center), etc. In some countries this pattern of inequitable development is responsible for political instability and violent conflicts, as in the case of Burundi (Ndikumana 2005; Nkurunziza and Ngaruko 2008). Ultimately these horizontal inequalities undermine the sustainability of growth and development.

5. Explaining low-development political equilibrium: historical perspective

Africa's growth and development record was very much shaped by the evolution of institutions as they governed policy making. The inability to reach and sustain high growth, the inefficiencies in resource allocation, and the persistence of inequalities are outcomes of the nature of policies adopted over time, which in turn are a result of the institutions and rules of public choice prevailing in African countries over the past decades. In other words, growth and development in Africa (as elsewhere) is a political equilibrium. And low growth and slow development can be characterized as a low political equilibrium. In this context, this section describes the evolution of policy frameworks and political regimes as they shaped Africa's performance in growth and development over the past five decades.

5.1 Control regimes and the rise of the *Big Man* in the 1970s and 1980s

During the 1960s most countries adopted a state-led development strategy and viewed economic prosperity as a means to support political independence. The decade also witnessed strong visionary national leadership, represented by legendary figures such as Kwame N'Krumah of Ghana and Julius Nyerere of Tanzania, the father of *Ujamaa* or African socialism. Inspired by the socialist model, many governments adopted an inward-oriented growth strategy based on import substitution. The commodity boom of the early 1970s spurred growth through the mid-1970s (see Figure 1).

The 1970s witnessed the emergence of the *Big Man* syndrome in African political systems and the establishment of rigid controls and regulations in the form of price controls, fixed exchange rate regimes, interest rate repression, and an anti-private business climate. These regimes reinforced public monopolies and suffocated private enterprise. Four types of "anti-growth syndromes" were observed (Ndulu et al 2008):

i. Strict controls and regulations by the central government, resulting in severe market distortions and allocational inefficiencies, creating opportunities for rent-seeking by bureaucrats, and suffocating private enterprise.
ii. Politically motivated redistribution systems that favored ruling groups (e.g., ethnic groups) or regions. In some countries allocation of public infrastructure and social services such as schools and health was primarily determined on the basis of the interests of the ruling elite. In the case of Burundi, for example, where the political system was controlled by the Tutsi minority ethnic group from the South of the country, schools were also concentrated in the South (see Nkurunziza and Ngaruko 2008).
iii. Intertemporal substitution policies that promoted short-term economic and political gains over long-term national economic interests, resulting in high and unsustainable public spending and accumulation of external debts. The short-termism also motivated embezzlement of national wealth, fueling capital flight which was financed partly by external borrowing (Ndikumana and Boyce 2011).
iv. Political repression and dictatorships: By the mid-1980s, the majority of African countries were run by undemocratic regimes and many of them by dictatorships. Only a handful of countries met the basic criteria of a democracy by international standards – Botswana, Gambia and Mauritius. Elsewhere, 'Big Men' ruled over authoritarian regimes, such as the notorious Mobutu in the Congo (ex-Zaïre), Babangida in Nigeria, Samuel Doe in Liberia, etc.

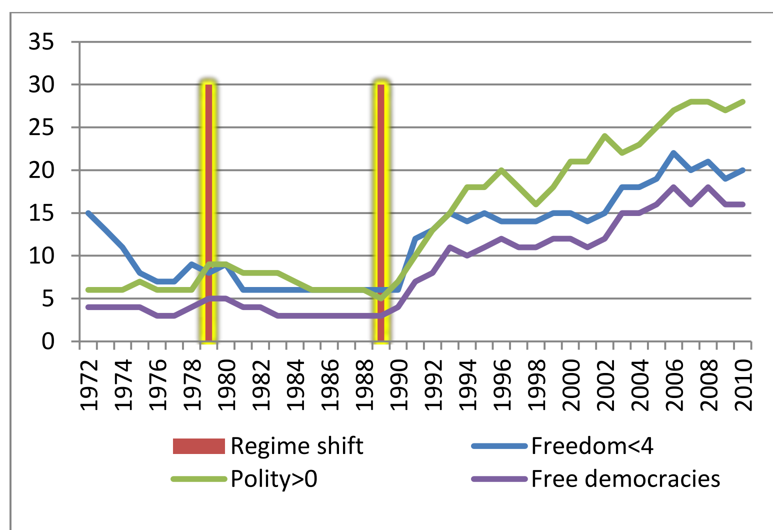
By the beginning of the 1980s, control regimes became economically and politically unsustainable. Governments ran out of policy space with deepening fiscal and current account deficits. Brought down to their knees by financial distress, governments surrendered to international financial institutions for bail out in exchange of rigid economic reforms. Unfortunately, structural economic reforms proved to be ineffective in reigniting growth. Social discontent against economic reforms provided an impetus for the social change witnessed in the 1990s.

5.2 Political change and the African 'renaissance' of the 1990s

The combination of failure of economic reforms in the 1980s and the demise of communism energized domestic movements for pluralistic politics and made it harder for African autocratic regimes to resist these changes (Bratton and Van de Walle 1997). The turning point was on November 8 1989 in Namibia with the free election of delegates to the Constituent Assembly that would draft the Constitution leading to the first democratic presidential elections. This ushered a new era of democratic awakening in Africa. In 1991 alone, Benin, Cape Verde, Comoros, Madagascar, Sao Tome and Principe, and Zambia shifted toward democracy. Southern Africa saw an increase in the number of democracies with the end of apartheid in South Africa in

1994 and democratic transition in Lesotho, Mozambique, and Malawi. Between 1990 and 1994, competitive elections were held in as many as 38 African countries (Redelet 2010). Measures of the quality of political governance improved systematically since the democratic revolution of the early 1990s, setting in motion an "African renaissance". As can be seen in Figure 12 the number of countries in each year that are classified as politically free, democratic, and free democracies (combination of the first two indicators) rose steadily since 1990.

Figure 12: Number of 'democracies' in Africa, 1972-2010



Source: Freedom House "Freedom in the World" database (online).
Note: A country is classified "free democracy" in a particular year if the political freedom score is less than 4 (1 represents perfectly free, 7 not free) and the polity score is positive (the Polity V indicator ranges from -10 for strongly autocratic to 10 for strongly democratic).

The improvement in political stability since the early 1990s coincides with the improvement in economic performance documented earlier. At the same time, from the second half of the 1990s African countries embraced market based economic regimes more systematically. The evidence therefore suggests that political regimes and economic regulatory regimes have played a key role in determining economic outcomes. To a large extent, the mediocre economic outcomes in many countries were the outcomes of incentive systems that perpetuated bad economic policies for the sake of preserving established political systems. In that sense, many African countries remained in a low-growth political equilibrium.

As an illustration we present the case of Ghana, highlighting the shifts of political and policy regimes since independence (Table A. 2 and Figure A. 1 in the appendix). Control regimes in the 1970s and 1980s led to the deterioration of economic performance and political instability. The reforms undertaken by the Jerry Rawlings regime since 1993 supported economic recovery while the consolidation of democracy in subsequent decades helped to sustain high growth and political stability. Poised to become a leading middle-income economy in Africa, Ghana today is emerging as an example of how democracy and good policy making go hand in hand in supporting economic development.

5.3 The role of leadership

A leader's role is to provide direction in policy making, and to inspire discipline and commitment in the implementation of the development strategy. Designing and implementing policy reforms often requires difficult trade-offs between long-term benefits and short-term costs. It also entails changing the incentive system and wealth distribution, which is typically resisted by interest groups that are benefiting from the status quo. Strong and effective leaders are those that are able to initiate and champion a development strategy that propels their country to new heights in the global economy. For example, South Korea had transformed from what some referred to as a "sinkhole of American aid" to "one of the success stories of the United States assistance program" and today is a global leader in technology and manufacturing (Capin 1969: 560). A key ingredient of Korea's rapid success was the leadership of the "strong, stubbornly determined leadership of President Park Chung Hee" (Capin 1969: 563).

The attention to leadership in Africa has, quite unfortunately, focused on individual leaders and their personal attributes, divorced from the institutional context. Thus in the 1960s, there was exuberance around visionary independence leaders, such as Kwame Nkrumah of Ghana, Julius Nyerere of Tanzania, Patrice Lumumba of the Congo, Léopold Sédar Senghor of Sénégal, and others. These leaders indeed were instrumental in fighting for independence. But in many cases, leading independent nations became more challenging than liberating them. Some of the leaders fell prey to lack of flexibility in their vision as in the case of Nyerere's socialist experiment in Tanzania. Others became victim of global geopolitical interests and were brutally eliminated as in the case of Lumumba. Yet others overstayed in their rule and undermined the earlier accomplishments, which seems to be a perennial problem in the African continent. But most fundamentally, the main failure of leadership in Africa has been the inability of leaders to build institutions that transcend them so as to carry on with the mission of development in the future.

More recently, we have witnessed again some euphoria about a "new generation of African leaders", this time orchestrated more from abroad than from within Africa. It is not exactly clear what triggered the global exuberance about the presumed new generation of African leaders. But whatever the origin, the breath of fresh air was highly anticipated after decades of political chaos in many countries, civil strife, endemic corruption and dictatorship. Following a trip to Africa in December 1997, US Secretary of State Madeleine Albright declared the following (US Senate on Foreign Relations 1998: 2):

> Africa's best new leaders have brought a new spirit of hope and accomplishment to their countries and that spirit is sweeping across the continent. They know the greatest authority any leader can claim is the consent of the governed. They are as diverse as the continent itself. But they share a common vision of empowerment – for all their citizens, for their nations, and for the continent.

The Commission on Growth and Development was even more exuberant about this new era of African leadership (2008: 71): "In many countries, if not most, a new generation of leaders is in power, committed to growth and to more open and accountable government." The reduction of leadership to the charisma of individual personalities carries three important risks for growth and

inclusive development.[15] First, this injects in the leaders' mind a sense of appropriation of national development, causing leaders to hyperventilate as they race to demonstrate miracles in their lifetime. Yet, development is a very long process and it cannot be achieved within the timespan of one person's rule.

The second effect is a sense of irreplaceability, the notion that "only I can do it". Whether truly motivated by the love of the nation or by megalomania, this eventually becomes a self-fulfilling prophecy. The self-made supermen endeavor to create the circumstances that make them irreplaceable, including constitutional changes to abolish fixed terms, repression of political dissent, and oppression of freedom and civil liberties. That's how African 'presidents for life' are made.

The third effect is the displacement of the locus of accountability from national constituency to strategic global allies. The *Big Man* syndrome is partly a result of the support by international powers that create the aura of supra-nationality in the minds of national leaders. The protection by a strong 'Godfather' abroad shields autocratic rulers from pressure from potential domestic forces of change.

Yet as history has shown over and over again, it is impossible to sustain progress that rests solely on the shoulders of one leader. In this respect the world community does a major disservice to Africa every time it brands emerging leaders as supermen or superwomen rather than encouraging them to create stable and broad based institutions. In Ethiopia, for example, after the death of Prime Minister Meles Zenawi, the country found itself scrambling in managing succession, because, as in the case of all other Big Men, Meles did not invest in designing a system that would ensure orderly succession. Resolving the problem of leadership is probably the most important challenge to Africa's ability to reach sustainable development in the future.

5.4 Domestic non-state actors

During the independence movement in Africa, non-state agents played an instrumental role in leading the fight for freedom. The nascent intelligentsia led the ideological fight to map out an agenda for political independence. Political parties acted as true voices of the people against a common enemy – colonialism and imperialism. The burgeoning business community formed associations that supported the struggle for self-determination, while claiming space for private enterprise. Youth leagues, often operating as branches of political parties, contributed to the emancipation movement. Labor unions galvanized the energy of workers from the public and private sector to feed into the national independence movement. The most notorious example is the COSATU[16] labor union in South Africa which played a critical role in defeating Apartheid and is still a major force in both politics and economic policy in the country.

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[15] For a detailed discussion, see Oloka-Anyango (2004)

[16] The Congress of South African Trade Unions (COSATU) was founded in 1985. It currently includes 21 affiliated trade unions with just over 1.8 million workers, and it is closely allied with the ruling party ANC and

After independence, the dynamism of non-state actors gradually faded away with the emergence of one-party states and centralized political systems. The business community increasingly confronted constraints that have limited the expansion of the private sector. As African states became entrepreneurs and established rigid regulations, this stifled private enterprise. In many African countries, it has become a tradition for politicians, their families and associates to own and control major enterprises and business conglomerates in the private sector from import-export companies, to banks, telecommunication, commercial farming, and manufacturing enterprises. For example, after the fall of the Ben Ali regime in Tunisia, information emerged about how his family, his wife's family and their close associates controlled virtually all sectors of the economy. Private operators found it difficult to grow unless they accepted to joint venture with key members of the ruling family, who often became part owners without any injection of their own capital in the company. This is not unique to Tunisia's former rulers. Mobutu Sese Seko, the former ruler of the Congo (ex-Zaïre), Sani Abacha in Nigeria, etc., accumulated wealth beyond human comprehension by abusing their power. Some current rulers have followed suit.[17] The outcome is an environment that is anti-private business which stifles private sector dynamism and innovation.

Autocratic regimes in Africa have also suffocated the development of non-state agents of change by repressing the media. Raids on news media houses and persecution of journalists are common practices of dictatorial regimes. The African intelligentsia has completely retreated from being a force of political change due to the threat to individual security and co-optation of potential 'voices of the people' by autocratic regimes. This partly explains why, as indicated earlier, the African middle class is not a factor of change and definitely not an agent of restraint on state power. Youth movements have become agents of ruling political parties. Politicians often use and abuse youth groups and students to advance their interests, thus sowing the seeds of social discord to distract the public from genuine social issues.

The suffocation of domestic non-state actors is probably the most lamentable development in African politics in the post-independence era. But this trend is not sustainable in the long run. As the 'Arab spring' in North Africa has demonstrated, it is not possible for the state, no matter how 'strong' it may appear, to indefinitely suppress people's economic and political rights. The revolutions in Tunisia, Libya, and Egypt were made possible thanks to the energy of an aggrieved youth that could no longer bear the effects of economic and political alienation. The question is, do African countries have to go through crises to embrace institutional change? The following section discusses some key strategies that African countries must undertake in their efforts to achieve sustainable development.

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the South African Communist Party. While some argue that this alliance undermines COSATU's independence, others believe that it is a source of strength that gives COSATU a framework for influencing policy in the interest of workers.

[17] See Ndikumana and Boyce (2012) "Rich Presidents of Poor Nations: Capital Flight from Resource-Rich Countries in Africa." *ACAS Bulletin 87*, special issue (November).

6. How to overcome low-development political equilibrium in Africa

The foregoing analysis has clearly demonstrated that African economies have performed below expectations, failing to optimize the use of their natural resources. As result, growth remains below potential and it is highly volatile, which is a major reason why human development also remains below target. Moreover, the fact that development is uneven implies that this outcome can persist given that the agents responsible for economic policy and allocation of resources are not affected by inefficiencies and oftentimes benefit from these inefficiencies. So, for example, if government ministers in charge of education do not send their children to public schools, if Ministers of health and their family members get treatment in private clinics at home or abroad, they have no incentives to work hard to improve social service delivery, as they do not incur the costs of inefficiencies in the provision of social services. In that sense, many countries are stuck in a low-growth and low-development political equilibrium. In exploring institutional and policy mechanisms required for overcoming the low-development political equilibrium in Africa, it is important for African countries to focus their attention on the most binding constraints in order to maximize efficiency of interventions aimed at reaching the optimum political equilibrium. This section singles out the following strategies: setting a clear policy orientation; promoting economic transformation; redressing distributional inequities; and overcoming leadership uncertainty; and promoting the emergence of dynamic domestic non-state agents of development.

6.1 Navigating policy paradigms and overcoming policy confusion

Suboptimal economic performance in African countries can be partly attributed to shrinking policy space and policy confusion. Indeed globally, the development policy agenda has experienced shifts, mutations, and failed experimentations that have had detrimental impacts on developing countries.[18] In the case of African countries, during the independence era of the 1960s, the policy orientation was dominated by the nationalist paradigm, which served as an instrument of the liberation project. From the mid-1970s on, African countries lost control over their development policy as the policy space became dominated by external actors. Policy advice shifted in the hands of the "agent from the North" – experts of bilateral donors, multilateral institutions and non-governmental organizations. At the same time, the development thinking was in a flux. The diagnosis of African development problems shifted from market failure to government failure, then to policy failure, and more recently to institutional failure. Evidently the confusion in the diagnosis implied confusion in the remedies prescribed to African countries.

The dominant policy paradigms informing the policy advice handed to African countries have exhibited three major biases that have had adverse effects on economic performance. The first is the *deflationary bias* in macroeconomic policy frameworks that are anti-growth and anti-employment. It is difficult to understand, for example, why monetary frameworks in all African countries target an inflation rate of or close to 5 percent. Yet, given that countries have different

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[18] See Cornia and Uvalic (2012) for an assessment of the various policy paradigms and their performance in the developing world.

economic structures and face idiosyncratic shocks there is no reason why all of them would target the same inflation rate. In the process, African countries forego opportunities to fully utilize their resources to stimulate growth. Targeting low inflation rates limits the possibilities for expanding public infrastructure. The primacy of social policy that characterized national development policy in the 1960s was abandoned in favor of fiscal austerity and short-run macroeconomic stability. Yet, the situation in African countries is crying for moving social policy back to the center of economic policy. The growing youth unemployment calls for mainstreaming unemployment in growth policy. The marginalization of the rural sector calls for scaling up investment in agriculture. But these interventions require an expansion of the policy tool kit and scaling up of the resource envelope.

At the heart of the policy confusion is the lack of ownership of policy design by African governments. Although recent international policy declarations such as the Paris Declaration and the Accra Agenda for Action call for full ownership of policy by national governments, the practice is far from the rhetoric. Thus, new policy frameworks such as the poverty reduction strategy papers (PRSP), country strategy papers or country assistance strategies that guide interventions by multilateral donors (e.g. AfDB and World Bank) are still driven by external actors. This is exacerbated by weak technical capacity which limits African governments' ability to own and drive their development agenda. For African countries to increase growth, address the problem of unemployment and sustain the recent growth momentum, they must shift to and embrace policy frameworks that are *pro-growth* and *pro-employment*.

The second bias in development policy is the reliance on absolute advantage illustrated by the dependence on primary commodities and failure to achieve economic transformation. Natural resource rich countries have failed to leverage resource booms to promote economic activity in new sectors and to invest in capacity building to develop the technical knowhow needed to plan and manage the sector so as to maximize the rents accruing to society. This dependence on natural resources has promoted the development of rentier states characterized by weak governance and myopic vision. As the list of oil producers expands on the continent, the question is how to harness these resources and avoid the resource curse. New comers can learn valuable lessons from Botswana, which has managed very well its mineral resources to achieve and sustain a high level of growth, while also saving for future generations. An optimal utilization of natural resources can be achieved by institutionalizing rules for allocating revenue from natural resources to (1) a long-term investment facility such as a sovereign wealth fund, (2) productive infrastructure notably power and transport, (3) deepening the financial system, and (4) capacity building and acquisition of skills to manage natural resources (i.e., financing acquisition of skills related to natural resource management such as engineering, contract law, taxation and forensic accounting, etc.).

The third bias is the reliance on external resources especially official development assistance. Proponents of the 'big-push' approach argue that the only way for Africa to overcome poverty is through a massive infusion of development aid (Sachs et al 2004). Yet, aid volumes remain much below Africa's needs, and aid effectiveness is limited partly because aid is poorly allocated

relative to countries' development needs and it is cost-ineffective[19] (Ndikumana 2013). While African countries can certainly use more aid, their ability to reach and sustain high growth is contingent on their capacity to mobilize more of their own resources. This includes raising domestic public and private revenue as well as stemming capital flight and inducing capital flight repatriation (Fofack and Ndikumana 2009).

For African countries to gain more policy space, they need to rethink their development financing strategy to reduce their dependence on external aid. In fact African countries have been chasing the wrong dollar for too long: aid that comes only in trickle, and debt which leaks out as capital flight. Yet they have untapped potential for resource mobilization through creative domestic savings instruments such as infrastructure bonds. This could be complemented by diaspora finance (remittances), which is another untapped source of non-debt generating finance. In addition, appropriate institutional reforms and technical upgrading can enable countries to scale up their tax revenue mobilization. This will not only increase policy independence but it will also increase government accountability to domestic constituents, which in turn is important for fostering policies that are pro-poor and pro-growth.

6.2 Policy framework for economic transformation

To achieve sustained development, African countries must adopt policy frameworks that foster economic transformation. This requires bringing industrial policy at the center stage of economic policy making. In the past, industrial policy was disparaged as an attempt by governments to "pick winners". It was seen as an ill-advised approach to policy on the view that governments cannot outperform markets in the allocation of resources. But now we know too well that, left on their own, markets do a very poor job, and can even cause crises.

In the new policy configuration, the state must play an important role along two dimensions. The first, which has received conventional consensus, is government intervention necessitated by pervasive information and coordination failures in the markets. Second, and most importantly, beyond this benign intervention, governments in Africa will need to design policies aimed at supporting strategic sectors, and promote technological innovation so as to build a knowledge-based economy that is productive and competitive based on dynamic comparative advantage (Lin and Monga 2010). An industrial policy that puts emphasis on innovation and technology can enable African economies to leap frog the growth and transformation process, taking advantage of existing cutting-edge technology. This strategy can also allow African countries to overcome structural barriers related to size and geography: a country does not need to be large or have access to the sea to become a regional hub for information technology. The government of

[19] An illustration of the cost ineffectiveness of aid is that a large share of technical assistance does not benefit the aid recipients. For example, a report on Kenya in 1990 estimated that out of 324 technical assistance positions filled by expatriates, 204 could have been effectively filled by Kenyans. In Tanzania the compensation of expatriate technical assistants consumed $200 million out of the $300 million received in technical assistance in 1988. This was twice the total compensation of public sector employees in that year. This information is from Adesina (2007).

Rwanda is committed to doing just that; and this can be emulated by other countries in other areas.

The economic transformation strategy for achieving sustainable development must also bring agriculture back at the center stage. The objective is to transform agriculture into a driver of growth, employment creation and industrial development. This requires a policy framework that leverages technology and innovation to increase agricultural productivity and facilitate access to markets, and leverages the capacity of the private sector and knowledge networks. This in turn will require rethinking the interplay among the government, the private sector and knowledge institutions. As Juma (2011: 216) correctly points out, "the separation between government, industry, and academia stands out as one of the main sources of inertia and waste in Africa's knowledge-based institutions." Thus, achieving an agriculture-led economic transformation driven by technology and innovation will require reshaping institutions to maximize synergies among government, the private sector and knowledge institutions so as to facilitate: complementarities in financing for agriculture development (e.g., through public-private partnerships); diffusion and transmission of new technologies to agriculture (an area traditionally reserved to the government through extension services); and capacity building for farmers and other operators in the sectors.

In designing policy frameworks for the post-MDGs era, it will be important for African countries to pay attention not only to the *goals* but also to the *means* to achieve the goals. Past policy frameworks have failed to strike a balance and establish synergies between goals and means. In the 1980s, structural adjustment programs focused on the means (market-oriented reforms) for achieving goals which were poorly defined. While the MDGs were a major innovation in this regard, they were guilty of swinging to the extreme, focusing on goals with little attention to the means. The same applies for PRSPs. Strategies for sustainable development in the post-MDGs must not only clearly define the goals, but they also clearly articulate the means to get there. Industrial policy and economic transformation must be at the center of this policy design.

6.3 Sustainable financing for sustainable development

A structural weakness in policy design at the national and international level is that finance is typically considered outside of the development strategy. Once the plans are made, countries and donors begin to think about how to finance their implementation. As a result, even technically well-crafted programs remain little more than wish lists as they lack funding. In the past, African countries have mostly looked outward in their financing strategies. The focus has been on attracting official development assistance and private capital. The result has been less than satisfactory. Aid has come in inadequate amounts, and while private flows have increased over the past decade the volumes remain vastly below the continent's needs. At the same time, many countries have been trapped in high-debt low-growth equilibrium, which has also compromised their policy independence.

African countries must design a strategy to achieve sustainable financing for sustainable development that is structured around the following pillars:

(1) Increasing tax and non-tax revenues through improved tax administration and incentivizing tax payers to increase compliance. Today tax incidence is below potential for the majority of African countries due to narrow tax bases, pervasive leakages in tax collection, and unnecessary and wasteful tax exonerations to otherwise profitable activities such as trade and natural resource extraction. The public resource mobilization strategy will entail investments in technical capacity building in tax administration, reforms that provide more autonomy to tax authorities as has already been implemented in a number of countries (e.g., Ghana, Uganda, and Kenya), and most importantly rules to enforce zero tolerance for corruption by tax officials as well as stiff penalties for corporate tax evasion.

(2) Innovations in mobilization of non-tax public resources, especially the development of innovative bond financing instruments for targeted programs such as power and transportation infrastructure, education, and health.

(3) Better leveraging of domestic private saving through improved efficiency of financial intermediation. This will require increasing competition in the financial system and leveraging modern information technology and banking techniques, which will expand the reach and depth of the financial system.

(4) Developing specialized financial institutions that cater for the needs of the rural sector and small and medium enterprises, which are typically credit rationed by commercial banks due to high risk. Yet these sectors have high potential for income and employment creation as they cater for the low-skilled labor that makes up the majority of the unemployed in the continent. Well designed and efficiently managed development banks can play a key role in allocating financing to these sectors.

(5) Better management of external debt and official development assistance: External borrowing and aid remain part of the financing package, although they must become progressively a smaller fraction of the resource envelope over time. Debt-generating external resources must be used cautiously to avoid a new cycle of unsustainable borrowing. At the same time, borrowed resources must be managed transparently to minimize leakages through the debt-capital flight revolving door. In this context, systematic audit of public external debt should be institutionalized in all African countries as part of national debt management strategies. Increased transparency and accountability in debt management will also help accelerate progress in aid effectiveness.

6.4 Institutions for 'caring economies': addressing inequity

As illustrated by the evidence presented in this paper, the growth and development record in Africa has left behind large segments of the population, especially the poor, women, girls and most recently and increasingly the educated youth. Even as average incomes have increased, the number of the poor has increased in many countries, and even as democracy is advancing in many countries, political systems remain dominated by men. The social allocation or political equilibrium in most African countries is unsustainable in the long run due to these inequities. African countries need to adopt institutions and policy frameworks that mainstream and

explicitly target equity as an objective. National institutions must incorporate rules for equitable representation of traditionally marginalized groups, notably women and demographic minorities, especially ethnic groups. In this regard, there are some best practices in Africa that can be emulated to move towards equal representation of all social groups. In Burundi, for example, post-conflict institutions have provisions for power sharing arrangements that enable adequate representation of ethnic minorities (Tutsi and Twa) and women. This is a major change from the past practice of repressing ethnic identity claiming that there are no ethnic groups, while building a regime based on ethnic exclusion. But there is no reason why African countries should have to go through wars and political crises before they can establish equitable power sharing arrangements in their constitutions and other key national legislations. Donors should support efforts to institutionalize equity by systematically including equity as a policy target in their aid allocation and evaluation processes.

Addressing equity also requires institutional reforms in the area of social service provision, in particular in health and education. Even as governments scale up efforts to expand social service delivery and increase access for the rural area and the traditionally marginalized groups, they also must incorporate measures to increase affordability of these services. A new school in a community is good for the poor only if they can afford to send their kids there. The same goes for health facilities. Therefore new policy frameworks for social service provisions need to incorporate fee structures that provide adequate subsidies targeted to the poor. The fee structure should be tailored to the customer's capacity to pay, thus preventing free riding by the rich while providing maximum support to the poor.

6.5 Overcoming political and leadership uncertainty

To achieve an optimal political equilibrium, African countries need to overcome political and leadership uncertainty. As a starting point all African countries that have not done so yet should embark on democratic transition through fair and transparent elections. While democracy is not a panacea to social and economic problems, it is a superior arrangement to systems that are based on oppression and repression of people's political rights. Success will depend on the emergence of visionary leadership that is driven by the long-term wellbeing of the country rather than its own preservation. This requires establishment of competitive and transparent institutions governing political competition that enable the best to emerge and prevail. This in turn requires strong mechanisms of accountability, notably a dynamic middle class and an independent media and civil society. Only then can there be a process of orderly and predictable leadership succession, which is critical for long-term economic planning and for minimizing the effects of political cycles on the economy.

The role of the donor community will be instrumental in helping the emergence of visionary leadership in Africa. At the very minimum, the donor community can help by refraining from promoting individual leaders on the basis of its own strategic interests. The international community should especially refrain from awarding premature prizes to ruling African leaders; donor's resources could be used in much more productive ways. The litmus test of a good leader should be the way in which she/he leaves office. It is in this spirit that African leaders should be judged, nationally and internationally.

6.6 The role of domestic non-state actors and mechanisms of restraint on executive power

For all the initiatives and reforms proposed above to succeed, the African state needs to become a true developmental state. This in turn requires the emergence of a vibrant network of independent domestic non-state actors and credible mechanisms of restraint on state power. This proposition is challenging in the sense that for these non-state actors to emerge, the state needs to create a nurturing environment for their creation and development. As discussed earlier, the 'missing middle' in Africa is partly the product of deliberate repression of individual freedom and private enterprise by the state. So, how can the African state be more pro-business and more pro-individual liberties?

One would hope that African leaders can eventually learn from history and realize that while the state can repress individual rights and political liberties for some time, and even for a long time, there eventually comes a time when the system becomes unsustainable and the will of the people inevitably triumphs. Strong African regimes have come crumbling under sustained pressure from the people. This was the case for the colonial regimes, the Apartheid regime in South Africa, notorious dictatorships such as in the Congo under Mobutu and more recently the Arab spring in North Africa. Of course such a path is costly as it involves a heavy toll on society and the economy.

With the increasing levels of education in African countries, the emergence of information technology that enables instant spread of ideas and information, and increased mobility of human and financial capital, it will increasingly become harder for autocrats to keep the people hostage under repressive regimes. As the African people increasingly refuse to swallow the dogma of patrimonialism, one would also hope that the international community will stand more firmly and more consistently on the side of the African people to oppose oppression and repression. The combination of internal pressure and external support will enable the emergence of accountable, responsible and developmental states in Africa, which is a key condition for achieving sustainable development.

7. Conclusion

The review of the evidence in this study suggests that Africa's growth and development record can be characterized as low-growth low-development political equilibrium. The continent has struggled to reach sustainable development as its growth has been low and volatile, inequitable with high levels of vertical and horizontal inequality, and it has not been accompanied by economic transformation.

An important reason for the disappointing performance is that policy making in Africa has lacked consistency, coherence, and vision. The shifts in policy paradigms have undermined focus in national development policies. Going forward, policy frameworks need to be grounded in a sound industrial policy aimed at optimizing the allocation of resources, building competitive economies and leveraging technological innovation. This can enable African economies to

leapfrog to higher-productivity knowledge-based production systems, while overcoming the structural constraints associated with small local markets and unfavorable geography. In particular, a knowledge and technology driven strategy can allow African countries to leverage the potential of agriculture, which thus far has been marginalized. In addition to ensuring food security, this strategy can transform agriculture into a driver of employment creation and industrialization.

Moreover, new policy frameworks must explicitly target equity as a medium-term and long-term goal. Thus, vertical and horizontal inequality should feature prominently in macroeconomic and sectoral policy frameworks. A number of countries have already institutionalized rules of representation and power sharing along gender, ethnic, and regional lines. In Burundi, Rwanda, South Africa for example, women representation in government and politics has increased as a result of specific institutional innovations. In South Africa the black economic empowerment, despite important imperfections, is helping to increase integration of the blacks in the mainstream economy. In Burundi, the post-conflict institutional arrangements provide for minimum representation of ethnic minorities. These institutional innovations can be emulated in other countries as a means of achieving equitable political and economic systems. This is an essential pre-requisite for achieving sustainable development.

Moreover, African countries need to fully own their development strategies. Thus, the debate on post-2015 policy frameworks must embrace a participatory approach to incorporate the views and expectations of African countries and developing countries in general. While the international community must be open to this approach, it is obviously the responsibility of African leadership to seize the opportunity and step to the plate to advance Africa's interests in global policy setting processes.

A key challenge in African countries going forward is to address the interrelated issues of leadership and the 'missing middle'. African countries must develop national political and economic systems that nurture a symbiotic relationship between the state and independent and vibrant network of domestic non-state actors, namely the intellectual elite, the business community, civil society organizations and the media. The onus is on the African national leadership which must embrace a new mode of economic and political governance that champions national unity, political freedom, and private enterprise. This is the basis for building free nations and dynamic economies. The emergence of an African developmental state that supports rather than suffocates private initiative, and respects individual rights, is indispensable for the continent's ability to achieve sustainable development.

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Table A.1 Trends in human development index, 1980-2011

(Countries ranked by improvement in HDI from 2000 to 2011)

Country	*HDI (index value)*				*% change from 2000 to 2011*	
	1980	1990	2000	2011	HDI	GDP per capita
South Africa	0.564	0.615	0.616	0.619	0.5	2.1
Zimbabwe	0.366	0.425	0.372	0.376	1.1	-4.6
Seychelles			0.764	0.773	1.2	1.6
Lesotho	0.418	0.47	0.427	0.45	5.4	2.8
Swaziland		0.526	0.492	0.522	6.1	1.8
Togo	0.347	0.368	0.408	0.435	6.6	-0.1
Côte d'Ivoire	0.347	0.361	0.374	0.4	7.0	-1.1
Liberia	0.335		0.306	0.329	7.5	0.2
Botswana	0.446	0.594	0.585	0.633	8.2	2.9
Namibia		0.564	0.577	0.625	8.3	2.5
Mauritius	0.546	0.618	0.672	0.728	8.3	3.4
Gabon	0.522	0.605	0.621	0.674	8.5	-0.2
Cape Verde			0.523	0.568	8.6	5.7
Equatorial Guinea			0.488	0.537	10.0	14.4
Egypt	0.406	0.497	0.585	0.644	10.1	3.0
Mauritania	0.332	0.353	0.41	0.453	10.5	1.8
Tunisia	0.45	0.542	0.63	0.698	10.8	3.5
Congo, Rep.	0.465	0.502	0.478	0.533	11.5	2.3
Algeria	0.454	0.551	0.624	0.698	11.9	2.1
Central African Rep	0.283	0.31	0.306	0.343	12.1	-0.6
Madagascar			0.427	0.48	12.4	0.0
Cameroon	0.37	0.427	0.427	0.482	12.9	1.1
Benin	0.252	0.316	0.378	0.427	13.0	1.0
Sudan	0.264	0.298	0.357	0.408	14.3	4.0
Chad			0.286	0.328	14.7	4.6
Morocco	0.364	0.435	0.507	0.582	14.8	3.5
Kenya	0.42	0.456	0.443	0.509	14.9	1.2
Senegal	0.317	0.365	0.399	0.459	15.0	1.2
Zambia	0.401	0.394	0.371	0.43	15.9	2.9
Malawi	0.27	0.291	0.343	0.4	16.6	1.5
Gambia	0.272	0.317	0.36	0.42	16.7	1.1
Uganda		0.299	0.372	0.446	19.9	3.6
Ghana	0.385	0.418	0.451	0.541	20.0	3.1
Angola			0.384	0.486	26.6	7.2
Congo, Dem. Rep.	0.282	0.289	0.224	0.286	27.7	0.8
Tanzania		0.352	0.364	0.466	28.0	3.9

Niger		0.193	0.229	0.295	28.8	0.4
Burundi	0.2	0.25	0.245	0.316	29.0	0.1
Mali	0.174	0.204	0.275	0.359	30.5	2.2
Mozambique		0.2	0.245	0.322	31.4	4.7
Ethiopia			0.274	0.363	32.5	5.7
Sierra Leone	0.248	0.241	0.252	0.336	33.3	5.5
Rwanda	0.275	0.232	0.313	0.429	37.1	4.4
Burkina Faso				0.331		2.3
Comoros				0.433		-0.7
Djibouti				0.43		1.5
Eritrea				0.349		-3.8
Guinea				0.344		0.9
Guinea-Bissau				0.353		-0.1
Libya				0.76		2.3
Nigeria				0.459		3.8
Sao Tome and Principe				0.509		4.6

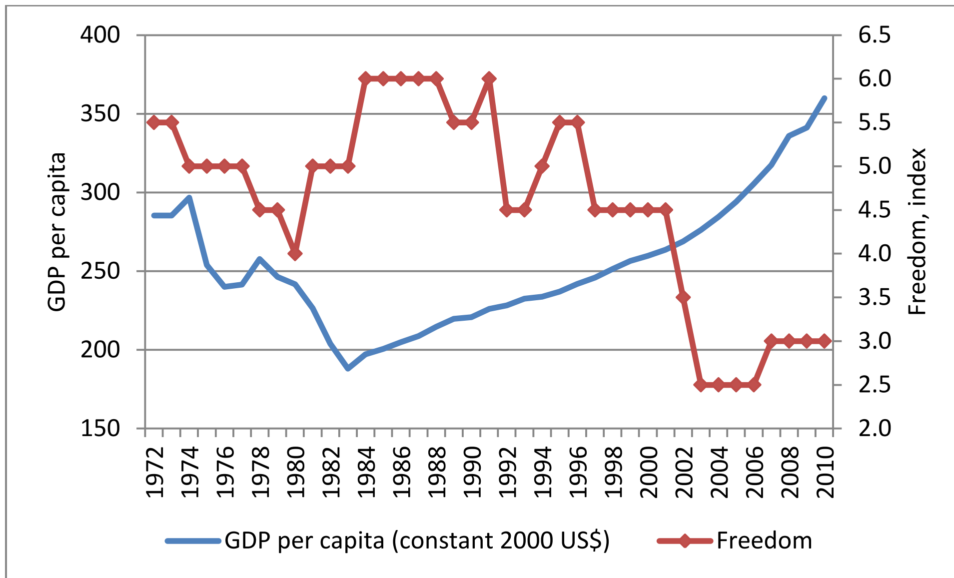
Source: UNDP, Human Development Report database

Table A. 2: Political cycles and policy regime shifts: Case of Ghana

Period	Political regime	Economic policy regime	Outcomes
1957 - 1966	Independence in 1957 Kwame N'Krumah, nationalist and panafricanist	- Economic prosperity as instrument for consolidation of political independence - state-led growth policies	- Average GDP growth (4.62% annually) - Macroeconomic balances: high fiscal and current account deficits (current account deficit averaged 5.4% of GDP from 1960-1965) - poor human development record
1966- about 1983	Nkrumah was deposed in a coup d'état (Nkrumah was not assassinated; rather his government was toppled in 1966 but he died in 1972. Eight different Heads of State from 1966 to 1981 (24 Feb 1966 to 2 Apr 1969: Major-General Joseph Arthur Ankrah; 2 Apr 1969 to 7 Aug 1970: Brigadier Akwasi Amankwa Afrifa; 7 Aug 1970 to 31 Aug 1970: Nii Amaa Ollennu; 31 Aug 1970 to 13 Jan 1972: Edward Akufo-Addo; 13 Jan 1972 to 5 July 1978: Colonel Ignatius Kutu Acheampong; 5 July 1978 to 4 Jun 1979: Lieutenant-General Frederick Fred William Kwasi Akuffo; 4 Jun 1979 to 24 Sep 1979: Flight Lieutenant Jerry John Rawlings; 24 Sep 1979 to 31 Dec 1981: Dr. Hilla Limann; 31 Dec 1981 to 7 Jan 1993: Flight Lieutenant Jerry John Rawlings)	- Pervasive and strict control regime: fixed exchange rate, financial repression, cocoa price control; - trade restrictions - nationalization or control of enterprises - Monetization of the deficit	- Unsustainable public expenditures - Deterioration of macroeconomic indicators: government revenue (from 18.1% of GDP in 1970 to 9.5% in 1983), primary budget deficit (from 0.3% of GDP in 1970 to 4.6% in 1983) and current account deficit (from 0.625% of GDP in 1975 to -4.24% in 1983), foreign exchange reserves (actually increased from 1.9 months of imports in 1975 to 4.8 in 1983), exchange rate, black market premium, CPI inflation (rose from 3% in 1970 to 122% in 1983). - Investment declines (from 14.2% of GDP in 1970 to 3.7% of GDP in 1983) - GDP growth by an average -0.004% per annum from 1970 to 1983; average per capita income declines from $274 in 1970 to $188 in 1983 (constant 2000 US$). - Economic hardship forces 2 million Ghanaians 'economic refugees' into Nigeria (forced to return in 1983) - How can we characterize political stability during this period? – It was a period of Political Instability
1983 to 1992	Jerry Rawlings takes over in a military coup	- Adoption of the Economic Recovery Program - Devaluation of the exchange rate; establishment of foreign exchange bureaus (in 1998) - Liberalization,	- GDP Growth resumes: average growth of 5.2% between 1983 and 1992 - Fiscal deficit averaged 2.8% from 1984-1992 - Decline in money growth and inflation (money growth declined from 40.2% in 1983 to 13.3% in 1990 rising again to 52.3% as of 1992; inflation declined from 122% in 1983 to 10.1% in 1992) - stabilization of the currency market (black market premium evaporates – not completely though)

		privatization - increase in cocoa producer price - privatization of state enterprises	- How can we characterize political stability during this period? There was political stability under a single-party system (A military regime that was highly autocratic)
1993 to today	Successive democratic regimes; Competitive elections (2000, 2004, 2005) (7 Jan 1993- 7 Jan 2001: President Jerry John Rawlings; 7 Jan 2001- 7 Jan 2009: President John Agyekum Kufuor; 7 Jan 2009-24 July 2012: President John Evans Atta-Mills; 24 July 2012 to date: President John Mahama)	- Pursuit of economic liberalization policies, - Market determined price system (interest rates and exchange rate) - Second African country to adopt an inflation targeting regime (after South Africa)	- Political stability - GDP growth: from 4.85 % in 1993 to 8% in 2010 - Poverty reduction: decline in poverty headcount from 50.6 in 1987 to 28.6 in 2005 - Improvement in sovereign credit rating: successfully $750 million on the international market through bond issue (second country after South Africa)

Figure A. 1: Ghana: Per capita GDP (constant 2000 $) and political freedom



Sources: World Bank, World Development Indicators; Freedom House database. Political freedom index = average of political liberty score and civil liberty score (a lower value represents higher level of political freedom).

Table A. 3: Determinants of human development: cross section (OLS) regression results

	Overall human development		Health		Education	
VARIABLES	Level of HDI	Improvement in HDI 2000-11	Health index	Improvement in health 2000-11	Education index	Improvement in education 2000-11
Initial level (HDI, Health, Education)	0.998***	-4.299***	0.959***	-2.583***	0.949***	-7.172***
	(0.000)	(0.000)	(0.000)	(0.001)	(0.000)	(0.000)
Initial GDP per capita	-0.000**	0.00005	-0.000**	-0.0001	-0.0000	0.0002**
	(0.034)	(0.442)	(0.027)	(0.145)	(0.993)	(0.035)
GDP per capita growth	0.004**	0.096*	0.001	0.022	-0.003	-0.092
	(0.029)	(0.062)	(0.556)	(0.568)	(0.206)	(0.154)
Constant	0.052***	2.793***	0.095***	2.613***	0.099***	4.607***
	(0.001)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Observations	43	43	51	51	44	44
R-squared	0.97	0.59	0.92	0.35	0.94	0.53

Robust p-values are given in parentheses; *** p<0.01, ** p<0.05, * p<0.1.

The dependent variable is, alternatively, the level of human development, i.e., the index (overall HDI, education, and health) and the change in the index from 2000 to 2011.