PAAP

Policy Analysis and Advocacy Programme

Association for Strengthening Agricultural Research in
Eastern and Central Africa (ASARECA)

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HAPPY NEW YEAR GREETINGS!

The Managing Unit of PAAP would like to wish all its stakeholders a very Happy and Prosperous New Year. We would also like to welcome you to the first issue of the Newsletter in 2008.

APPOINTMENTS

Ms. Miriam Kyotalimye has been appointed as the Programme Assistant for PAAP. Miriam joins us from IFPRI Uganda where she worked for the last three years. She holds an Msc degree in agricultural economics from Makerere University. Her contacts are m.kyotalimye@asareca.org Tel 256 41 4321752 / 1.

Ms. Ruth Nankinga has been appointed as the Administrative Assistant / Secretary for PAAP. Ruth is one of the oldest members ASARECA and former ECAPAPA holds a diploma in business administration from Nkuba University, Uganda. Her contacts remain r.nankinga@asareca.org Tel 256 41 4321751 / 80

Please join me in welcoming Miriam to our team and Ruth to her new capacity.

ASARECA Annual Meeting

The ASARECA Board of Directors will hold their annual meeting from 4-6 February 2008 in Entebbe, Uganda.

AFRICA'S DEVELOPMENT INDICATORS 2007: SPREADING AND SUSTAINING GROWTH

Towards the end of last year, the World Bank released the 2007 Africa Development Indicators report exploring the patterns of growth in sub-Saharan Africa over the past three decades. It finds that the volatility of growth has been greater than in any other region. Volatility has dampened expectations and investments-and has obscured some periods of good performance for some countries. The report shows that pickups in growth were seldom sustained, hence, Africa's flat economic performance over this period. The challenge for economic policymakers in Africa, is how best to sustain the pickups in growth. The report shows that avoiding economic declines is as important as promoting growth.

Introduction

Something decidedly new is on the horizon in Africa, something that began in the mid-1990s. Many African economies appear to have turned the corner and moved to a path of faster and steadier economic growth. Their performance over 1995–2005 reverses the collapses over 1975–85 and the stagnations over 1985–95. And for the first time in three decades, African economies are growing with the rest of the world. Average growth in the sub-Saharan economies was 5.4 percent in 2005 and 2006. The consensus projection is 5.3 percent for 2007 and 5.4 percent for 2008. Leading the way are the oil and mineral exporters. But 18 non-mineral economies, with more than a third of the sub-Saharan African people, have also been doing well. Global economic growth has been fairly steady over the last 10 years-at 3.2 percent.

Global trade has expanded at 40 percent a year. And foreign direct investment rocketed from 1.15 percent of world Gross Domestic Product (GDP) in 1995 to more than 2.23 percent in 2005, with private equity funds scouring the globe for new opportunities. Emerging stock markets have also been burgeoning. But policies in many sub-Saharan countries have also been getting better. Inflation, budget deficits, exchange rates, and foreign debt payments are more manageable. Economies are more open to trade and private enterprise. Governance is also on the mend, with more democracies and more assaults on corruption. The conclusion: some luck, but policy improvements have also made a difference. Better economic policy and performance will be at the core of continuing to improve Africans' well-being as explained below.

Growing in tandem with the rest of the world

Since the mid-1990s average incomes in Africa have been rising in tandem with those in other regions. Despite an unanticipated oil shock, growth has remained good. Average growth in 2005 was 5.5 percent; it is estimated at 5.3 percent in 2006 and projected to be 5.3 percent in 2007. More than a third of Africans now live in countries that have grown at more than 4 percent a year for 10 years. A group of diversified sustained growers has begun to emerge, and natural resources have gained new importance. In 2005 growth varied substantially, from –5.3 percent to 20.6 percent, and eight countries were near or above the 7 percent threshold needed to sustain poverty reduction. Along this continuum of growth performance three broad country types are emerging: slow-growth economies (36.7 percent of Africa's population), which include many conflict or post-conflict countries; diversified, sustained-growth economies (35.6 percent of Africa's population), which have grown at more than 4 percent a year for at least 10 years; and oil exporters (27.7 percent of Africa's population). Most of the successful growing economies share some characteristics. They integrate more with the world economy through trade, especially exports. Their investment and productivity are on the rise. And their institutions are getting better.

Investment and efficiency

Africa's growth deficit is the product of low productivity and low investment. Growth accounting shows that physical capital per worker has grown less than 0.5 percent a year, half the world average. Capital shrank between 1990 and 2003, mirroring low capital investment. But the contribution of human capital to growth has kept pace with the rest of the world, mainly a result of rising average years of schooling. Indeed, the main culprit in Africa's disappointing growth is total factor productivity, negative since the 1960s and –0.4 percent between 1990 and 2003.

New evidence indicates improvement in these areas. Some improvements in the growth of output per worker in Africa were registered in recent years, and the contribution of total factor productivity dominated this recovery. Overall, investment increased between 2000 and 2006, from 16.8 percent of GDP to 19.5 percent. Sustained-growth countries have aggregate efficiency on par with India's and Vietnam's, and they are approaching these countries in investment. For the slow growers, by contrast, efficiency and investment were lower. Recent research shows that efficient African enterprises can compete with Chinese and Indian firms in factory floor costs. They become less competitive, though, due to higher indirect business costs, including infrastructure. In China indirect costs are about 8 percent of total costs, but in African countries they are 18–35 percent.

Trade

African exports have been growing over the last few years, most dramatically for the oil exporters, but for the non-oil-producers as well. Exports rose from US $ 182 billion in 2004 to $ 230 billion in 2005, and 38 countries increased their exports, with pockets of non-traditional exports (such as clothing from Lesotho, Madagascar, and Mauritius). Rwanda, by helping farmers connect to buyers of high-quality coffee, boosted its coffee exports to the US by 166 percent in 2005-driving its impressive growth. In Ghana, thousands of employees process US health insurance claims around the clock, and many customers in France do not realize that they are dealing with call centers in Senegal. In Kenya, exports of cut flowers more than doubled between 2000 and 2005 to rank second among its exports, after tea. While these trends are encouraging, growth rates for non-oil-exporters are not yet high enough to constitute an export push.

Policies and governance

A central lesson of Africa's growth experience is that "policy and governance" matter a great deal. Africa today enjoys better growth prospects because its leaders have undertaken major reforms over the past 10 years. In 2006 Africa's best Country Policy and Institutional Assessment (CPIA) ratings were in macroeconomic management and trade policy. Over 1999–2006 average scores from the CPIA rose steadily annually, and the number of African countries with scores at or above the international "good performance" threshold of 3.5 on a scale of 1 to 6 increased from 5 to 15. The average African CPIA score in 1995 was 2.80. By 2006 it had risen to 3.2, and 27 of 36 countries evaluated in both years had improved their scores.

Doing more business

In the 2006/07 Doing Business indicators, the average rank of African countries was 136 among 178 countries. Four countries had ranks in the top third--Mauritius 32, South Africa 35, Namibia 43, and Botswana 51. Kenya rose to 72 and Ghana to 87. But all the others had ranks of 90 or higher. Before 2005, African countries were slow to reform, but the pace has picked up in the last two years. Presidential investors' councils or similar bodies are active in seven countries, among them Mozambique, Rwanda, and Tanzania. Benchmarking through the World Bank's Doing Business surveys and Investment Climate Assessments has proven very useful in focusing high-level attention on the business environment. Forty-six sub-Saharan countries introduced at least one business environment reform in the past year, and Ghana and Kenya were among the top 10 reformers in the world in 2006/07. Eleven African countries introduced reforms to reduce the time and cost needed to start a business. For example, Burkina Faso created a one-stop shop for business entry, cutting required procedures from 12 to 8 and time from 45 days to 34.

Although financial depth remains low in Africa, signs of recovery are encouraging. Real private sector credit as a share of GDP in low-income African countries has turned the corner, reaching almost 13 percent in 2005, about a third higher than its low point in 1996. Africa's success in restoring growth is beginning, however, to reveal some emerging constraints to future growth. Infrastructure across the continent is under stress. Skills to build and sustain competitive enterprises are lacking. And the many small and landlocked economies face unique challenges that can be addressed only through effective regional integration. African agriculture-long neglected-may also emerge as a constraint to growth in some economies and as the sector for sharing the benefits of growth broadly in others.

Closing the infrastructure gap

Sub-Saharan Africa lags at least 20 percentage points behind the average for International Development Association (IDA) countries on almost all major infrastructure measures. In addition, the quality of service is low, supplies are unreliable, and disruptions are frequent and unpredictable-all pushing up production costs, a critical impediment for investors. There are also large inequities in access to household infrastructure services, with coverage rates in rural areas lagging behind those in urban areas. The region's unmet infrastructure needs are estimated at US $ 22 billion a year (5 percent of GDP), plus another $ 17 billion for operations and maintenance. Recent progress is encouraging. Except roads, indicators of infrastructure access rose between the 1990s and the 2000s. The Africa Partnership Forum reported steady improvements in effectively using existing infrastructure and in increasing public investments. Countries are also undertaking regulatory and policy reforms, especially in water, telecommunications, and transport. Twenty of the largest African countries have or are formulating reform agendas for water and sanitation.

Compared with other regions, Africa has been slow to mobilize the private sector for the provision and financing of infrastructure. The Infrastructure Consortium reports that private sector interest has gradually spread. There is an upward trend in private sector provision and management of infrastructure, which stood at $ 6 billion in 2006, up from $ 4 billion in 2004. Most private flows (84 percent) go to telecommunications and energy. Concessions have now been awarded to operate and rehabilitate many African ports and railways and some power distribution enterprises, but financial commitments by the concessionaire companies are often small. This reflects both the value of the management improvements that the concessionaire is expected to bring and the limited scale and profitability of the enterprises taken over.

There has been significant progress in information and communication technology. Access to communications services has increased dramatically over the past three years, with the proportion of the population (excluding South Africa) living under the mobile telephone footprint rising from 3 percent in 1999 to 50 percent in 2006. This has been matched by an equally rapid increase in the use of communications services. By the end of 2006 there were 123 million mobile subscribers. Average penetration rates in the region doubled between 2004 and 2006 to reach 16 percent.

Building skills for competitiveness and growth

The enrolment trends in secondary and tertiary education are positive, though completion rates and quality remain low. The secondary gross enrolment rate rose from a regional average of 24 percent in 1999 to 31 percent in 2004. Still, only 30 percent of each age cohort completes junior secondary school and 12 percent senior secondary. There is also considerable variation. Botswana, Cape Verde, Mauritius, Namibia, Seychelles, and South Africa enrol more than 80 percent of the relevant population in junior secondary schools, while Burundi, Burkina Faso, Central African Republic, Niger, and Rwanda enrol less than 20 percent. Access to tertiary education has been increasing at 15 percent a year across the region, but coverage remains the lowest in the world, less than 5 percent of the relevant age population.

Gender parity in secondary education is improving, with women making up more than 40 percent of enrolments in most countries (up from 20–30 percent 10 years ago). Over the past two years African policymakers and development partners have placed greater emphasis on post primary education and primary school completion. National policies are being reoriented toward better tertiary education in Botswana, The Gambia, Kenya, Nigeria, Rwanda, Tanzania, and Uganda. Private secondary education and training are expanding, and public- private partnerships are emerging. Previously neglected issues-such as labour market links among curricula, science and technology capacities, and research performance-are emerging in public discussions. And private options are increasing.

Integrating the region's economies

The small size of African economies and the fact that many countries are landlocked call for regional approaches to common problems: infrastructure in trade corridors, common institutional and legal frameworks (customs administration, competition policy, regulation of common property resources such as fisheries), and trans-border solutions to regional health issues. African leaders are more aware of the benefits of regional approaches, especially in matters related to trade and infrastructure. The New Partnership for Africa's Development (NEPAD) has adopted regional integration as one of its core objectives, and the African Union is leading efforts to rationalize regional economic communities. Most countries in Africa are party to multiple treaties or conventions addressing joint development and management of shared water resources (including navigation and fisheries), hydropower, trade corridors, irrigation, and flood control. Progress has been most notable in regional infrastructure, particularly regional power pools (in west and southern Africa) and in launching customs unions (west, east, and southern Africa). Progress on regional infrastructure is slowed by the technical complexity of multi-country projects and the time required for decisions by multiple governments. There is less progress in regional approaches to education and in systematically addressing regional health issues.

Making agriculture more productive

Sustained growth that reduces rural poverty will require that more countries achieve 5 percent annual growth in agricultural value added. While growth in agricultural value added has been strong since 2000, averaging 4.6 percent in 2004, too little of it has come from higher productivity or yields. While land productivity is increasing in 38 of 46 countries, only 6 have a rate of increase of 5 percent or more. Labour productivity is increasing in 29 countries, with 10 achieving increases of 3 percent a year or higher. Productivity growth will require an expansion of area irrigated, as well as better performance of rainfed agriculture. But less than 4 percent of cultivated land is irrigated. Because of the long lead time before investments are completed and operational, this proportion changed little in the past 18 months. Improvements in management of soil fertility have been slow, as has the adoption of better seeds. Spending for agricultural research and technology remains low- although it is starting to increase along with overall spending on agricultural programmes in the region. On a positive note there has been an increase in the use of water management techniques (water harvesting, reduced tillage).

Why growth is so important

Human development outcomes are improving across the region, and progress toward the Millennium Development Goals (MDG) is picking up. In 1990, 47 percent of Africans lived in poverty. In 2004, 41 percent did, and on present trends 37 percent will in 2015. Gross primary school enrolment rates rose from 79 percent in 1999 to 92 percent in 2004. Health outcomes are more varied but are also improving in many countries. In 2005 eight countries were near or above the 7 percent threshold needed to sustain poverty reduction. Good economic growth and sustained efforts by governments and their development partners have accelerated progress on the Millennium Development Goals. Although sub-Saharan Africa is one of two regions not expected to reach most of the Millennium Development Goals by 2015 (the other is South Asia), there is substantial variation among countries in both the level of attainment of the goals and the pace of progress. Mauritius has met four goals. Botswana has met three and will likely meet one more. And South Africa has met three. But despite better progress-especially in education, malaria, and HIV/AIDS, 23 African countries are not likely to meet any of the Millennium Development Goals.

However, Africa today is very different from the Africa of the early 1990s, when it was coming out of the declines after the first two oil price shocks and the stagnation of the adjustment years. Whether it can stay different will depend on whether it can spread and sustain growth.

Country patterns

Sub-Saharan GDP per capita increased only modestly between 1975 and 2005. The average GDP per capita of most countries in 2005 closely mirrors that in 1975, reflecting inertia; stratification, and initial conditions in economic output. Countries that started poor, stayed poor, and those that started richer, stayed richer-with few exceptions. Botswana and Namibia saw their GDP per capita shoot up, and Eritrea and Mozambique saw theirs tumble. Accompanying Africa's slow growth is considerable instability in countries. The GDP per capita of countries varied wildly, as did the volatility of growth. Volatility hit countries at different incomes (Botswana and Malawi) and on different long-term paths (Cape Verde, Comoros, and South Africa). With poorer countries growing more slowly, the gap between their incomes and those of richer countries widened. The richest 10 percent of countries had 10.5 times the GDP per capita of the poorest 10 percent in 1975 and 18.5 times that in 2005. So even with country growth rates now converging, Africa has become more unequal across countries. The polarization of richer and poorer countries appears to have increased over 1985–95, when many countries plunged into conflict. Emerging as regional stars are Botswana, Cape Verde, Gabon, Mauritius, Namibia, Seychelles, and South Africa, with 9 percent of the region's people but 45 percent of its GDP. By income per capita relative to South Africa, the region's largest economy, nineteen countries improved, 13 stayed put, and 11 saw steep declines. The mineral exporters Botswana, Cape Verde, and Equatorial Guinea registered among the strongest improvements. But Angola, Chad, and Nigeria stayed put, showing that mineral resources do not always determine success. This suggests that African countries experience similar economic cycles, in an environment of interdependence, contagion, and other regional spillovers. Among the channels for the cross-country similarities in GDP per capita and productivity are worker remittances, temporary migration, and regional conflicts.

Volatility matters little for growth

Slow output growth and high volatility are the defining characteristics of the long-run pattern of sub-Saharan growth. Recent work finds a negative but not statistically significant relationship between volatility and growth and between volatility and GDP per capita. That could be because policy and structural characteristics were not properly taken into account. It could also be that African economies are so stuck in their long-run ruts that short-term volatility cannot divert them. Or it could be that volatility and poor growth performance are both symptoms of institutionally weak societies and so are not independent. In this view, policies are tools for the groups in power to reap rents and stay in power, adding to the difficulty of dealing with political and economic shocks, leading to more political and economic instability. Because long-run growth in Africa was both low and volatile, it is a challenge to identify periods of sustained growth or decline. In 1975–85, Africa suffered two oil shocks, a plunge in commodity prices, and the eruption of conflict. In 1985–95, it introduced structural reforms that brought austerity to many countries. In 1995–2005, it began to recover, but the economic trajectories for individual countries were far from linear. The volatility of growth bears little relation to the long-run performance of an economy.

Though volatility itself may matter little for the overall rate of economic growth-and per capita income-for a typical African country, it may nevertheless indicate that growth spurts are offset by growth collapses. Some of these growth accelerations and decelerations may be due to pure bad luck: commodity prices rise and then fall, but others may be due to policy choices by governments. Looking at the underlying characteristics of growth accelerations and decelerations might thus provide some insights into how to sustain the spurts and avoid the collapses.

Sustainability of Africa's growth

Per capita incomes in Africa grew at 1.9 percent a year during 1995–2005, up from –0.1 percent over 1975–95, with growth shared by countries with very different characteristics and accompanied by better fiscal performance and better governance. But driving that growth was the high demand for minerals and particularly for oil. Resource-rich countries grew at 3.4 percent a year, oil-exporting countries at 4.5 percent, and non-oil-exporting countries at 1.3 percent. And the unconditional probability of an episode of good times was 55 percent for the resource-rich countries, 49 percent for the oil- exporting countries, and 36 percent for the non-oil-exporting countries. If growth is now more likely to last, the economic fundamentals should be stronger in 1995–2005 than they were in 1985–95. Investments in recent good times were slightly higher, but foreign direct investment and trade were significantly higher. The exchange rate was more competitive, but the terms of trade slightly less favourable. Government consumption was down slightly. And with investment basically at the same level, productivity should have increased substantially. Indeed, productivity has been one of the biggest factors behind Africa's recent growth. For resource-rich countries, savings and investments and most notably foreign investment increased in the last decade, while consumption fell. The exchange rate became more competitive, and the current account improved. For the other countries, savings fell and investments remained at the same level, while current account and public debt worsened. But the exchange rate was more competitive, and trade increased.

Africa's GDP growth is on par only with slow-growing Latin America and the Caribbean, a third that in South Asia, and a fifth that in East Asia and Pacific. Savings and investment were well below those in all other regions. Foreign direct investment compared well, but it was concentrated in oil and minerals in only a few countries. Trade also compared well, but again it was highly concentrated and dependent on few sectors. Consumption was higher, reflecting the low propensity to save. Inflation and government consumption were higher. Africa's economic fundamentals on average are not much better after a decade of growth. Favouring better trade conditions certainly favoured that growth, but not significantly more savings and capital accumulation. Statistically it cannot be said that growth is more likely to last than it was a decade ago. It remains vulnerable to lower demand for oil and metals and to other outside shocks.

Conclusion

To spread and sustain growth in Africa, the evidence points to three key action points: avoiding collapses in growth, accelerating productivity growth, and increasing private investment. This can be accomplished by increasing the number and variety of firms and farms that can compete in the global economy. For the coastal economies, this implies pushing exports, and for the landlocked, increasing their connectivity to regional and global markets through deeper regional integration. Action on these fronts can accelerate growth in Africa and help countries break out of the boom-bust-stagnate cycles. However, since some of the challenges and opportunities are unique, each country has to work within its own historical and geographical resources and constraints. Sustained faster growth in Africa is possible, if Africa's economies can meet the challenges of avoiding growth collapses, raising productivity, and boosting private investment.

This report is available at: http://go.worldbank.org/U4SNSH1FC0

COMMUNICATION

Grants

The Flemish Interuniversity Council (VLIR) has allocated to the European Association of Agricultural Economists (EAAE) 2008 Congress a budget to cover registration fees and to reimburse either travelling costs or accommodation for a number of participants from selected developing countries. Only applicants presenting accepted papers or posters at the EAAE 2008 congress can qualify for the grant. For details, contact: Semico n.v. EAAE 2008, Korte Meer 16 9000 Gent, Belgium, E-mail: eaae2008@semico.be , Fax: +32 9 233 85 97. The deadline for application is **1 April 2008**

Funding and awards opportunities

The Communication Initiative (The CI) website provides a wide range of funding opportunities and awards with deadlines between January 15 and April 30 2008. For details, visit the following links: Awards: http://www.comminit.com/en/awards.html
Funding opportunities: http://www.comminit.com/en/funding.html

Conference

The African Society for Edible and Medicinal Mushrooms in conjunction with the Accra Polytechnic and the Council for Scientific and Industrial Research (CSIR)-Food Research Institute are organising the 2nd African Conference on Edible and Medicinal Mushrooms to be held in Accra, Ghana. For details, contact Dr. Omon S. Isikhuemhen via e-mail: omon@fungibiotech.com

PAAP received this information from David Mwesigye-Gumisiriza, Makerere University. He is gratefully acknowledged.

This newsletter is an attempt to use e-communications to provide to a broad audience within and outside Eastern and Central Africa a mechanism for distribution and exchange of information relevant to agricultural policy issues. This newsletter is being sent to you as PAAP's stakeholder. We want to respect your privacy and desire not to have your e-mail inbox filled with unwanted correspondence. If you do not want to receive this newsletter please send us a note at <paap@asareca.org>, and we will remove your name from the distribution list. For back issues of this newsletter, go to 'View Archive' at www.asareca.org/paap

This site is under reconstruction and will take you to the ECAPAPA site. We expect this to be rectified in the next few weeks, thanks.