



THE AFRICAN CAPACITY BUILDING FOUNDATION | FONDATION POUR LE RENFORCEMENT DES CAPACITES EN AFRIQUE

POLICY AND INSTITUTIONAL DIMENSIONS OF AFRICA'S POLITICAL ECONOMY IN AN AGE OF GLOBALIZATION

Occasional Paper No. 27, 2016

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THE AFRICAN CAPACITY BUILDING FOUNDATION

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2 Fairbairn Drive, Mount Pleasant
Harare, Zimbabwe

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The African Capacity Building Foundation

First printing April 2017
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This Occasional Paper establishes that African countries need to pursue economic diversification and structural transformation vigorously using appropriate policies and institutions that address inclusive growth priorities. In addition, good governance and a committed national leadership with a developmental vision are crucial ingredients. Any capacity building interventions have to be crafted taking these priorities into account as well as the contextual factors that determine a particular country's economic direction.

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ISBN: 978-1-77937-058-7

POLICY AND INSTITUTIONAL
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PREFACE

Since attaining political independence around the 1960s, the bulk of African countries have been constantly looking for ways to achieve socioeconomic development. As a result, they have implemented various policies and reforms. Today, globalization is seen as a way to facilitate African economic development.

Estimates show that since 2000, Sub-Saharan countries have posted improved growth rates. Even so, average real per capita income is still barely higher than in 1970, and Sub-Saharan Africa fell behind all other regions on most development indicators. With globalization, Africa's traditional partners such as western countries have accordingly adapted their policies and interventions on the continent to fit their new strategies and interests. The emergence of China and India as new partners of African countries with new conditionalities and engagement strategies has also changed the international economic order. What have been Africa's institutional and policy responses to these new developments?

The responses to, and outcomes of the recent international economic and geopolitical landscape for Africa are ambiguous. Though countries such as Botswana appear to have done well in the new world order, many other African countries have not fared that well. The debate holds lessons for Africa in whether the continent has "a challenge understanding its own reality." So what policies should African countries embrace to "seize the day" in a revised global world order?

The Africa Agenda 2063 illustrates the continent's constant search of its own way to achieve sustainable development. In fact, the Agenda 2063 seeks to ensure Africa's economic and technological transformation while continuing the Pan-African drive for self-determination, freedom, progress, and collective prosperity. But can the continent achieve this feat?

It is against this background that the African Capacity Building Foundation (ACBF) has produced this Occasional Paper under its Strategic Studies Group.

A key finding from this paper is that some Sub-Saharan countries have started realizing impressive growth trends by deploying macroeconomic policies and institutions appropriate to their own context, thereby demonstrating that the continent's economic renaissance is a big possibility. Notably, ACBF has been an important player in these achievements through its capacity building investments in policy analysis and economic management across a wide spectrum of African countries.

The ACBF believes that, besides its support in establishing think tanks and policy institutes and strengthening their capacity throughout the continent, producing knowledge can help enhance evidence-based policymaking.

Building the capacity for policy analysis and economic management remains a Foundation priority. Our hope is that the stakeholders and development partners will join us to continue strengthening human and institutional capacity for sustainable African development.

Professor Emmanuel Nnadozie
Executive Secretary
The African Capacity Building Foundation

ACKNOWLEDGEMENTS

This Occasional Paper was prepared under the supervision of the Knowledge and Learning (K&L) Department guided by its Director, Dr. Thomas Chataghalala Munthali. Within the K&L Department, this paper was ably coordinated by Dr. Robert Nantchouang, Senior Knowledge Management Expert, and Dr. Barassou Diawara, Knowledge Management Expert.

The paper is produced within the African Capacity Building Foundation (ACBF) Strategic Studies Project aimed at provoking discussions and raising awareness on important strategic issues to the African development agenda. The strategic studies topics were selected in consultation with members of the Policy Institutes Committee and the Strategic Studies Group (SSG). Special thanks to members of both networks. We thank SSG members for their guidance on selecting topics to be commissioned and their critical review of the manuscripts.

The ACBF wishes to acknowledge the efforts of the researchers who conducted the studies that generated this paper: Dr. Claudious Chikozho and Charles Nhemachena. The Foundation also wishes to express its appreciation to all the many agencies and individuals in the countries and the ACBF partner institutions that provided valuable data and information that made the paper's completion possible.

This paper benefited from the insightful comments from Prof. Mike Obadan, Prof. Victor O. Ayeni, and Prof. Timothy T. Shaw who served as external peer reviewers. It also benefited from internal reviews by ACBF staff.

About the African Capacity Building Foundation

The African Capacity Building Foundation (ACBF) is Africa's premier institution in capacity building. Established in February 1991, ACBF builds human and institutional capacity for good governance and economic development in Africa. The Foundation has empowered governments, parliaments, civil society, private sector, and higher education institutions in more than 45 countries and six regional economic communities. It supports capacity development by way of grants, technical assistance, and knowledge generation across the continent. ACBF's vision is that of an Africa capable of achieving its own development.

About the Strategic Studies Group

The Strategic Studies Group (SSG) is an ACBF network of global development experts and practitioners made up of the ACBF Policy Institutes Committee, selected development partners, international development specialists, and the ACBF-supported training programs and university partners. The SSG assists the Foundation in identifying key policy and emerging issues requiring the attention of the Foundation and its stakeholders.

The SSG works with the ACBF to identify research themes and advises the Foundation on strategic and pertinent issues that need special attention. It also serves as a "review panel" that shapes, examines, and evaluates the high-level studies undertaken by the Foundation.

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ABBREVIATIONS

ACBF	The African Capacity Building Foundation
ACET	African Center for Economic Transformation
AfDB	African Development Bank
ANC	African National Congress
BEE	Black Economic Empowerment
BIDPA	Botswana Institute for Development Policy Analysis
BRICS	Brazil, Russia, India, China, and South Africa
CSO	Civil Society Organization
ESAP	Economic Structural Adjustment Program
FDI	Foreign Direct Investment
HIV/AIDS	Human Immunodeficiency Virus and Acquired Immune Deficiency Syndrome
IMF	International Monetary Fund
GDP	Gross Domestic Product
GEAR	Growth, Employment, and Redistribution
MDG	Millennium Development Goal
OECD	Organisation for Economic Co-operation and Development
UNCTAD	United Nations Conference on Trade and Development
UNECA	The United Nations Economic Commission for Africa
UN-DESA	United Nations Department of Economic and Social Affairs
UNDP	United Nations Development Programme
UNIDO	United Nations Industrial Development Organization

All dollar amounts are U.S. dollars unless otherwise indicated.

EXECUTIVE SUMMARY

The advent of political independence allowed most Sub-Saharan countries to determine the appropriate mix of policies and institutions that would enable them to achieve rapid socioeconomic development. But experiences across the continent have so far yielded mixed results, and the search for an effective political economy model in the face of a rapidly globalizing world remains an ongoing challenge for most countries. In this study, we ask why some developing countries seem to be growing much faster and have much better socioeconomic performance than others. Indeed, what macroeconomic policies and institutions should Sub-Saharan countries pursue to enable more sustainable, lasting, and inclusive growth while dealing with the challenges that a rapidly changing political and economic world order present? The study's main intention was to generate knowledge to enhance the efficacy of Africa's political economy and development pathways by identifying alternative macroeconomic policy and institutional options that can be deployed to enable deeper socioeconomic transformation.

Our first key finding is that to date, only 13 economies in the world may be categorized as living examples of high, sustained growth, realizing a gross domestic product (GDP) of at least 7 percent over 25 post-war years. These are Botswana, Brazil, China, Hong Kong, Indonesia, Japan, the Republic of Korea, Malaysia, Malta, Oman, Singapore, Taiwan, and Thailand (World Bank 2008). Even though only one of these is an African country, these cases collectively demonstrate that fast, sustained growth is possible. Though such growth is critical for building a prosperous Africa, crafting new and more robust macroeconomic policy and institutions will require a clear understanding of past strategies that have worked or failed to work in various parts of the world. Indeed, for Sub-Saharan countries, political and economic renaissance is an issue that has preoccupied development theory and practice alike; various options for achieving such a renaissance have either been proposed or tried out in different countries.

Case studies in the paper show that some Sub-Saharan countries have started realizing impressive growth by deploying macroeconomic policies and institutions appropriate to their own context, demonstrating that the continent's economic renaissance is a big possibility. But there are other countries such as the Democratic Republic of the Congo and Zimbabwe that continue to lag behind for various reasons, most of which relate to poor governance. In the few African countries where significant economic growth has been recorded, it has also not managed to pull masses of people out of poverty (Edigheji 2005; ACET 2014). For example, knowing that countries such as Nigeria and South Africa have become middle-income economies does not reveal a whole lot about the widespread poverty, unemployment, and deep-seated inequalities endemic in both countries.

So a key question: "What can Africa do to ensure inclusive growth?" This study finds that there is need to revisit macroeconomic policy and institutions in Sub-Saharan countries taking into account the lessons from other regions that have performed well such as Southeast Asia. The Southeast Asia experience engenders sharper focus on the role of the "developmental state," a major ideological rallying point for those who wish to contest the appropriateness of neoliberalism and the Washington Consensus. In essence, we ask: What is the state's appropriate role in the context of a renewed quest for rapid Sub-Saharan growth?

To answer this question, we explore the published literature and several case studies to determine what successful and unsuccessful countries have done. We find that most scholars

and practitioners agree that the state should play a big role in development planning since there is a link between national policies and long-term economic growth. Though there are some dissenting views that argue that the link between macroeconomic policy and growth is tenuous and difficult to defend in theory, we take the position that in Sub-Saharan Africa, appropriate policies and institutions are important for growth because they determine a country's economic development direction. We also identify key variables that Sub-Saharan Africa should consider for further growth. These include paying attention to agricultural production and food security; promoting science, technology, and innovation; creating enabling environments for foreign direct investment (FDI); improving national governance frameworks; ensuring that any international aid provided is well-targeted and used optimally; and most important of all, ensuring broad-based inclusive economic growth.

Due to various dissenting voices from scholars who try to disqualify the causal link between good governance and rapid economic growth, even in the face of mounting evidence to the contrary in Sub-Saharan Africa, we take a firm position on good governance. We emphasize that governance lies at the heart of the Sub-Saharan development challenge. Though the contextual factors that lead to political instability may differ from country to country, the poor governance scourge seems to have cut across most Sub-Saharan countries that experience political instability, directly affecting economic growth. Despite realizing significant national economic growth since the late-1990s, most Sub-Saharan citizens' livelihoods have not been transformed and poverty, unemployment, and inequality remain "wicked" challenges. It appears that inequality is endemic in both well-performing and poorly performing economies.

The main message from the paper is that the impressive economic growth in several countries should be made sufficiently inclusive so that many people throughout these countries begin to enjoy the access to basic social and economic services and opportunities that the middle and upper classes in the society take for granted. Almost all the case studies in this paper confirm this development aspect.

From the case studies and the broader literature review, key pointers for capacity building begin to emerge. The main growth drivers and macroeconomic planning priority areas outlined in the paper present preliminary pointers for possible capacity building interventions. To begin with, a transformative agenda centered on economic restructuring supported by manufacturing and industrialization to create more jobs and ensure broad-based inclusive growth is necessary for rapid Sub-Saharan growth. Therefore, any meaningful capacity building interventions would have to begin with questioning how best the tenets of such a paradigm can be disseminated among the Sub-Saharan national leadership structures. The paper articulates several other possible capacity building interventions but we feel that ultimately, a needs assessment should be done in the context of each country to determine its specific capacity needs before any interventions can be crafted and implemented. We are convinced that by deploying well-targeted interventions, macroeconomic policies, and institutions, Africa's transformation is reachable.

CHAPTER 1. GENERAL OVERVIEW

The advent of political independence gave most Sub-Saharan countries the opportunity to determine the proper mix of policies and institutions that would enable them to achieve rapid socioeconomic development. But experiences across the continent have so far yielded mixed results, and the search for an effective political economy model in the face of a rapidly globalizing world remains an ongoing challenge for most of the countries. One way national development theorists and practitioners can come up with more robust development strategies that simultaneously satisfy the requirements of sustainable economic growth and equity is to review the lessons from past development strategies and learn about what worked and what did not. They also have to be aware that conditions might have altered already, and therefore, present conditions may not be the same as those under which the past strategies worked. In this paper, we explore in detail and synthesize relevant socioeconomic development discourses and country experiences that provide useful insights for addressing the policy and institutional challenges evident in this landscape.

During the study, we paid particular attention to some enduring but important questions that seem crucial to understanding and addressing Sub-Saharan Africa's political economy dilemma. For example, why do some countries in the developing world seem to be growing much faster and have much better socioeconomic performance than others? What are the crucial policy and institutional factors behind such differences, and what can governments do to improve their economies' relative position? Why have some sections of the continent remained poor, volatile, and violent while others enjoy stable socioeconomic and political conditions? Alternatively, if the road to prosperity is at once feasible and obvious, why are not all developing countries already pursuing it vigorously? Indeed, what macroeconomic policies and institutions should African countries embrace to "seize the day" in a rapidly changing political and economic world order? The study's major intention was to generate knowledge that can be used to enhance the efficacy of Africa's political economy and development pathways by identifying alternative macroeconomic policy and institutional options that can be deployed to enable deeper socioeconomic transformation.

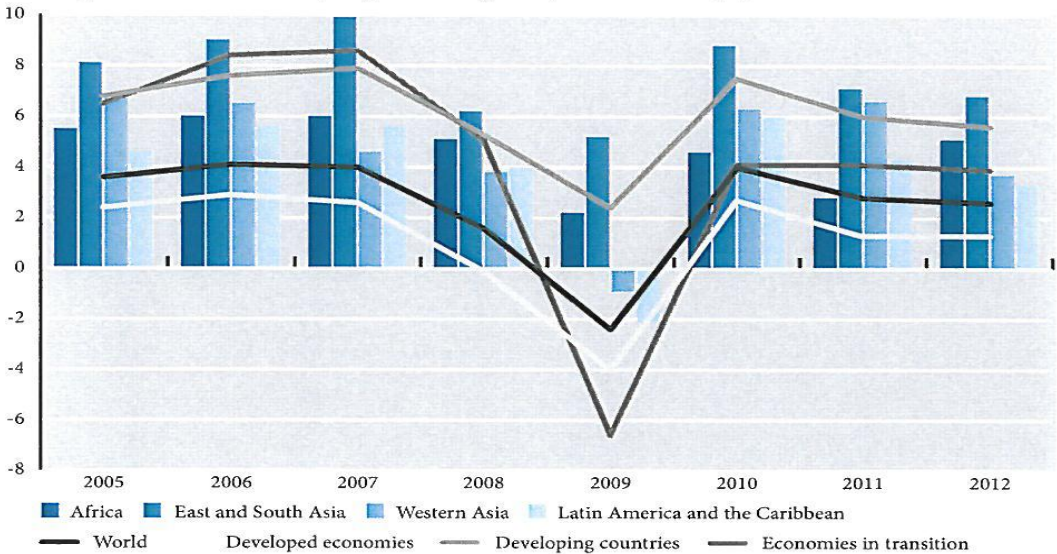
The paper is the result of a desk-based study that explores African countries' political economy with special focus on macroeconomic policy and the relevant institutional configurations. We undertook an extensive review of published and grey literature, government policy documents, and excerpts from expert commentaries on the state of the economy to examine and articulate the trajectory of political economies in Africa and other parts of the developing world from the post-independence era. We systematically looked for variations in developmental outcomes attributable to policy actions taken in different political and structural contexts.

The main empirical sources of evidence for the paper are in-depth comparative case studies that enable us to understand in-country causal relationships and regularities. Thus, macroeconomic policies and institutions influencing the trajectory of various countries' political economy performance over time are examined to establish their comparative advantages and weaknesses. Though we used global-level information on political economy, the study focused on case studies across the African continent and other parts of the world that can help illustrate the key drivers for and constraints to national macroeconomic policy performance. Opportunities for capacity building to enable realization of the national political economy planning agenda are also assessed and articulated.

Background to the study

The 2008 global financial and economic crisis has alerted policymakers and theorists in Sub-Saharan Africa and elsewhere to the need for re-thinking their national economic strategies for the coming decades. Various analyses show that overall, Sub-Saharan Africa has been able to quickly recover from the global financial and economic crisis, demonstrating that the continent does have vast but until now mostly untapped economic potential (Devarajan and Kasekende 2009; Brixiová and Ndikumana 2011). Figure 1.1 depicts the recent economic growth rates shifts across the world.

Figure 1.1 GDP Growth rates of major global regions, 2005-2012 (%)



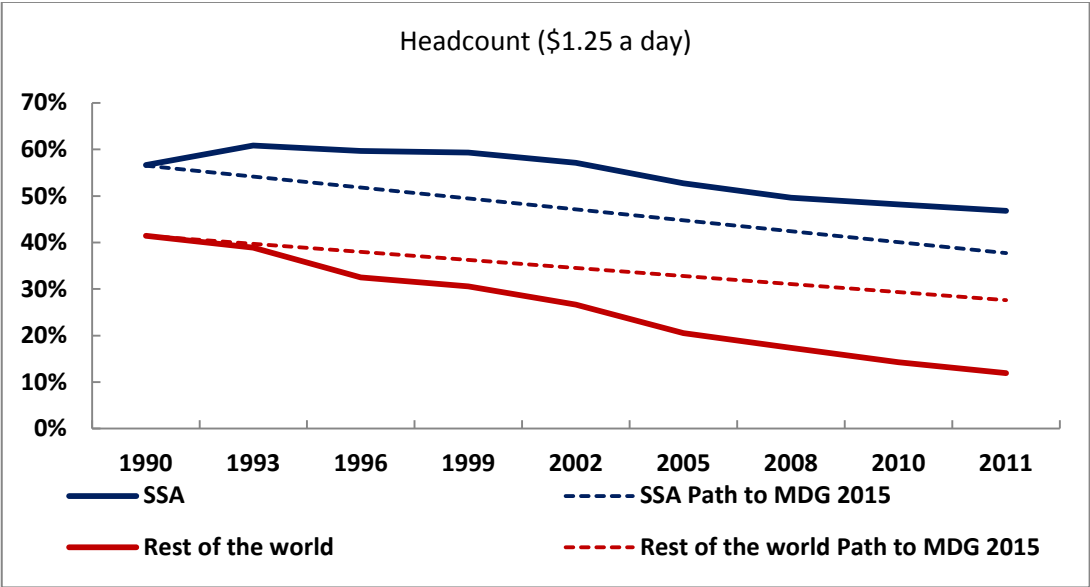
Source: UN-DESA (2012).

At least eight African countries now have gross domestic products (GDPs) per head higher than that of China and in 15 countries it is higher than that of India. Africa’s strong economic growth is expected to continue (GGA 2012). To date, only 13 economies in the world may be categorized as living examples of high, sustained growth, with a GDP of at least 7 percent over 25 post-war years. These are Botswana, Brazil, China, Hong Kong, Indonesia, Japan, the Republic of Korea, Malaysia, Malta, Oman, Singapore, Taiwan, and Thailand (World Bank 2008). Even though only one of these is an African country, these cases collectively demonstrate that fast, sustained growth is possible. Some people view these cases as “economic miracles,” events impossible to explain and unlikely to be repeated (ibid). So the major challenge now is how to turn Africa’s potential into substantial, sustained, and inclusive growth that leads to substantial improvements in people’s livelihoods. As UNECA (2015) points out, the African continent is unquestionably a region on the rise, and there is much optimism about the continent’s prospects of entering a phase of structural transformation and sustainable long-term inclusive economic growth and development.

Though such growth is critical for building a prosperous Africa, crafting new and more robust macroeconomic policy and institutions will require understanding past strategies that have worked or failed to work throughout the world. Indeed, for Sub-Saharan Africa, political and economic renaissance has preoccupied development theory and practice alike; various options for achieving such a renaissance have either been proposed or tried in different countries. In most debates, macroeconomic policy and institutions, economic growth, and development feature prominently. For example, Hailu and Weeks (2011) argue that after several decades of a narrow focus on controlling inflation and reducing fiscal deficits,

macroeconomic policy discussions have returned to fostering growth and development. Figure 1.2 shows Sub-Saharan Africa poverty reduction trends between 1990 and 2011.

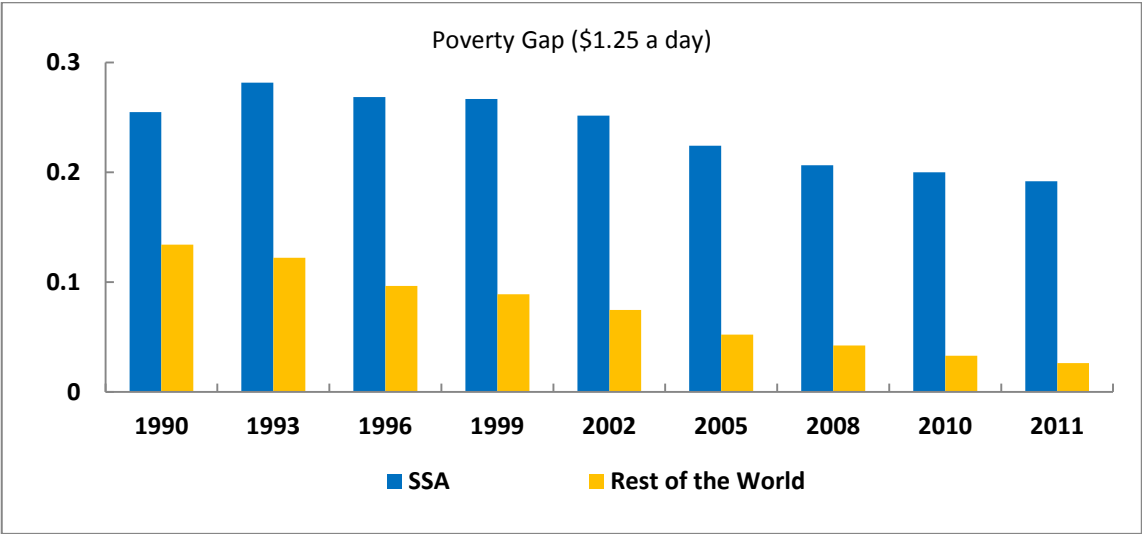
Figure 1.2 Poverty reduction trends between 1990 and 2011



Source: World Bank, Africa’s Pulse. PovcalNet (2014).

Both figures 1.1 and 1.2 show that overall, poverty has fallen over the last few decades but more slowly in Sub-Saharan Africa than elsewhere in the world, and slower than is needed to meet Millennium Development Goal (MDG)-1. In the few African countries where significant economic growth has been recorded, it has also not managed to pull masses of people out of poverty (Edigheji 2005; ACET 2014). For example, knowing that countries such as Nigeria and South Africa have become middle-income economies does not reveal a lot about the widespread poverty, unemployment, and deep-seated inequalities endemic in both countries. Figure 1.3 shows Sub-Saharan Africa’s poverty trends between 1990 and 2011.

Figure 1.3 Poverty levels, 1990–2011



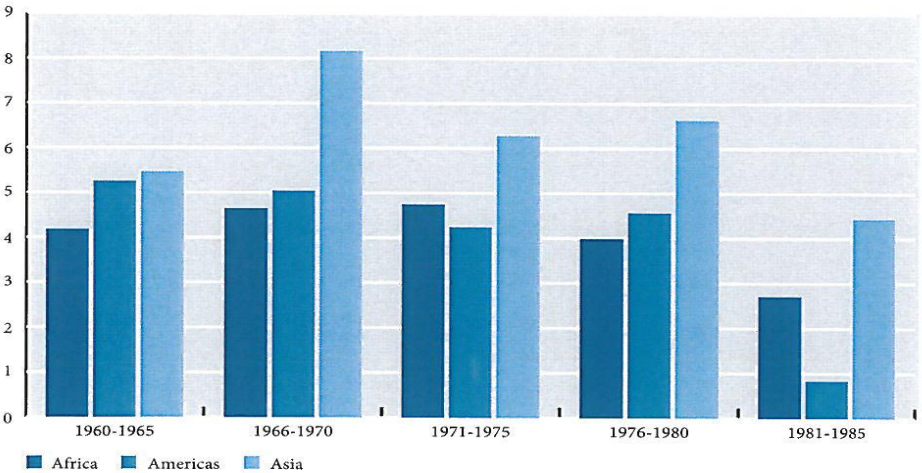
Source: World Bank, Africa’s Pulse. PovcalNet (2014).

Several reasons have been proffered for Sub-Saharan Africa’s poor economic performance, including high population growth, poor export performance, low human capital, poor macroeconomic policies and institutions, inefficiencies in the public sector, and ethnic

conflicts (World Bank 1990; Schatz 1994; Easterly and Levine 1997; Narayan and others 2011). In the 1950s and early 1960s, Africa was largely seen as a promising and prosperous continent, in contrast to Asia mired in seemingly irredeemable poverty and ravaged by wars. Fortunes soon changed, and after a spurt of post-independence economic growth, external shocks, poor policy responses, and ineffective development led to economic stagnation in many African countries, slowing even front-runners such as Côte d’Ivoire and Kenya (UNECA 2012).

Sub-Saharan Africa’s failure to sustain economic growth has shifted policymakers’ and theorists’ attention to the missing ingredients of macroeconomic policy and institutions. Inevitably, a focus on macroeconomic policy, institutions, economic growth, and development places the state’s role in the spotlight. The World Bank (1997), for example, concluded that far-reaching developments in the global economy have made us revisit basic questions about the state, such as what its role should be, what it can and cannot do, and how best to do it? In essence, how can the state facilitate sustainable economic growth and transformation in a rapidly changing world? Fritz and Menocal (2007) say that a major focus is now on how states can become more capable and more supportive of socioeconomic development. The emphasis has shifted from determining the “right” role for the state to questions about its commitment and capacity. Figure 1.4 depicts the GDP growth trends that show that Africa has been lagging behind other world regions for a long time.

Figure 1.4 GDP growth, 1960 – 1985 (%)



Source: World Bank (2011b).

Exploring the relevant literature also reveals that many scholars have become more pessimistic about Sub-Saharan Africa’s post-independent development condition. Indeed, deep pessimism about Sub-Saharan Africa’s development prospects pervades much of the literature, given its weak institutions, unimpressive economic reforms, and resource-curse challenges (Bluedorn and others 2014). For instance, Edigheji (2005) argues that the post-independent African state’s history is that of monumental democratic and developmental failures and relatively weak economic performance. After almost five decades of independence, most African countries are still underdeveloped. The World Bank (2008) says that Africa’s policymakers have spent many years preoccupied with debt, deficits, and inflation. Noting the statistically significant and negative effect of the African dummy in their cross-country growth regressions, Easterly and Levine (1997) have talked about a “growth tragedy” to characterize Africa’s long-term economic performances. In fact, Sub-Saharan

Africa's average real income per capita barely increased between 1960 and 2000, an outcome largely resulting from African economies' dismal performance from roughly 1974 to 1994.

It is, therefore, no exaggeration to say that Africa "missed out" on the unprecedented economic transformation that took place in the rest of the developing world after 1950 (Ndulu and O'Connell 2008; Platteau 2009). Evidence for this underdeveloped state can be found in any social and economic indicators one examines. Exceptions are a few countries such as Botswana, Mauritius, Ghana, and Tunisia that have had relatively high growth rates (Tiruneh 2006). A combination of ineffective policies, outright mismanagement (in some countries), heavy external debt burden, poor governance, and conflicts precipitated the massive economic decline in the early 1980s (Sako and Ogiogio 2002).

This suggests that Sub-Saharan countries urgently need economic transformation to sustain pro-poor growth, to cope with population increases, to become competitive in the global economy, and to create the conditions for better governance (Africa Power and Politics Program 2012). Even though many good policies have been identified in various Sub-Saharan countries, they have neither been adopted nor implemented with adequate seriousness. This problem may also be traced back to distributional issues and institutional barriers (World Bank 2003). Seven of the 10 most unequal countries in the world today are in Sub-Saharan Africa. So pursuing a deeper economic transformation agenda is still an important development objective for most African countries.

Using a historical descriptive approach, this paper focuses on the macroeconomic policy and institutional options that can enable more sustainable and equitable development across Africa. We are acutely aware of the risks involved in being too deterministic and conclusive in attempts to forecast continental economic growth. For instance, in the 1960s, Gunnar Myrdal confidently forecasted that Africa was going to grow steadily along an avenue of prosperity while Asia was doomed to be stagnant. The following 30 years of rapid Asian economic development (while Africa stagnated) taught theorists to be wary of predicting the long-term economic growth performance of any country or region (Azam and others 2002). So in this paper, we do not purport to predict the course of African growth in the next five or so decades, but rather more modestly, to review the published literature and articulate those development strategies and macroeconomic approaches that have been deployed in various national contexts with successful or unsuccessful results. The lessons learned may be used to inform African macroeconomic policymaking and ingredients.

Organization of the paper

This paper has 12 main sections. In the 1st section, we provide a general overview of the study and the background that situates the study in its proper context. In the second section, we briefly explore and provide an overview of Sub-Saharan Africa's post-independence development planning experiences, continental economic growth trends, and the main macroeconomic policy strategies deployed. We briefly describe some of these experiences' main outcomes. In the 3rd through 10th sections, we present detailed case studies from across the continent to bring out the main economic growth and political trends that may explain various Sub-Saharan countries' current economic status. We focus on these processes' benefits and costs. In the same sections, we also use the Democratic Republic of the Congo and Zimbabwe as case studies that help us better unravel the fragile states phenomenon.

In the 11th section, we articulate the main growth drivers in Southeast Asia with special attention paid to the "Asian tigers." The main intention is to highlight some of the major

macroeconomic development planning strategies that made this region's rapid growth possible. In the 12th section, we present an overall discussion based on key issues arising from the literature review and the case studies. The main focus in that section is to bring out the main drivers for sustainable and inclusive growth that may be deployed in Sub-Saharan Africa to improve the continent's position. In the same section, opportunities for capacity building are articulated and a few concluding remarks proffered.

CHAPTER 2. SUB-SAHARAN DEVELOPMENT PLANNING TRENDS

A number of challenges faced most newly independent Sub-Saharan countries, and these challenges informed the national development agenda. They included the need to address the colonial legacy of underdevelopment and deeply entrenched inequalities in sectors such as education, health, employment, and other aspects of social development; the need to take control of the economy and improve national economic performance; and the need to facilitate “nation-building” and establish legitimate, viable, and effective public organizations for governance, public management, and national development (Conyers 1986; Rondinelli 1989).

Inevitably, development became defined as much more about using the state to spearhead modernizing the society and raising its incomes than anything else. The belief became pervasive that the state could develop the national economy and alter the society in such a way as to make it much more suitable for human needs than during colonialism (Killick 1983). Underlying this was a belief that the state could embody collective will more effectively than the market, which favored privileged interests. Aware of the imperfections in the market and the world economy, and confident that the state could overcome them, development theorists proposed models that gave the state a leading role in the economy (Rondinelli 1983; Olukoshi 2002). So for most African countries, independence gave the state the opportunity to satisfy the citizens’ basic socioeconomic needs through comprehensive economic planning. “Having a plan” became almost an essential part of political independence (Killick 1983).

Most governments also believed that through comprehensive planning, they could accelerate economic growth rapidly, quickly catching up with developed economies (Ghura 1995). Thus, Sub-Saharan Africa has gone through several decades of diverse national macroeconomic planning cycles leading to a mixed and broad basket of experiences that need to be articulated. The 2008 global financial and economic crisis has been interpreted as testimony that markets are not always self-regulating; when unregulated, they become unworkable and unsustainable in the long run (Devarajan and Kasekende 2009; Brixiova and Ndikumana 2011). More important though, it has brought to the fore state intervention’s importance to the economy and has made the case for developmental states more compelling (Edigheji 2010).

Sub-Saharan macroeconomic development planning trends

Exploring Sub-Saharan Africa’s history of post-independence development planning reveals that the continent has gone through three distinct national development-planning phases. The first is the centralized planning phase mainly constituted by developing and implementing comprehensive five-year plans (Killick 1983). According to Olukoshi (2002), at least 32 African countries had a national development plan based mostly on Soviet-type command economies during this phase. The plans promoted state-engineered economies with government-allocated resources. It was notably the time of state-owned enterprises operating in most of the productive sectors. The second is the liberalization phase when the state abandoned steering development and let the market drive it. It is also the phase when economic structural adjustment programs gained currency.

The third is the long-term visioning phase (for example, Vision 2016 in Botswana and Vision 2025 in Tanzania), in which the state is expected to return to steering national development but mainly acting as a development guide and facilitator in cooperation with other society

players (Conyers 1984; Mutahaba and Kweyamba 2010). Though there has been some disillusionment among academics and planning practitioners over the failure of planning to achieve the expected results since the 1960s, this has had little apparent effect on government attitudes. Most African states today either have a national development plan of some sort or are trying to re-establish conditions in which national planning becomes feasible and more effective (Killick 1983; Oketch 2006). In this context, several macroeconomic planning approaches and strategies tried out by various Sub-Saharan governments stand out.

Import substitution

The first includes attempts to fast-track national economic growth through import substitution industrialization, beginning from the 1960s to the early 1980s. This was mainly an overly state-led strategy prompted by Sub-Saharan governments' mistrust of markets and private businesses, at times even trying to suppress them (ACET 2014). With import substitution, a country establishes local industries and production, replacing the importation of goods from other countries and creating local jobs while enabling national self-sustenance and preventing balance-of-payments problems (UNCTAD and UNIDO 2011). Through this model, Sub-Saharan Africa realized a positive and fairly stable average GDP growth of about 4 percent a year from 1960 to 1985 (Oketch 2006; UNECA 2012).

But as time went by, problems in these strategies came to light. It became increasingly clear that many third-world economies were growing more slowly than required to continue improving the living standards of the world's poorest citizens (Olukoshi 2002). The industrial development that took place consumed more resources than it generated, a waste exacerbated by inefficient states. When the postwar boom came to an end in the 1970s, the shortcomings of state-led development became plain (Rapley 2007). As the original import substitution expectations were not met, the approach had to be abandoned in the 1970s.

For many countries, the approach's negative impacts included high trade deficits, worsening trade terms, rising international indebtedness, huge fiscal deficits, rising subsidies to inefficient and unproductive public enterprises, and steep declines in foreign reserves (UNECA 2012). The result was a decline in economic growth such that, by the early 1980s, Africa was one of the world's slowest growing regions. For example, foreign aid as a share of GDP was consistently higher than in other developing regions, and debt rose rapidly from 23.5 percent in 1971 to 42.8 percent in 1980, peaking at 70.4 percent in 1985 (ibid). It became apparent that Sub-Saharan Africa had to adopt a different strategy for national economic growth and development.

Economic structural adjustment programs

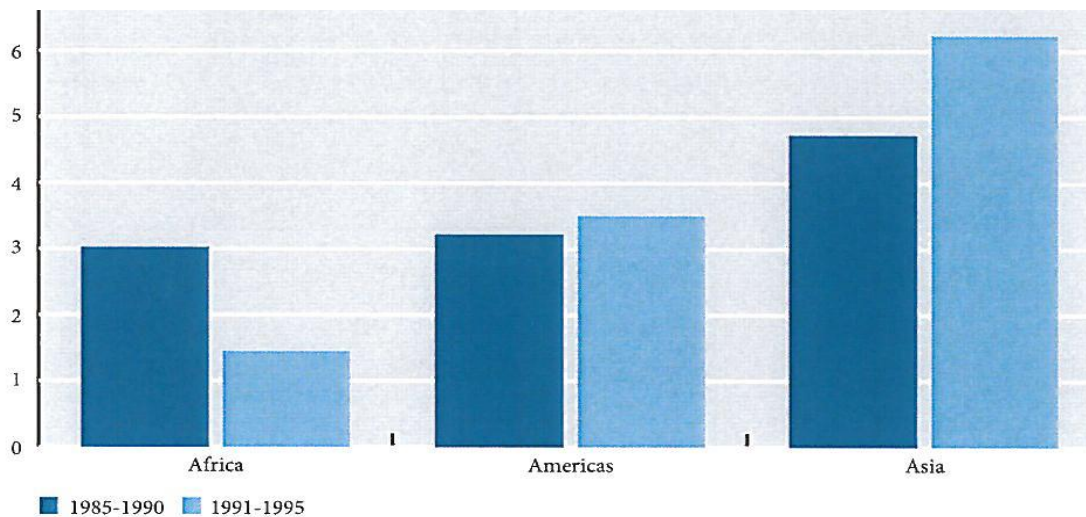
With political independence, it was assumed and accepted that through centralized development planning, the state should deliver macroeconomic stability, stimulate growth, redistribute incomes, provide social welfare, and develop physical infrastructure and infant industries (Bangura 1999; Nellis 2006). But by the late 1980s, the consensus was that the public sector's contribution to economic development was far below expectations and needed to be reformed (World Bank 1994; Killick 1995; Rammanadham 1989; Cook and Kirkpatrick 1988). State-owned companies that were supposed to provide investible surplus to the government often required massive subsidization, imposing a fiscal burden (Nellis and Kikeri 1989). The civil service was characterized by poor service delivery, rampant corruption, and patronage. There was overwhelming pressure to reduce the state's role by restructuring loss-making public enterprises and re-orienting them toward efficiency and effectiveness (Keyter 2007).

Thus, the wave of economic structural adjustment programs (ESAPs) that swept across Sub-Saharan Africa from the 1980s was conceived and delivered to counter the widely held orthodoxy of a state viewed as the only organization with the capacity to engineer national socioeconomic development (Zhou 2001). With guidance and direction from the IMF and the World Bank, governments crafted and implemented wide-ranging “market-friendly” macroeconomic policy reforms that included liberalizing trade and exchange rate regimes as a precondition for receiving the Bretton Woods institutions’ aid (UNECA 2012). Under ESAPs, the state was seen as the impediment to economic efficiency and growth. The main goal was to “roll it back” and give room to markets and to business, which, thus unshackled, would propel growth and structural change while the state confined itself to setting the rules of the game, acting as an impartial umpire, and supplying such public goods as education and health care (ACET 2014).

Many academics and policymakers have since assessed whether ESAPs promoted economic growth, and indeed, there are a few examples of Sub-Saharan countries that exhibited good growth performance after introducing the recommended reforms (for example, Ghana). But there are many examples of disappointing results (Loxley 1990; Calderón and Fuentes 2012). ESAPs’ overall socioeconomic cost is a sad story. Various reviews point to serious implementation difficulties (Gordon 1996; Bangura 2000; Chang 2007; Ohemeng 2010). Ghura (1995), who studied the economic growth trends of several post-independent African countries from 1970 to 1990 concluded that the region lost two decades. Of the 33 countries studied, 20 were poorer in the 1980s than in the 1970s. According to UNECA (2012), despite that many African countries vigorously pushed through ESAPs, economic growth still declined from 3.02 percent in 1985–1990 to 1.45 percent in 1991–1995. Correspondingly, per capita real GDP improved marginally in 1985–1990 by 0.23 percent, but declined by 0.89 percent in 1991–1995 when other developing continents reported growth (Africa in Fact 2014).

This suggests that even though ESAPs yielded positive growth gains in some of the more advanced third-world countries, it was less effective in the poorer Sub-Saharan countries—those paradoxically most in need of rapid change (Rapley 2007). For instance, downsizing public sector institutions and massive privatizations led to net job losses; budget restrictions compromised social service delivery and human capital development; and most important, ESAPs failed to yield the envisaged growth outcomes (UNECA 2012). External debt accumulation during the ESAP period also assumed alarming proportions in Sub-Saharan Africa, climbing as a share of GDP from 100 percent in 1985–1990 to 115 percent in 1991–1995 (ACET 2014). Figure 2.1 depicts the trend of GDP growth in three world regions during the decade 1985–1995.

Figure 2.1 GDP growth, 1985-1995 (%)



Source: World Bank (2011b).

The ESAP-inspired decades in Africa are today frequently referred to as the “lost decades,” and the persistence of the poverty crisis has led international donors to refocus their aid programs on debt relief-funded poverty reduction strategies (UNECA 2012). ESAPs’ failure alerted policymakers and decision makers to the need to broaden the agenda of public sector reforms to include a focus on well-functioning institutions in the development process (Platteau 2009). It also reopened the search for a more viable development strategy and renewed debate about the possibility of a developmental state in Africa (Meyns and Musamba 2010).

The post-economic structural adjustment program period

In the early 2000s, ESAPs were replaced by poverty reduction strategies and plans (PRSPs), which aimed to reverse the negative effects of a decade of ESAPs on welfare and social conditions. PRSPs strongly stressed poverty reduction as a debt-relief condition (Rapley 2007). Many African countries embarked on at least two generations of PRSPs, mostly to ensure debt relief eligibility. Despite the principle of ownership and consultations that underpinned PRSPs, they lacked credibility because of the process’ externally driven nature. Furthermore, PRSPs tended to place disproportionate emphasis on the social sector at the expense of the productive sector, raising questions about the poverty reduction agenda’s sustainability (ibid). As a result, many African countries have adopted long-term development visions and planning frameworks with far more ambitious growth and social development objectives and targets. Such countries include Ethiopia, Nigeria, Uganda, South Africa, Tanzania, and Botswana, each of which have adopted more detailed strategies and policies than those typically included in PRSPs (Meyns and Musamba 2010).

Since the late 1990s (after almost two decades of stagnation and decline), African economic growth has greatly improved. The continent has not only posted notable (if varying) rates of expansion but is also one of the world’s fastest-growing regions (Arbache and others 2008; UNECA 2012; Africa Progress Panel 2013). Beyond that, growth is not only spread among countries—with about 40 percent of them growing at 5 percent or more in 2001–2008, for example—but is also broad-based, covering resources, finance, retail trade, agriculture, transport, and telecommunications (Leke and others 2011; Andrews 2013).

It is becoming increasingly apparent that Sub-Saharan national development strategies now tend to go beyond the narrow poverty reduction objective to encompass objectives such as accelerated growth, employment creation, structural transformation, and sustainable

development. These plans employ a mix of state and market-based approaches and appreciate the critical role of both the public and the private sector in development (Rodrik 2003; Stuart 2011; UN-DESA 2012). In this paper, we argue that efforts in that direction should continue as the long-term national visions tend to have stronger ownership by African national actors and a more consultative and participatory process involving a broad spectrum of stakeholders, including Civil Society, the private sector, decentralized constituencies, and development partners. But several challenges remain, and more work is still required to improve macroeconomic planning and develop national policy and institutional frameworks that can translate national development aspirations and priorities into concrete results. In the paper's remaining sections, we further articulate this domain's opportunities and challenges.

Role of public policy and institutions in national economic growth

For centuries, scholars and practitioners have converged on the assumption that there is a link between national policies and long-term economic growth rates. In the development economics literature, there seems to be general consensus on the importance of public policy and institutions in economic growth. Sound macroeconomic policies are required for economic growth. In turn, a conducive institutional framework is invariably considered necessary for fostering sound policies and economic growth. In many instances, this link is taken for granted, and analysis of successful national economic growth (or failure thereof) usually starts by closely examining the macroeconomic policies and institutions deployed to enable growth. For example, Schultz (1981) suggests that many public policies contain disincentives for growth because they reduce the rewards to accumulating a comprehensive concept of capital encompassing human as well as physical capital. In Sub-Saharan Africa's context, Fosu and others (2006) examined the role of policies and institutions in explaining growth and concluded that Africa's lack of economic growth and development is attributable to specific arrangements in political institutions seen generally as inconsistent with the citizenry's interests.

Other scholars have also contributed substantially to this debate. For example, Grier and Tullock (1989) carried out an empirical analysis of cross-national economic growth covering 113 countries from 1951 to 1980 and found that social and political institutions and policies are important factors in growth, at least over a 20- to 30-year horizon. King and Rebelo (1990) examined the hypothesis that the answer to economic growth lies in national policy differences that affect the incentives that individuals have to accumulate physical and human capital. The results of their analysis showed that indeed, the effect of these incentives can induce large differences in long-run economic growth rates. Thus, they were able to demonstrate that changes in public policy can potentially explain periods of secular stagnation or high economic growth.

The meaning of "policies" and "institutions" needs to be elaborated and placed in its proper context. For purposes of this paper, we find John (2012) insightful. He argues that in democratic political systems, public office holders make choices about such diverse matters as allocating the national budget, enforcing laws, and introducing new technologies. Public policy research seeks to explain how decision makers, working within or close to the machinery of government and other political institutions, produce public actions intended to have an impact outside the political system. Major focus is on government decisions that generate specific outputs such as macroeconomic development approaches and public health service management. No less important is how these decisions produce intended or unintended changes outside the formal political system, such as rising inequality, good educational performance, and rising or falling GDP (ibid). Specific macroeconomic policies are

usually executed through institutions, that is, the organizational structures, formal and informal rules, and regulations crafted to support and enable policy realization (North 1990; Schroeder 2005). Thus, institutions represent the arrangements that governments devise to control and manage national resources for development.

In this paper, we concur with the view that policies and institutions determine a country's economic development direction and that these variables have played a significant role in Sub-Saharan Africa's development trajectory. In so doing, we find common ground with Arbache and Page (2007), who studied Sub-Saharan economic growth trends between 1975 and 2005 and concluded that policies and institutions are closely associated with periods of both good and—especially—bad economic times. They used the World Bank's Country Policy and Institutional Assessment score, a broad policy and institutional performance measure, and concluded that it is lower during economic deceleration periods, but not significantly different between acceleration periods and normal times. The correlation coefficients they came up with suggested that countries with lower Country Policy and Institutional Assessment scores tend to experience more economic collapses. The United Nations Development Programme (UNDP) (2014) also agrees that macroeconomic policy matters for human development. It influences social protection, the government's provision of public services, and employment quantity and quality.

A similar view is expressed by the United Nations Conference on Trade and Development (UNCTAD) (2012), which argues that fiscal policy's role in developed, developing, and transition economies alike needs to be reassessed from a dynamic macroeconomic perspective because fiscal space is largely an endogenous variable that depends on a combination of policy choices and institutional capabilities. In this paper, we contend that national macroeconomic policies often establish or reshape the structure and functioning of national economic institutions and markets. As Fosu (2012) points out, "policy syndromes" have substantially contributed to the poor growth of African economies during post-independence. Had Sub-Saharan Africa been bereft of these syndromes, its per capita GDP growth could have averaged about 2 percentage points higher during the post-independence period. Thus, structurally transforming economies requires appropriate macroeconomic policies that support and enhance economic performance in efficiency, stability, and growth (UNCTAD 2012).

Reassessing the scope and form of structural policies thus constitutes a continuous challenge for all countries' governments. In addressing policy and institutional dimensions of macroeconomic development, specific focus areas will include markets (de)regulation, education, infrastructure, tax and welfare systems, and the broader public administration machinery (ibid). Although there are other scholars who may belittle the role of macroeconomic policy and institutions in their analysis of economic growth patterns, we do not feel that it is a debate that we should engage in more detail in this paper. For our purposes, we believe that the case for more robust policies and institutions in Sub-Saharan growth has already been established.

CHAPTER 3. BOTSWANA

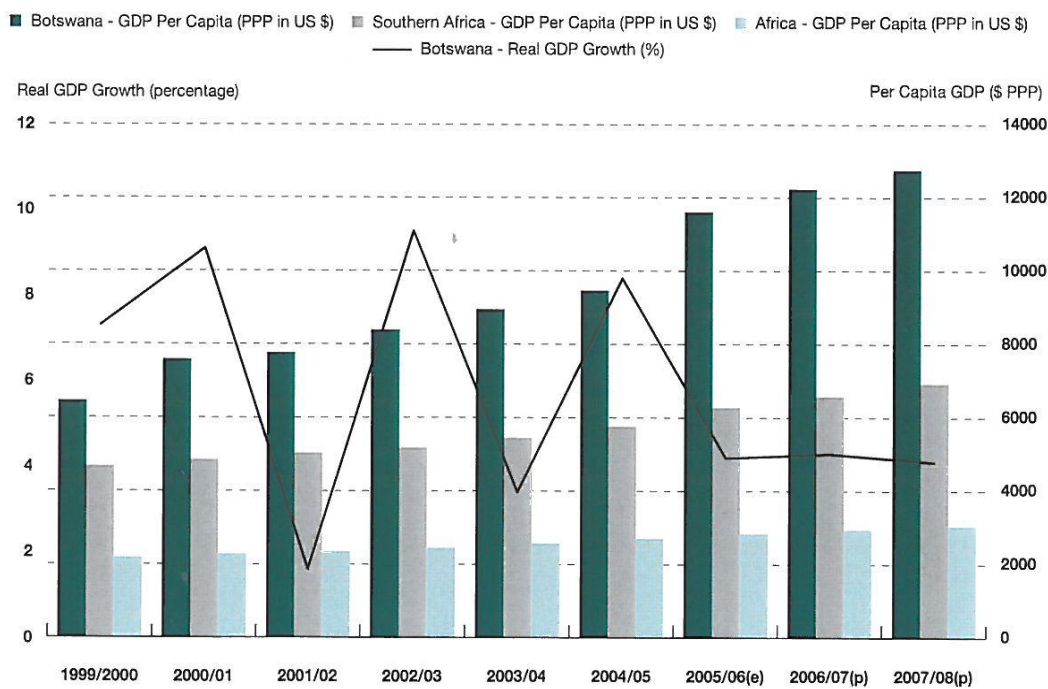
The Republic of Botswana is a landlocked country in Southern Africa. At 581,730 km² Botswana is the world's 48th largest country. But up to 70 percent of its geographical territory is part of the Sahara Desert. Yet, Botswana has the privileged reputation of having one of the highest economic growth rates in the world over the last several decades. It represents an interesting Sub-Saharan case study. With its relatively small 1.6 million population but a large natural resource base, it has made significant strides toward development since independence. It has been described as “an African success story” with the highest growth rate of any country in the world between 1960 and 1999 (Acemoglu and others 2001; Fosu and Gyapong 2010). Scholars generally agree that Botswana’s stellar growth record has been supported by good governance borne out of sound state-building (Fosu 2006). The question is how Botswana has succeeded with state-building and stable economic growth where many African countries have failed.

The economy

With a liberalized economy, Botswana’s economic growth rate regularly surpasses that of Mauritius, another African success story, South Korea, and other Asian tigers and is well above that of other Sub-Saharan countries (Osei-Hwedie and Sebudubudu 2004). Since independence, Botswana has had the highest average economic growth rate in the world, averaging about 9 percent a year from 1966 to 1999 (World Bank 2005; OECD 2007). According to Narayan and others (2011), from 1965 to 1973 Botswana's annual GDP growth rate was 14.8 percent, which was the highest in the world except for the high income oil-rich Oman (21.9 percent). From 1973 to 1984 Botswana's annual growth rate was 10.7 percent, which was the highest in the world, outstripping Asian tigers Hong Kong (9.1 percent) and Singapore (8.2 percent) (World Bank 1986).

Between 1980 and 1990 Botswana grew at 11 percent, also the highest in the world over this period, with China second at 10.3 percent a year (Sebudubudu 2005; Fosu and Gyapong 2010). From 1990 to 2003 Botswana's growth slowed to 5.2 percent, but was still in the top dozen countries in the World Bank World Development Indicators list of countries over this period (World Bank 2005). It also managed to maintain low debt of \$0.7 billion as of 2005, with debt servicing accounting for 4 percent of exports, and enormous foreign reserves. It has a \$5,367 per capita annual income (UNDP 1997). Figure 3.1 shows Botswana’s real GDP growth and per capita GDP from 1999 to 2007.

Figure 3.1 Real GDP growth and per capita GDP in Botswana, 1999–2007



Source: OECD (2007).

The government’s transformation of the economy through exploiting the country’s mineral resources, mainly diamonds, and its investment of mineral revenues in social and physical infrastructure have earned Botswana upper middle-income country status, according to World Bank rankings. It performs impressively on three human development indicators: national income, adult literacy, and life expectancy (Sebudubudu 2005). The current economic prosperity contrasts sharply with the situation at independence, when the state was poor and dependent on foreign grants to finance its budget (Holm 1988).

Scholars and practitioners agree that Botswana’s government has used the revenue from diamonds to pursue good policies. According to the BBC (2015), Botswana is the world's largest diamond producer whose trade has transformed it into a middle-income nation. The OECD (2007) contends that macroeconomic stability and prudent use of diamond export earnings have catapulted Botswana to its current status as an upper middle-income country. The OECD (1999: 29) suggested that:

“Unlike many other developing countries facing commodity booms, the government maintained conservative economic policies rather than raising its spending to unsustainable levels and thus generated economic stability which created a favourable environment for domestic and foreign investment.”

Although tourism contributes only around 4 percent to GDP, it continues to be Botswana’s second-largest foreign exchange earnings source after diamonds. Agriculture, the largest sector in the 1960s, contributed only 2 percent of GDP in 2005/06 (OECD 2007). Efforts to create a more diversified economy have so far had little success, with diamond mining still accounting for the largest share of domestic output and almost all exports (ibid). Many analysts, however, attribute Botswana’s rapid growth not only to the abundance of natural resources but also to good economic management (Tsie 1996; Osei-Hwedie Sebudubudu 2004; Sebudubudu 2005). Wiseman (1995) underscores good policy preferences and a state formation that was not wasteful.

A detailed analysis by the OECD (2007) indicated that Botswana is now well known for its fiscal prudence. Fiscal policy is aimed at ensuring that public resources are effectively used to provide the socioeconomic infrastructure needed for rapid private sector development and export diversification. For 16 years prior to 1998/99, the government recorded budget surpluses, and the Bank of Botswana (BoB) accumulated a comfortable stock of foreign exchange reserves. From 1998/99 to 2003/04, the government incurred moderate fiscal deficits. In 2004/05, a budget surplus of 1.8 percent of GDP was recorded, up from a modest deficit of 0.2 percent of GDP in the preceding year (ibid).

Osei-Hwedie and Sebudubudu (2004) say that for over four decades, Botswana has based its development strategies on prudent national development plans implemented with the seriousness that they deserve and focused mainly on achieving sustainable economic growth and diversifying the economy. It continues to forge ahead with good economic performance compared with other African countries. Its economic performance improved in 2013, with real GDP growth estimated to have increased to 5.4 percent from 4.2 percent in 2012. Future performance is still premised on improved prospects in the diamond industry and service-oriented sectors such as trade, transport and communication, and public and financial services (Kariuki and others 2014).

Institutional structures

Although Botswana's government has helped create an environment conducive to economic growth, development in the country has mainly been state-driven since independence through institutional structures such as the Ministry of Finance and Development Planning. Botswana exhibits the political purposes and institutional structures of developmental states that are developmentally-driven (Leftwich 1995). In addition to government departments that drive economic progress, Botswana's government has put in place various institutions, programs, and policies aimed at promoting the private sector's development (Edge 1998). These include the Botswana Confederation of Commerce, Industry and Manpower, the Hospitality and Tourism Association of Botswana, the Botswana Export Credit Insurance and Guarantee Company Limited, the Botswana Bureau of Standards, the Industrial Development Policy, the Small, Medium and Micro Enterprises Policy, the Citizen Entrepreneurial Development Agency, and the Botswana Export Development and Investment Agency (ibid).

Sebudubudu (2005) argues that it is the good economic performance and efficient state administrative structures that make analysts classify Botswana as a developmental state. This active state participation in the economy, through various institutions, partly transformed Botswana from one of the poorest countries in the world to a middle-income country. This was also made possible by combining finance and development planning into one powerful ministry, the Ministry of Finance and Development Planning. So not only has there been a devotion to develop the country by the political leadership but the "developmental" commitment has been matched with institutional capacity (Maundeni 2001: 18). It is this close connection between planning and budgeting, backed by a committed political state structure, which is missing in most other African countries (Wallis 1989).

Governance and political stability

Most analysts agree that Botswana is one of Africa's most stable countries and the continent's longest continuous multiparty democracy. It is relatively corruption-free and has a good human rights record (BBC 2015). According to Wiseman (1990), it is one of only a few African countries with a democratic tradition. It has had continuous democracy since obtaining independence in 1966. The discovery of diamond mines has facilitated economic

growth, but there is more to Botswana's success than its abundant natural resources. Mbabazi and Taylor (2005) concur with this view, pointing out that a natural resource abundance such as diamonds or cattle is no guarantee of success and does not explain Botswana's developmental record. Attention to governance issues has been important in Botswana's development trajectory. Tsie (1998) contends that Botswana's state legitimacy has never been seriously questioned. The reason is since independence, successive free multiparty elections have been held with results generally accepted by contestants.

Andrews (2013) adds to the praise that Botswana receives regularly from analysts, arguing that interest also centers on the way Botswana introduced reforms that made parts of its public administration other countries' envy. Botswana's story is about the way it achieved "Africa's least corrupt nation" status. The government introduced a range of reforms in years following major corruption scandals in 1991 and 1992. These included a new anti-corruption law, commission, and ombudsman. Botswana commonly scores as high as many western countries on corruption indexes because (it appears) these mechanisms are functioning effectively and corruption is being effectively addressed (Sebudubudu 2005). Osei-Hwedie and Sebudubudu (2005) state that in Botswana, the importance of the state, the pressure for public resources to be distributed, and clientelism have not created out-of-control corruption. One main reason for this is that corruption and patronage politics have not been at Botswana politics' heart. Good management not only limited corruption but also limited patronage and clientelism.

The analysis by Narayan and others (2011) is revealing. They point out that Botswana is the one country where there is support for both the compatibility and Lipset hypotheses. That is, there is bivariate Granger causality between democracy and real GDP in the long run, and democracy and real GDP have a positive effect on each other. The results using the Beck and others (2001) dataset confirm long-run Granger causality running from GDP to democracy and that GDP has a positive effect on democracy. These findings suggest that democracy and economic growth in Botswana have been complementary and reinforcing. Botswana's democracy-growth nexus is well established.

Although Botswana's political stability has resulted from favorable economic conditions, the country's economic success has also been built on a democratic tradition in which there are no narrow ethnic-based interest groups with distinct means of expression, which has helped avoid infighting over diamonds and other political issues (Wiseman 1990; OECD 1999). Botswana is now well known for political stability and good governance, and democratic principles are deeply entrenched following decades of successful democratic transitions (OECD 2007).

Challenges

Despite its excellent economic performance, Botswana faces the serious development challenges of chronic unemployment, high poverty, and the HIV/AIDS pandemic. A recent status report on progress toward the MDGs shows that Botswana is on target to achieve many of these goals, including the poverty reduction target. Even so, Botswana's absolute poverty is still high. Estimates from the 2002/03 Household Income and Expenditure Survey indicate that people below the poverty line fell from 47 percent in the 1990s to 30 percent in 2003. The United Nations Human Development Report for 2006 also estimates that 23.4 percent of the population was living below \$1 a day in 1990–2004. In fact, the report ranked Botswana 93rd of 102 developing countries in the human poverty index (HPI). Similarly, the uneven economic benefits distribution has resulted in high social inequality, with poverty affecting 47 percent of the population (BIDPA 1997).

In addition, despite its middle-income status, Botswana has to contend with challenges emanating from its narrow economic structure and the attendant over-dependence on mining, particularly diamonds. Though the government has a reputation for prudently managing mining revenues and boasts a good governance record and a stable democracy, the need for diversification remains critical (Kariuki and others 2014). On the social front, resource distribution and the development level remain major concerns. With a Gini coefficient of 0.61, Botswana has a relatively unequal wealth distribution. Another challenge is the high 17.8 percent unemployment rate (ibid). So for the country to achieve its Vision 2016 zero poverty goal there must be concerted efforts and new strategic thinking on poverty eradication, inequality, and greater economic diversification.

CHAPTER 4. SOUTH AFRICA

Various reviews have concluded that South Africa's economy has performed relatively well since apartheid's 1994 demise such that it quickly attained the status of a middle-income country. It has now become a member of the BRICS club of emerging world economic powerhouses that includes China, Brazil, Russia, and India. Africa in Fact (2012) says that South Africa's infrastructure is Africa's best by far. For instance, it has 80 percent of the continent's rail network and is home to the region's biggest stock exchange. It also has the biggest middle class, proportional to its population, of any African country. Table 4.1 presents South Africa's GDP and GDP per capita growth rates between 1994 and 2004.

Table 4.1 GDP and GDP per capita growth rates, 2012

	1994	1996	1998	2000	2002	2004	2006	2008	2010	2012	Average 1994–2012
GDP	3.2	4.3	0.5	4.2	3.6	3.7	0.8	3.6	3.1	2.5	3.2
GDP per capita	1.1	2.1	-1.6	2.1	1.7	2.2	-1.3	2.3	1.9	1.5	1.5

Source: Adapted from Finn and others 2014.

Note: The table depicts an average real GDP growth rate of 3.0 percent for the decade since 1994 (that is 1995–2004, inclusive) and in per capita terms, 1.0 percent. This represents a substantial improvement on the 0.8 percent average growth rate (-1.3 percent in per capita terms) for the previous 10 years (that is, 1985–1994).

Macroeconomic management in the country has been exemplary, with inflation ranging between 3 and 6 percent and GDP growth averaging a credible 3.3 percent a year since 1994 (Bhorat and others 2013).

Socioeconomic development

Although other countries, such as Brazil and India, have seen education gains translate into productivity and employment growth, and large decreases in poverty and inequality, South Africa has not made similar gains. According to Finn and others (2014), over the post-apartheid period poverty has fallen only sluggishly. Eighteen years after the first democratic election, the share of people below a \$2 a day poverty line has declined by no more than 4 percentage points from 34 percent in 1993 to 30 percent in 2008. These gains are often attributed to social policy reforms (a massive expansion of cash grant transfers) rather than economic development (Leibbrandt and others 2010). Of equal concern is that inequality has risen further from its high levels under apartheid (ibid). When a new government came into power in 1994, it was acutely aware of the country's alarming poverty and inequality. As Finn and others (2014) point out, the widespread poverty and extreme inequalities prevalent during the democratic transition was one of the first democratic government's key policy focus areas, and one of the sets of outcomes against which its performance has often been judged.

The South African government has since made a concerted effort to assist the poor. From 1994, a wide range of national policies have allowed some black South Africans to participate meaningfully in the economy. A multi-pronged strategy has also been deployed. This includes land redistribution for accelerated rural development; provision of social grants; incentives for establishing small-to-medium businesses; increasing employment opportunities across all

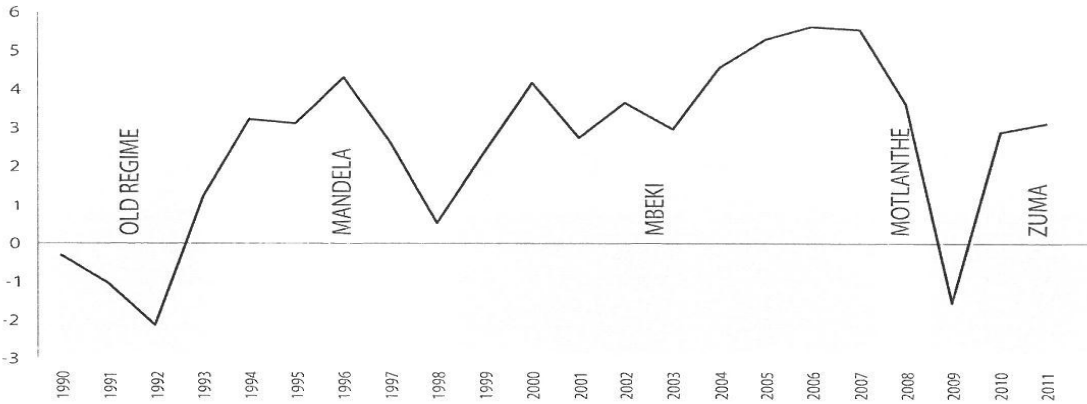
sectors; and eradicating all apartheid-era discriminatory policies and practices. Ncube and others (2012) say that to foster inclusion, the government launched the Black Economic Empowerment program to address the huge racial economic inequality inherited from apartheid. But only a small segment of black people in the country has realized lasting benefits from these interventions. Poverty and social exclusion have remained widespread and even worsened in some sectors (Seeking 2014).

The National Development Plan finalized in 2012 sets out the intention to transform South Africa into a “capable and developmental state able to intervene to correct our historical inequities.” The fact that historical inequities correction is still on the South African national development planning agenda, more than 20 years after independence, suggests that inequality has remained resilient and difficult to address. Coupled with high poverty, this creates a difficult challenge for the government. As a case study, South Africa is interesting because it allows scholars to consider democratization’s impact on inequality. This is especially the case given that the pattern and high level of inequality stem partly from the policies of a past undemocratic state (Nattrass and Seeking 2001). How does a new government turn the situation around?

National economic growth policies and the transformation agenda

The 1994 macroeconomic policy of the African National Congress (ANC) was mainly centered on the Reconstruction and Development Programme. Bernstein and others (2014) state that this was essentially a poverty-alleviation scheme, which, among other things, promised subsidized housing, electricity, and other essential services to black people who had been denied these services under apartheid. Most of these policies are still being implemented today. But it is important to acknowledge that the ANC also abandoned its earlier rhetoric of nationalizing industries and “growth through redistribution” in favor of more orthodox policies more inclined toward liberalization (Nattrass 1994). Expansionary economic policies were rejected on the grounds that they would lead to macroeconomic disaster without necessarily benefiting the poor. In 1996, the Ministry of Finance produced the ANC's clearest statement of its orthodox economic policies: a glossy pamphlet, complete with macroeconomic projections, entitled “Growth, Employment and Redistribution” (GEAR) (RSA 1996). Figure 4.1 shows economic growth trends in post-apartheid South Africa.

Figure 4.1 South Africa’s growth, 1990–2011



Source: World Bank Development Indicators (2012).

GEAR revealed the ANC's growth strategy: deficit reduction was assumed to have positive growth implications by its (supposed) investor confidence impact. Such a growth vision contrasted with the union movement's more Keynesian alternative (COSATU 1996). Ncube

and others (2012) state that the GEAR strategy focused on macroeconomic stabilization and trade and financial liberalization as priorities designed to foster economic growth, increase employment, and reduce poverty. As a consequence, the government reduced fiscal deficits, lowered inflation, maintained exchange rate stability, privatized state assets, cut tax on company profit, decreased barriers to trade, and liberalized capital flows. It resembled, in some ways, a structural adjustment program of the kind promoted under the Washington Consensus (Bernstein and others 2014). Khamfula (2004) points out that fiscal restraint combined with a strategic efficient allocation of resources led to a significantly reduced fiscal deficit. The fiscal deficit has been kept below 3 percent of GDP over 1998/99 and 2008/09. Public debt was below 40 percent of GDP (Finn and others 2014).

Overall national economic growth performance in South Africa has been relatively stable for the past two decades even though it did not lead to sufficient job creation to reduce unemployment. This lacklustre job creation performance has been partly due to events beyond the government's control—such as the independent reserve bank's tight monetary policies, and the contagious effects of the Asian and global economic crises (Ncube and others 2012; Bernstein and others 2014). According to Moss (2009), South Africa has a substantial mining sector and is now among the emerging markets most integrated into global capital markets. It is directly exposed to international financial volatility by financing its current account deficit with foreign portfolio capital. It was hard hit by the 2008 global financial crisis, but since 2010 has been back on a recovery path with modest 2.5–3 percent GDP growth (Finn and others 2014).

Evidence is mounting that pursuing anti-inflationary policies has undermined growth in the developing world and the GEAR strategy is probably no exception (Stiglitz 1998). The assumption that redistribution would come from job creation in a context of reduced public expenditures was not realistic (Ncube and others 2012). Furthermore, by continuing with trade liberalization in the absence of labor market reforms, the government probably contributed to employment losses. Continued wage growth in the face of falling demand has no doubt also contributed to falling employment. Combining poor growth and pro-union labor legislation has clear effects on distribution in the short term (Khamfula 2004; Borat and others 2013). In the late 1990s, real wages rose at just over 2.5 percent a year, while employment fell at just under 2.5 percent a year (Finn and others 2014). In essence, the unemployed have not become poorer but the number of the poor and unemployed has also increased significantly as many workers lost their jobs.

The combination of rising incomes for those with jobs and falling employment has contributed to greater income distribution inequality throughout society. For the government to reduce poverty, it needs to reduce unemployment. The government has repeatedly failed to proceed adequately on either front, and hence, has missed an opportunity to make the growth path more redistributive and inclusive (Finn and others 2014). The government's labor market and other economic policies still worsen inequality, undermining the national budget's redistributive effects. Through the Reconstruction and Development Programme, the poor were supposed to be empowered to seize economic opportunities “to develop to their full potential” and “sustain themselves through productive activity.” The state would ensure improved access to social security, public education, and other services (Ncube and others 2012). In contradiction to the government's poverty reduction claims over the years, income distribution has become more unequal. The rich have benefitted massively from the stable economic growth path, while the economic conditions of poor sections of society have hardly improved (Seekings and Nattrass 2005).

The Black Economic Empowerment program

Since coming to power, the ANC government has articulated commitment toward transforming South Africa's racially-skewed society through direct interventions in the economy and various social sectors. Thus, the government launched black economic empowerment (BEE) policies to rectify apartheid inequalities by giving economic opportunities to disadvantaged groups (particularly blacks and women). Bernstein and others (2014) state that BEE was launched in 2000 as official government policy with the Preferential Procurement Framework Act, a law that required the government to favor tenders from black-owned companies. As a policy, BEE envisions the creation and development of new enterprises that produce value-adding goods and services and attract new investment and employment opportunities with the aim of redistributing wealth by transforming companies' ownership and eliminating the racial divide (Ncube and others 2012).

At the inception stage, BEE gained political support because it was largely believed that it would reduce potential for civil strife as more people from the disadvantaged groups participated in and benefited from economic development. This was also expected to eventually produce a relatively non-racial "growth coalition" necessary for sustainable capitalist development that would build investor confidence in the country (Bräutigam and others 2002). Correspondingly, BEE is described as "a coherent socioeconomic process that brings about substantial increases in the number of black people that manage, own and control the country's economy and a way of reducing income inequalities" (Sartorius and Botha 2008). It has led to a gradual increase in the black middle class, while Johannesburg Stock Exchange capital ownership had, as of 2008, grown to 4 percent due to direct intervention through BEE industry charters, and legislative measures.

The BEE policy has had its fair share of critics, several of whom claim that the lack of a coherent definition of BEE measures distorts beneficiary groups and as a result has only enriched the politically connected elite. For instance, Bernstein and others (2014) argue that only some of the black political and economic elite have benefitted (in some cases again and again) from these arrangements, and the process is often said to promote corrupt relationships between business and government. In addition, BEE policies have led to large businesses hiring well-placed ANC members to secure good standing with the new government and to reposition themselves in the post-apartheid society. Share ownership deals ensued, and a few ANC members quickly became rich. The critics also believe that in its original form, BEE remains largely a strong instrument for accumulating patronage (Engdahl and Hauki 2001; Boshkoff and Mazibuko 2003).

Social welfare and public services

In 1994, the ANC promised to improve access to social security, public education, and other social services. In 1996, the country's new constitution guaranteed socioeconomic rights, subject to available resources (RSA Government 1996). Seekings (2014) states that democracy might not have brought lasting economic benefits to poor South Africans in distributing market incomes, but it has brought considerable benefits in redistribution through the fiscus. Burger (2014) states that South Africa has an extensive social welfare system that comprises a variety of social grants and transfers (including child grants); it reaches over 16 million of a 52 million population and this expenditure constitutes 3.4 percent of GDP (National Treasury 2014).

The value of cash transfers and public expenditure on services such as healthcare and housing almost doubled, in real terms, between 1995 and 2006. Public expenditure has also become

better targeted at the poor (Bernstein and others 2014). By 2006, the population's poorest 40 percent received 50 percent of all social spending, including both the estimated value of services as well as cash transfers. Almost 49 percent of school education spending accrued, at least nominally, to the population's poorest 40 percent, as did 57 percent of spending on public clinics and 43 percent of spending on public hospitals (ibid).

Cash transfers were even better targeted at the poor, with 70 percent of old-age pensions, 62 percent of child support grants, and 59 percent of disability grants going to the poorest 40 percent of the population (Ncube and others 2012). Partly as a result of the way the government has tackled poverty (by focusing on cash transfers and the delivery of housing, electricity, water, sanitation, and access to healthcare and education) there has been a particularly dramatic fall in what is called "multi-dimensional poverty" since 1993 (Bernstein and others 2014). Despite these efforts, poverty has remained entrenched. Its effects have been exacerbated by high HIV levels, shortening life expectancy, while malnutrition and hunger remain persistent, particularly among children. Second, although the part of the population living in poverty has decreased, the actual people living in poverty may have increased as the population has grown (ibid). Although social assistance programs have redistributed income to the poor and helped bring poverty down from 53 percent to 44 percent of the population, they have not changed the nature of South African poverty (Ncube and others 2012).

When Thabo Mbeki described South Africa as a "two-nation" society in 1998, with "one of these nations being white, relatively prosperous, regardless of gender or geographic dispersal ... and the second and larger nation being black and poor," very few people were surprised. Its Gini coefficient increased from 0.67 in 1994 to 0.70 in 2008, one of the world's highest, revealing massive income disparities. Even though many blacks have since then enjoyed substantial upward mobility and unprecedented prosperity through BEE, the wider inclusive growth picture remains depressing (Finn and others 2013).

Considerable progress has been made in establishing democratic institutions anchored in one of the most progressive constitutions worldwide. The government has pronounced South Africa to be a developmental state. But there are some alarm bells raised about corruption in the public sector threatening to derail a thriving democracy. For example, Bernstein and others (2014) say that internal government reports paint an unambiguous picture of rapidly escalating corruption. Transparency International's Global Corruption Barometer confirms this picture. In 2012, almost 50 percent of South Africans reported paying a bribe to secure essential services. The global perception survey on corruption ranked South Africa 69th of 176 countries surveyed in 2012, a decline from 2011's 64th of 183 countries (Transparency International 2012). These massive corruption increases have been accompanied by worsening public perceptions of how the state handles corruption. About 60 percent of citizens now feel that the state performs badly or very badly. All is not lost, however. There is still room to address corruption, realize inclusive growth, and ensure that the basic human rights enshrined in the constitution are observed, together with the rule of law.

CHAPTER 5. GHANA

Ghana has a population of 23 million people, of whom around 51 percent live in rural areas. The country has 10 administrative regions: The Ashanti, Brong Ahafo, Central, Eastern, Greater Accra, Northern, Upper West, Upper East, Volta, and Western (Betley and others 2012). History shows that Ghana has been a first in at least three things. It was the first place in Sub-Saharan Africa where Europeans arrived to trade—first in gold, later in slaves; it was the first black African nation in the region to achieve independence from a colonial power; and it was the first country in the world to produce a development plan by way of the Guggisberg Plan, in 1919 (Tandoh-Offin 2013). The years soon after independence were dominated by Kwame Nkrumah’s socialist-oriented macroeconomic policies, which turned out to be disastrous. But with decentralization’s inception in the late 1980s and Ghana’s 1992 return to democratic governance, development policymaking took a new dimension. Since 1992, there have been four national development plans to guide economic growth and Ghana has become one of the new middle-income countries.

The economy

Ghana is the world's second largest cocoa producer behind Côte d’Ivoire, and Africa's biggest gold miner after South Africa. It is one of the continent's fastest growing economies, and newest oil producer (BBC 2015). Since the 1870s, Ghana (then known as the Gold Coast) developed a well-managed and prosperous industry of growing and exporting cocoa (Watkins 1997). When Kwame Nkrumah came to power he had large reserves of funds and a cocoa industry that was generating substantial funds. He decided to undertake an industrialization program on a massive scale. It was to be a big-push industrialization, that is, a pervasive industrialization in many industries. Not only would his industrialization replace imports but it would produce products that Ghana was too poor to have imported (Watkins 1997). Nkrumah and his planners thought of grandiose economic development programs that ended up destroying the economy. According to Whitfield (2011), in essence, Ghana experienced unstable growth almost since the beginning of independence, with a constant economic decline from the late 1970s to the early 1980s.

Ghana embarked on a comprehensive reform program in 1983, the “Economic Recovery Programme (ERP),” with support from western financial institutions, notably the World Bank and the IMF. The program was designed to transform the economy by adopting an industrial strategy of export-oriented industrialization (Anyetei 1996). The program seemed to be in line with the Brandt Report that recommended export-oriented industrialization based on manufacturing as the long-term solution to Sub-Saharan countries’ persistent problems.

The program outcomes were not as systematic as had been envisaged partly because the Ghanaian leaders appear not to have taken it seriously (ibid). The ruling elites presided over a haphazard privatization of state-owned enterprises, focusing more on bridging fiscal deficits and financing their ruling coalition and neglecting the potential to rehabilitate old or build new productive sectors (Whitfield 2011). Tabatabai (1986) argues that from its inception the ERP, like ESAPs in general, had an inherent bias toward reinforcing the economy’s colonial features rather than fashioning structures for self-sustaining, self-reliant national economic development. Hence, it consolidated Ghana's peripheral status, reinforced rural poverty structures, and marginalized the population.

Other studies, however, have concluded that Ghana's ESAP has had some degree of success in many areas, including lowering inflation; promoting a financially stable environment; eliminating the licensing requirement; opening previously closed sectors; removing tariff barriers that prohibit FDI inflows; abolishing exchange controls; and reducing opportunities for the foreign exchange black market (Frimpong and Oteng-Abayie 2006). Scholars are still divided on the success or failure of Ghana's ESAP. Since Ghana's 1992 return to democratic governance, the government has deployed a series of national development plans to guide the economy (Tandoh-Offin 2013). But most of these development planning approaches have also been described as top-down and highly centralized (Botchie 2000). The approaches have sought to formulate national development plans from the perspective of a few staff of ministries, departments, and other central government agencies with little consultation from the masses (Botchie 2000; Vordzorgbe and Caiquo 2001).

Ghana's economic performance in recent decades has catapulted it into the group of middle-income countries. The World Bank (2015) states that Ghana has exhibited relatively strong growth since the 1980s, with an average annual 5 percent growth rate and notably higher growth rates in the 2000s. The population below the poverty line fell to 28.5 percent in 2005–06. These findings are consistent with Okudzeto and others' (2014) findings that Ghana's economy has maintained a commendable growth trajectory with an average annual growth of about 6 percent over the past six years even though in 2013 growth decelerated to 4.4 percent, considerably lower than the 7.9 percent growth in 2012. Growth has, however, been broad-based, driven largely by service-oriented sectors and industry, which on average have been growing at 9 percent over the five years up to 2013. Ghana has continued to post some of Africa's highest annual GDP growth rates. Over the medium term, the economy is expected to register robust growth of about 8 percent, bolstered by improved oil and gas production, increased private-sector investment, improved public infrastructure development, and sustained political stability (ibid).

The discovery of major offshore oil reserves was announced in June 2007, encouraging expectations of a major economic boost. Production officially began at the end of 2010, but some analysts expressed concern over the country's ability to manage its new industry, as laws governing the oil sector had not yet been passed (BBC 2015). The Ghanaian economy also proved to be relatively resilient to the 2008–2009 global economic shock, mainly because of the high prices of cocoa and gold. Except for some food processing and substantial gold and unprocessed cocoa exports, Ghana is relatively less integrated into global value chains due to its infant industry.

Due to the broad-based nature of Ghanaian economic growth, the country has a low unemployment rate, benefiting from jobs created across sectors, especially in service and agriculture. Although agriculture accounts for around 20 percent of GDP, it remains the economy's mainstay in crop production and employment. In 2012, crop production accounted for about 16.4 percent of GDP, after declining from 19 percent in 2008, but remains a major source of employment, estimated at 40 percent of the labor force (UNDP 2012). Cocoa, an important crop for Ghana, accounts for about 10 percent of total agricultural-sector production and contributes about 20 percent of the total value of export receipts. But since Ghana has now joined the league of oil producers, the petroleum sector is expected to be among the main economic growth drivers over the medium term (ibid).

Ghana has also been a major FDI recipient in West Africa. FDI inflows grew from \$855 million in 2007 to \$3.2 billion in 2012, accounting for about 20 percent of total FDI inflows to the Economic Community of West African States region. Most of the FDIs are destined for the

telecommunications, transport and logistics, financial services, and food and beverages subsectors. Ghana's FDI inflows are substantial, as the share of FDI to gross fixed capital formation averages around 40 percent (World Bank 2015). Ghana has made some progress in its debt management skills, following the reorganization of the Ministry of Finance's Debt Management Division with functional units specialized according to functional areas to enhance debt management skills and policies. Debt management is expected to be further strengthened by the new Debt Management Strategy in 2014 (Tandoh-Offin 2013).

Extreme poverty in the country has been reduced from 51.1 percent in 1990 to 18.2 percent in 2010 against a target of 18.3 percent, though regional and gender disparities still exist. The Employment Population Ratio (67.4 percent for 2010) has increased over time (2000–10) though marginally by 0.5 percent. Over the past two decades, the overall poverty rate has declined substantially from 51.7 percent in 1991/92 to 28.5 percent in 2005/06. This is confirmed by the Multi-dimensional Poverty Index of 0.179, derived from the 2010 Population and Housing census (UNDP 2012).

Governance and political stability

Despite its rich mineral resources, good education system, and efficient civil service, Ghana fell victim to corruption and mismanagement soon after independence in 1957 (BBC 2015). According to Watkins (1997), the history of Ghana under Nkrumah is one of sadness and unnecessary tragedy. He further states that in post-independence history, it is not uncommon for a country to have a charismatic leader feeding the populace an ideological fantasy that takes decades to recover from. In Argentina, it was Juan Peron. In Ghana, it was Kwame Nkrumah who destroyed a much more promising economy (ibid).

The Nkrumah regime's planning fiascos and financial corruption were probably less significant than Ghana's political corruption, Nkrumah's creation of a one-party totalitarian state, and the ruthless persecution of anyone who was less than a devoted Nkrumah worshiper and sometimes even of those that were (Alexander 1965; Alex-Hamah 1972). Nkrumah's political rivals were imprisoned or escaped into exile. Some of those he imprisoned died in prison (Watkins 1997; Ayittey 1992). Government officials, included Nkrumah himself, took bribes and embezzled state funds. Nkrumah was found to have about \$5 million in hidden bank accounts (Alex-Hamah 1972). This account of Nkrumah's rule suggests that although the rest of Africa may believe that Nkrumah was a visionary, his was ultimately an ugly vision of ruthless and absolute control hidden behind socialist rhetoric.

Even after Nkrumah was removed from power, corruption continued to be endemic in Ghana's socioeconomic and political system. Okudzeto and others (2014) state that although several high-level corruption cases were publicized in 2013, corruption continues to be a substantial problem. The Commonwealth Foundation (2013) points out that poor governance and corruption are serious challenges to Ghana's progress toward the MDGs. For instance, Transparency International's Corruption Perceptions Index, which scores countries on a scale of zero (highly corrupt) to 10 (very clean) on the basis of corruption perceptions, gave Ghana a 4.5, and ranked it 64th of 176 countries in 2012 (ibid). This suggests a slight improvement, as its score was 3.5 in 2005, but clearly there is room for progress.

Agbele (2011) studied the country's corruption and concluded that it continues to be a problem that has eaten into the country's political fiber despite several proclaimed measures by governments since the 1990s. He further argues that even though the World Bank's control of corruption indicator shows that the country has progressed from the 50th to the 75th percentile in the last five to six years, a deeper look into other indicators like the

Bertelsmann Transformation Index on resource efficiency and the Afro barometer surveys shows that these recorded changes do not indicate substantive progress. In addition, Agbele's research showed that the country is low on incumbent accountability and on implementing the many anti-corruption laws (ibid).

It is however, important to acknowledge that despite corruption, the return to a multiparty system more than two decades ago has enabled Ghana to make major strides toward consolidating its democratic achievements. Its judiciary has proved to be independent and has generally gained Ghanaians' trust (World Bank 2015). The Ghanaian Parliament is vibrant, and despite inherent challenges and the two leading political parties' dominance, has created the avenue for debate and vigorous legislative activity. The National Democratic Party (NDC), which won the first two successive elections since Ghana's return to civilian rule in 1993, lost to the New Patriotic Party (NPP), which also ruled for two terms before losing to the NDC, now into the third year of its second term in office (ibid). By regional standards, Ghana is now considered a well-administered country often seen as a model for African political and economic reform.

It is now one of the region's more politically stable nations with a good record of power changing hands through peaceful elections (BBC 2015). According to Okudzeto and others (2014), Ghana is considered one of West Africa's most resilient democracies, holding six elections and peaceful transfers of power between the country's two main political parties since 1992. In a turbulent region, Ghana's political stability has been an asset to foreign investors. These views are in tandem with Vordzorgbe and Caiquo (2001) who contend that the 20th Century's last quarter saw the emergence in Ghana of the institutions essential for full democratic liberalization and good governance, such as a free press and agencies for dealing with serious fraud, lapses in human rights, and administrative justice.

Another significant aspect of the transformation that took place in Ghana in the last quarter of the 20th Century is decentralization, which began with the District Assembly elections in 1988. The program created space for more popular participation in public decision making (Tandoh-Offin 2013). According to the World Bank (2015), Ghana is constantly ranked among the top three in Africa for freedom of the press and freedom of speech. The broadcast media is the strongest, with radio being the most far-reaching communication medium. All these put Ghana in an enviable political position, and provide it with formidable social capital. On press freedom, Ghana progressed from 30th position in 2013 to 22nd of 180 countries, and is 2nd in Africa, according to the Reporters Without Borders 2015 Press Freedom Index report. Ghana also retained its 2013 ranking of 7th of 52 countries on the Ibrahim Index of African Governance, increasing its score by 1.6 to 68.2 percent (ibid). This performance reflects the positive effects of an improving environment for democratic governance, coupled with a gradual improvement in public institutions' effectiveness.

Challenges

Despite the achievements and progress Ghana has made toward faster growth and poverty reduction in recent years, there are still major challenges in the near future. These include the economy's structure, which has not changed despite the continuous economic growth. It remains largely dependent on primary exports and the application of inefficient technologies and the slow transfer of simple production technologies. Other challenges include a weak industrial base, not well linked with domestic resources; a weak infrastructure base, including energy; too much reliance on cocoa, gold, and timber for foreign exchange; and high youth unemployment, threatening social unity and peace. Others are the public sector's slow pace of reforms; brain drain, especially of health professionals; natural resource mismanagement;

and skewed distribution of the economic growth gains. There is also a high rate of malaria and HIV/AIDS; a high public sector wage bill; and changes in international commodity prices that have negative effects on the economy (Tandoh-Offin 2013).

Ghana's economy continues to be heavily reliant on primary commodities with insufficient linkages to other sectors. Its agricultural sector is characterized by low productivity and there is a low application of science, technology, and innovation throughout production and distribution channels (Okudzeto and others 2014). The persistent reliance on exporting a few primary products with little or no value-added (cocoa, gold, timber, and others) has made the economy vulnerable to price fluctuations dictated by buyers in developed economies (Government of Ghana 2003). Indeed, agriculture still provides over 60 percent of employment and primary commodities, mainly oil, gold, and cocoa, are over 80 percent of exports. Sustaining its high growth rate and creating sufficient employment will likely depend on Ghana's ability to develop its industrial sector and create linkages with its emerging oil and gas sector (UNDP 2013).

Energy provision and access to finance are the two most pressing hurdles facing Ghana's manufacturing sector. The rising cost of energy has eroded manufacturers' profit margins, while erratic energy supply has resulted in production loss and the need to use fuel for electricity generators (World Bank 2015). The poor state of rural infrastructure, rural livelihoods and youth employment, and limited access to quality education and high child labor are all key rural poverty drivers and by extension, the drivers of Ghana's inequalities (UNDP 2013). Despite the country's substantial progress in combating poverty, there are some manifestations of both vertical and horizontal inequalities. The inequality measure, using the Gini Index for consumption per adult equivalent, for instance, continued to increase from 0.353 in 1991/92 to 0.378 in 1998/99 and 0.394 in 2005/06. It averaged 0.438 from 2000 to 2010 (ibid). The World Bank (2015) convincingly argues that the main threat to the government is discontent at the rate of living standards improvement and an ongoing energy crisis.

Ghana's overall macroeconomic conditions deteriorated in 2014 with large twin deficits lingering, fuelling government debt and inflation, a sharp depreciation of its currency, and a weaker economic growth pace. Macroeconomic challenges continued to be driven by the high wage bill and rising interest costs, and the fiscal deficit declined only slightly to an estimated 9.4 percent of GDP in 2014 from 10.4 percent in 2013 (ibid). Domestic debt financing has become extremely costly and detrimental to public finances in view of increased reliance on short-term borrowing at around 60 percent of total domestic borrowing as the domestic debt's maturity has shortened with Treasury bill rates around 25 percent (IDA and IMF 2009). A quantitative assessment by Okudzeto and others (2014) concluded that Ghana's public debt performance indicates a rising trend from 25 percent of GDP in 2006, following debt relief under the Heavily Indebted Poor Countries initiative, to 48 percent of GDP in 2012, and further to 52 percent in 2013. Following an expenditure overrun in 2012, marked by an unprecedented budget deficit of about 12 percent of GDP, the situation persisted in 2013, with about the same budget deficit (ibid).

Ghana's public sector reform implementation is constrained by the wage bill's size, which has tripled from GHS 2.9 billion to GHS 9 billion between 2009 and 2013 because of the pay reform's implementation; the bill is estimated at 72.3 percent of domestic revenue. Trends show that failure to tackle the ballooning wage bill would pose significant risks to fiscal sustainability unless it is addressed holistically, to avoid recurring labor agitation (UNDP 2013; World Bank 2015). The IMF estimates that Ghana will earn, from 2012 to 2030, \$20 billion from

oil production (Gary 2009; World Bank 2009). Ordinary Ghanaians anticipate that oil rents will improve their well-being, and political leaders are hopeful about the prospects of using oil revenues to fund development projects (Veltmeyer 2013). But in a country where corruption is still a big challenge, the question is whether or not Ghana can escape the resource curse.

Conclusion

Ghana's growth prospects appear positive in the long term. Under the assumption that current macroeconomic problems will be addressed according to the announced plan under an IMF program, the growth rate is expected to increase again. Oil production is also expected to increase in the medium term, contributing to growth. Promoting the integration of Ghana's industrial sector into regional value chains could underpin the country's structural transformation on condition that authorities take measures to improve agricultural productivity, and address challenges in infrastructure and revisit the growth with equity question. The UNDP (2013) says that except in employment, sanitation, and maternal and infant mortality, Ghana has made substantial progress in meeting the MDGs. Targets for reducing extreme poverty and access to safe drinking water have been achieved, while targets on hunger, education, and gender are on track. Ghana's economic growth prospects are bright. It is now up to the government to implement policies that maintain a stable macroeconomic environment.

CHAPTER 6. NIGERIA

The Federal Republic of Nigeria is Africa's most populous democracy. The United Nations estimates that Nigeria's population was about 154,729,000 in 2009 and accounts for 18 percent of the continent's population (World Bank 2011). The country now contains Africa's biggest economy. After lurching from one military coup to another since independence, it now has elected leadership. But the government faces the growing challenge of preventing the country from breaking apart along ethnic and religious lines (BBC 2015). Nigeria is an interesting case study for this research paper, not only because of its huge population but also because of the dynamics that have resulted in it becoming an "emerging economy."

In 2014, after new statistical calculations and rebasing of its GDP, Nigeria's economy became Africa's largest, with more than \$500 billion in nominal GDP and \$1 trillion in purchasing power parity. Overtaking South Africa on the continent, it has become the world's 21st largest economy (World Bank 2014). The country's oil reserves have played a major role in its growing wealth and influence. But it still faces major challenges that may cause people to reflect on the nuances of African development planning and macroeconomic policy. These are the questions raised by Adebani and Obadare (2010) when they state that Nigeria offers a magnificent template for examining the chronic schizophrenia characterizing the African post-colonial state and the resulting social (de)formations that (re)compose, and are, in turn, (re)composed by, the state. Nigeria ironically contains perhaps the greatest combination and concentration of human and natural resources that can be (re)mobilized in creating an African power state with a capacity to stand at the vortex, if not the center, of continental revival and racial renewal. This paradox raises a fundamental question: Why have the socioeconomic and political actualities of, and in, Nigeria, been historically subversive of her potentialities? (ibid).

The economy

Relying mainly on a series of National Development Plans (NDPs), Nigeria pursued development strategies focused mainly on industrialization and urban infrastructure. The strategies also tended to emphasize food sufficiency but without necessarily putting in place the required rural infrastructure. The NDP for 1970–1974 allocated only 10 percent of budget to agriculture, the share of which fell to 6 percent in the 1975–1980 NDP (Africa in Fact 2014). According to Ikpe (2014), Nigerian development policy has been mainly constituted by two phases, a state-led import substitution industrialization strategy stretching from 1970 to 1985; and widespread economic liberalization from 1986 to the present day. These periods also coincided with national development planning's dominance and its eventual 1985 demise with the advent of structural adjustment programs.

Another key economic development feature is that the independent Nigerian state drove its socioeconomic transformation agenda with its control of an expanding financial base that was pursued through widespread nationalization and indigenization policies. Beveridge (1991) details how from 1970 to 1979, the Nigerian state acquired and gradually increased its stake in the major oil producing corporations to a 60 percent maximum to ensure its access to profits, mirroring oil-producing nations in North Africa and the Middle East.

The development plans and initiatives implemented over 40 years (1960–1999) failed to move the economy away from the structure inherited at independence, and that failure prevented the achievement of inclusive growth. GDP growth fell from 4.5 percent in 1960–1969 to 2.8

percent in 1990–1999 (Enweremadu 2013). The combined share of agriculture and industry in GDP increased from 67 percent in 1960–1969 to 73 percent in 1990–1999. Moreover, although industrial production was dominated by manufacturing in the first period, it was dominated by crude oil in the second, indicating that the economy was more dependent on primary production (crude oil and agriculture) in 2000 than in 1960 (Africa in Fact 2014). The poverty rate rose from less than 30 percent in the 1970s to 78 percent in 1996, and the unemployment rate grew steadily from less than 2 percent in 1970 to 13 percent in 2000 (Bloom and others 2010).

A detailed account by Sanusi (2010) provides a picture of Nigerian growth trends since independence and the factors driving those trends. The Nigerian economy grossly underperformed relative to her enormous resource endowment and her peer nations for the first four decades after independence. This is easily illustrated when compared with similar-sized countries such as China, now occupying an enviable position as the world’s second largest economy. In 1970, while Nigeria had a \$233 GDP per capita and was ranked 88th globally, China was ranked 114th with a \$112 GDP per capita. The major factors explaining the decline of the country’s economic fortunes are political instability, lack of focused and visionary leadership, economic mismanagement, and corruption (ibid).

Prolonged periods of military rule also stifled economic and social progress, particularly from the 1970s to the 1990s, during which resources were plundered, social values were debased, and unemployment and crime rose dramatically. Living standards fell so low that some of the best brains with the skills to drive development left the nation in droves and are now making substantial contributions to their host countries’ economic success (Amuwo 2009; Adebani and Obadare 2010; Bloom and others 2010; Umejesi 2015).

Examining the country’s economic performance trends reveals that the average real GDP growth rate, 5.9 percent from 1960 to 1970, rose to 8 percent from 1971 to 1973. In the early 1970s, the Nigerian economy expanded rapidly, as oil production and exports rose phenomenally. The average GDP growth rate later dropped to 3.2 percent from 1976 to 1980. This was sustained from 1982 to 1990 following improved performance in agricultural and industrial subsectors (Bloom and others 2010; Africa in Fact 2014). Table 6.1 shows the 1960–2009 average real GDP growth rate in Nigeria.

Table 6.1 Average growth rate of real GDP (percentages)

Period	Real GDP
1960–1970	5.9
1971–1973	8.0
1976–1980	3.2
1982–1990	3.2
1991–1998	1.9
1999–2007	8.3
2008–2009	6.3

Source: Sanusi (2010).

In 1986, the government accepted an IMF-sponsored ESAP. It aimed to remove cumbersome administrative controls and create a more market-friendly environment underpinned by measures and incentives to encourage more private enterprise activity and more efficient resource allocation (Sanusi 2010). The GDP responded favorably to the adopted economic adjustment and liberalization policies; annual GDP grew from negative 0.6 percent in 1987 to

13 percent in 1990 (ibid). But some of the ESAP's gains eroded after the increased spate of policy reversals between 1988 and 1989. In any case, the deregulation and liberalization experimentation was truncated in 1994 with another military government's advent, so it is difficult to fully evaluate the ESAP's achievements in Nigeria (Bloom and others 2010).

Weak institutions and an unfriendly legal environment also reduced the benefits that would have accrued to the economy (Sanusi 2010). But as more recent statistics demonstrate, the average real GDP growth rate dropped to 1.9 percent in 1991–1998. This was despite the favorable developments in the economy's agricultural and services subsectors. The real GDP growth rate rebounded to 8.3 percent in 1999–2007, reflecting improved economic policy in more recent times (Enweremadu 2013).

Indeed, almost all macroeconomic indicators affirm the last decade as a rebirth period. For example, from 2003 to 2009, real GDP growth has averaged 6.2 percent (Africa in Fact 2014). Though this is a considerable feat by African standards, for a large country like Nigeria, the growth rate has not been high enough to reduce poverty. In addition, crude oil and natural gas accounted for over 95 percent of export earnings and contributed more than 85 percent of government revenue. That's up from 94 percent and 70 percent respectively in the previous decade, leaving the economy more vulnerable to crude oil price and demand shocks than in the past (ibid).

The Nigerian economy's revival in the new millennium seems to have been precipitated by the return to democracy and civilian rule. Enweremadu (2013) points out that since returning to democracy in 1999, the country has witnessed substantial economic and some political reforms that, along with increasing demand for its natural resources, have helped ignite unprecedented economic growth, reaching nearly 7 percent in 2001–2011. Sanusi (2010) concurs with this assessment, pointing out that since 1999, the country returned to the civil democratic governance path and has sustained uninterrupted democratic rule for 11 years. This is a great achievement and gives reason for hope in a country that has been burdened with almost three decades of military rule. Indeed, in April 2003, the country achieved the first ever peaceful transition from one civilian administration to another since its independence. It has provided an opportunity to arrest the past's decline and created a launch pad for taking off into an era of sustainable and all-round economic development.

Nigerian growth has neither been inclusive, broad-based, nor transformational. Agriculture and services have been the main growth drivers. The implication of this trend is that the country's economic growth has not resulted in the desired structural changes that would make manufacturing the growth engine, create employment, promote technological development, and induce poverty alleviation (Bloom and others 2010; Enweremadu 2013). Data places national poverty at 54.4 percent. Similarly, at 19.7 percent, unemployment has been rising, according to the National Bureau of Statistics (Africa in Fact 2014). Furthermore, the country lags behind her peers in most human development indicators. For example, while China was 5th and Thailand 22nd on the 2009 Global Hunger Index, Nigeria ranked 46th (World Bank 2013). This can be traced largely to the huge infrastructure deficit, rising insecurity, mass corruption, and widespread poverty.

Although there is evidence of gradual diversification, the economy is now more resource (oil and gas) and commodity (agriculture) oriented than in the 1960s. Agriculture and industry accounted for about 66 percent of GDP in 1960–1969 and 2000–2010 but dropped to 59 percent in 2011–2012. As Sanusi (2010) points out, for several decades, one of Nigeria's major economic aspirations has remained altering the structure of production and consumption

patterns, diversifying the economic base, and reducing dependence on oil, with the aim of putting the economy on a path of sustainable, all-inclusive, and non-inflationary growth. But successive governments have struggled and failed to fulfill this aspiration. As a result, manufactured goods dominate Nigeria's imports, a stark reflection of the ailing manufacturing sector.

Governance and political stability

Nigeria's history of governance and political stability is well documented. Since independence in 1960, Nigeria has endured at least five successful coups, two abortive coups, one attempted coup, and three alleged coups. In effect, there was a recurring pattern of coups and counter-coups that also heralded a succession of increasingly authoritarian and corrupt governments all full of false promises of a return to democracy (Ihonvbere 1996; Onwumehili 1998; Max 2009; Adebawu and Obadare 2010; Bourne 2015). In effect, Nigeria was politically unstable for almost four decades after independence in a way that substantially affected the overall national governance landscape. Such a pattern's impacts on the economy could only have been negative.

Some scholars rightly point out that poor corporate governance, both in the public and private sectors have led to high corruption and income distribution inequity (Osabuohien and others 2012; Ikpe 2014; Bourne 2015). These also affect governance. It is also highly likely that the long-lasting violence in the oil-producing Niger Delta region and the threats of continuing religious-related conflicts (for instance attacks by Boko Haram) in some parts of the country increase threats to peace, democracy, and good governance (Africa in Fact 2014). Already, thousands of people have died over the past few years in attacks led by the Boko Haram. Separatist aspirations have also been growing, prompting reminders of the bitter civil war over the breakaway Biafran Republic in the late 1960s.

Challenges

Nigeria's reliance on a mono-product economy with most government revenue coming from oil exports, susceptible to global fluctuations and shocks in the international oil market, is a big challenge (Sanusi 2010). For example, since March 2014, the price of oil has fallen from about \$90 a barrel to just over \$45, changing the story of Nigeria's energy development future with it. Overnight, it ceased to be so rosy (Africa in Fact 2014; Borne 2015). The economy has disproportionately relied on subsistence agriculture and the extractive industry without any meaningful value-addition.

In light of this, the little growth recorded in the economy thus far has been without commensurate employment, positive attitudinal change, value reorientation, and equitable income distribution (Sanusi 2010). In essence, there has been limited transformation and economic restructuring since the 1970s. As a result, Nigeria has become more of a trading outpost for goods produced elsewhere, with little domestic transformation of the output of primary sectors by the secondary sector (Ikpe 2014). Thus, the economy is import-dependent with little non-oil exports. It relies heavily on crude oil and gas exports (Osabuohien and others 2012). Economic and social infrastructure, especially electrical power is grossly dilapidated. The power sector is generally recognized as a binding constraint on the Nigerian economy (Sanusi 2010).

Ongoing violence in the oil-producing Niger Delta region increases the uncertainty about oil production and heightens volatility (Africa in Fact 2014; BBC 2015). This is closely related to inequitable resource distribution. It is now almost common knowledge that few Nigerians, including those in oil-producing areas, have directly benefited from the oil wealth. Rather

than seeing the development of the “illicit” theft and sale of oil that expanded against the backdrop of “insurgency” in the Niger Delta in recent years as a departure from established norms, we might see it instead as an extension of the “parallel economies” that developed around oil production, sale, and marketing since the early 1970s oil boom (Nwajaku-Dahou 2012). The lack of broader oil revenue benefit-sharing remains a major challenge. In 2004, for instance, Niger Delta activists demanding a greater oil income share for locals began a violence campaign against the oil infrastructure, threatening Nigeria's most important economic lifeline (BBC 2015; Bourne 2015). Nigeria is keen to attract foreign investment, but will be hindered in this quest by security concerns and by a shaky infrastructure troubled by power cuts (Enweremadu 2013).

A challenging paradox well-articulated by Africa in Fact (2014) concerns Nigeria's lack of local oil processing capabilities. Africa's largest crude oil producer is also the continent's second biggest petroleum importer, behind only South Africa, which has little oil or natural gas of its own. On average, 350,700 barrels of gasoline, diesel, and related products are shipped into Nigeria daily, according to the Organization of the Petroleum Exporting Countries. By any standard, this is an expensive paradox. By the time transport and external refinery costs are counted, the Nigerian government will have spent hundreds of billions of naira in subsidies to keep petrol and diesel prices at the pumps reasonable. It was about \$5.5 billion in 2012 (ibid). Turning this paradox around is one of the main challenges the government must address. Lack of infrastructure (especially for electrical power production), knowledge, and innovation appear main barriers to local oil processing.

Nigeria is now the continent's biggest economy. But for ordinary Nigerians (most of whom still live on less than \$2 a day), the 2014 GDP rebasing and leapfrogging South Africa as the continent's biggest economy has had little positive impact. Nigeria still faces an immense challenge with infrastructure deficits reflected in slow port clearance processes, poor roads, and a lack of electricity. Nigerians will still buy petrol at the same price, they will still have the same amount in their pockets, electricity is not going to improve suddenly (Borne 2015). Among other challenges, unemployment and inequality have also risen significantly despite the impressive economic growth rates in recent years. Failure to transform in ways that ensure inclusive growth will simply heighten the current security challenges as idle youth become impatient with the government (Bloom and others 2010; NBS 2012). To avoid a disaster and reap a demographic dividend, the economy needs transforming.

Although population has grown exponentially over the decades, the agricultural sector—the local economy's mainstay—is contributing less to the GDP. Manufacturing, building, and construction are also contributing less, while the wholesale, retail trade, and services sectors have remained almost the same as in the 1960s (Sanusi 2010). Among several other reasons, these could be attributed to poor leadership, poor implementation of economic policies, weak institutions, poor corporate governance, and endemic corruption (Africa in Fact 2014). The challenge, therefore, is how to deploy and manage the oil and gas exports' receipts to achieve the economy's highest value for money; develop the many untapped solid minerals on a sustainable basis; improve agricultural productivity by cultivating more arable land with improved technology; process and preserve primary produce with the aim of increasing value addition; manufacture the basic durable and non-durable goods needed by Nigerians and the West African sub-region, and market and ultimately export such goods and sustain manufacturing by providing core industries; and remain competitive by developing and improving the country's investment climate (Sanusi 2010).

For a long time, Nigeria's inability to govern effectively was attributed to the presence of predatory regimes characterized by disruptive rent-seeking behaviors, corruption, and abuse of power. This had detrimental effects on the bureaucracy's performance, particularly on policymaking and implementation, as the bureaucracy had become susceptible to the same ills (Adebanwi and Obadare 2010). Rising poverty, insecurity, and corruption underline the challenges that daily confront the country. Indeed, when one considers these challenges, and the attributes of other countries classified as emerging, it becomes difficult to sustain labelling Nigeria as an emerging market or economy (Enweremadu 2013). An IMF report (2004) raises another worrisome challenge. It states that over the past two decades, Nigerian public debt management has not been effective. It has suffered primarily from the absence of a sound fiscal framework, leading to excessive debt and debt servicing difficulties. The government's large borrowing needs have been poorly managed. Nigeria's capacity for fiscal management is therefore a key concern and challenge requiring attention (ibid).

Conclusion

Nigeria's prospects for growth are bright going by the achievements recorded during the last 10 years and the current reforms in various sectors (Sanusi 2010). But for Nigeria to consolidate these economic gains and move higher in the growth and development frontlines, it must deepen reforms that improve human capital, promote high-quality public infrastructure, and encourage competition. The pillars to sustain this consolidation must include a firm fiscal policy, transparent fiscal operations, development-oriented monetary and exchange rate policies, financial sector strengthening, strict rule-of-law adherence and respect for the sanctity of contract, and a commitment to fighting corruption (ibid).

Some reforms have been tried since the early 2000s. These include attempts to maintain macroeconomic stability; reduce poverty; rebuild public sector institutions and enhance public service delivery; improve public sector governance; and privatize most public enterprises, especially in telecommunications and power, to help promote the private sector and remove acute infrastructure bottlenecks (Africa in Fact 2014). Although success has been limited due to various constraints, our position is that efforts in those directions should continue. Nigerians have nothing to lose in trying out these reforms to enable better macroeconomic stability and growth.

CHAPTER 7. ETHIOPIA

Bordered by Eritrea, Somalia, Kenya, and Sudan, Ethiopia is Africa's oldest independent country. During colonial times, it only experienced a weak five-year Italian occupation. Thus, it is one of a handful of African countries that were never colonized in the true sense. With a 94.1 million population and a 2.6 percent population growth rate in 2013, Ethiopia is Africa's second most populous country after Nigeria (World Bank 2015). It is one of the world's poorest countries with about a third of its population below the poverty line (Geda 2005). Although it has considerable natural resources, it is also highly drought-prone and has poor economic and political relations with most of its neighbors (Dercon and Woldehanna 2007). Under the socialist Dergue regime (1974 to 1991), it followed disastrous macroeconomic policies guided by command-and-control approaches including nationalizing businesses. But since 1991, the country has gone through economic reforms that have contributed to national socioeconomic growth.

The economy

The Ethiopian economy is mainly dependent on subsistence farming, which heavily relies on timely and adequate rainfall. More than 85 percent of the population depends on this sector for its survival (Geda 2005). Agriculture normally accounts for half of the national GDP and more than 90 percent of export earnings. Easterly (2006) states that each drought since the 1960s has been associated with the death or displacement of as many as 1 to 7 million people. So any strategy for reducing Ethiopian poverty and hunger must focus on generating rapid agricultural sector growth (Diao and Pratt 2007). The industrial sector accounts for only about 12 percent of GDP, and the balance is accounted for by the service sector (ibid).

Economic growth's high dependency on rainfall sufficiency and variability suggests that the country is vulnerable to climate and weather changes and related external shocks. For instance, in 1984, Ethiopia was plunged into a terrifying famine, with hundreds of thousands of people starving to death and the economy in freefall (Gumede 2014). The subsequent poor growth performance in 1984/85, with the decline of real value-added in the agricultural sector by more than 20 percent and real GDP by more than 9 percent, is best explained by that year's drought (Geda 2005). But the high growth rates in 1986/87, 1997/98, and 2000/2001 are because of bumper harvests, good and timely rainfall, and recovery from a small base. Thus, in explaining Ethiopian growth, it is imperative to examine the agricultural sector's performance and its linkage with other sectors (Geda 2003).

The International Monetary Fund (IMF) now ranks Ethiopia among the five fastest growing economies in the world. After a decade of continuous expansion (during which real GDP growth averaged 10.8 percent a year), in 2013/14 the economy grew for its 11th consecutive year posting 10.3 percent growth (NKC 2014; AfDB 2015). Most analysts agree that this phenomenal growth is attributable to a coordinated prudent fiscal and monetary policy stance that has left inflation contained to single digits since 2013 (Easterly 2006; Dori 2014; Gumede 2014; Moller and Wacker 2015; and World Bank 2015). Ethiopia's growth miracle has seen it achieve double-digit growth in real terms, averaging 10.6 percent a year during 2004–2014, Africa's second fastest after Angola and even surpassing China's 10.2 percent (Tamiru and others 2014). Growth is expected to continue at a rapid pace although forecasts suggest that it will moderate to just over 7 percent over the next five years (ibid).

A detailed review by Demeke and others (2003) provides an informative overview of the Ethiopian economy's history and the main growth sources for the country in more recent decades. The review indicates that during the Dergue regime, economic measures were taken including nationalizing industries and commercial firms, and all land was put under state ownership. There was also very limited room for private sector participation. Overall, the Dergue regime presided over an economy that was collapsing from poor macroeconomic policies, economic mismanagement, protracted war, internal instability, and recurrent drought. These, coupled with a population growth rate of about 2.9 percent a year, led to a decline in the society's welfare (ibid). Dercon (2000) says that by the beginning of the 1990s, the Ethiopian economy was in a deep crisis requiring substantial economic, political, and institutional reform.

When the Ethiopia Peoples' Revolutionary Democratic Front (EPRDF) replaced the Dergue regime in 1991, the country embarked on a difficult but rewarding transition from a command economy to a market-oriented one. Diao and Pratt (2007) point out that a number of market-oriented reforms were implemented, some aimed at stimulating agricultural and rural growth. For example, the country liberalized its foreign exchange markets and dramatically decentralized public administration to the district level. In rural areas, grain markets were liberalized and fertilizer markets opened up to participation from the private sector. In 1992, the Government of Ethiopia also established the Agricultural Development Led Industrialization strategy, which emphasized agriculture's role as a catalyst for immediate food security improvement and broad, long-term economic growth. Geda (2005) says that the new government in 1991 adopted an ESAP that called for substantial policy reforms. These included emphasis on reducing the government budget deficit; credit control; removing constraints on the supply side; and paying close attention to producing export crops through real exchange rate depreciation and other incentives.

Other reform measures included devaluating domestic currency against U.S. currency and inter-bank determination of exchange rates, abolishing interest rate ceilings, removing subsidies, reforming taxes (lowering the marginal tax rates and broadening the tax base), reducing tariffs and removing non-tariff barriers, simplifying licensing procedures, reorganizing the customs authority, deregulating prices, and privatizing public enterprises (Dercon 2000). Ethiopia's economic performance then immediately and significantly improved with GDP growth averaging 4.6 percent a year compared with an average of 2.3 percent a year during the 1980s pre-reform period (Demeke and others 2003; Easterly 2006). For about 10 years, the country has had double-digit economic growth rates with an average annual rate in the past 10 years of 10.6 percent. Other Sub-Saharan countries grew by only 5.4 percent on average during the same period (Gumede 2014; Moller and Wacker 2015).

Ethiopia's economic achievements are more impressive when considered alongside the ground covered on human development indicators—such as poverty reduction, health, and education—and infrastructure improvements, including “institutional” infrastructure or governance. The World Bank (2015) says that substantial progress was made across a broad range of social and human development indicators. For instance, in 1995, around 35 million Ethiopians (about 60 percent of the population) were living in extreme poverty at the international threshold of \$1.25 a day at purchasing power parity. By 2011, Ethiopia had succeeded in halving poverty, using the same measure, despite having seen the population swell from 57 million to 83 million (Tamiru and others 2014).

Between 1995 and 2011, income inequality has remained unchanged at one of the lowest worldwide levels (with a Gini coefficient of 0.3). Life expectancy increased from 52 to 63

years; real GDP per capita increased by 8.3 percent a year between 2004 and 2014; and the population without education fell from 70 percent to 50 percent (Moller and Wacker 2015; World Bank (2015). The country has also made substantial progress in infrastructure development; its infrastructure indicators compare well with low-income country peers (Tamiru and others 2014). For instance, Ethiopia has spent more than \$3.6 billion on road construction in the past 10 years (Gumede 2014). The road network has increased from 26,500 km in 1997 to 60,000 km in 2014. Railway lines connecting Addis Ababa with the Port of Djibouti and a light railway line in Addis Ababa are near completion (Moller and Wacker 2015).

Key Ethiopian growth drivers

The Ethiopian growth “miracle” has become the subject of intense interest and debate in international academic circles, mainly driven by the desire to explain its causes. Dercon (2000) says that fiscal policy became prudent and partly helped catalyze growth. For example, fiscal deficits were reduced from typically above 10 percent of GDP in the early 1990s to a low of 5 percent by 1997. The centerpiece of the government’s fiscal policy has been strengthening domestic revenue mobilization, reducing domestic borrowing, and increasing expenditure for the fight against poverty. So the country continues to spend more on its efforts to fight poverty with expenditure rising to 67 percent of GDP, mainly financed through domestic revenues and external grants (African Economic Outlook 2012). Monetary policy has also been prudent. Until the war with Eritrea, fiscal deficit financing through domestic credit remained limited, assisting in price stability (Dercon 2000).

Most scholars also agree that public infrastructure investments have significantly boosted the Ethiopian growth curve. For example, Moller and Wacker (2015) argue that Ethiopia has experienced growth acceleration over the past decade on the back of a state-led development model and an economic strategy emphasizing public infrastructure investment and restrained government consumption, supported by a conducive external environment. Gumede (2014) concurs with this view, saying that at least two-thirds of Ethiopia’s 8.5 percent GDP growth in 2011–12 was due to public investment. Now, public investment in Ethiopia is the third highest in the world as a GDP percentage. A large sum has been injected into a massive infrastructure drive in the energy, transport, communications, agriculture, and social sectors (ibid).

These findings resonate well with Dori’s (2014) conclusion that the Ethiopian government’s investments are the main growth engine. They range from building an extensive road network to expanding basic social services, and making a big push in the energy sector. The Grand Ethiopian Renaissance Dam on the Blue Nile, for instance, is an impressive, self-funded hydropower project heralding the country’s rebirth, and will be the continent’s largest upon its completion in 2017. A study by Tamiru and others (2014) concluded that Ethiopia’s growth “miracle” has been less of a miracle than the result of dogged determination to address poverty in measurable and meaningful ways. These include creating the hard and soft infrastructure to enable business success, playing better to the country’s comparative advantages in trade, and ensuring both political and macroeconomic stability.

This suggests that Ethiopia’s astronomical growth rates result from years of investment and reform that have seen the country entrench economic, social, and political stability. The IMF (2013) summarizes the characteristics that help explain Ethiopia’s growth performance as including improved macroeconomic management, stronger institutions, increased aid, and higher investment in human and physical capital. Thus, its experience demonstrates that macroeconomic policy improvements combined with structural reforms and reliable external financing can foster productive investment and stimulate growth (ibid).

But it must be acknowledged that several other variables stand out as contributing significantly to the Ethiopian growth miracle. Although dependence on agriculture has decreased substantially since the 1980s, falling from 56 percent to 46 percent of GDP in 2012, it still remains far more dominant as an economic sector than is usual elsewhere in Sub-Saharan Africa (Tamiru and others 2014). Thus, the agricultural sector, which accounts for 80 percent of employment, has remained a significant growth source, with the country's main exports being coffee, horticultural products, and livestock (Gumede 2014; NKC 2014). In 2011, for instance, the sector grew by 9 percent, driven by cereal production that reached a record high of 19.1 million tonnes, boosted by favorable weather.

This enhanced government support services to smallholders leading to improved yields and expansion in the area under cultivation (AfDB 2011; African Economic Outlook 2012). This is also consistent with the government's massive push to promote and deliver new technology packages to smallholders. According to Dercon (2000), coffee remains the most important export crop, on average making up about 60 percent of export earnings. The services sector has also been gradually taking over from agriculture in importance and has been complemented by a construction boom (Moller and Wacker 2015).

A World Bank assessment (2015) concluded that expansion of the services and agricultural sectors explain most of the growth in recent years, while manufacturing sector performance was relatively modest. According to NKC (2014), hotels and restaurants, real estate, renting and business activities, and financial intermediation made the largest contribution to services sector growth. But changes are equally visible in trade and investment. Exports have diversified, and the country has become a major shipper of oil seeds, flowers, gold and, increasingly, textiles and leather products. This has been enabled by a steady growth in foreign investment, particularly into floriculture and manufacturing (Dori 2014). Human and technical skills development has also received greater attention and thus enhanced access to tertiary education, with priority given to science, engineering, and technology (African Economic Outlook 2012).

It is also important to highlight international aid's role in Ethiopia's recovery and growth since 1991. As Dercon (2000) points out, Ethiopia managed to establish fairly good relations with donors, who generally looked favorably on its economic policy decisions. The donor support was substantial, even though per capita Official Development Assistance (ODA) was still below the African average. This conclusion finds common ground with Tamiru and others (2014) who say that Ethiopia was granted debt relief under the Heavily Indebted Poor Countries initiative in 2001. This provided considerable support to the balance of payments until 2011, even though the cost of servicing foreign debt quadrupled between 2009 and 2012. Gumede (2014) shares the same view when he states that about 20 percent of the national budget is financed through foreign aid and loans. Of the dependence on donors, Easterly (2006) raises the need for caution when he points out that Ethiopia's long history of foreign donor involvement has led to a top-heavy relationship in which the donor bureaucracy imposes too many burdens and agendas on a small group of managers in Ethiopia's national and regional governments.

Ethiopia has made significant gains over the last two decades in macroeconomic stability, economic growth, development of hard and soft infrastructure to support growth, poverty reduction, and improvements in the quality of ordinary Ethiopians' lives. An enabling environment for business to thrive and prosper has also been created. Moller and Wacker (2015) are convinced that Ethiopia's high growth rate mimics a classical economic take-off phase that African countries may experience after decades of economic stagnation and

political instability. The challenge is to make such economic take offs sustainable. All this is therefore still a work in progress, and the key question is whether or not the country can continue to sustain the high growth so far experienced.

Governance and political stability

Ethiopia's history has predominantly been one of internal and international wars or conflict under the ideology of religion, region, nationality, or a combination of these but aimed at power and resource control. This has had many consequences (Geda 2005). To some degree, the rest of Africa's colonialism made Ethiopian independence a besieged one with hostile and powerful colonial forces physically encircling it. As a result Ethiopia developed as a militaristic state (ibid). It has thus known various regime types, from monarchy to Marxist-Leninist to reformist, but for a long time, growth was mediocre to poor under all of them until 1991 (Easterly 2006). Three distinct political periods are identifiable: the monarchy or reign of the last emperor, Haile Selassie (1930–1973), the Dergue regime (1974–1990), and reformist leadership (1991 to the present). Essentially, for much of the 20th century, Ethiopia was ruled by highly centralized governments that did not facilitate meaningful economic growth (World Bank 2015).

A detailed account by Geda (2005) shows that the Dergue, led by a communist military junta that included Mengistu Haile Mariam, first emerged as an interest group fighting for land on behalf of the majority who were in serfdom. It then started consolidating its grip on power by setting up institutions such as peasant associations and cooperatives, marketing boards, and a nationwide worker's party, aimed at building a socialist state with strong military presence. The Dergue regime wiped out most opposition groups through extremely repressive measures that included jailing without trial and mass executions (Dercon 2000). Estimates of the deaths caused by the Dergue range from 500,000 to over 2 Million. Mengistu Haile Mariam formally assumed power as head of state in November 1977 and sustained a reign of terror never seen in the country before until he was deposed in 1991 (ibid).

The spectacular change and rapid economic growth in Ethiopia since 1991 has been enabled by the relative peace and stability it has enjoyed over the past two decades, which has allowed its regional diplomatic influence to increase (Dori 2014). Although there are still low-level insurgencies in some parts of the country, the ruling coalition has generally governed effectively. This has been buttressed by its allocating more than 60 percent of the national budget to sectors of the economy, such as agriculture, education, and health that favor poorer people. The country formerly spent most of the Treasury's coffers on the military (ibid). The conflict with Eritrea between 1998 and 2000 created a humanitarian emergency in northern Ethiopia and reduced the resources to advance many envisaged reforms. It disrupted the country's economic evolution (Dercon 2000; Diao and Pratt 2007). During this time, not only did increases in official defense spending substantially reduce funding to other sectors, especially for anti-poverty programs, but donors and investors also reduced their support (World Bank 2004).

By any measure, the three different political regimes mentioned were undemocratic, and hence good governance was (and still is) a major constraint to Ethiopian growth (Geda 2005). Each regime (including post-1991) heavily invested in the military and created institutions that help sustain the grip on power. This has helped each government protect its interest groups. If one gauges the priority to hold onto political power by defense expenditure, the Dergue regime scores high. During the Imperial period, defense expenditure was low, averaging 13 percent of government expenditure. During the Dergue regime, defense expenditure more than doubled to 33 percent of government expenditure. The average for 1992–2000 was 18

percent. The sharp rise in defense spending in the late 1990s is related to the conflict with Eritrea, which could be strictly linked to Ethiopia's land-locked status and Eritrea's questionable economic viability (ibid).

Ethiopia also faced a political crisis in 2005 that saw sharp disagreements in election results between the ruling party and the opposition. But the 2010 national elections were more peaceful partly because of a small and fragmented opposition (AfDB 2011). Since taking power in 1991, the EPRDF has led an ambitious reform effort to initiate a transition to more democratic and decentralized governance. This has involved devolving powers and mandates first to regional states, and then to district and village authorities (World Bank 2015). Federalism and devolving power to the regions have paved the way to overcoming geographic and socioeconomic barriers to inclusive growth and structural transformation (AfDB 2015).

In its efforts to curb corruption, the Federal Ethics and Anti-Corruption Commission has embarked on vigorous sensitization campaigns including conducting audits in all sectors. Money laundering and anti-terrorism legislation have also been introduced and implementing specific national and regional reforms in the past decade have led to substantial improvements in Ethiopia's public financial management system. In August 2012, following the death of Prime Minister Meles Zenawi who had led the government since 1991, the appointment of his successor Haile Mariam Dessalegn marked a historical moment in the country's politics. For the first time in its modern history, Ethiopia undertook a peaceful and constitutional power transition (World Bank 2015). This suggests the possibility of a politically more stable state.

Challenges

Despite impressive economic growth and progress, Ethiopia still faces deep challenges in every development dimension. One key challenge, repeatedly arising in various analyses, is how it will sustain its growth miracle. Moller and Wacker (2015), for example, argue that initial state investment-led growth always reaches a point where it needs to pull in the private sector by creating a critical mass of new industries or by forging partnerships with foreign companies. Ethiopia's Growth and Transformation Plan is not giving attention to this and thus raises the question of how much more the country can continue relying on public investment projects. A second and more pertinent challenge relates to Ethiopia's growing economic inequality. The World Bank (2015) argues that this inequality threatens to undermine the political stability and popular legitimacy that a developmental state acutely needs. Who benefits from economic growth is a much-contested issue in contemporary Ethiopia. Although the government argues that the suffering caused by rapidly rising living costs is a transient phenomenon inherent in developing economies, the emergence of new economic elites through rent-seeking activity and clientelism has exacerbated the sense of relative deprivation, particularly among the urban poor.¹

A related challenge is that Ethiopia has almost always faced dire challenges in alleviating poverty and food security. The World Bank (2015) says that the main challenge for Ethiopia is to continue and accelerate the progress made in recent years toward the MDGs and to address the causes of poverty among its population. But poverty and food security development indicators seem to have been worsening over time (ibid). Despite substantial

¹ Growth, as in many African countries, is benefiting only some elites. According to a survey by the consultancy New World Health, between 2007 and 2013, Ethiopia had the most new dollar millionaires in Africa. Most of the beneficiaries are the elites linked to the ruling EPRDF (Gumede 2014).

food aid and government programs designed to increase production, food security has not improved at a rate that sufficiently corresponds with the rapidly rising population; little progress has been made in surmounting this situation (Diao and Pratt 2007). Rural livelihoods remain extremely vulnerable to meteorological shocks, as food production is mainly rain-fed. Despite remarkable improvements, productivity is still low, and the marketing infrastructure is weak, leading to high transaction costs. The limited use of improved farming practices by most smallholders is an important factor contributing to low productivity (NKC 2014).

Ethiopia also depends on coffee exports for not less than 65 percent of its annual foreign exchange earnings. This has serious implications for the coffee sector and the rest of the economy. Terms of trade shocks in an economy devoid of instruments for their neutralization have critical bearing on its performance (Geda 2005). As Gumede (2014) points out, Ethiopia's economy is vulnerable to exogenous shocks because of its dependence on primary commodities and rain-fed agriculture. Any slight global changes in coffee or fuel prices can seriously destabilize the economy. This also implies that when there is drought, government revenue declines, the exchange rate depreciates, and recession deepens, reducing growth. In addition, the manufacturing sector is still too small, contributing less than 5 percent of GDP growth. Ethiopia needs a well thought-out industrial policy, and the quest for further economic diversification has never been more urgent.

Ethiopia's reliance on external funding has worsened its debt servicing position. According to Moller and Wacker (2015), the public debt to GDP ratio in 2014 was 44.7 percent, up from 32.7 percent in 2012. Ethiopia's sovereign debt rating has become high risk. Debt service indicators have risen substantially since 2009 and are gradually approaching levels seen in the early 2000s before Ethiopia received debt relief (ibid). Although the formal Ethiopian state structure has been transformed from a highly centralized system to a federal and increasingly decentralized one, challenges remain. According to the World Bank (2015), the national elections in 2005 and 2010, and the largely uncontested local elections in April 2008, illustrated the democratic transition's fragility, the EPRDF's dominance, and the opposition's weakened state. The May 2010 parliamentary elections resulted in a 99.6 percent victory for the ruling EPRDF and its allies, reducing the opposition from 174 to only two seats in the 547-member lower house.

In January 2009, the Ethiopian Parliament passed legislation to regulate civil society organizations (CSOs). While many of these organizations had long argued for a new and coherent framework, the new law is restrictive in demarcating areas of operations for different CSO types, for example, by excluding those receiving more than 10 percent of funding from external sources from many activities (ibid). The government and the Development Assistance Group, comprising bilateral and multilateral donors, have agreed that the new CSO law's implementation will be reviewed regularly through their joint High-Level Forum structure. Gumede (2014) argues that the lack of genuine democracy and the crushing of critical voices are likely to undermine higher economic growth rates. Paradoxically, the current EPRDF government operates in what is formally a liberal democracy, yet its response to criticism leans toward repression. This ideological entanglement has created structural tensions evident in the restrictions on political and civil rights that are, in theory, enshrined in the constitution (World Bank 2015).

CHAPTER 8. TANZANIA

Tanzania is an East African country mainly known for its vast wilderness areas including Serengeti National Park's plains and Kilimanjaro National Park, home to Africa's highest mountain. Offshore lies the tropical island of Zanzibar, a major international tourist resort. Tanzania became independent in 1964 after a merger between the mainland Tanganyika and the island of Zanzibar. Swahili, the main language, facilitated the construction of an embracing national identity during the first decades of independence (Booth and others 2014). The years soon after independence were dominated mainly by then President Julius Nyerere's socialist-oriented macroeconomic policies that turned out to be disastrous for national economic growth. But within a few decades, Tanzania moved from colonialism to independence to socialism to a market-oriented developing economy. Each of these stages involved substantial change, with different economic institutions and economic incentives (Robinson and others 2011).

Until much more recently, Tanzania had few exportable minerals and an agricultural system that was and still is mainly labor-intensive. In an attempt to remedy this, President Nyerere issued the 1967 Arusha Declaration that called for self-reliance through creating cooperative farming villages and nationalizing the country's privately owned industries and businesses. This intervention did not produce the results that Nyerere desired. Instead, it plunged Tanzania into severe economic distress, characterized by widespread shortages of basic commodities and high inflation (Lofchie 2014). Twenty years later, Tanzania looks radically different, and inflation has declined to single digits (Nord and others 2009).

The economy mainly depends on agriculture, which accounts for more than a quarter of GDP, provides 85 percent of exports, and employs about 80 percent of the work force (Volker 2005; Utz 2008; USAID 2015). According to Booth and others (2014), about 30 million Tanzanians (two-thirds of the population) directly depend on farming. Most of them are members of poor, semi-subsistence households, employing diverse livelihood strategies to assure food security and a minimum cash flow (ibid). Though it remains one of the world's poorest countries, with many of its people below the World Bank poverty line, it has had some success in attracting donors and investors. It has also achieved high overall growth rates based on gold production, agriculture, and tourism. Tanzania has largely completed its transition to a liberalized market economy, though the government retains a presence in sectors such as telecommunications, banking, energy, and mining (Nord and others 2009). In this section, we retrace Tanzania's economic growth path since independence. Continued donor assistance and solid macroeconomic policies seem to have supported a positive growth rate, despite the world recession.

The economy

Post-independent Tanzania's macroeconomic and political history is best known for President Nyerere's Ujamaa experiments. It was a period marked by pervasive command-and-control policies (Bevan and others 1990). The famous Arusha Declaration of 1967 set the stage for the formal inauguration of Ujamaa (Ibhawoh and Dibua 2003). It was essentially an agenda for achieving complete self-reliance through government control of the economy (nationalization) and catalyzing rural development through establishing cooperatives that would engage in agricultural production in newly planned Ujamaa villages (ibid). Immediately following the promulgation of the Arusha Declaration, the Nyerere regime announced the

nationalization of all banks and large industrial enterprises including large-scale agricultural processing industries (Arkaide 1973: 37).

In the Ujamaa villages, it was intended that people would have their homes around a common service center—instead of living on scattered homestead plots, and cooperative groups rather than individual farmers would farm land. Despite initial enthusiasm and early successes, the Ujamaa villagization scheme soon ran into difficulties. For various reasons, people became increasingly reluctant to join these villages (Shivji 1974). Most village schemes turned out to be failures since local peasants, suspicious of official motives and fearing their land's nationalization, refused to cooperate such that by 1975, the approach had to be abandoned.

More problems with Nyerere's self-reliance programs also became more evident as nationalization progressed. For instance, State economic control did not appear to guarantee a more effective restructuring of the national economy toward the envisaged self-reliant model. Structural changes such as over-bureaucratization and centralized decision making realized through nationalization created many opportunities for increased corruption, inefficiency, and resource dissipation (Bolton 1985: 156). Indeed by 1975, it was already clear to policymakers that a development policy that was primarily centered on nationalization could neither solve underdevelopment problems nor offer expedient paths to economic self-reliance (Shivji 1974).

Under Nyerere, Tanzania's economic progress was distorted and resources wasted in the "slavish adherence to ideology," giving rise to a marginalized rural sector and a corrupt and inefficient bureaucracy (Nurse-Bray 1980). Many scholars believe that Nyerere left his country poorer than it would have been under less utopian-minded leadership (Volker 2005). Nord and others (2009) state that although Nyerere's policies helped forge a politically cohesive and unified country, Ujamaa Socialism was also accompanied by serious economic decline. Widespread state ownership and intervention undermined economic performance. By the early 1980s, the government realized that it had to reform its policies.

Economic reforms began with the introduction of the National Economic Survival Programme in 1981 and the Economic Structural Adjustment Programme in 1982. With Nyerere's 1985 retirement, more reform policies culminated in the Economic Recovery Programmes I (1986) and II (1989) (Nyoni 1997). Concomitant with implementing the reforms was a massive foreign aid inflow that jumped in real terms from \$266.2 million in 1985 to \$522.3 million in 1992 (ibid). In 2008, Tanzania received the world's largest Millennium Challenge Compact grant, worth \$698 million, and in December 2012 the Millennium Challenge Corporation selected Tanzania for a second Compact. Tanzania has thus been among the leading aid-dependent African countries for several decades already.

In the early 1990s, Tanzania gradually liberalized its economy and began pursuing market-oriented reforms. In 1996, these reforms were intensified, resulting in major macroeconomic stabilization progress. Accelerating growth since 1996 has averaged about 5 percent (compared with less than 3 percent in 1990–95), while inflation declined to single digits in 1999 and to below 5 percent in 2002 (Volker 2005). Macroeconomic stabilization and market-oriented structural reforms triggered large inflows of official donor assistance that further supported growth and continuing reform efforts (Nord and others 2009).

Although more than a third of growth since 1996 has resulted from agricultural performance, another third has reflected growth in services, notably trade and tourism-related services, followed by construction and manufacturing (Nyoni 1997). The mining sector exhibited

substantial sectoral growth but did not contribute much to higher national economic growth. Higher growth in the non-agricultural sectors was in large part due to FDI. FDI flows to Tanzania gained momentum in the 1990s' second half, increasing six-fold to an annual average of over \$300 million compared with the first half of the 1990s. About 40 percent of the higher FDI was directed to the mining sector (IMF 2004). The remainder went primarily into the manufacturing, tourism, and financial sectors. Growth in the manufacturing and tourism sectors had, moreover, important spill-over effects on activity in the construction and transportation sectors.

In addition, Tanzania offered fiscal incentives—in particular for the mining sector—that included generous depreciation allowances, indefinite loss carry forward, exemptions from import duties and value-added tax, and some income tax holidays (Volker 2005). From the foregoing, one could say that three streams of activity constitute the main pillars of Tanzania's reform-oriented policies since 1996. The first is large-scale privatization that began in 1992 where nearly all state-owned enterprises were privatized. The second is liberalization, which allowed market forces to dictate current account transactions, foreign exchange rates, and agricultural prices. Marketing boards' activities have been gradually liberalized, as the state increasingly retreated from dominating economic activities. The third is macroeconomic stabilization, which entailed tightening fiscal and monetary policies and resulted in a rapid inflation decline.

According to the IMF (2004), inflation was subsequently brought down to single digits in 1999 and declined further to below 5 percent in 2002, reflecting a sharp decline in the growth of broad money from an annual average of over 35 percent in 1990–95 to 16 percent in 1996–2003. Figures released by the Tanzania Ministry of Finance and Economic Affairs (2009) show that since 2000, GDP growth has averaged about 7 percent a year, historically high for Tanzania and comparable to the performance of the fastest growing Sub-Saharan economies. GDP growth peaked in 2004 at 7.8 percent but a severe and prolonged drought in 2005/6 negatively affected the economy. Since then, GDP growth has recovered to reach 7.4 percent in 2008.

Key Tanzanian economic growth drivers

A few key variables seem to explain Tanzania's impressive turnaround. Utz (2008) is convinced that implementing a comprehensive set of macroeconomic and structural reforms laid the growth acceleration's foundation. The reforms enhanced the incentives for private sector activities and led to improved efficiency of resource allocation and use in the economy. This led to large inflows of private and public capital into the economy, thus boosting productivity. The Tanzania Ministry of Finance and Economic Affairs (2009) states that FDI in Tanzania has increased every year since 2003 reaching \$695.5 million in 2008. In the mid-1990s, the reform agenda was augmented by a strong focus on macroeconomic stability and public financial management quality. Initially, this effort involved sharp cuts in government expenditures to minimize the government's domestic and non-concessional borrowing. These cuts served as the basis for a prudent monetary policy that reduced the inflation rate to well below 10 percent. Subsequently, reform efforts focused on improving Tanzania's tax system and public financial management to improve allocative and operational efficiency of public expenditures and to minimize resource leakages (Utz 2008).

A detailed account by Nord and others (2009) highlights Tanzania's key growth drivers. The first important intervention was that state ownership of industries and irresponsible government intervention in the economy were rolled back. Unifying the exchange rate and liberalizing imports also allowed the private sector to trade freely, fueling an export boom

that restored Tanzania's foreign exchange reserves. Wholesale financial sector restructuring, including the licensing of numerous foreign banks, provided financing for private investment, while bankrupt public enterprises no longer had access to credit. Public finances were also subjected to stricter discipline. As a result of such changes, inflation finally started declining. A virtuous cycle was unleashed. Private investment, domestic and foreign, fueled economic growth, boosting tax revenues (ibid).

Relative to other countries that have experienced growth accelerations, Tanzania stands out in two respects. First, the extent of the reforms was much broader and larger than the average of other countries that saw growth accelerate. Second, there was a long lag between key reforms and the growth acceleration's realization. Macroeconomic policymaking's role during this period was to balance the need to create a supportive environment for growth against the need to contain the potential vulnerabilities that have derailed economic booms in the past, in Tanzania and elsewhere (Robinson and others 2011).

Tanzania also benefited from a comprehensive debt relief intervention, which eliminated nearly all of its foreign debt, thus allowing it to start on a cleaner slate. In addition, more generous foreign aid created much-needed fiscal space to finance government priorities (Nord and others 2009). It seems committed ownership of reform was also key to success. In essence, the Tanzania turnaround model was based on removal of price, production, and marketing controls; unification of the exchange rate; liberalization of foreign trade; privatization; reform of parastatals; market-oriented regulation; and creation of an attractive business environment. All these required a strong political will to deliver on the reform promises.

The intensification of reforms since 1995 and improvements in the business environment, as well as sector-specific reforms—especially in the mining sector—have triggered an increase in FDI and aid inflows (Utz 2008). In 2013, Tanzania's economy continued to perform strongly, with current growth at around 7 percent. This has been driven largely by communications, transport, financial intermediation, construction, agriculture, and manufacturing. In the medium term, growth will be supported by the ongoing investments in infrastructure and the projected good weather conditions (Booth and others 2014). The ongoing reforms in Tanzania, and particularly economic liberalization policies, have reshaped the country's corporate environment, with private players taking over production and distribution while the government assumes the role of facilitator and regulator. Trading across borders is much faster because of the introduction of the Pre-Arrival Declaration system and electronically submitted customs declarations (Charle and others 2014).

Agriculture sector growth is estimated at 4.3 percent in 2013, driven by increased production of the major food crops, including maize, paddy, millet/sorghum, and cassava. Good rains, as well as the government's provision of subsidized farm implements, have continued to support agricultural performance, but the sector still remains heavily dependent on weather and is poorly mechanized. It is estimated that only about a fifth of the area with high irrigation potential is now under irrigation. The country's monetary policy has remained sound, and this has enabled it to maintain low inflationary pressures (Charle and others 2014). The country has also made considerable progress in promoting participation and accelerating regional integration through tariff reduction through signed protocols. In implementing the East African Community and Southern African Development Community protocols, Tanzania has made substantial progress, particularly through increased exports to the regions. This has enhanced employment, investment, and production in the country. Tanzania's trade with its

regional partners in the East African Community and Southern African Development Community has increased substantially over the past five years (ibid).

Governance and political stability

Tanzania's relative success in attracting FDI reflected the implementation of a critical mass of macroeconomic and structural reforms, as well as the presence of political stability in the context of multiparty democracy (Volker 2005). As Lofchie (2014) points out, Tanzania has transformed its political system from a constitutionally entrenched single-party system to an openly competitive multiparty system. It has accomplished these transformations peacefully and without major ethnic violence or civil disruption. It has been a single-party state with free elections from independence to 1995. Since then there have been multiparty major elections after every five years in which Chama Cha Mapinduzi (CCM) has been winning all the time. Ibhawoh and Dibua (2003) argue that the relative political stability, which Tanzania enjoyed during the Nyerere years and afterwards, is one that cannot be appreciated in economic terms. Indeed, the legacy of stability that Nyerere's policies promoted in Tanzania has made the country remain one of Africa's most stable.

Tanzania continues to enjoy political stability and peace. Regular elections have ensured that the government respects majority rule. Booth and others (2014) point out that the country has the best percentile rank in political stability and terrorism absence (percentile rank 47). It also ranks 17th of 52 countries in the Ibrahim Index of African Governance, with an overall score of 56.9 out of 100 in 2012, higher than the 51.6 African average and also higher than the regional East African average (47.9); its highest score was in participation and human rights (61.3), ranking 12 out of 52.

Tanzania is also in the advanced stages of preparing a new constitution, expected to be in place before the 2015 general election but has been postponed. The dominant issues during the constitutional reforms have included: the structure of the union between mainland Tanzania and Zanzibar, the presidential powers, natural resources management, and political reforms such as the independence of the electoral commission, greater representation for women, and a provision for independent candidates to run for election. Another important aspect that has received attention in constitutional review is governance, especially in leadership, accountability, corruption, and public resource embezzlement. Tanzania's constitutional review has been participatory, and the entire process remains peaceful, underscoring the country's long-standing tradition of solidarity and peace (Robinson and others 2011).

Challenges

Tanzania has not performed sufficiently well in agriculture even though this is an important part of its economy. USAID (2015) points out that Tanzania is a net importer of rice; but with improved yields, it could fulfill growing domestic and regional demand. Furthermore, although Tanzania is largely self-sufficient in its main staple crop, maize, it still faces shortfalls in some years due to weather variability and low yields. Limited financial resources, weak infrastructure, and poor policies have not provided incentives to develop the agricultural sector. Only 9 percent of Tanzania's population has access to formal financial services, and only 4 percent has received a bank personal loan. Further, the credit squeeze resulting from the global financial crisis was acute in Tanzania's agriculture sector (ibid). Booth and others (2014) argue that without rapid and sustained gains in smallholder productivity and rural incomes, Tanzania's hopes of reaching "middle-income" status by 2025 will be frustrated. In

addition, the prospects do not appear good for broad-based economic growth bringing benefits to many poor Tanzanians.

The policy regime for investment outside large-scale mining, tourism, and import-substituting manufacturing and food processing is worse than it could be. The causes include some long-term structural problems in the political economy (business' ethnic composition) and some medium-term trends, notably CCM's rush into factional money politics. These trends do not lead us to expect any substantial moderation of the effects on business incentives of the Tanzanian-variant clientelistic politics.

The Tanzania Ministry of Finance and Economic Affairs (2009) acknowledges that poverty remains a main Tanzanian challenge. Despite strong and sustained growth rates since 2000, only slight reductions in household income poverty have been achieved over the same period. Between 2000/01 and 2007, the percentage of households in Mainland Tanzania below the basic needs poverty line declined by just over two percentage points from 35.7 percent to 33.6 percent. Poverty rates remain highest in rural areas: 37.6 percent of rural households live below the basic needs poverty line, compared with 24.1 percent of households in other urban areas and 16.4 percent in Dar es Salaam (Hoffman 2013). The apparent contradiction between sustained economic growth and limited change in poverty rates may in part be explained by the increased share of public spending (government consumption) and capital investment in total GDP, which have accounted for much of the GDP growth from 2000 to 2007, while household consumption as a percentage of GDP declined (*ibid*).

A detailed USAID (2015) report says that the poverty rate has decreased by only 2 percentage points, and the number of people below the poverty line has actually increased due to population growth. Human development indicators, though improving gradually, remain low. Although nationally, 34 percent of Tanzanians are below the poverty line, in some regions as much as 57 percent of the population are unable to meet their basic needs. It is unlikely that Tanzania will be able to achieve the first MDG—to eradicate extreme poverty and hunger—without substantial additional assistance (*ibid*). This clearly indicates that the high growth has not translated into fast poverty reduction. This is partly because the agriculture sector, employing about three-quarters of the workforce, contributes only about a quarter of GDP, while growing at less than 5 percent annually.

Therefore, the key to achieving broad-based growth lies in transforming the rural economy largely through substantial improvements in agricultural productivity as most of it is still small scale with little or no use of better mechanization. Large, intensive, highly mechanized agriculture was a main part of transforming the Asian economies to self-sufficiency in food production. Also, with increased employment generation in the non-farm sector, and youth employment opportunities in urban areas, growth will become more inclusive.

Growth of the agriculture sector also continues to be constrained by infrastructure gaps, including poor road transport—especially in rural areas—and lack of storage facilities. The country continues to face challenges in key sectors such as health and education, leading to a largely semi-skilled labor force required to drive the country's economy (Kelsall 2013). Tanzania in the last few years has dropped in the World Bank Doing Business Report (2014) by 9 places to 134 of 183 countries. It ranked 19 out of the 47 Sub-Saharan countries. This suggests that the country still faces challenges in attracting FDI, partly because of poor road networks and an unreliable energy source. Only 24 percent of the population has access to electricity, yet demand continues to outstrip supply. This has led some analysts to suggest that economic growth would be higher had it not been for its infrastructure challenges.

Youth unemployment and underemployment remain high, and this challenge continues to grow with new entrants into the labor market estimated between 800,000 and 1 million from schools and colleges each year (Kelsall 2013).

Commentators routinely contrast the unprecedented foreign investment, economic growth, and export earnings with persisting mass poverty and rising inequality. Policies that appear to favor foreign over local investors, for example permitting “land grabs,” offend both ruling party and opposition parliamentarians. They also energize international and local NGOs concerned with poverty and food security, genetic engineering, and biodiversity. Populist and nationalist public policy elements increase as a result (Hoffman 2013).

These factors combine to make it difficult to enforce strategic and robust agricultural and industrial policies, essential for long-term development. They help to channel the rent-seeking behavior of the political elite into ventures that serve short-term political advantage, with little benefit to the economy (ibid). State public goods creation and maintenance functions (for example power, ports, roads, and so on) are seriously undermined by political and grand corruption, and service delivery performance is compromised by state plunder and uncoordinated “rent-scraping” at all levels (Cooksey 2013). Parliament has been the scene of unprecedented executive power challenges, including forcing ministers and senior officials to resign. But, formal accountability has not progressed, and the most corrupt elements have re-asserted their political dominance within CCM. Formal institutions of accountability (courts of law, Prevention and Combating Corruption Bureau, Ethics Commission) are largely ineffectual (ibid).

Kelsall (2013) identifies the crucial factors affecting Tanzania’s economic development as: the failure of policies intended to raise agricultural productivity; the decentralized, opportunistic rent-seeking that infects areas of crucial strategic importance to the economy, in particular energy; and the lack of direction in the country’s industrial policy, meaning that investments in key sectors lack the support and coordination to maximize their contribution to sustainable growth. He also identifies endemic and unproductive corruption in the country’s ministries, departments, and agencies that diverts resources from producing public goods and social services essential to long-term investment; also, corruption in Tanzania’s regulatory agencies, especially the Tanzania Revenue Authority, which increases the cost, nuisance, and unpredictability of doing business.

Utz (2008) argues that some of the factors behind Tanzania’s growth acceleration are unlikely to be sustainable in the medium to long term. For Tanzania to achieve sustained high growth, increases in government spending and expansion of land under cultivation need to be gradually replaced by increased productivity, savings, and investment by the private sector as primary growth drivers. Sustained economic growth will depend on the economy’s ability to diversify and to increase its international competitiveness. Diversification requires efforts both to enhance the capacity to innovate and to find new economic activity areas where Tanzanian enterprises can successfully compete.

Volker (2005) carried out a deep assessment of the Tanzanian economic growth model and concluded that there are some serious downsides to the optimistic outlook on the country’s growth. First, Tanzania remains largely dependent on agriculture, which accounts for about 50 percent of GDP and employs some 80 percent of the population. So drought and other shocks to agriculture outside the authorities’ control can adversely affect growth performance and offset other sectors’ positive growth performance. The conclusion by Lofchie (2014) is worrisome for Tanzania’s growth story. During five decades of

independence, Tanzania has morphed from a failed experiment in socialist egalitarianism to a realm in which economic and political inequalities appear permanent. The principal political characteristics of contemporary Tanzania are thus dominated by a political-economic oligarchy embedded in the CCM hierarchy; the propensity of many members of this oligarchy to use corruption as a means of consolidating and maintaining their dominance; and a pattern of economic growth benefitting those at the top of the society. In this paper, we contend that this perspective cannot totally subtract from the remarkable growth turnaround story that Tanzania has managed to weave over the last three decades.

CHAPTER 9. EGYPT

Long known for its pyramids and ancient civilization, Egypt is the largest Arab country and has played a central role in Middle Eastern and North African politics for many decades. The Egyptian economy is the second largest in the Arab world after Saudi Arabia, but struggles to support a rapidly growing population. In the 1950s, President Gamal Abdul Nasser pioneered Arab nationalism and the Non-Aligned Movement, though his successor Anwar Sadat made peace with Israel and turned back to the West. Egypt's ancient past and that it was one of the first Middle Eastern countries to open up to the West following Napoleon's invasion have given it a claim to be the region's intellectual and cultural leader (BBC 2015).

The protests that ousted President Hosni Mubarak in 2011 raised the hope of those seeking democratic reform and an end to decades of repressive rule. But it was the Islamists who initially benefited, before they were themselves swept away by the military and secularist protesters, prompting speculation about a return to authoritarianism (ibid). Egypt's cities and almost all agricultural activity are concentrated along the banks of the Nile, and on the river's delta. Deserts occupy most of the country. Its reliance on the Nile River for almost all its fresh water resources has made access to water a key factor in the international relations of Nile River Basin countries.

The economy

Since independence, Egypt has undergone several economic development phases. Bolbol and others (2005) state that to a large extent, Egypt represents a typical case of an economy in transition whose system moved from state planning to market reforms that were initially hesitant and shallow, but later passable yet incomplete. A detailed account by Dobronogov and Iqbal (2005) indicates that five distinct phases of Egypt's economic development are identifiable over the last four decades. The first phase (1961–1973) was a low growth period. During this period, the state dominated the economy, the private sector's share in GDP was low, and the government pursued import substitution policies. Over this phase, Egypt invested heavily in public infrastructure and social services (such as health and education) but could not sustain high economic growth. Business efficiency and labor productivity stagnated, as the country's development plans aimed at physical output targets, and its industrial exports were oriented mostly toward communist countries with low quality requirements (Weiss and Wurzel 1998).

The second phase (1974–1985) was a high growth period. Two factors played a prominent role in Egypt's growth over this period. First, the government launched the Open Door Policy (Infitah), which allowed a greater private sector role and partial liberalization of the trade sector and the exchange rate regime (Dobronogov and Iqbal 2005). Second, a dramatic windfall revenue increase from the Suez Canal and from petroleum exports boosted national income (Handoussa 2002). There was also a rapid growth in tourism revenues and workers' remittances from abroad. But while contributing to rapid GDP growth, large windfall revenues caused some deterioration of fiscal institutions (the government's current expenditures dominated by the wage bill, subsidies, and interest payments, rose even faster than its revenues), Dutch disease effect, and an increase in inflation to about 15 percent (ibid).

The third phase (1986–1991) was a low growth period. The collapse in windfall revenues following the 1985–86 oil price crash revealed the unsustainability of prevailing fiscal policy as

fiscal deficits averaged about 15 percent of GDP throughout this phase. The deficits were automatically accommodated through expansionary monetary policy, which resulted in inflation rates above 20 percent. Stagnating exports and large current account deficits (up to 8 percent of GDP in 1989) endangered Egypt's ability to serve its external debt (Subramanian 1997). As Bolbol and others (2005) point out, despite initial success, the central planning system adopted in the early 1960s reached its limits late in that decade, as GDP growth rates declined from an annual average of 6.4 percent during the first 5-year plan to around 2.9 percent between 1970 and 1974.

In response to these negative trends, since the mid-1980s, Egypt accelerated the policy of opening up the economy with the express purpose of accelerating economic growth and economic modernization. Reforms were specifically designed to encourage foreign investment, and the standard package (tax exemptions, immunity from sequestration, and unrestricted repatriation of profits) was employed to that purpose (*ibid*). Effective protection due to implicit energy subsidies was greatly reduced by the fall of oil prices in the 1980s' second half and the subsequent reduction of Egyptian budget deficits. In the 1990s, the economy moved further toward greater openness through reduction in tariff rates (Domac and Shabsigh 1999). Thus, Egypt has been increasingly integrating with the global economy.

The fourth phase (1992–1998) was a high growth period. In 1992, Egypt launched a successful stabilization effort. The fiscal deficit fell from 15 percent to 1.3 percent of GDP over the next four years and inflation returned to single-digit values. Devaluation of the pound resulted in a major improvement in the current account position (from a deficit of about 5 percent of GDP to a surplus of about 1 percent) and rapid accumulation of foreign exchange reserves (Subramanian 1997). The government also launched a major privatization effort, privatizing about a third of all state-owned enterprise assets between 1991 and 1998 (Khattab 1999). Macroeconomic stabilization and privatization programs were complemented by the establishment of a free foreign exchange market for current account transactions and by the easing of capital account restrictions.

These measures nearly eliminated real exchange rate misalignment and the black market premium, contributing to the growth acceleration experienced in this period (Domac and Shabsigh 1999). The quality of fiscal adjustment achieved over this period was mixed. The reduction of budget deficits in the 1990s' first half was achieved largely through a fall in public investment, particularly in the central government's capital expenditure (Dobronogov and Iqbal 2005). El-laithy and others (2003) contend that the late 1990s were, in economic terms, an Egyptian watershed period. After a decade of slow economic growth, averaging less than 4 percent a year between 1987 and 1995, overall growth rebounded to reach an average of 5.6 percent a year between 1996 and 2000.

The fifth phase (1999–2003) had low economic growth. This phase was initiated by several shocks including the Luxor terrorist attack in 1997, the 1997–1999 global financial crisis, and a domestic financial scandal in 1998–1999 (*ibid*). All of these events had severe repercussions for Egypt and sent the economy into a decelerating growth phase. The Egyptian government reacted to the initial shocks by expansionary fiscal policies (clearing of arrears as a private sector stimulus and increasing investment in “mega” projects), resulting in a worsening fiscal stance. Budget deficits increased from 0.9 percent of GDP in 1997 to average 3.9 percent in 1999–2000 and 6.1 percent in 2002–2003. Later in the phase, monetary policy was eased, with M2 increasing from 73.1 percent of GDP in 2000 to 88.7 percent in 2003 (NKC 2014). In 2001, the Egyptian stock market collapsed, with the value of trade falling sharply to 3 percent of GDP on average in 2001–2003, down from 10 percent in 1998–2000. The government also

tightened exchange rate controls, which resulted in the reappearance of the black market premium (Dobronogov and Iqbal 2005).

From 2005 to 2010, the Egyptian economy maintained strong growth. During this period, real GDP growth averaged 6 percent a year and never fell below 4.1 percent year-on-year in any quarter (NKC 2014). The impetus for this strong growth was given by economic reforms undertaken by the newly instated government of the time, which included a reduction in tax rates and a business environment improvement. Foreign investors also became increasingly interested in Egypt (Africa in Fact 2012; UNECA 2013). Expansionary fiscal and monetary policies also boosted GDP. The Egyptian economy is generally well-diversified, covering subsectors as diverse as hydrocarbons, manufacturing, tourism, financial services, and construction. The Suez Canal and remittances are also important sources of foreign exchange earnings. The Suez Canal, which connects the Red Sea with the Mediterranean Sea, is one of the world's most important waterways, as it allows ships to travel from Asia to Europe without going around Africa (Handoussa 2002). It was opened in 1869, and has been upgraded many times since. It is 100 percent state-owned and is run by the Suez Canal Authority. It is a single-lane canal so ships transit in convoys at scheduled times (ibid).

Over the years, the government has maintained significant involvement in the economy, with official figures asserting that the public sector accounts for almost 40 percent of GDP (Domac and Shabsigh 1999; Weiss and Wurzel 1998). But the state's involvement is highly concentrated in a few sectors such as oil and gas, water sewage, electricity, financial services, insurance, and social security (UNECA 2013). Agriculture, mining, construction, transport, telecoms, retail, tourism, and real estate are mainly under the private sector's control. Even though Egypt is almost entirely a desert with only 3 percent of its land surface being arable, farming (concentrated mostly along the Nile) is an important part of the economy, particularly in its contribution to employment. The sector employs roughly 6.6 million people, or 27.5 percent of total employment, which creates a strong link to purchasing power (BBC 2015). Furthermore, the sector accounts for 14.5 percent of GDP, while private sector agriculture accounts for 24 percent of the private sector's share of GDP (Africa in Fact 2012). This also illustrates the sector's economic importance, especially for the private sector.

Egypt is one of the world's oldest oil producers, having started production in 1910. But with oil fields maturing, production has been in decline for some time (Dobronogov and Iqbal 2005). Egypt's oil production peaked at around 940,000 barrels per day (bpd) during the mid-1990s. After that, production declined to around 700,000 bpd by the mid-2000s, and then remained relatively stable over the next decade, owing to some small new discoveries and technological improvements, such as enhanced recovery techniques (NKC 2014). According to BBC (2015), Egypt's rapid growth was attributable largely to the discovery of oil and the huge increase in foreign aid after the Camp David accord. But the oil extraction industry's contribution to GDP has been declining over the past two decades, because of a decline in oil production and the growth in other sectors of the economy (ibid).

In recent years, oil extraction has accounted for 6–7 percent of GDP, of which the public sector accounts for more than 85 percent. In addition to extraction, petroleum refining accounts for another 1.2 percent of GDP. The sector has thus far been relatively unaffected by political unrest, largely because the major producing areas, such as the Western Desert and offshore in the Nile Delta, are far from the major population centers (IMF 2014). Egypt has the largest oil refining industry in Africa with a capacity of 726,250 bpd. There are eight refineries, of which the 146,300 bpd El Nasr refinery on the Suez Canal is the largest (UNECA 2013). All the refineries are operated by state oil company subsidiaries.

Tourism is also one of the most important industries in the economy. It accounts for just over 3.5 percent of GDP directly and more than 11 percent of GDP in total (NKC 2014). The sector is labor-intensive and accounts for some 12.6 percent of employment directly and indirectly. With the pyramids and other millennia-old sites, the famous Nile valley, a warm climate, and beach resorts, Egypt is one of the world's best-known tourist destinations (Weiss and Wurzel 1998; BBC 2015). The government has also strongly supported the industry in recent years, providing tax holidays for investors in designated tourist regions, marketing in key European and Arab countries, and financial incentives to tourism industry companies (Dobronogov and Iqbal 2005). These factors contributed to a significant increase in tourism revenues prior to the uprising. Tourism earnings increased from around \$4 billion a year in 2000–2003 to just over \$12.5 billion in 2010. Between 2001 and 2010, there was a 14.2 percent a year increase in revenues in nominal dollar terms (NKC 2014).

For a long time, macroeconomic imbalances have been a hallmark of Egypt's economy, and whatever success reform had was largely due to its macro-stabilization measures (Bolbol and others 2005). In an attempt to address its large fiscal imbalance, the government took the much-needed step of reducing energy subsidies in July 2014. Energy subsidies have been one of the main contributors to Egypt's budget deficit rising to 10 percent of GDP or more in each of the past four financial years (NKC 2014). Over time, subsidy reforms will reduce the country's dependence on aid and is therefore positive for the sovereign's creditworthiness, if it does not have a big impact on political stability (IMF 2014). Before the uprising, Egypt was one of the major FDI recipients on the African continent. This is reflected in that the accumulated stock of inward FDI surged from \$21.3 billion at the end of 2003 to \$73.1 billion at the end of 2010. Although this growth rate has slowed noticeably since 2011, it still rose to \$85 billion by the end of 2013. This is the second largest FDI stock in Africa after South Africa with \$140 billion, and ahead of Nigeria with \$82 billion (ibid).

Following debt relief in 1990, Egypt's external debt stock remained relatively stable in the region of \$28 billion–\$35 billion from 1990 to early 2012, while the external debt to GDP ratio declined significantly from around 90 percent in 1990 to below 14 percent at the start of 2012 (NKC 2014). The reason why debt remained stable is that the country had a very strong external position up to 2010, so external debt was not required. In addition, the government favored domestic rather than external debt to finance its budget deficits (UNECA 2013). The Egyptian authorities have a history of fiscal indiscipline. Since 2000, the narrowest fiscal deficit they have recorded was 5.6 percent of GDP in the 2006/07 financial year. From 1999 to 2010, the deficit averaged 8 percent of GDP. The main reason for this was subsidies and social benefits, which rose from EGP 10 billion in 1998 to EGP 103 billion in 2010, of which almost two-thirds were energy subsidies (IMF 2014).

It is also interesting to note that without energy subsidies, the budget deficit would have been small in the years before the uprising, averaging 1.2 percent of GDP from 2005 to 2010. Apart from subsidies, there were also large increases in salaries: the public sector payroll increased by 14.4 percent a year between 1998 and 2010 (NKC 2014). Furthermore, as a result of the country's large budget deficits, public debt rose significantly over this period, which also led to a sharp increase of 14 percent a year over more than a decade in debt interest payments (ibid). Fiscal revenues grew rapidly during fiscal years 2005 to 2009 (26.5 percent a year on average), which kept the budget deficit reasonably under control (by Egyptian standards), despite large spending increases (IMF 2014). The World Bank's measures of poverty—household expenditures below \$1 a day and \$2 a day (purchasing power parity adjusted)—are 1.7 million people and 25.9 million people, respectively (World Bank 2012).

Governance and political stability

Egypt has experienced autocratic rule for several decades after independence. Gamal Abdel Nasser engineered a Coup in 1952 and put in place a republic in which the military played a central role, and suppressed the Muslim Brotherhood, a religious nationalist movement. The enmity between the security establishment and the Muslim Brotherhood remains relevant to contemporary Egyptian politics (NKC 2014). The military republic that Nasser founded was continued by his two successors, Anwar Sadat and Hosni Mubarak. Their policies entrenched the importance of the military in the country's economic and social life, while the banning and persecution of the Muslim Brotherhood, together with its effective social actions, especially in poorer neighborhoods, gave that movement a mystique among Egyptians (ibid).

Egypt performs particularly poorly in the property rights and corruption sub-indices, where it has scores of 20 percent and 28.6 percent, respectively. It also has scores of less than 50 percent for financial freedom, investment freedom, and labor freedom (UNDP 2011). Mr. Mubarak resigned on February 11, 2011, after two weeks of massive "Arab Spring" protests sparked by the overthrow of Tunisia's President Zine El-Abidine Ben Ali. He handed power to the Supreme Council of the Armed Forces (SCAF), chaired by his minister of defense, Field Marshal Mohamed Hussein Tantawi. The SCAF ruled until the election of the Muslim Brotherhood's Mohammed Moursi as president in May and June 2012 (Africa in Fact 2012). Resentment at the Muslim Brotherhood and its attempts to increase its control over all facets of government and society sharpened in the ensuing months, especially after Mr. Moursi dissolved Parliament and pushed through an Islamist constitution (BBC 2015). In June 2013, a petition campaign and mass protests against Mr. Moursi prompted an intervention by the army, then headed by General Abdel Fattah Al-Sisi, which removed Mr. Moursi from office on July 3, 2013.

An interim government took over with Supreme Justice Adly Mansour as president and Mr. Sisi as defense minister. In mid-August 2013, the government started to clear two huge pro-Moursi sit-ins in Cairo, and the resulting violence led to the deaths of several hundred protesters. Anger over the "Rabaa massacre" deaths continues to drive resentment against Mr. Sisi in Egypt and across the Arab world, but the government's harsh measures against the Muslim Brotherhood and against more radical jihadist elements has since reduced conflict (UNECA 2013). In late May 2014, Mr. Sisi overwhelmingly won a presidential election with 96.9 percent of the vote, with only Hamdeen Sabbahi challenging him. Voter turnout was low (BBC 2015).

Islamists continue to challenge Mr. Sisi's assumption of office, but recent protests have been small and easily contained. According to OECD (2013), Egypt has witnessed intense political protests since 2011 that have cast a shadow over its democratic consolidation. The society has become increasingly polarized between a more secular opposition and supporters of the democratically elected government. There have been restrictions on political rights and civil society. Terrorism also continues to be a worry, especially in the Sinai area. Egypt's economic outlook remains fragile against the backdrop of political unrest and insecurity (NKC 2014; BBC 2015). In the latest 2014 Index of Economic Freedom, Egypt received a score of 52.9, making its economy the 135th freest of 178 countries. Egypt's overall score is 1.9 points lower than in 2013, reflecting declines in half of the 10 economic freedom categories, including investment freedom, property rights, and freedom from corruption (ibid).

The country was rated 110th of 187 countries in the UNDP's 2013 Human Development Index—two places better than in 2012 (UNDP 2013). The risk of political upheaval, especially in the form of terrorist attacks, has long been a constraint to the tourism industry's development.

Since January 2011, political unrest has severely disrupted the tourism industry. According to official figures, tourist arrivals declined by 33.2 percent in 2011 (BBC 2015). From 2004 up to the time of the uprising, the government increased its efforts to improve the business environment, which resulted in a notable improvement in Egypt's Doing Business Index ranking. In fact, Egypt was among the survey's top global reformers in four years during that period. But reform has stagnated since the uprising, which has seen Egypt slipping down the rankings (UNDP 2013).

The military's heavy-handed governing style, its dismissive treatment of the newly elected parliament, some nasty incidents of brutality (most notably some female protestors involuntarily subjected to virginity tests), and how soldiers turned a blind eye to the football massacre in Port Said, where more than 70 fans were killed in a premeditated attack by thugs supporting the local team alienated the military from the civilians (Africa in Fact 2012). During the revolution and its aftermath, over \$15 billion disappeared from the country's foreign reserves, money that will probably never be accounted for. Unemployment is high, bread is expensive, and Egypt's one cash cow—tourism—has almost dried up amid the chaos (BBC 2015).

After the Arab Spring uprisings, political stability in Egypt and the rest of the region remains elusive and social tensions linger (OECD 2013). Political instability has led to a sharp decline in investment and tourism, while populist economic policies pushed the fiscal position to the brink of a crisis (NKC 2014). During the three calendar years following the uprising, real GDP growth averaged only 1.4 percent a year. Political risk and loose fiscal and monetary policies have damaged the economy, as is clear from the fact that public debt is now above 90 percent of GDP, the budget deficit is regularly above 10 percent of GDP, and inflation is frequently above 10 percent (OECD 2013).

Challenges

After 2000, Egyptian economic growth slowed significantly. This raises concerns about the extent of poverty today. Despite a substantial increase in average household expenditures in the late 1990s, poverty in Egypt remains pervasive (El-laithy and others 2003). Many of the Egyptians who escaped poverty in 1995–2000 may likely have slipped back into poverty in the next decade. Even though there has been a positive relationship between economic growth and poverty in Egypt, the 1990s' substantial growth did not affect many of the poor (ibid). A few years after the Arab Spring uprising, Egyptians (many of whom were already below the poverty line) are still waiting to reap the full benefits of lasting social, political, and economic change (BBC 2015).

The country's social indicators lag behind those of other countries, and many Egyptians suffer from poor access to basic services such as health and education. Income and wealth inequality has worsened, and unemployment is high, especially among the youth. According to the Central Agency of Public Mobilization and Statistics, around 27.8 percent of Egyptian youth are poor while 24.1 percent are near the poverty line. The nationwide unemployment rate was estimated at just over 13 percent in 2014 (UNDP 2014). Poverty remains high, with 25.2 percent of the population living on less than \$1.5 per day in 2010/11. The illiteracy rate is high at 27 percent, and there are wide income disparities. The Egyptian statistical agency reported that unemployment was 12.5 percent in the third quarter of 2012, although several sources indicate that the unemployment rate may be above 18 percent. More than 3.3 million Egyptians are unemployed, while the unemployment rate for 20- to 24-year-olds is 46.4 percent (NKC 2014).

Major challenges include financial deficits in the form of a large budget shortfall and an expanding balance of payments imbalance. Foreign exchange reserves have also fallen to a critical minimum level at a time of disappointing economic growth. The real GDP growth rate fell to 2.2 percent in the fiscal year ending June 2012, down from 5.1 percent in 2009/10, before the revolution. Continued political instability has undermined inflows from tourism and FDI (IMF 2013). The government is working to address several of Egypt's structural and institutional problems. It has developed a homegrown program to reform the inefficient energy subsidy system and is promoting policies to fight corruption, foster societal inclusion, and enhance equality of opportunity (UNECA 2013). But the government's reluctance to accept IMF conditions for financial support before the April 2013 elections reflects the difficulty of implementing necessary but unpopular entitlement reforms in a heavily divided society (NKC 2014). Rapid population growth and the limited arable land are also straining the country's resources and economy, and continuing political turmoil has paralyzed government efforts to address the problems (BBC 2015).

Conclusion

Egypt has potential both for structural transformation toward a more productive economy and for optimal use of its immense natural resource wealth, if it implements vital policy and institutional reforms. Its economic growth and poverty story starting from the late 1990s and beyond involves both a liberalizing and an inward-looking economy. Following a substantial liberalization of Egypt's economy beginning in 1991, it experienced a noticeable growth spurt. During this period, Egypt began a slow process of controlling inflation, dismantling the historically overwhelming state domination of the economy, and opening markets to greater competition. As a result, the private sector emerged as a more important economic player in output and jobs (El-laithy and others 2003).

The impact of the Arab uprisings on the economy and subsequent political instability has been far-reaching for Egypt. In this report, we assume that the next few years will continue to be difficult for the country. This can, for instance, already be seen in the weak economic growth rate since the 2011 uprising. Austerity measures and efforts to reduce government debt that Mr. Sisi, the president, is keen to see implemented have been urgent for years, and unfortunately such measures can only be implemented by a government willing to back its arguments with State force (NKC 2014).

Egypt has also become increasingly dependent on foreign aid and loans to meet its external financing needs. The country will probably need even more loans to prevent a balance of payments crisis. But overall, Egypt has made substantial progress on human and social development and is on track to achieve the MDGs (UNECA 2013). Even so, much remains to be improved. The 2011 UNDP Human Development Index ranked Egypt 113th of 182 countries. Extreme poverty and hunger have been curtailed; infant mortality and malnutrition have been halved; life expectancy has risen from 64 to 71 years; and there has been demonstrable maternal health improvement. According to World Bank estimates, however, some 22 percent of Egyptians still have incomes lower than \$2 a day per person, while rural poverty rates reach 44 percent (World Bank 2014). Pockets of poverty and food insecurity also exist in urban areas, where poverty has increased by almost 40 percent (from 11 percent to 15.3 percent) between 2009 and 2011. In 2011, 17 percent of Egyptians were food insecure compared with 14 percent in 2009 (UNECA 2013). These urgent challenges must be addressed to restore Egypt's status as a progressive country enjoying reasonable economic growth.

CHAPTER 10. THE SCOURGE OF FRAGILE STATES IN SUB-SAHARAN AFRICA

Since the Cold War's end, efforts to curb violent intrastate and interstate conflicts have increased substantially but state fragility has continued to rear its ugly head over the years not only in Africa, but also in many other parts of the developing world. Fragile states are often defined as states that are failing, or in danger of failing, with respect to authority, comprehensive access to basic services, or governance legitimacy (Anderson 2004). At the center of state fragility is the relationship between a state's weak institutions, capacities, political will, and policies on the one hand, and national poverty, poor governance, and ineffective use of national resources and development assistance on the other (François and Sud 2006). According to Torres and Anderson (2004) sovereign states are expected to perform minimal functions for the security and well-being of their citizens, as well as the smooth working of the international system. In simple terms, people need states to work. States that fail to meet these minimal standards have been characterized as "weak," "fragile," or "poorly performing." More extreme cases have been labelled "failed" or "collapsed."

Although there are many definitions of state fragility, this paper is informed by an understanding of state fragility that focuses relentlessly on three different dimensions that have dominated discourses in the international development community's agenda. These include an emphasis on human security and peacebuilding; a concern with poor development performance and state effectiveness; and a belief that underdevelopment and insecurity (individual and international) are related. In general, fragile states are often where poverty is worst and most intractable, and they are increasingly seen as threats not only to their own citizens but to their neighbors, and even to global security (GTZ 2008; OECD 2008). Haken and others (2014) state that since the end of the Cold War, a number of states have erupted into mass violence stemming from internal conflict.

Democratic Republic of the Congo

A very difficult political geography, weak government capacity, limited infrastructure, a divided society, and unsecured natural resources are some of the main features of the context in which state fragility exists in the Democratic Republic of the Congo. According to Narayan and others (2011), the Democratic Republic of the Congo was a political dictatorship under Mobutu Sese Seko and then under Laurent Kabila. Freedom of the press was curtailed, there was little or no tolerance of dissent, and it had a poor human rights record (World Press Freedom Review 2003). What is surprising though is that the lack of democratic institutions did not result from higher economic growth because the Democratic Republic of the Congo was, and still is, one of the poorest countries in the world with annual per capita income of \$90 in 2002 (World Bank 2003). The Democratic Republic of the Congo has a lot of mineral wealth, suggesting it has considerable potential to increase its GDP, but this was poorly managed under the Mobutu regime and in the 1990s. There was also a substantial spillover of the civil unrest and war in Rwanda (Lawrence 2014).

A detailed assessment by Kaplan (2008) indicated that major causes of fragility in the Democratic Republic of the Congo seem to originate mainly from poor governance leading to low growth with Mobutu imposing prohibitive rates of taxation that acted as disincentives for work and made bribery and corruption pervasive and a necessity for private business. Public finances were dissipated into private consumption for Mobutu, his family, and key

state offices. The evidence suggests that Mobutu appropriated several hundred million dollars annually that belonged to the national Treasury (Rice and Patrick 2008). Kabila seems to have continued this trend even though on a smaller scale than during Mobutu's time. GTZ (2008) argues that the Democratic Republic of the Congo is classified as a fragile and poorly governed state mainly due to the usual indices. The country is now in a critical rebuilding phase after decades of dictatorship and 10 years of highly destructive wars. The Democratic Republic of the Congo was ranked 184th of 189 countries in the World Bank's 2015 Doing Business report, similar to its ranking in the previous report—the Democratic Republic of the Congo's 2014 ranking was revised from 183rd to 184th (NKC 2014).

The Democratic Republic of the Congo displays many fragile statehood characteristics. There are deficits in peaceful conflict resolution, public safety, delivery of basic social services, social inclusion and cohesion, and responsiveness to citizens' needs by public administration (Rice and Patrick 2008). These deficits are of great relevance to the task of state-building and detrimental to the interaction between state and civil society (Kaplan 2008). The Democratic Republic of the Congo has undergone many destabilization processes since it became independent in 1960. In the 1990s, there were three wars on its territory in which most of the neighboring states were involved. From these wars and the influx of refugees, the state structures and the production base collapsed, particularly in the country's east (Jackson 2002).

This situation did not begin to improve until 2002, after various peace agreements' conclusion. In July 2006, the first free parliamentary and presidential elections took place. Conflict resolution, however, continues to be primarily characterized by ad hoc measures (Rice and Patrick 2008). No well-established mechanisms exist to regulate the ongoing conflicts in the destabilised eastern part of the country, where fighting breaks out on a regular basis. But unrest also continues in the remainder of the country (GTZ 2008).

The state still has no functioning democratic structures in its core areas. Senior army and police officers and administration leaders continue to take their cue from the ethnic and political groupings and power centers of the period of rebel rule or from the Mobutu ancien régime (Englebert and Tull 2008). Most people have no access to basic social services like education, healthcare, and clean water. There is constant danger of social unrest, and 95 percent of the population have no form of social protection. In addition, the local support systems of families, clans, and village communities have also largely been destroyed by war and the enormous influx of refugees (Lawrence 2014). After the 2006 elections, the donor community greatly increased its support to be in a position to offer a peace and democracy dividend to the population.

Given the conditions described above, however, 50 percent of overseas development assistance is still being spent on emergency aid. The state will not be able to care independently for its population in the near future. Civil servants are badly paid, and the administration is greatly affected by the exercise of political influence (Le Billon 2001). Many ministries have no budget for current expenses and investment. Their activities are limited to executing development programs and projects, where these are not managed by non-state actors in the first place (GTZ 2008).

This situation results, above all, from the lack of political will to generate government revenue (DFID 2010). Attempts to increase the national budget and to use this revenue to finance development-oriented measures for the population have failed due to resistance from the political elites. Despite the many political changes, the influence of the latter has

not diminished. The political class exercises a policy of personal enrichment, using the state as its major source of income. It consists of around 150 to 200 large families and clans who are at ease in all political groupings and who regularly change their political affiliations (Jackson 2002). Since the political class owns very little land, holding influential state office is considered a decisive opportunity to accumulate wealth. This is facilitated by that, nominally, an “omnipresent” state with many offices and state enterprises exists (DFID 2010).

The fragility of the state and social structures of the Democratic Republic of the Congo can also be measured by that despite the great hopes for a better future resulting from democratic elections and extensive international financial and operational support for the presidential and parliamentary elections in 2006, there was only qualified acceptance of the election results in many places (Lawrence 2014). In conjunction with the ongoing deterioration of social conditions, the new political leadership’s legitimacy continues to diminish. In the Democratic Republic of the Congo, the deficient state structures are faced with a civil society that, as a whole, demonstrates inadequate organization and has little political influence (ibid). The deficits mentioned mean that the international community is faced with a great challenge when it comes to promoting state-building and the interaction between state and society in the Democratic Republic of the Congo.

CHAPTER 11. SOUTHEAST ASIAN EXPERIENCES

Macroeconomic planning experiences in the Southeast Asian region have led to rising popularity of the idea of a “developmental state.” This idea has proved to be one of the most attractive concepts in development theory and practice for several decades as it provides a coherent counter-narrative to the dominant neoliberal narrative that portrays the market as the master institution underlying both growth and welfare (Dassah 2011). It has become the major ideological rallying point for those who wish to contest the appropriateness of neoliberalism and the Washington Consensus as a framework for economic development in the global South (Radice 2008). Many proponents of the developmental state approach strongly believe that since there are so many imperfections in developing country market economies, it remains the state’s responsibility to lead national planning and to implement specific policies, plans, programs, and projects to drive the national development agenda (Dassah 2011; Deen 2011; Routley 2014). The concept therefore remains one of the chief points of reference, both analytical and political, for those who reject the neoliberal global order (Radice 2008; Evans 2012).

Since the concept’s popularization by Chalmers Johnson in his seminal work *MITI and the Japanese Miracle* (1982), it has been written about extensively and critically analyzed in tandem with empirical experiences of its application (Ayee 2013). It also continues to enjoy wide acceptance among scholars and practitioners several decades after its formulation mainly because it has explained the exceptional growth performances of East Asian countries as resulting from a combination of economic, political, and institutional structural changes (Sindzingre 2004). For instance, the successful developmental state experiences of countries such as South Korea, Malaysia, Singapore, Japan, China, India, and Taiwan have been repeatedly used to demonstrate how and why the rest of the developing world can and should move swiftly toward rapid economic growth (Edigheji 2005; UNECA 2013).

Even with reference to Africa, there are scholars who strongly believe that the developmental state model of national economic planning is the way to go. For example, Taylor (2002) argues that of those countries in Africa that have recorded respectable economic development, it is the developmental states of Botswana and Mauritius that have performed well. It is therefore important to sufficiently articulate the concept’s theoretical underpinnings and empirical application to generate relevant lessons for the rest of the developing world.

Theoretical underpinnings of a developmental state

As an analytical concept, the “developmental state” has been described variously as one that places economic development at the top of government policy priorities leading to the design of effective instruments to promote such a goal (Mkandawire 2001). The developmental state has also been characterized as a state that promotes macroeconomic stability and establishes an institutional framework that provides law and order, effective justice administration, and peaceful conflict resolution, ensures property rights and appropriate infrastructural investments, and advances human development (Dadzie 2013; Ayee 2013). It is a state determined to influence the direction and pace of economic development by directly intervening in national development, rather than relying on the uncoordinated influence of market forces to allocate economic resources (Johnson 1982; Taylor 2002). Elsewhere, the developmental state has been described as one that is authoritatively, credibly, legitimately, and in a binding manner, able to formulate and

implement its policies and programs. In other words, it is a state capable of deploying the requisite institutional architecture and mobilizing society toward realization of its developmentalist project (Edighegi 2010; UNECA 2013).

Revisiting East Asian experiences

The rapid economic development seen in some Asian states between 1960 and 1990 created strong optimism for rapid economic growth in the rest of the developing world. From the Asian tigers—Hong Kong, Singapore, South Korea, Taiwan (known as the newly industrialized states), to the neighboring states of China, Indonesia, Thailand, and Malaysia—also called mini-tigers, the economies followed Japan’s success story, recording annual GDP growth of between 8 percent and 13 percent (Hobday 1995). The tigers especially achieved in only 50 years what the West achieved in at least 100 years (Paldam 2003). But the Asian financial crisis (1997–1998), a slump in global electronic markets (2000–2001), and the more recent economic recession in Europe and America (2008–2010) slowed it all down (Wong 2011). The economy has picked up after each challenge however, and the states are still a globally-revered economic success story.

In 1955, most development experts considered four of the future tigers as basket cases. They were as poor as the African countries and hopelessly overpopulated. South Korea was ravaged by a bloody and destructive war (Paldam 2003). Hong Kong was an overcrowded rock, and Singapore was not much better. Taiwan had just had its population increased by a defeated army headed by a group of corrupt nationalist generals (ibid). In addition, South Korea and Taiwan were constantly threatened by invasion from communist neighbors. They included the world’s most populated country China, armed by the Soviet Union.

Nearly all observers agree that the policy the Asian tigers eventually chose was different from the import substitution industrial policy that mainly characterized Sub-Saharan economies during that time. Instead, their policies were export-oriented. The main exception to the agreement is Rodrik (1995, 1997), who argues that the policies of the tigers are within the range of policies chosen by other least developed countries. What is different is the skill with which the policies were pursued—essentially governments and bureaucrats of the tigers were smarter. The first western economists who discovered the miracle were trade-oriented development researchers such as Anne O. Krueger, Bela Balassa, and Jagdish N. Bhagwati. They suggested that the export-led growth strategy of the tigers and a few other countries worked better than the import substitution industrialization strategy.

At the bottom of the tiger controversies is the big question: How big should the role of the state be in economic development? The corresponding tiger question is: How important has the state been in these countries for their monumental success? A response to this question by Evans (2012) stresses that the East Asian Miracle reminds policymakers to focus on “getting the fundamentals right.” Government must preserve macroeconomic stability and provide institutions (rules of the game) that are transparent and predictable. Economic bureaucracies must resist demands by business for market-distorting subsidies and protections while still retaining business confidence. This model requires public bureaucracies with general economic competence, but not bureaucrats with entrepreneurial flair or specific knowledge of industrial operations.

Efforts to replicate the Asian success story abound, but no success has been recorded to date. This may be partly because the underlying causes of the success are not fully appreciated. The Asian success was based on a committed shift from primary industry and agriculture to export-oriented industrial development. This was achieved in several ways.

First, deliberate government policy geared toward education and technological development was the basis for industrial growth (Danju and others 2014; Wong 2011). Second, a shift to export growth in industry created room for high FDI inflows. Third, governments offered political support for conglomerates like Samsung and LG to grow at home and conquer global markets abroad (Danju and others 2014). Governments helped on the operational level by suppressing trade unions, lowering wages thereby creating cheap labor, so manufactures thrived (Wang and Chien 2003).

At an institutional level, politicians and bureaucrats worked together in policy development to produce sound business environments for the technological industry to boom (Wong 2011). But Danju and others (2014) state that the Asian economies also benefitted from the Cold War divide as western economies, fighting communism, were keen on winning Asia over. They did this through economic support—easing access to international finance and opening up western markets for Asian economies.

Economists have tried to construct economic models to explain the Asian growth. According to Hobday (1995), the widely accepted model of this development is thought to be a “flying geese” model, which states that after the appreciation of the Yen in Japan in 1995, the cost of doing business rose, and Japanese subsidiaries fled to Asian economies where the cost of doing business was cheaper. But this explanation is not enough as there is also a heavy Chinese export model. Most Asian economies have a substantial Chinese migrant population (especially Taiwan, Hong Kong, and Singapore), and through a network of small family businesses, a popular Chinese business model (as opposed to the Japanese conglomerate model), efficient supply chains and wider markets are easily acquired (ibid).

A study by Evans (1998) concluded that the Asian growth should be characterized in three models. The first is the market-friendly model, as promoted by World Bank economists, which encourages governments to create stable enabling environments for free market trade. This promotes investment and creates jobs. The second model is the industrial model, which uses free market and industry-specific policies to push sectors. The third is the profit-investment nexus, which uses the industrial model plus investment promotion, such as subsidies and external competition. Paldam (2003) concurs with Evans’ (1998) explanation, and submits that these economies did not really follow the same models. He separates the tigers’ economic models and points out that Hong Kong and Singapore, as city states, pursued the option of being global trade centers and instituted strong liberal policies that emphasized property rights. But Taiwan and South Korea followed the Japanese model (former colonial power) by adopting its institutions that featured European-style economic freedom. Even so, both pursued an export-led growth strategy with the state playing a central role.

These economic models worked in a context. They all highlight the central role of the state in crafting and implementing specific policies. The models that Evans (1998) proposed work on a distinct presence of well-coordinated government—business relations overseen by efficient bureaucracies. According to Paldam (2003), Asian tigers have small public sectors but high levels of public intervention, making the state both efficient and effective. Similar contexts do not prevail in the rest of the developing world, especially Africa. For example, Singapore is an economy based on the service industry, with an insignificant primary industry and a small manufacturing sector. Evans (1998) says the existence of different cultural and political contexts makes it difficult to transfer the Asian tigers’ experiences and policies to other nations. In effect, you can transfer policy but not institutions. Furthermore, the Asian institutional forms were homegrown and therefore, are specific to each country’s needs

(ibid). Perhaps the question is how other economies can learn from each Asian economy and borrow strategies that produce relevant growth factors in their own contexts.

CHAPTER 12. IMPLICATIONS AND OPPORTUNITIES

The literature and experiences in this paper indicate that over the years, Sub-Saharan countries have gone through bouts of rapid economic growth, stagnation, and in some cases, deceleration. This has resulted in economic development that has only been consistent in a few countries while other more consistent regions such as Southeast Asia have overtaken and passed Sub-Saharan Africa. The statistics indicate that in the 1960s and 1970s, the average Sub-Saharan per capita income was almost twice that of East Asian and Pacific countries, but fell to less than 70 percent of the same group of countries in the 1990s. Although both Asia and Africa were recipients of vast development aid flows, Sub-Saharan Africa has the added advantage of having vast natural resources that should have enabled it to be one of the world's most developed regions by now. Instead, the continent's development has lagged behind all other regions. Today, Africa is the only region with most countries which could not meet the MDG on halving poverty by 2015 (end of the Agenda). The key question then is still about what explains the differences between Africa and East Asia in macroeconomic policy leading to sustainable growth.

Main drivers for growth

The evidence suggests that what differentiates Sub-Saharan Africa from East Asian economic development processes and growth is that the progress of the second has been initiated, nurtured, and reinforced by developmental states whose development stewardship was anchored on a clear transformative agenda centered on economic restructuring that supported manufacturing and industrialization to absorb labor, ensuring broad-based development. A “developmental state” does not necessarily refer to a state-dominated economy. Rather, it is an economy shepherded and supported by the state. For instance, Asian states such as Japan and South Korea had to intervene to stimulate and promote economic development. This interventionist posture enabled them to establish clear economic and social objectives and influence the economic development direction and pace.

Admittedly, the immediate post-independence African country had a predilection toward building some form of developmental state. The adoption and implementation of ESAPs in the 1980s and 1990s, however, eventually derailed these objectives and interventionist agendas. The rolling back of the state's influence on the economy when the countries' private sector was tiny, human resource development at infancy, and states' grasp of national resources soft left several African countries vulnerable to economic decline and crisis. The consequence was a prolonged economic crisis and stagnation period from the 1970s to the 1990s, which some refer to as Africa's “wasted decades.”

In this paper, we concede that efforts were made in the past to transform Sub-Saharan economies, especially through structural adjustment programs, but the outcomes have been mixed. In a few countries such as Tanzania, Ghana, and Egypt, these programs realized noticeable benefits, but in many other cases, the programs were a big failure. We believe that the ESAPs' failure demonstrates that reform and economic transformation is not just a matter of finding the best technical design solution and applying it. Instead, it entails restructuring policies, institutions, and organizational arrangements, taking into account the local socioeconomic and political environment. As Andrews (2013) points out, the imperative is to come up with a comprehensive macroeconomic policy and institutional framework that then guides politically committed reform implementation.

Almost all the case studies indicate that addressing the growth challenge is fundamental to poverty reduction. Though economic growth alone is by no means sufficient for eliminating poverty, it is a necessary condition and requires massive, multisectoral investment. Sub-Saharan governments also have to deliberately craft policies targeted at ensuring growth with equity. In almost all of this paper's case studies, corruption and inequality of income and wealth remain "wicked" problems that every government has to confront. Sako and Ogiogio (2002), for example, draw our attention to this challenge when they point out that 19 of 20 countries that rank lowest in the UNDP Human Development Index are African. Nowhere is the challenge of good governance, poverty reduction, and inequality greater than in Africa.

Although scholars are divided over the causal linkage between good governance and economic growth, we contend that good governance remains key for Sub-Saharan development. Failed Sub-Saharan states' experiences show that bad policy can destroy growth chances. For example, in countries such as the Democratic Republic of the Congo and Zimbabwe where governance is poor, economic growth has been hampered while in Botswana, Ghana, and South Africa, where democracy is thriving, reasonable growth has been realized. This suggests that improving Sub-Saharan governance is going to be vital for progress in the coming decades. Such improvement must address issues such as key stakeholders' participation in national development. It must also address the institutions by which African countries exercise authority for the common good of the continent's people, and transparency and accountability in the allocation and use of public resources and public policy management. It must also address how governments and leaders are selected and replaced, governments' capacity to effectively formulate and implement sound policies and programs, and the respect of citizens and the state for the institutions that govern economic and social interactions.

The discussions in this paper also show that structural transformation requires innovation. The Asian tigers' experiences bear testimony to this. So Sub-Saharan economies need good knowledge of industrial value chains and structures to effectively transform. Innovation helps generate the knowledge needed to build the capacity to produce more sophisticated high added-value products. Sub-Saharan Africa needs to strengthen and modernize its science and technology capability.

A related transformation driver is diversification. Evidence suggests that most Sub-Saharan countries suffer from a lack of economic diversification, relying mainly on primary commodities. For example, UNECA (2012) says that Africa is still overly dependent on primary commodities for food, exports, and income such that productivity lags far behind the phenomenal progress in Asia and Latin America. This is clearly the case with Botswana, Nigeria, and Ghana, well-performing economies that rely mainly on one or two commodities to drive national growth. They also lack the capacity to locally process the commodities they produce, even though Botswana and Egypt have taken steps to reverse this trend.

Most African countries and the Sub-Saharan case studies profiled in this paper are still mainly agrarian-based (even Egypt, which is mostly desert). The evidence suggests that insufficient attention has been paid to agriculture and rural development in most Sub-Saharan countries, even though it is the sector with the "lowest hanging fruits" for poverty reduction and job creation. Evidence from Southeast Asia indicates that rural development and agrarian transformation were used as the stepping stones to higher growth. From the international literature and empirical experiences such as global recession events, there are clear controversies surrounding the impacts of globalization and international aid.

Over the years, aid effectiveness has become a topical issue. We are aware that some aid programs fail dismally, and some of those failures are avoidable. We are however, not convinced that stopping aid completely is the way to go. We believe that there is room to improve the value for aid money and stimulate more substantial growth. For Africa to become a recognized global growth pole, it has to sustain growth for a relatively long period. The experience so far has been that Sub-Saharan countries realize substantial growth for a few years and then decelerate or regress a few years down the line. Long-lasting structural transformation has to be accompanied by increasing output and trade, diversifying the core factors of national economic production, broadening and strengthening the infrastructural and human resource base, and strengthening and modernizing research, science, and technology capabilities. In such an endeavor, developing the right policies and institutions matters.

Whatever incentives are put in place to enable innovation and greater production would not work or would generate perverse results in the absence of adequate policies and institutions. For instance, 2008's global economic crisis has demonstrated that allowing financial liberalization to run ahead of proper financial regulation is an invitation to disaster. Institutions may be weak because rules are simply absent, rules are suboptimal, or useful rules are poorly enforced. The evidence also indicates that countries with a high score on the Ibrahim Index of African Governance, for instance, are likely to score higher in public sector management and institutions (governance) cluster scores. Indeed, most national growth success cases seem to have relied on credible macroeconomic institutions and policies. Credible institutions' absence in Nigeria, for instance, has been blamed for rampant corruption and the lackluster growth performance over the years.

National leadership committed to the development agenda stands out as one of the main growth drivers. Examples of such leadership include Park Chung Hee as the undisputed leader of South Korea's growth story and Lee Kuan Yew of Singapore. Both are credited with introducing growth-enhancing policies in top-down ways, and forcing implementation by edict. We reiterate that developmental state leaders put economic development as government policy's top priority, and are able to design effective instruments to promote such a goal. This suggests that the state still lies at the center of the African socioeconomic transformation question, particularly through its control of the national policy formulation and institutional reconfiguration agenda.

It is our belief that some kind of champion (leader) or group of champions committed to national economic growth and development are a requirement for Sub-Saharan progress. Scholars repeatedly point out that the experience with extended-term authoritarians in Sub-Saharan Africa is commonly not positive for growth. These leaders are prone to use their power for personal gain and leave their governments dysfunctional when they die or are forced out (Lichtenstein and others 2006). The key question then is how Sub-Saharan leadership could be reengineered to support a developmentalist agenda and vision.

A related pillar for meaningful growth is the need for prudent macroeconomic management. Evidence in this paper shows that judicious macroeconomic policies and supportive institutions can stimulate Sub-Saharan growth even if external conditions do not improve. In the case studies, robust fiscal policies and debt management strategies appear crucial. In all cases, whenever fiscal policies and other macroeconomic factors are not sufficiently addressed, a country begins to experience less growth. Incidentally, political instability and uncertainty, whether caused by political violence or governmental change, is associated with lower growth. Macroeconomic volatility and political unpredictability also tend to discourage

private sector investment, and hence, growth. The Arab Spring revolution's impact in Egypt reflects this orthodoxy, especially given the lower growth rates in the region since 2011.

Other Sub-Saharan development priorities for consideration

The literature review and empirical experiences to date show that in addition to sound macroeconomic policy and institutional planning and implementation, there are also many other variables and thematic areas that governments have to consider to catalyze growth. In this paper, we identify seven such variables that we believe have a direct bearing on Sub-Saharan economies' performance and that if not properly addressed, the region will continue to lag behind other regions in economic growth. These are: agriculture; STI; FDI; international aid; governance; the resource curse; and inclusive growth. Since these are not this paper's main focus, we will just briefly articulate how we understand each of them in the Sub-Saharan context. We also note upfront that each of these variables' influence on the economy differs from country to country.

Foreign direct investment and its Sub-Saharan impact

Foreign direct investment (FDI) refers to net private finance inflows by foreign investors (Letto-Gillies 2012). It is the sum of long-term and short-term capital as shown by a country's balance of payments. It usually involves direct investment in specific projects, or participation in management, joint-ventures, transfer of technologies, and expertise (Bhattacharyya and others 2012). Many scholars agree that FDI enhances national and local economic growth by providing investment capital and creating jobs (Arbache and Page 2007; Moss 2009; Thorbecke 2014). According to Chuhan-Pole and others (2014), FDI to Sub-Saharan Africa expanded more than 30-fold in the last 20 years, 7.5 times faster than in high-income countries and nearly 10 times faster than global GDP. UNECA-OECD (2014) says that almost all African countries have incentives to attract FDI. They have signed over 1,300 bilateral investment treaties and other international investment agreements with the main aim of protecting foreign investors.

Efforts by regional economic communities to improve investment conditions at the sub-regional level have also been substantial and effective. Private capital flows to Africa have quadrupled in the past 10 years, reaching an estimated 4 percent of regional GDP with FDI accounting for the bulk of inflows. In 2013, FDI accounted for almost 70 percent of total net private capital flows to Africa, with \$45 billion to Africa (excluding North Africa). There has also been sustained growth in intra-African investment flows, consistent with efforts toward deeper regional integration (ibid). For host countries in Africa, FDI is not only expected to deliver investment and employment, but also to open up new economic opportunities through deeper global trade integration (Chuhan-Pole and others 2014). Borensztein and others (1998) tested FDI's effect on economic growth in a cross-country regression framework, using data on FDI flows from industrial countries to 69 developing countries over the last two decades. Their results suggest that FDI is an important vehicle for the transfer of technology, contributing more to growth than domestic investment.

But the extent to which African countries benefit from FDI depends on whether they are able to capture the productivity-enhancing knowledge and technology "spillovers." Research by Farole and Winkler (2014) suggests that Sub-Saharan Africa's experience achieving FDI spillovers has been largely disappointing. At the problem's heart is that linkages between foreign investors and local economies—especially through supply chains—have remained limited in Africa. In previous decades, FDI has been a main economic growth instrument in many parts of the world. But this has not always been the case in Sub-Saharan Africa. Africa's

inability to attract sufficient FDI over the years is troubling as it represents a substantial opportunity cost in missed capital for investment, increased industrialization, employment generation, managerial skills, and technology transfer (Asiedu 2002). The UN's Millennium Declaration calls for greater FDI to Africa, and several scholars have written extensively on the subject, emphasizing the need to create an appropriate national investment climate and demonstrating that this is an issue that will remain on most Sub-Saharan countries' development agenda for a long time (Thorbecke 2014).

More current perspectives based on observation of historical development trends suggest that FDI is indeed a critical part of rapid economic growth, and Sub-Saharan countries should aspire, in the long run, to join the club of countries attracting substantial high-quality, export-oriented FDI (UNCTAD 1999; Morisset 2001; Pigato 2001). To achieve this may require radical changes to national laws and providing FDI incentives; lowering business transactional costs particularly in relation to the cost of setting up a business and dealing with bureaucratic slowness; and improving the policy and legislative regime for new businesses (Pigato 2001). The image of Africa as an FDI location has not generally been favorable. Africa has too often been associated with civil unrest, starvation, deadly diseases, and economic disorder, giving many investors a negative picture of the continent (UNCTAD 2012). Although this picture is not based on fiction, and in some countries these unfortunate conditions prevail, it is not a true African picture. A few Sub-Saharan countries have already generated international investors' interest by improving their business environment, suggesting that they can become competitive internationally and attract FDI on a sustainable basis (Morisset 2001).

FDI remains a main area requiring attention from both the local and international policy communities. Although it might have its challenges and disadvantages (over-dependency on foreign capital is one of the major criticisms), many development practitioners and scholars still agree that FDI plays a critical role in a country's development trajectory (Basu and Srinivasan 2002; Kinoshita and Nauro 2003; Dupasquier and Osakwe 2006). FDI enables increased industrialization, employment creation, and transfer of modern technology and managerial skills. The institutional arrangements for realizing substantial increases in FDI seem to be often based on specific policy instruments and the political will to regularly implement and monitor their performance. A key question is whether or not the Sub-Saharan FDI environment provides an appropriate incentive framework and competitive factors of production adequate to attract FDI in a globalizing world.

Agriculture and food security

The role of agriculture in national economic development and its poverty alleviation potential in Sub-Saharan Africa was acknowledged even during colonial times. It therefore makes sense that Sub-Saharan countries take this into account when designing their national macroeconomic policies, and sufficient scholarship focuses on this national development aspect. Buluswar and others (2014) articulate in detail some of the main issues in this domain. They point out that the Green Revolution has led to a dramatic increase in Southeast Asian food production, while Sub-Saharan Africa has lagged behind. It started in the 1960s and is widely considered one of the most successful large-scale programs to help alleviate poverty and improve food security in international development history (UNDP 2014).

How Africa has missed this opportunity has baffled many analysts. By combining improved seed varieties with intensive irrigation and fertilizer use, strengthening local institutions, and a range of major policy reforms, several Asian countries were able to make substantial and lasting food production gains. Southeast Asian countries, in aggregate, have tripled their

agricultural yields since 1960. Sub-Saharan countries in the same period did not substantially increase agricultural productivity (Hazell and Ramasamy 1991; UNDP 2014).

Some Sub-Saharan smallholder farmers lose a substantial portion of their produce, even before the food is ready to be consumed. The primary reason is the lack of appropriate technologies for storage, transportation, and handling the products (FAO 2011). The UNDP (2012) observes that since 2000 Africa has experienced several acute food insecurity episodes, with immense loss of lives and livelihoods. This is a clear indication that agriculture and food security must remain firmly on the agenda of macroeconomic planning and development discourses. A key factor that has also kept agriculture on the public policy agenda for many decades is most Sub-Saharan societies' socioeconomic structure. More than 60 percent of Sub-Saharan Africans live in rural areas, more than half of whom rely on agricultural production but are also below the poverty line (UNDP 2014). Most Sub-Saharan smallholder farmers are subsistence farmers, their main source of food what they grow.

The lack of proper irrigation is a critical constraint to increasing Sub-Saharan smallholder farmers' agricultural productivity. With proper irrigation, using both surface and ground water when possible, not only can farmers improve their crop yields, but they can also diversify their portfolio toward higher income crops and increase the harvests in a given year (FAO 2014). But Sub-Saharan smallholder agriculture is largely rain-fed, resulting in a limited window for farmers to irrigate their fields (IWMI 2007). Thus, challenges and opportunities faced in efforts to out-scale access to irrigation need to be understood and articulated in national and local strategic planning. In addition, most of the Sub-Saharan labor force works in agriculture and related activities (World Bank 2014; WFP 2014). In essence, Sub-Saharan Africa lives off its land, and more than 227 million Africans work on the land, which too often fails to provide their needs (AfDB 2014; UNDP 2014). This suggests that the expansion of agricultural production (especially in smallholder farming settings) can cut poverty quickly, raise the incomes of rural farmers, and reduce the price of the poor's food.

The World Development Report of 2008 makes a convincing case that agriculture is many Sub-Saharan countries' only possible growth engine (World Bank 2008). Other experts agree (Gollin 2010). The key question then is what Sub-Saharan governments can do to accelerate agricultural production. The evidence suggests that a changing policy environment and increased attention to agriculture has had a substantial effect on overall productivity growth based on technical efficiency gains in some countries (Diao and others 2010; World Bank 2013). For example, in recent decades, countries such as Ghana, Botswana, and Liberia have reported rising shares of agricultural employment together with significant GDP growth (Buluswar and others 2014).

Economic growth coming from Sub-Saharan agriculture has also, on average, been shown to be more poverty-reducing than other sectors' growth (Christiaensen and others 2011). A study by Diao and others (2012) confirms that greater poverty reduction is generated by increasing smallholder staple crop productivity, as opposed to export crops. Although export crops typically have higher value and growth potential than food crops, the second is usually more effective at generating economy-wide growth and reducing national poverty. This follows from their larger multiplier effects and larger growth elasticities of poverty. For instance, a 1 percent growth in agriculture driven by cereal or root/tuber productivity growth generates a larger decline in national poverty than a 1 percent growth in agriculture driven by export crop growth.

Scientific and technological breakthroughs for food security and agricultural development have occurred in various parts of the world, and some are being tested or rolled out in Sub-Saharan Africa. According to Buluswar and others (2014), these include new methods to produce fertilizers to replace current processes, which are extremely capital intensive and have substantial environmental footprints; affordable off-grid refrigeration for smallholder farmers and small agribusinesses; low cost systems for precision application of fertilizers and water; low cost (under \$50) solar-powered irrigation pumps; affordable herbicides or other mechanisms to control weeds; and new seed varieties tolerant to drought, heat, and other emerging environmental stresses. All these and other advances can accelerate agricultural production if they are adopted widely across African countries.

It is beyond this paper's scope to provide a full picture of the Sub-Saharan agricultural development terrain. But given agriculture's centrality to Sub-Saharan food security and economic growth, the need for a Sub-Saharan green revolution is no longer a matter for debate, but rather of how to implement it. Evidence indicates that Sub-Saharan governments need to focus on factors that can improve food production and smallholder farmer incomes, with special attention to increasing yields, adoption, and spread of innovative technologies in context, preserving harvests, improving market access, reducing workload (especially for women), and making agriculture more sustainable (AfDB 2014). These issues are also intimately related to the need to enhance access to irrigation, improve post-harvest handling and storage, strengthen agricultural extension services, pay attention to the crop-livestock mixed farming scenarios and inherent interlinkages, and ensure sustainable agriculture that leaves minimum environmental footprints.

If the assessment by UNECA-OECD (2014) is anything to go by, then there is still cause for concern across the continent. Despite 37 countries signing the Comprehensive Africa Agriculture Development Programme compacts by late 2013, agriculture remains neglected in government budgets and falls well short of Maputo commitments in most countries. In 2010, of the 44 countries with available data, only nine had reached or exceeded the 10 percent target. Half had reached 5 percent, with a continental 4 percent average. Further, since the 2008 food price crisis, countries already allocating more than 5 percent have increased budgetary proportions, while those allocating less have tended to reduce it further.

There is evidence to show that many key Sub-Saharan players are aware of the importance of increasing agricultural production even though the exact options to pursue in context may vary from country to country and, in some cases, are not even readily apparent. By continuing to invest in rural infrastructure (such as rural roads, irrigation, electricity, storage facilities, access to markets, conservation systems, and supply networks), countries can increase their agricultural productivity and competitiveness (AfDB 2014). The African Union, through the New Partnership for Africa's Development and the Comprehensive Africa Agriculture Development Programme, has also recognized agriculture's centrality to food security, economic growth, and overall national development. Although efforts in that direction should continue, it is important that Sub-Saharan governments double their efforts to ensure the success of the agricultural revolution in their own countries.

Science, technology, and innovation

Across the world, the rise in popularity and the spread of the "knowledge economy" have opened nearly all societies to increased pressure from calls to attain global productivity standards in science, technology, and innovation (STI). The Rio+20 Conference reaffirmed STI's importance as a part of a knowledge-based global economy. In most parts of the world, STI has already been recognized as a "game-changer" in efforts to address a wide spectrum

of challenges that have a direct bearing on local and national socioeconomic transformation, poverty eradication, and sustainable development. Its utility in addressing challenges in sectors such as agriculture and food production, industry, energy, and water resources is no longer in question and theories of development that can advance Africa's real structural transformation today rather than tomorrow are much needed.

Examples abound demonstrating that STI is crucial for Sub-Saharan Africa. *Africa in Fact* (2014) chronicles some baffling scenarios that, nevertheless, bring sharper focus on STI's developmental role. For example, Nigeria, the world's sixth-largest crude oil producer, exports more than 80 percent of its oil but cannot refine enough for local consumption. In 2013, it spent about \$6 billion subsidizing fuel imports. In such apparently baffling scenarios lies one of Africa's greatest challenges—and opportunities. The continent possesses 12 percent of the world's oil reserves, 40 percent of its gold and between 80 percent and 90 percent of its chromium and platinum, according to a 2013 report from the UN Conference on Trade and Development (UNCTAD 2013). Africa is also home to 60 percent of the world's underused arable land and has vast timber resources. Yet together, African countries account for just 1 percent of global manufacturing (ibid).

This dismal state of affairs creates a cycle of perpetual dependency, leaving African countries reliant on the export of raw products and exposed to exogenous shocks, such as falling European demand (*Africa in Fact* 2014). Without strong industries in Africa that use STI to add value to raw materials, foreign buyers can dictate and manipulate the prices of these materials to the great disadvantage of Africa's economies and people (ibid). And without investment in national STI systems, Sub-Saharan economies will continue to lag behind.

The term “knowledge economy” was coined in the 1960s to describe a shift from traditional economies to ones where the production and use of knowledge are paramount. Academic institutions and companies engaging in research and development are important foundations of such a system. The World Bank (2007) identifies four pillars that form the basis for a robust knowledge economy. These include: institutional structures that provide incentives for entrepreneurship and the use of knowledge; skilled labor availability and good education systems; access to information and communication technology infrastructure; and a vibrant innovation landscape that includes academia, the private sector, and civil society. Also important are those who apply or use the knowledge generated to improve economic production systems (Cimoli and others 2009).

Once knowledge has been picked up by these central brokers, employers and workers in more traditional fields may begin using information to improve their work environment, for example the supply chain efficiency of a small company or the harvesting of farm crops. Underpinning it all are information and communication technologies (ibid). In a world where fast access to information is vital, Internet availability becomes critical. Governments willing to push their nations toward a knowledge economy put technology development at their strategies' heart (Lee and Mathews 2014).

Innovation plays several roles in development in general and in sustainable transition in particular (Lee 2005). First, innovation can be a way to sustain Sub-Saharan economic growth where short-lived growth seems to be the norm rather than the exception. It can promote sustainability by offering new and more efficient environmentally-friendly modes of economic production and consumption. Second, innovation can reduce hunger and poverty by helping to increase agricultural productivity, lowering food prices (Juma 2011). So advancing a

nation's capacity in innovation and its effective application in economic activities are essential factors for expanding people's capabilities and achieving sustainable development.

Most African countries lack innovation capabilities, leading to "capability failure." This seems to be a more serious problem than market failure (Metcalf 2005; Cimoli and others 2009; Lee and Mathews 2014). Although some late-comer economies have been catching up with remarkable success, many have not been able to join the catch-up club. Information and communications technologies, especially in mobile telephones, have demonstrated the power of such opportunity windows. Other emerging platforms such as genomics, biopolymers, and new materials offer similar windows of opportunity. In fact, the phenomenon of exponential scientific advancement and technological abundance provides Africa with more windows of opportunity than its Asian predecessors (Diamandis and Kotler 2012). But scholars in the STI field tend to stress that "catching up" in science and technology is not easy.

There are many challenges that it involves, and so countries that do not succeed in developing the appropriate capabilities and other complementary factors are likely to continue to lag behind in economic development (Mkandawire 2011; Fagerberg and Srholec 2007). So to satisfy a range of developmental demands on national government systems, Sub-Saharan countries must ensure a minimum of scientific and technological capability by establishing or strengthening national research capacity in various fields (Thulstrup 1992). Key to capacity building is the need for countries to improve the enabling environment for innovation. This includes addressing leadership needs, career structures, critical mass, infrastructure for research, information access, and interfaces between research producers and users (Lansang and Dennis 2004). In Sub-Saharan Africa, the landscape is rapidly changing in a positive manner though. For example, the African countries with official strategies to improve Internet access rose from 32 in 2007 to 48 in 2011 (Lee and others 2014). This suggests that more Sub-Saharan countries are beginning to embrace STI as a knowledge economy stepping stone. But greater policy intervention is needed to expedite the diffusion of new technologies while supporting local research and innovation systems.

We assume that the success of efforts to build Sub-Saharan research capacity is ultimately dependent on political will, adequate financing, and the implementation of a responsive capacity-building plan based on a situational analysis of the resources needed in the sector. We argue that institutionalization of national STI systems is the main ingredient by which the needed scientific institutions can develop in a context characterized by various policy, organizational, economic, and political constraints and opportunities. These determine the ultimate performance of the scientific enterprise.

We view research institutions as the instruments through which the knowledge economy finds better ways of getting things done throughout the country (Lundvall 2005). Yet, the huge disparities in research capacities across Sub-Saharan countries and the fragmentation of knowledge may hamper the capacity of research to respond to the challenges of today and tomorrow (ibid). For Sub-Saharan STI to be robust enough, sufficient capabilities have to be inculcated in the overall system. This suggests that national governments should invest in STI by availing resources to various parts of the system (McGann and Weaver 2002; Mbadlanyana and others 2011). A closely related observation is that industrialization is the principal route to a "developed nation" status and the key route to industrialization is through science, technology, and innovation (Africa in Fact 2014).

Good governance

In recent years, one of the development paradigms that have gained currency puts issues of “governance” at the heart of understanding development. This is a perspective that assumes that poor countries are poor because they have bad governance, and the countries that experience significant economic growth do so mainly because they improved their governance systems and institutions. Such a development view is now enshrined as a World Bank mission. Although there are many definitions of the concept, in this paper we adopt the UNDP’s (1997) definition that defines governance as broadly referring to how different actors and groups in society share power and decision making. It comprises mechanisms, processes, and institutions through which citizens and groups articulate their interests, exercise their legal rights, meet their obligations, and mediate their differences. It is a concept referring to how civil society and government interrelate and how that relationship might change in ways that foster better governance. Governance comprises different dimensions of the institutional framework guiding society such as enforcement of contracts, rule of law, quality of bureaucracy, absence of corruption, and democratic accountability, among others (Calderón and Fuentes 2012).

In trying to account for Africa’s growth tragedy, a number of scholars have focused on whether or not there is a direct causal linkage between good governance and rapid economic growth (Collier and O’Connell 2008; Plateau 2009; Radelet 2010; Gualdani 2012). This is a debate that has raged on for several decades and remains unresolved today. Typical signs of poor governance include national regulatory regimes that severely distort productive activity and reward rent-seeking; regimes of ethno-regional redistribution that compromise efficiency through resource transfers to sub-national political interests; regimes of inter-temporal redistribution that transfer resources from the future to the present; and state breakdown, which tends to be characterized by civil war or marked political instability (Fosu 2012; Plateau 2009).

Although some studies have found that democracy has a positive effect on economic growth, other studies suggest a negative relationship or no relationship at all. Similarly, although most studies have found that economic growth has a positive effect on democracy, there is no consensus on this issue, particularly at low levels of economic development (Narayan and others 2011). Dzhumashev (2014) analyzed how the quality of governance, the size of public spending, and economic development affect the relationship between bureaucratic corruption and economic growth. The analysis shows that the interaction between corruption and governance shapes the efficiency of public spending, determining the growth effects of corruption. The framework that he used incorporates the idea that the ability of the government to contain corruption is driven by governance quality. Statistical evidence generated by Butkiewicz and Yanikkaya (2006) supports this idea by demonstrating that the correlation between corruption and different measures of the quality of governance is consistently negative. Second, the quality of institutions also drives the efficiency of the public sector, and hence it determines the optimal size of public spending.

In trying to explain the controversy surrounding poor governance, Plateau (2009) traced poor governance’s causes and concluded that in Sub-Saharan Africa, since colonial times, the state has often been perceived as alien to the citizens, and modern statutory law is not taken seriously if it runs counter to the local customs. Thus, a universe of personalized relationships remains dominant throughout the region, with its attendant obligations and solidarity ties that pervade socioeconomic structures. It is therefore not surprising that, in these conditions, local chiefs and “big men” have learnt that “political power is absolutely crucial for economic

advancement” (Kennedy 1988: 55). In addition, they often abuse their privileged position by replicating the methods of colonial authorities, which were particularly brutal against the local citizens in the African interior (Berman and others 2004). Thus, the pervasive role of localized and personalized modes of political control, combined with an inordinately strong measure of autocratic paternalism, is a critical feature of colonial policy that has had a profound and long-lasting impact on the social and political system of independent African states (Plateau 2009).

Through state controlled marketing boards, public enterprises, agricultural cooperatives, and a host of rural development projects, post-colonial states have pursued the earlier policy aimed at concentrating control of rural surpluses and national resources in the hands of bureaucrats, politicians, and other influential persons connected to those in government (Bates 1981; Plateau 2000). Thus, for example, rural cooperatives distributing cheap credit and subsidized agricultural inputs are typically formed by local units of the governing party so that access to such advantages is made contingent upon political loyalty. What then obtains is the logic of “politicized wealth accumulation” (Dool 1998).

In such a context, “successful people” are those who are more politically active rather than economic entrepreneurs who divert their creative energies into rent-seeking activities. Resources for public spending are reduced when dictators siphon wealth from the budget for personal consumption or for paying their own supporters. Indeed, under these conditions, Africa’s dictators have been extremely successful, with several rulers managing to become exceptionally wealthy and stay in power for very long. There is an inverse relationship between the leaders’ personal success in wealth accumulation and their countries’ economic success (Bueno de Mesquita and others 2003).

Soon after the 1990s, a few Sub-Saharan countries recorded improvements in democracy, good governance, growth, and income distribution. According to both the Polity IV and Freedom House index, the number of democracies rose from three (Botswana, Mauritius, and Namibia) in the early 1990s to 20 (of 44 countries) in 2008 (Gualdani 2012). GDP growth per capita—negative from 1980 to 1995 in two-thirds of the countries—turned positive in nearly 80 percent of them from 1995 to 2010 (Cornia and Uvalic 2012). During this period, the distribution of income also improved in 60 percent of the 21 countries with reliable information. Though these gains concern less than half of the Sub-Saharan countries, they are still encouraging. Meanwhile, some of the traditional problems relating to poor governance, slow economic growth, and political instability continue to grip the rest of the continent.

Illuminating as the foregoing discussion is, scholars who question the economic benefits of democracy and good governance still abound (Sachs and others 2005; Collier and O’Connell 2008). For example, van Donge, Henley, and Lewis (2012) argue that good governance is not a precondition for successful economic transformation. Policy differences, they write, not good governance, explain why most Southeast Asian countries—but no comparable African nations—achieved sustained, pro-poor growth over the 50 years since 1960. Southeast Asian countries made some progress toward democratization only after achieving substantial economic transformation.

Although there are many compelling arguments that dispel the causal linkage between good governance and growth, for purposes of this paper, we take the firm position that in Sub-Saharan Africa, good governance and democracy seem to matter for economic growth. Our position converges with that taken by Masaki and Van de Walle (2014) who argue that enough empirical and theoretical reasons exist for us to believe that better governance and

democratization in Africa since 1990 is associated with faster economic growth and that this “democratic advantage” increases over time, as democratic consolidation takes place. We are also convinced that the disastrous Sub-Saharan economic mismanagement of the 1970s and 1980s had many causes, but it does suggest that the region’s authoritarian governments, unlike those of East Asia, were not adept at promoting economic growth (ibid). So it is possible that the authoritarian governments persisting in the Sub-Saharan Africa region today might perform better, but in the absence of clear reasons to convince us and the rest of the world, it seems more likely that a democratic advantage is present on the continent, at least in the long run.

In addition, and based on the literature evidence, it is our conviction that what is important is not only whether Sub-Saharan countries adopt and implement the basic tenets of good governance. It is also important for those in government and various other key sector actors of a particular country’s economy to respond positively to the opportunities and constraints they face when making choices about macroeconomic policies and their implementation. They have to address good governance imperatives and the institutional context that their economy thrives in. The end goal of rapid economic growth should be kept in sight, with clear commitments to specific programs that reflect the state’s developmental nature.

Inclusive growth

From the literature explored and case studies in this paper, Sub-Saharan Africa hosts some of the world’s most unequal countries (especially South Africa and Nigeria). The benefits of growth have not spread widely to most of the people who were poor at independence and are still poor today. We are primarily concerned with the concentration of financial resources and wealth in the hands of the few, which can affect political, social, and cultural processes to the detriment of the most vulnerable. As such, we use the term “inequality” to refer to forms of wealth and income inequality because in recent decades, inclusive growth has become the new paradigm and strategic recipe in the development community (Thorbecke 2014).

Social scientists seem to have reached some consensus on the need for inclusive growth even though they may not agree on the concept’s exact definition. They have also identified the key elements constituting inclusive growth. For instance, Lanchovichina and Lundstrom (2009) say that rapid and sustained poverty reduction requires inclusive growth that allows people to contribute to and benefit from economic growth. Fourie (2014) says that internationally, the development of this concept in the past decade sprang from attempts to define a broader concept of economic growth that incorporated equity and the well-being of all sections of the population—notably the poor, with poverty being considered either in absolute terms (poverty reduction) or relative terms (the reduction of inequality). Terms such as pro-poor growth, broad-based growth, or shared growth signpost these attempts (ibid).

Rapid economic growth is often part of the equation in attempts to fully conceptualize inclusive growth. Economic growth is necessary for substantial poverty reduction, but for this growth to be sustainable in the long run, it should be broad-based across sectors, and inclusive of a large part of the country’s labor force and citizens (Ravallion 2001; OECD 2008). This conceptualization of inclusive growth implies a direct link between the macro and micro determinants of growth. The micro dimension captures the importance of structural transformation for economic diversification and competition, including creative destruction of jobs and firms (Lanchovichina and Lundstrom 2009). A more recent definition from researchers at the UNDP includes reducing unemployment, poverty, and inequality as some of the necessary ingredients (Fourie 2014).

The literature on inclusive growth has been flourishing in the last few decades (Ravallion 2001; Borat and Kanbur 2006; OECD 2008; Finn and others 2014). One of the most comprehensive and concise definitions of the term is from the Indian Planning Commission, which defined it as “growth that reduces poverty and creates employment opportunities, access to essential services in health and education, especially for the poor, equality of opportunity, empowerment through education and skill development, environmental sustainability, recognition of women’s agency and good governance” (Government of India 2008: 2). In this paper, we adopt the definition by the AfDB (2012) that views inclusive growth as economic growth that results in wider access to sustainable socioeconomic opportunities for more people, regions, or countries, while protecting the vulnerable groups. The AfDB further emphasizes that all of this should be done in an environment of fairness, equal justice, and political plurality.

The literature indicates that there is considerable theoretical and empirical evidence to support the assertion that inequality is bad for growth. Naidoo (2013) for instance, carried out an extensive assessment of inclusive growth in developing countries and concluded that in unequal societies it is much harder to develop the institutions, norms, mores, and conventions required for economic growth. In addition, social mobility slows to a crawl in unequal societies. This undermines the incentives for hard work and effort and weakens a country’s human potential. Inequality also damages human capital formation in hard to repair ways (Ranieri and Ramos 2013).

It follows that any growth strategy should include elements that address inequality explicitly. Market fundamentalism and the capture of power by economic elites seem to represent two powerful economic and political drivers of inequality, which go a long way to explain the extremes seen today (OXFAM 2013). Over the last three hundred years, the market economy has brought prosperity and a dignified life to hundreds of millions of people across Europe, North America, and East Asia. But without government intervention, the market economy tends to concentrate wealth in the hands of a small minority, increasing inequality (Piketty 2014).

We adopt the position that income inequality remains a key Sub-Saharan issue in addition to other components such as human capital development and employment that are often articulated by theorists. Since the 1950s, the conception of development has evolved through several paradigms and phases. Today such conceptions directly point to inclusive growth as a highly multi-dimensional concept that contributes to human development and poverty reduction. In that sense, it builds on and expands on the basic needs doctrine (Donaldson 2014). Ranieri and Ramos (2013) argue that inclusive growth implies participation and benefit-sharing. Participation without benefit-sharing will make growth unjust, and sharing benefits of rapid economic growth without participation will make it a welfare outcome. Fourie (2014) concludes that when defined in this way, inclusive growth combines the increased participation of poor and marginalized people in economic processes, particularly through employment, with increased sharing in the benefits of growth realized through rising incomes that accrue to the poor as well as increased social welfare benefits.

Quantitative measurements of Sub-Saharan inequality and the rest of the world reveal worrisome statistics. An OXFAM study (2013) indicates that across the world, the gap between the rich and the poor is rapidly increasing. For instance, in South Africa, inequality is greater today than it was at the end of Apartheid. World Bank data shows that South Africa’s Gini coefficient was 0.56 in 1995 and 0.63 in 2009 and 0.70 in 2013 (Nsehe 2014). Recent estimates show that today, there are 16 Sub-Saharan billionaires, alongside the 358 million

people living in extreme poverty (ibid). In Sub-Saharan Africa, seven of 10 people live in countries where inequality is growing fast, and those at the top of society are leaving the rest behind (Milanovic 2009). Such statistics show the absurd wealth that exists alongside the continent's extreme poverty. They also speak directly to the reason why inclusive growth has gained so much currency over the years. Such statistics also help both theorists and practitioners to better conceptualize and articulate the need for inclusive growth.

In the few African countries where significant economic growth has been recorded, it has not managed to pull masses of people out of poverty (Edigheji 2005; ACET 2014). For example, knowing that countries such as Nigeria and South Africa have become middle-income economies does not reveal a whole lot about the widespread poverty, unemployment, and deep-seated inequalities endemic in both countries. We are aware that even though South Africa is now considered one of the middle-income economies, it experiences frequent service delivery protests, particularly in poor urban residential areas. The Arab Spring and similar uprisings in North Africa and other parts of Africa also suggest that although deep economic disaffection can exist side by side with apparent affluence for a while, eventually serious social tensions break out. Socioeconomic equality is therefore a basic economic development requirement. It is crucial for the preservation of social peace and harmony, which are important for economic growth and wealth generation. Deep inequality remains a time bomb in several Sub-Saharan countries.

Africa's high inequality raises critical questions about the poverty-reducing powers of its growth, as high inequality tends to dampen the poverty-reducing effects of economic growth (Ravallion 2001). In most poor Sub-Saharan countries, it is arithmetically almost impossible to reduce poverty without significant economic growth because then, there would be no one to redistribute from. Conversely, if everyone is poor, growth will reduce poverty regardless of how it is distributed. But some kinds of growth reduce poverty more effectively than others. The expansion of smallholder farming, for example, can cut poverty quickly by raising the incomes of rural farmers. Growth in labor-intensive manufacturing also raises the incomes of the poor (World Bank 2008). Ostry and others (2014) used a world income inequality cross-country dataset to examine the links between growth, inequality, and redistribution in 153 developed and developing countries. Their findings are consistent with earlier findings that demonstrated that lower inequality is correlated with faster growth in all countries. Moreover, growth episodes are likely to be longer and more durable if inequality in a country is lower (Donaldson 2014).

Although rapid economic growth seems a basic foundation for poverty reduction, it can never be assumed that it will automatically translate into inclusive growth. So economic growth will not be inclusive unless governments deliberately make it inclusive. This suggests that it would be a gross mistake to focus on national economic growth and assume that inequality will take care of itself, not only because inequality may be ethically undesirable but also because the resulting growth may be low and unsustainable (Thorbecke 2014). Thus, Sub-Saharan redistribution should be considered as part of the broader basket of solutions and national tools for promoting faster growth, and not just a desirable outcome to be sought through a redistributive growth path.

International aid

A substantial amount of literature directly addresses international aid's effect on economic growth in Sub-Saharan Africa and other regions. Although individual researchers' conclusions are varied, findings from our examination of the relevant literature are consistent with Young and Sheehan's (2014) conclusion that there is some consensus among scholars and

practitioners around the belief that, at best, international aid contributes positively to economic growth only in good policy environments and at worst, it is detrimental to a receiving country's development. By definition, international development aid is conventionally conceived as comprising of actual transfers of funds and technical assistance from one country to another to support government programs that benefit society (Herman 2013). For most recipient countries, aid is a valuable source of foreign currency with which to help reduce balance of payments deficits worsened by debt servicing and poor terms of trade.

Numerous aid assistance programs may bear results that are not necessarily amenable to strict quantification, and yet tangible benefits will be realized. It is in statistical calculations that scholars often find the numbers not adding up in a convincing manner. As a result, there has been considerable debate about aid effectiveness over the years. This is essentially a debate about whether or not aid is used in the manner in which it is originally designed to be used and the extent to which the design achieves optimum results. This is also a debate where consensus among scholars has been elusive. A study by Arbache and Page (2007) focusing on Sub-Saharan economic growth trends between 1975 and 2005 concluded that ODA as a percentage of GDP is similar in both good and normal times but falls during periods of growth decelerations. Per capita ODA, however, is higher during growth accelerations and lower during decelerations. The correlation analysis suggests that a higher share of ODA in GDP is associated with fewer growth collapses, and that countries with higher ODA per capita experience more economic growth accelerations and fewer collapses. These results indicate that ODA has been pro-cyclical, reinforcing arguments for greater predictability of ODA to underpin sustained growth.

One of the most controversial pieces of international aid scholarship is contained in Moyo (2009) in which the author argues that over the past 60 years, at least \$1 trillion of development-related aid has been transferred from rich countries to Africa. Yet real per capita income today is lower than it was in the 1970s, and more than 50 percent of the population—over 350 million people—still live on less than a dollar a day, a figure that has nearly doubled in two decades. In Moyo's analysis, poverty has continued to escalate, and growth rates have steadily declined as millions continue to suffer. Provocatively drawing a sharp contrast between African countries that have rejected the aid route and prospered and others that have become aid-dependent and seen poverty increase, Moyo illuminates the way in which overreliance on aid has trapped developing nations in a vicious circle of aid dependency, corruption, market distortion, and further poverty, leaving them with nothing but the "need" for more aid. International aid destined to help the average African ends up supporting bloated bureaucracies in the form of the poor-country governments and donor-funded NGOs. As a solution, Moyo chooses to debunk the current model of international aid and follow a more market-oriented development path (*ibid*).

There has been considerable backlash from critics since Moyo published her book and presented it in various fora. She is mainly criticized because of her recommendation to ditch international aid and reinforce the neoliberal approach to development where market forces prevail. For example, Bagwati (2010) argues that Moyo's proposal to debunk aid is both impractical (given current long-term commitments) and unhelpful (since an abrupt withdrawal of aid would leave chaos in its wake). Hilary (2010) argues that the most harmful aspect of aid dependency has been donors' use of conditionalities to impose their own political and economic ideologies on recipient countries rather than letting them define their own development agenda. Aid-dependent countries are often required to implement free

market reforms despite the acknowledged damage these policies could cause to their economies and, especially, to vulnerable sectors of their populations. Thus, the failure is not necessarily that of aid but rather, that of donor conditionalities (OXFAM 2013).

The aid effectiveness debate encourages scholars and practitioners to think deeper about the role of foreign aid in developing countries—its potential, its benefits, and its possible pitfalls. For instance, what can be done to ensure that it reduces poverty instead of being lost to corruption? How can developing countries ensure that aid does not lead to a culture of dependency? These are important questions for developing country governments and their citizens. Our position is that when effectively targeted and delivered, aid can reduce poverty. For example, in Sub-Saharan Africa, there have been major improvements in child health and primary school enrolment over the last few decades as a result of targeted aid packages.

It is this generation of scholars and practitioners' moral responsibility and right to demand that aid achieves value for money. We concur with Bhagwati's (2010) conclusion that the mismatch between intentions and realities in the aid fraternity constitute today's major battle over aid. So the real question is not whether or not Sub-Saharan aid should be stopped but rather, how to ensure that it delivers better results. Aid still has the potential to assist poor nations if it is accompanied by the development and implementation of sound macroeconomic policies and also when carefully channelled to countries prepared to use it properly.

Opportunities for capacity building

The main growth drivers outlined above present us with preliminary pointers for possible capacity building interventions. To begin with, a transformative agenda centered on economic restructuring supported by manufacturing and industrialization to create more jobs and ensure broad-based inclusive growth is necessary for rapid Sub-Saharan growth. Therefore, any meaningful capacity building interventions would have to begin with questioning how best the tenets of such a paradigm can be disseminated among the Sub-Saharan national leadership structures. Second, from all the African case studies presented, we are now acutely aware that income and wealth inequality are high and, in some cases, still increasing in Sub-Saharan Africa, in both well-performing and poorly performing economies. The capacity building opportunity that arises in this context rests on strengthening government ministries and departments to better execute their social protection mandate. And relevant government departments mandated with macroeconomic planning should also be capacitated to think and craft programs that address socioeconomic inequality in the medium to long term.

The scourge of corruption seems endemic in all countries, whether they practice good governance or not. It is necessary for capacity building interventions to be designed that strengthen anti-corruption institutions and “watchdogs.” Awareness-raising programs and dialogue platforms throughout the country would also capacitate both ordinary citizens and public officials to deal with corruption. The case for science, technology, and innovation in national growth has been sufficiently made in this paper and elsewhere. The opportunity for capacity building in this context is to strengthen national systems of innovation by supporting think tanks and research and academic institutions to better deliver on their mandate. This can come in the form of research and training grants as well as provision of the equipment and facilities these institutions require to perform well.

Prudent macroeconomic management is critical to growth. It is therefore necessary to provide support to ministries of finance and economic development to enable development

of effective macroeconomic management systems. Skills of officials in such ministries and related government departments also need to be further built to enhance their planning and implementation capacities. We have categorically stated that good governance remains key for Sub-Saharan development and growth. An opportunity for capacity building in this domain is to capacitate the politicians and the public service in conceptualizing and enforcing various aspects that constitute or contribute to good governance. Such aspects include public financial management, corporate governance, accountability, and transparency. These aspects can be addressed through workshops and structured courses that public officials can enroll in to boost their knowledge and skills.

Most African countries are still agrarian-based, and agriculture remains a key sector in most of the continent. It is encouraging to note that the African Union (through the New Partnership for Africa's Development and other initiatives) and other development institutions on the continent already acknowledge the primacy of agriculture. The capacity building opportunity in this context includes strengthening national agricultural research and extension services, directly supporting farmers to improve their knowledge and farming practices, providing inputs and post-harvest storage facilities, improving product marketing systems and agricultural value chains, and addressing the requirements for irrigated farming.

We have also indicated in this paper that leadership committed to the national development agenda stands out as one of the key growth drivers. The opportunity for capacity building in this landscape includes developing and implementing interventions targeted at raising awareness about responsible leadership and the basic requirements for national stewardship among leaders on the continent. This agenda should include facilitating dialogue among the leaders focusing on what it means to be a responsible "public servant" rather than a self-serving official. All the pointers raised in this paper to enable movement toward a meaningful capacity building agenda are important. But ultimately a needs assessment should be done in the context of each country to determine its specific capacity building requirements before crafting and implementing any interventions.

Conclusion

This paper has explored in detail some of the main growth drivers in Sub-Saharan Africa and beyond. Case studies in the paper provide useful examples of trends that some countries have followed and their strengths and weaknesses in influencing economic growth. The message to drive across Africa is that the conditions that keep Africans in poverty are largely the result of decisions by politicians and leaders who have the duty to respond to various local and international pressures for change. It is crucial that Sub-Saharan leaders harness the resources and potential abundant in most countries to enable realization of the continent's developmental priorities rather than allow predatory state behavior to derail progress. Appropriate macroeconomic policies and institutions will enable realization of our developmental goals. There will always be opportunities and constraints but they must be expected and addressed in context. With the abundant natural resources being managed prudently (especially oil, gas, and minerals) and serving as the entry points for rapid growth, there is no reason why Sub-Saharan Africa should fail in its developmental project, except due to poor governance. Indeed, most indices already point to rapid Sub-Saharan economic growth in the foreseeable future.

To counter the negative impacts of globalization, our own perspective finds common ground with the Friedrich-Ebert-Stiftung Foundation (2014) that points out that African countries need to pursue economic diversification and structural transformation vigorously to reduce vulnerability to external shocks. African countries must continue to diversify their export

destinations and expand economic partnerships, including those with new development partners, while deepening intra-African trade and investment. Crucially, African countries can grow faster by unleashing their productive potential through aggressively investing in infrastructure and human capital, and by promoting good governance. This will require strong political will and a firm institutional framework.

Although the current good Sub-Saharan growth has been accompanied by increasing inequalities and widening development gaps between the rich and poor, we believe that all is not lost. We are convinced that by deploying well-targeted interventions, macroeconomic policies, and institutions, Africa's transformation agenda is reachable. Ultimately, each country has primary responsibility for its own economic and social development, and the role of national policies, domestic resources, and development strategies cannot be overemphasized. We reiterate that if poor governance and dictatorships co-existed with periods of rapid economic growth in Asia and other parts of the world, the parallel does not seem to exist in Africa. Poor governance has had disastrous consequences for Sub-Saharan Africa.

To illustrate this point from the case studies in this paper, we can immediately refer readers to the damage done to the national economy, for example, by the regime led by Kwame Nkrumah in Ghana; Julius Nyerere in Tanzania; the successive military regimes in Nigeria; Mengistu Haile Mariam in Ethiopia; and Mobutu Sese Seko in the Democratic Republic of the Congo. Poor governance and dictatorship characterized these regimes and none of them facilitated meaningful national growth. Thus, the African development experience helps us understand what policymakers should avoid to prevent growth collapse just as we know some of the things they should do to achieve sustained growth. In addition, although growth accelerations may not necessarily result in massive improvements in national and continental human development, decelerations related to poor governance usually have magnified negative impacts on social welfare, education, and the broader basket of human development indices. This suggests that promoting growth is as important as preventing growth collapses if Sub-Saharan Africa is to realize its economic growth agenda.

Critical to what is emerging in this study is the need to build governments' capacity to effectively formulate and implement sound and inclusive policies and programs that respect citizens' rights. Along with this is the capacity to support the growth and development drivers—supporting a transformative agenda centered on economic restructuring supported by manufacturing and industrialization to create more jobs and ensure broad-based inclusive growth. If countries are supported with well-targeted capacity building interventions, macroeconomic policies, and institutions, Africa's transformation agenda is reachable.

Summarily, none of the well-performing economies documented in this paper did so without the government playing an active role in carefully guiding the economy and taking into account the citizens' needs. If anything, all the well-performing economies largely depended on their capacity to engage in some kind of deliberate government-led economic reform effort to stimulate macroeconomic growth.

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ISBN: 978-1-77937-058-7