Sustaining and Accelerating Pro-Poor

Growth in Africa

Catherine Pattillo, Sanjeev Gupta, and
Kevin Carey

International
Monetary
Fund

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International Monetary Fund
Washington, DC

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Production: IMF Multimedia Services Division
Cover Design: Martine Rossignol
Typesetting: Alicia Etchebarne-Bourdin
Cover Photo: Sven Torfinn/Panos Pictures

Cataloging-in-Publication Data

Pattillo, Catherine A. (Catherine Anne)
Sustaining and accelerating pro-poor growth in Africa / Catherine Pattillo, Sanjeev Gupta, and Kevin Carey—[Washington, D.C.: International Monetary Fund, 2005].

p. cm.

ISBN 1-58906-494-1
Includes bibliographical references.

1. Africa, Sub-Saharan—Economic policy. 2. Fiscal policy—Africa, Sub-Saharan. 3. Africa, Sub-Saharan—Economic conditions. I. Gupta, Sanjeev. II. Carey, Kevin Joseph, 1967–
HC800.P27 2005

Disclaimer: The views expressed in this work are those of the authors and do not necessarily represent those of the IMF or IMF policy. The IMF has not edited this publication. Some documents cited in this work may be not available publicly.

Price: $25.00

Please send orders to:
International Monetary Fund, Publication Services
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Telephone: (202) 623-7430 Telefax: (202) 623-7201
Internet: http://www.imf.org

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Abbreviations

CPIA	Country Policy and Institutional Assessment
CFA	Communauté Financière Africaine
GDP	Gross Domestic Product
GIC	Growth Incidence Curve
HIPC	Heavily Indebted Poor Country
ICRG	International Country Risk Guide
ISO	International Standards Organization
IV	Instrumental Variable
MDGs	Millennium Development Goals
MAMS	Maquette for MDG Simulations
NPV	Net present value
OPPG	Operationalizing Pro-Poor Growth
PWT	Penn World Tables
REO	Regional Economic Outlook
REER	Real effective exchange rate
TFP	Total factor productivity
UN	United Nations

Preface

Are improvements in growth in sub-Saharan Africa since the mid-1990s sustainable? What types of growth strategies contribute the most to reducing poverty? This Special Issues paper examines these questions in four stages. First, it explores the factors contributing to the post-1995 improvement in growth. Second, to shed some light on factors associated with substantial jumps in growth rates that are sustained in the medium term, it presents an analysis of the correlates of growth accelerations. Third, the paper examines the consistency of the sub-Saharan African data with some important predictions from the literature directly linking such areas as fiscal policy, financial development, or institutions and growth. Fourth, it reviews recent evidence regarding lessons on the type of growth process that is most effective at raising the incomes of the poor.

Earlier versions of some sections of the paper were presented in the *Regional Economic Outlook: Sub-Saharan Africa* (May 2005). Substantial inputs were made by Elena Duggar, Dmitry Kovtun, Brieuc Montfort, Charalambos Tsangarides, Yongzheng Yang, and, in particular, Smita Wagh. The authors wish to thank Anupam Basu, who initiated and provided many useful suggestions on the project and Anne-Marie Gulde-Wolf for guidance on the financial development section. The authors also wish to thank the following for their helpful comments: Andrew Berg, Oya Celasun, Norbert Funke, Dhaneshwar Ghura, Markus Haacker, Carlos Leite, Saul Lizondo, Michael Nowak, Robert Powell, and Arvind Subramanian. Useful comments and suggestions were also provided by many other IMF staff, particularly in the African Department. Vera Da Luz, Elisa Diehl, Suresh Gulati, and Ramatu Kabia provided excellent research and editorial assistance. Marina Primorac of the External Relations Department coordinated the production of this publication.

CHAPTER

1 Introduction

Are improvements in growth in sub-Saharan Africa since the mid-1990s sustainable? What types of growth strategies contribute the most to reducing poverty? This paper examines these questions in four stages. First, it explores the factors contributing to this recent improvement in growth. To what extent is the growth recovery driven by favorable external conditions? Have improved policies played an important role? Has the improved growth performance been accompanied by improvements in investment, productivity growth, and basic institutions, suggesting a more durable foundation? How do these factors explain differences in performance across subgroups in the region? Which countries can be identified as the strongest performers? The analysis throughout considers correlations, since many of the factors considered are themselves strongly influenced by output growth, making it difficult to establish causal relationships.

Second, although the recent improvement in growth is encouraging, it is insufficiently strong to put sub-Saharan Africa on a path to make substantial reductions in poverty, as set out in the Millennium Development Goals (MDGs). To shed some light on factors associated with substantial jumps in growth rates that are sustained in the medium term, an analysis of the correlates of growth accelerations is presented. What explanatory factors are different for a country during an acceleration episode? Is it possible to identify triggering factors that help explain the timing of a growth acceleration? Can the incidence and timing of accelerations be predicted accurately?

Third, the paper examines the consistency of the sub-Saharan Africa data with some important predictions from the literature directly linking such areas as fiscal policy, financial development, or institutions and growth. Is there evidence of a nonlinear relationship between fiscal deficits and growth in sub-Saharan Africa? Do fiscal consolidations that reduce reliance on domestic financing, and changes in the composition of spending increase growth? How robust and strong are the links between infrastructure and growth? What are the broad trends in correlations between financial development indicators and growth in sub-Saharan Africa? Is financial development more strongly correlated with growth in conditions of macroeconomic stability? What is the correlation between

improvement in basic institutions and growth in sub-Saharan Africa? Are improvements in political institutions and improvements in economic institutions strongly correlated over time?

Fourth, while growth is the long-run key to poverty reduction, there is significant short-run variation across sub-Saharan Africa in the magnitude of growth's effect on poverty. In addition, in the long run, growth is more likely to be sustainable if there is greater equity in opportunities for all segments of the population to participate in the benefits of growth.[1] Focusing on macroeconomic issues, we review recent evidence regarding lessons on the type of growth process that is most effective at raising the incomes of the poor. What is the role of the rate of growth, the response of poverty to that growth, and changes in inequality in explaining changes in poverty in sub-Saharan Africa? What do country case studies tell us about macroeconomic policies and conditions conducive to pro-poor growth?

It is beyond the scope of this paper to review the extensive literature on growth in Africa. We note, however, that the literature has evolved from offering monocausal explanations for Africa's stagnation (geography, ethnic fractionalization, or poor policies, for example) to suggesting that the wide diversity of performance indicates a complex set of factors at play. The literature has generally converged on the view that Africa does not grow differently from other regions; rather, Africa is particularly disadvantaged and has the poorest record on the factors that drive the growth process worldwide.[2] New modes of analysis have also shed light on the growth process in Africa. A comparison of the aggregate growth regression evidence with the microeconomic literature suggests that high risk (policy and exogenous volatility), a lack of openness to trade, weak institutions, and poor public services are key constraints to growth in sub-Saharan Africa. A new method for identifying robust explanatory variables finds that poor health indicators, ethnic diversity, expensive investment goods, low levels of education, excessive government expenditure, and a lack of openness contributed the most to sub-Saharan Africa's growth shortfall relative to the rest of the world. (Collier and Gunning, 1999; Artadi and Sala-i-Martin, 2003).

Recent papers have suggested that opportunities for growth vary among African countries, depending on location and the availability of natural resources, as well as the external environment, inherited institutions, and the prevalence of disease. According to this view, political and policy choices in the face of these economic

[1]The main message of the 2006 *World Development Report* is that greater equity is complementary to sustainable growth and development (World Bank, 2005).

[2]Extensions of the standard growth model have largely eliminated the "Africa dummy" in cross-country growth regressions. See Sachs and Warner (1997), Easterly and Levine (1997), and Hoeffler (2002).

opportunities are what determine countries' growth outcomes. For example, growth opportunities may be quite different in resource-abundant countries, coastal countries without natural resources, and landlocked countries without natural resources.[3] This paper recognizes that in an analysis of the diversity of growth experiences, other exogenous and endogenous structural characteristics of African economies could also be at play: membership in the CFA franc zone, whether a country is involved in conflict, and whether it has an IMF-supported program (see Appendix Table A1).

[3]Collier and O'Connell (2004) suggest that a key factor accounting for Africa's increasing divergence from growth experiences in the rest of the developing world since 1980 is the underperformance of Africa's coastal resource-scarce economies relative to similar countries in other regions. See also O'Connell (2004).