4

STRONGER ECONOMIC MANAGEMENT

Opposite: Counting Tanzanian shillings in Dar es Salaam (©2010 Mikkel Ostergaard / Panos)

By 1983, Ghana's economy had hit rock bottom. The hope that followed Kwame Nkrumah's declaration of independence in 1957 had long since evaporated. The 1966 coup d'état that overthrew Nkrumah had touched off 15 years of intense political instability and a series of coups and countercoups that led to eight different heads of state holding power between 1966 and 1981. The combination of sharply rising oil prices, falling cocoa prices, extreme political volatility, and poor economic management in the late 1970s left the country in disarray. As global economic shocks roiled the economy, successive governments responded with heavy intervention, making a bad situation worse. They imposed extensive trade restrictions, fixed the exchange rate at artificially low levels, and introduced stringent price controls, including imposing very low prices on cocoa farmers. They rapidly expanded the civil service from 35,000 in 1972 to 300,000 in 1982. The government took full or partial ownership of more than 200 enterprises, about half of the modern sector.[1]

The economy went into freefall. Government revenues collapsed just as spending expanded, falling from 21 percent of GDP in 1970 to just 5 percent of a smaller GDP in 1983. The budget deficit ballooned, so the government began to borrow heavily. And when it could no longer borrow abroad, it turned to the central bank to finance the difference, leading to explosive money creation. Inflation jumped to over 120 percent, even in the face of

[1] James Brooke, "Ghana, Once Hopeless, Gets At Least the Look of Success," *New York Times*, January 3, 1989, http://www.nytimes.com/1989/01/03/world/ghana-once-hopeless-gets-at-least-the-look-of-success.html.

widespread price controls. At the same time, foreign exchange reserves dried up, and as dollars disappeared, black markets became pervasive.[2]

The result was disaster. Average income fell by a stunning one-third between 1970 and 1983. Poverty soared. New investment all but disappeared. Cocoa exports fell by half, as did production of staple crops. As Ghana's economy collapsed and neighboring oil-rich Nigeria boomed in the 1970s, people voted with their feet, and more than 2 million Ghanaians fled for Nigeria, only to be expelled and forced back in January 1983. Drought and bush fires pushed the country to the brink of disaster. Ghana's early promise had gone badly wrong.

In April 1983, the government of President Jerry Rawlings decided to act. It introduced the wide-ranging Economy Recovery Program in an attempt to get the economy back on track. Its initial focus was government finances. It began to cut expenditures and strengthen tax collection, bringing the budget deficit from over 6 percent of GDP in 1982 to near zero by 1986. With the smaller deficit, the government stopped printing money, bringing about a sharp fall in inflation. It introduced a series of devaluations and removed many trade restrictions, boosting export activity. When it introduced foreign exchange bureaus in 1998, the currency market stabilized and black markets for dollars essentially disappeared. It raised producer prices for cocoa, and with the fall in inflation, the real price of cocoa paid to farmers tripled by the late 1980s, reversing a decade of decline. The government removed a wide range of price controls, and while prices initially rose, they soon stabilized as goods came back on the market and shortages disappeared. Later, the government began to privatize many state-owned enterprises, further helping its finances and strengthening the management of these companies.

The result has been a striking turnaround. The Ghanaian economy today bears little resemblance to the basket case of the early 1980s. Economic growth has averaged 5 percent per year for 25 years, translating into a 70 percent increase in the income of the average Ghanaian. The poverty rate, after dropping only slightly from 53 percent in 1984 to 50 percent in 1993 in the early days of the reform program, fell dramatically to 30 percent by 2005. Life expectancy was 53 years in 1980; today it is 60 years. The private sector, after waiting for several years for the reforms to solidify, has responded enthusiastically. Investment, which had dropped to just 7 percent of GDP between 1978 and 1984, has risen to more than 25 percent of a much larger GDP, and exports have risen to 37 percent of GDP. The economy is more diversified, with the over-reliance on cocoa

2 Ernest Aryeetey and Augustin Fosu, "Economic Growth in Ghana, 1960–2000," in *The Political Economy of Economic Growth in Africa, 1960–2000*, Volume 2, ed. Ndulu, et al. (Cambridge: Cambridge University Press, 2008).

supplanted by larger contributions from minerals, timber, manufacturing, and a growing range of nontraditional exports, including furniture, pineapples, tuna, and data entry services.

In the late 1990s, as the economy began to stabilize and then expand, Ghana began to shift from authoritarian rule to democracy. It substantially strengthened political rights, civil liberties, and basic freedoms, and its indictors of governance have improved markedly. It held peaceful and competitive elections in 2000, 2004, and 2008. Remarkably, in both 2000 and 2008, opposition candidates won the contest with smooth and peaceful transitions of power, an unthinkable outcome just 20 years before. "In Ghana, we know how to have a democracy," said Doris Quartey, a teacher who was preparing to vote in the 2008 presidential runoff election. "We are an example for the whole continent."[3]

Ghana's record is far from spotless. The progress over the last 20 years at times has been uneven, and there are still many flaws. Nevertheless, overall progress has been strong, and the major changes in economic policy and governance provide a strong foundation for continued growth in the future.

Ghana's story of economic malaise and self-inflicted wounds was repeated across much of sub-Saharan Africa in the 1970s and 1980s. The problems were not all the result of poor policies and governance; SSA clearly was dealt a bad hand through the corrosive effects of colonialism, poor geography, endemic disease, and the global economic turmoil of the 1970s, all of which made the development challenge in Africa far more difficult than in many other places. But all the same, there is no doubt that economic mismanagement made the situation much worse.[4]

Yet just as poor economic management generated dismal economic performance through the 1980s, major improvements in economic policymaking played a central role in the economic turnaround in the mid-1990s, especially in the emerging countries. And improved economic policies are a cornerstone for continuing economic progress into the future.

SSA's economic deterioration began in the mid-1970s, when many governments responded to the global economic crisis by sharply increasing spending and budget deficits, and then financing the deficits either by borrowing abroad or printing money at home. The first led to a rapid build-up in foreign debt, the second to growing inflation. Most countries

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[3] Lydia Polgreen, "Ghana's Image, Glowing Abroad, Is Beginning to Show a Few Blemishes at Home," *New York Times*, December 22, 2008, http://www.nytimes.com/2008/12/23/world/africa/23ghana.html.

[4] For the most comprehensive analysis of economic performance in SSA since 1960, see Benno Ndulu, et al., *The Political Economy of Economic Growth in Africa, 1960–2000*, vols. 1 and 2 (Cambridge: Cambridge University Press, 2007).

fixed their exchange rates at overvalued rates to try to keep import prices low for their favored political constituencies—typically urban consumers, the army, and the civil service. But this approach only encouraged rapid growth in imports while undermining the profitability of exporters and domestic firms competing with imports.

As imports grew, governments introduced ad hoc trade barriers to try to stop them. They gave favored firms generous protection through high import tariffs and quotas. While sometimes well-designed import substitution policies can help stimulate domestic industries, more often than not these policies were abused as tools of political patronage to protect industries that could never hope to be competitive. In some countries, exports were heavily taxed or restricted to divert supplies to domestic markets and keep prices artificially low. The result of all these policies was to kill new business creation, limit economic diversification, undermine job creation, and generate big trade deficits. Only poverty flourished.

As trade deficits grew, foreign exchange became scarce. Central bank holdings of foreign exchange were cut in half, from the equivalent of 15 weeks of import cover on average in 1973 to less than 8 weeks in 1982. As the availability of hard currency dwindled, black markets emerged, and the exchange rate in those markets soared. In the early 1980s, the average black market premium on foreign exchange reached 60 percent, and in some countries it was much worse. In Ghana, the black market premium reached an astonishing 40 times the official rate in 1982, and in Mozambique it was nearly 50 times higher in 1986. The shortages of currency severely distorted markets throughout the economy and set up easy opportunities for corruption. Government officials could obtain scarce foreign exchange at the official (cheap) rate for their friends and cronies, of course accompanied by an easy bribe. Those without connections were left to buy dollars on the street at a much higher rate.

Meanwhile, farmers struggled mightily. The "urban bias" against agriculture started with overvalued exchange rates that kept food prices cheap and undermined agricultural exports. It was worsened by government price controls, limited access to seeds and fertilizers, poor roads, and weak agricultural extension and research programs. Among the most damaging approaches, as documented in Robert Bates' brilliant 1981 work *Markets and States in Tropical Africa,* were pervasive agriculture marketing boards. These institutions ostensibly were established to provide farmers with a sure market to sell their goods, but in reality they were run primarily to control the market, drive down prices, and transfer the surplus to government (and often personal) coffers.[5]

5 Robert Bates, *Markets and States in Tropical Africa: The Political Basis of Agricultural Policies,* (Berkeley: University of California Press, 1981).

In most countries, the state intervened in the economy with a heavy hand. State enterprises controlled grocery stores, trading houses, plantations, banks, utilities, hotels, and manufacturing companies. Government regulations added layers of bureaucracy that stifled business and encouraged graft. The balance between government involvement and private enterprise was way off kilter, and the heavy involvement of the state did significant economic damage.

Sometimes bad policies were just mistakes by inexperienced policymakers struggling in the face of global economic turmoil. After all, economic management was extremely complicated in the global environment of the late 1970s and early 1980s—almost every country in the world went into a deep recession—and skilled technocrats were in short supply across Africa. Sometimes policies were based on well-intentioned ideas and ideologies, with many African leaders experimenting with various forms of socialism, often encouraged by foreign advisors and academics. But often they were driven by government leaders who were unaccountable to their people and far more interested in enlarging their economic and political power, supporting their cronies, and funneling money to their personal bank accounts rather than in creating opportunities to encourage development and poverty reduction. As I have stressed, political authoritarianism and heavy-handed economic policy controls went hand in hand across SSA.

Kampala, Uganda

Whatever the reason for the policy choices, the effects were devastating. Economies across the continent stagnated and in some cases collapsed entirely. The median income fell by about 15 percent in SSA between 1977 and 1995, and average poverty rates rose to 59 percent. In some cases it was much worse. By the mid-1980s Africa's tragedy was in full swing.

The most comprehensive and authoritative assessment of Africa's economic performance during this period is the *Economic Growth in Africa* research project undertaken by a team at the Africa Economic Research Consortium (AERC).[6] Based on an exhaustive multiyear analysis that examined countries across the continent, the team identified and carefully catalogued four key "antigrowth syndromes" that it found were at the root of Africa's poor growth performance:

- Aggressive *control or regulatory policy regimes* in which governments displaced the market as the primary agency for governing the economy, resulting in severe distortions of economic activity and rewards for corruption;
- *Ethno-regional redistribution systems* that compromised efficiency and economic growth by redistributing substantial amounts of income to specific political interest groups, often along ethnic or regional lines;
- *Intertemporal redistribution policies* that aggressively sacrificed the future income of subsequent generations for present gain through high levels of unsustainable spending, the accumulation of massive debts, and looting of publicly owned assets; and
- *State breakdown* during civil war or periods of intense political instability.

Almost all SSA countries experienced one, and in most cases more than one, of these syndromes for prolonged periods before the mid-1990s. The only sustained exceptions were, not surprisingly, Botswana and Mauritius. Otherwise, the syndromes were pervasive: in the 1960s about 50 percent of Africans were living in a country with at least one syndrome, whereas in the 1970s it jumped to 89 percent and in the 1980s soared to 94 percent. Nearly the entire subcontinent was inhospitable to growth. The researchers found that these syndromes were a key driver of Africa's dismal economic performance and argued that their removal would be central to any economic turnaround. They concluded that remaining syndrome-free is the single most important choice for closing the growth gap between Africa and other regions.

6 Ndulu, et al., *Political Economy.*

The Turnaround in Economic Policies

Today the situation in SSA is very different. Governments across Africa have made major changes in economic policies, especially (but not only) in the emerging countries. Gone are the days of hyperinflation, multiple exchange rates, and black markets to buy foreign currency. Budget management is much more prudent, with smaller deficits, more publicly disclosed audits, much less borrowing against future generations, and lower rates of inflation. Marketing boards have largely disappeared, and trade policies are less restrictive and arbitrary. The state still plays an active role in most countries, but the extreme versions of the heavy hand of the state that were prevalent across the continent have given way to a better balance between states and markets.

Ghana was one of the first to introduce widespread policy changes with its 1983 Economic Reform Program. By the late 1980s, many other countries had at least begun the process.

Three main forces were behind the changes: the lack of available financing for continuing the old patterns, changing ideas, and global pressures. As budget and trade deficits began to grow in the late 1970s, countries across SSA financed them by some combination of borrowing abroad or at home, printing money, and running down foreign exchange reserves. But there was only so long they could continue on this path. Once Mexico defaulted on its debts in 1982, foreign banks stopped lending to developing countries worldwide, and foreign borrowing options disappeared. The amounts available to borrow at home were limited, and most countries quickly exhausted their foreign exchange reserves. With financing options drying up, governments had little choice but to introduce painful austerity measures to close their deficits, usually under the auspices of the International Monetary Fund. As discussed in the last chapter, these austerity measures were enormously unpopular, and contributed significantly to the rise of political protests in the late 1980s. But governments had little choice; they were out of room to maneuver.

As much as governments were forced to introduce these measures, changing ideas played an important role as well. It became obvious to economists, business leaders, and the general public that the economic policies and heavy state control of the past had failed. A growing number of policymakers, academics, and other leaders learned from the mistakes of the past and came to recognize that governments could not impose absolute controls over prices and commerce, and that doing so led to capital flight, corruption, debt, stagnation, and poverty. A different approach was required.

The policy changes initially focused on painful but necessary macroeconomic stabilization, especially reducing budget deficits, devaluing

currencies, removing price controls, and reigning in inflation. Over the years they expanded to include privatization and other state-owned enterprise reforms, strengthening of agricultural price policies, lowering of tariffs and other trade barriers, easing of regulations and controls on businesses, and a wide range of other changes.

At first, economies stabilized but did not begin to grow. Budget deficits shrank, inflation began to fall, black markets disappeared, and shortages became less frequent. But overall economic output and income remained stagnant. It took several years for the policy changes to begin to affect investment and output, to a large extent because of the dramatic political changes that occurred between 1989 and 1994, as described in the previous chapter. With so much political uncertainty, investors remained cautious, capital flight remained high, and output remained flat. But as the political situation began to stabilize, the combination of new, more accountable governments and improved economic policies began to take hold. By 1995, a new period of economic expansion had begun.

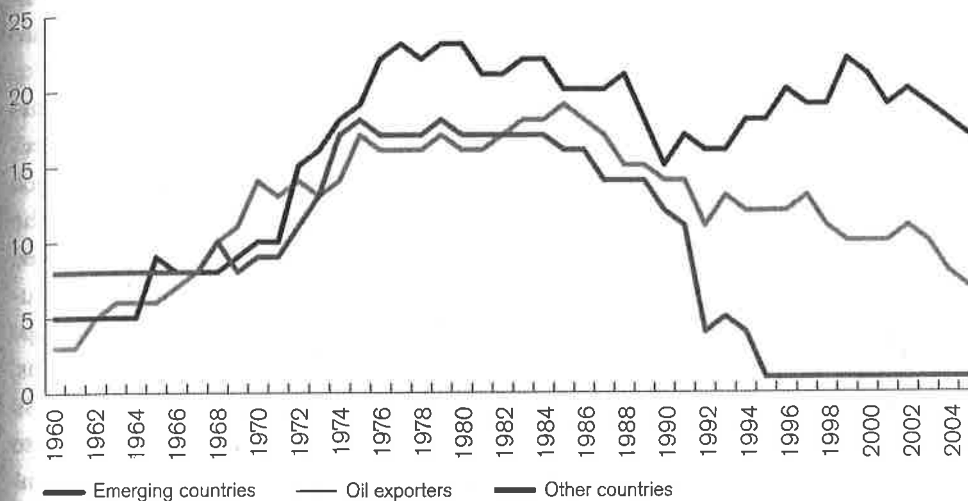
The extent of the change in economic policies in the emerging countries is succinctly captured by changes in the prevalence of the four "antigrowth syndromes" described earlier (Figure 4.1). In the 1970s, antigrowth syndromes were on the rise across SSA, and remained high for more than a decade. But beginning in the mid-1980s, and especially in the late 1980s and early 1990s, they fell sharply in the emerging countries. By comparison, they fell only gradually in the oil-exporting countries and hardly at all in the other countries of SSA. By 1995, the emerging countries were essentially syndrome-free, setting the stage for the turnaround in economic growth.

Broadly speaking, the shift in economic policies has been a move away from heavy state intervention and toward fairly orthodox economic policies. While the move toward more market-oriented policies was often criticized at the time (and still is), in retrospect it is clear that this shift paid off with much better economic performance. That is not to say that pure free markets or strong orthodoxy are always right. They aren't. There is a role for governments to play in making markets work more effectively, especially in implementing appropriate regulations, establishing strong legal frameworks, and providing vital services. But the balance between markets and states was way off in SSA in the early 1980s, and the shift in policies during the last two decades has brought about a much healthier and effective balance. Looking back it is clear that the shift from statist control toward more market-oriented policies has had a big payoff.

Of course, economic management is far from perfect despite significant improvement since the late 1980s. Being syndrome-free does not

FIGURE 4.1 The Emerging Countries Eliminated Many of the Major Barriers to Growth in the Early 1990s

Number of Antigrowth Syndromes



Antigrowth syndromes include (1) control or regulatory policy regimes, (2) ethno-regional distributions systems, (3) intertemporal redistribution policies, and (4) state breakdown, as defined and catalogued in Benno Ndulu, et al., *The Political Economy of Economic Growth in Africa, 1960-2000*, vols. 1 and 2 (Cambridge: Cambridge University Press, 2008).

mean that economic policies are ideal. It is still easy to find counterproductive regulations, arduous red tape, price controls, and business restrictions that ultimately support only political friends (which, to some extent, can be found in every country in the world). But the difference today compared to 20 years ago is unmistakable, especially in the emerging countries. And the policy changes that helped spark the turnaround in the mid-1990s have been deepened and strengthened over time, helping to lay the foundation for continued growth into the future.

Exchange Rate, Trade, and Budget Policies

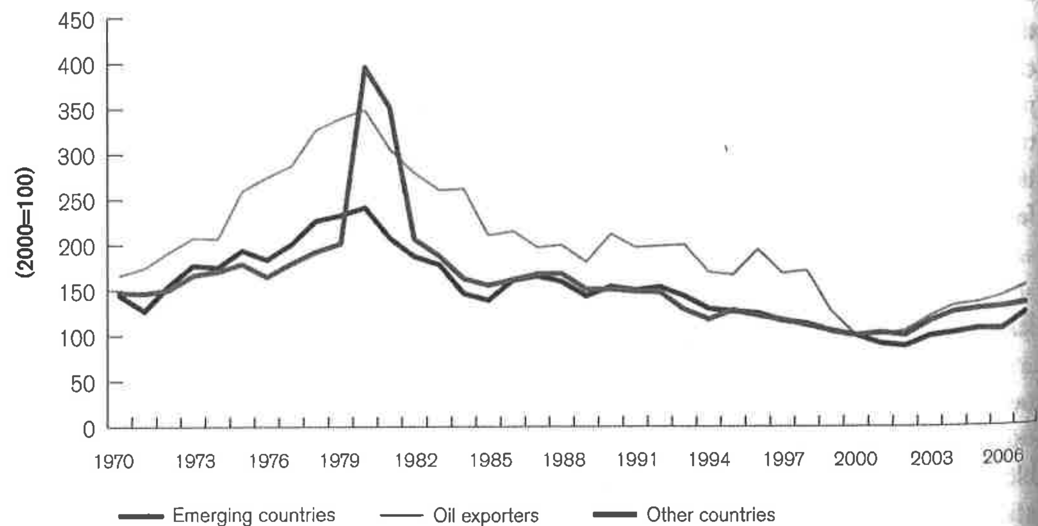
Let's take a closer look at some of the key policy changes, starting with exchange rates. Since the late 1980s many countries have moved to flexible exchange rates and as a result have essentially eliminated overvaluation. Where exchange rates remain fixed (such as in the West African and Central African Monetary Unions), they are pegged at more competitive rates. The once ubiquitous black markets for foreign currency are gone in the emerging countries. Multiple exchange rates have disappeared, and with them the shortages of foreign exchange.

Figure 4.2 shows one indicator of the decline in overvaluation: the "real" exchange rate, which incorporates changes in the nominal exchange

rate alongside relative inflation at home and abroad.[7] African currencies were massively overvalued in the early 1980s, but they have gradually depreciated in real terms since then, through both depreciation of the nominal exchange rate and better control of inflation. Today, most countries are at or near parity.

This change has made a huge difference. In Uganda, for example, massive exchange rate overvaluation in the late 1970s and early 1980s severely undermined investment and destroyed export profitability. The black market premium reached 100 percent in the mid-1980s. Beginning in the late 1980s, the government first devalued the shilling, and then liberalized the foreign exchange market system and introduced foreign exchange bureaus. The spread between the official and parallel rates all but disappeared. Alongside a package of other trade, price, and monetary reforms, the economy responded. Investment grew from 11 percent of GDP in 1989 to 20 percent in 1996. Exports expanded quickly, with diversification into horticulture and other new products. Foreign exchange reserves increased substantially, from US$44 million in 1990 to over US$800 million a decade later.

FIGURE 4.2 Currencies Are Much Less Overvalued Today than in the 1980s
Change in the Real Exchange Rate



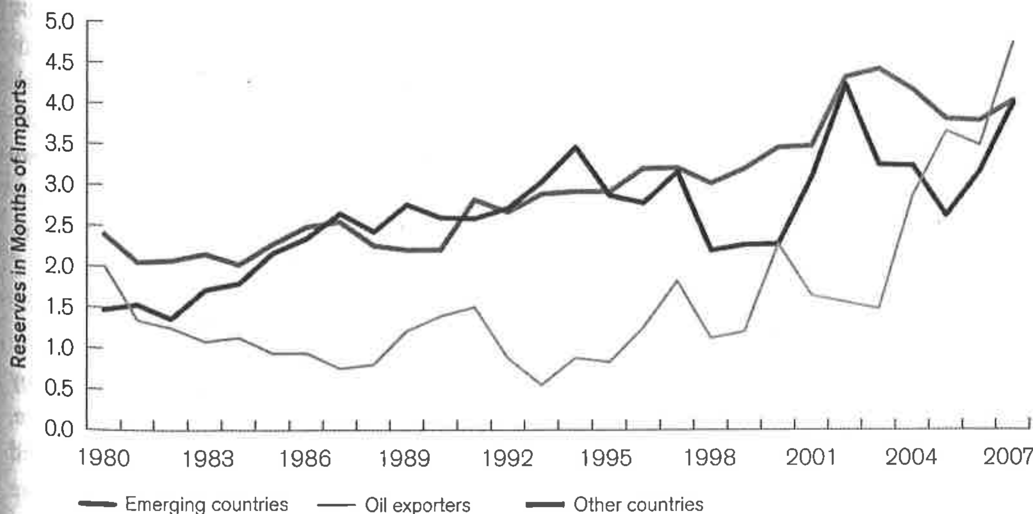
Note: Excludes Ghana, Sudan, and Zimbabwe, where exchange rates were extremely overvalued.
Source: Author's calculations (see footnote 7).

7 The real exchange rate is estimated here by the common method of multiplying the nominal exchange rate (in foreign units of currency per unit of local currency) times the ratio of the domestic consumer price index relative to the U.S. consumer price index.

As currency markets have stabilized and black markets have disappeared, shortages of foreign exchange have become rare, and holdings of foreign exchange reserves have grown. In the emerging countries, foreign exchange reserves have doubled from about two months of import cover in the late 1980s to over four months in 2007 (Figure 4.3). In several countries, including Botswana, Rwanda, São Tomé and Príncipe, Tanzania, and Uganda, reserve cover now exceeds five months of imports. The growth in reserves has helped stabilize currency fluctuations, helped reduce investment risk, and created a buffer to cushion the impact of the 2009 global financial crisis.

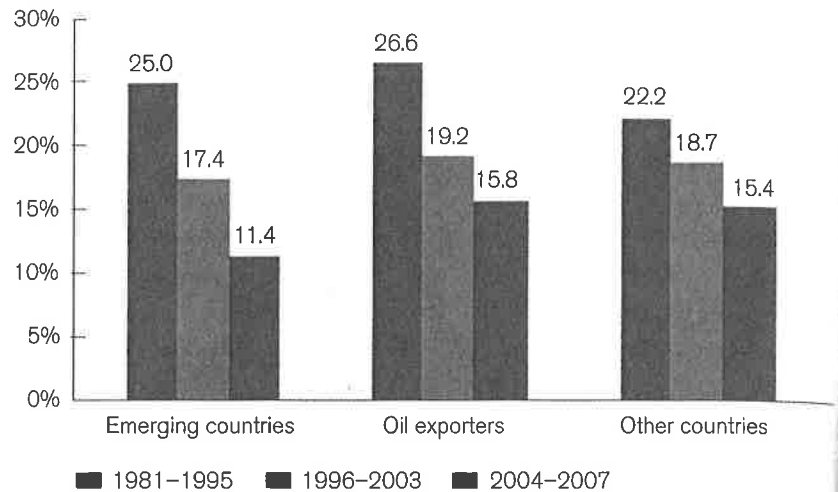
Meanwhile, trade policies are much more open. In the early 1980s, tariff rates across SSA averaged over 25 percent. Today they have been cut in half, to an average of less than 12 percent in the emerging countries, similar to other developing regions around the world. In the other countries in Africa, tariffs have dropped to around 15 percent (Figure 4.4). Quantitative restrictions on imports and taxes on exports have declined significantly. As a result, businesses can import much more easily and cheaply, and competitive firms are beginning to either displace imports or export to world markets. Partly because of these changes, trade has expanded rapidly in the emerging countries, as we showed earlier in Chapter 2.

FIGURE 4.3 Foreign Exchange Reserves Are Rising



Source: World Bank, World Development Indictors. Data for emerging countries exclude Botswana, whose reserves are very large.

FIGURE 4.4 Import Tariff Rates Have Fallen Steadily
Average Import Tariff Rate



Source: World Bank data on trade and import barriers, http://go.worldbank.org/LGOXFTV550.

Improved Incentives for Agriculture

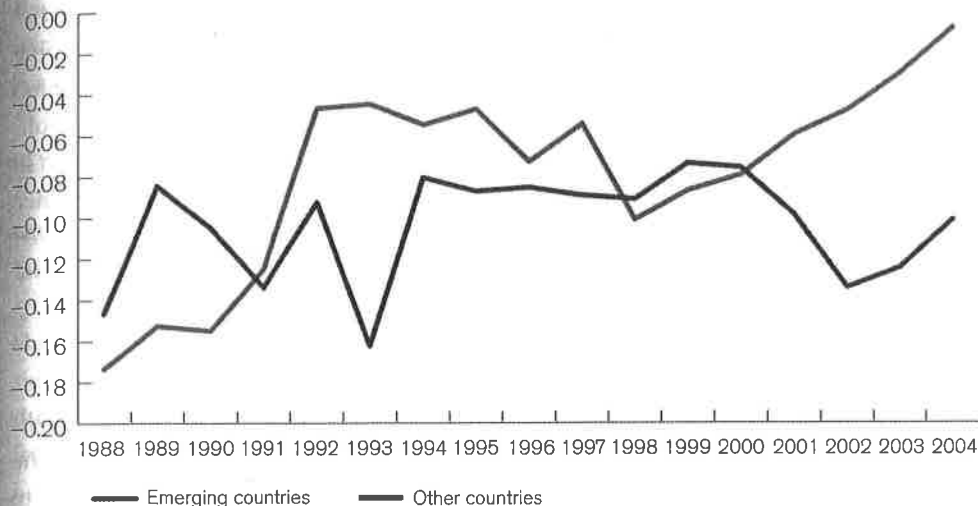
Among the most important policy changes have been those in agriculture. The once strong urban bias that undermined farmer incentives has shifted considerably. Governments once imposed controls to keep prices low for consumers at the expense of farmers; today, the worst of those controls have been removed, and farmers can sell their products for much better prices. Agricultural marketing boards that had nearly exclusive power to buy farm products at depressed prices have given way to more open and competitive markets where farmers can choose from a variety of options to sell their goods for the best possible price. Taxes on agricultural production are much lower, especially for export products.

One way to see the reduction in the bias against agriculture is the change in the so-called nominal rate of assistance, a composite measure of the impact of policies on incentives for farm production compiled by the World Bank. A negative value indicates a net bias against agriculture, such as from heavy taxes, export restrictions, or government-controlled low prices. Zero indicates an overall neutral policy stance, and a positive number indicates a net bias in favor of agriculture, such as through subsidies or import protection.

In 1988, the net bias against agriculture in the emerging countries was more than 17 percent of output prices, equivalent to a huge tax that was a crippling burden for farmers (Figure 4.5). But by 2004 the bias had

FIGURE 4.5 Agricultural Policies Are Much More Favorable

The Nominal Rate of Assistance, Total Agriculture



Note: The figures are based on nine emerging SSA countries and seven other SSA countries for which data are available. A negative score indicates a policy bias against agriculture, a score of zero indicates an overall neutral policy stance, and a positive score indicates an overall policy bias in favor of agriculture.

Source: World Bank Dataset on Agricultural Distortions; Kym Anderson and William A. Masters, eds., *Distortions to Agricultural Incentives in Africa* (Washington, DC: World Bank, 2009).

been nearly eliminated through deregulation of farm gate prices, lower taxes, elimination of export taxes, and reduced influence of state-owned market boards. Farmers have responded energetically. As we saw in Chapter 2, the annual rate of growth in agricultural production has averaged more than 3.5 percent for 20 years across these countries, meaning that total agricultural production has nearly doubled since 1988 in the emerging countries.

Mozambique is a good example. Following independence from Portugal in 1975, the government nationalized several agricultural firms and took over land that had been abandoned by fleeing settlers, which led to the creation of large state-owned farms. By the 1980s, these farms controlled more than 50 percent of agricultural production. In addition, the government continued the colonial practice of requiring that all commercial agricultural goods be sold through a marketing board that controlled farm prices at low levels. It was by all accounts a disaster: agricultural production fell 30 percent between 1975 and 1982.

But starting in 1987, the government allowed private traders to enter the market, sold several state-owned enterprises, and liberalized prices. Prices received by farmers rose significantly, providing much stronger incentives for farmers and raising farm income. Following the end of the civil war in 1992, the economy rebounded quickly, including the agricul-

tural sector. The government continued to improve incentives for farmers throughout the 1990s. The nominal rate of assistance has increased dramatically, from –35 percent in the late 1970s (reflecting the very low prices imposed on farmers) to +12 percent since 2000 (reflecting the freeing of prices, alongside import protection on certain products). The combination of the end of the conflict, the strengthening of macroeconomic policies, and the improvement in incentives to farmers has led to growth in agricultural production averaging more than 6 percent per year since 1992, so that production has more than doubled since then.[8]

Strengthening the Business Climate

Beyond agriculture, the overall climate for private business has strengthened markedly across Africa in the last few years, but especially in the emerging countries. There has been a considerable decline in the costs to start a business, the extent of red tape and restrictions on business, the costs of registering property, the hassles in pursuing commercial court claims, and other difficulties of conducting business.

Consider the costs of starting a business.[9] One of the major reasons private sector growth was so slow in SSA during the 1980s and early 1990s was that it was just too expensive even to start a business. Energetic entrepreneurs with creative ideas couldn't get started because of the morass of permits, signatures, and processes they needed to wade through, not to mention the high fees (and accompanying bribes) at every step of the process.

But this has begun to change. Governments typically no longer see private business as something to be suspicious of, to control, or to extract resources from, but rather as key drivers of long-term development that should be encouraged and supported. In many countries, the barriers to start a business have been significantly reduced, making it easier for investors and entrepreneurs to get moving.

For example, many countries have introduced one-stop investment shops, making it possible for investors to get all the permits and forms they need in one place, rather than taking months to run around to different offices. Several have reduced the number of required permits and registrations, and eliminated unnecessary steps. Ghana, for example, has

8 Andrea Alfieri, Channing Arndt, and Xavier Cirera, "Mozambique," in *Distortions to Agricultural Incentives in Africa*, eds. Kym Anderson and William A. Masters (Washington, DC: World Bank, 2009).

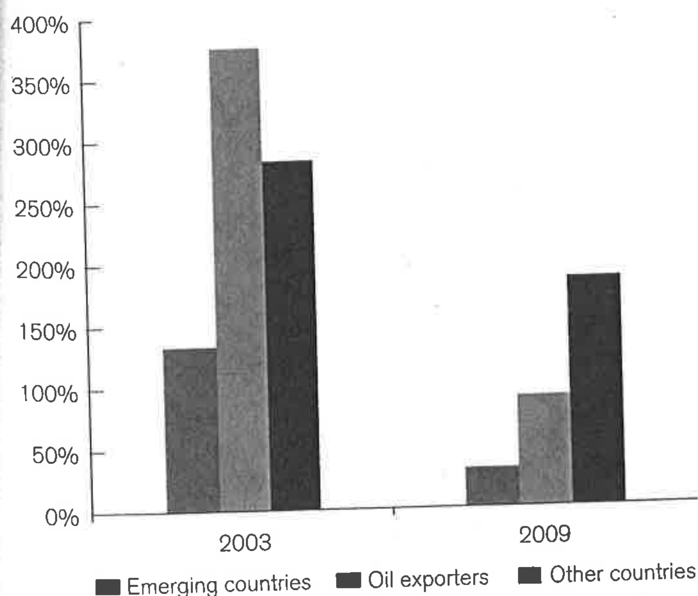
9 In this section I rely heavily on the rich analyses and databases generated by the World Bank Group's *Doing Business* Project. The annual *Doing Business* reports and the online database are particularly useful, both in generating data and—by reporting comparative data across countries—in encouraging countries to accelerate the pace of reform. See http://www.doingbusiness.org.

eliminated the need to register a company seal, an unnecessary annoyance. Several countries, including Botswana, Namibia, and South Africa, have introduced faster online registration systems. Liberia, Sierra Leone, and South Africa, among others, have made the use of lawyers optional for registration, reducing both the time and costs for businesses.

The result has been a significant drop in the costs to start a business across almost all of Africa, but especially in the emerging countries (Figure 4.6). In 2003, starting a business cost the equivalent of 1.3 times average annual income per capita in the emerging countries, but just six years later the costs were only about 0.3 times average income.

Similarly, the costs of licenses and construction permits have dropped sharply in many countries. Burkina Faso has reduced the cost of construction permits by 25 percent and has cut 12 days out of the process. It introduced a one-stop shop, cut in half the fees for soil exams, and reduced fees for municipal approvals and for fire safety. It also limited the number of onsite inspections by the government, eliminating the frequent and random inspections that used to plague builders. One architect in Ougadougou reports that "we can still expect inspections at certain critical stages, but this is a far cry from the up to 15 or so we could receive before."[10]

FIGURE 4.6 The Costs of Starting a Business Have Fallen Sharply
Start-Up Costs as a Percentage of Income per Capita



Source: World Bank *Doing Business 2010* (see n. 9).

10 World Bank, *Doing Business 2009.*

Other countries have followed suit. Liberia now processes building permits in 30 days, and has cut the fees from US$1,400 to US$700. Rwanda has combined the applications for location clearance and a building permit into a single form, and companies need to submit only one application form for water, sewerage, and electricity connections.[11]

It is also getting easier to register property in many countries, easing disputes about land and making it easier to collateralize loans. In 2008, Rwanda replaced an expensive registration fee costing 6 percent of the value of the property with a simple flat fee of 20,000 Rwandan francs (about US$34). In addition to the fee, the Rwandan Revenue Authority previously had to value the property, which took 35 days on average (and introduced ample opportunity for bribes). With the flat fee, the valuation requirement is no longer necessary. Registering property now requires just four procedures and costs on average less than 1 percent of the property value.

Property registration has always had a strong gender bias, since many countries allow only men to own and register property. The World Bank quotes a woman named Catherine who describes the situation in Lesotho: "The process is slow for everyone, but especially for women. I wanted to sell our store last year, but since my husband was abroad, I had to wait two months for him to return and sign. When he signed the papers for me, the deal went through—after three more months of bureaucracy." But Lesotho has now taken steps to remove this bias. A law passed in November 2006 allows married women in Lesotho to transfer property without their husbands' signatures.[12]

The overall improvement in the business climate in the emerging countries of Africa is evident in the World Bank's *Doing Business* rankings (Table 4.1). Across 10 different indicators of the business climate, the emerging countries on average rank in the upper two-thirds of countries around the world; on every indicator, they rank higher than the average for low-income countries. Out of 181 countries worldwide, the emerging countries rank on average 104, a significant improvement over previous years, and higher than the average for low-income countries around the world. In the 2009 rankings, the country with the largest improvement in the world was Rwanda, and Liberia ranked in the top 10 in improvement.

Make no mistake—business costs remain high in the emerging countries. It is still hard to get a business started in many places, and red tape and unnecessary costs add to the burden along the way. There is still a long way to go to make the business environments competitive in several countries, but change is clearly under way.

11 Ibid.

12 World Bank, *Doing Business 2008* (see n. 9).

TABLE 4.1 Ease of Doing Business
Average Rank out of 181 Countries Worldwide, 2009

	Sub-Saharan Africa		Low-income countries (worldwide)
	Emerging countries	Other countries	
Total Ease of Doing Business	**104**	**159**	**141**
Starting a business	100	149	118
Dealing with construction permits	101	126	124
Employing workers	97	127	114
Registering property	103	136	118
Getting credit	99	139	123
Protecting investors	85	140	115
Paying taxes	78	126	120
Trading across borders	126	136	141
Enforcing contracts	83	133	113
Closing a business	108	139	135

Source: The World Bank, *Doing Business 2010* (see n. 9).

Private investors and entrepreneurs have responded to these changes. The combination of improvements in macroeconomic policies, agricultural incentives, and the business climate has led to significant increases in investment, from both domestic entrepreneurs and foreign investors. Whereas investment in the emerging countries averaged about 18 percent of GDP in the 1980s, since 1996 it has averaged nearly 23 percent. In constant dollar terms, annual aggregate investment since 2004 has been more than *double* the level of the late 1980s. Most investment comes from domestic entrepreneurs, but a large share of the increase in recent years has come from foreign investors, who are beginning to see growing opportunities in the emerging SSA countries. Foreign direct investment averaged a paltry 0.8 percent of GDP in the emerging countries in the 1980s, but since 1996 it has averaged 4.0 percent, more than quadrupling its share of GDP.

Sustaining the Progress

The deep changes in economic policy that began in the mid-1980s have been a central part of the renaissance of the emerging countries. By the same token, continuing strong economic management and further deepening and extending the reform process will be fundamental to continuing that success in the years to come.

One reason for guarded optimism for the future is that countries today have much stronger professional and technical capacity for economic

policymaking than they did 20 years ago. Central banks in particular have far more well-trained and capable policy analysts and researchers. Ministries of finance and planning, investment commissions, and other economic bodies also generally have many more capable staff compared with two decades ago. Many ministries of finance and central banks are now run by competent, world-class professionals who have charted out far more sensible and balanced approaches for the future. As Paul Collier has aptly put it, they have learned from the mistakes of the past and are not likely to repeat them. A perfect example is Benno Ndulu, lead author of the AERC growth project and now the governor of the Central Bank of Tanzania. A coauthor of the study, Chukwuma Soludo, was until recently governor of the Central Bank of Nigeria. And there are many more. Much has been made over the years of the importance of the technical competence of economic policymakers in the Asian "miracle" countries, and rightly so. In the last 15 years, Africa has begun to develop a cadre of its own professionals that are now in senior positions, with at least some independence for sound policymaking.

At the same time, the shift toward democracy, greater transparency, and increased accountability has fundamentally changed the dynamic for the formation of public policies. The press is freer and livelier in many countries, and there are a growing number of NGOs, think tanks, business groups, and other organizations that push for more sensible economic and social policies. A new generation has come of age that expects and demands competent economic management. Today, younger entrepreneurs and members of a small but growing middle class, many with experience living internationally and with global connections through cell phones and the internet, are pushing for practical solutions to problems and a more accountable leadership, as discussed in Chapter 7. Most of today's leaders and technocrats in the emerging countries are more responsive to their citizens and concerned about a wider range of development issues, broad-based economic growth, and poverty reduction.

The stronger economic management in conjunction with the rise of democracy has been a surprise to some: there was concern in the mid-1990s that as African countries became more democratic, policies would deteriorate in response to multiple interests and populist pressures. But this has not been the case. Rather, the shift toward more democratic governance appears to have (imperfectly) increased accountability and significantly improved economic management relative to authoritarian governments. Leaders today are not simply responding to the interests of a narrow range of supporters through patronage politics, at least not to the extent of the past, but instead are responding to the need for sensible economic policies for a broader segment of the population.

This all bodes well for the future. The combination of stronger economic leadership, learning from the past, increased public pressure for sensible economic policies, and greater accountability is critically important. It provides greater confidence that the improved economic policies of the last decade can be sustained and further strengthened. There will be mistakes and setbacks, as there are anywhere. But with strong economic leadership and accountability mechanisms, governments in the emerging countries are likely to implement sound economic policies that will continue, slowly but surely, to provide the foundation for sustained economic growth and poverty reduction in the future.