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Restarting and Sustaining Growth and Development in Africa: A Framework for Action

There has been much discussion of Africa's sub-standard economic performance. Many remedies have been suggested and tried. Despite all this effort, most African governments have been unable to sustain the reforms needed to grow and develop. This policy brief discusses how policy changes might be sustained once they are introduced.

From the time that systematic attempts to promote structural adjustment began in the late 1970s, policy reversals have been common. Massive foreign assistance to African governments has done little to change this. Some might say it never could, given the inconsistent conditions and shifting agendas of the donor community. Yet, historical experience, particularly from Asia, has shown that foreign assistance can make a difference if governments remain committed to reform.

Senior managers of the World Bank and the International Monetary Fund have asserted over recent years that Africa is "on the move." Unfortunately, few African governments have taken the practical steps needed to ensure that the changes they have made will keep their countries moving.

How can economic reform be sustained? What steps are needed?

From the beginning it is useful to emphasize that the basic problem in African countries is not one of lack of information about economic reform. African governments have been extensively advised both internally and externally on what needs to be done.

The Lagos Plan of Action prepared by the Organization of African Unity (OAU)

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in 1980 and the World Bank's "Berg Report" in 1981 marked a watershed in the analysis of Africa's economic problems. The reports admitted officially that Africa's problems were systemic, widespread, highly complex, and not amenable to quick fixes. These reports stimulated a debate pitting the Berg Report's "orthodox" approach against the OAU's "heterodox" action plan. Africa's difficulties intensified, the debate continued, and numerous other approaches were suggested. In 1998, the President of the World Bank even suggested that the development community required a "new approach." Other donors and a growing number of non-government organizations added their perspectives about the task of promoting reform in Africa. Large amounts of foreign assistance followed, often exceeding 20 percent of GDP for some countries. Economic growth and development, nonetheless, have been elusive.

So far none of the adjustment programs has enabled any African country (besides Mauritius) to grow and develop on a sustained basis. Explanations for Africa's continued poor performance include the effects of structural characteristics (e.g., tropical location, distance from major markets) as well as weak institutions (including ineffective leadership), poor macroeconomic management, and low productivity.

The above problems are not unique to Africa although they have been unusually concentrated there. Cross-country analysis undertaken in the context of explaining Asia's economic performance revealed that for 10 countries in East/South Asia and 17 countries in Africa, differences in the average annual growth rates between 1965 and 1990 were explained primarily by "demography" and "policy variables." The former covers population and labor force growth and life expectancy. The latter covers "institutions," "government savings rate," and "openness."

The significance of "institutions" points to government actions that increase the effectiveness of public bureaucracies, improve the competence of public sector administrators, promote effective implementation of public sector programs, maintain accountability, and enhance governance. The significance of the "government savings rate" is evidence of the importance of policies that maintain macroeconomic balance. The variable "openness" reflects policies that contribute to international competitiveness, raise total factor productivity, and encourage investment and growth.

In aggregate terms, such decomposition exercises call attention to two major elements-structure and policy-that impede growth and development in Africa. Little can be done about some of them, such as the structural characteristics mentioned above, apart from compensating with attempts to improve efficiency elsewhere in the economy. Much, however, can be done to remove policy-induced impediments. These have been examined in Ghana, Kenya, Senegal, Tanzania, and Uganda in the study entitled "Restarting and Sustaining Growth and Development in Africa." The underlying question being asked by researchers is: what has to be done to restart and sustain growth and development?

Their work has been showing that in order to restart and sustain growth and development in Africa, five issues are crucial:

- Public sector restraint
- Government saving
- Institutional deepening
- Constructive responses to globalization
- Ending aid dependency

Public sector restraint: To avoid the excesses of the past, African governments have to permanently reduce what they attempt to accomplish. Few governments have the capacity to venture beyond education, health, infrastructure, an effective judicial system, and sound macroeconomic management. Priorities have to be established and mechanisms (such as the sale or lease of assets) have to be found for disengaging from non-priority areas. No government activity should continue to subtract value or detract from welfare.

Government saving: A practical indication of public sector restraint will be a sharp rise in government savings. In the past, this point has been stressed by development specialists, though few governments took note. Yet, without large sustained increases in savings, African governments have no permanent way of getting out of debt or moving beyond foreign aid. Indeed, the recent action by rich countries to provide more extensive debt relief is likely to be wasted if governments continue to dissave.

Institutional deepening: Most successful economies are characterized by popular input to public decisions, competent civil services, rule of law, effective financial supervision, and prudent macroeconomic management. None of these institutions evolved overnight. All such institutional development, indeed all development, is "work in progress." This is especially true with respect to leadership. Vital at all times, effective leadership has a special role of maintaining a growth-oriented focus when key institutions are weak. An enlightened leader would encourage those institutions and foster a setting in which economic management becomes and remains both efficient and accountable.

Constructive responses to globalization: The strategy of relying on "aid not trade" for three decades has bankrupted most African countries and "marginalized" the continent. Opening up to trade and exchange involves risks, particularly when international markets are unstable. Nonetheless, the benefits of expanding markets and increased specialization created by trade greatly outweigh the advantage that might accrue to any African country on the basis of its own real effective demand.

A constructive response to globalization will require African governments to shape their policies starting from the constraints and opportunities within the global economy. Such an approach does not "limit the sovereignty" of African governments as often alleged. In reality, far harsher limits have already been imposed by debt, deficits, and declining real incomes.

Ending aid dependency: There is little doubt that foreign aid will stimulategrowth and development when governments are dedicated to reform. But, African governments and donors have difficulty breaking free of their "tangled web" of mutual dependence. A start could be made if African governments were to devise their own medium term strategies for working themselves off aid. The adoption of such strategies would not end (or in the short term even substantially reduce) aid to Africa. Dealing with debt and reconstruction will take time. Furthermore, emergency situations will always need a special response.

Nonetheless, the process of designing an aid exit strategy will be invaluable for African governments. It will focus attention on the changes in local policies, institutions, and links with donors needed to move African countries beyond aid. Properly conceived, an "aid exit" would be a "debt exit" strategy as well.

Restarting and sustaining growth and development across Africa will require African governments to re-take the initiative. Several issues are important. First, economic reform has to be sustained. Start-stop reform is a dead-end. Second, all African governments should design and begin implementing an aid exit strategy. Aid will not end in a hurry but the process of beginning to wean the country from aid will encourage the implementation of appropriate growth-oriented policies. Third, African governments should focus on measures that stimulate accumulation and raise productivity. Their own operations provide an ideal starting point. Fourth, the organizations central to economic management have to be strengthened. Economic management is impossible with a dysfunctional budget office, central bank, and revenue departments. Fifth, African governments should recast their policies so as to take advantage of globalization. There is no future in isolation and disengagement. Sixth, leadership is required to bring these strands together.

A report by the European Commission in 1996 on relations between the European Union and the African, Caribbean and Pacific countries stated, "The colonial and post-colonial periods are behind us and a more politically open international environment enables us to lay down the responsibilities of each partner less ambiguously." For African governments, one clear responsibility is a full-scale effort to restart and sustain growth and development. Meeting the challenge will not be easy. Yet, it will be much easier than if stagnation and decline are permitted to continue.

This policy brief is based on EAGER Research, *Restarting and Sustaining Growth and Development in Africa,* 2000, by James S. Duesenberry [duesenb@fas.harvard.edu], and Malcolm McPherson [mmcphers@hiid.harvard.edu], Harvard Institute for International Development, Cambridge, Massachusetts.

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