

Growth and Investment in Sub-Saharan Africa: *Case studies*

Dirk Willem te Velde, Michael Warner and Sheila Page

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1 Introduction

This note discusses growth and investment experiences in sub-Saharan Africa, with an emphasis on country case studies. Sub-Saharan Africa's growth has accelerated at the turn of the century, with GDP per capita having increased over four consecutive years since 1998. Here we discuss the differences in growth experiences across sub-Saharan countries.

Section 2 reviews the literature on growth and poverty in general, while section 3 reviews the main studies on growth and poverty in sub-Saharan Africa. Section 4 discusses the motivation for choosing the selection of case studies on African growth and poverty, focusing on the statistical evidence. Section 5 motivates the selection of case studies based on structural factors found in African growth studies. Section 6 provides case studies of African growth. Section 7 discusses instances of how government policies affect pro-poor growth; Section 8 provides examples of how business policies affect pro-poor growth. Section 9 concludes.

2 Explaining growth and poverty: institutions, geography and outward orientation

The literature on factors behind growth distinguishes between outward orientation, domestic policies and institutions, and finds that good institutions hold the key to sustained good performance. This discussion aims briefly to introduce the main debates. However, see elsewhere for a fuller discussion.¹

Outward orientation

The econometric evidence demonstrates that there is a positive correlation between export orientation and growth (and between openness to imports and growth). Citing one cross-country example, Dollar and Kraay (2000) examine the relationship between growth in the incomes of the poorest one-fifth of the income distribution on the one hand, and domestic policies (in as much as they can control government consumption, inflation, primary education and the rule of law) and trade *outcomes* (export and imports as a percentage of GDP) on the other. A one standard deviation (obtained from the sample) change in inflation (reduction), government consumption as a percentage of GDP (reduction) and the rule of law (improvement), results in a 50% increase in the incomes of the poor, while that in trade openness results in a 10% increase. These estimates suggest that domestic policies are relatively *more* important than trade policies in determining incomes of the poor.

¹ For further details, see

- Acemoglu various at http://econ-www.mit.edu/faculty/index.htm?prof_id=acemoglu&type=publication
- Rodrik various at <http://ksghome.harvard.edu/~drodrrik/papers.html>
- IMF World Economic Outlook 2003/4 at <http://www.imf.org/external/pubs/ft/weo/2003/01/>
- World Bank papers (various including lessons from the 90s, WDR2005 at <http://econ.worldbank.org/wdr/wdr2005/text-35620/> and various at <http://econ.worldbank.org/programs/macroeconomics/topic/22009/>).

However, studies like these do not confirm the direction of causality (on which evidence is less conclusive) nor the importance of trade and domestic policies, as it is not clear what drives exports (or imports); there can therefore be significant variation across countries. The impact of trade policy reform is conditional on the characteristics and non-trade policies of the economy. It is also important to emphasise that trade liberalisation is not the same as openness, and current controversy on the link between openness and growth should not be interpreted as a critique of trade liberalisation *per se*. In principle, the desirability of trade liberalisation results from the fact that it instils appropriate relative incentives, not because it necessarily increases growth in itself. Trade reforms are but a component of openness, which also includes capital and investment flows, themselves an element of what is commonly referred to as ‘globalisation’ (the increased intensity of inter-linkages between countries in the global economy). On balance, the evidence suggests that openness to trade is conducive to growth, conditional on appropriate domestic policies and institutions (see also Rodrik, 1999). Further details and country-specific examples of trade policies and poverty are discussed as part of the ATPP project.

Institutions

Institutions, in the broad sense, are sometimes divided into three categories (IMF, 2003)

- Quality of governance
- Legal protection of private property
- Institutional limits on leaders

Several researchers have investigated the importance of domestic institutions in determining differences in per capita income.² Based upon a sample of 64 ex-colonies in 1995, Acemoglu *et al.* (2000) find that over 75% of the difference in per capita incomes arises from differences in institutions (as indicated, for example, by protection of property rights). A difference is highlighted between countries where Europeans settled in large numbers, leading to institutional developments, and countries where a local elite was empowered to extract natural resources, leading to weaker conditions for broad-based growth. Rodrik (2004) doubts the real explanatory power of this difference, although he acknowledges that it can provide an appropriate econometric instrument.

However, there is still a major question as to what constitutes good institutions and what causes institutional quality: Rodrik (2004) suggests that perceptions of institutions (e.g. Kaufman *et al.*, 2003 indicators) are not a good guide of what good institutions actually are: these are just a perception by investors of the current situation. He suggests that good institutions are associated with situations where

- investors feel secure about their property rights
- the rule of law prevails
- private incentives are aligned with social objectives
- monetary and fiscal policies are grounded in solid macroeconomic institutions
- idiosyncratic risks are appropriately mediated through social insurance
- citizens have recourse to civil liberties and political representation

² Because institutions may in turn be caused by development, researchers have also focused on the role of geography and history in determining institutional quality.

Another question relates to what leads to growth accelerations (Hausman *et al.*, 2004) defined as long-term increases in the growth rate. The literature suggests that good quality institutions are required to *sustain* economic growth. However, it does not appear to be the case that large-scale institutional transformation is required for stimulating growth. This suggests that focusing on immediate constraints to growth remains important in growth accelerations (these tend to be country specific), while institutional reforms are required for sustaining growth in the long-run.

All reviewed studies (including by Rodrik, Acemoglu, Sachs and Dollar) agree that good institutions are key, though there is some debate as to whether outward orientation and/or geography affect growth independently or through institutions. For example, while domestic institutions are shaped by domestic conditions and policies (including information, transparency), some assume that these are incompetent so that ‘an export orientation imposes a discipline and set of constraints on all economic policies that prevent the adoption of very many measures severely antithetical to growth’ (Krueger, 1990: 110). On this view, trade liberalisation, or openness more broadly, would lead to domestic policy reform.

Geography

Sachs argues that geography affects growth independently from institutions, through its impact on public health and transport costs, although Rodrik (2004) maintains that it is more likely that geography affects growth through institutions. McArthur and Sachs (2000) argue that Acemoglu *et al.* understate the importance of the role played by geography (e.g. absolute value of latitude, tropical vs temperate climate, access to sea), which is likely a result of the small range of ex-colonies and limited geographical variation within the sample (tropical and sub-tropical environments). Extending the sample of countries, McArthur and Sachs do confirm the importance of institutions (measured by expropriation risk), but also point to the importance of geographic variables focusing on the link between geography and health. Recognising that differences in health status are affected by physical geography, they find that the infant mortality rate is negatively related to GDP per capita. The regression results show that a one standard deviation in the risk of expropriation leads to a 80–90% increase in the level of GDP per capita (importance of institutions), while one standard deviation in the infant mortality rate leads to a 50% increase in the level of GDP per capita.

Sachs and Warner (1997) also find that countries endowed with natural resources grow more slowly, controlling for other variables, such as institutional quality. They argue this is a result of a combination of Dutch disease effects and greater incentives for rent-seeking in resource-abundant economies. A quick look at growth performances shows that adverse geography alone is not sufficient to cause weak growth (Botswana is landlocked, Singapore has a less temperate climate, but both are star performers), although controlling for other factors it may still have a negative impact on growth.

3 Growth, investment and poverty with reference to sub-Saharan Africa

There has been a heated debate as to the explanation of growth performances in the African context (Table 1). The key points of this debate can be summarised as follows (see Collier and Gunning, 1999 and Azam *et al.* 2002 for a detailed review of most of these studies).³

- When explaining growth in Africa, researchers use slightly different models from the ones discussed in the previous section. They can use augmented Solow growth models with a host of explanatory variables for GDP per capita growth, or use growth accounting studies. In both cases, we need to bear in mind that the evidence does not account for the past five years of data, a period when Africa finally managed to halt the decline in GDP per capita.
- Some researchers using traditional Solow growth models find that the inclusion of an Africa dummy is required to explain Africa's growth performance (Easterly and Levine, 1997).
- However, when accounting for some other factors and interactions (e.g. policies, geography as in Sachs and Warner, 1997), or using alternative econometric specifications (Hoeffler, 2000), Africa's poor growth can be fully explained without the need to invoke an Africa dummy.
- Key explanatory variables include low investment, unlucky geography, low institutional quality, low education and poor economic policies.

³ The AERC/Harvard growth programme offers further views on individual country growth experiences, see e.g. (http://www.aercafrica.org/programmes/research_collab_growth.asp), or (http://www.gdnet.org/activities/global_research_projects/explaining_growth/country_studies/) Unfortunately, there is no sign yet of a synthesis paper.

Table 1 Studies on growth and investment in sub-Saharan Africa

Study	Findings
Azam, J.P, A. Fosu and N. Ngung'u (2002), 'Explaining Slow Growth in Africa', <i>African Development Review</i> , 14, pp. 177-220.	Africa's slow growth can be explained by five factors: Macroeconomic policy environment, Macroeconomic uncertainty (risk of policy reversal except in Uganda, Ghana, Botswana and Mauritius), Human capital (human capital affects growth through investment, bad education systems in some countries), Regional spillover effects (CFA franc zone was favourable and credible initially, but inflexible to changes in exchange rates), External shocks, Institutional and Political instability. They argue that openness and export orientation are main policy variables affecting growth and that lack of social capital and deficient political institutions have cause bad policies.
Collier, P. (2002), 'Primary Commodity Dependence and Africa's Future', <i>draft World Bank paper</i>	Argues that Africa has not experienced diversification of exports and remains dependent upon primary commodities. The current comparative advantage in primary commodities is a result of a poor investment climate, not endowments or location. Export Processing Zones might help lower operating costs.
Fafchamps, M. F. Teal and J. Toye (2001), 'Towards a Growth Strategy for Africa', CSAE study.	In the long run, a growth strategy is the most cost-effective way of dealing with poverty but measures are needed to protect vulnerable groups against disruption of rapid growth. A dramatic rise of exports out of Africa is essential for sustained growth, which may come from manufacturing. Successful macroeconomic policy can be regarded as a precondition for growth.
Collier and Gunning (1999), 'Explaining African Economic Performance', <i>Journal of Economic Literature</i> , available from http://www.dse.de/ef/papers/coll-gun.htm	Many macro growth regressions find a significant Africa dummy, while some researchers transfer the puzzle elsewhere, e.g. a tropics dummy. Explanation for slow growth (not adequately captured in growth regressions): lack of openness, high-risk environment, low level of social capital, poor infrastructure (and lack of finance). Governments were captured by narrow elite, leading to physical and human capital flight. Poor micro policies now more important than geography in explaining low growth.
Sachs, J.D and A.M. Warner (1997), 'Sources of Slow Growth in African Economies', <i>Journal of African Economies</i> , 7, pp. 335-376	Slow per capita GDP growth in sub-Saharan Africa (1965–90) can be explained by poor economic policies, e.g. lack of openness, lack of access and tropical climate are important; once these are included there is no need for an Africa dummy; life expectancy; landlockedness; institutional quality; natural resources.
Easterly, W. and R. Levine (1997), 'Africa's Growth Tragedy: Policies and Ethnic Divisions', <i>Quarterly Journal of Economics</i> , CXII (4), 1203-1250. (World Bank WP1503)	Poor growth over 1960–89 associated with low schooling; political instability; underdeveloped financial systems; distorted foreign exchange markets; high government deficits; low infrastructure; ethnic factionalisation; and spillovers from neighbours that magnify the above: i.e. an Africa dummy.
McPherson, M.F. and T. Rakovski (2001), <i>Understanding the Growth Process in Sub-Saharan Africa: Some Empirical Estimates</i> , African Economic Policy Discussion Paper, Harvard University	Criticise use of single equations with a dozen explanatory variables; use a multi-equation system instead. Impact of foreign aid on GDP per capita growth is positive but indirect through investment.
Hoeffler, A. (2000), <i>The augmented Solow Model and the African Growth Debate</i> , CID working paper 36	Africa's low growth performance can be accounted in an augmented Solow model, provided that allowance is made for unobserved country-specific effects and the endogeneity of investment in estimating the parameters of the model. GDP per capita growth (1960–94) explained by e.g. initial income, years of schooling, the dummy for Africa is insignificant.
Block, S.A. (2001), 'Does Africa Grow Differently?', <i>Journal of Development Economics</i> , 65, pp. 443-467	Argues that Africa does not grow differently than elsewhere, as the Africa dummy is insignificant when account is made of interactions between SSA dummy and certain institutional and policy factors. Growth in GDP per capita explained by, initial per capita income, initial life expectancy, landlockedness, political risk, openness (Sachs and Warner), budget deficit and interactions SSA and above.
O'Connell, S.A and B.J. Ndulu (2000), 'Africa's growth experience. A focus on sources of growth', paper for AERC/Harvard growth project.	Growth in real per capita GDP in SSA (1960–97) samples depends on initial income and life expectancy; demographics; external shocks (dry years cause slow growth); landlockedness (negative and significant); investment/GDP ratio (positive and significant).
Calamitsis, E.A., A. Basu and D. Ghura (1999), <i>Adjustment and Growth in Sub-Saharan Africa</i> , IMF Working Paper WP/99/51	Real per capita GDP (1981–97) positively related to policies that influence: private investment/GDP, human capital development, lower budget deficit/GDP; safeguard external competitiveness; stimulate export volumes.
Nkurunziza, J.D. and R.H. Bates (2003), <i>Political Institutions and Economic Growth</i> , CID working paper 98	Using an augmented Solow model, they find that; political stability and regime type affect economic growth (1960–90); political violence is not important; Africa dummy should not be included.

Recently, researchers have begun to address the determinants of pro-poor growth. Here we identify the main issues identified in Christiaensen *et al.* 2003, Klasen (2003) and a recent special issue of *Journal of African Economies* 2004.

Relationships between growth, inequality and poverty include:

- Economic growth reduces, on average, poverty
- High inequality reduces the poverty elasticity of growth

Growth tends to be pro-poor growth when growth

- occurs in sectors that use the poor (this is often agriculture)
- occurs in regions where the poor are located (often rural areas, though there are exceptions, such as cities in Brazil)
- uses factors of production that the poor possess (unskilled labour, land)
- or has indirect but strong linkages with sectors, regions and factors of production of the poor

While targeting the poor directly may be effective, it may not always be the most efficient. Suggestions in the literature for key elements of policy packages that achieve growth in the incomes of the poor include:

- *Macro policy*
 - Fiscal policy, achieving low net domestic budget deficits with a broadening of the tax base and refocusing expenditures (way from subsidies for national enterprises towards productive assets complementary to private sector investment)
 - Monetary and exchange rate policy, achieving low inflation and competitive exchange rates
 - Privatisation, achieving well managed privatisation, possibly with subsidies to reach the poor and regulations for universal provision
 - Financial sector policy, achieving well managed and well sequenced capital account liberalisation
 - Trade and investment policy, facilitating trade, phase in import tariff reductions and targeting investment that fits in with a country's development strategy
- *Sectoral policy*
 - Agriculture policy, removing agriculture subsidies in OECD countries and other obstacles to developing country exports, and improving productivity of agriculture
 - Industrial policy, improving local capabilities and inter firm linkages
 - Movement of people, opening OECD markets to developing country services and labour

- *Horizontal/functional policies*
 - Human capital policy, investing in education and health, focusing on quality and outreach for the poorest, e.g. by providing public goods and institutions in specific regions
 - Infrastructure, enabling the poorest to take part in growth opportunities as a result of trade liberalisation, e.g. by providing infrastructure in specific regions
 - Addressing asset and income inequality directly through redistribution via transfer and safety nets
- *Governance*, focusing on institutions and other factors that drive pro-poor policies and outcomes

The effectiveness and efficiency of these policies will depend on country circumstances and methods of implementation. For example, some suggest that Structural Adjustment Programmes contained reforms to several macro policies but these may not have been successful (perhaps with the exceptions of Uganda, Ghana and Mozambique) owing to implementation issues or poor design (Klasen, 2003). Nonetheless, we know that certain macro policies, such as exchange rate realignments, can be important in increasing growth and reducing poverty in African countries (Christiaensen *et al.*, 2003).

Business policies also play a role in delivering pro-poor growth and will be discussed in section 8 in the next draft.

4 Selecting African case studies: statistics

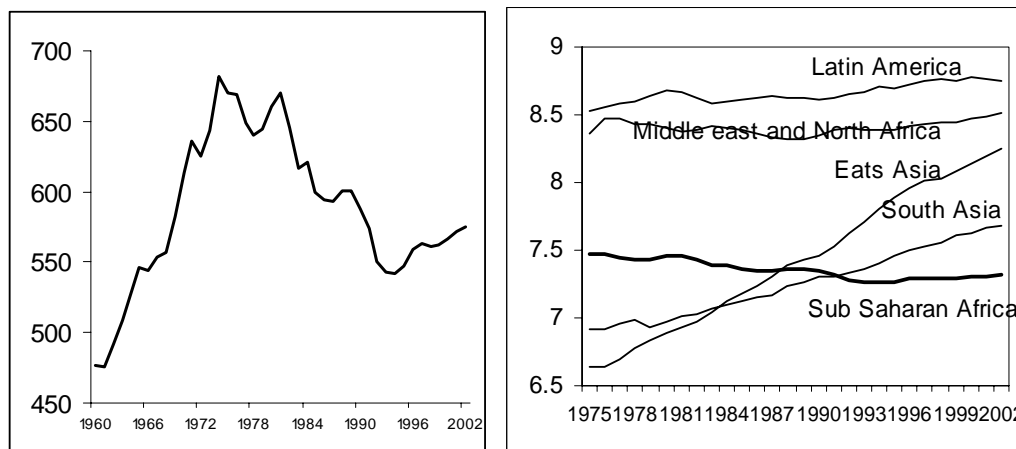
This section reviews experiences of growth and investment in African countries on the basis of statistics. It identifies both successes and failures; reviewing these cases may provide further insight into what characterises good and bad performances.

Growth in Africa

Africa's GDP per capita decreased by a third between the early 1970s and the mid 1990s. As Chart 1 indicates, the decline ceased in 1995 and there has been a modest revival since then, with SSA's GDP per capita increasing annually by slightly less than 1% annually in real terms. However, this revival, welcome as it may be, is still below growth rates achieved in most other regions.

Chart 1 Sub-Saharan Africa is growing richer, but slowly compared to elsewhere

1995 international PPP per capita dollars ln 1995 PPP per cap dollars



Source: World Development Indicators 2004

Growth and investment: successes and failures

There are very diverse performances underlying this aggregated picture. Table 2 shows growth performances over the period 1960–2000; Botswana, Mauritius, Cape Verde, Congo, Seychelles, Gabon, Swaziland and Lesotho have managed an annual increase of over 2% in real GDP per capita.

Equatorial Guinea, Mauritius, Uganda, Mozambique, Eritrea, Cape Verde, Botswana, and Lesotho managed to achieve such an increase over the 1990s.

Table 2 Top growth performances in Africa

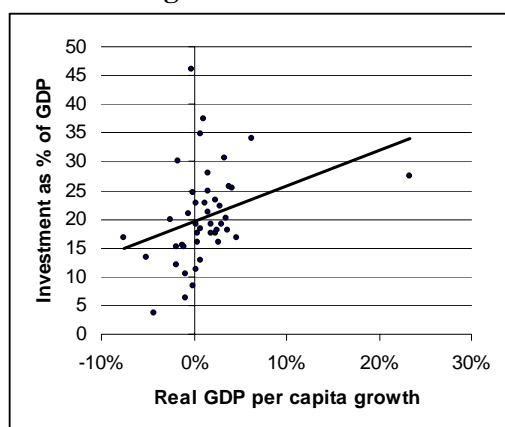
Country	Income, 2000	GDP per capita growth rate			
		1960-2000		1990s	
Mauritius	13,932	Botswana	5.3	Equatorial Guinea	17.0
Seychelles	10,241	Mauritius	3.7	Mauritius	4.0
Gabon	8,402	Cape Verde	3.5	Uganda	3.3
Botswana	7,550	Congo	3.3	Mozambique	3.1
South Africa	7,541	Seychelles	3.1	Eritrea	2.9
Swaziland	5,227	Gabon	2.6	Cape Verde	2.9
Namibia	4,458	Swaziland	2.3	Botswana	2.6
Cape Verde	4,027	Lesotho	2.1	Lesotho	2.2
Sub-Saharan Africa	2,273	Sub-Saharan Africa	0.8	Sub-Saharan Africa	0.4

Source: IMF World Economic Outlook 2004

Because there has been a modest revival of growth in SSA over the past few years (Chart 1), we focus on recent growth and investment performances of African countries in Table 3.

Top performers over the past five years (1997–2002) include Equatorial Guinea, Liberia, Mozambique, Rwanda, Mauritius, Botswana, Sudan and Cape Verde. This is in part matched with good performances over that period in terms of investment, see Chart 2 which shows a weakly significant correlation. Gross fixed capital formation as a percentage of GDP has been highest in Lesotho, São Tomé and Príncipe, Seychelles and Mozambique; 19 countries achieved an investment to GDP ratio of at least 20% (Chart 3).

Chart 2 The growth and investment nexus, 1998–2002, sub-Saharan Africa

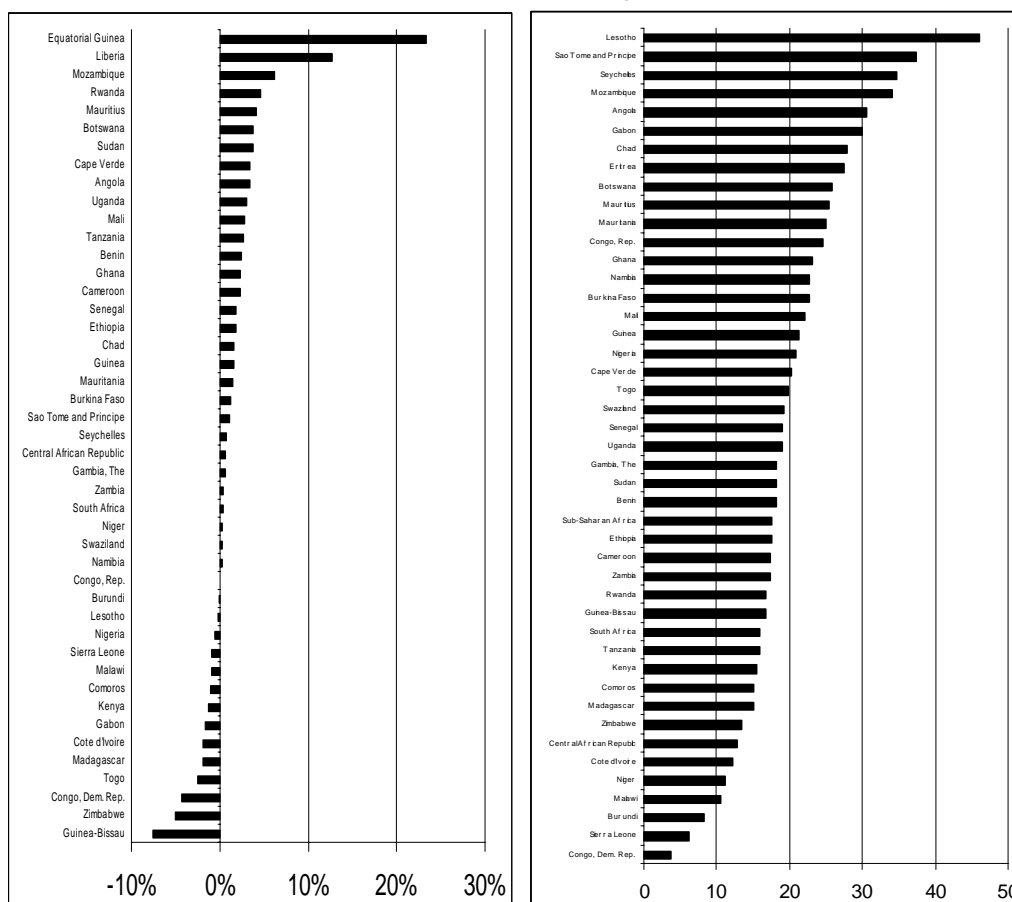


Source: World Development Indicators 2004

Chart 3 African growth and investment performances (ranked)

*Annual growth in real per capita GDP
(international PPP dollars, 1997–2002)*

*Gross fixed capital formation, % of GDP
(average 1997–2002)*



Source: World Development Indicators 2004

There are also declines in real GDP per capita over 1997–2002 in several countries, most severe in Guinea Bissau, Zimbabwe, Congo, with less severe declines in Togo, Madagascar, Côte d’Ivoire, Gabon, Kenya, Comoros, Malawi, Sierra Leone and Nigeria. These countries have all had an investment/GDP ratio of less than 20%, with the exception of Gabon.

Performances are also diverse when it comes to attracting FDI. Larger and oil rich countries received the lion share over 1998–2002: South Africa, Angola, Nigeria, Equatorial Guinea and Chad are responsible for most FDI into sub-Saharan Africa. Particularly, the oil rich countries are guaranteed large amounts of investment, despite low institutional quality, political instability and conflicts (e.g. Angola, Nigeria and Equatorial Guinea). However, other top countries include Tanzania (mining), Uganda (telecommunications) and Mozambique (aluminium smelter). The same countries also performed best in the most recent year – 2002 (Table 3).

When scaled by GDP, the picture looks slightly different. Oil producers Equatorial Guinea, Angola and Chad are still on top, but Lesotho and Gambia have also attracted significant FDI in textiles and clothing and tourism. These countries with high FDI

are also characterised by a high investment to GDP ratio. Poor performers over 1998–2002 include Cameroon, Kenya, Guinea, Comoros, Niger, Congo, Burkina Faso, Burundi, Mauritania, Central African Republic, Rwanda and Sierra Leone. Many of these countries have low investment/GDP ratios, although there are exceptions, such as Mauritania.

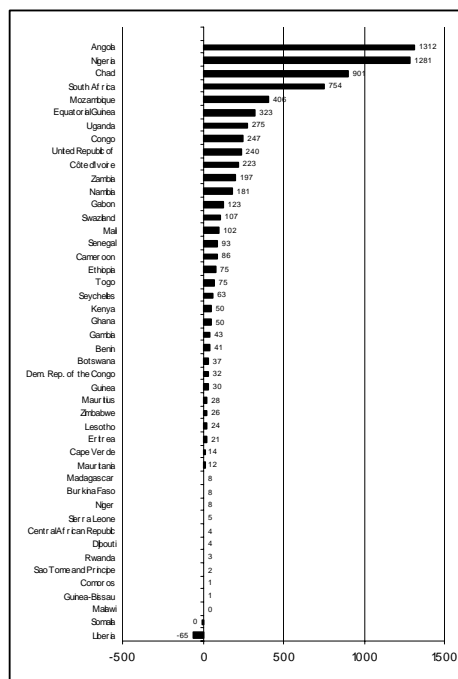
FDI can be quite important for total gross fixed capital formation. For instance, for nearly a dozen African countries, inward FDI represents more than a fifth of total gross fixed capital formation (e.g. in oil rich countries). However, domestic investment is responsible for the lion share of total investment.

Table 3 FDI as percentage of GDP (average 1998–2002), ranked and by group

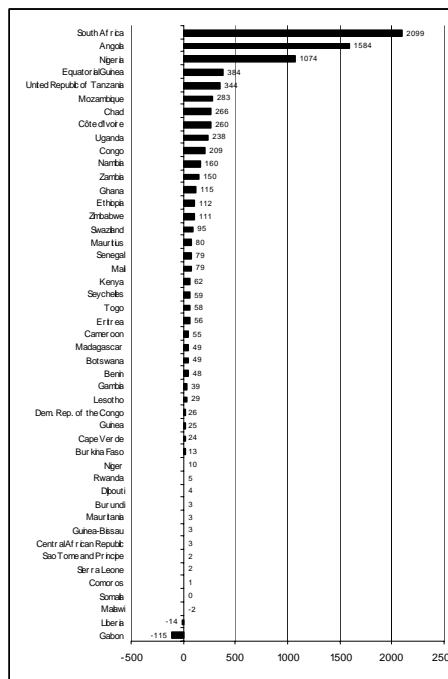
>4% of GDP	1–4% of GDP	<2% of GDP
Equatorial Guinea	Tanzania	Cameroon
Angola	Togo	Kenya
Lesotho	Liberia	Guinea
Chad	Nigeria	Comoros
Gambia, The	Uganda	Niger
Congo, Rep.	Mali	Congo, Dem. Rep.
Seychelles	Côte d'Ivoire	Burkina Faso
Eritrea	Ghana	Burundi
São Tomé and Príncipe	Zimbabwe	Mauritania
Mozambique	South Africa	Central African Republic
Swaziland	Benin	Rwanda
Zambia	Senegal	Sierra Leone
Cape Verde	Ethiopia	
Sudan	Mauritius	
	Guinea-Bissau	
	Malawi	
	Madagascar	
	Gabon	
	Botswana	

Chart 4 FDI inflows (US\$ million)

Top performers in 2002



Top performers, average 1998-2002



Source: www.unctad.org

Apart from large differences across African countries, there have also been experiences of large swings in real GDP per capita over time within a country. Chart 5 shows the economic collapse of Zimbabwe over the last few years, an acceleration in Senegal, sustained performance over the 1990s in Uganda and Mauritius, a slight drop in real GDP per capita in Kenya, and a slight increase in real GDP per capita in South Africa after a long period of decline in the apartheid era.

Other authors have also indicated swings over time. Roberts (2004) shows that real GDP rates recovered swiftly after a period of economic collapse

- Cameroon after 1994, average real GDP growth of 4.4%
- Ethiopia after 1991, average real GDP growth of 4.5%
- Mozambique after 1987, average real GDP growth of 5.2%
- Rwanda after 1995 (rapid recovery), average real GDP growth of 11.3%
- Uganda after 1986, average real GDP growth of 6.2%

Zambia was considered an exception, as it achieved average real GDP growth of only 1.3% annually in the four years after 1990.

It is possible that after the collapse, economies (except Zambia) tend to recover to their pre-collapse economic structures more quickly than found for a wider sample of countries in Collier and Hoeffler (2002). They found that growth was faster only in the fifth year of post-conflict situation, but focused on earlier conflict situations such as in Zimbabwe in the 1970s and Nigeria in the 1960s and 1980s rather than the more recent ones, and included non African countries. such as El Salvador and Philippines.

Table 4 Episodes of rapid growth, by country and magnitude of acceleration

Country	Year	Growth before	Growth after	Difference in growth
Nigeria	1967	-1.7	7.3	9.0
Botswana	1969	2.9	11.7	8.8
Ghana	1965	-0.1	8.3	8.4
Guinea Bissau	1969	-0.3	8.1	8.4
Zimbabwe	1964	0.6	7.2	6.5
Congo	1969	0.9	5.4	4.5
Nigeria	1957	1.2	4.3	3.0
Mauritius	1971	-1.8	6.7	8.5
Côte D'Ivoire	1973	-0.7	7.3	8.0
Comoros	1972	-0.6	5.3	5.9
Congo	1978	3.1	8.2	5.1
Uganda	1977	-0.6	4.0	4.6
Lesotho	1971	0.7	5.3	4.6
Rwanda	1975	0.7	4.0	3.3
Mali	1972	0.8	3.8	3.0
Malawi	1970	1.5	3.9	2.5
Guinea Bissau	1988	-0.7	5.2	5.9
Mauritius	1983	1.0	5.5	4.4
Uganda	1989	-0.8	3.6	4.4
Malawi	1992	-0.8	4.8	5.6

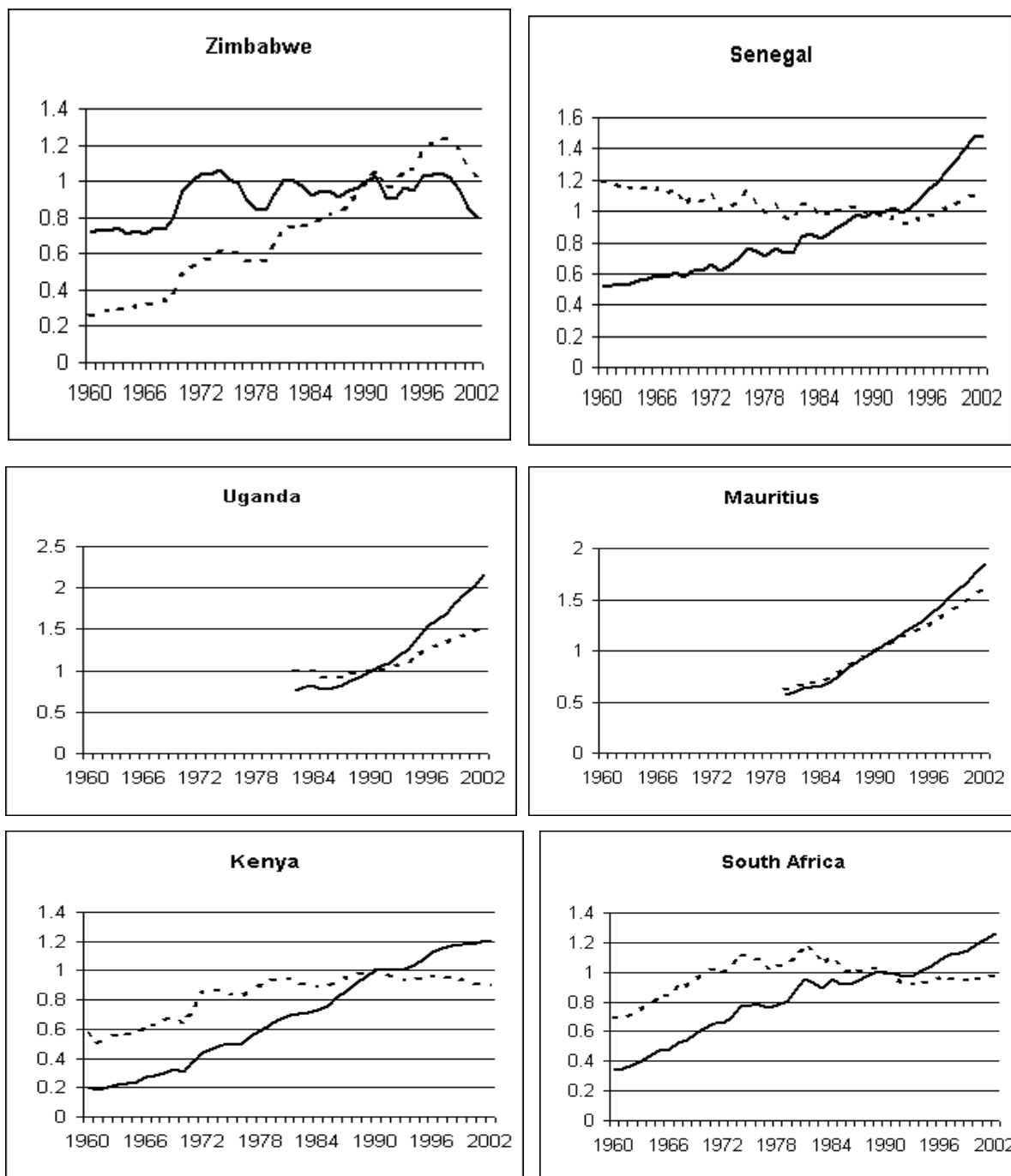
Source: Hausman *et al.* (2004)

Hausman *et al.* (2004) focus on real GDP per capita growth accelerations (where growth > 3.5% annually, and is increasing by at least 2% on an annual basis – i.e. long-run upward shifts in annual growth). This filter results in the turning points described in Table 4.

The statistical evidence shows very clearly that there are wide variations in growth performances across countries *and* over time. This requires more analysis of turning points. This is in part addressed by the AERC/Harvard growth programme, which required each of the 25 country case studies to analyse growth accounting regression across five-year intervals. It offers further views on the impact of investment, education and productivity increases on growth. The individual country case studies are emerging, and will be published in early 2005. A draft synthesis has emerged.

Chart 5 Growth performances over time; selected African countries

Dotted line=real GDP per capita (PPP dollars); continuing line=real GDP, 1990=1



Source: World Development Indicators 2004

Growth and poverty: success and failures

Data on (income) poverty are rather patchy. The World Bank produces poverty headcount numbers by region, which indicates that rates are declining, except in sub-Saharan Africa, where poverty rates are highest and have been increasing over the past decade (Table 5).

Table 5 Headcount indices: percentages of population living below US\$1 per day

	1981	1984	1987	1990	1993	1996	1999	2001
East Asia	57.7	38.9	28.0	29.6	24.9	16.6	15.7	14.9
Eastern Europe and Central Asia	0.7	0.5	0.4	0.5	3.7	4.2	6.3	3.7
Latin America and Caribbean	9.7	11.8	10.9	11.3	11.3	10.7	10.5	9.5
Middle East and North Africa	5.1	3.8	3.2	2.3	1.6	2.0	2.6	2.4
South Asia	51.5	46.8	45.0	41.3	40.1	36.6	32.2	31.3
Sub-Saharan Africa	41.6	46.3	46.8	44.6	44.0	45.6	45.7	46.9
Total	40.4	32.8	28.4	27.9	26.3	22.8	21.8	21.1

Source: Chen and Ravallion on www.worldbank.org

Moving beyond regional aggregates to country experiences is hampered by the lack of good country estimates. The *World Development Indicators* and Christiaensen *et al.* (2003) provide some useful data. Table 6 summarises the latter.

Table 6 Consumption poverty in eight African countries during the 1990s

	Period	Year 1	Year 2	Percentage change	Percentage change in per capita expenditure	Poverty elasticity wrt expenditure
Ethiopia	1994-1997	41	35	-14	24.8	-0.56
Ghana	1992-1999	51	39	-24	24.9	-0.95
Madagascar	1993-1997	70	73	5	-17.5	-0.27
Madagascar	1997-1999	73	71	-3	0.6	-4.50
Mauritania	1987-1995	58	35	-40	49.5	-0.82
Nigeria	1985-1992	46	43	-7		
Nigeria	1992-1996	43	66	53	-41.1	-1.30
Uganda	1992-1997	56	44	-21	17.1	-1.21
Uganda	1997-2000	44	35	-20		
Zambia	1991-1996	70	80	14	-25.7	-0.58
Zambia	1996-1998	80	76	-5	13.2	-0.37
Zimbabwe	1991-1996	26	35	35	-28.8	-1.23

Source: see Christiaensen *et al.* (2003)

Christiaensen *et al.* (2003) find that

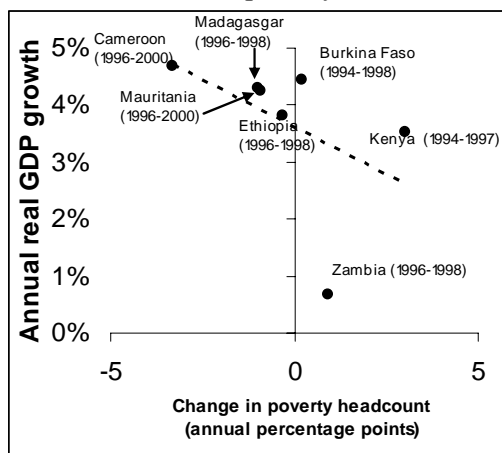
- Most countries faced ‘mass’ poverty in the 1990s
- Poverty declined in the 1990s in Ethiopia, Ghana, Mauritania and Uganda
- It rose in Nigeria and Zimbabwe
- It fluctuated in Zambia and Madagascar

Chart 6 related real GDP growth to poverty. This suggests that

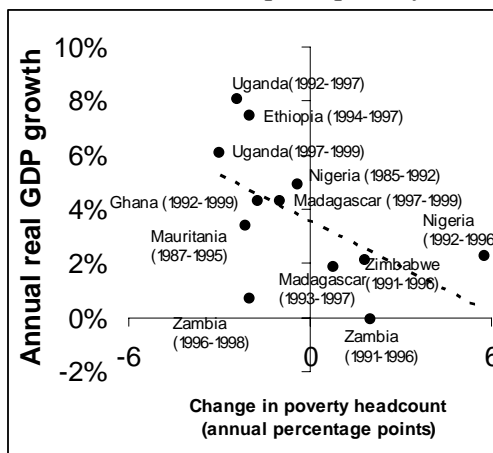
- There is almost a one-to-one relationship between growth and poverty reduction (see dotted trend lines in both). This is consistent with a number of studies.
- There are, however, significant variations. Poverty increased during some periods of growth (Kenya) and decreased in periods of very low real growth (or also real GDP per capita growth).
- Countries with most pro-poor growth (absolute measure: growth in the incomes of the poor) include Mauritania, Uganda and Ghana.
- Countries where poverty decreased more than real growth in per capita (relative measure of pro-poor growth) expenditure include Uganda, while Ghana came close: it reduced poverty by 24% over 1992–1999 while achieving a total per capita expenditure growth rate of 25%.

Chart 6 Higher growth, lower poverty headcount

Growth and income poverty



Growth and consumption poverty



Sources: World Development Indicators 2004, Christiaensen *et al.* (2003)

5 Selecting African case studies: structural factors

It is also possible to select African case studies on the basis of underlying factors of economic growth in the long run. We focus on the key factors discussed before (institutions, geography and outward orientation) as well as sectoral focus, size, and other factors behind growth performances. For example, if certain African countries get high scores on institutional quality then this should *ceteris paribus* lead to good economic performance and thus make a good case study.

Institutions

The same countries are taking the top position in all institutional variables as measured by Kaufman *et al.* (2003): Mauritius, Botswana, South Africa, Seychelles, Namibia, and others to some degree, including Senegal, Cape Verde and São Tomé and Príncipe. In Africa's competitiveness report, the following African countries scored best on the public institutions index (2004): Botswana, Gambia, South Africa, Mauritius and Tanzania (see table 13). These are also countries that have performed well over the long run, with the exception of South Africa and São Tomé and Príncipe.

Table 7 Institutional quality: top 10 performers in 2002

Rank	Voice and accountability	Political stability	Government effectiveness	Regulatory quality	Rule of law	Control of corruption
1	Mauritius	Seychelles	Botswana	Botswana	Mauritius	Botswana
2	Botswana	Mauritius	Mauritius	South Africa	Botswana	Mauritius
3	South Africa	Cape Verde	South Africa	Mauritius	Seychelles	Seychelles
4	São Tomé and Príncipe	Botswana	Namibia	Namibia	Namibia	South Africa
5	Cape Verde	Benin	Ghana	Mauritania	South Africa	Cape Verde
6	Namibia	São Tomé and Príncipe	Seychelles	Uganda	Cape Verde	Mauritania
7	Seychelles	Mozambique	Mauritania	Gabon	Lesotho	Namibia
8	Mali	Gambia, the	Senegal	Burkina Faso	Ghana	Madagascar
9	Senegal	Namibia	Cape Verde	Senegal	Madagascar	Eritrea
10	Benin	Mauritania	Lesotho	Cape Verde	Senegal	Burkina Faso

Source: Table 13

Good quality institutions may have an impact on many facets explaining growth. For example, it could be related to an ability to conduct good macroeconomic policies. Table 8, taken from Christiaensen *et al.* (2003), shows macroeconomic scores for eight countries over different time periods. It is interesting to note that there can be 'good' macroeconomic policies in this sense, even with low quality institutions (Nigeria, Mauritania), and that scores can change over time within a country. Macro policies are likely to determine GDP growth over the short to medium term (though Rodrik *et al.* (2003) find that policy change cannot easily explain growth accelerations), while institutions 'rule' for sustaining income growth in the long run.

Table 8 Macroeconomic policy scores

Change during:	Fiscal policy						Monetary policy					Exchange rate policy					Overall macro-economic policy	
	Change in overall fiscal balance excluding all grants (% of GDP)		Change in total government revenues (% of GDP)		Change in fiscal policy		Change in seigniorage		Change in inflation		Change in monetary policy		Change in real effective exchange rate		Change in black market premium		Change in exchange rate policy	
	% points	Scores	% points	Scores	Scores ¹⁾	% points	Scores	% points	Scores	Scores ²⁾	% points	Scores	% points	Scores	Scores ³⁾	Average scores	Weighted ⁴⁾ average scores	
Cote d'Ivoire	1985-88	-11.6	-2	-5.2	-1	-3.0	-2.7	2	2.9	0	1.0	21.8	-2	-2.1	0	-1.0	-1.0	-1.5
Ethiopia	1985-95	0.3	0.0	-6.9	-1.0	-1.0	-0.7	1.0	2.9	0.0	0.5	-55.8	3.0	-56.0	2.0	2.5	0.7	1.0
	1994-97	2.5	1	6.1	1	2.0	-3.8	2	-6.8	1	1.5	-23.9	2	-26.6	3	2.5	2.0	2.2
Ghana	1988-92	-2.3	-1	0.1	0	-1.0	-1.2	1	-10.1	2	1.5	-23.5	2	-51.0	2	2	0.8	0.8
	1992-98	-5.0	-1	4.5	1	0.0	0.6	0	7.9	-1	-0.5	-11.9	1	-4.4	0	0.5	0.0	0.2
Malawi	1993-97	0.8	0	-0.5	0	0.0	-1.1	1	13.7	-2	-0.5	-0.2	0	-8.0	0	0.0	-0.2	-0.1
	1997-99	1.7	1	1.6	0	1.0	-0.2	0	-16.8	2	1.0	2.3	0	1.4	0	0.0	0.7	0.5
Mozambique	1987-95	9.2	3	0.6	0	3.0	-1.3	1	-1.1	0	0.5	-35.8	3	-84.2	2	2.5	2.0	2.4
Nigeria	1985-92	0.6	0	12.3	1	1.0	1.0	-1	-1.8	0	-0.5	-518.9	3	-260.4	3	3.0	1.2	1.9
	1992-96	3.7	2	-4.6	-1	1.0	-1.2	1	31.4	-3	-1.0	53.3	-2	249.1	-3	-2.5	-0.8	-1.0
Uganda	1992-97	2.9	1	3.3	1	2.0	-1.8	1	-30.3	2	1.5	10.2	-2	-23.0	1	-0.5	1.0	0.7
	1997-00	-0.5	0	0.3	0	0.0	0.6	0	-4.5	1	0.5	-8.9	1	-5.8	0	0.5	0.3	0.3
Zambia	1993-96	1.7	1.0	1.0	0.0	1.0	-2.7	2.0	-83.2	2.0	2.0	-8.6	1.0	-350.7	3.0	2.0	1.7	1.6
	1996-98	2.2	1	-0.7	0	1.0	-0.9	1	-9.2	1	1.0	11.0	-2	1.7	0	-1	0.3	0.0
Zimbabwe	1991-96	-2.6	-1	-0.8	0	-1.0	1.6	-1	4.2	0	-0.5	-8.0	1	-40.6	2	1.5	0.0	0.3

¹⁾ Sign of scores for change in overall fiscal balance and change in revenues; ²⁾ Average of scores for change in seigniorage and change in inflation; ³⁾ Average of scores for change in the real effective exchange rate and change in the black market premium; ⁴⁾ Weights derived from cross-sectional growth regressions. Sources: World Bank (1994); authors' computations from World Bank data.

Source: Taken from Christiaensen *et al.* (2003)

The discussion suggests that we should look at countries such as Mauritius, Botswana, South Africa, Seychelles, Namibia and Senegal to examine the link between good quality institutions and growth performance.

Geographical characteristics

There are 16 countries with landlocked status, and various African countries have a tropical climate. This would normally lead to relatively poor performance, but there are several exceptions: Botswana and Uganda have done well; Rwanda, Mali and Burkina Faso more recently. Discussing the ways in which these landlocked countries have overcome the disadvantages of landlockedness (e.g. higher transport costs) would make interesting case studies.

UNIDO (2004) and the draft synthesis paper of the AERC growth project divide African countries into three groups: landlocked, coastal and resource-rich.

Countries in the AERC Growth project		
Coastal	Landlocked	Resource-Rich
Benin	Burkina Faso	Botswana
Cote d'Ivoire	Burundi	Cameroon
Ghana	Chad	Congo
Kenya	Ethiopia	Guinea
Mauritius	Malawi	Mozambique
Senegal	Mali	Namibia
South Africa	Niger	Nigeria
Tanzania	Sudan	Sierra Leone
Togo	Uganda	Zambia

Source: draft synthesis paper

The geographical status can affect growth performances. It is argued that landlocked countries are low-opportunity economies as they face high transport costs, coastal countries are high-opportunity countries. Resource-rich countries are dominated by mineral endowments and the natural resource curse (see below under sectoral focus).

Outward orientation and investment climate

Countries that trade more grow faster and those that provide a welcoming ‘investment climate’ will attract more investment, see draft 2005 World Bank *World Development Report*. So we should examine whether trade policy facilitates trade and how this differs amongst African countries. Market access for SSA to the EU and the US is improving. The EU has had trade preferences for a long time under various Lomé and Cotonou arrangements, offering zero tariffs for 80% of all products; these have now been extended to all products for all LDCs except some farm products and arms. The US extended its GSP with AGOA, which benefits a number of African countries that have good governance, see Table 13.

Africa’s import duties are higher than in the developed world, but lower than in several Asian and Latin American countries. Within Africa, (applied) tariffs vary.

Regional integration has received a renewed boost over the 1990s with e.g. SADC and COMESA beginning/proceeding to integrate and reduce intra-regional tariffs. However, UNECA (2004) finds there are differences in integration efforts among regions as well as within regions.

Table 9 Import tariffs in selected African countries

	Year	MFN applied simple average
Gabon	2000	17.9
Guinea	1998	6.5
Kenya	2001	17.1
Malawi	2000	13.4
Mali	1999	11.1
Mauritius	2001	19
South Africa	2001	5.8
Togo	1997	13.3
Uganda	2001	9
Zimbabwe	2001	18.3

Source: www.wto.org

Most African countries now have an investment promotion agency aiming to attract FDI. However, the effectiveness and the consistency by which strategies are pursued vary.

Export orientation depends on investment, which in turn depends on the presence of a welcoming investment climate, i.e. the combination of factors determining investment. This differs markedly across countries (World Bank, 2004) affecting the competitive advantage of economies including their exports. Table 14 provides the survey results of the different administrative elements in the investment climate. It shows that

- Business start-up costs (% of income) are easiest in South Africa, Botswana, Namibia, Zambia, Kenya and Lesotho. Djankow *et al.* (2001) show that heavier

regulation of business entry is associated with higher corruption, which may deter investment.

- The flexibility of firing index scores lowest in Kenya, Botswana, Ghana, Benin, Mali and Lesotho, indicating that it is easier to fire workers in these countries.
- Duration of enforcing contracts is shorter in Botswana, Ghana, Uganda, Malawi, Sierra Leone, Tanzania and Mali.
- Costs of closing business (% of income) are lowest in Malawi, Tanzania, Zambia, Senegal, Burkina Faso, Mauritania and Botswana.

Countries with streamlined administrative procedures will make life easier for investors. The impact of the investment climate on growth and poverty reduction is the topic of the 2005 World Bank *World Development Report*. It suggests that private investment has grown more rapidly in countries with a stronger investment climate (based on measures of contract enforceability, expropriation and others).

Sectoral focus

The sectoral focus of growth can also be important in growth performances (and poverty profiles). Economies dependent on natural resources are more violent and face worse governance (e.g. Nigeria, Angola), see Collier (2002), while manufacturing is for many developing countries a first step on the value-added ladder. Economies dependent on services, tourism in particular, also find some way to diversify away from natural resources, whose terms of trade are worsening, and away from dependence on volatile commodity prices.

Natural resource dependent countries

The IMF defines the following countries as fuel export dependent: Angola, Congo, Equatorial Guinea, Gabon and Nigeria. These countries do not appear on the top 10 performers in institutional quality (see Table 7), with the possibility of rent-seeking behaviour. For example, about US\$4 billion of oil revenues was hidden in the early 1990s in Angola.

Non-fuel commodity-dependent countries include: Botswana, Burkina Faso, Burundi, Chad, DR Congo, Côte d'Ivoire, Ethiopia, Ghana, Guinea, Guinea-Bissau, Malawi, Mauritania, Namibia, Niger, Rwanda, Sierra Leone, Togo, Uganda, Zambia and Zimbabwe. Within this group, there are countries with good quality institutions and which have also done relatively well with their natural resources (Botswana and Uganda) and countries with the opposite, e.g. DR Congo. But most countries suffer from dependence on often volatile commodity prices. Zambia depends on copper prices which fell for a long time, although they have been increasing recently.

Countries with some manufacturing

There are a handful of countries that have been able to build up a small manufacturing base. South Africa's manufacturing is worth around 30% of the total in sub-Saharan Africa. But on a per capita basis, smaller countries such as Mauritius, Seychelles and Swaziland have also done well. This is surprising, as the prevailing view is that smaller countries have a comparative disadvantage in manufacturing owing to higher input costs. Swaziland, Mauritius, Côte D'Ivoire, South Africa, Zimbabwe, Burkina Faso, Chad, Rwanda and Zambia all have a share of manufacturing in GDP of 15% or

more. This is nowhere near what the East Asians were able to achieve. Nevertheless, there are a few shining lights, such as the emergence of textiles and clothing in Lesotho.

Table 10 Top African performance in manufacturing, 2001

Rank	Country	Manufacturing value added, US\$ million	Country	Manufacturing per capita (dollars)	Country	Share of manufacturing in GDP, per cent
1	South Africa	26418	Mauritius	842	Swaziland	28.8
2	Sudan	3606	Seychelles	669	Mauritius	20.7
3	Cote D'Ivoire	2930	South Africa	597	Cote D'Ivoire	21.6
4	Cameroon	2248	Swaziland	362	South Africa	19.3
5	Nigeria	2120	Gabon	307	Zimbabwe	19.1
6	Zimbabwe	1779	Namibia	216	Burkina Faso	18.2
7	Senegal	1133	Botswana	192	Chad	16.1
8	Kenya	1057	Cote D'Ivoire	185	Rwanda	15.7
9	Ethiopia	1009	Cameroon	146	Zambia	15.0
10	Mauritius	1004	Zimbabwe	139	Cameroon	14.9
11	Burkina Faso	898	Senegal	118	Senegal	13.6
12	Ghana	880	Sudan	112	Lesotho	12.4
13	Uganda	692	Cape Verde	109	Seychelles	12.4
14	Zambia	625	Congo	78	Madagascar	10.8
15	Angola	525	Burkina Faso	72	Kenya	10.4

Source: UNIDO Industrial Development Report 2004

Countries with large tourism receipts

UNECA (2003a) argues that tourism is a viable option for pro-poor growth in African countries. Table 11 considers the importance of tourism receipts in GDP: Gambia, Namibia and Tanzania receive at 10% least of GDP from tourism.

Table 11 The importance of tourism in GDP

	Population below poverty line	Arrivals in '000 see WTO	Tourism contribution to GDP, 1999
Nigeria	91.2	813	2.7
Ethiopia	21.0	125	6.3
Ghana	9.0	373	6.7
Mali	8.2	91	6.4
Madagascar	8.1	160	7.8
Kenya	8.0	899	9.5
Burkina Faso	7.7	218	5.1
Mozambique	7.4	n.a.	n.a.
Tanzania	7.4	501	10.4
Niger	6.5	50	3.6
Zambia	6.3	574	9.5
Cameroon	5.4	n.a.	4.2
South Africa	5.0	6001	6.9
Zimbabwe	4.1	1868	5.6
Sierra Leone	3.2	10	3.6
Senegal	2.8	369	7.5
Lesotho	0.9	186	8.9
The Gambia	0.8	96	13.3
Mauritania	0.8	n.a.	n.a.
Namibia	0.6	560	13.2
Côte d'Ivoire	0.5	n.a.	4.1

Source: Roe et al. (2004)

Examining the sectoral focus of countries, we should consider why Botswana overcame the problems of natural resource dependence and Nigeria did not, how countries such as Lesotho and Mauritius succeeded in building up an industrial base, and how Gambia, Namibia and Tanzania achieved such a big impact from tourism.

Size

There are 14 countries in Africa with fewer than two million inhabitants. This is the boundary between small and very small countries used by Winters and Martins (2004) and corresponds largely with the definition used by the Commonwealth (1.5 million, including some other countries). Very small and micro states have significant cost disadvantages (Winters and Martins, 2004), e.g. because small markets are expensive for firms with decreasing average cost curves. However, a quick look at the relative performances of small states in Africa reveals that they have performed relatively well: Botswana, Cape Verde, Mauritius, Swaziland and Lesotho are all in the top performers (Table 2). This implies that smallness alone is not a good indicator of bad performance. One reason might be that smaller countries were associated with high institutional quality (see Table 7), while institutional quality has been the overriding factor in growth regressions. Hence, it might be interesting to examine cases such as Botswana, Cape Verde, Mauritius, Swaziland and Lesotho to assess how they have overcome the disadvantages of smallness.

Other

External shocks can affect growth patterns significantly over the short term, but less over the long-run. For example, countries in conflict will grow more slowly or collapse (e.g. the genocide in Rwanda in 1994), but will grow more rapidly afterwards (Collier and Hoeffler, 2002; Roberts, 2004).

The HIV/AIDS disease will also affect growth in the years to come. Table 12 from Bell *et al.* (2003) summarises studies indicating that the emergence of AIDS will reduce growth by an average of 1% annually.

Table 12 The Impact of AIDS on GDP Growth: selected studies

Author(s)	Countries	Method	Effect on GDP growth (%)
Arndt and Lewis (2000)	South Africa	CGE simulations	-0.8 to -1.0
Bonnel (2000)	47 Countries	Cross-country regression	-0.7 ^a
Kambou et al. (1992)	Cameroon	CGE simulations	-0.5 to -1.2
Over (1992)	30 Countries	Demographic/ economic modeling	-0.3 to -0.6
Sackey and Raparla (2000, 2001a,b)	Lesotho, Namibia, Swaziland	Demographic/ economic modeling	-0.8 to -1.5 ^a

^a GDP per capita

Source: Bell *et al.* (2003)

Table 13 Summary table

	Institutions							Geography	Size	Trade, investment and economic structure						Trade preferences		Educational quality	
	World Bank indicators for 2002						Africa Competitiveness Report 2004			Commodity dependent (IMF 2004)	Structure			FDI	If LDC	If AGOA Apparel eligible	Primary completion rate (2001)	Repetition rate, primary (2001)	
	Voice and accountability	Political stability	Government effectiveness	Regulatory quality	Rule of law	Control of corruption					Public Institutions index	If landlocked	If population < 2million						Fuel-dependent country	Non fuel primary dependent country	Manufacturing % of exports 2001	Manufacturing % of GDP 2001	Tourism as % of exports 2001	FDI flows % of gdp avg 1998–2002)
Angola	-1.39	-1.60	-1.16	-1.33	-1.56	-1.12	3.16			X			3.7	0.3	20.4	•			
Benin	0.03	0.63	-0.62	-0.56	-0.42	-0.61						6.2	9.0	14.0	1.9	•	•	45.3	20.1
Botswana	0.73	0.75	0.87	0.81	0.72	0.76	5.45	Yes	X		X	90.6	4.4	11.1	1.0		•	90.9	3.2
Burkina Faso	-0.27	-0.10	-0.69	-0.21	-0.55	-0.04		Yes			X	19.5	12.6	13.1	0.5	•		28.1	17.6
Burundi	-1.16	-2.00	-1.46	-1.25	-1.49	-1.02		Yes			X	0.8		2.2	0.4	•	•	26.7	26.3
Cameroon	-1.10	-0.50	-0.62	-0.88	-1.28	-1.10						4.7	11.3		0.6		•	57.0	25.2
Cape Verde	0.41	0.81	-0.20	-0.22	0.19	0.33			X			95.7	8.2	32.4	4.2	• (not anymore)	•	96.6	13.3
Central African Republic	-0.79	-1.87	-1.43	-0.76	-0.88	-1.02		Yes							0.3	•			
Chad	-0.95	-1.78	-0.75	-1.11	-0.93	-1.02	2.36	Yes			X				11.2	•		22.0	25.5
Comoros	-0.51	-0.19	-0.84	-1.01	-0.84	-0.73			X				14.9		0.5	•			28.0
Congo, Dem. Rep.	-1.89		-1.60	-1.77	-1.79	-1.42					X		3.6		0.5	•			
Congo, Rep.	-1.10	-1.64	-1.25	-1.00	-1.22	-0.94				X			3.9		8.7			57.8	24.8
Côte d'Ivoire	-1.25	-2.04	-0.89	-0.36	-1.21	-0.86					X		5.2	1.0	2.5		•	48.0	23.3
Equatorial Guinea	-1.44	0.31	-1.37	-1.45	-1.19	-1.89			X	X					34.3	•		48.8	40.5
Eritrea	-2.05	-0.25	-0.44	-1.17	-0.51	0.04							11.7	50.0	7.8	•		33.4	17.5
Ethiopia	-1.13	-1.2	-0.89	-0.85	-0.44	-0.35	3.69	Yes			X	13.4		7.7	1.7	•	•	17.9	8.1
Gabon	-0.42	0.20	-0.45	-0.19	-0.27	-0.55			X	X			4.7	0.2	1.0			92.2	34.4
Gambia, The	-1.03	0.55	-0.81	-0.55	-0.50	-0.83	4.73		X				5.2		9.7	•		68.6	
Ghana	0.01	-0.11	0.01	-0.29	-0.15	-0.40	3.97				X				2.2		•	58.6	5.2
Guinea	-1.19	-1.78	-0.78	-0.83	-0.75	-0.58					X	16.3	9.0	14.6	0.5	•			20.8
Guinea-Bissau	-0.74	-0.47	-1.35	-0.86	-1.00	-0.61			X	X		28.1	4.2	1.7	1.4	•			
Kenya	-0.58	-0.86	-0.85	-0.50	-1.04	-1.05	3.16						10.1		0.6		•	52.3	
Lesotho	-0.16	-0.06	-0.26	-0.48	-0.01	-0.28		Yes	X				13.0	10.3	17.6	•	•	64.8	19.7
													19.9	7.2					

	Institutions							Geography	Size	Trade, investment and economic structure						Trade preferences		Educational quality	
	World Bank indicators for 2002									Africa Competitiveness Report 2004	Commodity dependent (IMF 2004)	Structure			FDI	If LDC	If AGOA Apparel eligible	Primary completion rate (2001)	Repetition rate, primary (2001)
	Voice and accountability	Political stability	Government effectiveness	Regulatory quality	Rule of law	Control of corruption	Public Institutions index					If landlocked	If population < 2million	Fuel-dependent country						Non fuel primary dependent country	Manufacturing % of exports 2001	Manufacturing % of GDP 2001	Tourism as % of exports 2001	FDI flows % of gdp avg 1998-2002)
Liberia	-1.54	-2.28	-1.51	-1.43	-1.42	-0.98									3.2	•			
Madagascar	-0.05	0.30	-0.38	-0.26	-0.19	0.14	3.04					11.3	9.0		1.3	•	•	36.1	30.5
Malawi	-0.56	0.31	-0.68	-0.36	-0.34	-0.91		Yes		X					1.4	•	•	54.8	
Mali	0.18	-0.10	-0.84	-0.49	-0.54	-0.32	3.33	Yes		X		10.2	9.9	5.9	2.5	•	•	36.2	19.3
Mauritania	-0.67	0.43	-0.16	0.01	-0.33	0.23				X					0.3	•		45.5	14.1
Mauritius	0.80	0.99	0.53	0.46	0.89	0.53	4.61		X						1.5		•	107.6	4.3
Mayotte									X										
Mozambique	-0.26	0.55	-0.41	-0.64	-0.65	-1.01	3.33								7.5	•	•	18.2	22.9
Namibia	0.33	0.46	0.18	0.26	0.45	0.21			X	X		7.5	12.6	13.7			•	95.4	13.0
Niger	-0.18	-0.30	-0.79	-0.68	-0.78	-1.10		Yes		X		51.7	10.9	29.6	0.5	•		21.5	8.6
Nigeria	-0.70	-1.49	-1.12	-1.18	-1.35	-1.35	2.99			X				0.8	2.8		•		
Rwanda	-1.41	-1.35	-0.82	-0.94	-1.01	-0.58		Yes		X		2.1	11.2	15.7	0.3	•	•	24.7	36.1
São Tomé and Príncipe	0.48	0.56	-0.64	-0.34	-0.45	-0.25			X						7.7	•		94.3	25.8
Senegal	0.15	-0.36	-0.18	-0.22	-0.20	-0.17						28.8	13.8		1.8	•	•	48.0	13.6
Seychelles	0.19	1.06	0.00	-0.23	0.52	0.52			X						8.0				
Sierra Leone	-0.57	-1.47	-1.54	-1.31	-1.25	-0.82				X					0.2	•	•		
Somalia		-1.95														•			
South Africa	0.73	-0.11	0.52	0.60	0.19	0.36	4.67								1.9		•	90.1 (2000)	8.8 (2001)
Sudan		-1.94						Yes				59.4	18.8	6.9	4.0	•			
Swaziland	-1.18	0.24	-0.44	-0.25	-0.67	-0.26		Yes	X			3.2	9.3	3.3	6.5		•	74.5	16.7
Tanzania	-0.41	-0.25	-0.51	-0.55	-0.49	-1.00	4.15					46.8	38.5	2.5	3.8	•	•	53.7	2.5
Togo	-1.20	0.01	-1.17	-0.63	-0.67	-0.68				X		16.6	7.6	49.8	3.8	•		83.7	22.5
Uganda	-0.77	-1.46	-0.41	-0.01	-0.84	-0.92	3.3	Yes		X		49.7	9.3	2.6	2.7	•	•	65.1	
Zambia	-0.40	-0.02	-0.93	-0.60	-0.52	-0.97	3.86	Yes		X		12.7	11.6	11.1	4.5	•	•	57.9	6.2
Zimbabwe	-1.50	-1.62	-0.80	-1.61	-1.33	-1.17	3.17	Yes		X		14.6	13.0		1.9		•		

Table 14 Doing business in sub-Saharan African countries in 2004 (World Bank, 2004)

Economy	Starting a business				Hiring and firing workers				Enforcing contracts				Closing a business			
	Number of procedures	Duration (days)	Cost (% GNI per capita)	Min. Capital (% GNI per capita)	Flexibility of Hiring Index	Conditions of Employment Index	Flexibility of Firing Index	Employment Laws Index	Number of procedures	Duration (days)	Cost (% GNI per capita)	Procedural Complexity Index	Actual time (in years)	Actual cost (% of estate)	Goals-of-Insolvency Index	Court-Powers Index
East Asia & Pacific	9	61	61.9	174.6	45	60	30	45	24	193	63.6	55	2.8	17	49	66
Europe & Central Asia	10	40	16.2	67.7	52	81	38	57	25	346	27.3	57	3.2	14	51	56
Latin America & Caribbean	11	70	60.1	32.3	56	79	48	61	33	363	38	70	3.7	15	46	63
Middle East & North Africa	9	40	53	945.3	41	66	36	48	30	305	16.9	59	3.7	14	47	59
OECD: High income	6	25	8.1	47	49	58	28	45	18	213	7.1	49	1.8	7	77	36
South Asia	9	43	52.5	85.6	39	68	39	49	21	358	92.6	55	5.4	9	35	46
Sub-Saharan Africa	11	64	224.2	278.5	49	68	40	52	31	372	61.2	56	3.5	17	35	70
Benin	8	32	207.9	352.1	48	86	20	52	49	570	31	53	3.2	18	33	100
Botswana	11	108	11.3	0	33	55	17	35	22	56	..	52	2.2	18	77	33
Burkina Faso	13	135	152.8	531.1	53	79	27	53	41	458	172.8	71	4	8	29	100
Burundi	11	43	191.5	..	58	76	51	62	62	367	27.6	58	no practice	no practice	8	67
Cameroon	12	37	182.5	245.3	48	43	39	44	46	548	62.9	63	2	18	44	100
Central African Republic	10	14	205	559	53	84	50	62	..	..	..	..	no practice	no practice	..	..
Chad	19	75	310.4	584.5	78	93	27	66	50	604	58.4	72	10	38	11	100
Congo, Dem. Rep.	13	188	551.9	270.6	73	63	43	60	55	414	92.3	56	no practice	no practice	8	33
Congo, Rep.	8	67	318.5	238.7	53	78	49	60	44	500	51	67	3	18	42	100
Cote d'Ivoire	11	58	133.6	212.5	53	61	45	53	22	525	83.3	57	2.2	18	44	100
Ghana	12	85	87.5	41.6	33	56	17	35	21	90	23.8	33	no practice	no practice	17	33
Guinea	13	49	210.2	534.3	78	44	57	60	41	150	40	77	no practice	no practice	8	100
Kenya	12	47	54.4	0	33	53	16	34	25	255	49.5	44	4.6	18	47	33
Lesotho	9	92	58.2	19.3	58	51	25	45	..	..	..	..	no practice	no practice	..	..
Madagascar	13	44	69.6	55.5	48	86	49	61	29	220	120.2	63	no practice	no practice	25	67
Malawi	10	35	140.1	0	33	68	54	52	16	108	520.6	48	2.8	8	40	67
Mali	13	42	187.4	526	53	86	23	54	27	150	7	71	3.5	18	32	100
Mauritania	11	82	140.8	858.7	62	47	66	59	..	..	..	..	8	8	28	67
Mozambique	14	153	95.8	17.1	73	85	64	74	18	540	9.1	71	no practice	no practice	25	67
Namibia	10	85	19.3	0	17	57	54	43	..	..	..	..	no practice	no practice	..	..

Economy	Starting a business				Hiring and firing workers				Enforcing contracts				Closing a business			
	Number of procedures	Duration (days)	Cost (% GNI per capita)	Min. Capital (% GNI per capita)	Flexibility of Hiring Index	Conditions of Employment Index	Flexibility of Firing Index	Employment Laws Index	Number of procedures	Duration (days)	Cost (% GNI per capita)	Procedural Complexity Index	Actual time (in years)	Actual cost (% of estate)	Goals-of-Insolvency Index	Court-Powers Index
Niger	11	27	396.4	759.9	53	89	34	59	33	365	57.1	63	5	18	37	100
Nigeria	10	44	95.2	74.6	17	76	36	43	23	730	6.6	52	1.6	18	45	67
Rwanda	9	21	316.9	4.6	53	94	32	60	0	..	87.1	36	no practice	no practice	8	33
Senegal	9	57	112.9	293.2	48	83	30	54	36	455	48.6	75	3	8	73	100
Sierra Leone	9	26	1,280.50	0	56	84	62	67	48	114	8.3	29	2.5	38	20	33
South Africa	9	38	9.1	0	42	36	30	36	26	207	16.7	56	2	18	53	67
Tanzania	13	35	203.6	7.5	57	77	49	61	14	127	3.8	62	3	8	65	67
Togo	13	53	229.4	504.2	53	80	36	57	37	535	21.4	63	no practice	no practice	8	100
Uganda	17	36	132.2	0	33	44	50	42	16	99	10	40	2	38	55	67
Zambia	6	35	28.1	3.3	33	64	40	46	16	188	15.8	32	3.7	8	55	33
Zimbabwe	10	96	304.7	129.3	33	22	26	27	13	197	39.5	50	2.3	18	52	67

Source: www.worldbank.org

6 Growth and investment in sub-Saharan Africa: case studies

This section provides five case studies on growth and investment in Africa, in addition to the case studies already done by the Commission for Africa⁴. We suggest the following countries:

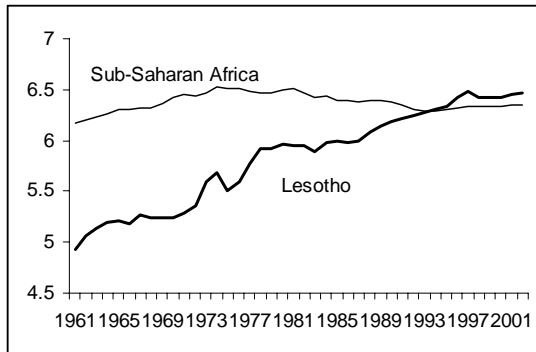
- Lesotho, because it shows how a small, resource poor and landlocked country managed to build up an industrial base on the basis of an outward orientation leading to catch-up of incomes.
- Senegal, because it is an example of CFA zone country, the group which on average did better than the rest of Africa on exchange rate realignment in 1994.
- Zambia, because it illustrates how a landlocked resource rich country can suffer when it is dependent on commodities with falling prices.
- Ghana, because it is frequently mentioned as an example of where structural adjustment programmes have been helpful in achieving modest growth, but not enough for structural change or significant private investment.
- Cape Verde, an often overlooked, small Lusophone African country with good growth performances, good quality institutions and tourism investment.
- Tanzania as it shows how certain institutions such as property rights protecting private property can improve providing a boost to private sector investment and growth.
- Zimbabwe as it shows that how a sudden deterioration in institutional quality and governance coincide with economic collapse.
- Rwanda as it shows the economic impact of and recovery from conflict.

DFID are providing case studies on Uganda, Ghana, Senegal, Zambia, Burkina Faso and South Africa, which leads to a net total of five new countries: Lesotho, Cape Verde, Tanzania, Zimbabwe and Rwanda.

⁴ Mauritius, Uganda, Mozambique and Botswana are interesting case studies as they stand out statistically as the best economic performers in Africa over 1960-2000 (Mauritius and Botswana) or more recently over the 1990s (Mozambique and Uganda)

Lesotho – Africa's Tiger

Chart 7 GDP per capita (ln of 1995 constant international dollars)

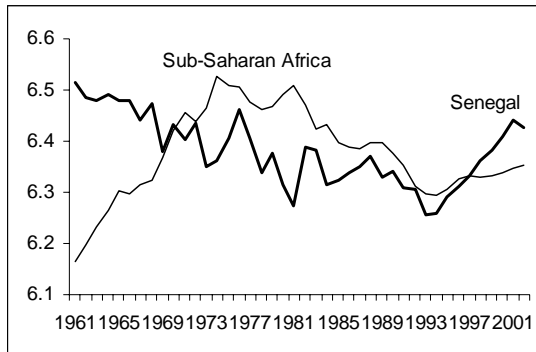


Source: World Development Indicators (2004)

Lesotho is a small, landlocked and relatively resource-poor country. Despite these constraints, it has managed to achieve a good economic performance, attaining a position amongst the best in Africa in investment, inward FDI and growth performances. What were the main characteristics of this surprisingly good performance? Lesotho's location enabled the movement of workers to the South African mines. The remittances that these workers sent back have played a major factor in sustaining incomes in Lesotho, albeit in a declining way from 50% of GDP in the 1980s to 20% now. The main aspect of Lesotho's recent growth performance, however, has been its ability to attract Asian (mainly Taiwanese) investors in the textile and clothing sector, to avail of EU trade preferences from the late 1980s and, when these preferences ran out due to stricter application of EU rules of origin, to avail of trade preferences under AGOA. Lesotho is currently the largest and fastest growing exporter of clothing to the US. Lesotho, as member of the Southern Africa Customs Union, has relatively good conditions for investors, such as low taxes, a well managed macro policy, infrastructure and good quality institutions, although HIV/AIDS and preference erosion in 2005 will no doubt pose major challenges.

Senegal – Exchange rate realignment of the CFA franc

Chart 8 GDP per capita (ln of 1995 constant international dollars)



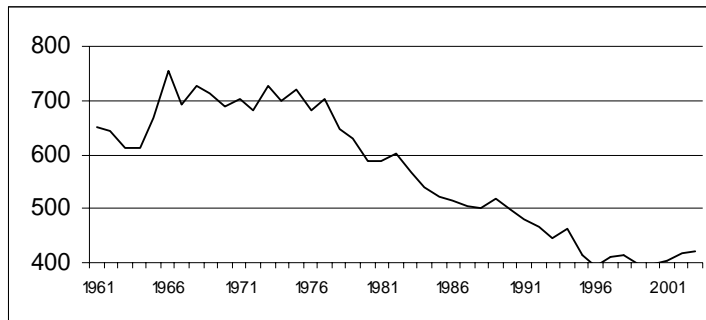
Source: World Development Indicators (2004)

Senegal is one of 14 countries that formed a monetary union with a currency originally linked to the French franc and now the Euro. Initially, the monetary union led to favourable macro economic policies in the CFA zone. However, the bloc was inflexible, with the CFA franc becoming overvalued, leading to poor economic performance. The 50% exchange rate devaluation of the CFA franc in 1994 brought a significant turnaround in the economic performance of the CFA countries, and in Senegal, Mali and Burkina Faso in particular, with output, exports, and investment increasing more rapidly than in several other sub-Saharan countries since then. Inflation returned to single-digit levels; fiscal and external imbalances were reduced; and progress was made in fostering structural reforms in most of the countries.

Senegal has a democratic and stable government with relatively high quality institutions. It achieved a 2% annual growth rate in real GDP per capita since 1995 following the exchange rate realignment, introduction of fiscal reforms and privatisations, substantially higher than the 0.7% in sub-Saharan Africa as a whole. Despite growth, it did become an LDC in 2001, and poverty remains high, declining slightly from 58% of the population to 54%. It has a weak primary sector, an industrial base (seventh highest in sub-Saharan Africa) that is slightly more diversified than its neighbours and a relatively big services sector, including commerce, transport and communications services helped by its geographical location as a transit point for the region. Private sector investment, including FDI, is weak, hampered in part by high taxes, the land title system and poor scores on labour flexibility and costs of contract enforceability.

Zambia – Dependence on mineral prices

Chart 9 GDP per capita (ln of 1995 constant international dollars)



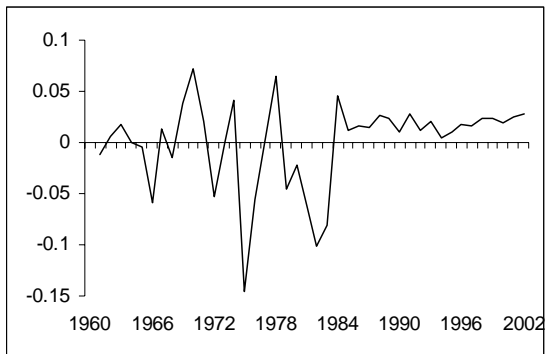
Source: World Development Indicators (2004)

Zambia is a landlocked, natural resource abundant but relatively urbanised country. The prospects for growth in the (by 1964) middle-income country appeared favourable. However, restrictive policies, including high tariffs and overvalued exchange rates, large fiscal imbalances and external developments such as collapsing copper prices, conflict in neighbouring countries and the oil shock were responsible for a dramatic decline in GDP per capita since. Two-thirds of the population live in poverty, more in rural areas, although there are signs that this may have improved in the 1990s. During the 1990s, the government introduced major economic reforms.

Zambia's economic performance remains closely linked to mining and its associated activities and hence mineral prices, in particular of copper, which is responsible for 80% of Zambia's export of goods, but recently there has been an increase in tourism as Zimbabwe is less a competitor. Privatisation of government-owned copper mines decreased the fiscal pressures on the government and improved the chances of attracting investment and boosting economic growth, but low copper prices reduced the incentives for further private investment in the sector. The biggest mining investor withdrew because of low copper prices, and the investment/GDP ratio is relatively low even by African standards. Prices and demand for copper have been increasing over the past years, which resulted in an increase in copper production. Zambia is beginning to grow in GDP per capita terms.

Ghana – Did structural reforms help?

Chart 10 Growth in GDP per capita

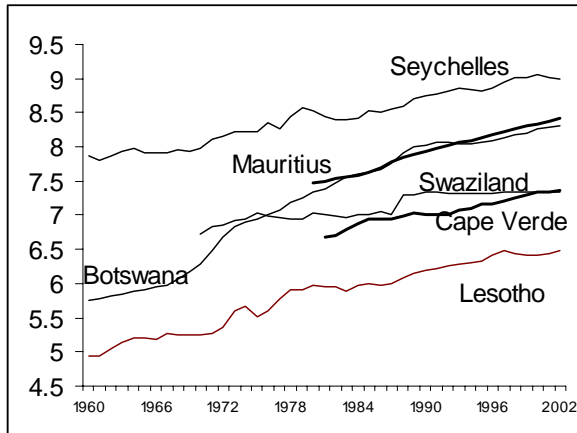


Ghana's economy has strengthened over the past 10 years owing to structural reforms and an improved investment climate. It was regarded as a 'Model' reformer in the 1980s, after price controls were lifted and fiscal balances improved. The reforms worked, as average incomes increased 2% annually over 1983–2001, with remarkable stable growth compared to the pre-1983 period; poverty fell from 53% to 40% in the 1990s. Growth has in part been linked to public investment, while private investment has not been forthcoming. Moreover, the structural reforms have not achieved a structural change in the economy, which is still dependent on traditional exports of gold, cocoa, mining and palm oil, and has seen only a slight diversification into tuna, roses, pineapple, insurance and offshoring. Ghana has a low manufacturing share.

Cape Verde – Small, but an impressive growth performance

Chart 11 Small, beautiful and growing fast

GDP per capita (ln of 1995 constant international dollars)



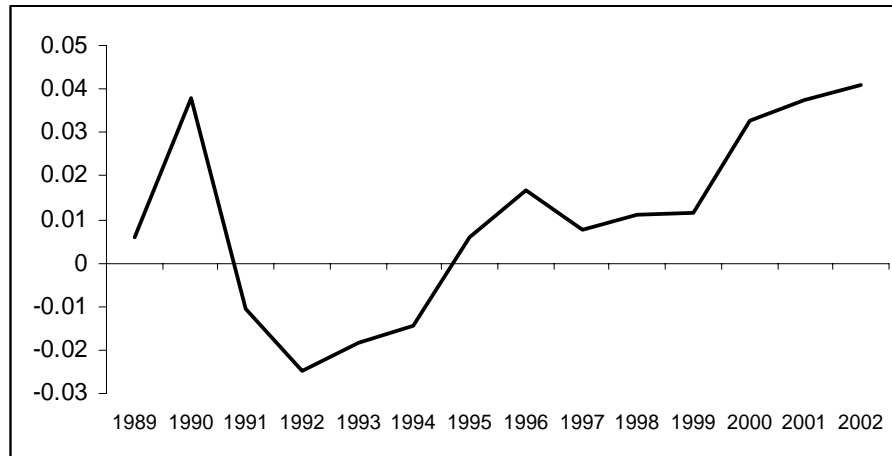
Source: *World Development Indicators 2004*

Even though smallness tends to raise an economy's business operating costs, this has not been a deterrent to good economic performance in the African context. In fact, there is something special about being small. First, small African economies are characterised by a relatively high institutional quality. They are the most politically stable economies with good rule of law and effective control of corruption. Further, small and stable island states tend to rely on services attracting lots of tourists. While the case of the Seychelles and Mauritius are well known, Cape Verde's march is less well rehearsed. Cape Verde is one of six Lusophone countries in Africa and the archipelago is services oriented: commerce, transport and public services account for 70% of its GDP. It received US \$ 400 million of FDI over 1994-2000, most of it in tourism. Its increase in real GDP per capita was an impressive 3.5% annually over 1960-2000.

Tanzania – natural resource based investment

Chart 12 Tanzania's recent growth experience

Growth in real GDP per capita



Source: *World Development Indicators 2004*

Tanzania is currently recording the fastest growth for more than 15 years with real improvements in living standards each year since 1995, though the proportion of people not being able to meet basic human needs has declined less impressively from 38% in 1991 to 35% in 2001. Agriculture plays a significant role contributing nearly 50% of GDP, but has expanded less fast (4% annually in real terms over 1997-2002) than mining (16%) and tourism (6%). Mining and tourism have been boosted by increased private sector investment, notably FDI from South Africa (including hotels and manufacturing), Ghana (gold) and Canada (gold). Tanzania was the fifth receiver of FDI in Sub Saharan Africa over 1998-2002. In 1998, there were more mining exploration activities in Tanzania than elsewhere. Tanzania is third highest in Africa in terms of the contribution of tourism to GDP, which increased from 1% over 1986-1992 to around 10% currently.

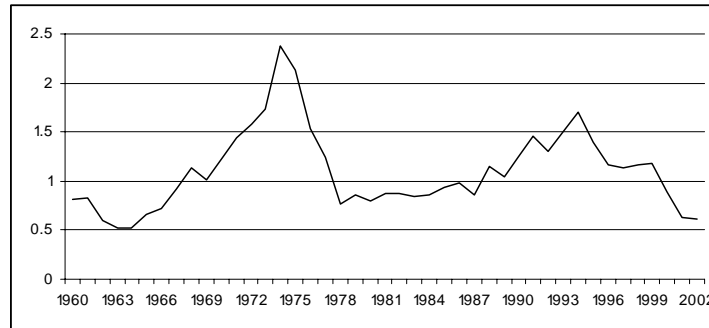
The recent growth performance represents a significant turnaround as Tanzania performed poorly for a long time since independence. The shift towards private sector investment was initiated by structural reforms which started in the mid 80s and which were reinforced and accelerated throughout the 1990s. This has resulted in a change of institutions and an improvement in the investment climate which until then held back private investment. Basic institutions securing legal protection of private property and promoting private investment were absent until 1991 when the national investment promotion policy was promulgated. The sectoral mining code of 1998 improved conditions for mining investment and compared favourably to those of other mining locations such as Ghana, whose mining companies are investing in Tanzania.⁵

⁵ See UNCTAD Investment Policy Reviews for Ghana and Tanzania.

Zimbabwe – economic collapse

Chart 13 Zimbabwe's collapse?

Gross fixed capital formation (constant 1995 US dollars)



Source: *World Development Indicators 2004*

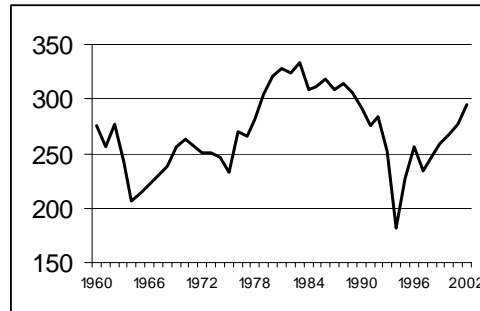
Zimbabwe is a landlocked country constituting both a success and failure. Despite being landlocked, Zimbabwe was twice as rich as the average of SSA in 1997. It had a relatively large manufacturing industry which was built up in part under protective measures. It benefited from sanctions against South Africa (as did Lesotho).

Misrule, including expropriation of private property, has meant that Zimbabwe is the world's fastest collapsing country. Over 1996-2002, measures of institutional quality and governance (by the World Bank) have deteriorated rapidly: Zimbabwe dropped 20 (out of a total of around 200) places on regulatory quality, 36 on political stability, 66 on rule of law and 67 on voice and accountability. GDP has since 1997 shrunk by a third and investment by 55% until it reached its lowest point in four decades. The effects are not limited to Zimbabwe alone. Some estimate that economic activity lost to region is worth US\$2.6 billion much of it due to lower exports to Zimbabwe and sufficient to call this a neighbourhood effect. However, not all effects on its neighbours are negative: Zambia's tobacco production and tourism inflows are increasing as a result.

Rwanda – recovering from conflict and economic collapse

Chart 14 The economic impact of genocide

GDP per capita (constant 1995 international dollars)



Source: *World Development Indicators 2004*

The genocide of 1994 resulted in a major loss of life and significant displacement of the population. GDP dropped by 50%, GDP per capita fell in real terms from US\$253 to US\$181, but recovered fast in the years from 1995-1997 and beyond. It was the fourth fastest growing economy in real per capita GDP over 1997-2002. In the period of recovery there was a large demand side boost through aid, which is responsible for 60% of Rwanda's government budget. Public expenditure helped revive urban commercial services and construction, but it also stimulated agriculture by raising demand for food products, indicating that this demand side intervention was helpful during recovery from conflict.⁶ Agriculture has been the main source of GDP growth and currently represents nearly 50% of GDP.

Several researchers have sought to explain the outbreak of conflict by a combination of low institutional quality and ethnic fragmentation. Countries such as Angola, Nigeria and Sudan would thus be at high risk of conflict causing poor growth performance while countries with high quality institutions can compensate in part for ethnic fragmentation. Unfortunately, Rwanda is also considered to be at the bottom of standard institutional quality and governance measures. Building on the above, but simplistic view, improvements in institutional quality will be required to avert further conflict and human and economic losses.⁷

⁶ Roberts (2004)

⁷ UNECA (2003b)

7 Growth, investment and poverty in sub-Saharan Africa: the role of government policies

This section provides case studies of how government policies can enhance pro-poor growth. We suggest four cases:

- Zambia, because reforms boosted agriculture and rural income, while reducing poverty over 1996-1998.
- Mozambique, because partnerships between government (aided by external actors) and manufacturing business have improved the impact on local growth, increasing the effects of poverty reduction.
- Tanzania, because it failed to turn record growth into significant poverty reduction because growth was not based on agriculture and the benefits were not redistributed.
- Uganda and Ghana, because they have been effective in turning per capita GDP growth into poverty reduction.

Zambia – reforms in agriculture and pro-poor growth

Zambia faces mass poverty. The poverty headcount increased from 70% in 1990 to 80% in 1996, a period of declining GDP per capita particularly for urban households on the back of stabilisation policies, removal of subsidies and structural reforms of parastatals. However, GDP per capita growth was positive over 1996-1998, attributed mainly to rural areas. During this period, poverty fell from 80% in 1996 to 76% in 1998. Macro-economic policy scores improved during 1990-1996 and remained constant during 1996-1998, so these cannot explain changes in growth and poverty in Zambia.⁸ Nor can changes in income distribution.

The bias against agriculture was reduced after 1996 and producer prices of crops increased raising growth and productivity in agriculture and rural incomes while reducing poverty.⁹ Deregulation led to lower milling costs for producers and cheaper maize for consumers. The removal of subsidies shifted agricultural production away from maize towards higher value added crops such as cotton (AGOA is currently stimulating demand for this). Private sector activities increased and began to provide inputs and marketing services. Households with access to inputs, transport and marketing services benefited most. The evidence shows that reforms (removal of subsidies, liberalisation of agriculture marketing) that increase growth in agriculture can reduce rural poverty and raise pro-poor growth.

⁸ Christiaensen *et al.* (2003)

⁹ McCulloch *et al.* (2000)

Mozambique – promoting linkages with local SMEs

The Mozal investment in Mozambique is a well documented Mega investment in Mozambique. It alone doubled Mozambique's exports and added 7% to GDP. While the company (owned by BHP Billiton, the government of Mozambique, IDC South Africa and Mitsubishi Japan) has created new temporary and permanent jobs, thereby contributing to poverty reduction, it has also put in place an empowerment and linkage programme jointly with the government of Mozambique (and aided by the IFC) and this has also had an impact on poverty.

SMEELP (Mozal's Small and Medium Enterprises Empowerment and Linkages Programme)¹⁰ has awarded successfully 28 packages to 16 local companies, using US\$ 5 million; 36 SMEs have attended training programmes. The Mozambican Centre for Investment Promotion assessed and recommended suitable capabilities in local SMEs. SMEELP has been handed over to MOZLINK of CPI.

While similar programmes are sporadically copied to other African countries, there is no consistent approach to linkage promotion in most African countries. In fact there are many missed opportunities to promote linkages including in countries such as Zambia¹¹.

Tanzania – Recent growth, but slow reduction in poverty

There has been rapid growth in real GDP per capita in the past decade. However, while GDP grew, poverty did not fall as might have been expected: the national poverty headcount fell slightly from 38.6% in 1991 to 35.7% in 2001. Why such a slow reduction in poverty?

Recent growth has been largely based on strong investment and growth in mining and tourism activities. These are typically sectors with relatively either few linkages to the economy or to the poor directly¹². If the government wants to make growth more broad based it will have to raise growth, productivity and exports of agriculture which is responsible for nearly 50% of GDP and which has more direct linkages with the rural poor. Progress in agriculture compares unfavourably with its neighbours (for instance, Kenyan horticulture exports have increased fast in recent years). Tourism will also help to increase growth and reduce poverty, but this appears to have comparatively less effect. An alternative is to base growth on mining and tourism with more effective redistribution.

¹⁰See eg <http://www.bhpbilliton.com/bbContentRepository/Presentations/RNivenSMEELP23Apr03.pdf>

¹¹ Mkandawire (2004).

¹² Kweka (2004) and Booth and Kweka (2004)

Ghana and Uganda: turning growth into poverty reduction

Ghana recorded sluggish growth in real GDP per capita, although taken over the last two decades it amounts to 2 per cent annually. Uganda's growth was much faster, but both countries managed to reduce poverty headcount significantly, from 53% to 40% of population in the 1990s in Ghana and from 56% in 1992 to 44% in 1997 and to 35% in 2000 in Uganda.

In part this is simply because conditions and policies that promote growth also reduce poverty. Both countries have relatively equal distributions so that growth leads to poverty reduction more easily than when there are unequal distribution; they have both have a long history of consistent policies; the institutional quality increased; and macroeconomic policy improved. A study on drivers of change in Ghana concluded that "the factors that we have identified as most likely to drive overall development progress are also the factors likely to have the strongest impact on poverty reduction", pointing towards the importance of democratisation for (pro-poor) growth.¹³

Ghana experienced big reductions in poverty among cash crop producers for exports over the 1990s (due to favourable world cacao prices and cacao production). Uganda too has a large share of cash crop producers which have experienced large poverty reduction (although more recently there were declines in coffee prices, which may have negative effects). Thus, growth based on agriculture is important for poverty reduction.

The location of the poor and their assets are important for how growth is transmitted into poverty reduction.¹⁴ It is notable that poverty actually increased over the 1990s in those areas of Ghana which are most remote (North) and which lack integration with the economy and which therefore lack proper transmission mechanisms. Better educated households are also more likely to benefit from improvements in the macro-environment.

¹³ Booth *et al.* (2004).

¹⁴ Christiaensen *et al* (2003).

8 Growth, investment and poverty in sub-Saharan Africa: the role of business policies

The impact of (foreign direct) investment on development depends on the country's economic conditions and policies, the business policies and strategies, as well as the sector in which the company is located (Te Velde, 2004). Table 15 shows how some of the pathways through which different business sectors are 'anticipated' to contribute to pro-poor development if the type of sector alone was the determinant of this. The weightings in the table are generalised and assume that no explicit development enhancement initiatives have been undertaken by the company, regulators, financiers, with respect to the investment.

However, in practice, these anticipated impacts are not realised for a variety of reasons. To mention a few: for the extractive industries, inefficiencies in the public sector finance management often leads to a combination of volatile capital flows, domestic inflation and weak redistribution of revenues to the regions of production. In addition, it is common for local suppliers and contractors to be capable only of the servicing those procurement needs of the company that lie outside the core business. Private investment in water supplies, and other public utilities, frequently results in rates of tariff increase that, though affordable in relative terms, are politically prohibitive. Further, such infrastructure generally fails to reach the poorest households in the peri-urban and rural, high capital cost, locations. Finally, the agribusiness, with its high quality thresholds, has a tendency to 'lock out' many small scale farmers, reducing their available markets and driving them out of production and into seasonal waged labour.

In addition, in this section aims to show that business can put in place measures that enhance the impact on pro-poor growth, and that the impact of business on pro-poor growth is not deterministic but depends on business policies (and on government policies as argued in the previous section).

Table 15 Anticipated Contributions of Business to Pro-Poor Growth, by sector

Business Category	Business Sector (selected)	Utility of products or services sold to low income households	Savings to low-income customers of inelastic goods and services	Taxation and potential for redistribution	Employment and related benefits accessible by low income-households	Procurement effect on local economy	Voluntary contributions benefiting low income households
Production, Manufacturing	Labour intensive manufacturing	Low	Moderate	Low	High	Moderate	Low
	Mineral extraction	Low	n/a	High	Moderate	High	Moderate
Public Service Delivery	Retail banking	Moderate	Low	Moderate	Low	n/a	Low
	Water supply	High	High	Low	Moderate ¹⁵ / Low	Moderate ¹⁶ / Low	Low
Marketing, Sourcing, Distribution	Agribusiness	Low	Low	Low	High	High	Low

Source: Relative Weightings based on expert opinions (holding other factors constant)

¹⁵ Construction period

¹⁶ *ibid*

Important developmental benefits of private sector investment in Africa include

- the products and services available to customers, and
- the value added by the business, which is then available for distribution in the form of dividends, taxes, wages and charitable giving.

In business environments characterised by very low incomes, poor skill levels, weak local supplier markets, and an inefficient and sometimes corrupt regulatory environment, the scope for business to enhance its performance and use business policies in contributing to pro-poor growth is considerable.

Enhancing the Development Performance of Business

A number of trends are now driving companies in Africa towards additional steps to enhance their ‘development performance’ or contribution to pro-poor growth through modifications to business models and operations. These trends include:

- corporate (and institutional investor) interest in long-term business growth opportunities in Africa. To realise these in a non-corrupt environment, requires multi-national companies to compete for contracts or secure permits that carry conditions requiring the business to align parts of its activities with national or provincial development goals, such as with respect to ‘local content’;
- the rising influence of ‘popular’ political power, fuelled by the communications revolution, which is driving companies not only to mitigate their adverse environmental and social business impacts and risks, but also provide more visible local benefits in the form of employment, training, supplier development; local infrastructure; and various community projects;
- continued corruption and inefficiencies in public expenditure management, which has the effect of breaking the ‘social contract’ over tax distribution between government and its people, creating an economic ‘benefits gap’ that the population then look to the business to fill with non-tax related business benefits; and
- the imperative of the OECD member governments to make progress on the Millennium Development Goals (MDGs), and includes search for innovative ways to extend the reach and effectiveness of official development assistance through public-private partnerships.

The World Summit on Sustainable Development in Johannesburg, and the UN Monterrey conference on Financing for Development - to name just two global development initiatives - concluded the need for a new and more central role for the private sector in contributing to international development goals and poverty reduction. This aim is rapidly becoming embedded as both policy and practice within some of the larger companies operating in emerging markets in Africa. The way in which companies are responding tends to be of two types:

- unilateral actions taken by a business entity, such as: Anglo American’s supplier enhancement programme in South Africa; and Unilever’s ‘Bottom of the Pyramid’ (BOP) production and marketing of iodised cooking salt in Ghana; or

- actions undertaken by a business but co-ordinated through a strategic alliance (partnership) with the actions of government agencies, development institutions and civil society organisations, such as: Shell’s alliance with USAID and Africare to develop HIV/AIDS programme in Nigeria; Barrick Golds partnerships with local district councils to enhance alignment between operational infrastructure for mining and local power and water infrastructure District Development Plans; and Ericsson’s emergency response programmes with UNHCR and the Red Cross in Tanzania.

Case-Studies

Five case-studies are presented below, illustrating how large businesses in Africa are implementing corporate policy designed to enhance their pro-poor development performance. The five case-studies are summarised in table 16.

Table 16 Case-Studies of Business Initiatives Designed to Enhance the Pro-poor Development Performance of Private Sector Investment

Business Policy Approach	Core Business in Country		
	Production, Manufacturing		Marketing, Distribution, Market development
Unilateral Action	Anglo American’s supplier enhancement programme in South Africa	Shell HIV/AIDS programmes, both in-house, and in partnership with USAID and Africare	Unilever’s ‘bottom of the pyramid’ marketing of low-cost iodised cooking salt in Ghana
Strategic Alliances	Barrick Gold’s alliance to align operational mining infrastructure with the Khama District Development Plan		Ericsson’s emergency response programme with UNHCR and the Red Cross in Tanzania

In most cases there is independent verification of the effects of business programmes on pro-poor growth. However, in many cases (some reported here) companies put forward case studies which have a potential of stimulating pro-poor growth but where this is not independently verified. In this respect, it should be noted that more studies could be done to assess these business initiatives and particularly whether partnerships can effectively and efficiently stimulate pro-poor growth.

South Africa - Anglo American Support to Local Suppliers

Anglo American is involved in facilitating black economic empowerment (BEE) in South Africa through the creation of commercially viable and sustainable enterprises. The company is involved in two principal initiatives:

1. Supplier Enhancement Programme¹⁷

‘Zimele’ – a name derived from Zulu meaning to be independent and stand on ones own feet - is an enterprise development and economic enhancement programme of Anglo American begun in 2000. In 2001 investments by the Zimele programme in local SMEs generated US\$22m in turnover and created more than 1200 sustainable employment opportunities. The programme has invested in 30 SMEs to date, of which 19 are current investments.

2. Public-Private Fund for Supporting Junior Mining Companies¹⁸

Launched in March 2003, the Anglo Khula Mining Fund is a joint US\$6.5m initiative between the Anglo American Corporation of South Africa Limited and Khula Enterprise Finance, the latter an initiative of the South Africa Department of Trade and Industry. The Fund invests in viable small and medium-sized black-owned and black-empowered businesses in mining and related activities in South Africa. It concentrates on the financing of the feasibility phase of a project, which historically has been an area in which junior mining ventures have had difficulty in obtaining capital. The Fund is currently investing in two projects, one of these is Leeuw Mining and Exploration (LME), an investment supporting the purchase of Anglo Coal’s KwaZulu-Natal anthracite coal reserves, comprising an estimated 104 million saleable tons of mineral.

This evidence shows that companies can put in place programmes stimulating local SMEs with a high potential for pro-poor growth.

¹⁷ Sustainability (2002) and Anglo American (2004) Zimele, Case-Study, <http://www.angloamerican.co.uk/susdev/downloads/ZIMELE.pdf>

¹⁸ Anglo American (2003) Black Empowerment, Update, September 2003: <http://www.zimele.co.za/content/pubs/Updatesept03.pdf>

Nigeria – Shell and health concerns

The Shell Group has minimum health management standards for the management of health in companies where Shell has operational control¹⁹. While there is no clear policy or standard from the Shell Group on management of HIV/AIDS, Shell is involved in both unilateral initiatives on HIV/AIDS in Nigeria, and in two partnership programmes, as follows:

- 1. Unilateral Action** - In 2003 the Industrial Health Department of the Shell Petroleum Development Company (SPDC) conducted workshops, reviews and inspections to locate health risks in workers and surrounding communities²⁰. On the basis of this work the Department delivered HIV awareness sessions to 20,000 people in the host communities. This is a first step contributing to a reduction in sickness.
- 2. Partnerships** - In November 2003 SPDC and Africare (a US charity) signed a partnership agreement to establish a US\$ 4.5 million health care program in Nigeria. Shell will contribute US\$ 3.4 million of the program's cost over the next three years, Africare US\$ 1.1 million. The programme will distribute mosquito nets impregnated with insecticides, and facilitate that development of local capacity to manufacture and impregnate nets, creating business opportunities for small and medium scale enterprises.

In another project, USAID and SPDC formed a US\$ 20 million sustainable development programme in Nigeria.²¹ SPDC will contribute US\$ 15 million over the next five years to the partnership and USAID US\$ 5 million. The partnership program will build capacity and opportunities for Nigerians in agriculture, health, and small and medium size enterprise development.

It is too early to verify the actual effects, but the evidence shows that companies (whether in partnerships or not) put in place structures to address health concerns which may help the local poor.

¹⁹ Shell (2004) Minimum Health Management Standards - http://www.shell.com/home/Framework?siteId=royal-en&FC2=/royal-en/html/iwgen/environment_and_society/commitment_policies_standards/health_standard/zzz_lhn.html&FC3=/royal-en/html/iwgen/environment_and_society/commitment_policies_standards/health_standard/health_standards.html

²⁰ SPDC (2003) Annual Report: People and the Environment: http://www.shell.com/static/nigeria/downloads/pdfs/annualreport_2003.pdf

²¹ <http://www.usaid.gov/press/releases/2003/pr031118.html>

Ghana – Unilever, Low-Cost Iodised Salt

The introduction of good quality, healthy and affordable products will help the poor. According to UNICEF, 740 million people worldwide suffer from iodine deficiency. This causes mental retardation, brain damage, abortions, and congenital abnormalities. In 2000, Unilever in Ghana launched *Annapurna* - a low-cost iodised cooking salt - with the goal of both addressing the public health concern of iodine deficiency and providing a commercial return for the company.

To reduce production and marketing costs of the new product, a variety of cost saving actions were taken, including strengthening the quality standards of local manufacturers, which enabled local outsourcing and generated 200 new jobs. To extend the accessibility of *Annapurna*, the product was made available in sachet sizes down to 100 grams, allowing a price of six US cents. In addition, a series of 'road-shows' were undertaken to market the product, with messages co-ordinated with those of the Ghana Health Service.

Since its launch, *Annapurna* has increased the use of iodised-salt in Ghana from 28% of the population in 1998 to around 50% in 2002²², and now accounts for half the country market for cooking salt. The product became profitable for Unilever after 18 months, earlier than expected.

Adapted from: Unilever, 2003

²² Unilever (2003) Fortified Food Improves Health, Social Case-Studies: http://www.unilever.com/Images/ghana_fortified_foods_improve_health.pdf

Tanzania, Barrick Gold – mining

Since the mid-1990s, the mining sector has been the fastest-growing sector in the Tanzanian economy. It is predicted that mining will continue to grow in importance, accelerating the growth of the economy.

Barrick Gold Corporation, a Canadian transnational corporation, is the owner of Khama Mining Corporation Limited (KMCL) and the Bulyanhulu property in the Lake Victoria area. The property has estimated gold reserves of 10 million ounces. A total of \$680million had been invested by 2001, representing one of the largest investments in the history of Tanzania²³.

Within the context of political and administrative decentralisation, in 2001 the company adopted a policy of entering into partnership with Khama District Council authorities to align its operational infrastructure requirements for the mine with the infrastructure policies contained within the Khama District Development Plan. Although Kahama District Council had committed 25% of its locally derived income to implement the District Development Plan, this represented just 2% of the overall anticipated expenditure required for full implementation. With central government likely to contribute only a further 12%, the District Council was looking towards NGOs, international development organisations and, in particular, KMCL, to fill the void²⁴.

Three years on and local infrastructure has already begun to improve considerably as a result of Kahama's investment. These improvements include the building of a power line of 275 kva (\$15 million investment), a road of 87.5 kilometres (\$5 million investment) and a 47-kilometre-long water pipeline (\$3.4 million). Aligned with the Development Plans of Khama and other districts, this has generated tangible benefits to the local population. The power line brings a reliable electricity supply to both the mine and the wider region. The roads have become routes for farmers and local craftspeople taking their products to market in local towns. The pipeline has the capacity to meet the water needs of 30,000 villagers along its route, including a reliable water supply for the 5,000 residents of Bugarama and Ilogi villages nearest to the mine.

The main business benefit is the enhanced local community and political support, both for the current project and for future project expansion, as evidenced by strong public statements of support for KMCL in the national media.

Adapted from UNCTAD, 2002

²³ UNCTAD (2002) Investment Policy Review: The United Republic of Tanzania - <http://www.bpd-naturalresources.org/media/pdf/guest/tanzania.pdf>

²⁴ Sullivan, R. and Warner, M. (2001) Development in Khama District, Tanzania; Partnerships for Managing Social Issues in the Extractive Industries, Case-Study 8, London: Business Partners for Development - <http://www.bpd-naturalresources.org/media/pdf/guest/tanzania.pdf>

Tanzania – Ericsson’s Emergency Response Programme

The poor need effective emergency relief which depends in part on rapid and reliable communication capacity in emergency response situations where existing communications systems are either damaged or weak. Ericsson’s Response Programme works in partnership with international relief agencies and local relief organisations around the world to provide communication capacity. Ericsson’s contributions through the programme include²⁵:

- deployment of communications systems and operators in natural and security disaster situations (using mobile phone technologies);
- a volunteer programme in which staff are trained for use by relief agencies in both technical and general capacities;
- research into means of improving emergency telecoms, through a Technical Reference Group within the company, and external fora, such as the Working Group for Emergency Telecommunications; and
- advocacy to increase support for disaster response, promote government policies to facilitate the humanitarian use of ICTs, and to promote inclusion of humanitarian priorities within commercial contracts.

Through its staff and telecommunications equipment the programme relates closely to the company’s core competencies, and allows market exposure for its products. The Red Cross (IFRC) and UN agencies (UNOCHA, WFP, UNHCR) benefit from Ericsson’s technical support, and contribute their own expertise in the broad range of emergency and humanitarian issues, as well as offering their “good offices” to the exercise. For particular emergencies local NGOs, government agencies and local companies are involved in relief operations.

Since 1998 the programme has engaged in emergency situations in 19 countries, including in Tanzania in partnership with Mobitel Tanzania, IFRC, UNHCR and SIDA to support relief efforts directed at refugee's arriving from Congo, Rwanda and Burundi. Ericson took provided equipment that fitted in the existing network in commercial operations in Tanzania. The system provides improved communication so that planning and administration for refugee management is more cost effective. It also enabled refugee children to access the global world of information networks in their school.

Adapted from GKP (2003)

²⁵ Overseas Development Institute and Foundation for Development Co-operation (2003) Multi-stakeholder Partnerships, Issue Paper: Kuala Lumpur: Global Knowledge Partnership http://www.odi.org.uk/PPPG/activities/country_level/odpci/msp/FDC_comms_paper.pdf

Analysis – Three Principles for Enhancing Development Performance

Described below are three emerging policy principles for how business should go about undertaking the task business of enhancing its performance in contributing to pro-poor development.

Principle 1. - Contribute from Core Competencies

From the case-studies given above, it is noticeable that in each case (apart from Anglo American) companies are contributing to development goals using resources usually deployed in their core business activities. For Shell this includes its occupational health staff, for Unilever its product development and marketing expertise, for Ericsson its communications technology and expertise; and for Barrick Gold its operational infrastructure.

The logic is that development performance enhancement strategies that utilise core business competencies and resources will affect only the existing, variable, cost-base, of a company. The alternative approach, and the one that remains most common to the way in which business contributes to development goals, is for companies to contribute direct financial resources. Affordable in small volumes and tax deductible as a form of charitable giving, the approach carries with it the risk of introducing new costs that have a potential to escalate until they are material to pre-tax profits.

A further advantage of adopting a core competencies approach to enhancing development performance is the sheer range of competencies and resources available in the private sector that are potentially value adding to the goals of development. For example, institutional capacity is one of the main weaknesses of many businesses, public bodies and civil society groups across Africa. Large, efficient, companies, have talents, resources and management systems that, with only minor adaptation could be channelled towards institutional capacity building. These include: product research and development, occupational health care, safety and environmental management, skills development and performance management systems, distribution networks, access to low-cost finance, administrative, regulatory and legal expertise etc.

A capability in ‘mapping’ the core competencies and resources of different business operations onto national development priorities would seem an essential first step in promoting a more systematic approach to enhancing the pro-poor impact of business in Africa. This would need to include an analysis of how core competencies currently affect economies and whether and how underutilised opportunities can be used to improve the impact on pro-poor growth.

Principle 2. - Ensure a Robust Business Case

The above case-studies also point to a second principle, that development performance enhancement strategies should deliver a strong business case. For

Unilever this was ‘financial’, for Ericsson and Anglo American ‘reputational’ and for Barrick Gold ‘commercial’. The case for expenditure or resource deployment on development enhancement programmes is likely to be greatest if the business case has a strong commercial underpinning, rather than supported by a reputation or regulatory compliance case. For example, the thinking behind Barrick Gold’s alignment of its operational infrastructure with the Khama District Development Plan, through reputational in the short term, was driven by the need to build goodwill with local communities and local regulators, such that future expansion plans for the mine would face a minimum of objections and delays.

Principle 3 - Consider Strategic Alliances

Principles 1 and 2 lead directly to *Principle 3*. If companies are to stay focused on contributing from their core business competencies and resources, and if they are to develop a sufficiently strong business case to enable these resources to be released, it is quite likely that the actions of the business will need to be co-ordinated with those of other, often, non- business parties. With regard to resource contributions, only part of the available range of the business’ competencies and resources are likely to be relevant to the design requirements of a development programme. For example, Unilever’s marketing of low-cost iodised cooking salt will likely require assistance from national NGOs and others to distribute the product to remote rural locations within the bounds of affordable transportation costs.

With regard to the business case, burden and risk sharing with other parties is likely to be a precondition for senior business managers to release resources. In addition, many development projects run the risk of creating a long-term dependency on the company for what are essentially public sector responsibilities. Involving the public sector, and its resources, is one way of ensuring that, at far as practicable, the role of business in the venture is short-term.

A wide range of recent experiences with business partnerships - including the recently completed World Bank Business Partnership Development²⁶ programme and the on-going UN Growing Sustainable Business initiative²⁷ - tells us that finding the right partners with the right combination of resources, and agreeing a division of roles between what are often non-traditional parties from the business, public and civil society sectors, is not at all easy. It is important therefore to understand that the discipline of businesses entering strategic alliances to enhance their development performance is still evolving.

Conclusion

In conclusion, policy incentives need to be developed that encourage large companies that invest in Africa to understand better: (i) which of their core competencies and resources might provide a basis for enhancing the company’s development performance; (ii) where the business case lies to underpin deployment of these

²⁶ Warner, M. and Sullivan, R. (2004) Putting Partnerships to Work, London: Greenleaf Publishing

²⁷ Sandbrook, R. (2004) Growing Sustainable Business for Poverty Reduction in Tanzania, Powe Point Presentation: file:///C:/Documents%20and%20Settings/michael/Local%20Settings/Temporary%20Internet%20Files/Content.IE5/85 ABURWB/319,8,GSB

resources; and (iii) the role of strategic alliances in deepening and sustaining the development impact.

Companies investing and operating in Africa can modify their internal policies and related management and performance systems to embrace a core competencies approach to development enhancement. In addition, both OECD governments, through export promotion agencies such as the DTI's Trade Partners, and host country governments through their investment promotion boards, can develop policy guidance that provides a competitive advantage for those businesses that form a closer alignment between their business proposition and the country's development goals.

9 Conclusions

This paper discussed growth, investment and poverty experiences in Sub Saharan Africa. We discussed three long-run determinants of growth: geography, institutions and outward orientation.

We suggested that institutional quality or outward orientation have overcome instances of unfavourable geography (including size and landlockedness). In fact good quality institutions and governance are associated with most African growth successes.

While Africa is growing richer once again, the experiences of poverty reduction are mixed: some declining, some increasing. We reviewed several cases indicating how government and business policies relate to pro-poor growth. Every case contains its own message. Generalisations are hard to make, either

- across time: Zimbabwe was a success then a failure, Ghana a failure then a modest success in growth and a success in poverty reduction, Tanzania and Senegal more recent growth successes with some success in poverty, or
- across countries: not all landlocked are performing below average (Uganda, Botswana), and not all coastal countries have always done well (Cote d'Ivoire)

Now that much (three quarters) of Africa is experiencing economic growth and real GDP per capita growth, the focus of research can turn to factors that raise pro-poor growth.

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