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Presents

***Africa's Economic Growth:
Past Lessons and Future Prospects***

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Nancy Birdsall: I do not know whether to say good morning or good afternoon. I think it is okay to say good afternoon ladies and gentlemen. I am Nancy Birdsall from the Center for Global Development and I feel it is really a privilege to share with Carol Lancaster's Mortara Center at Georgetown University, the opportunity to bring to you what is a very exciting book. I wanted to say a word because we have a crowd here. Not all of you may know everything about the Center, just to say that we worry about poverty and inequality in the world and we especially worry about fixing and pushing the policies and practices of the rich world, the US, the World Bank, the United Nations, the Europeans, etc. to do better on being development friendly. This book is going to enrich much of what we do. My colleague Vijaya Ramachandran is here, she works on infrastructure in Africa and many of you will know that Steve Radelet has been spending a lot of time in Liberia learning and teaching us at the Center about fragile states. And some of you might know we had a working group on the African Development Bank which we like to believe influenced Paul Martin's High Level Panel on that subject.

We are very pleased to have all these distinguished authors here but I want to pass the word quickly to my colleague Carol Lancaster to say that I am very proud she is a member of the distinguished board of the Center for Global Development. She has been a visiting fellow and I hope will be visiting more in the future and we are going to be publishing a terrific book that I recommend to all of you. You will hear more about it soon by Carol called *George Bush's Foreign Aid: Transformation or Chaos*. Carol.

Carol Lancaster: Thanks. I hate to give the game away but this is the first book I have written that has a sound bite which is transformation and chaos but wait till it comes out. It is coming out tomorrow I think. Thanks, Nancy. I am Carol Lancaster from the Mortara Center at Georgetown University. I am delighted to co-host this with my favorite think tank and my favorite think tank director and some of the best writers in the area of African economic growth. I am so pleased. When Steve O'Connell called - I do not know how long ago, months ago - and said do you have a good idea for a place to host a book launch and I came to Nancy because this seemed to me a perfect place and so I just want to say one or two words about the book.

You see a poster over there. This is actually only volume one. Volume two is about twice this thickness. So you have got a really sizable book here with some very new and good ideas which we will be hearing about from some of the authors and some of the commentaries. The book is an outgrowth of the work of a very important organization that I have also had the pleasure of working with, the African Economic Research Consortium, which has been funded by a number of donor agencies and foundations including the Rockefeller Foundation as one of the founding donors. It was set up 20 years ago so this is its 20th anniversary. Its headquarters is in Nairobi and it brings together scholars, both economists and political scientists to work on African economic issues. Its idea is to increase the capacity of African economists and to collaborate and it has done, an absolutely marvelous job. I think Benno

Ndulu was the second director of the African Economic Research Consortium and I think maybe others here have had the pleasure of working with the consortium or at least benefiting from its very important work.

It is a true example it seems to me of successful capacity building and I think we all have to be grateful for that and I think this book and its second volume will also remind us how important it is to have all the voices present when these very important pieces of research are done. And so it is my great pleasure to turn the event over to our chair, Steve Radelet, who Nancy has reminded us is not only an economist but also I think an Africanist with a lot of recent experience in Liberia and I gather working on a book on Africa as well. So Steve, it is over to you.

Steve Radelet: Thank you, Carol. Welcome to everybody. I am Steve Radelet, senior fellow here at the Center for Global Development. It is great to see such a huge crowd. I actually own both volumes of this book. I bought it a few weeks ago and have been wading through parts of it. I am not going to claim that I have read every word because I have not and I am not sure I will read every word but this book is going to be the source book on African growth, economic growth and the political economy of growth for many years to come. It is an incredible volume. It looks back at 40 years of history and across the continent has a combination of individual case studies in the second volume so that you can learn in depth about any country that you wish to learn more in depth. But the first volume brings together and synthesizes many of the key lessons that come out of that. It has some wonderful taxonomies that uses those quite to the advantage but also recognizes that the taxonomies cannot do everything and you have got to look at individual cases.

It brings in lots of discussion on policy, on the political economy of policy, on geography, on traps and nontraps, conflicts, all of the key issues are brought together in a way that I have not seen before. So this really is going to become or already is the source book on African economic growth and the way that we want to proceed today is with five different speakers, four of them contributed to the book and one is an outstanding commenter. We will have two rounds of commentary and then we will open it up at the end for questions and discussions. Our first three speakers are going to be Benno Ndulu and then Robert Bates, and the Callisto Madavo provides some comments.

Benno Ndulu is now the governor of the Central Bank of Tanzania. Before that, he was at the World Bank for many years and as Carol mentioned, was one of the absolutely fundamental people in building AERC into what it is today. And he is going to kick us off with a discussion focusing on economic growth and some of the key lessons that come out of the two volumes that are on economic growth. He will be followed by Bob Bates who is Eaton professor of the Science of Government at Harvard University and one of as many of you know, one of the outstanding scholars and political scientists and commentators on political economy in Africa and has been for decades.

So Bob will then speak a little bit on some of the key political economy questions and then we are pleased to have Callisto Madavo provide some short

commentary on those first two presentations. Callisto was with the World Bank for many years, was vice president for the Africa region and is now teaching at Georgetown and so we are very pleased that he can join us today. After we have that first round, then we will go to the second round of speakers. Two other speakers and then we will open up for questions and answers. But please join me in welcoming Governor Ndulu to kick us off on the economic growth parts.

[applause]

Benno Ndulu: Thank you very much. It is a great pleasure to be at this important think tank. I have been wanting to come and visit here. It is my first time I am having an opportunity also to say a few words about this important book. Let me start first by very briefly telling you what is behind this book in terms of how we came to learn what we learned and put out in the book. At regional level, this study tries to look at Africa in contrast to the rest of the developing world. Noting very clearly the two important decades when Africa missed the opportunity to join in the rapid growth that the rest of the developing world and particularly East Asia. We also tried to learn by contrasting across African countries and the diversity is amazing as we will see with a few slides that I am going to turn to after this introduction. We also learned through taxonomy, looking at groups of countries characterizing them by endowment, by policy regimes and seeing whether we can draw lessons that actually emerge from that type of taxonomy.

This is at one level, at the regional level, then we had also several case studies about 28 I think and here we wanted to learn from longitudinal experience, not crosscutting experience looking at history, interactions between the economy and politics and that is where most of our political economy insights are actually drawn. So we took both the latitudinal and the longitudinal look at the experience for 40 years. Now, essentially I am going to cover three main areas. First is to describe to you how Africa actually missed on the rapid growth that the rest of the developing world experienced between 1970 particularly and the 1990s and that as we will see, a good bit of that miss is explained by two decades different in growth rates. But along side that, I would like to highlight the diversity of that experience because we speak about the region usually as a group and there are and there have been success stories within the region apart from those that are outside the region and for those that have succeeded turned out to be small economies that have done spectacularly well. And the question is do we have lessons also to draw from that.

Finally, I will just throw a few hints on some of the lessons that appear to be emerging for purposes of looking forward and hopefully, we will have a little bit more discussion in terms of the implications for this. Now, here is how the difference in those two decades translates. This is income measured in constant 1996 international dollars. The purple line, that is sub-Saharan Africa. The other developing countries as a group is the green line and the red one, that is southeast Asia and you can see starting from 1960 with a difference of about half in terms of average per capita income, we end up almost 44 years later in 2004 with a difference that is almost five fold in terms of income per

capita in constant dollars. And this is a huge difference. So sometimes the small numbers which in this case mean sub-Saharan Africa growing erratically at our half percentage point in per capita terms for the period as a whole, in contrast to other developing regions which grew steadily at average of about two and a half percentage points and this translates over 40 years into such a large difference.

The story of the two decades is partly shown here. This is the part of growth smoothed. The bottom line, the one that is greenish, that is one weighted by population and the second one is sub-Saharan Africa and weighted by population. I have something to say about that difference being much larger when it is weighted by population compared simply to taking the average. You can see that the bulk of the loss in opportunity happened between 1975 and 1995 and then Africa started closing the gap since then. And if one had gone all the way up to 2006, you would see that the closure of that gap is much more significant now than it was before. Part of the reason of the weighted average gap being much larger for the East Asia countries is the China and India story. Large population weight growing very rapidly.

On the side of Africa, is the large countries. On average, they have grown much more slowly. These are the DRCs, the Nigeria of the past, not of the current since the governor is here. It is the Ethiopia, it is the Sudan. These are the most populous countries in the region and when you take therefore the welfare of a typical African, this population weight counts because in essence, those four countries host most of the Africans. So unless something good happens in those countries, the welfare of the typical African still remains a big challenge. Now, this is simply a distribution of countries in their position 2004 relative to 1960 per capita income. So if you are farthest to the right, it means you have increased your income several fold more. If you are below the two axes crossing then you know you have not made it at all from 1960 and you can see the big spread. And the story I want to tell here is that of diversity. That is one of the points that I made. There are about nine countries by 2004 that still had their per capita income at less than what it was in 1960 when measured in constant terms. But there are others including Botswana right at the right hand corner, almost nine fold in terms of its position now. And there are about 13 middle income countries. I think six or seven lower middle income countries and six upper middle income countries in sub-Saharan Africa that as seen mostly on the right hand side. There are as many as 13, which is correct.

So again, the story here is that we usually talk about the continent in general but there is a huge diversity across. Now, here is just another cut of showing the diversity even when you have countries of similar endowments. The upper panel, that is Mauritius and Cote d'Ivoire. Both of those coastal, both of them resource poor until maybe recently for some of us. But they have followed two very different growth strategies with two very different results with one of course being an upper middle income country. Of course, there are other factors accounting for the difference but I am just giving you clearly even where you have similarity in endowments. The Zambia and Botswana similarly of course, we know that diamonds have much more shine than

copper. Nevertheless, both of those are mineral resources and the way you manage mineral rents is also important in terms of outcomes. And again, Botswana began below Zambia in the 60's and the concluding stage there in 2004, Botswana is an upper middle income country.

So quickly, the six key conclusions that we have learned from this and I will just run through this quickly so that I stay within time. The first is that African countries growth experience is extremely varied but it is also episodic. Countries have known periods of spurts of very high growth but it is never sustained. The lack of persistence of high growth is really a major part of the difference in the way African countries have turned out to be as far as the growth experience is concerned. The other point was clear that large countries have tended to grow more slowly than smaller countries in contrast to South Asia where large countries have done pretty well. And there are spew of effects that one hopes to get as now Nigeria is doing well, Ethiopia is doing well. Sudan hopefully will start marking some headway also, DRC hopefully with the conclusion of this. This is going to play a very important role, not just in terms of the weighted average. I think they will also play an important role in terms of creating some strong and powerful growth pressures around the region. Extreme instability is the other problem and mainly in this case, for resource rich countries. But as we have seen, countries are doing better now at managing some of the resource rents and hopefully, second time around we hope we will have learned from the previous case now with the price of oil being what it is. For sure we will hear from Nigeria's case later how this is being handled differently.

Second major conclusion is that slow productivity growth more sharply distinguishes African growth from other regions. When you look at differences in investment levels and differences in growth performance, you definitely see that the difference in growth performance is accounted for more than simply the difference in the levels of investment. Therefore, we need to look beyond conditions for raising or improving investment climate to start looking at some of the basic fundamentals that are needed to make good use of the investment that has been put in place.

Third, policy and governance matters a great deal for growth. That we confirm. Accounting for between 25% and 50% of the growth difference with other regions. We have seen more recently, the policy and governance gap narrowing and nevertheless, the difference still remains significant.

Disadvantages from geography and resource curse potential accounts again for another third of the gap. 40% of Africans live in landlocked countries and this is for clear reasons particularly following more or less the water distribution around great lakes, around the river valleys. It is not by accident. This is a pattern that probably will stay as far as resource distribution is concerned then we need to start dealing with the fact that we have to ease the access constraints. Of course, the tropical disease exposure, disproportionately large and fragmentation as well. Trading partners growth, very important for African growth and this we have confirmed and therefore need for focus on export led growth and competitiveness. And finally, something that has I

think for a long period of time now, been in the backburner is the age dependency and demographic transition. It is still a big drag and particularly, on the side of youth and youth unemployment, that is a very big challenge.

Youth could be an opportunity if given the opportunities to contribute but they can take up arms and be part of the conflict if not. And this is a big problem that I think needs also to be addressed. So let me conclude here by just pointing the four critical areas, the four big I's, certainly it is the investment climate, this is on the indirect cause side. Certainly, infrastructure, not just investment but also efficiency and this is particularly key. We see that growth is being constrained by that and by the way, also the limited capacity of the construction sector had started really to be a big drag as far as investment is concerned across a whole range of countries. It is innovation for increasing productivity and of course, it is institutional capacity about which now, Bob will say something more. Thank you.

[applause]

Robert Bates: Benno has given a masterful overview of the project that has absorbed the last 10 years of all our lives and you can begin to see why. He started partly by giving a very nuanced look at the material in the book. It is a very good entrée in the material of the book. I am going to abandon nuance partly because of inclination and partly because of time. So what I am going to talk about is the politics side of it. This was a project that began as a study of growth and it turned into a study of the political economy of growth and it is not because I am an articulate persuader of economists to broaden their horizons, it is because Africa was telling us that that is what we had to do. And as you can gather from one of Benno's comments, one of the big issues that we had to look at was the role of governments in particular, the policy choices that governments made.

What we have here is the modal policy mix that was taken by governments and this is what we called control regimes. And these are regimes where macro economic prices were set, the interest rate, the exchange rate, where industries were highly regulated and many were publicly owned. Where there were price setting attempts both in factor markets and in product markets and where there was a great deal of public intervention at the microeconomic level in particular industries. I specialize as some of you may know in the study of agriculture. And in many places in Africa, at various times, as soon as a crop was harvested, it was nationalized. That is the only people that could handle it were people who were either licensed by the government or employees of the government, the private sector was there merely in sufferance. These control regimes, we observed them in over 50% of the country years we were looking at and their impact of growth, I do not recall the exact measurement but it was almost comparable to that of having state failure.

State failure is very rare, less than 10% of the cases. The control regimes were over 50% of the cases. So these were a big weight on the economic growth of the economies. Now why is that? Where am I leading with that? Where I am leading is if you look at the biggest industry in Africa, it is the agricultural

industry. If you look at the nature of the government controls and regulations and pricing policies on those industries, you can begin to understand why Africa grew so slowly. It was constraining its most important industrial sector. But that raises another question. And if the industrial sector is that big, and if over 50% of your population is in that sector and earning its income from that sector, how do governments get away with that?. How do they impose those kinds of regimes?

The way they did it was through authoritarianism. And here we have the examples of having a military government as opposed to a civilian government. And on the right hand side is the continental average in country years. Or you had noncompetitive party systems. So you had either no party regime which would be a general and his cronies, a single party system, Tanzania through much of its post independence period, Zambia another and then a small number of multiparty systems. And the authoritarian regimes were much more likely to impose or to maintain this kind of economic policy making, this kind of management of the economy than were the competitive party systems. Now if you think about it, if you have farming which is the largest industry and has the most people, those groups are not very good at resisting within an authoritarian context. The only kind of politics in the authoritarian context that you get by and large is interest group politics and this is the result of lobbying. An individual small farmer is not going to benefit much from changing a pricing system. He does not have a big crop and also he faces a very high cost of organizing given the number of other people in the industry.

The agricultural industry just because of its size is very ineffectual and the industrial structures are very ineffectual lobbyists for policy change. So how do we get rid of control regimes, what seemed to lead to the downfall of control regimes? By my reckoning, it was the reintroduction of the competitive party systems. That when the politicians had to go to the majority of people for votes, they had to go to farmers for votes. They had a strong incentive then to alter the way they were going to manage their economies because of the electoral connection. So here what we have are the distribution of party systems by period and as you can see the little green steps, bars are miniscule, vestigial virtually in this period that Benno was pointing out. And then in the 90's as you know under the pressure from local activists joined by the international financial institutions, that wanted these governments to form and finally joined by the managers of security interests and diplomats with the end of the cold war, this change was able to take place.

This next graph is less than transparent so let me walk you through it. This is to illustrate some of the impact of the change of party systems. What you have is a size of the rural sector in terms of percent of total population living in the rural sectors on the x axis. You have a measure of distortions in prices for food crops on the vertical axis. Ignore those that left side by and large, there is very few observations there. But what you are getting is as the rural sector gets bigger, governments are able to impose less favorable pricing policies and it goes down from below neutral level which is zero to negative which means domestic prices are below their import parity or their world

prices. But what you are also getting is you are getting a spread and the line on the top are the countries with competitive party systems. The line on the bottom are the countries in which they are authoritarian governments and the third line is the aggregate average so you are still getting a bias against agriculture and it is still increasing with the size of the rural population but once the rural population gets the votes, it is able to fight back.

For me, that was one of the key insights given my background in agriculture to the significance of politics for policy choice and therefore for growth in the early period of African independence. Steve?

[applause]

Steve Radelet: Great, thank you with that quick overview of two of the main components of the books, I want to invite Callisto Madavo now to give some brief comments on that part of the presentation. Callisto.

Callisto Madavo: Like a good commenter, I do not have any fancy PowerPoint to give so I will make just a few random observations. I am a speaker who did not participate in this study so my comments are really an outsider's perspective on what we had. Like Steve, I have the two volumes which I got recently and I have not been able to go through them thoroughly. Nonetheless, I take away from much that I have read so far and what I have heard this afternoon that this clearly is a singularly comprehensive and rigorous assessment of sub-Saharan Africa growth experience since independence and in many ways gives us a bit of an answer to the question what went wrong, what went wrong in Africa all these years? In that sense, gives us a very good understanding and fills a very important gap for somebody like me who is teaching African economic development to not just understand but to be able to impart this to my students and hopefully to enrich the platform that researchers and policy makers can use going forward.

I hope very much that the two volumes and their price will not be such that access to this world of information is going to be denied to a lot of those who really need it. I am particularly thinking of students, policy makers and scholars in Africa. With that plea for those who might be too poor to afford two volumes, let me make a couple of observations. The first is that a center of thought that runs through this study builds around the changing and evolving opportunities and constraints to growth on the continent over the past 40 years and the policy choices that were made to confront the constraints and to take advantage of the opportunities. The opportunities are defined mostly in terms of location and geography, resource endowments, while the policy choices are seen as driven by the interests and the beliefs largely of the governing elites. While this is credible and in many ways brings together very nicely a lot of the literature on this question of geography and on this question of policy making and the interaction between policy making and politics, nonetheless, a student might stand back and say were there other ways in which opportunities could have been articulated? Were there other factors that played into the question of the choices made over and above the interest of the political elites? What about developments in the global economy? What

impact did that have on the opportunities that the Africans had? We know of course that the whole issue of the capture of policy by the elites has not been without some controversy in Africa and so on.

My second observation, around an important lesson over the past 50 years, is that effective economic policy requires a good understanding of the underlying politics, institutions and governance with large. This story begins to bring together the economic and the political dimensions of the African story in a very persuasive way. And of course it is very well informed by the use of global growth econometrics literature in the 26 case studies that have already been referred to. My plea however is that fascinating as the use of econometrics is, as illuminating as it is to some of the key issues that Africa has faced that I hope this does not drive out the need for a good understanding of the history, a good understanding of the culture and the good understanding of the social structures and their impact on growth in restorative development in Africa. Indeed my hope is that scholars from these other disciplines have much to contribute to our understanding of the African story and I hope they too can produce another two volumes so that we can see from their perspective what they would say and how that would compliment what we have learned from the economists.

My third observation is that this study provides clarity and specificity on the issue of governance of which much has been written over the last 20 years or so and not all of it always that clear and crisp. I particularly like the way in which this study identifies the major features of governance environments that influence the so called anti growth syndromes as they call them in the study. And I am particularly struck recently by developments in our continent in places like Kenya, in places like Zimbabwe and the way in which they illustrate some of the ways in which some of these syndromes in fact can stand in the way of support for growth and development. I think it is also important that this study makes the point that important as achieving an undergrowth free status syndrome that one needs in fact in addition to that, one needs a capable state that invests and delivers on the core government services that are important for growth.

My fourth observation is that this study is an excellent global diagnosis of what went wrong in Africa as I have already said. While the typology by opportunity group provides useful starting points for what one might do at the country level, one still needs I think a particularized growth diagnostic at the country level in order to figure out exactly how to use the knowledge and the platforms that are presented in this book to articulate a practical way forward for each individual context and individual situation. This will clearly require stronger African analytical capacity and disciplined political leadership. And I might say that currently in Africa, these are not commodities that one runs into in large quantities. They are real issues of political leadership. They are real issues of capacity and therefore translating this understanding and this knowledge in terms of the way forward but let me perhaps end where I began by saying I think this is a huge contribution to our understanding of the African story and it is something for which I thank the authors, all of whom I

know reasonably well and my students and I are going to benefit tremendously from this study. Thank you.

[applause]

Steve Radelet: Thank you, Callisto. Those were very helpful comments I think to put this into context. Next we are going to have two more of the contributors to the book to round off our discussion, we want to switch from the continent wide concepts and look particularly at Nigeria and we are very pleased to have Chukwuma C. Soludo who is the governor of the Central Bank of Nigeria to speak about Nigeria. He was previously the economic advisor to President Obasanjo and he has been a professor of economics. He was the founding director of the African Institute for Applied Economics and has been working, researching and been a policy maker in Africa for many years. He is going to zero in on the particular issues of Nigeria which is now the second largest economy in Africa after South Africa. So is a key one to look at.

Following Governor Soludo, Steve O'Connell will have some follow-up comments. Steve is the Eugene Lang research professor of economics at Swarthmore and one of the long standing experts particularly on marcoeconomic policy and economic growth in Africa. He has been a visiting researcher in Nairobi and Oxford and several other places around the world and has been a major contributor to this book and other research on African. Please welcome Governor Soludo.

[applause]

Chukwuma Soludo: Thank you very much. I will say an apology I have not got slides to show you. I have a number of professors and my teachers here including Benno who taught me that where you have a few minutes to speak, you do not use the PowerPoint but he decided to violate it. [laughter] Let me start by saying that I believe that this book is a very important contribution. It is not just because it has my name there as one of the editors but as one who has also followed several of the debates during the periods of the debate on adjustment programs, the nature of reforms, the book we had on can Africa, claim the 21st century as the collaborative program by the World Bank and for other institutions. And finally getting into government and sitting there literally like in a laboratory experimental form, trying to see the extent to which all these things we have been talking about and have been pontificating on actually do apply. I want to believe that this book makes a very huge contribution in the areas of trying to illuminate what the issues are, what the problems have been and in terms of the lessons going forward.

What I want to share with you in a few minutes is to think of Nigeria as a laboratory experiment for this book. As I talk about my background and with the project itself, and getting into government, what one has tried to do to really try to see the extents to which all these things we have learned about Africa, about economics, about development generally can actually apply. And I will give you a few stylized facts that Nigeria is indeed a good laboratory experiment. And getting into government for me who is confronted

with the saying that philosophers have interpreted the world but the problem is to change it. All this stuff as to what has not happened and what has happened, you can talk about them but actually moving something from point A to point C is a harder one indeed.

Let me share with you why I think Nigeria provides a good metaphor of Africa's failed past. From the perspective of the book in terms of what broadly accounts for success or failure, in terms of geography, opportunities or choice, however, you describe it on the one part, and then the issue of geography and opportunities on the one side and then the issue of policy governance on the other. Nigeria actually mimics all of this. Nigeria for background can be described as a mini Africa. It is about the most ethnic federal state of about 140 million people, landlocked in some parts, large chunk of the northern region, is actually landlocked. Vast of the coastal region of the south and we will see the same kind of characterization we find for most of Africa in terms of the north south divide. This north is relatively much poorer, transaction costs much higher, average poverty rate there ranged about 70%. The south, much richer with average poverty rate of about around 30% poverty incidence.

You see the huge disparity. You have the natural resource and also scarce resource regions. The natural resource richly endowed south versus the not so richly endowed north. Nigeria is dominantly a primary commodity producer and exporter with all these volatility. We have had our own share of the conflicts in whatever form in a civil war and thereafter you have had some religious, ethnic and more recently related to the struggle for rents in the Niger Delta region. So many of the things you have in the literature about what has gone wrong enough, you can also find typically in Nigeria as a caricature of that. We have also had poor governance and weak institutions. Indeed for us, I have no apologies in describing Nigeria and I do so every time I have occasion to speak in Nigeria that wasted the first forty years of our independence 1960 to 1999 albeit even to 2000. Opportunity squandered and the classic example of this aptly illustrated in literature is a comparison of Nigeria with Indonesia as to the way they departed and not only to take much time here, but I think the chart shown by Benno amply illustrates that.

This is a country that has huge natural resource endowments, the eighth largest in terms of OPEC membership in oil production and export. We have the sixth largest reserve of gas, 34 solid minerals largely still under the soil untapped, abundant human resources. Agriculture only about 38% to 40% of the arable land is under cultivation, the other 60 and 62% is still laying fallow. With a large coastal land, yet we still could not get it off the ground. And so we also suffered the typical challenge of natural resource costs, also elaborated upon in the book, abundant natural resources, richly endowed, coastal line and yet so far the cost of the period. And ethno linguistic fractionalization in the context of military dictatorship which scholars such as Paul Collier will point out that is actually when it becomes really growth inhibiting where you do not have democracy. And that is part of the larger history of our first 40 years of independence of ethno linguistic fractionalization and dictatorship.

So in a nutshell you can see in Nigeria the caricature of all that there is in this book about the opportunities and the choice issues. The politics, the institutions and so on. I want to say that in our own case the saying goes the problem is not in ourselves but in ourselves. And we have got to admit this as a people we have come to terms with that. That we basically squandered and we are not blaming anybody. This economic structure had the boom and bust cycles in public expenditures and accommodating monetary policy, statism because if you have these large rents, that will depend more on the states to do most of the things and the associated corruption with it and the struggle and the displacement of talents and energy into rent seeking activities rather than in the productive sectors. It was basically the politics and governance structure rooted around cake sharing rather than cake baking. It was about how to share the cake rather than how to bake the cake. And people did not pay much attention about the size of the cake. It is about how much of it I get. The Dutch disease syndrome was dominant and lack of economic diversification obviously followed.

The book by Collier and co on Nigeria and Indonesia is a very important one I recommend. Of course military dictatorship, weak institutions as a consequence. If you have military dictatorships or dictatorship of any sort, you are most likely going to have very weak institutions as it were. What were the consequences? As of 2000, there was a study by some scholar, Addison and co that did a study of 110 developing countries and found that Nigeria was actually in the top 10 in terms of countries with the most volatile macroeconomic environments. On really effective action, we are probably in the top four highly volatile. Of all other areas, that gives you a scale. Corruption, high places. Lack of growth persistence, it was quite up there and I must say that Nigeria together with the other nine countries I described as the big 10, that is the biggest 10 or the largest 10 African economies but in terms of population, GDP contributed significantly as Governor Ndulu has said in dragging Africa's growth performance over the first four decades down significantly.

Given the size of Nigeria, if you are talking about per capita for Africa, if Nigeria does not then the rest of Africa who will probably have difficulty doing so especially if you focus on sub-Saharan Africa. Growth was just that way, led essentially by developments in the primary sector, oil and the other such sectors. High incidence of poverty, estimated at about 70% in 1999. It was just stagnation. The entire decade of 1990s, GDP growth rate averaged 2.8%, population growth was 2.83%. So on a per capita basis, it was zero for the entire decade of the 90's and it could take it back to other decades. So Nigeria in a sense mimics it, a lot of the characterization in book. What has happened, I think it is in this context that most Nigerians really bitter. Maybe the word is most Nigerians actually became bitter. That speech had been given to us there, people have rejected it here. As of 1999, most Nigerians were actually deeply bitter about the lost decades. Also two key lessons, bitterness over our lost past, opportunity squandered.

Then also the other lesson that never again, people came to a conclusion after experiencing decades of military rule that the worst form of democracy is

better than the best form of a military dictatorship. We saw it through and throughout hypocrisy associated with that and the hopes dashed. So two key messages that we needed to go through a democratic process however imperfect and that is much better than anything else than dictatorship. Second was this bitterness that you should have been there, here you are in a hole, also support people that in 1999, you had this transition into a democracy. The first four years was actually devoted to trying to rebuild back a state because as of '99, Nigeria was a pariah estate, rejected by the rest of the world, almost at an insular nation. Corruption was under 419. It is really something in our penal code about advance and the advancement in fraud. If you received mails from one Charles Soludo executive governor of the Central Bank telling you about money for you to be given if you were to send your bank account, good luck if you send this to them.

It is still a spill over of those and the whole industry emerged. For those kinds of things and that is because they also had vulnerable and greedy people on the other side of the divide, who wanted to reap where they did not sow. But if you could send \$50,000.00, you get \$10 million. I wonder if that kind of rate of return on investment. If you want that rate of return, you must be prepared to take such a high level of risk as well. These were the kind of defining characteristics of the time. Nigeria corruption was pervasive, the state failed. It literally was a failed pariah state. So the first four years was devoted to rebuilding and picking the pieces, getting Nigeria back into the committee of nations and trying to resurrect some of the dormant or dead institutions. The judiciary. The issues about fighting corruption and trying to introduce some basic institutions and a few reforms here and there on the economy. When the former president got reelected in 2003, he realized that he was not going to leave anything behind without fundamental progress in the area of the economy. And so as we were told then and widely reported in Nigeria's newspapers, he was searching for what he called a crack economic team.

I do not know if it was crack or the cracked, whatever that became but that is how Ms. Okonjo-Iweala, the then vice president of the World Bank and who is now back as managing director came back to serve as the finance minister, a couple of other people direct from budget office and Bode Augusto from the private sector, I got in as economic adviser and several others, a team was put together. The mandate was it's the economy stupid. If we do not make progress in the economy, we would not make progress on anything else and the president was willing to really let go and say just get us debt relief. To get a whole number of things that must be delivered upon. I must say the team got to work. Their reform agenda was summarized in what we called the NEEDS, National Economic Empowerment and Development Strategy.

As the economic adviser, I was the chair of the team that put that together. And we were in such a haste that having lost four decades, we needed to be rowing at the speed of 1000 km/hr while others were in the speed of maybe 100 or 50. You could afford to crawl in this country, but we cannot afford that luxury. A lot of institutional building public sector reforms, privatization, commercialization, especially the issues of building institutions and a few I just cite two or three examples that were germane to the discussion of this

resource cost and trying to break through some of the key themes in this book. For example, the issue of corruption. Two major institutions were set up, the Independent Corrupt Practices Commission and the Economic and Financial Crimes Commission. As some of you may have had some encounter with the former chairman of the economic financial crimes commission and some people are nodding here, he drove the fear of God into most Nigerians because the high and the mighty realized that all of a sudden the concept of big man went off the roof and you could actually as a big man, get behind bars.

For Nigeria, the concept of big man was quite an issue. Can you imagine a state governor behind bars? That was unthinkable. Procurement reforms. Obiageli Ezekwesili, VP of Africa region at the World Bank, headed what was then called the due process office and I must tell you due to the procurement reforms, Nigeria saved over within two or three years she was there, we saved well over a billion dollars in money that should have either gone into private pockets or unneeded procurements and so on and so forth that were prevented as a consequence. A key issue, was the issue of fiscal responsibility and we now have enacted a fiscal responsibility act. Among other things, the essence is that for the past four decades, we have had the boom and bust cycles in terms of our public expenditure of the revenue and the spending. We never actually saved anything because the constitution requires that you get this revenue paid into an account and share out to all the component states or governments and each of them with the constitutional powers to spend but we had to do something else.

In fact, the former president had to do, you might say it is unconstitutional but in a typical sense, he had to say we introduce what we call the oil priced based fiscal rule where no matter where the oil price was, we use that particular bench mark and government spending was based on that particular price. Whatever thing else over and above that was saved so we are going to cut some challenges as unconstitutional or whatever that it says that you share all, I think they had a way of getting through to that and it was more like I have served it. If you like them then take it. Nobody dared to want to come and take it so we kept it saved and today, we have tried to formalize it in terms of an agreement with the state governments on how this will be saved albeit trying to walk through the fine lines of the law to save a part of this and as we speak now, that fund is now over \$15 or \$16 billion. That is revenue which has not been spent. It is indicated there. We are now trying to set up a sovereign wealth fund which by the end of this year will be at least \$20 billion and probably up to \$25 billion and in the next few years probably heading much higher.

These were some of the reforms. Extractive industries, transparency initiative, transparency in terms of what is going on, how much you earn, publish what you earn in terms of the oil rates and so on. That struggle is still on and I must say Nigeria is one if not the first oil exporting country to publicly and firmly commit to it and has been driving this all along. The revenues going to various states are being published. And local governments don't like that but that is holding them publicly accountable. We went on to several other reforms, the financial sector reform happened to be a major one. Mainly the

banking sector reform and now with a larger reform and we are banking on that as what we call the financial systems strategy 2020 that is designed to make Nigeria's financial system Africa's financial hub by the year 2020 at the latest.

It has 400 initiatives which need to be implemented between now and 2015. But in the interim the banking sector consolidation which has taken place was quite very phenomenal in terms of the size of the change that had to happen that a banking sector and number of banks shrunk from 89 to 24, now well capitalized, strong banks and with just one bank now, larger or bigger in terms of shareholders than the previous 89 banks put together. These banks about 18 African countries now and seven non African countries will have 716 microfinance banks that are licensed the end of last year. Deposit and credit. It has grown about fourfold following these reforms. Number of depositors in the banking system between 2003. We introduced the reforms a month after I took over as governor, the number of depositors as a consequence of the returned confidence in the banking sector has grown from about \$13 million as of 2003 to over \$24 million as of end of last year. The number has almost doubled in terms of the depositors and our banks have become rated for the first time, by Fitch and now put in the same category as China, India, Poland, Israel and some others and so on.

Agriculture, that mimics what is Professor Bates was saying a few moments ago about the kinds of reforms price or post subsidies to get the politics right and get the output right as well. On other things, we have gotten debt relief. We are now debt free at least from the Paris club. The London club still about gotten down from \$35 or \$36 billion to now less than \$3 billion. Foreign reserves now a little over \$60 billion. The sovereign wealth fund I talked about, the GDP growth from a flat level of about 2.8 in 1990's since 2003, we have been growing at an average about 7%. Driven essentially by the non oil sector which has been growing at not less than nine percent since then per annum. This is the interesting switch namely that we have gone from an era where it was driven by these rents. Now, we are having an oil price boom but the oil sector is contributing negatively to GDP because production has been going down as a consequence of the restiveness in the Niger Delta region.

The nonoil sector is the one pushing growth. Last year at about 10.9% but this year, it is expected that if the oil sector just flattens out as zero growth rate, we will have a double digit growth rate and this is the aspiration where we are pushing to begin to grow double digits. Inflation is down. When I assumed office, we met it at 23.8%. We have now been a single digit since the last two years. Convergence of parallel and official exchange rate has happened from a premium of more than 20% when we started reforms to now a point where it is statistically insignificant under the classification of the IMF, no more multiple currency practices. But an interesting message here is that we have also avoided the over valuation of the real effective exchange rate despite the boom in oil prices. The huge inflows of resources last year of the portfolio combined at almost about \$10 billion in flow into the economy. We still managed and we are still struggling with the IMF on this. They think our currency is still undervalued in real effective terms and I said that is precisely

where you want us to be is it not? Do you want it to be overvalued and we get back to the 1970's as to where we were.

The fastest growing telecom sector in the world as I said. We have over 40 million lines up from 250,000 in 1999. The stock market is one of the fastest growing in the world as well, from a market capitalization of about \$9.6 billion end of 2003 to as we speak now, over \$100 billion capitalization second only to South Africa and we are moving forward. Let me end by asking whether this is all sustainable, which is the last point I want to say. These changes that have happened over the last few years, to be modest, we are still not where we need to be. I think we should be growing at about 15% or more. We are not yet there. Can we sustain this? And it is a result of this movement, these changes, the Goldman Sachs, they have forecasted by 2025, Nigeria should be one of the 20 largest economies in the world and by 2050, it should be the 12th largest economy ahead of Canada, Italy, Korea and so on and so forth. For us in Nigeria, the challenge and the question is can this momentum be sustained. I think and use it as a way to ask this larger question, can the recent developments in African growth be sustained?

Can Africa really claim the 21st century? I want to say certainly for Nigeria, growth rate of more than 10% is possible and sustainable given the huge growth reserves I mentioned a moment ago, even in agriculture alone. If we have to deepen institutional reforms and the democratization process, the state governments that control the other half of our resources are now also part of the fiscal responsibility acts to get some sanity into the public finances, I think the four I's identified in the book and summarized by Governor Benno Ndulu are quite apt. Continue to deepen the fight against corruption, diversification of the economy is a major item on the agenda. Addressing the infrastructure challenges in Nigeria and around Africa is going to be quite key to the sustainability question. Building upon the lessons of the past, what we have learned, yes, regionalism to pull the rest of Africa along. Nigeria could be there by the rest of Africa where the average GDP per country is about \$3 billion. That is very miniscule indeed.

External agencies of restraint will continue to be important. For many of these economies, Nigeria, we do not need the IMF. We do not need from the bank but we are exporting our own capital actually and so we are not dependent on this but a government is still trying to agree with the fund on some kind of a loose monitoring arrangement to still occasionally come and monitor what you are in or just to help with your tools to make sure you do not quickly relapse. We have the APRM, Africa Peer Review Mechanism, needs to continue to be deepened. State benchmarking, and so on and I want to say that the external environment as Professor Madavo just said because part of this opportunity set includes the global trade and arrangements and global financial architecture that work in that area needs to be deepened to continue to cement the sustainability questions and the summary message for me is that yes, geography matters, yes, nature matters but I think from our experience so far in Nigeria, at the end of the day the geography and nature happen not to be destiny. At the end it is what we do, or fail to do that would determine whether we are able to overcome, we will look at these things as challenges

and not as obstacles. And that so far in Africa, the b-10 countries have begun to wake up and began to make progress and I think that this is really the time, this is the more opportune time to revisit that question in that book, can Africa claim the 21st century and what I see certainly in Nigeria, I am seeing the possibilities of what can be done. I think one has no hesitation in saying that the answer is surely. Thank you very much.

[applause]

April 15, 2008

Stephen O'Connell: Political economy in the sense, we are trying to characterize not only what happened in terms of growth and how the policy environment for growth evolved but why the environment evolved as it did in the face of shocks, opportunities from the world, from global markets and so on. So, I am going to come back. My last comment will be to give you a sense of evolution within the project on how we thought about political economy. But, let me finish up these comments about the AERC by telling you just a little bit about dissemination on the continent which is the first and foremost task of the AERC. That has been under way for a while. We had Senior Policy Seminar in Kigali, Rwanda in October 2006. This was a two-day event that brought together policy makers from all over Sub Saharan Africa with project editors and with the country teams, to come together and present project results and engage in a dialogue with policy makers.

We participated, again, both country authors and editors in the World Bank's ABCDE conference in Dakar in 2006 and also in a one-day high-level Senior Policy Seminar that Governor Ndulu organized in Dakar. National level dissemination events are being now planned at the AERC where the interface would be between country levels, country based scholars, those who wrote the country studies and some of the projects steering committee interfacing with national authorities. So, today's event is the first the event we had outside of sub-Saharan Africa and we are going to continue that effort on the continent. The AERC's collaborative research is going in a few directions now that are complementary to and build on the work we have done on the growth project. Let me mention a few of them. One is a project on the drivers of export supply and diversification. Callisto mentioned the challenge of taking findings from the 40-year period, 1960 to 2000 and bringing them down to the country level. One of the areas that we emphasized hugely in the project was the nature of geographical opportunities for trade and this project on export supply is taking that up.

A second project that may have struck you that we have not used the word income distribution much although Governor Soludo talked a lot about poverty or as being an integral part of the challenge. We studied growth first and foremost but on the view, that growth was perhaps the single most important long run input into erasing poverty. The AERC is now taking that question up a little more directly in a project studying the growth poverty nexus. Part of that is a traditional look at pro-poor growth, so different patterns of growth feeding through to the income distribution but the parts of

builds more on what we have done goes the other way, looking at distributional struggle and how it conditions the environment for policy. Finally, there is a project on so-called Asian drivers of growth and this is directly trying to take up the question of the interface between the continent and China, particularly and also India as important and growing actors in the region.

So, let me finish what I have to offer here. I am going to just zip through most of my slides. Let me stop briefly here. We have not talked much today about the second volume which is 26 country case studies all done with a common methodology. And, this little flow diagram gives you a sense for how these country studies are organized. They are organized by episodes, so each country period of 40-years is split into five maybe contiguous, successive episodes in which the country authors judge the policy environment for growth to have changed in a fairly distinctive way. In some countries like Kenya, there are only two episodes, the episode up to 1978 under President Kenyatta and then the long episode under President Moi. But many countries had a few more than that. And, the episodes are looking at the policy environment there as being the outcome of a set of forces impinging on policy makers, defining the opportunity set and the political constraints under which they are operating. Existing institutions, interests in the Bob Bates sense here, pressure groups, beliefs of policy makers impinging on policies, external shocks affecting the policy environment, changes in the terms of trade, major droughts and these feeding through to growth outcomes which we then think influence the evolution of these basic drivers overtime.

You have heard a bit about the taxonomy that is a kind of organizing feature of the summary volume like growth opportunities on the one hand versus policy choices on the other. That taxonomy is our way of organizing a set of data that came to us in the end as a set of country episodes. Let me briefly you show you and I will talk just very briefly about the two dimensions of this taxonomy; one, growth opportunities and two, policy choices. We had originally organized the case studies in a very conventional way by region, Southern Africa, Eastern, Central, and West Africa. But, after getting the drafts of the country studies and the first review of these, we reorganized the project along these geographically and endowment based opportunity groups. So, the red there are the countries we deemed coastal and resource scarce, resource we mean natural resource wealth. The yellow ones are the ones we deemed most of them landlocked. You will notice the Sudan is not landlocked it has got the Red Sea right there but we have it in that conceptual group given the distribution of population and transport. And then finally, the green countries whether landlocked or coastal, are countries where we deemed the abundance of resource wealth to be the driving feature of their growth opportunities.

On this opportunity dimension, try to create a first cut platform for thinking about growth strategy, in terms of particularly external trade links that were so important globally during this period. I am going to end with this picture, economists love pictures. And this picture is an attempt to convey to you the two lenses through which we tried to bring political economy into the picture.

One of these has been eloquently already discussed by Bob Bates and that refers to points 1 and 2.

So, we are thinking here of a country in which we can identify on a historical grounds, perhaps two groups maybe two regions, maybe two ethno-religious groups. And, I am thinking very abstractly. Maybe there are three groups or four, but we are talking about countries here where we might start with the split of the endowment of GDP between two, let us say ethno-regional groups. This is going to be relevant for some countries and not for all. So, there is the endowment point, point one. Point two, and if we look at that 45 degree line, that 45 degree line is the set of ways of cutting that cake up between the two groups. If it could cut up costlessly, the entire triangle below that line is the feasible set of outcomes distributionally in this country. One lens we took was to try to explain the nature of policy regimes by looking at the distributional impact of policy and not simply its impact on economic efficiency. So, point two is a point at which region two has successfully managed to tax part of the endowment in region one and get a redistribution towards itself. The literature tells us, economic evidence tells us, our case evidence tells us that redistribution is costly and so that curvy line that connects one and two tells me that the more I try to cut the cake, the more of a dead weight loss I create. And, this is the classic literature on interest groups and their pressure is on policy and we have documented that, really extended the relevance of that point really now to the whole continent.

But, a second insight in the middle of this project and really changed the terms of this debate for a subset of countries and, looking at point three. If we think of these two regions, not simply as having been posed to policy makers by having one groups' candidate win a national election, but think of these two regions as being as pre-existing in a sense the north and the south and the west Nigeria for example, politically coherent areas even before the problem nation building began in earnest at independence.

Point three is a point where the threat of conflict could take this country through civil war to a much more difficult point, to a point way further inside the frontier. And if that threat is credible, if one region can credibly threaten the other in effect, then the region over which political bargains are taking, are being constructed, is that little tiny cross hatched area. In other words, a deal that does not take the country somehow into that square dotted line area is not going to be a feasible political equilibrium. It is going to be a deal in which one region or a political entrepreneur capable of mobilizing a region has a credible threat of disturbing the equilibrium in the most costly way, which is through civil conflict.

As I say, there are two lenses here. One is a conventional one, hugely useful and relevant in many countries. Another one, less conventional but for some countries where the polarization looks sharp, ex-ante may be very powerful, much more difficult in some ways to understand, much greater scope for political statesmanship at the highest level, of the type Governor Soludo discussed in discussing policy reforms in Nigeria. Right now the critical issue in Nigeria with the fiscal responsibility act is cutting the highest level bargain

that will bring the state governments in in a sustainable way. That is a level of analysis we did not start with, but in some countries felt that we ended with. So, part of what we are handing of to you I think is an invitation to begin to use these materials on both sides of the political economy prospective and take us forward positively towards growth strategies that are sustainable and growth promoting. Thanks very much.

Steve Radelet: I want to thank our speakers once again for their great contributions. We got a good overview of the book. Let me also thank Carol again for her co-sponsorship in getting this off the ground. Let us turn, given our time, right to questions and answers from the audience. If you raise your hand we can get a microphone to you. I think you have got the microphone. When it is your turn, we will take about three questions and then we will turn to the panelist. Please ask a question, do not make a speech. Be right to the point. Please state your name and your affiliation very clearly and just make it brief so that we can get as many as possible to do that. Let us start right there, thank you.

Deirdre LaPin: My name is Deirdre LaPin, I am a consultant with the US Institute of Peace, before that I was working in the Niger Delta, with Shell Petroleum. My question is directed to Governor Soludo. You mentioned very briefly the insurgency in the Niger Delta and while there is a lot of non-oil growth in Nigeria it still remains true that 85% to 90% of the government revenue comes from oil. And the oil companies are struggling to maintain the 2 million barrels a day level that they had reached in the early 70's. The HDI, the Human Development Index said three quarters of the LGA's in the Niger Delta is below the national average. That includes the poverty stricken north. So, it requires summoning a huge political will to redress the enormous development deficit in the Niger Delta, which is at the root of this insurgency. Can you give us an estimate of when the Yar'Adua government is likely to begin to summon that will to address this major problem?

Bob Armstrong: I am Bob Armstrong consultant to the World Bank. I guess I qualify as an old Africa hand and I was in Africa in March of 1957 when Ghana became independent so I have been going to Africa for over 50 years now. My question has to do with foreign aid. Hardly any reference has been made to the massive amounts of aid that have gone to Africa over these 40 years and obviously a lot of it has been mixed results, some highly productive, some counter productive, some would argue. I wonder to what extent your study has gotten into the question of aid effectiveness in Africa. Under what conditions, which kinds of aid had been most and least effective? Thank you.

Steve Radelet: I do want to go back on the left, about halfway back on the left. Move around a little bit.

Kelsey Statecker: Hi, my name is Kelsey Statecker and I am an intern with the International Fund for Agricultural Development, and my question is for Governor Ndulu. I was wondering, you mentioned that it is important that we consider other factors, for instance history and the culture and the society of Africa when you are considering growth in economic and political

development. I was wondering how you can use this resource, this book, to move into a more complex and nuanced debate. Thank you.

Steve Radelet: Let us go with those three. We will start with the two Governors and then Steve let me ask you to address the aid issue.

Benno Ndulu: Thank you very much. I think you put your finger on a very important issue for Nigeria's development and sustainability. I did not mention that when I considered the sustainability of Western, extensively because I believe that the problem is being addressed and is not as much threat as it potentially was, maybe some two or three years ago. If you watched in the recent months, you will see that the escalation that is why we are projecting growth in oil output will probably go up this year. It has really been decelerating in terms of the intensity of the crisis is grossly been decelerated. You talk about a political will to address it. I want to point out that there are quite a few key initiatives.

The first is that a Niger Delta Master Plan has been developed and launched. And for this year 2008, the budget has been very explicit - I think it is more than a billion dollars from my recollection - what federal government is going to be putting in into that particular region alone. Aside from what they are getting this 13% derivation. The States in the Niger Delta are getting a special financial allocation going to them. I know that the president has been planning even a summit on that particular issue very lately and I think that should hold very soon. But with each state in the Niger Delta under the special program of monitoring the evaluation and they are getting engaged. I think everybody has consensus that you must address that area. But just a footnote that the fact that you mentioned the government revenue is probably about 70% from oil not 95%. Maybe 95% of exports but not the government revenue. Thank you.

Steve Radelet: Thank you Governor Ndulu? Question?

Benno Ndulu: I guess the question posed to me could probably handled also by Mr. Madavo, he did make reference to this. I think, in terms of taking this walk forward the most useful approach would probably to enrich the country specific set of studies where contextual issues including the socio and the cultural factors can be probably studied much more usefully. But I would also like to point to what Steve did mention in terms of the other ways in which this particular project is being taken forward, looking at the distributional issues in connection with poverty and growth and nexus, and probably also studying more, I think on the side of conflict and its management. So, I took the question much more as whether we think we have reached a definitive sort of wisdom, the answer is no. I think this is just the beginning of the inquiry, particularly the country specific level. Thank you.

Steve Radelet: Callisto, do you want to add anything on that?

Callisto Madavo: No. I think it is adequately good.

Steve Radelet: Thank you. On the question of aid effectiveness, can I turn to you Steve?

Stephen O'Connell: Yes. Steve, so just briefly, aid dependence and aid effectiveness was not a central topic for us. There is a massive literature out there. Carol for example, has been a big contributor, others have, Paul Collier's book *The Bottom Billion*. Paul was part of this project, represents a kind of harvesting of our work and channeling it through this question about aid effectiveness. So, that is I think it would be where to go to get the shortest link between what we did and implications for aid. In terms of the big picture, the evidence that we looked at during the project suggested that on average foreign aid provides a clearly positive but modest impetus to growth in Africa, but that the impetus country by country is highly divergent. In some cases, aid was very important in pushing reform, but the donors were endogenous typically or their bargaining power was endogenous to the collapse that strengthens their conditionality. So, the stories that we emphasize were about how the governance regime and growth performance were evolving. Donors were part of that, not a critical part in many cases.

Last thing I will say is that there is a contemporary issue that our project, I think, suggests a certain angle through which is this issue of high food prices now. The evidence globally says that aid does not have much of an impact on conflict, on average. It may have highly variegated influences country by country, but on average, not much. This maybe a case in which targeted aid is able to disarm a possible outbreak of political instability or state breakdown, which in our data is not a frequent outcome but a very, very costly one. So, there are angles I think you can take from our work, but it was not a central topic for us.

Steve Radelet: Do you want to add briefly to that?

Robert Bates: Very briefly and I am doing this to be controversial not because I think it is an adequate answer. But we were meeting once in Nairobi in the hotel where there was the IMF Delegation that had come to Nairobi to re-admit the new Kibaki Government into the International Aid Community. They had gotten a green card that they were different from the previous regime and therefore, they were worthy for international transfers. There was an ambitious young politician by the name of Uhuru Kenyatta, who stood up in Parliament and said we had Kibaki right where we wanted him. He was going to have to come to us, to get the money, to do the things he wanted to do. The people of Kenya had him, or at least through the parliamentary representatives, had him under control and now he no longer has to pay attention to us. He is going to do what will get approval in Washington, Paris, and London rather than in our constituencies. And I think there is a point to that. I think if democracy or political accountability can move policy choices in ways that lead to the growing of the cake, As Governor Soludo said then maybe in that sense, aid is worth a skeptical look.

Steve Radelet: Thank you. Let us turn to a new round of questions, starting with Nancy Birdsall.

Nancy Birdsall: Thank you. First of all, to all of you, for wonderful presentations, I have two quick questions. The first, maybe Steve O'Connell just answered. But I have a question for some of you who are from Africa about the influence of the adjustment period. One of you mentioned the World Bank/IMF adjustment lending period and I do not mean the money or the conditionality, but the spread of the idea that the state controlled regimes and the taxation and effect of agriculture that Bob Bates mentioned were bad ideas. If you could comment on the influence of the changing global norm perhaps, in terms of what is the right economic approach to growth. That would be very interesting and in particular the influence of these Washington institutions. And then the second question has to do with the question of regional integration in some form. I am surprised that it did not come up more prominently in the discussion. What does the book have to say about it? Is there any hope for gradual movement in the direction, say Europe has taken? Do you see great benefits in that? Many people have heard me say because it is something that is fixed in my mind about Africa, that the economy of Sub-Saharan Africa, including Nigeria and South Africa is smaller than the economy of Chicago. And so many countries, so many borders. I'd love to hear what you think the future holds in terms of this direction?

Larry Bridwell: Hi. I am Larry Bridwell and I teach MBA students at Pace University in New York and I want to report that a group of students just came back from Tanzania, had a wonderful time there, and one of the issues that was raised by the students is the potential growth of small and medium sized business, as a vehicle for reducing poverty in Africa and one of the speakers talked about core government services. So, I am curious as to what the Central Bank of Tanzania is doing, specifically to encourage the growth of small and medium sized businesses?

Mike Gupto: I am Mike Gupto at James Madison University. In the 1970's there was an attempt to sort of separate economic growth from development read large and they sometimes argue that economic growth is not the same thing as poverty alleviation for an example and they talk about many other dimensions of human development. It strikes me that recently in some of the talks I have heard, and I mean in Paul Collier's book and in this panel, that there seems to be a kind of return to growth as a central aspect of development as if we left economic growth too far behind in considering poverty alleviation or broader factors on the human development. And I wonder if you can comment on that if there is sort of this return to an emphasis on economic growth as the primary motive of development as opposed to just, for example one aspect of it.

Steve Radelet: Great! Let me turn to the two Governors first and Callisto on Nancy's first question about the influence of the adjustment period and the spread of the ideas from that and how that is influencing things now. We will start with you Governor and then Callisto.

Chukwuma Soludo: Yes. Thank you very much for that very interesting question. I think, let me start with issue of regionalism and I think you are very right and that is why in my presentation, I did make it as a major point, that Africa, in fact on the aggregate Sub-Saharan in Africa, if put together, is simply the size of

Belgium in economic terms. Well probably gotten a little bigger now with Nigeria so adding I think, it will become better, bigger than Belgium. But nevertheless; in spite of all of this, it is still very small economy as a group. So, I don't think we have it's an either or thing, we don't have a choice with regionalism. It is something I believe we need to mainstream. We need to find better ways of making the arrangements work. The current arrangement we have now seem to be doing well, so to speak, overlapping sub-regional groupings, competing at times, so dissipating energy in some other ways. And I think we need ways of making the challenges, not whether we need regionalism but how to make regionalism work, that is the first. The second is on the SAP, what I called SAP, the Structural Adjustment Program. It is a big question and I would like to say yes and no to both. I have a book with
Thandika Mkandawire

Steve Radelet: That is safe to say yes and no.

Stephen O'Connell: Everything is covered.

Chukwuma Soludo: Yes, everything is covered.

Steve Radelet: And her question is less on the policies per se, I think. But on the spread of ideas and how the things that were discussed then influenced debate and ideas now, if I have it correct.

Chukwuma Soludo: Yes. I mean, let me say this, I think why is I say yes is that to the extent that most of these countries necessarily went through that and had, if you like through a big bang approach, had to be taken some dragged through, some whatever thing through that mail, whatever that was, got in through that. It had a role in trying to introduce, maybe. Whether it actually helped or hurt, it is another question, because we do not have the counterfactuals, as to whether these people would have on alternative paths, have done much better. We don't know. And why I said so is that if you look at the late 90's, when several of the "oops" began to emerge, about the first, second generation, third generation of SAPS. When we began to we did not did not realize this one now—later we will say, oh, we now realize that it did not do well because we neglected the institutions. But then you have the debates at the early period. Whether if done differently or rather than the way they were done or what are the outcomes could have fundamentally, differently. But I must say by and large, that today, what you have very much of on the continent, I would characterize it mostly, if you like, largely much of this Washington consensus type of policies, predominantly that is what has had the day, at the end of it.

Steve Radelet: Thank you Governor Ndulu.

Benno Ndulu: Yes. Let me add maybe a couple of words on this important topic because I think in the first volume, I did the chapter on the Influence Of Global Development Paradigms as ideas in shaping exactly the policy regimes, and it is very strong. There is no the question about the transmission and that the transmission is strongly related also to the extent of aid dependence. I will give you an example; Tanzania, CPIA in the late 70's, Nyerere darling of the

world, the bank seriously looking at basic services as the model, got a very high score as a country. And this is at the middle of the point when it was a controlled regime. All other aspects of what typically is taken to be, you know, what defines a good regime, notwithstanding. That was sort of the idea of the day.

In some countries, mid 80's still controlled regime, but the pendulum had swung in the global paradigm, you know, with the movement away from emphasis on the market failure to emphasis on government failure. This call went terrifically done. And again, I mean reality did not change, but the perception about the reality changed. And this we looked at influence, also across the world, using data from world opinion surveys. And you found that particular coherence between what was being termed as a good regime in Africa and what globally was acceptable. So, that influence is definitely there and unless one is able to break that link, you know, you are patent possible fund of that time. There is the whole chapter that tried to organize some evidence. Do you recall that Steve?

Steve Radelet: Yes. Excellent job.

Benno Ndulu: It is an important question. We do not want it to sound as cop out, but it is a fact. On the Tanzania specific question on SME's, what is the bank of Tanzania doing about that. Well, at least on our part we have one important scheme, which is a credit guarantee scheme for small and medium scale enterprises. By reducing the extent of the risk that the SME's have to carry when they apply for loans we do hope and have become much more sort of credit worthy, if you want, with our support. The support itself is from the government. It is not from the Central Bank. I know the Bank of England has been running a similar scheme. It got into trouble with it. We are looking carefully to make sure that we do not have suddenly to deal with a lot of failure and we—not only that -- we are also worried about our dual role. We are supervisors of the banks. At the same time we try to push loans by pointing exactly to particular borrowers. When things go bad we visit the same banks and want them to provide for it and we are playing on both side of the switch. So we are working towards incubating that program and taking it out of the Central Bank. But our contribution would be to make that and also we are working now also towards reducing the cost of borrowing.

I think over the last six months we were able to cut the treasury rates from about average of 17% to 7%. We hope the banks will follow through in terms of reducing the cost of lending so in a much more limited way. Finally, just a very quick word on regional integration, I think this is fundamental and it is not simply a matter of how we organize as sets of country clubs as such. It also cuts across implementation of certain types of activities. For example in infrastructures, it is very, very important that one makes use of efficiencies of working either in a power pool or a joined pipeline as a scheme. So we will see a lot more sort of regional integration around common areas of interest building upwards rather than the old sort of grand scheme and then you hope the grand scheme is realized. It is more or less integration from below.

Steve Radelet: Callisto, if you want to add anything on the issue about ideas, but also if you can address the question that was raised about the evolution of the growth and development debate as you see that.

Callisto Madavo: I think on the question of adjustment and the ideas I would make three quick points. The first one is that in many ways during the adjustment period there was a preoccupation with the fact that governments were interfering in the workings of markets and that they ought to step back. There was also I think a preoccupation with the fact that governments were producing sweets and other things that they had no business actually doing and that they ought to step back. What is very interesting is that by and large those ideas have carried. I think there is a consensus now in the fact that we want governments that do not have the kind of anti-growth syndromes that interfere with the workings of the markets. I think in fact some of this consensus also applies to the importance of macroeconomic stability, inflations, etc., something again that was contested highly in the 80's and the beginning of the 90's which is today pretty much accepted. I think an idea which was somewhat misplaced and in fact where there has been a revision, has been the role of the state in the sense of the need for a capable state that compliments the workings of markets and the private sector in promoting our growth. And that is what I was referring to when I spoke of government that provide the core services that should be provided by government.

Steve Radelet: Our last question if you want to take it. It was about the changing debate on growth and development. And at one point, growth was seen as everything and then there was a movement away from growth to focus on nongrowth dimensions of poverty and now a swing back.

Callisto Madavo: Thank you, I think two things have emerged. One is that we have all begun to realize that there is no way in which we can meaningfully tackle poverty without growth. If the pie is not growing, there is no way in which we are going to meaningfully address the issue of poverty. In fact, in recognition of that, there is a lot of talk of shared growth, not just growth but shared growth, meaning that growth better be not of the Kenya type growth that goes to certain portions of the community and leaves out other portions of the community. But that it would be shared, which has brings in a distribution dimension to the growth question.

Steve Radelet: Thank you. Bob and then Steve wanted to comment.

Robert Bates: Two very quick comments and the first one is totally idiosyncratic. We were starting this program and you saw the numbers. Africa basically flat lining and the poorest continent in the world and we were being scolded at that time by other groups in the international development community for not paying attention to the importance of redistribution. And just the concentration of poverty there was just so enormous that until you got something going, it was the idea of a kind of Scandinavian model of economic management. I could not believe I was hearing it. Now, I do think the issue is back on the table.

Another quick point to go over something that was just mentioned, and this is the role of the state. Remember way back, there were two horse races we all followed, one was Kenya capitalist and the other was Tanzania socialist. The other was Ivory Coast capitalist and the other was Tanzania socialist and we all thought that the capitalists had won flat down. But there was something about the socialist orientation towards the discussion of public policy and the role of governmental and the role of welfare beyond just growth. It seems to have led to an ability to manage and recognize and manage and move quickly and deftly to disarm tension within the growth experience that neither Kenya nor the Ivory Coast had.

Steve Radelet: Steve, you want to...

Stephen O'Connell: Just quickly to follow up Nancy's question about regional integration. The landlocked countries certainly have an intense interest in regional integration and we found interestingly looking at these three groups that the group that under performed global norms or global opportunities by the most was not the landlocked group, that is the poorest group, but the coastal and resource scarce ones. So the landlocked countries also have an intense interest in success of their coastal neighbors. This is well illustrated by the few successful landlocked countries in relative terms, Lesotho, Swaziland to some degree, Malawi in southern Africa, all who leveraged the fact that although they were landlocked or close to it, they were right next to the market that mattered, South Africa, and close to high quality infrastructure, a market not only for goods and services but also for labor exports. So regional integration is clearly on the table for the landlocked.

The last thing I will say is the thing that has prevented integration at the policy end in sub-Saharan Africa over most of the period has been divergence in national policy programs. And the convergence that happened by the early to mid 90's has really set the stage for much greater scope for integration that has ever existed since the late 1960's. So it is a very propitious time to move in that direction.

Steve Radelet: Unfortunately our time is up and actually over by about 10 minutes. I want to thank all our panelists and author of this great book. Once again this is going to be the source book on African economics for a long time. It is full of great data and analysis so get your hands on it or get your library to get their hands on it even better. But please join me in thanking them all.

[applause]