



## WIDER Africa Research

by Wim Naudé



The development crisis faced by Africa has been described as the ‘greatest tragedy of our time’. The continent’s generally poor growth record, documented by Augustin Kwasi Fosu in the lead article of this *WIDER Angle*, has led to high poverty, low incomes, and moreover a low share of the global distribution of wealth.

Over the past two decades WIDER has generated a substantial body of research addressing Africa’s development. Since 2000 alone, over a hundred research and discussion papers and a number of substantial books have focused on Africa. This article reviews a selection of a most recent WIDER Africa research.

The message from this research is clear—that four interrelated requirements need to be met for Africa’s development:

- lay a foundation for growth,
- strengthen institutions as the guardians of growth,
- promulgate appropriate and credible policies, and
- relax constraints on resources.

*WIDER Africa Research* overview is continued on page 10.

## Policy Syndromes and African Economic Growth

by Augustin Kwasi Fosu

Many African countries grew fairly strongly until the early 1980s. If that growth had been maintained, these countries could have halved extreme poverty (daily income of less than US\$1) by 2015. The question is, why did this growth not continue?

In this article I argue, based on the Growth Project,<sup>1</sup> that several policy syndromes derailed African growth. First, however, I set out the African growth record, and then discuss the various policy syndromes explaining the record as well as the environment contributing to these syndromes.

### The growth record

Table 1 shows that average GDP growth in sub-Saharan Africa (SSA) was high in the 1960s until the early 1980s after which it began to decline. With an annual population growth rate of roughly 2.9 per cent, the period from the early 1980s to the early 1990s was one of contracting per capita incomes. The growth record has improved since the mid-1990s, with an average annual growth rate of 4.5 per cent (excluding South Africa) during the last half decade compared with population growth of 2.3 per cent per year. Yet, it is estimated that a higher GDP growth rate (approximately 7 per cent annually) is required for African countries to halve extreme poverty by 2015.

These averages mask differences in growth among SSA countries. During the 1981-85 period when the average growth rate was historically the lowest in SSA as a whole, several African countries achieved growth rates of at least 4.0 per cent: Benin, 4.7; Botswana, 10.0; Burkina Faso, 4.2; Burundi, 5.4; Cameroon, 9.4; Chad, 9.2; and Republic of the Congo, 10.6 per cent.

Table 1. Half-decadal Mean Annual SSA GDP Growth Rates (%) 1961-2005 (2nd row excludes South Africa)

1961-65	1966-70	1971-75	1976-80	1981-85	1986-90	1990-95	1996-2000	2001-2005
5.4	5.1	4.6	2.7	1.0	2.5	1.1	3.3	4.1
3.5	4.1	4.9	3.2	1.7	3.1	2.0	3.9	4.5

Source: World Development Indicators, World Bank, various years

Another characteristic of the African growth record is its episodic nature within countries. Many countries that started as growth leaders in the 1960s had by 2000 become growth laggards (e.g., Côte d'Ivoire, Gabon, Kenya, South Africa, Togo, and Zambia). Conversely, several early laggards became growth leaders as of the 1990s (e.g., Benin, Burkina Faso, Ghana, Senegal, and Sudan).

While the evidence on the episodic nature of African economic growth may be rather inexact, what is incontrovertible is that African countries have exhibited highly variable growths during the last four decades. The SSA average standard deviation of GDP growth per worker over 1960-2000 is estimated at 3.24 per cent, the highest among all regions of the world. Indeed, the coefficient of variation (CV) is nearly four times the world's average.

### Explaining the growth record: the syndromes

What accounts for the growth records of SSA countries? The following 'syndromes' can be identified: 'state controls' (SC), 'adverse redistribution' (AR), 'inter-temporally unsustainable spending' (IUS), and 'state breakdown' (SB). The complement of the union of these syndromes is the 'syndrome-free' (SF) regime.

SC involves the control by the state of resource allocation, including direct and indirect controls of prices and actual state production and distribution, supplanting the role of markets. Under AR, government officials redistribute resources to

their cronies and in favor of their regional constituencies, usually with ethnic undertones, in a manner that exacerbates polarization. In the case of IUS, a commodity boom would lead to exuberant public spending that overshoot the inter-temporal optimal allocation of resources, such that when a bust invariably occurred, incomes fell faster than they should have; on average, then, a reduction in growth would result. SB involves an open warfare such as a civil war or very high frequency of *coups d'état*, leading to a breakdown in the rule of law.

Over the 1960-2000 period, roughly 34 per cent of all SSA country-years could be classified as SC, followed by SF with the relative frequency of 25 per cent, SB with 10 per cent, and IUS with 9 per cent. It can be seen that the syndrome-free regime has been more frequent in Africa than one might think. Second, state failure has not been as frequent as may be believed. What seems to have occurred, however, is that there are very few cases of countries experiencing SF over the entire period (Botswana is probably the only exception), while the frequency of SB has risen considerably since the 1990s.

### The syndromes and growth

To what extent have these syndromes affected SSA growth? Based on an in-depth regression analysis, the evidence that syndromes reduced SSA growth is strong. Being SF is both a necessary condition for achieving sustainable growth and a near-sufficient condition for preventing growth collapse. Avoiding syndromes could add 2.5

percentage points to per capita annual growth. This estimate is certainly not paltry, for it is substantially larger than SSA's growth deficit with the rest of the world.

### Explaining the syndromes

Why then did these syndromes occur? From the 26 case studies produced by the Growth Project, the following have been found.

#### Initial conditions

The initial conditions at the time of independence heavily influenced the policies adopted by many African countries. These conditions included:

- **Reigning international paradigms**, which portrayed socialist policies as more egalitarian than capitalist policies. Leaders opting for socialist policies tended to resort to various forms of state controls, which in turn provided rent-seeking opportunities in support of adverse redistribution that was intended to preserve their political base.

- **Experiences of the initial leaders**. Those early African leaders who were politically conservative based on their respective experiences, derived internally or externally, tended to adopt relatively liberal economic policies, in contrast to their socialist-leading counterparts.

- **Group-identity rivalry**. As the physical and political boundaries of many African countries were the result of colonial partitioning that had no regard for well defined (ethnic) groups, the early African leaders found it necessary to adopt strong

central governments intended to tame likely group-based centrifugal political forces.

• **Initial institutions.** Modern institutions supplanted traditional chieftaincies as governing entities in many African countries, especially following independence. Yet, the adopted governing practices were only a shadow of the inherited modern institutions, with the checks and balances usually stripped in order to maintain the centrality of the executive branch of government.

#### *Supply shocks*

Negative supply shocks, e.g., oil price shocks and droughts, resulted in shortages in the presence of price controls. Many governments chose to fix prices in the face of such shocks in order to make goods and services more affordable to the poor at large. Such a policy, however, led to more and/or stricter state controls.

In the case of commodity booms, governments usually engaged in exuberant public spending as if the booms were permanent, overshooting the optimal inter-temporal expenditure allocation. Thus, inter-temporally unsustainable spending would result. This syndrome has been particularly characteristic in natural resource-rich economies, where governments also saw the opportunity to use the revenue windfalls during booms to reward their cronies and ethnic constituencies who supported their political entrenchment, and to attempt to maintain that redistribution even during the busts.

#### *Institutions*

The Fabian socialism adopted in many African countries contributed to the high frequency of state controls. The executive branch of government was made dominant in many African countries, usually through the diminution of political

checks and balances, and became entrenched in power. Over time, the military became the only real competing institution capable of changing the executive. This role of the military, coupled with the competition for rent made available by the various controls or high revenues from natural resources, resulted in 'elite' political instability involving high frequencies of *coups d'état*. Where adverse redistribution was severe, polarization was likely to accentuate, eventually resulting in open warfare in many instances.

#### *Economically driven political expediency*

There appears to be a U-shape evolution of syndrome-free (SF) frequencies over the 1960-2000 period. SF and non-SF events were split about equally during the early post-independence period. SF then diminished in importance until more recently when it began to rise again beginning in the late 1980s. The relatively high frequency in the early period was likely due to chance, as the early leaders were roughly divided equally between socialist and capitalist tendencies. In contrast, the most recent upward trend is attributable to economically driven political expediency, for the socialist experiments often ran into fiscal difficulties which, especially with the demise of the Cold War, required the assistance of the Bretton Woods institutions in exchange for reforms.

### **Conclusion**

That economic growth in Africa overall has been dismal over the last four decades is generally recognized. Moreover, growth has been episodic and not sustained. The lack of sustainability can be attributed to various policy syndromes. These syndromes themselves have, furthermore, been endogenous with respect to the environment within which African governments have operated. To engender policies that

generate sustainable growth will, therefore, require appropriately changing the setting within which policy is formulated.

The change would include the need to have more accountable governments, with appropriate constraints on the executive, and to minimize the use of distributive politics engineered to hold on to power. Unfortunately, the evidence suggests that as the incidence of syndrome-free regimes has increased recently in Africa, so also has state breakdown. The challenge, then, is how to continue to accentuate the frequency of syndrome-free regimes while minimizing state failure.

<sup>1</sup>See the 'Explaining African Economic Growth Collaborative Research Project' (the Growth Project) organized by the African Economic Research Consortium (AERC). Two substantive volumes based on this research are forthcoming under the general title, *The Political Economy of African Economic Growth*, Cambridge University Press, edited by J-P. Azam, R. Bates, P. Collier, A. Fosu, J. Gunning, B. Ndulu, D. Njinkeu, S. O'Connell, and C. Soludo. The article derives mainly from A. K. Fosu, 'Anti-Growth Syndromes in Africa: A Synthesis of the Case Studies'.



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# Institutions and Macroeconomic Policies in Africa

by Jean-Paul Azam

Appropriate macroeconomic policies are necessary for African countries to make progress in the fight against poverty. As discussed by Augustin Kwasi Fosu in this edition of the *WIDER Angle* (see pages 1-3) stagnating economic growth in Africa has been associated with inappropriate policies ('policy syndromes'). Moreover, as he points out, wrong policy choices are often endogenous, that is to say the outcome of the institutional environment in which it originates. In this article I discuss, by using examples from the Madagascar and the CFA Zone, how African institutions matter for macroeconomic policy choices, and how institutions mediate the impact of macroeconomic events on poverty.

We first need to note that the standard policy tools taught in basic macroeconomics work differently in different institutional environments. Indeed, the recent experiences of a number of African countries have emphasized that there is a gap to fill between the simple models that we used for building our intuition at university and those that can shed some light on the actual experience of poor countries. Among the latter, the wide variety of institutional frameworks makes the construction of applicable models even more daunting.

In Africa, having a clear understanding of the different roles of the formal and informal sectors, and the interaction between them, is important when trying to determine the impact of macroeconomic events on poverty. Take the case of exchange rate policies. Beside the CFA Zone and the Rand Zone, most African countries have an inconvertible currency. There was a time when all of the countries of the latter group had a parallel ('black') market for foreign currencies, while the

government was running an official segment of the market. Behind the smokescreen of officialdom, the latter was really used for diverting foreign currency into the pockets of cronies and dangerous political rivals whose cooperation had to be paid for. Formal institutions had thus been performing an 'informal' function. While parallel markets have disappeared in many countries, it is still active in a country such as Zimbabwe. In such a framework, macroeconomic stability is nearly impossible to maintain. For one, the formal or official market is pre-empting the flow of foreign currencies before it reaches the government budget, and creates an inflationary fiscal deficit. Moreover, most of the fiscal resources of poor countries are levied on foreign trade, at the official exchange rate. Thus, the parallel market premium (i.e. the discount given to friends and rivals through the official segment) spills over onto importers whose tax liability is computed at the official rate. The inflation tax is thus used for financing the 'political gifts' channelled by the official market.

Macroeconomic students trained in rich countries tend to pay little attention to inflation—and inflation often seems unimportant to people used to live in a stable monetary environment. However, inflation can kill vulnerable people in poor countries. In particular, when people are expecting a high rate of inflation (perhaps because they expect the government to run short of foreign currency in the near future) they try to get rid of their cash by any means. For most people in Africa, the only inflation-proof asset that they can find is storable food. Grain and livestock are the most commonly assets held in Africa, as it has been for several millennia. Indeed very few people would or can approach a bank for acquiring

inflation-proof assets in Africa. With grain as asset, speculative attacks against the national currency would simply send grain prices to skyrocketing levels that would inflict significant hardship on the poorest segments of the population. Take the example of Madagascar. This country experienced a speculative attack against its currency in 1993-94 after running a persistent fiscal deficit. Then, those who bought paddy (i.e. un-husked rice, what can be stored for more than a year while rice rots within a few months) in June 1993 and sold it in April 1994 made a 49 per cent capital gain in real terms. Those who had sold the paddy at harvest time, in June 1993, were starving in April 1994. This example serves to illustrate that macroeconomic stability (low inflation) is protecting the poor at least as much as it is protecting the rich.

Another example of the adverse impact of inappropriate macroeconomic policies on poverty comes from the CFA Zone in West Africa.<sup>1</sup> In the CFA Zone, the rich are the wage earners of the formal sector. They seldom account for more than 4 or 5 per cent of the labour force, but they earn a lot more than the rest of the population. Before the 1994 devaluation of the CFA Franc, they were earning on average more than 12 times the estimated value of GDP per capita. In Burkina Faso, the government employees were earning on average more than 15 times the value of GDP per capita. Faced with such a state of affairs, most economists would complain about the high level of inequality. However, one needs to go beyond the surface and look at traditional institutions to get a correct understanding of the way this highly skewed distribution of income affects poverty and the working of macroeconomic policy. In many



African countries, including those in the CFA Zone, there is a sustained flow of migration between the rural-based subsistence agricultural sector and the urban-based (or mainly so) modern sector. The typical village-based African extended family is the decision-making unit that sends its best offspring to the city. This is a costly decision for those remaining behind in the village society, as young labour is thus departing and hence increasing the burden of those remaining behind for working in the fields. This family-based costly decision is made because of the high returns that it promises. Migrants will send back remittances that will help support the villagers later on. These remittances are not only paying dividends on the initial investment made, but they will also serve as an insurance mechanism helping the village family to cope with the vagaries of agricultural yields in Africa, which are severely exposed to droughts and pest invasion. The much-awaited devaluation of the CFA franc provides a real-life natural experiment that sheds a lot of light on the interaction between traditional institutions and macroeconomic events.

Before the 1994 devaluation of the CFA Franc, a fair estimate of the number of people living off one formal-sector wage or salary within the extended family was about 40. A massive flow of transfers was thus funded out of these high wages and was keeping a lot of people above the poverty line. During the pre-devaluation structural adjustment phase, the formal sector workers were saving a large share of their high wages. They were thus anticipating the cut in their real income that they felt was bound to occur at the end of the adjustment process. The so-called 'informalization' of the economy was a reflection of that anticipation, as a large number of new firms emerged in the informal sector as the well-off were investing their precautionary savings that way. The

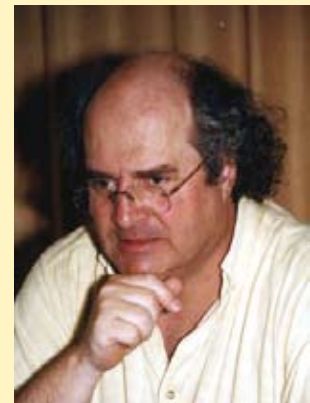
young brothers and sisters from the village were massively migrating to the cities for working in these firms. Hence, while the village-based family was investing labour in the urban informal sector, the migrants were investing money to employ them. Then, when the devaluation came, the average wages in the formal sector were cut by about 40 per cent in real terms, within the next two or three years, and there was no more saving going on for creating new firms in the informal sector. Moreover, the formal sector workers were then induced to run down their assets, reducing drastically the creation of new firms in the informal sector. A massive increase in urban poverty resulted in the first few years after the devaluation, with some spill over to the rural sector, as migration to the cities was abruptly reduced and the demand for food went down in the cities. In the end, the devaluation helped growth to recover in many of the CFA Zone member countries, by reducing the cost of labour in the formal sector and restoring profits there with a huge impact on productive investment. In due course, poverty was drastically reduced in the countries where the resulting growth process was sustained long enough. Senegal is a good example where the new opportunity opened by the devaluation was used most productively by the government who used the improved fiscal situation to launch a massive and timely public investment programme. This created a very favourable investment climate, and productivity has increased beyond expectations within the post-devaluation decade. Poverty went down so much that the government was reluctant to publish the results of the 2001 household survey, by fear of being accused of fiddling with the data.

African institutions are thus affecting critically the way macroeconomic events affect the poor, as shown by the examples just discussed. However, macroeconomic events can also affect institutions in Africa.

For example, the reshuffling of income distribution that resulted from the CFA franc devaluation has changed African society. One well-off formal sector worker is now sustaining only about twenty people, half the pre-devaluation estimate. The weight of the extended family is thus becoming lighter for migrants, as more young brothers become financially more independent. This might strengthen migration with positive development impacts for both rural and urban inhabitants.

<sup>1</sup>See Jean-Paul Azam (2005) 'Poverty and Growth in the WAEMU after the 1994 Devaluation', in David Fielding (ed.): *Macroeconomic Policy in the Franc Zone*, chapter 7, pp 121-142, Palgrave Macmillan in association with UNU-WIDER.

Further reading: Jean-Paul Azam has just published *Trade, Exchange Rate and Growth in Sub-Saharan Africa*, Cambridge University Press (2007).



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# The MDGs: ‘M’ for Misunderstood?

by Jan Vandemoortele

The Millennium Development Goals recently marked their fifth anniversary. They have generated tremendous support, globally as well as in many individual countries. However, several misunderstandings are jeopardizing their future. A quick historical recount of their genesis is in order. It is likely to challenge received wisdom, but as the late economist John Kenneth Galbraith said, ‘The conventional view only serves to protect us from the painful job of thinking’.

## Origin

Global target setting became common practice in the 1990s. It started in 1990 in New York with the children’s summit and in Jomtien (Thailand) with the education summit. World summits and international conferences subsequently moved to Rio de Janeiro for the earth summit (1992), to Cairo for the population conference (1994), to Copenhagen for the social summit (1995), to Beijing for the women’s conference (1995), and to several other locations. In 2000, the Millennium Summit synthesized the previously agreed global goals and targets in a document called the ‘Millennium Declaration’.

Such documents tend to have a short shelf-life. Hence, a UN inter-agency group extracted the key commitments with a view to keeping them in the spotlight beyond the shelf-life of the Millennium Declaration. The targets that came to be known as the ‘MDGs’ were selected on the basis of two criteria: (i) whether internationally agreed indicators existed for measuring progress and (ii) whether reasonably good data were available to document global trends. The MDGs with their 8 goals, 18 targets and 48 indicators were endorsed by the UN General Assembly in late 2001.

## Power of quantification

They have gained widespread attention since, in large part because of their relative simplicity and their measurability. Not only do they embody an internationally agreed agenda for human development, they also represent a measurable agenda.

The MDGs aim to reduce, on a global scale, hunger by one-half, infant and child mortality by two-thirds, and maternal mortality by three-quarters. The obvious question that arises is: Why are these targets not the same? Why not cut everything by three-quarters?

The simple answer is that most of the global MDG targets are based on global historical trends. They were set on the premise that progress, as observed at the global level over the previous 25 years, will continue for the next 25 years—the period from 1990 to 2015. Thus, the MDGs are essentially an extrapolation of global trends of the 1970s and 1980s and projected forward till 2015.

## Global versus local targets

Thus, assessing whether progress is ‘on track’ for meeting the 2015 targets can only be done at the global level. It cannot be done for any specific region or particular country because the quantitative targets were set in line with global trends, not on the basis of historical trends for any particular regional or specific country.

It is erroneous, for instance, to lament that sub-Saharan Africa will not meet the MDGs. These targets were not set specifically for that region. Rather, concern should be raised about Asia’s performance, which is lagging behind its own historical trends.

The content of the MDGs applies universally because they reflect fundamental social and economic rights. But their quantitative dimensions should not apply uniformly to all countries or regions.

World leaders agreed on a set of global targets on the understanding that aggregate trends in the recent past made them feasible for the near future at the global level but not necessarily in each and every country. The spirit of the Millennium Declaration was not to impose a ‘one-size-fits-all’ benchmark for appraising and comparing country performance, regardless of their historical background, natural endowments and particular challenges.

## MDG yardstick

Yet, it is common to misinterpret the MDGs as a uniform yardstick. Statements such as ‘55 countries are off track to reach this target’ or ‘sub-Saharan Africa will reach that target by 2076’ exemplify this misunderstanding. The correct yardstick is not whether a country or a region is on track for meeting the global targets by 2015. Rather, it is whether the country or region is maintaining, as a minimum, the same pace of progress it achieved in the recent past.

If all countries were to keep up their specific rate of progress, the world would meet the 2015 targets—even though many countries would not reach several global targets.

The misinterpretation of the MDGs is not only an academic matter; it has tangible consequences. Nothing is more disempowering than to be called a poor performer when one is doing a perfectly respectable job. The real enemies of the global anti-poverty agenda are pessimism, scepticism,

and cynicism. A ‘one-size-fits-all’ interpretation of the MDGs is likely to add to such perceptions because they will inevitably condemn more than half of the countries to the category of ‘poor’ performers—thereby undermining the support for the global targets among politicians and the public at large.

Some even argue that the allocation of official development assistance and debt relief should be based on the country’s performance as measured against the global MDGs. Such use of the global targets would not only be inappropriate, it could also be irresponsible; as it would deny the basic fact that individual countries face very specific challenges in fostering human development.

For instance, a comparison of Malaysia’s and Malawi’s performance *vis-à-vis* the global MDGs would yield more aid and debt relief for the former. But such comparison would be unfair as it would ignore that Malawi is landlocked, that it faces high incidence of malaria and HIV, that it is endowed with few natural resources, and that its soil productivity is low.

Since the global targets assume the continuation of the same progress as in the recent past, some see the MDGs as ‘minimum’ development goals. However, the targets are extrapolated from the global trends of the 1970s and 1980s; when there was no HIV and Aids. The fact that the Aids pandemic is still expanding makes the MDGs quite ambitious at the global level.

At the country level, several of the MDGs are beyond reach. Without a miracle, countries with high HIV prevalence cannot possibly meet the global targets by 2015. Categorizing them all as ‘failures’ while several are vigorously trying to stem the Aids pandemic would be both unfair and unhelpful.

### Making sense at the country level

Before dismissing the MDGs as targets that are ‘easily set but never met’, there are four practical steps that can be taken to make sense of the MDGs at the country level. The first two are essentially political in nature; the latter two are more technical.

First, the global MDG targets must be tailored to make them context-sensitive—which is essential for generating a sense of national ownership. Global targets are meant to encourage countries to strive for accelerated progress. Their applicability, however, can only be tested and judged against what is realistically achievable under country-specific circumstances. To be meaningful, national targets require adaptation; not a mindless adoption of global targets.

Viet Nam set its own ‘VDGs’ (Viet Nam Development Goals) that are more ambitious than the global MDGs. On the other hand, Cambodia’s ‘CDGs’ are less ambitious than the global ones. No stigma should be attached with setting national targets that are less ambitious than the MDGs.

Second, intermediate targets are essential for political accountability. The MDGs must be linked to the political agenda of today’s government. If the onus for achieving the targets does not fall on the current government, the lofty goals are unlikely, by themselves, to shape policy reforms and action plan because the deadline will not occur on its watch. Hence, intermediate targets are needed to sustain and solidify the political commitment to a quantifiable and time-bound agenda for human development.

Third, intermediate targets must be translated into actionable propositions and short-term reforms. Actions will range from immunising children to iodising salt, training teachers and

building schools, drilling boreholes and planting trees, treating Aids patients and distributing bed nets, enforcing laws against gender discrimination and child labour, abolishing user fees for primary education and basic health care, and some economic reforms such as progressive taxation, restructuring budgetary spending in favour of the poor, and sequencing home-grown financial and trade policies.

Finally, the fourth step is to cost these programmes and policies to inform the national budget and aid allocations. The last step will ensure that the national budget adequately reflects the tailored targets—a link that is often missing in practice. Given the methodological and data weaknesses, it would be ill-advised to estimate the costs of the MDG targets over an extended period of time. The longer the time horizon, the less reliable they become; with each additional year lessening their accuracy. MDG costing will only yield results that have a certain degree of accuracy when done within a 2-3 year timeframe.

In short, global targets such as the MDGs have their place but they also have to be kept in their place. If the incorrect interpretation persists, a great silence is likely to befall the MDGs as the 2015 deadline draws closer.



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# Africa's Debt: The World Turns Brighter

by Tony Addison

This year is set to see a new chapter open in Africa's debt story and, for once, it looks like a positive story—as the region begins to access the international capital market in ways that could fund development and poverty reduction. Today 20 African countries have a sovereign credit rating (compared to only one in 1997) and many can now borrow commercially at interest rates less than half of those of the past. And they have access to the international capital market on a scale unimaginable just a few years ago.

In March Nigeria redeemed most of the debt owed to its commercial creditors (the London Club) in a deal that Nenadi Usman, the Finance Minister, said would 'free Nigeria from its historic debt overhang' (which in the late 1990s amounted to US\$35 billion; equivalent to 60 per cent of GDP). The last US\$500 million has been bought back, and there are high hopes that Nigeria's sovereign bonds can now achieve an investment grade rating. Although a politically unpopular decision at home (much of the debt was incurred by Nigeria's feckless military rulers with little thought to the future), the debt buy-backs over the last two years will lower the country's risk premium and make it easier to finance the budget—including much needed spending on basic health services, primary education, and pro-poor infrastructure (all of which are needed to haul Nigeria out of deep poverty).

Likewise, Ghana is expected to raise up to US\$750 million this year from the international capital market, and overall the prospects for the region's poorer borrowers have improved significantly after completion of relief under the Enhanced Heavily Indebted Poor Countries (HIPC)



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## Opportunity to finance Africa's human capital

Initiative and the Multilateral Debt Relief Initiative (MDRI)—the latter being announced at the 2005 Gleneagles summit of the G8. While eight African countries continue to languish at pre-decision point status under the HIPC Initiative (Central African Republic and Sudan, for example) debt relief is unlikely to do much to resolve their urgent political problems (the genocide in Sudan's Darfur region, especially).

## A new rush to borrow

Having just eliminated their HIPC debt (largely the legacy of past concessional aid loans to fund structural adjustment), why are countries in a hurry to borrow commercially? One reason is that aid is still an uncertain way to fund the public budget, and many of the donors have not lived up to the promises made at Gleneagles; far from rising to meet the Millennium Declaration's target, total aid to sub-Saharan Africa from OECD-DAC donors was constant in 2006, once debt relief to Nigeria is taken out. Aid from Italy, Japan, and the United States is actually down (Germany, Sweden, and the UK have substantially increased their aid in the last few years).

New donors, in particular China—which has returned to Africa with a vigour not seen since the 1970s—but

also Brazil and India have entered the arena. China could use its enormous reserves to contribute to the next replenishment of the International Development Association (it gave nothing to the last IDA replenishment in 2005) thereby dispelling some of the accusations that it is following the well-trodden path of western donors in using its aid largely for commercial and diplomatic gain.

In summary, aid is proving to be a fickle friend (yet again). And so Africa countries are turning to commercial borrowing, taking advantage of a world that is, at least for the moment, abundant in capital looking for a return. The yield on emerging market debt is at historical lows (despite a wobble in early 2007) and the compression in spreads over US treasuries looks set to continue into 2008. This provides an excellent opportunity to finance Africa's enormous investment backlog not only in 'hard' infrastructure but also in human capital. With the mid-point of the Millennium Development Goals (MDGs) fast approaching (June 2007) borrowing to improve education and health is all too necessary given the broken promises of the aid 'community'.

The worlds of finance and environmental change also increasingly intersect; this year saw the first debt-for-carbon swap when the United States agreed to exchange US\$12.6 million of Costa Rica's US\$93 million debt for carbon certificates (covering some 10 per cent of the country's debt to the US). This looks promising for a future in which more capital flows to poor countries as rich countries seek to offset their carbon footprints by investing in sustainable forestry and alternative energy. Africa could benefit from this given its great tropical forests with their



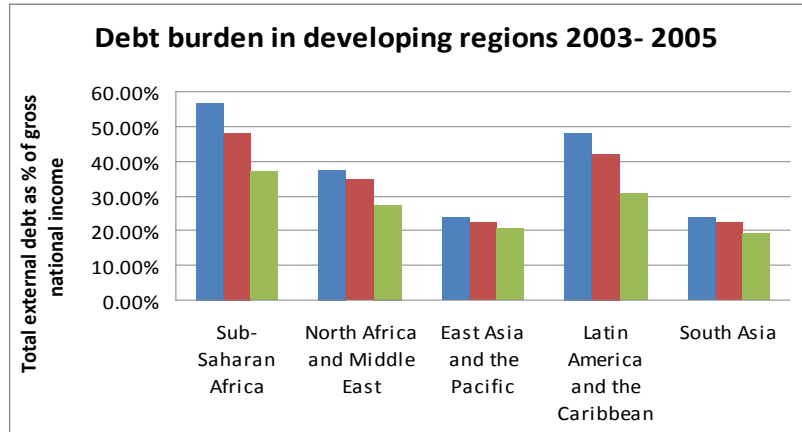
rich biodiversity—a global public good to be preserved for all of humanity’s benefit.

**‘That ‘70s show’ again**

But before we get too carried away with optimism, we must note some dark clouds that linger. There are dangers ahead which require careful navigation, not least re-running ‘that ‘70s show’ in which countries borrowed recklessly on the 1970s commodity boom—only to see themselves saddled with enormous foreign debts. These had to be serviced on the back of meagre export earnings when commodity prices collapsed back again in the recession of the 1980s.

So it is imperative that this time round the borrowed funds be used to fund infrastructure to diversify economies away from their traditional dependence on commodity-exports. Getting the right infrastructure in place is no easy task, and one priority must be transport and communications infrastructure that facilitates more intra-Africa trade; the transport costs that countries face in trading with each other remain absurdly high, a problem that has been repeatedly emphasized for decades but one for which there has been too little finance available.

At least today’s financial markets offer more tools for hedging commodity-price and exchange rate risks, and governments would be well-advised to use these because the bonanza of cheap world capital cannot last forever. At some point in the next five years global inflation will rise (perhaps as a result of China’s seemingly insatiable demand for steel, copper, and oil), requiring the major central banks to tighten interest rates: easy credit will then come to an end, risk premiums will jump (including those on emerging market debt), and countries that have not used their borrowing productively will be exposed to



Source : The World Bank, 2006, Global Development Finance (accessed online 26 April 2007)

**‘Africa and the rest of the poor world needs to use its borrowing power wisely and the rich world’s donors need to live up to their pledges.’**

the chill winds of expensive credit again.

It is therefore worrying that despite all the chatter about a ‘new international financial architecture’ over the last few years, we are no closer to its realization. There is still no institutional mechanism to manage private debt default since the IMF’s proposal for a sovereign debt restructuring mechanism fell by the wayside in 2003. And there are some very good ideas—such as GDP-indexed bonds and linking debt-service to commodity prices—that remain on the drawing board. It is in good times like now, when credit is easy and commodity prices are high, that we should be building a financial architecture that is robust for the bad times that inevitably come around.

After years of a dismal debt story, the future looks somewhat brighter—but to stay this way, Africa and the rest of the poor world needs to use its borrowing power wisely and the rich world’s donors need to live up to their pledges. Only then will the billions of people who live in chronic poverty start to see a better future for themselves and their children.

*Debt Relief for Poor Countries*  
 Edited by Tony Addison,  
 Henrik Hansen and Finn Tarp  
 (hardback) 9781403934826  
 (paperback) 9781403934956  
 2004, Studies in Development  
 Economics and Policy  
 Palgrave Macmillan



*Tony Addison is Executive Director of the Brooks World Poverty Institute ([www.bwpi.manchester.ac.uk](http://www.bwpi.manchester.ac.uk)) Associate Director of the Chronic Poverty Research Centre ([www.chronicpoverty.org](http://www.chronicpoverty.org)), and Professor of Development Studies, University of Manchester. He was previously Deputy Director of WIDER.*

# WIDER Africa Research

by Wim Naudé

Continued from page 1

From a selection of recent WIDER research on Africa (see the box on essential WIDER reading, p. 11) the following four interrelated requirements are identified for Africa's development.

## A foundation for growth

First, a foundation for growth needs to be put in place by ending conflicts, establishing accountable states, and building the capacity of the state. WIDER has been at the forefront of research into moving beyond conflict in Africa. The WIDER book, *From Conflict to Recovery in Africa* (2003) details how a number of African countries have entered an underdevelopment-conflict cycle, with weak institutions (where grievances cannot be channeled into non-violent actions) leading to conflict, which in turn further harms institutions, creates high uncertainty and transactions costs, and depresses investment. The book also documents, with case studies from Angola, Guinea-Bissau, Eritrea, Ethiopia, and Mozambique, the complexities involved in ending conflict and sustaining reconstruction. The need for international action is found to be crucial, especially in the areas of aid, debt relief, peacekeeping, corruption, war profiteering, and arms supplies. This work has important lessons for the current efforts to establish peace and a basis for sustained growth in countries such as Burundi, Côte d'Ivoire, Democratic Republic of the Congo, Liberia, Sierra Leone, Somalia, and Sudan.

WIDER has also been active in directly supporting capacity building in Africa. One of the most recent initiatives in this regard is a project to support policymakers to assess the impact of policies at the level of individual households using microsimulation models. This

project has produced a website with user-friendly models where policy makers and others can experiment with the impacts of policy changes for Botswana, Cameroon, Nigeria, South Africa, and Uganda (see [www.models.wider.unu.edu](http://www.models.wider.unu.edu)).

## Institution building

Second, institutions—broadly defined as the 'rules of the game' and including the judiciary, the public service, and civil society—are a necessary foundation for development, and need to be strengthened and expanded in Africa. Institution-building has indeed been at the centre of the reform effort since the 1990s. The WIDER study *Reforming Africa's Institutions: Ownership, Incentives, and Capabilities* (2003) focuses on the importance of good governance, on the importance of the ownership of economic reforms, and on the opportunities that reforms such as privatization and decentralization can create for economic development.

The study illustrates, with case studies from Ghana, Kenya, Malawi, Mozambique, Nigeria, Tanzania, Uganda, Zambia, and the countries from the West African Economic and Monetary Union (WEAMU), that greater public sector efficiency, and innovations in the approach of the public sector, are vital for service delivery. Improved incentives for civil servants, such as better working conditions, career prospects, and opportunities for skills development have been identified as key ingredients, currently sadly missing, for public sector efficiency in Africa.

## Policy implementation

Third, credible policies need to be put in place that will result in increased investments in health,

education, ICT, and critical public infrastructure. WIDER's work has made important contributions, in particular to trade policy, monetary and fiscal policy, anti-poverty strategies, and ICT.

In trade policy, the WIDER study *Non-Traditional Export Promotion in Africa: Experience and Issues* (2002) was one of the first serious cross-African analyses of exports. It points out that weak export growth in Africa is linked to weak performance in private investment, and that it remains important for African countries to increase and diversify their exports. The study offers policy advice for the promotion of Africa's non-traditional exports, making a case for conscious and selective non-traditional export promotion, whilst stressing the importance of appropriate exchange rate and trade policies with limited anti-export biases.

In monetary policy, the WIDER study *Macroeconomic Policy in the Franc Zone* (2005) makes a significant contribution towards understanding the way in which a single currency area should operate when member countries face different economic conditions and how monetary policy in a monetary union affects the poor. It concluded on the importance of price stability and credibility in monetary policy for growth, and on the need for supporting fiscal measures to buffer the poorest of the poor in times of monetary contraction. This study continues to offer pertinent insights for the monetary unions that may be considered elsewhere in Africa in the future.

Appropriate fiscal policy is important in Africa, not only to temper grievances from arising and to facilitate the transition to peace in many countries, but

also to ensure that poverty and inequality are effectively addressed through the provision of basic needs, transfer payments, and safety nets. In the WIDER study *Fiscal Policy for Development: Poverty, Reconstruction and Growth* (2006) the design of new tax systems in weak states and public expenditure management, received attention.

Many aspects of poverty and inequality, and the role of fiscal policies (public expenditures and taxes) in addressing poverty and inequality in Africa have been under scrutiny. One such WIDER study, on *Insurance Against Poverty* (2004), described the various risks which makes households in developing countries, including in Africa, vulnerable to external shocks, and which condemns many to persistent poverty. It identifies public policy as important to limit households' vulnerability in Africa, and calls on government action to provide new forms of insurance, savings, safety nets, and to strengthen the asset base of poor households. Government initiatives should complement rather than replace indigenous community-based support networks.

### Resource mobilization

Fourth, resource constraints need to be relaxed through especially foreign direct investment (FDI) and aid flows. Substantial research at WIDER on aid and FDI offers important guidelines for policymakers in Africa.

WIDER is a thought-leader on aid (or official development assistance). The WIDER special issue of the *Journal of International Development* (vol. 17 no. 8, 2005) entitled 'Aid to Africa: An Unfinished Agenda' examines the effectiveness of aid across sub-Saharan Africa, with case studies from Ghana in particular. The research concludes that aid has been effective in raising economic growth, but that the modalities of aid can be improved upon, including more

attention to the fiscal management of aid.

While aid has an important role to play, especially in the fragile and post-conflict states in Africa, it is important that Africa succeed in attracting greater volumes of FDI, without downplaying the importance of domestic private sector investors. The WIDER special issue of *The World Economy* (vol. 29 no. 1, 2006) entitled 'FDI to Developing Countries: The Unfinished Agenda', notes the importance of FDI to Africa, identifies the constraints to FDI to Africa, and shows that FDI to Africa is not driven by exogenous factors (such as resource endowments). The implication is that even small, resource-poor African countries can attract FDI by improving their institutions and policies. The latter is indeed the key to unlocking resources for Africa's economic development.

'African governments need to write a new social contract with their populations, based on the creation of democratic institutions and the expansion of the private sector' (Kayizzi-Mugerwa, ed. 2003: 4)

'For African countries to benefit from economic reforms demands a new modus operandi for the public sector' (Kayizzi-Mugerwa, ed. 2003: 1)

'Exports have played an important role in African economic progress in the past and are bound to continue to do so in the future' (Helleiner, ed. 2002: 3)

'For countries vulnerable to violent conflict fiscal weakness can be fatal to social peace when one or more ethnic, religious or regional group is taxed unfairly, or receives little from public spending' (Addison and Roe, eds. 2006: xix)

'Reconstruction itself must be a fundamentally decentralized process in which communities themselves take the final decisions regarding priorities, allocations and timing' (Addison, ed. 2003: 43)

### Essential WIDER Reading

Addison, T. (ed.) 2003. *From Conflict to Recovery in Africa*. UNU-WIDER Studies in Development Economics. Oxford: Oxford University Press.

Addison, T. and Roe, A. (eds.) 2006. *Fiscal Policy for Development: Poverty, Reconstruction and Growth*. Studies in Development Economics and Policy. Basingstoke: Palgrave Macmillan.

Dercon, S. (ed.) 2004. *Insurance Against Poverty*. UNU-WIDER Studies in Development Economics. Oxford: Oxford University Press.

Fielding, D. (ed.) 2005. *Macroeconomic policy in the Franc Zone*. Studies in Development Economics and Policy. Basingstoke: Palgrave Macmillan.

Helleiner, G.K. (ed.) 2002. *Non-traditional Export Promotion in Africa: Experience and Issues*. Studies in Development Economics and Policy. Basingstoke: Palgrave Macmillan.

Kayizzi-Mugerwa, S. (ed.) 2003. *Reforming Africa's Institutions: Ownership, Incentives, and Capabilities*. Tokyo: United Nations University Press.



Wim Naudé is a Senior Research Fellow at WIDER and co-editor of the WIDER Angle newsletter.

Apart from the essential WIDER reading listed in the previous article, there are a number of resources on Africa's economic development freely available from the website [www.wider.unu.edu](http://www.wider.unu.edu). These include research papers, working papers, and policy briefs.

### Policy Briefs on Africa

What can the European Central Bank learn from Africa? David Fielding, UNU Policy Brief No. 4, 2005

Zone franc : l'expérience africaine peut-elle inspirer la Banque centrale européenne ? David Fielding, UNU Note d'orientation No. 1, 2005, ISBN 92-808-3009-0

Africa's Recovery from Conflict: Making Peace Work for the Poor Tony Addison, Policy Brief No. 6, March 2003

A Recuperação de África após os Conflitos: Levar aos Pobres os Benefícios da Paz (Tony Addison, Junho de 2003 (Translation in Portuguese of Policy Brief 6)

L'Afrique de la guerre à la paix : garantir l'avenir des populations pauvres Tony Addison, juin 2003 (Translation in French of Policy Brief 6)

### Recent Research Papers on Africa

RP2007/11 Marianne Mathee and Wim Naudé: Export Diversity and Regional Growth: Empirical Evidence from South Africa

RP2007/10 Marianne Mathee and Wim Naudé: The Determinants of Regional Manufactured Exports from a Developing Country

RP2007/09 Wim Naudé and Marianne Mathee: The Geographical Location of Manufacturing Exporters in South Africa

RP2006/145 Christian Rogg: Asset Portfolios in Africa: Evidence from Rural Ethiopia

RP2006/138 Ronelle Burger, Frikkie Booyesen, Servaas van der Berg, and

Michael von Maltitz: Marketable Wealth in a Poor African Country: Using an index of consumer durables to investigate wealth accumulation by households in Ghana

RP2006/112 Alemayehu Geda: The Structure and Performance of Ethiopia's Financial Sector in the Pre- and Post-Reform Period with a Special Focus on Banking

RP2006/110 John Curry, Esther Wieggers, Alessandra Garbero, Shannon Stokes and John Hourihan: Gender, HIV/AIDS and Rural Livelihoods: Micro-Level Investigations in Three African Countries

RP2006/106 J. Hodge and A. J. E. Charman: Analysis of the Potential Impact of the Current WTO Agricultural Negotiations on Government Strategies in the SADC Region

RP2006/99 Janine Aron, John Muellbauer, and Johan Prinsloo: Estimating the Balance Sheet of the Personal Sector in an Emerging Market Country: South Africa 1975-2003

RP2006/73 Julius Kiiza: Institutions and Economic Performance in Africa: A Comparative Analysis of Mauritius, Botswana and Uganda

RP2006/60 Samuel K. Gayi: Does the WTO Agreement on Agriculture Endanger Food Security in Sub-Saharan Africa?

RP2006/37 Mark Blackden, Sudharshan Canagarajah, Stephan Klasen, and David Lawson: Gender and Growth in Sub-Saharan Africa: Issues and Evidence

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'It seems that with each new book it issues, UNU-WIDER further establishes its reputation as the intellectual leader among international organisations. This volume on debt is particularly outstanding. The chapters by the editors and their co-authors are quite impressive. The book should be read both by the novice and specialist.'—John Weeks, Professor of Development Economics, SOAS, University of London, UK (on *Debt Relief for Poor Counties*)

'This is a very timely book. It represents the most comprehensive treatment to date of ways to achieve the Millennium Development Goals of poverty reduction, while at the same time maintaining the ongoing objectives of macro stabilization, accelerating growth and institutional reform. UNU-WIDER continues to set the agenda for development policy research for the new millennium.'—Robin Boadway, Professor, Department of Economics, Queen's University, Canada (on *Fiscal Policy for Development*)

'*From Conflict to Recovery in Africa* is a tour de force, analyzing nation-states in Africa that confront multiple tasks of reconstruction from war, transition from socialism to liberalism, and attaining economic growth and poverty reduction'.—E. Wayne Nafziger, University Distinguished Professor, Kansas State University

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## Southern Engines of Global Growth: China, India, Brazil, and South Africa

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China, India, Brazil, and South Africa (CIBS) have an important impact on the global economy through growth and trade effects, and their roles in financial markets. Meanwhile, by forging political alliances among themselves and with others, they are increasingly active and vocal on the world stage. As a result, the 'rise of CIBS' is expected to have profound implications for international governance.

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- CIBS role in WTO negotiations
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- Technology transfer, intellectual property rights, and national research policies
- South-South cooperation
- Political economy and international governance



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### *Journal of Comparative Economics*

Volume 34, Number 4  
(December 2006)

Symposium: Analyzing the Socioeconomic Consequences of Rising Inequality in China  
Guest Editors: Guanghua Wan and Xiaobo Zhang  
Elsevier



### *Review of Income and Wealth*

Volume 53, Issue 1 (March 2007)  
UNU-WIDER Special Issue:  
Inequality and Poverty in China  
Edited by Guanghua Wan  
Blackwell

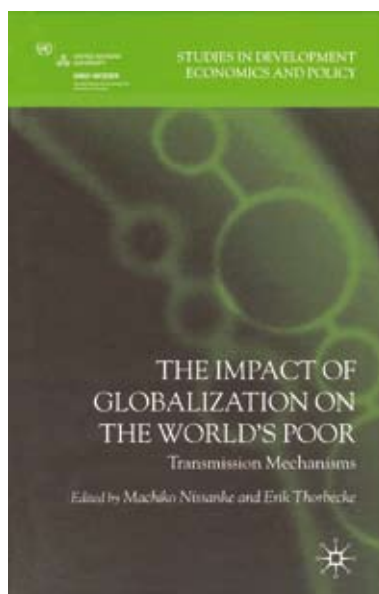


This special issue is available free online at [www.blackwell-synergy.com/loi/roiw](http://www.blackwell-synergy.com/loi/roiw)

## Books

### *The Impact of Globalization on the World's Poor: Transmission Mechanisms*

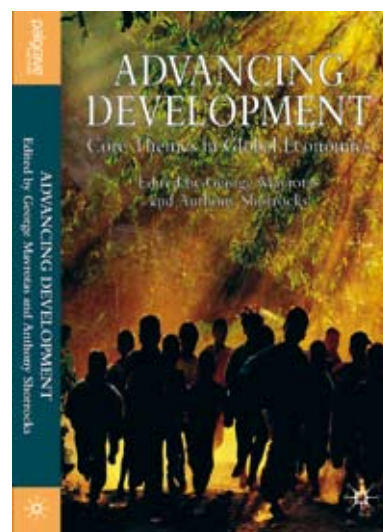
Edited by Machiko Nissanke and Erik Thorbecke  
(hardback) 9780230004795  
December 2006  
Studies in Development Economics and Policy  
Palgrave Macmillan



While the economic opportunities offered by globalization can be large, is the actual distribution of gains fair, and in particular do the poor benefit less than proportionately from globalization and could they, under some circumstances, be hurt by it? Greater openness to trade and foreign investment, economic growth, effects on income distribution, technology transfer and labour migration are examined—through which the process of globalization affects different dimensions of poverty in the developing world.

### *Advancing Development: Core Themes in Global Development*

Edited by George Mavrotas and Anthony Shorrocks  
(hardback) 9780230019027  
(paperback) 9780230019041  
January 2007  
Studies in Development Economics and Policy  
Palgrave Macmillan



Leading scholars and policymakers reflect on current thinking in development economics and on what may happen during the next two decades. Covering the major themes in development in an accessible way, this original and authoritative contribution highlights new and emerging issues, and shows how research can improve our understanding of these important questions. As well as studying development economics in retrospect, the volume explores the current debates and challenges and looks forward at the problems that affect the global capacity to achieve the Millennium Development Goals.

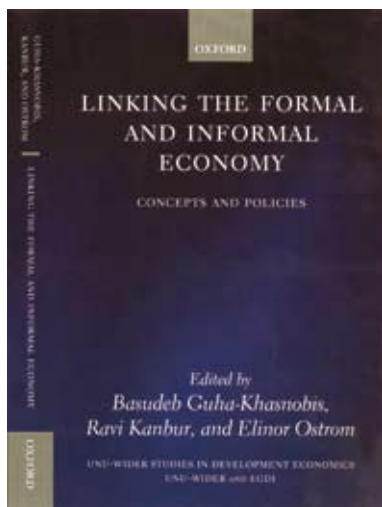
The impressively broad range of issues in global economics that are covered in this volume bring out not only the diversity of problems that are all quite important for



development in the contemporary world, but also the fact, in which there is reason to take some pride, that WIDER, as a new institute of research, has been able to contribute substantially to such a variety of fields, informed by a good understanding of the need for coverage as well as quality.—  
From the Foreword by  
Amartya Sen

***Linking the Formal and Informal Economy: Concepts and Policies***

Edited by Basudeb Guha-Khasnobis, Ravi Kanbur, and Elinor Ostrom  
(hardback) 0199230676  
February 2007  
UNU-WIDER Studies in Development Economics  
Oxford University Press  
India (available only in India, Bangladesh, Nepal, Bhutan, Sri Lanka, Myanmar, and Malaysia)



No matter how you divide up the developing world—‘formal–informal’, ‘legal–extralegal’ (my preference)—one thing is not debatable: most people are poor, on the outside of the system looking in, and getting angrier every day. The message of this book is it’s time to stop talking and start designing reforms—based on the informal practices and organizations that poor entrepreneurs already use. I second that motion. If you rebuild the system from the bottom-up, they

will come—with their enterprise, creativity, and piles of potential capital. —Hernando de Soto, President, Institute for Liberty and Democracy, Peru

**Forthcoming books**

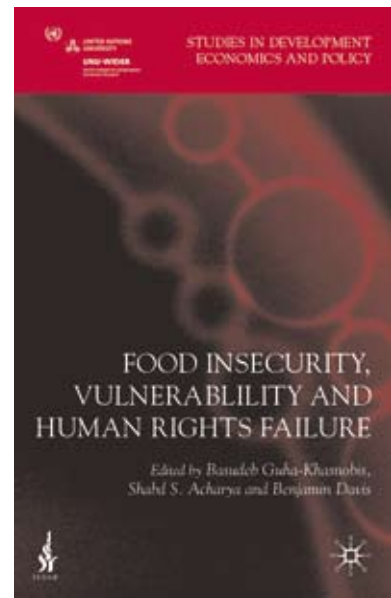
***Institutional Change and Economic Development***

Edited by Ha-Joon Chang  
(paperback) 9789280811438  
July 2007  
UNU Press, and co-published with Anthem Press

This book draws together contributions from scholars in economics, history, political science, sociology, public and business administration. These experts discuss not only theoretical issues but also a diverse range of real-life institutions—political, bureaucratic, fiscal, financial, corporate, legal, social, and industrial—in the context of dozens of countries across time and space—spanning from Britain, Switzerland, and the USA in the past to today’s Botswana, Brazil, and China. Recognizing that there is no simple formula for institutional development, these real-life experiences note that institutional development has been achieved through a mixture of deliberate imitation of foreign institutions and local institutional innovations. While arguing there is no set formula for institutional development, this book will assist developing countries to improve their institutions by providing sophisticated theoretical discussions and helpful policy ideas based on real-life cases.

***Food Insecurity, Vulnerability and Human Rights Failure***

Edited by Basudeb Guha-Khasnobis, Shabd S. Acharya and Benjamin Davis  
(hardback) 9780230553576  
October 2007  
Studies in Development Economics and Policy  
Palgrave Macmillan



Treating hunger as a violation of basic human rights, made worse by gender inequality, this volume addresses food insecurity within the context of the MDGs, highlighting governmental legislation and right to food movements.

***Food Security: Indicators, Measurement, and the Impact of Trade Openness***

Edited by Basudeb Guha-Khasnobis, Shabd S. Acharya and Benjamin Davis  
(hardback) 9780199236558  
December 2007  
UNU-WIDER Studies in Development Economics  
Oxford University Press

Hunger is addressed from a variety of perspectives that are new and relatively under-researched. The emergence of the WTO and the freeing of agricultural trade, for example, have serious implications for hunger and food security in many countries. The book examines the issue across regions. It also presents several technical, regional, and country case studies that facilitate comparisons. It tackles food security at three distinct levels—national, household, and individual.

## Linking Globalization to Poverty

By Machiko Nissanke  
and Erik Thorbecke  
UNU Policy Brief 2, 2007



While the economic opportunities offered by globalization can be large, a question is often raised as to whether the actual distribution of gains is fair, in particular, whether the poor benefit less than proportionately from globalization and could under some circumstances be hurt by it. This Policy Brief summarizes and examines the various channels and transmission mechanisms, such as greater openness to trade and foreign investment, economic growth, effects on income distribution, technology transfer and labour migration, through which the process of globalization affects different dimensions of poverty in the developing world.

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UNU-WIDER publications, and especially several of those related to the topics in this issue of the *WIDER Angle*, are reviewed in the latest edition of the *African Development Perspectives Yearbook*, Volume 12, ‘Africa – Commodity Dependence, Resource Curse and Export Diversification’ (paperback 9783825802561). Volume 13, ‘New Growth and Poverty Alleviation Strategies for Africa’, is currently inviting contributions, and an overview and additional information about the project are at: [www.iwim.uni-bremen.de/africa/africanyearbook.htm](http://www.iwim.uni-bremen.de/africa/africanyearbook.htm)

### Call for papers

WIDER Project Workshop: **Beyond the Tipping Point: Development in an Urban World**, London School of Economics, 19-20 October 2007, deadline for submissions 30 June 2007. Details are available at [www.wider.unu.edu](http://www.wider.unu.edu)

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- UNU Institute of Advanced Studies (UNU-IAS)
- UNU International Leadership Institute (UNU-ILI)
- UNU International Network on Water, Environment and Health (UNU-INWEH)
- UNU Programme for Comparative Regional Integration Studies (UNU-CRIS)
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