FORESIGHT AFRICA

THE CONTINENT'S GREATEST CHALLENGES AND OPPORTUNITIES FOR 2011

ERNEST ARYEETEY
EMMANUEL ASMAH
MWANGI S. KIMENYI
ZENIA LEWIS
JOHN MUKUM MBAKU
NEIPHER MOYO
JOHN MUTENYO
JOHN PAGE
EZRA S. SURUMA
OLUMIDE TAIWO

JANUARY 2011

Africa Growth Initiative
at BROOKINGS

CONTENTS

INTRODUCTION

Before the recent global economic crisis, African countries experienced one of the longest periods of economic expansion. Although Africa weathered the crisis much better than many other regions, its economies remain fragile and daunted by the challenge of achieving sufficiently high growth rates. Yet, there are also many opportunities that offer hope for African countries to achieve sustainable growth in 2011.

In this report, experts from the Africa Growth Initiative at Brookings examine some of the key issues that will matter for Africa in 2011 and beyond. They provide brief overviews of the issues and give policy recommendations to African governments and development partners on how to leverage the opportunities for prosperity, while anticipating and overcoming challenges that could derail Africa's growth.

Africa's 2011 Elections. Mwangi S. Kimenyi observes that 2011 will be a year of elections for Africa with 27 countries expected to hold national elections. He suggests that while the elections provide opportunities to entrench democracy, they also present real challenges. He suggests that there is need for African governments and the international community to prioritize investments in electoral systems across the continent.

Conflicts and Prospects for Economic Growth. Ezra Suruma focuses on the issue of conflicts in 2011. He discusses how political arrangements that facilitate better representation of ethnic groups in government have helped to resolve conflict in some countries and should be more widely used in dealing with conflicts in the upcoming year.

Moving toward Opportunity: Managing Migration for Development. John Page tackles the contentious issues of migration. He proposes that governments from developed and developing countries should shift their policy from control to managing migration and seek mutually beneficial arrangements to take advantage of global migration.

Climate Change and Africa's Economic Performance. Emmanuel Asmah and Mwangi S. Kimenyi explain the vulnerability of African economies to the vagaries of the weather and especially draughts. They propose mitigation strategies including investing in draught-resistant crop varieties, irrigation infrastructure, post-harvest technologies and processing facilities.

Leapfrogging Development through Technology Adoption. Mwangi S. Kimenyi and Nelipher Moyo suggest that technology adoption promises to be an important source of growth for Africa in 2011. They discuss the continent's technological opportunities and provide policy recommendations to address obstacles that prevent African countries from taking advantage of information communication technologies.

Improving Aid Effectiveness for Africa's Economic Growth. Olumide Taiwo examines the importance of improving aid effectiveness in 2011 and beyond. He calls on donors to adhere to the principles outlined in the Paris Declaration on Aid Effectiveness and on African governments to tackle corruption, increase internal revenue generation and boost national saving.

The BRICs and the New Scramble for Africa. Mwangi S. Kimenyi and Zenia Lewis state that the BRICs offer Africa great opportunities for economic growth in 2011. However, this relationship also presents challenges. They argue that African governments must forge partnerships with the BRICs that go beyond the exploitation of natural resources to promote other sectors that will facilitate long-term economic growth in Africa.

Africa's New Oil Economies: Managing Expectations. Ernest Aryeetey and Emmanuel Asmah explore the prospects and pitfalls associated with new oil and gas discoveries in some African countries. They present strategies to manage expectations and avoid the resource curse.

Debilitating Borders: Why Africa Cannot Compete without Regional Integration. John Page explains why regional integration should be at the forefront of Africa's development agenda in 2011. He stresses that in order for Africa to be globally competitive in exports, the continent needs a much deeper level of regional integration than what currently exists.

Driving Africa's Growth through Expanding Exports. John Mutenyo analyzes how the lack of export diversity and a dependence on commodities hamper export-driven growth in Africa. He provides recommendations on how Africa can exploit its exporting opportunities and increase economic growth in 2011.

Africa's War on Corruption. Mwangi S. Kimenyi and John Mukum Mbaku argue that economic performance in African countries continues to be impacted adversely by high levels of corruption. Kimenyi and Mbaku emphasize the importance of deepening and sustaining Africa's war on corruption to promote long-term economic growth in the region.

AFRICA'S 2011 ELECTIONS

MWANGI S. KIMENYI

Probably no other issue is likely to have such a significant impact on Africa's economic development in 2011 as various elections scheduled this year. The number of national elections to be held in Africa in 2011 is unprecedented with 27 countries holding crucial presidential, legislative and local elections. These countries include: Benin (presidential and national assembly), Burkina Faso (local), Cameroon (presidential), Cape Verde (presidential and national assembly), Central Africa Republic (presidential and national assembly), Chad (presidential, national assembly and local), the Democratic Republic of Congo (presidential and national assembly), Djibouti (regional and local), Egypt (presidential), Gabon (national assembly), Liberia (presidential, house of representatives and junior senators), Madagascar (presidential, national assembly and local), Mauritania (national assembly, regional and local senate), Mauritius (regional assembly), Niger (presidential), Nigeria (national assembly, presidential, state assemblies and governors), Rwanda (senate and local), Sao Tome (local and presidential), Seychelles (presidential), South Africa (local), Southern Sudan (independence referendum), Tunisia (chamber of councilors), Uganda (presidential, national assembly and local), Zambia (presidential, national assembly and local), Zimbabwe (constitutional referendum, presidential, national assembly, senate and local). How these elections turn out—whether they are considered fair or not, results disputed or accepted, peaceful or violent—will have a major impact on the development prospects in the continent.

The fact that regular competitive elections have become institutionalized in the African political landscape is in itself a positive sign of emerging democracies. Elections have been an important aspect of entrenching democracy in Africa. They have given many Africans, who for a long time were under oppressive dictatorships, the opportunity to elect leaders that represent the needs of the African citizens and prioritize development goals. Elections have been instrumental in removing incompetent and corrupt leaders in Africa, which has increased the growth prospects for African countries. There is compelling evidence that where elections are held on a regular basis, the leaders are more accountable and service delivery improves considerably. Elections have provided citizens with a voice to express how they should be governed and the services they demand. In this respect, the fact that so many African countries will be holding elections in 2011 should be seen a positive sign for the continent's economic development.

However, competitive elections have not always turned out well in Africa. In fact, a few recent elections, such as those in Kenya, Zimbabwe and Côte d'Ivoire, have tended to weaken the institution, with claims of rigged and stolen elections. In these and other cases, elections have actually further polarized ethnic groups and led to violent conflicts. In other cases, elections have allowed specific groups to continue their dominance over others by excluding smaller ethnic groups from sharing in the fruits of development. Elections in Africa have often been marred by widespread vote buying, bribery and voter intimidation. The rise in electoral fraud in Africa threatens to undermine the expected gains of the electoral process as these contested elections could degenerate into widespread conflicts.

Probably the worst aspect of competitive elections in Africa has been their influence on ethnic politics. Elections have unfortunately tended to be extremely polarizing as African politicians have often used ethnicity as the axis for political mobilization. Rather than uniting various groups, electoral politics in Africa has tended to divide the different ethnic groups and erode trust among them. Such negative outcomes do not bode well for creating the key social networks that are conducive for economic development in Africa.

INVESTING IN ELECTIONS

Many of the upcoming elections offer hope in the solidifying democracy in Africa. Nevertheless, danger looms if these elections are not managed appropriately. As we start the year, there is need for Africa and the international community to invest in elections in order to improve the electoral processes and maximize their benefits.

There are two policy priorities that should be taken in order to ensure that the benefits of the 2011 elections in Africa are realized. The first has to do with the diffusion of power. African elections have been so contentious partly due to the high concentration of power in the executive. Winning a presidential race in Africa often gives the new president immense powers to distribute benefits to his/her supporters at the expense of other citizens. To minimize these discretionary powers, there is need for major institutional reforms that place sufficient constraints on executive powers. This way, even coalitions that do not win could still hold the leadership accountable.

The second priority should be investment in Africa's electoral systems—voter registrations, identification, voting equipment, independent electoral commissions, vote monitoring and tallying, etc. The source of problems in recent disputed elections in Africa has been weaknesses in the electoral processes. Many African countries scheduled to hold elections in 2011 are ill-prepared to conduct credible, free and fair elections.

Development partners can play a crucial by supporting electoral systems early on and by acting as independent observers. It is also important that regional organizations be prepared to handle potential and very likely chaos and violence that could arise from disputed elections. Africans and the international community should not be caught by surprise if violent conflicts arise after some of the elections take place.

Well-managed elections will greatly advance the institutional infrastructure and forge economic growth in African countries. But, poorly managed elections are likely to weaken institutions, create conflicts and undermine growth not only in the countries concerned but also in neighboring countries.

SELECTED REFERENCES

Bratton, Michael and Mwangi S. Kimenyi (2008). ``Voting in Kenya: Putting Ethnicity in Perspective," *Journal of East African Studies*, 2 (2): 273-290.

Collier, Paul, Gutierrez-Romero, Roxana and Kimenyi, Mwangi S. (2010). "Democracy and Prosperity," Forthcoming, in C. Adams, P. Collier and N. Ndung'u, *Policies for Prosperity*, Oxford University Press.

Kimenyi, Mwangi S. and Shughart, William F. II (2010). "The Political Economy of Constitutional Choice: A Study of the 2005 Kenyan Constitutional Referendum," *Constitutional Political Economy*, 21: 1-27.

CONFLICTS AND PROSPECTS FOR ECONOMIC GROWTH

EZRA S. SURUMA

There is substantial evidence that the resolution of conflicts in Africa is a fundamental prerequisite for sustainable economic development and growth. Countries that were previously torn by conflicts such as Angola, Uganda, Rwanda, Burundi, Liberia, Sierra Leone and Ethiopia have moved decisively from economic stagnation and decline to steady economic growth. But Africa remains home to a number of significant conflicts. These conflicts impart considerable costs to the countries concerned but also to their neighbors. Furthermore, there are many fragile states, and the possibility of new conflicts is real.

The causes of conflicts in Africa include ethnic distrust, religious discrimination and intolerance, corruption, injustice and poor governance. In some cases, the internal divisions may be fuelled by external forces seeking, for example, to exploit natural resources. In other cases, external powers might intervene in the politics of the African countries where they wish to influence the governments considered to be geo-politically strategic or sensitive to their own interests.

Many nations of Africa are somewhere in the middle between extreme violence, as in the case of Somalia, and virtual domestic peace, such as Tanzania or Botswana. There are some countries, which though not totally violent, are nevertheless experiencing considerable stress and tension. For example, countries such as Côte d'Ivoire, Sudan and the Democratic Republic of Congo (DRC) have United Nations peacekeeping forces stationed in their countries to help resolve internal conflicts. The island of Madagascar probably fits into this category as well. Economic growth in these countries is considerably muted and citizens are exposed to fear and violence. Yet, in other African countries, a high degree of stability has been established, but some bursts of violence reveal that considerable underlying tensions remain unresolved. Examples of these are the various outbreaks of violence in Nigeria in the Northern Region and in Plateau and Delta States, the Lord's

Resistance Army (LRA) insurgency in Uganda, the post-election violence in Kenya in 2007, and the political cleavages in Zimbabwe. Despite strong efforts in these countries to resolve the underlying conflicts, there is still considerable unease and uncertainty about peace and political stability there.

The ultimate resolution of conflicts in Africa requires political leadership that skillfully adopts formulas that suit the peculiar conditions of these African states. For example, the adoption of "broad-based" political parties that attempt to include all tribes and religions have helped Uganda to enjoy relative stability and growth in the last 25 years compared to previous years. Similarly, the experiment in Burundi in which every ethnic group is guaranteed a specified proportion of representation in the executive and parliament appears to be promising, following a long period of very fierce and bloody conflicts. Similar "inclusion" models were indispensable to the political settlements, however tenuous, that followed electoral impasses in Zimbabwe and Kenya.

As we faced the debacle of political conflict and gridlock in Côte d'Ivoire at the end of 2010, and now anticipate presidential elections in a host of African countries in 2011, fear and uncertainty will be acutely felt both within Africa and the world community. Africa will need creative leadership that sees beyond "winner takes all" and instead designs accommodative arrangements to include representations of all tribes and religions.

African conflicts may not be solved by focusing on the correctness of electoral procedures alone. It may be even more critical to ensure that the design of the constitution assures an acceptable representation of all groups in all the structures of government. The resolution of conflicts and the establishment of a harmonious coexistence among Africans require, as elsewhere, the irrevocable and certain assurance of economic and political justice for all.

2011 presents immense opportunities for Africa to achieve high rates of economic growth; however, these opportunities can only materialize if peace is maintained. Given the recent record, there is a high likelihood of the emergence of new conflicts and escalation of existing ones. Such unfortunate outcomes could greatly undermine growth in 2011.

MOVING TOWARD OPPORTUNITY: MANAGING MIGRATION FOR DEVELOPMENT

JOHN PAGE

Population mobility has been a permanent feature of African history and it is very likely to increase. Growing demographic imbalances between Africa, Europe and North America, combined with large income gaps, will lead to strong migration pressures toward industrialized countries. As Europe's population ages, it is projected that the European Union will need 1.6 million immigrants entering the job market every year between 2010 and 2050. Africa has the demographic potential to close the gap. The majority of African migrants, however, will remain within the continent, where growing intra-regional income differences will contribute to substantially greater mobility of workers.

The major impacts of increased migration on African economies are likely to come through migrant remittances and highly skilled migration. Globally, remittances are a leading source of development finance and in Africa they are of growing significance. There is little agreement but great emotion about the impact of highly skilled migration on Africa's development. On the positive side, skilled migration results in a reflow of remittances and may provide incentives for skill formation. It may also encourage flows of commerce, investment and knowledge through diaspora communities. Set against these gains are possible reductions in institutional capacity, declines in the productivity of networked professions—such as health care—and adverse distributional consequences from public financing of skill formation.

MANAGING MIGRATION

Of course the most intriguing question arising from increasing migration is whether some economies in Africa might be able to manage migration for development. Africa has a large number of landlocked, resource-scarce countries. These economies face the dimmest prospects of growing to middle-income status and their economic future is likely to require that they specialize in the export of goods and services that have high value to transport costs—mainly those that embody high levels of human skills.

Not surprisingly, the policies and investments needed to export goods and services that embody human skills are complementary to exporting the skills themselves. Investments in education and training are required and the limited evidence suggests that the opportunity to migrate raises the demand for skills. Falling transportation costs and corresponding investments in transport infrastructure can benefit both trade and migration. Aggressively investing to create the skills needed for e-commerce, as Rwanda has done, can have the beneficial, if unintended, consequence of providing the language and communication skills needed to equip nationals to compete in third country labor markets.

For countries at either end of the migration chain, viewing migration as part of the solution to the development problem—rather than as a symptom—offers considerable promise. To grasp the opportunity offered by increasing migration, governments will need a migration strategy and a clearer understanding of the costs and benefits.

TOWARD MIGRATION POLICY

With very few exceptions, governments in Africa and in destination countries have approached migration in institutional and policy terms from a control perspective. Managing migration will require a different policy perspective: one that attempts to maximize the benefits of migration while minimizing its economic and social costs.

For African countries of origin, some policy interventions are reasonably straightforward and have an ample evidence base to support them. For example, financial sector reforms to extend formal banking to rural areas and to provide a broader array of financial instruments to small savers can increase the share of remittances that flow into the formal financial system and increase financial depth. Active policies to encourage the physical or virtual return of skilled migrants—as have recently begun in Ghana and Nigeria—offer the potential for using the diaspora as a development resource.

Other aspects of migration policy are highly contentious, such as the appropriate response to the migration of highly skilled professionals. At present, we have very little evidence on whether the brain drain's net impact is positive or negative. Nevertheless, a number of policy lessons drawn from the experience of countries outside of Africa—many of them concerning what not to do—are relevant.

Existing evidence suggests that policies restricting the mobility of highly skilled individuals directly or through educational restrictions are not likely to work. Brain drain is rarely the root problem. Challenges in education, health care and public finance combined with the magnitude of income differentials between sending and receiving countries provide powerful incentives for individuals to move. It is however possible to recover some of the publicly financed costs of skilled migration. Careers in medicine, engineering and other technical subjects are fast becoming global and tend to be the most costly fields in terms of training. Requiring students to pay for a portion of the cost of their training seems both fair and efficient.

A shift in perspective from control to management would also benefit the destination countries. Demographic pressure, persistent income differentials, spreading networks of migrants, increasingly intense communications, and the growing ability to afford the cost of migration mean that the rich countries of Europe, North America and Asia will face rising migration pressures. Integrating migration into the development agenda and seeking mutually beneficial arrangements with the countries of origin in Africa offer a greater prospect of long-term success than increasing controls. Multilateral approaches are also needed. Therefore, strengthening global institutions that can establish and enforce rules governing migration, as is the case for trade and finance, should be a high priority.

SELECTED REFERENCES

Lucas, R.E.B (2006). "Migration and Development in Africa," *Journal of African Economies 15*(2): 337-395.

Page, John and Sonia Plaza (2006). "Migration and Development: A Survey of the Global Evidence," *Journal of African Economies* 15(2): 245-336.

Plaza, Sonia, Navarrete, Mario and Dilip Ratha (2010). "Migration and Remittances Household Surveys: Methodological Issues and New Findings from Sub-Saharan Africa, 2010," Washington, D.C.: World Bank.

CLIMATE CHANGE AND AFRICA'S ECONOMIC PERFORMANCE

EMMANUEL ASMAH & MWANGI S. KIMENYI

In Africa, the majority of the population lives in rural areas and is largely dependent on traditional agriculture. Although the share of agriculture to GDP has been declining, the sector still accounts for about 30 percent and employs about 70 percent of the African labor force. Therefore, the performance of the sector is crucial to economic growth and even more so to the livelihoods of the poor, especially as it relates to food security. Unfortunately, agricultural production on the continent experiences wide swings as a result of exogenous shocks. The performance of the African economies in 2011 will be affected by such shocks and how well-prepared the countries are to deal with them.

Probably no other factor impacts agricultural production as much as adverse weather conditions, especially draughts. Recent history has been marked with frequent draughts that have resulted in wholesale crop failure. Some areas that have experienced extreme draughts in the last few years include the Horn of Africa, East and Central Africa and parts of Southern Africa. Even where draughts have not been as severe, rainfall tends to be unreliable resulting in lower agricultural outputs. Associated with these trends have been expanding deserts, lower water tables and shrinking fresh water masses. The impacts of the adverse weather conditions have been far reaching—the starvation of millions of people and deaths of thousands of domestic animals and wildlife. It is apparent that economic performance in Africa is intractably tied to the whims of the weather.

One of the main features of African agriculture is that it remains primarily dependent on rainfall. As such, any disruption in the amounts and patterns of rainfall has detrimental impact on agricultural production, overall economic growth and food security. Furthermore, climate change is increasingly threatening Africa's agricultural production. Thus, unless there are concerted efforts to shift radically from rain-fed agriculture, Africa will remain exposed to the vagaries of the climate. But the challenges associated with climate change are compounded by the fact that many African governments are unprepared to deal with such shocks. In 2011, weather patterns, and especially draughts, could derail economic growth in Africa.

POLICY OPTIONS

In the short run, African countries can reduce the negative production effects caused by draughts by investing in draught-resistant crop varieties. Such technologies that could be adapted to many of the countries are available but the rate of diffusion has been slow. In addition, African countries have not invested adequately in post-harvest technologies. During periods of good rains, surplus crops (e.g. grains-maize, wheat, beans) go to waste or are sold at throw-away prices because of the lack of storage facilities or opportunities to process the crops (into powder milk or canned fruits, for example), so that they can be stored for longer periods of time. Investing in such technologies will greatly reduce the negative impact of weather conditions.

Clearly, rain-fed agriculture has limits and cannot be relied on to feed burgeoning populations or be a source of sustainable economic growth. In addition, there is increasing competition for water for various uses—especially with rapid growth in urban populations. Thus, in the long term, African countries must increase their investment in irrigation infrastructure and also water-conserving technologies such as drip irrigation, dam construction and rain water harvesting. Unfortunately many irrigation projects built before and soon after independence have been neglected and gone to disuse.

In terms of development cooperation, African governments should seek collaboration with countries that have advanced agricultural technologies suitable for harsh climates. A good example is Israel—a country which has made major strides in this direction. In addition, there is need to deepen collaboration in areas of research on agricultural technologies and water conservation.

Climate change does make the impact of adverse weather even more serious. As such, Africa must focus on climate change mitigation strategies. Farmers should be provided appropriate incentives to undertake agro-forestry projects to enhance carbon sequestration. Distributing climate data regarding seasonal climate forecasts and early warning systems can help small farmers make informed decisions. Capacity building, education, training and public awareness on climate-related issues should be prioritized and appropriately coordinated. These strategies will be important in reducing Africa's exposure to the risks associated with the weather and changing climate.

LEAPFROGGING DEVELOPMENT THROUGH TECHNOLOGY ADOPTION

MWANGI S. KIMENYI & NELIPHER MOYO

Although agriculture and natural resources will continue to be important drivers of Africa's economic growth in 2011, it is the application of modern technologies that will have the most significant impact on the growth trajectories of most African economies. Specifically, the greatest opportunity for growth will come from technological innovation and the adoption of new technologies in services sectors, such as banking, insurance, health, education and agriculture. New opportunities have arisen that make it possible for low-income economies to leapfrog other countries by adopting technologies that are suitable to their specific circumstances. Those countries that embrace and invest in technology will be able to sustain growth and be competitive regionally and internationally moving forward.

In the last decade, Africa saw rapid growth in the information and communication technology (ICT) sector, resulting in major transformation of African business operations and processes. The ICT sector has helped to reduce the cost of communication, increase market information, formalize capital, increase productivity, and facilitate capital accumulation in Africa. Therefore, it is now easier to do business in the region.

The most striking advances in ICT have been in the use of mobile phone technology. Africa is now touted as the world's fastest growing mobile phone market, as the number of mobile phone subscriptions increased from 16 million in 2000 to half a billion by 2010. One of the areas where technology has had a significant impact on the lives of the poor is in mobile banking. Innovations have made it possible for millions of poor Africans to have access to financial services through their mobile phones. However, despite the impressive growth rates in Africa over the last decade, the region continues to lag behind the rest of the world in terms of access to financial services. Only 1 in 5 households in Sub-Saharan Africa have access to formal financial services.

Although mobile banking has the potential to extend financial services to Africa's poorest, it continues to be underutilized in many countries. Evidence suggests that mobile banking has been less successful in countries that do not have a widespread national identification system. Therefore, it is critical that African governments invest in national identification systems in order to reap the benefits of mobile banking. Indeed, having an identity is becoming increasingly more important as Africa enters the digital age.

Mobile phone technology also has the potential to transform the delivery of health services in Africa. About 64 percent of Sub-Saharan Africans live in rural areas where health services are scarce. Mobile-health, or *m-health*, could improve the health of millions of Africans at a fraction of the cost of traditional delivery methods through more efficient transmission of information about drugs, diagnosis and faster identification of disease outbreaks.

Although the agricultural sector is important for growth and development in Africa, agricultural productivity in Africa remains far below the region's potential. One of the most effective ways to increase agricultural productivity in Africa is through the use of high-yield seed varieties. In a recent study, the African Development Bank found that the use of high-yield variety seeds and fertilizers would increase cereal production by 75 percent in Africa. Use of new high-yield seed varieties, chemical fertilizers and other inputs must be prioritized if Africa is to achieve higher growth rates and food security. Technology offers the opportunity to transmit important information about new seeds, new inputs and also information about market prices at a relatively low cost.

Technology also presents business opportunities for Africa's entrepreneurs. Wages in emerging markets have been increasing, which makes Africa well placed to become the next significant destination for outsourced IT services. The region has a large English- and French-speaking population that is literate in information technology and earns wages much lower than its counterparts in India and China. These factors make Africa an ideal destination for ICT outsourced jobs. Exploiting these opportunities promises to be very important in boosting growth in 2011.

PUBLIC-PRIVATE PARTNERSHIPS TO CLOSE THE DIGITAL DIVIDE

While there has been tremendous progress in the last decade, Africa's adoption of modern technology still lags behind other nations. For many countries, investments in new technologies have been largely neglected. Underinvestment in technology in Africa represents serious market and government failures that can be overcome through public-private partnerships. African governments must invest in improving the business climate and more specifically, the regulatory environment. They should also invest in complementary infrastructure, such as roads and electricity, in order to take advantage of and have proper access to new technologies. There is scope to utilize public and private partnerships especially as it pertains to large infrastructural projects, such as extending fiber optic cables. Also critically important is to increase investments in research and extension services to improve access to information of clients, such as farmers and patients. Technological innovations must be prioritized by African governments so that accelerated and sustainable growth can be achieved in 2011.

SELECTED REFERENCES

Kimenyi, Mwangi S. and Njuguna S. Ndung'u (2009). "Expanding the Financial Services Frontier: Lessons From Mobile Phone Banking in Kenya," *Brookings Institution Publication.*

Moussa, Sami Zaki (2002). "Technology Transfer for Agriculture Growth in Africa," Abidjan: African Development Bank.

OECD, AfDB and UNECA (2009). *The African Economic Outlook (AEO) 2009 on Innovation and New Technologies in Africa*, OECD Printing Press.

IMPROVING AID EFFECTIVENESS FOR AFRICA'S ECONOMIC GROWTH

OLUMIDE TAIWO

Foreign aid is being squeezed as donor countries and their respective development agencies are cutting budgets in the aftermath of the global recession. Accordingly, many African countries that depend substantially on this assistance are already revising the amounts of foreign aid to include in their respective state budgets. Donor support for development projects, which makes up a large percentage of foreign aid, is also expected to be cut over the next few years. This means that African countries will face even larger financing gaps, which is likely to dampen their economic recoveries in 2011 and beyond.

Compounding the problem of cuts in aid funding is the fact that existing aid to many African countries has not been as effective as it should be in promoting development in the region. For African countries to improve their development prospects and to achieve and sustain long-term growth, it is crucial that both donors and recipient governments ensure that every dollar of development aid is used effectively.

THE ROLE OF DONORS

Donors can help Africa's growth and development by adopting procedures for improving aid effectiveness. First and foremost, donors must reduce the uncertainties and volatilities surrounding resource flows to aid recipient countries in Africa and elsewhere. Shortfalls in aid disbursements relative to pledges create major difficulties for recipient country governments in planning development projects and the delivery of vital services. As a consequence, recipient country governments end up running to domestic banks for financing or being forced to make spending cuts that are often imprudent and disastrous. The shocks that follow may actually defeat the original purpose and goal of the aid money from the donor country or organization.

Second, donors would be better served if they adopt at least the first two principles of the Paris Declaration on Aid Effectiveness. The first principle of the Paris Declaration emphasizes the need to allow recipient countries to define their own development priorities and programs while donors assist in helping recipient countries achieve those priorities. This is a clear departure from the traditional top-down aid approach of the last decade. With many African countries now possessing well-educated and well-trained civil servants, donors can be reassured that these civil servants are knowledgeable in the economic and political affairs of their countries and are capable in implementing development aid projects and programs.

Donors also need to align their aid principles with recipients so to ensure that aid does not result in market distortions. For example, donors interested in supporting the health care system of a country need to direct their aid money to the health care system of that country rather than create a separate and independent system. Creating a separate system from the recipient country's health care system could end up poaching critical resources away from the country's own system.

The second principle of the Paris Declaration stresses the need to support efforts to strengthen statistical and measurement systems of recipient countries. The lack of well-functioning statistical systems and consequently the absence of reliable data remain one of the most serious problems facing development efforts in African countries. Many domestic policies and programs that sound good in theory turn out to be poor in practice because they are not conceived based on a clear understanding and assessment of the situation on the ground. As a consequence, large amounts of aid end up being wasted on poorly conceived programs.

Another issue of aid effectiveness that donors must address is the various conditionality and strings attached to development aid. This type of aid represents a large proportion of overall donor aid to Africa. While donors often impose strings tied to aid in order to ensure that the money is not diverted, these funds in many cases end up sitting in bank accounts and are not utilized for a large part of the duration of the assistance. Rather than keeping these funds idle, donors should be more flexible in setting conditions tied to aid. In order to deal with the typical principal-agent fear of aid recipients not following through with the implementation of donor wishes, donors can innovatively involve civil society to improve transparency and accountability in the aid disbursement and utilization process. For example, donors could furnish project support funds to strong civil society groups that can act as accountability mechanisms by monitoring the implementation progress of aid recipient governments.

THE ROLE OF AFRICAN GOVERNMENTS

African governments also have a role to play in improving aid effectiveness by passing and implementing important anti-corruption reforms. Fears about corruption and other forms of government abuse remain critical sources of concern for donor countries and their respective agencies. Many African governments have made substantial progress in good governance and in the war on corruption, but more progress needs to be made.

Donor worries over government corruption in African countries have led to the proliferation of nongovernmental organizations. These NGOs are seen as an alternative to aid recipient governments and sometimes even compete with governments for aid money. As African country governments demonstrate their seriousness in tackling internal corruption and collusion issues, they must also ensure that aid money is not being wasted on avoidable overheads by NGOs. For example, an NGO dealing with rural health issues has no business maintaining a presence or office in a major city. African governments must also make efforts to eradicate ghost NGOs from their foreign assistance sectors.

Foreign aid flows can have substantial impacts on the economic growth and human development of Africa in 2011 and beyond. But the impact will only be felt when aid is utilized efficiently, and recipient countries are able to increase their level of internal project financing as a result of the assistance. African countries have learned an important lesson during the recent global recession that aid inflows are not going to be permanent. Therefore, it is imperative that African governments turn these lessons into plans of action that minimize their reliance on foreign aid in the foreseeable future. It is imperative for African governments to begin strengthening their internal revenue generation capabilities and pursue policies that can help increase their levels of national savings. This will enable them to gradually increase the amounts of down-payment on projects that are presently supported by external aid and to gradually close the financing gap.

THE BRICS AND THE NEW SCRAMBLE FOR AFRICA

MWANGI S. KIMENYI & ZENIA LEWIS

Brazil, Russia, India and China (BRICs) have literally invaded the African continent, but not with arms. Instead, they have invaded Africa with money, goods, ideas, and drilling and mining equipment. Largely absent just a few years ago, the BRICs are now slowly but surely edging out Western countries in Africa in the areas of trade and investment, and to some degree development aid. India and China in particular, and to some extent Brazil, have increased their engagement in Africa in rather dramatic ways. The BRIC countries are now becoming major players in the continent, which has not only changed Africa's traditional trade and investment relations but also created significant opportunities and challenges for Africa's economies. There is no doubt that Africa's growth in 2011 will be influenced by its relationship with the BRICs.

One of the most important dimensions of this burgeoning relationship is foreign direct investment (FDI). Although most FDI to Africa still comes from the United States, Western Europe and Japan, the largest increases in FDI to Africa in recent years has come from the BRICs. Over the past 10 years, FDI flows from the BRICs to Africa have increased consistently, only falling slightly in 2009 due to the global economic crisis. While the bulk of the BRICs' FDI to Africa has been concentrated in South Africa, Egypt and Morocco, the BRICs have recently taken a greater interest in investing in other countries across Africa. While this is positive for Africa since foreign direct investment can be a strong catalyst for economic growth and development, there are serious concerns over the BRIC countries' appetite for the continent's natural resources. In fact, some analysts have characterized the BRICs as leading a modern day scramble for Africa. Indeed, the BRICs are already major players in the exploitation of key natural resources in Nigeria, Sudan, the Democratic Republic of Congo and Angola. For example over the last two years, Brazil and China expanded their investments in oil in Angola, Nigeria and Sudan, in mining in Liberia and Mozambique, and in gas in Nigeria.

However, the BRICs are beginning to invest in other sectors as well. India, for example, has diversified its investment portfolio in Africa to include textiles, small- and medium-sized enterprises, social services such as health and education, information communication technology and automobiles. BRIC countries are also now heavily involved in massive construction projects around Africa. They are helping build roads, dams, hydroelectric power stations, railways and buildings. In addition, trade between the BRICs and Africa has expanded greatly and in some cases the BRICs have replaced Africa's traditional trading partners, even though exports to the BRICs from Africa are still mainly dominated in natural resources. BRIC countries are also becoming important actors in development aid to Africa. In addition to concessionary and soft loans, lines of credit and grants, the BRICs, and especially China, are providing project aid to expand and improve Africa's infrastructure.

MANAGING RELATIONS FOR AFRICA'S DEVELOPMENT

While the BRICS are opening up opportunities for Africa to diversify its trading partners in new markets and to forge new mutually beneficial partnerships, these opportunities come with major challenges. The recent attention on Africa by the BRICs is not solely based on an altruistic goal to improve the economic well-being of Africans. Rather, BRIC countries are trying to maximize their own strategic economic and political interests by engaging with African countries. Therefore, African policymakers must also be strategic in dealing with BRIC countries just as they should be with other foreign partners.

One issue that requires careful attention and management from African policymakers is natural resource exploitation contracts. There are growing concerns over the lack of transparency in the signing of these contracts with the BRICs. In some cases, BRIC countries seem unconcerned with corruption and may even be contributing to the survival unaccountable regimes. In addition, there are increasing concerns over BRIC projects in Africa that fail to maintain internationally accepted environmental standards. Therefore, African nations must invest in the contracting process and African policymakers must push for more transparency in the contracting process. The international community must also subject the BRICs to accepted accountability restraints with regard to the exploitation of natural resources.

The issue of growing project aid from the BRICs also requires some careful consideration by African policymakers. While such aid is helping Africa narrow the infrastructure gap, it is important that this aid not be used as a way to endow monopoly rights for the BRICs in the exploitation of Africa's natural resources or to hold African countries hostage to future contracts related to new projects and maintenance.

Ultimately in 2011, African policymakers must work to shift Africa's relationship with the BRICs from one based primarily on natural resources to one that advances the continent's long-term economic growth and development trajectories. The prospects for long-term growth in African economies will depend on the transformation of their current production structures. Thus, African policymakers must identify and demand that the BRICs focus on those investments that best contribute in the transformation of African economies.

SELECTED REFERENCES

Brautigam, Deborah. "Africa's Eastern Promise." *Foreign Affairs,* January 5, 2010 (http://www.foreignaffairs.com/articles/65916/deborah-brautigam/africa's-eastern-promise?page=show).

Jopson, Barney. "BRICs in Africa: Adding it up." *Financial Times, Beyond BRICs Blog,* August 5, 2010 (http://blogs.ft.com/beyond-brics/2010/08/05/76851/).

Mohan, N Chandra. "The India-China FDI Safari." *Business Standard India,* December 17, 2010 (http://www.business-standard.com/india/news/n-chandra-mohanindia-china-fdi-safari/418517/).

AFRICA'S NEW OIL ECONOMIES: MANAGING EXPECTATIONS

ERNEST ARYEETEY & EMMANUEL ASMAH

The recent discoveries of oil and gas deposits in some African countries, such as Ghana, Ethiopia, Sierra Leone, São Tomé and Príncipe, and Uganda, present new opportunities to chart a sustainable growth and development path that facilitates poverty reduction. Ghana and Uganda are two of the countries that are currently attracting most of the attention. Ghana's offshore Jubilee field, situated approximately 60 kilometers from the mainland is estimated to have oil reserves of 1.8 billion barrels as well as significant gas deposits. The Jubilee field, which began official commercial production in mid-December 2010, is initially expected to produce 55,000 barrels of oil per day with output set to rise to 120,000 barrels per day over the next six months. For Uganda, the quantity of oil reserves underground located near the Albertine valley is estimated at 2 billion barrels, translating to 100,000 to 300,000 barrels of oil per day. Commercial oil production in Uganda is expected to start in 2013.

Admittedly, in the absence of new large finds, these oil discoveries come nowhere near the over 30 billion barrels of reserves in Nigeria or the 12 billion barrels in Angola. Yet, there are growing expectations among the citizens of these new oil economies of the immediate upswings in their livelihoods and improvements in quality of life. The newly discovered natural resources and the associated windfalls are expected to be used to deliver substantial social, economic and infrastructure improvements in these African countries. The masses of unemployed youth are looking forward to new jobs; local fishermen fear losing their livelihoods while others are anticipating increased national prosperity and a possible end to donor dependence and conditionality.

These new oil discoveries have also come in the midst of serious concerns and controversies that have characterized the empirical relationship between oil rents and development, particularly in oil exporting African countries. The disappointing development performance of many resource-rich economies has been a topical issue among policymakers, NGOs, civil society and academics. Many countries have failed to leverage their natural resource wealth to build strong and stable states with sustained long-term economic growth. For some of these countries, oil, gas and mineral wealth have instead become associated with high poverty rates, weak state institutions, corruption and conflict.

Clearly, these expectations—whether explicit or implicit, clear or fuzzy, realistic or unrealistic, evidence-based or opinionated—need to be managed in order to avoid any potentially negative consequences. Such consequences could include: a disappointed and disengaged public, an indebted government that has borrowed against possible incoming natural resource revenues, difficult development planning, Dutch disease, increases in rent-seeking, and general mistrust within society. All of these consequences will need to be managed accordingly. The good news for these new African oil economies is that there is now a broad understanding of some of the measures that need to be put in place in order to manage these expectations and avoid the resource curse. Botswana, Canada, Australia and Norway are among the countries that have effectively managed their natural resources to advance development.

Some common themes on how to manage the expectations and avoid the resource curse are summarized below:

1. There is the need to improve the quality of institutions and to insist on accountability and transparency of resource revenues. Transparency over the allocation of mineral rights, the revenues generated, and how the revenues are spent is essential.

2. Providing reliable and timely information to all stakeholders involved—including local communities, civil society organizations, the broader public, national and local government, Parliament, oil companies, private sector and the business community—is crucial in helping shape public expectations.

3. Strengthening the capacity of the legal system, government auditors, parliamentary commissions and civil society to regulate the sector and monitor activities on the ground in order to address the adverse economic, social and environmental consequences is necessary.

4. The absence of a long-term national development strategy with broad consensus on spending priorities may encourage wrong investment decisions, wastefulness and mismanagement of revenues with serious negative implications for the economy.

5. The design and implementation of appropriate policies matter. For example, fiscal strategies that smooth cycles have been raised in the policy discussion. A subsidy or tax relief for the non-resource export sectors that are hurt by a loss of competitiveness due to the natural resource bonanza and the spill-over effects have proven to be worthwhile.

6. With regards to how governments can use revenues from natural resources, the consensus is to invest in the long-term accumulation of all

forms of capital (human, physical and institutional), as opposed to financing current consumption. Spending and investment in education, health and infrastructure development is certainly a good thing. But if it is done in isolation without adequate spending on the tradable sector, it could adversely affect the employment and welfare of people engaged in the tradable sector.

7. Strategies should also take into account the fact that some resources are non-renewable. Thus, there is the need to limit fiscal discretion in order to avoid the over-use of revenues. In this regard, it may help to put some of the revenues into fiscal reserves or sovereign wealth funds to avoid over-use of revenues and to ensure that the interests of future generations are safeguarded.

It is important to mention the need for strong political leadership and for developing country partners to support the process by broadening the scope of engagement beyond extractive sectors and by enhancing technology transfer and learning. Stepping up technical support and training for national capacity-building by donors will be extremely helpful. Current global initiatives, such as the Extractive Industries Transparency Initiative and the IMF's multi-donor Tropical Trust Fund on Managing Natural Resource Wealth, need to be commended and given the necessary support. Also, given that China and India are important players in the new scramble for Africa's resources, African governments should take steps to ensure that their growing interaction with these rising economic powers result in economic diversification, technology transfer and learning, rather than simply the sale of African commodities and raw materials.

DEBILITATING BORDERS: WHY AFRICA CANNOT COMPETE WITHOUT REGIONAL INTEGRATION

JOHN PAGE

For the vast majority of Africa's economies, the lack of globally competitive industries and services is a powerful threat to their future growth. The last 40 years have not been good for structural change in Africa. By many measures, Africa has actually "deindustrialized" over the past few decades. Without major changes in its economic structure, Africa will not be able to create enough good jobs and will remain vulnerable to shocks and to a likely long run decline in commodity prices.

In 2011 and beyond, Africa's future prospects for industrialization appear brighter. If China and India continue their rapid growth, the fundamentals of location and labor costs should favor a shift in labor intensive manufacturing toward poorer countries. However, this does not guarantee that it will move to countries in Africa. The region will have to compete with both poorer areas in the existing manufacturing powerhouses and with poorer economies in other places.

Changes in the structure of global manufacturing may help shift some manufactured production to African countries. Since around 1980, manufacturing for many products has been broken up into "tasks", each of which can be undertaken where costs are the lowest. Recent industrializers such as Vietnam have exploited this opportunity to break into global markets. African countries need to do the same and insert themselves into task trade. However, the borders between African countries will be a key determinant of success or failure in this endeavor.

REGIONAL INTEGRATION MATTERS

Regional integration matters for Africa's industrialization in part because Africa is the continent with the largest number of landlocked countries. For exporters in these economies, poor infrastructure in neighboring coastal economies, incoherent regulations, inefficient customs procedures and "informal" taxes in transportation corridors slow transit times and raise costs. Task-based production is particularly sensitive to high transport and logistics costs. Without much deeper integration with their coastal neighbors, Africa's land locked economies will find themselves locked out of trade in tasks.

Paul Collier and Tony Venables suggest that borders limit the prospects for industrialization of Africa's coastal economies as well. The problem is that Africa's coastal cities may be too small to be globally competitive. Cities generate powerful scale economies. One rule of thumb is that each time the size of a city doubles, the productivity of the activities within it increases by around 4 to 8 percent. This implies that a firm operating in a city of 10 million people has unit costs of around 40 percent lower than if it operated in a city of only 100,000.

Small countries have small cities and Africa is a continent of small countries. A comparison of India and Africa makes this point. India has two cities of over 20 million people while the typical African capital city such as Nairobi has a population of only around 3 million. Africa's borders have inhibited the growth of mega-cities. To overcome this problem, integration that permits the free movement of goods, capital and people across national borders allowing the formation of regional cities across Africa is essential.

STRENGTHENING REGIONAL INTEGRATION

The political rhetoric aside, very little real progress has been made in achieving the deep integration needed for industrial development in Africa. Tangible progress to improve trade logistics has been slow. Investments in Africa's regional infrastructure are hampered by the complexity of multi-country projects and the time required for decisions by multiple governments. Institutional reforms—such as common standards, regulations and one stop border facilities—have also failed to materialize.

The reason for this failure is simple: regional investments and institutions require collective action. In many cases, infrastructure that gives market access to landlocked countries mostly benefits the landlocked, yet the costs accrue disproportionately to the coastal countries. Regional agreements that either require coastal countries to spend money on market access for landlocked neighbors or create a mechanism by which the landlocked countries can compensate the coastal countries for their expenditures are needed.

Regional city formation will call for a form of political integration in Africa that is considerably deeper than what currently exists. Durable regional rules and institutions will be needed to support large population movements across national borders. Regional agreements may also need the scope for large fiscal transfers to mitigate the pattern of winners and losers that will come from large population movements with gains concentrated in mega-cities.

AN AGENDA FOR ACTION

For Africa's leaders, the political will to solve the collective action problems that hamstring regional agreements will be crucial. During the past 10 years, regional initiatives have tended to focus on politically visible, but practically limited gestures—such as commitments to the creation of a common currency, a common market or a common policy. Instead, regional leaders need to start at the beginning with common power pools, trans-border infrastructure, improved regional institutions and working arrangements for the free movement of goods. Well-functioning regional investments and institutions need to be the first priority.

Africa's development partners are also part of the problem. Aid agencies continue to prefer dealing with national rather than regional authorities in Africa. The European Union through its economic partnership agreements should be well placed to support deeper regional integration in Africa, but it has largely squandered the opportunity. The eligibility criteria of the Africa Growth and Opportunity Act discourage the formation of regional value chains in Africa. Despite their dedicated regional lending windows, the multilateral development banks have also been slow to meet the challenge of strengthening regional integration in Africa.

In 2011, new ideas, resources and instruments will be needed to reduce the debilitating impact of borders so that African countries can compete in global manufacturing.

SELECTED REFERENCES

Collier, Paul and Anthony Venables (2008). "Trade and Economic Performance: Does Africa's Fragmentation Matter?" *Annual World Bank Conference on Development Economics*. Washington: World Bank.

Dadush, Uri (2010). *In 2050, A World Transformed,* Tunis: African Development Bank.

Page, John (2009) "Africa's Growth Turnaround: From Fewer Mistakes to Sustained Growth," Commission on Growth and Development Working Paper No. 54 Washington: World Bank.

DRIVING AFRICA'S GROWTH THROUGH EXPANDING EXPORTS

JOHN MUTENYO

An important source of potential growth for African economies in 2011 is through the exploitation of export opportunities, both regionally and internationally. There is a consensus that increased export growth leads to overall economic growth. Indeed, the experiences of the Asian Tigers and more recently of Brazil, China, India and South Africa support this observation. Increasing exports is also associated with other gains, like access to larger markets which in turn enables exploitation of economies of scale, efficiency gains from technological spillovers and better resource allocation, employment generation and foreign exchange earnings. By following the market and trade liberalization reforms of the 1980s, African exports rose from 22 percent of GDP in 1983 to an average of 32 percent during the last two decades. Likewise, real GDP growth rose from an average of negative 3 percent in 1983 to an average of over 4 percent during the past two decades. The evidence suggests that there is a strong correlation between economic growth and export performance.

Even though Africa's export revenues have been rising in the last two decades, its overall export performance as a share of the world total has been persistently declining during this same period. Specifically, Africa's share of total world exports plummeted from 4.1 percent in 1981 to 1.7 percent in 1998, only rising slightly to 2.4 percent in 2009. Over this entire period, Africa has on average only accounted for about 2 percent of total global exports, of which 30 percent is attributed to South Africa. Africa's export performance is in sharp contrast to that of China's. In 1980, China's export revenue was 28 percent of that of Africa's. But by 2009, that same ratio had risen to 408 percent. While China's exports accounted for 1.1 percent of total global exports in 1981, its share had risen to 9.8 percent by 2009.

Africa's exports are constrained by several problems. First, African exports are not diversified, with 80 percent of its exports concentrated in oil, minerals and primary agricultural commodities. Fuel and minerals alone account for over 50 percent of Africa's total exports. Broken down by country, it is clear that the region's exports are consistently dominated by primary agricultural commodities, natural resources and minerals. For example, in Angola, 94 percent of exports are in crude oil; in Burundi, 72 percent of exports are in coffee; in Equatorial Guinea, 99 percent of exports are oil and gas; in Malawi, 55 percent of exports are in tobacco; in Nigeria, 82 percent of exports are in crude petroleum; in Sierra Leone, 90 percent of exports are in diamonds; in Zambia, 70 percent of exports are in copper. Africa's lack of export diversity and dependence on commodities are further compounded by its share of industry to total GDP, which declined from 37 percent in 1981 to 33 percent in 2010.

Primary commodities are vulnerable to changes in world prices, leading to deterioration in the terms of trade. Experience from the recent global financial crisis shows that less diversified African countries—particularly those that are natural resource-rich and depend on oil and minerals such as Angola, Botswana, Equatorial Guinea—were affected most during the crisis. Those African countries that are more diversified tended to be more resilient during the global financial crisis (Ghana, Senegal, Tanzania and Uganda) or recovered faster (Kenya, Mauritius and South Africa).

The second problem constraining Africa's export growth is that the destinations for Africa's exports are also less diversified. About 70 percent of Africa's exports go to the United States and the European Union, while less than 10 percent is traded within Africa. Evidence from the recent financial crisis shows that countries that are more dependent on the U.S. and EU markets for exports were more negatively impacted by the crisis than those countries that depended on intra-regional trade within Africa. Thus, in addition to expanding exports, there is need for African countries to exploit intra-Africa trade for sustainable economic growth.

Other issues constraining Africa's capacity to increase its exports include high levels of corruption, high costs of doing business due to poor institutions and infrastructure and trade protectionism in the form of non-tariff barriers on Africa's exports.

To exploit the exporting opportunities, African countries should prioritize infrastructure development and establish functioning special economic zones and export processing zones. Implementing these actions should help improve the investment climate, encourage foreign direct investment and ultimately help African countries diversify their production. African countries must also increase intra-regional trade through the expansion of regional trade blocs and the elimination of regional trade barriers. Finally, due to unfavorable and deteriorating terms of trade faced by African primary commodity exports, there is a need to focus on adding value to primary commodities.

Developed countries can help support the growth of African economies more effectively through provisions of preferential market access for African goods rather than just through giving aid to African countries. In addition, agricultural subsidies from developed countries act as significant barriers for African agricultural exports to penetrate the markets in these countries. Well-designed market access policies can have a significant impact on the growth of African economies but the continued subsidizing of agriculture by developed countries will be a difficult constraint to Africa's growth in 2011.

AFRICA'S WAR ON CORRUPTION

MWANGI S. KIMENYI & JOHN MUKUM MBAKU*

It is now widely recognized that a crucial determinant of a country's economic performance is the quality of its institutions of governance. Although there have been significant improvements in governance in some African countries during the last two decades, most African countries have not succeeded in reforming their governance systems into instruments of peaceful coexistence, wealth creation and economic growth, and social development. Unfortunately the prevalence of corruption still remains one of the continent's most difficult obstacles for development. The ability of Africa to sustain high rates of economic growth in 2011 will depend, to a great extent, on how well its countries are able to transform their governance systems, especially as it pertains to fighting corruption.

For Africa, the cost of poor governance is enormous. Household and business surveys by various reputable organizations, such as the World Bank's *Governance Indicators*, rank virtually all African countries among the worst performers in terms of governance. According to Transparency International's 2010 *Corruption Perceptions Index*, Africa is the most corrupt region of the world. Poor governance, especially the prevalence of extremely high levels of corruption, will undoubtedly continue to have negative impacts on Africa's wealth creation and economic growth in 2011.

Poor governance can manifest itself in many ways. Corruption, rent seeking, public financial malfeasance, and the arbitrary and capricious allocation of public goods and services are just some of the ways in which poor governance manifests itself in African economies. For the poor, corruption is an insidious institution that strips poor people of their human dignity and deprives them of access to public goods and services that could enhance their ability to dig themselves out of poverty. In many Africa countries, civil servants often allocate public goods and services capriciously, favoring those who are willing and able to pay bribes. This process of service allocation not only increases inefficiency and discourages productive activities in the economy, but it also subjects a large part of the population to cruel and unnecessary suffering; the poor end up deprived of welfare-enhancing, life-saving public goods and services, such as clean water, prenatal care for pregnant women, primary education, police protection, shelter and basic health care.

In addition, poor governance creates uncertainties in the economy, which discourages investment in productive capacity. Market participants are not likely to willingly invest in such economies for fear that they would not be able to have access to the fruits of their investments. Thus, poor governance can drive away foreign investors and force domestic investors to seek refuge in economies with more efficient and stable institutional arrangements. In addition to capital flight, poor governance has also been instrumental in forcing many of Africa's scarce human capital resources to flee.

Estimates of the cost of corruption to African economies are mind-boggling. The African Union has estimated that during the 1990s corruption was costing African economies about $148 billion per year, or about 25 percent of Africa's total output. Other reports show that in one year corrupt African politicians and civil servants diverted amounts in excess of $30 billion in development aid to foreign bank accounts. But the impact of corruption is especially costly to the poor with estimates showing that low-income households in Africa spend as much as 2-3 percent of their income on bribes. Lack of accountability is also prevalent in service delivery as evidenced by high rates of absenteeism by front-line providers (nurses, doctors, teachers, etc.). Estimates show that up to 25 percent of teachers are absent from schools at any given time, which has detrimental impact on learning outcomes. Other consequences of poor governance include underinvestment in public goods such as roads, electricity and telecommunications infrastructure. There is no question that poor governance remains a very serious challenge to the long-term development of Africa in 2011 and beyond.

DEEPENING AND SUSTAINING GOVERNANCE REFORMS

The quest for economic growth and development in Africa must focus on *good governance* in its broadest sense—a concept that includes good corporate, economic and political governance. Specifically, good governance, at the very least, entails: (1) transparency and accountability in both the public and private spheres; (2) maintenance of the rule of law; (3) provision of *all* market participants with incentive systems that enhance their involvement in productive activities; (4) protection of the person and property of individuals; (5) enforcement of property rights and freely negotiated contracts; and (6) the maintenance of an institutional environment conducive to mutually beneficial free exchange and peaceful coexistence.

One of the most important policies to ensure the continent's economic growth is to fast track Africa's war on corruption. Although most African countries have set up elaborate anticorruption units, these bodies are largely ineffective and some have even been compromised by the appointing authorities. In some African countries, the war on corruption has been derailed by selective allegations and prosecutions largely influenced by ethnicity, while in others the judiciaries have been overly compromised and become ineffective in the adjudication of corruption cases.

There is a pressing need for national governments and development partners to prioritize the strengthening of autonomous anticorruption bodies and the reforming of national judiciaries. Those countries in Africa that succeed in the war on corruption will win handsome returns by way of economic growth in 2011 and beyond.

SELECTED REFERENCES

Kimenyi, Mwangi S. (1997). *Ethnic Diversity and Liberty: The African Dilemma*, Aldershot, UK and Northampton, MA: Edward Elgar.

Kimenyi, Mwangi S. and John M. Mbaku (1999). *Institutions and Collective Choice in Developing Countries: Applications of the Theory of Public Choice*, Aldershot, UK: Ashgate.

Mbaku, John M. (2004). "NEPAD and Prospects for Development in Africa," *International Studies*, Vol. 41(4): 387-409.

Mbaku, John M. (2004). *Institutions and Development in Africa,* Trenton, NJ: Africa World Press.

Olson, Mancur, Jr. (1996). "Distinguished Lecture on Economics in Government: Big Bills Left on The Sidewalk: Why Some Countries are Rich, and Others Poor," *Journal of Economic Perspective*, Vol. 10(2): 3-24.

Transparency International (2004). *Corruption Perceptions Index 2010,* Berlin: Transparency International Press.

* *John Mukum Mbaku is professor of economics and the John S. Hinkley fellow at Weber State University in Utah.*

Cover Photos (from top): © James Martone/ World Bank, Trevor Samson / World Bank, Jonathan Ernst/World Bank

BROOKINGS
1775 Massachusetts Avenue, NW
Washington, DC 20036
202-797-6000
www.brookings.edu/global