Fragility of Growth in African Economies

Senior Policy Seminar XXI

Bringing Rigour and Evidence to Economic Policy Making in Africa
Fragility of Growth in African Economies

AERC Senior Policy Seminar XXI, Harare, Zimbabwe
March 21-22, 2019

Seminar Report
About African Economic Research Consortium (AERC)

African Economic Research Consortium, established in 1988, is a premier capacity building institution in the advancement of research and training to inform economic policies in sub-Saharan Africa. It is one of the most active Research and Capacity Building Institutions (RCBIs) in the world, with a focus on Africa. AERC’s mission rests on two premises: First, that development is more likely to occur where there is sustained sound management of the economy. Second, that such management is more likely to happen where there is an active, well-informed cadre of locally-based professional economists to conduct policy-relevant research. AERC builds that cadre through a programme that has three primary components: research, training and policy outreach. The organization has now emerged as a premier capacity building network institution integrating high quality economic policy research, postgraduate training and policy outreach within a vast network of researchers, universities and policy makers across Africa and beyond. AERC has increasingly received global acclaim for its quality products and services, and is ranked highly among global development think tanks.

Fragility of Growth in African Economies – AERC Senior Policy Seminar XXI

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Abbreviations

AAERC    African Economic Research Consortium
ACBF    African Capacity Building Foundation
AfDB    African Development Bank
ALMPs   Active Labour Market Policies
CMAAE   Collaborative Master’s Programme in Agricultural and Applied Economics
CSAE    Centre for Study of African Economies
FDI     Foreign Direct Investments
FFP     Fund for Peace
FS      Fragile states
FSI     Fragile States Index
GDP     Gross Domestic Product
ICT     Information Communication Technology
IDRC    International Development Research Centre
IMF     International Monetary Fund
ILO     International Labour Organization
LICs    Low Income Counties
LMICs   Low- and Middle-Income Countries
MDGs    Millennium Development Goals
MENA    Middle East and North Africa
MICs    Middle Income Countries
NEET    Not in Employment, Education or Training
ODA     Official Development Assistance
OECD    Organization for Economic Co-operation and Development
PCRD    Post-Conflict Reconstruction and Development
PPP     Public-Private Partnership
SAPs    Structural Adjustment Programmes
SIPs    Socially Inclusive Policies
SMEs    Small and Medium Enterprises
SPS     Senior Policy Seminar
SSA     Sub-Saharan African
SGMM    Simultaneous Generalized Method of Moments
UMICs   Upper Income Countries
UNCTAD  United Nation Conference on Trade and Development
UNPKO   United Nations Peace Keeping Operations
UNECA   United Nations Economic Commission for Africa
WB      World Bank
Preface

The AERC Senior Policy Seminar XXI, that was partly funded under the International Development Research Centre (IDRC) grant, was a resounding success. The conference took place in Harare, Zimbabwe, which was fitting given the progress the country is making after the economic crisis it went through for several years. The country’s protracted fiscal imbalances have constrained development expenditure and social service provision, undermining poverty reduction efforts. Unemployment pressures have been mounting as employment opportunities continue to dwindle. Zimbabwe has opportunities requiring minimal additional investment to realize medium-term growth targets.

This was the twenty first senior policy seminar in the series, and the event was hosted in partnership with the Reserve Bank of Zimbabwe. Hon. Prof. Mthuli Ncube, Minister for Finance, Planning and Economic Development, was the Chief Guest. He was represented by Mr. George Guvamatanga, Permanent Secretary in the Ministry of Finance, Planning and Economic Development at the official opening of the Plenary, but later joined the delegates. The conference featured four presentations and there was a total of 131 participants from across Africa, including high level policy makers in the rank of Ministers, Governors of Central Banks, Permanent Secretaries, high level private sector actors, executive directors, managing directors of research institutions among other dignitaries.

Inspired by the International Development Research Centre (IDRC) supported AERC collaborative research on “growth in fragile and post conflict states in Africa”, under the “Promoting leadership for economic policy in fragile and post conflict states in Africa” project, we identified the topic: “Fragility of Growth in African Economies” as the theme for the 2019 Senior Policy Seminar (SPS). AERC used this conference as the primary dissemination vehicle for the outputs of the growth in fragile and post conflict states in Africa research project. The goal was to support informed policy dialogue, and thus policy making, in relation to fragility of economic growth in African economies. Reducing fragility is a key step towards creating resilient economies in the region, thus putting Africa on the path to realize the United Nations Agenda 2030 goals, among other aspirations.

During the senior policy seminar, policy makers, researchers and other stakeholders engaged in uninterrupted deliberations on a set of important issues considered significant to policy in the region. In addition, the SPS provided a platform for a focused dialogue amongst African policy makers, thus facilitating peer learning and sharing of ideas and experiences. The seminar format insulates the policy makers from pressures related to their responsibilities and, thus, creates an environment for lively professional discourse on the selected theme. Furthermore, because the dialogue and deliberations are underpinned by solid and rigorous research by AERC network researchers, the SPS provides a window for AERC research to influence policy in the continent. At the same time, the SPS provides opportunities for AERC to receive feedback from policy makers on key policy-related issues requiring further research for informed policy making in
Africa. An SPS thus provides an opportunity for the research to influence and advise policy making in the region.

African Economic Research Consortium (AERC) is immensely grateful to the Government of Zimbabwe for welcoming us to the country and for co-hosting Senior Policy Seminar XXI. I sincerely thank the authors who produced very high-quality papers, and the participants for their active participation in producing the seminar’s policy recommendations that were shared with other African policy makers who did not find time to take part in this event. I am grateful to Ms. Sandra Coyle, Chief Communications Officer and all those who made the seminar a success. AERC appreciates the hard work of Dr. Charles Owino, Manager, Publications, for organizing the event and putting this publication together. Dr. Wilson Wasike, Collaborative Research Manager, and Dr. Owino again for their role as rapporteurs. Mr. Juffali Kenzi, ICT Manager, Mr. Joel Mathia, ICT Administrator, Ms. Pamela Kilwake, Accountant, Ms. Bertha Chedeye, Programme Assistant (CMAAE), Ms. Susan Miyengi, Programme Assistant, and Ms. Mercy Ayilo, Librarian who assisted with logistics. To all of these and the many others who were involved, AERC extends its heartfelt gratitude.

Prof. Njuguna Ndung’u
Executive Director
African Economic Research Consortium
Fragility of Growth in African Economies

Introduction

Appropriately characterizing and addressing the drivers of fragility is central to reducing fragility of growth in African economies. This is fundamental to African countries realizing robust, resilient and inclusive growth. Although Africa weathered the 2008 global financial crisis fairly well, growth has not recovered appreciably. Growth in sub-Saharan Africa marginally improved from 2.4% in 2017 to 2.7% in 2018. According to the World Bank, growth is foreseen to have risen to 3.4 percent in 2010 and 3.7 percent in 2020-21 as reduced policy uncertainty helps support a cyclical rebound in large economies (Africa Foresight Report, 2019). Per capita income growth is expected to remain modest, aggravating sub-Saharan Africa’s development challenges.

The first paper by Prof. Andrew McKay, University of Sussex, United Kingdom titled Anatomy of Fragility and the Fragility of Growth in Africa focused on measuring fragility, causes of fragility including natural resource management, and why fragility matters. The paper explored the micro-foundations of fragility, including the differential exposure to fragility at the individual, household, sub-national/sectoral, and national levels. Even though a country may not be “fragile”, some sectors and/or regions or even individuals may be exposed to manifestations of fragility, thus negatively impacting the performance of the economy. In addition, the paper highlighted policy messages from recent research findings on nature of fragility in African economies and the implications thereof. This helped to deepen understanding of fragility and its manifestations, and thus inform interventions to stem fragility.

The second synthesis paper on Fragility and Macroeconomic Management presented by Prof. Alemayehu Geda, Addis Ababa University, Ethiopia had two broad objectives. First, the paper demonstrated how state fragility affects macroeconomic outcomes in sub-Saharan African economies and identified the transmission mechanisms. Secondly, the paper considered macroeconomic policy and macroeconomic management questions in relation to state fragility. These included: relationship between fragility and macroeconomic stability and whether the macroeconomic management strategies to be adopted by countries facing fragility should differ from those normally recommended for countries not facing fragility; Strategies for recovery from fragility shocks and their implications for macroeconomic management; and the implications of capacity (institutional and individual) deficiencies for macroeconomic management and for recovery from fragility shocks?

The third paper by Prof. Make Hoeffler, University of Konstanz, Germany and Dr. Janvier Nkurunziza, United Nation Conference on Trade and Development (UNCTAD), Switzerland with the title From Fragility to Economic Recovery and Development: Rebuilding the
Economy for Inclusive Growth and Development explored broad, overarching issues relating to post-conflict recovery and stabilization programmes as well as post-conflict capital accumulation. The goal was to come up with policies and strategies to nudge the economies towards the equilibrium of “sustained growth”, to allow the countries to escape fragility. Instability and violence, insecure property rights, and high levels of corruption may make a household, state or country to be caught in a low-growth-poor-governance equilibrium trap. Whenever an economy is caught in the fragility trap, it faces two possible equilibria, namely: “one of sustained growth, and the other of continuous decline and eventual collapse”

The fourth and last synthesis paper on Reversing Fragility in African Economies through Inclusive Growth by Prof. Nicholas Ngela, University of Johannesburg, South Africa, addressed the question of how to promote resilient households, societies and economies in Africa through inclusive growth and equitable access to employment, basic services and shared benefits from natural resource endowments. The paper also addressed the implications of fragility for poverty and inequality, as well as firm production and export dynamics in the face of state fragility. In view of the growing stresses and demands – for inclusion and equity, employment (especially for youth), and improved services – that urgently need to be effectively addressed to manage fragility, the paper paid particular attention to promoting equitable access to basic infrastructure, expanding opportunities for private sector-led employment and livelihoods, and supporting the responsible management of natural resources and shared benefits from their revenues. Horizontal inequalities, social exclusion and gender inequalities are important drivers of fragility that were also addressed in the paper.
Anatomy of Fragility and the Fragility of Growth in Africa

Session chair: Hon. Salahaddine Issa-Toure, Deputy Speaker, National Assembly, Togo
Presenter: Prof. Andrew McKay, University of Sussex, United Kingdom
Discussant: Dr. Cyrille Honagbode, Policy Analyst, Centre d’Analyse de Politiques de Développement, Benin

The political economy of regional industrial policies in Africa

Most analyses show that sub-Saharan Africa (SSA) continues to be the world region characterized by having the largest share of fragile states. Fragility may take many different forms, and can include some or all of economic, political and social fragility. In some of the worst cases, fragility has been associated with open conflict. In the 1990s in particular, many countries in SSA suffered civil wars, and some countries even now suffer from widespread violence, the threat of it, or even civil war. Whatever form it takes, fragility will commonly be strongly associated with underdevelopment. It is highly likely that fragility and underdevelopment will feed on and sustain each other.

This paper focused on the interrelation between fragility and poverty, in its different dimensions. To begin with we recognize that there are degrees (and different dimensions) of fragility, and that the degree of fragility can evolve over time. We begin with a discussion of approaches which have been adopted to the measurement of fragility, focusing on two important and influential approaches; these approaches measure the degree of fragility of a country as a continuum, and also recognize that there are different dimensions to fragility, which may or may not all be present in a particular case. We also discuss the classification of countries according to our preferred measure, highlighting the high representation of SSA among the most fragile countries. Then we examine in some detail the association of fragility with both economic growth and its volatility, and with different measures of well-being from international data sources.

As it is hard to obtain reliable information on the link between fragility and changes in poverty, we instead briefly discuss two country cases of descent into and emergence from fragility. This analysis establishes a strong association between fragility and poverty. One section is this paper focus on one dimension of fragility, the volatility of growth, comparing this across African countries and then trying to identify possible correlates of growth volatility. We also discuss the interrelations between growth, poverty and inequality, looking both at how growth impacts on poverty and on how poverty can affect growth. Having established a clear and strong association between fragility and
underdevelopment, we then discuss ways in which this vicious circle might be broken; this is a major challenge which many more fragile countries have failed to rise to. We argue that institutions which directly address poverty reduction can play a key role in achieving this.

A key issue is the extent to which and how fragility impacts on the process of economic development and vice versa. As discussed subsequently the interrelationship between development and fragility is circular. Underdevelopment breeds fragility and fragility impedes development. Here we proceed to estimate simple correlations between indicators of fragility and indicators of development outcomes, before attempting later in the paper to break through the above circularity and suggest some plausible causal channels in the subsequent sections.

As noted elsewhere the Fund for Peace (FFP) Fragile States Index (FSI) measure included among its component’s demographic pressures, uneven economic development and economic decline. While these can be considered as aspects of fragility, they can also be thought of as being direct consequences of fragility and development outcomes. For this reason, we sought to construct an alternative measure of fragility using the FSI index excluding these three components.

**Growth fragility in sub-Saharan Africa**

Compared to other world regions, the variability of growth in sub-Saharan Africa is quite high. But this also varies a lot across countries. During the post-2000 period, growth performance has been good on average across countries, though as already stressed not all countries performed well in growth terms. We are however not constrained by the availability of the fragility measure and are able to focus on the vast majority of sub-Saharan African countries, excepting Somalia for which recent data is simply not available.

**How can the vicious circle between fragility and under-development be broken?**

It is clear that the interrelationship between fragility and the state of development as captured by the Growth-Inequality-Poverty nexus and the Poverty-Inequality-Growth nexus is strongly circular. A fragile state and civic environment tend to impede growth and encourage a more exclusive than inclusive growth pattern. At the same time, a country suffering from low and stagnating growth, high income inequality (a skewed income distribution), high poverty incidence and overall deprivation is fertile ground for an unstable, if not, failing state and civil conflicts. The variables (components) of fragility and the variables reflecting development appear to be jointly and endogenously determined. The issue we explore in this section is whether, and to what extent, this circular bi-causality can be broken and some uni-directional causal channels suggested. This question is essential in any attempt to recommend policy interventions. As will be discussed and made clearer subsequently, the issue that needs to be addressed is how some exogenous intervention can break the vicious circle between fragility and under-development.
Before embarking on this search for some exogenous trigger mechanism that could jointly reduce fragility and contribute to a more inclusive growth, it is important to recall a key finding that the great majority of the more fragile states display a high inter-correlation among the 12 components of the FSI aggregate fragility indicator. A quick look at the data shows that the 30 worst performers scored typically between 8 and 10 across the 12 fragility components on a scale from 0 (best) to 10 (worst). This implies, of course, a societal collapse across all dimensions – political, social and economic. Figuratively such a country might be compared to a building standing on quicksand. A strong case can be made that the only solution consists of building an institutional foundation to provide the necessary stability.

**Examples of poverty-reducing and productive institutions to combat fragility**

We saw earlier that poverty reduction per se can contribute to a more inclusive growth pattern. By intervening directly on alleviating poverty, the P-I-G nexus can be transformed into a virtuous circle or spiral. A case for a *pro-growth poverty reduction strategy*, in addition and complementary to the previously discussed *pro-poor growth strategy*, can be made on the grounds already mentioned above that there are multiple channels through which the existence of poverty acts as a major obstacle to growth. Many poor households are caught in a variety of poverty traps. Breaking at least some of these traps can unleash the potentially productive forces of the poor. The underlying logic of a *pro-growth poverty reduction strategy* is that by attacking poverty directly and reducing it, some major constraints on the behavior of the poor will be removed. They will be better able to acquire more education and skills, invest in their farms and informal activities and adopt riskier but, on average, more productive technologies. Policies and institutions alleviating poverty directly can engender a virtuous spiral bringing about a faster and more inclusive growth.

**Summary and conclusions**

The main objective of this study was to investigate and understand better the state of fragility in SSA. The first step was to define fragility and identify indicators capable of measuring this concept and its evolution over time. We selected two such aggregate indicators: the Fragile State Index and the State Fragility Index. While both of these indicators are (i) comprehensive in their choice of correlates of fragility and their almost universal coverage of countries; and (ii) available annually over fairly long periods, they suffer from a lack of transparency. Yet the fact that these two indicators based on different methodologies yielded very similar results strengthens one’s confidence in the robustness of their capacity to capture the essence of fragility.

If poverty and fragility are intrinsically linked then it suggests that interventions that are successful in reducing poverty could also reduce fragility. The positive link between growth and poverty reduction has been thoroughly investigated and documented and has been at the heart of development strategies such as pro-poor growth and shared growth. The reverse link between poverty and subsequent growth has only recently become a focus of interest among researchers. A better understanding of this reverse
link helps to clarify how interventions reducing poverty directly influence the pace and structure of growth and thereby the degree of fragility in a given country. We also investigated the interrelationship among growth, inequality and poverty first at both the conceptual level and within the context of SSA. There is evidence that (i) growth has accelerated in SSA since 2000 and become somewhat more effective in translating it into poverty reduction; and (ii) high initial poverty incidence does not appear to dampen subsequent growth in contrast with the rest of the world. There appears also to be scope for measures that by focusing directly on alleviating poverty can help engender a more inclusive growth pattern and thereby combat fragility.

In the penultimate section of the paper, specific institutions are identified that are both (i) poverty-reducing and productive; and (ii) potentially transferable to the initial conditions and settings prevailing in SSA. These institutions are in three different areas: small scale agriculture, infrastructure and social protection schemes. The initiation of such institutions in SSA could be the exogenous trigger mechanism necessary to reduce poverty and fragility simultaneously and become part of a successful pro-growth poverty reducing strategy.
Fragility and Macroeconomic Management

Session chair: Gov. Tong Ngor, Governor, Bank of South Sudan
Presenter: Prof. Alemayehu Geda, Addis Ababa University, Ethiopia
Discussant: Prof. Margaret Chitiga, University of Pretoria, South Africa

Fragile states in Africa are found to need a unique macroeconomic management approach focused both to ensure macroeconomic stability for inclusive growth as well as help ensure state legitimacy to avoid or minimize the risk of relapse to conflict. Such macroeconomic stability is found to depend on political and economic governance as well as the nature of financing development in such states. The empirical analysis confirmed, first, improving governance and building an inclusive and democratic politics in the long run and improving macroeconomic policy and related institutions in the short run to be important. Second, among macro variables, in general, an accumulation of debt and dependence on natural resource exports are found to lead to macroeconomic instability. Economic growth, aid and financial sector development are found to be helpful to avoid macroeconomic instability as well as transit from state fragility to resilience. All these are found difficult to handle in African states owing to weak human and institutional capacity. This calls for conflict conscious capacity and institutional building content with checks and balances as well as shared long-term national visions. Macro policy and macro management should be part and parcel of this effort.

State fragility and the related issue of conflict is extremely costly in Africa that needs serious attention from politician and policy makers. One of our case studies on Burundi (Ndoricimpa and Ndayikeza, 2018) has used various empirical models, to compute the cost of conflict. The result shows that civil conflicts on average reduced economic growth in Burundi by 4 percentage points per annum during the 1993 – 2003 civil war. This had cost each Burundian roughly USD 1500 and close to USD 10 billion to the whole country. This cost is in fact very small compared to the cost of the last civil conflict of Burundi in 2015 that have reduced economic growth by 7 percentage points compared to its potential. If we conservatively assume that this minimum cost of conflict in Burundi (USD 1500 per person for the ten years or USD150 per year, per person) holds for the whole of 31 FS of Africa with a population of about half a billion people, the minimum annual cost of conflict to the continent is about USD 75 billion per year. This is way beyond the annual inflow of FDI (USD 57 billion in 2013) and ODA (of about USD 60 [Pound 41.1] billion from all DAC countries in 2013) to the continent. This shows policy makers did not pay as much attention and effort in tackling SF compared to attention, they give to attract FDI, aid and debt creating flows. It is unfortunate that politicians and policy makers usually focus on the challenges of SF when conflict in such states have already escalated to the highest level. At that point, the challenges of SF become not only complex but also much costlier to handle.
State fragility and macroeconomic outcomes in Africa

Understanding the poor macroeconomic outcomes (such as low and variable growth, high poverty and inequality as well as the macroeconomic instability as expressed, inter alia, in high inflation, exchanger rate instability, etc) that are invariably observed in fragile states require, among others, understanding the root causes of conflict and how growth features in that process in the country in question. This means understanding the dynamic link between growth and conflict, for instance, requires not only understanding determinants of growth but also understanding the nature and determinants of conflicts, their duration, intensity, the modalities for their cessation and how growth feature in this process.

The causes of conflict may be complex and country specific. However, two principal categories of causes of conflict are cited in the literature: (ii) the motivations of greed (for power and resources) and (ii) grievance (such as pronounced inequality, lack of political right, ethnic or religious repressions) (Collier and Hoeffler, 2002). Similar arguments are also put forwarded by Fearon and Laitin (2003). Sambins (2001), Elbadawi and Sambanis (2000b), and Reynal-Querol (2002). However, the latter studies found that civil wars in particular are predominantly explained by political (socio-political) than economic grievances. They found the levels of political and economic inclusiveness and democracy (high levels of poverty, failed political and democratic institutions, and economic dependence on natural resources, having an educated and poor young males) to be empirically important.

Major macroeconomic management issues in fragile states of Africa

Macroeconomic management issues are challenging in fragile states (FS) because they are interwoven with the political and economic challenges. Three important issues are identified that links FS with macroeconomic management (Alemayehu, 2017). These are: the interrelationship between SF and macroeconomic instability, the role of the macroeconomic environment and external shocks in transiting from SF to resilience; and the imperative of capacity deficiency in such states for macroeconomic management.

Macroeconomic stability is important for realizing a policy of inclusive growth, which is turn is key for poverty reduction and durable peace in post-conflict reconstruction.

The role of macroeconomic factors in transiting from state fragility to resilience

To further check the robustness of the above result we have also employed a probabilistic (logit and probit) model that determine the probability of transiting form SF to resilience (see IMF, 2014; Alemayehu, 2017). The sample of African countries used in this model is different from the above one as it includes both fragile and non-fragile African countries.
Capacity deficiency in macroeconomic management and recovery from state fragility

The literature on SF asserts that weak political and economic institutions are the major causes of state fragility (Ncube and Jones, 2013; IMF, 2014; Collier and Hoefler, 2002b; Fearon and Laitin, 2003; Cramer, 2001, 2006; Sambanis, 2001; Reynal-Querol, 2002; Elbadawi and Sambanis, 2002b; Berotocchi and Guerzoni, 2010). Among such weak institutions, weak institutions of economic management such as lack of independent central bank, fiscal authorities and stable financial sector are the prime causes of macroeconomic instability that hamper sustained and shared growth (Acemoglu et al, 2003; Addison et al, 2005). Using the AfDB/WB classification scheme of fragile states, Jones (2013) noted that in a number of state and institutional indicators of the IGRC such as “bureaucratic quality”, “military in politics”, “government effectiveness”, “control of corruption” and “rule of law”, it took 15 to 30 years for fast reforming fragile states in the 20th century to reach what could be described as a threshold level of ‘good governance’ (Jones, 2013). Thus, in such states and during this transition period; low institutional capacity that includes macroeconomic management is one of the most binding constraints to growth, macroeconomic stability and durable peace (Besley and Persson, 2011 cited in IMF, 2014).

Priority areas for building macroeconomic management capacity

Poor macroeconomic outcomes in FS is also related to weak capacity in such countries as shown above. Studies on capacity building in fragile states outlined three core areas of focus (see Addison et al, 2005; Alemayehu, 2011): capacity building: (i) to address the immediate needs of post-conflict states that includes emergency relief activities, (ii) capacity building to address the core economic and political causes of conflict, as well as, (iii) capacity building related to the issues of handling external shocks, addressing issues of financing development, and financial sector reconstruction. Macroeconomic policies, thus, need to be designed in such a way that they simultaneously address such capacity building challenges while also aiming to bring about macroeconomic stability (Cramer, 2006; Ali, 2009; Ajakaiye and Ali, 2009; Alemayehu, 2011; 2017; Jones, 2013; ACBF, 2013).

Historical legacy and state capacity in macro management in fragile states of Africa


1. See Tello et al (2005) for views that challenges this latter assertion.
Conclusion

This study shows, despite the similarities of issues, there is no “one fits all” solution to exit from state fragility in Africa. Hence, policies and interventions need to be tailor-made to each country’s circumstances. Such policies need to be part of a long-term vision of the country that aims at: strengthening security, fostering inclusive politics, building institutions and building capacity for deterring violence, installing democratic institutions and effective macroeconomic management (IMF, 2014; Jones, 2013; Ajakaiye and Ali, 2009; Alemayehu, 2011).

A comprehensive recent report by the “commission for state fragility” which is based on a number of background studies came up with characterization of state fragility as state that result from a sequence of inter-locking chain of causes (CSFGD, 2018). Regardless of what initially caused the situation, fragile societies are usually fractured into groups with opposing identities who see their struggles as a zero-sum game and hence inter-group cooperation is replaced by a view of the state as a resource to be plundered. This led to a second problem: many citizens do not regard the state as legitimate and so do not comply with it. In turn, the lack of legitimacy and the view of the state as a resource to be plundered compounded by a third problem: the state lacks the capacity to perform basic functions, but instead abuse their position for personal gain with impunity.

All these are compound by a fourth problem: “…inadequate security manifested in sporadic outbreaks of violence leading to the fifth problem: the private sector is under-developed so that incomes are low, and the economy narrowly-based. This not only feeds back onto weak government revenues and a lack of jobs, but also compounds a final problem: “the society is exposed to shocks, both political and economic, and this periodically sets the society back even when some progress has been made (see, Figure next page). This is the syndrome of characteristics that entraps a fragile state” (CSFGD, 2018: 14-15).

Source: Author’s compilation based on CSFGD (2018)
The report further noted, in fragile environment. “short-term private interests naturally prevail over long-term public purpose. Leaders use their office to loot public money; strong groups exploit weaker groups; public employees rely on patronage rather than performance for advancement. Thus, “getting out of fragility is a step-by-step process that happens within the society gradually as national interest prevails over the private interest. This requires building institutions such as those for” the checks and balances that restrain those holding public power” as well as “building a sense of common national purpose for achieving long-term mutual gains”. The checks and balances normally must come first since only once people build trust that they begin to cooperate and work for the common good (CSFGD, 2018 15-17).

It is in the context of such inter-locking political-economy factors that the issue of appropriate macroeconomic management (including macroeconomic policy) and the capacity building to carry out that need to be framed. Framed in such context, in this study, we have identified three most important macroeconomic management policy directions that need to be pursued in fragile states of Africa. These are: (i) a policy of macroeconomic stability primarily focused on achieving high and inclusive growth, stable exchange rate, low inflation as well as state legitimacy; (ii) a strategy for financing development and its macroeconomic management (i.e.; managing public & private saving, aid, debt as well as earnings from resources in resource rich countries) as well as financial sector reconstruction, (iii) policy response and preparedness to external shocks.

More specifically, among macro variables examined in our study, an accumulation of debt and dependence on natural resource exports are found to lead to macroeconomic instability that needs careful macroeconomic management. Economic growth, aid and financial sector development are found to be helpful to avoid macroeconomic instability and transit from state fragility to resilience. The latter are also found to be priority policy areas.

All these policy actions are found to be difficult to execute in FS of Africa due to weak human and institutional capacity in such states. This calls for conflict conscious human and institutional capacity building content with checks and balances, inclusive long-term growth and a shared national vision for mutual gain. This policy framework is summarized in the figure on the next page.
The study also has shown that such macro policy directions will help FS to transit to resilience; resilience “being defined as a condition where enough institutional strength, capacity, and social cohesion enables the state to promote security and development and to respond effectively to shocks” (IMF, 2014).
From Fragility to Economic Recovery and Development: Rebuilding the Economy for Inclusive Growth and Development

Session chair: Dr. Sarah N. Ssewanyana, Executive Director, Economic Policy Research Centre, Uganda

Presenters: Prof. Anke Hoeffler, University of Konstanz, Germany
Dr. Janvier Nkuruzinza, UNCTAD, Switzerland

Discussant: Dr. Frank Chansa, Senior Researcher, Bank of Zambia

This paper provided an overview of the current knowledge of how fragile states can recover and become more stable and peaceful. Governance is typically poor in fragile states, dominated by elite interests and governments are generally not regarded as legitimate by most citizens. Provision of security, infrastructure and public services is poor. The private sector remains weak and there are limited opportunities outside the political and state institutions. These narrowly based economies are less able to manage political and economic shocks and are therefore likely to remain in a fragility trap. In this paper we discussed which options fragile states can pursue to improve the chances of political and economic change. Human and financial resources for peacebuilding and state building can be mobilized through the diaspora, improvements in tax collection, external aid and debt.

The aim of this paper was to provide a summary of the current knowledge of how societies can recover from fragility and move towards peace, inclusivity and development. The emphasis is on the requirements for successful peacebuilding and state building, that is a process that leads to sustainable peace. Although fragility is not synonymous with armed conflict, almost all of the fragile countries in Africa experienced armed conflict at some point in time. The most important message is that although African societies face many challenges, fragility can be overcome if these countries adopt the right peace-building and state building strategies, with the assistance of their international partners, where necessary.

The paper started with a brief discussion, in Section 2, of growth fragility using country data covering the period 1971-2017. This discussion set the tone for further analyses of fragility and its mitigating factors. Section 3 focused on peacebuilding and state building. It highlighted some of the factors that have hampered successful peacebuilding and state building in Africa. Sections 4 and 5 discussed the major requirements for economic
recovery and inclusive growth and development. Section 4 discussed institutional issues while section 5 was on potential sources of human and financial resources that African countries can harness in order to achieve the objective of long-term economic recovery. Section 6 concluded with policy recommendations.

Fragility of growth
This section looks at country data on growth and indicators of political fragility (Peace, Armed Conflict and Post-Conflict) to assess the fragility of their growth process. This analysis sets the stage for a more detailed discussion of some of the mechanisms that determine why some countries succeed in achieving and sustaining high rates of economic growth while others fail. Issues such as peace stabilization, state building, post-conflict institutional design, and the role of human and financial resources will be highlighted. Policy recommendations are then derived from this discussion.

Peace stabilization and state building
Economic recovery and development, particularly after a long period of armed conflict, requires actions in many areas, sometimes concurrently. While the most important immediate objective is to stabilize peace, it cannot be sustained without a parallel process of economic reconstruction. It is through reconstruction that economic opportunities can be created for the population to benefit from the peace dividend that steers potential fighters away from the path of war (Willems and Leeuwen, 2014). The pursuit of peace stabilization as a purely political process that ignores the economic dimension of peace consolidation often leads societies back to armed conflict.

Peacebuilding and post-conflict economic reconstruction: What are the needs?
Countries emerging out of conflicts require three major interventions to achieve sustainable peace and economic development. First, they need to stabilize the peace in a context where they are least equipped to do so. Second, they have to rebuild the state and its institutions; development cannot be achieved with a weak state. Third, peace stabilization, state building, and economic reconstruction require human and financial resources that need to be mobilized. These three dimensions reinforce each other. The absence of any one of these interventions increases the likelihood of reversion to armed conflict.

**Peace stabilization**

Peace stabilization is challenging because it takes place in a context of a weak state, the main agent expected to put in place the policies and institutions needed to achieve this objective. Even when the key policies that need to be implemented for peacebuilding are identified, for example through negotiations between belligerents as was the case in Burundi, their timing and sequencing could be challenging (Nkurunziza, 2016).

Building sustainable peace requires the right timing and sequencing of peacebuilding measures and reconstruction policies as there could be tensions or complementarities among different policies. Some of these measures might even need to be implemented concurrently, draining the already weak capacity of the state and making failure more likely. For example, a country emerging out of an armed conflict needs to work through a complex web of priorities, including the reconstruction of its physical infrastructure, the resettlement of refugees, rebuilding of the state, demobilization, disarmament and resettlement of former combatants, rebuilding of social relations, rebuilding of social infrastructure such as the promotion of social relations, establishment of a social justice system, etc. (Langer and Brown, 2016). These actions and policies cannot be implemented just in a sequential order. But it is also clear that a fragile government arising out of a devastating armed conflict on its own cannot implement all these measures at the same time.

The complexity of the issues involved in peacebuilding and post-conflict reconstruction may explain why the conflicts observed across the world over the last few years are chiefly recurrences of old conflicts. This suggests that fragile countries have not succeeded in putting in place the right post-conflict reconstruction and peacebuilding mechanisms that allow them to move out of the fragility or conflict trap. One indicator of successful post-conflict economic reconstruction is the rate at which countries accumulate physical capital. Physical capital accumulation tends to be stronger in peaceful societies, as well as where the post-conflict process is successful.

**State building**

Development and post-conflict reconstruction require a functioning state. Post-conflict societies are characterized by fragile states that often lack the capacity to carry out the needed political, social and economic reconstruction processes. In fact, state fragility seems to be the central impediment to peace stabilization and peacebuilding in general, as well as post-conflict reconstruction.
State fragility as a syndrome is characterized by five factors (Commission on State Fragility, Growth and Development, 2018). First, in fragile states, actors view the state as a source of rents that are captured by political elites. Plundering of state resource by sitting politicians is the norm and groups engage in zero-sum games for the control of state spoils. Second, partly due to the first factor, the state is viewed by most citizens as illegitimate. The combination of the first two factors leads to a third: the lack of capacity to provide basic public services such as security and basic infrastructure. Indeed, the lack of security is arguably the most prominent indicator of state fragility. Fourth, all three factors result in poor economic performance. The private sector is weak so opportunities outside political and state institutions are very limited. This, in turn, perpetuates state fragility through fights for the control of state institutions. Finally, state fragility exposes societies to political and economic shocks, making it difficult to escape the fragility trap.

Institutions

A well-established result in the literature is that countries with higher income and growth rates are much less likely to experience armed conflict (Collier and Hoeffler 2004a; Fearon and Laitin 2003; Hegre et al 2001). Consequently, international agencies, such as the World Bank, have invested in economic development in the belief that this is the best way to reduce the risk of armed conflict. While these stimulation packages and associated reforms are likely to be important for violence prevention, peace and prosperity require good governance.

Governance

Governments that provide political rights to their citizens and face strong political accountability as well as legal constraints are much less likely to be challenged in armed conflict (Walter 2015). Constraints on the executive serve as a check and help incumbent elites to credibly commit to legal reform. This helps to create a situation where rebels do not need to maintain a military force to put political elites under pressure. Furthermore, this reduces the odds of repeated armed conflicts because good governance leads to not only fewer grievances but also fewer opportunities to recruit rebels willing to fight. Thus, governance clearly matters but what is less clear is what aspects of good governance are most important in deterring armed conflict. All of the measures of governance highlighted by Walter (2015) make it easier for citizens to check the bad behaviour of their leaders and they make it easier for incumbent elites to commit and carry out legal and political reforms. Although improving governance is crucial for peace and prosperity, it is difficult to achieve this objective and the pathways to better governance will vary from country to country. Improved governance will also invigorate the economy and thus support the stabilization effort.

Even though the need to make elites more accountable, to constrain their power and to increase political participation is clear, a number of studies demonstrate that the region as a whole is sliding back on the democracy scales. However, there are some counter examples (see Box 1 on Ghana). Since the early 1990s competitive elections have been held in almost every African country. However, these elections often do not meet international quality standards. They are neither free in the run up to the election day
(e.g. irregularities in the registration of voters, limited media access to the opposition, intimidation of opposition supporters, bribery) nor fair (e.g. miscounting of the votes, refusal to accept the results). Bishop and Hoeffler (2014) shows that over the past 25 years only 26 per cent of elections in Sub-Saharan Africa were free and fair.

**Box 1: The state of democracy in Africa – Case study: Ghana**

Although Ghana is in many ways ‘typical’ for the region, the country bucks the general trend of democratic backsliding. It is socially diverse in terms of ethnic and religious groups and the economy is dependent on cash crops (cocoa) and sub-soil assets (oil, gas, gold and diamonds). After a long period of political instability characterized by coups d’états and military governments, Ghana has held seven consecutive democratic elections. In some of the elections the contests were won by very narrow margins and the losers accepted defeat with no resort to violence. For example, in 2012 the incumbent president, John Mahama, won by gaining 50.7 per cent of the votes, this winning margin equated to just a few thousand votes. In 2016, despite legal wrangling over some of the candidacies, the elections were free and fair and the challenger, Nana Akufo-Addo of the opposition New Patriotic Party, won with 53.9 per cent of the votes.

Although the democratization wave since the end of the Cold War has made many political and legal reforms possible, this progress remains fragile. Besides the quality of elections, many of the region’s reforms appear embattled: term limits have been challenged and, in many instances, abolished and unconstitutional leadership turnovers remain commonplace (Bates et al 2012).

Most African countries are ethnically diverse and this provides challenges and opportunities. The most ethnically diverse country is Tanzania. Over the past 50 years the country has generated a shared sense of identity and avoided ethnic violence. However, in many other countries ethnic diversity can lead to the monopolization of political space by one group and to exclusion of others. This can give rise to sectarian conflict, making peaceful coexistence a major challenge. Mbaku (2018) analyses the main challenges of constitutional design and the construction of governance institutions in Africa and argues that protecting the rights of citizens, in particular those of minorities, should be the overarching aim of state reconstruction through constitutional reform. Each African country has to provide itself with laws and institutions that reflect the realities of their society.
Resources for peacebuilding and State building

Peace building and state building in societies emerging from armed conflicts face a major resource constraint. Human resources are inadequate because many qualified personnel leave the country to seek refuge if they are not killed. Financial resources are also scarce because shattered economies invest less, economic growth slows, and domestic resource mobilization is weak due to the narrow economic base, the lack of trained personnel, and poor institutional set-ups that are not conducive for efficient resource collection. Aid cannot fill the gap given that it is mostly humanitarian and not necessarily geared towards developing a sustainable economic system.

Policy recommendations

This paper provided an overview of the current knowledge of how fragile states can recover and become more stable and peaceful. Peace and stability are the necessary preconditions for any economic growth and development. On the other hand, economic development will enhance the chances of lasting peace. Stability and peace are necessary, but not sufficient conditions for economic growth. Changes in governance structures are essential to enable a peace building process that is followed by the longer task of state building. Only well governed states can provide security and economic opportunity to all of their citizens.

Governance is typically poor in fragile states, dominated by elite interests and governments are generally not regarded as legitimate by the majority of their citizens. Provision of security, infrastructure and public services is poor and results in limited opportunities outside the political and state institutions. These narrowly based economies are less able to manage political and economic shocks and are therefore likely to remain in a fragility trap.

The vast majority of armed conflicts are recurrent conflicts and it is therefore of great importance to understand why conflicts break out again. Statistical evidence shows that peace is most likely to break down if no formal settlement was reached. Military victories tend to be associated with longer lasting peace, but they are rare. Third party interventions in the form of peace keeping operations can significantly increase the chance of prolonging the peace, in particular when they support a negotiated settlement. Since 86 per cent of the entire UN Peace Keeping Operations’ budget is spent in Africa, it should be of particular interest to African policy makers to improve the chances of peace keeping success. There is no evidence that UNPKOs are less likely to succeed in Africa, but given the complexities of many post-conflict situations, it is important to equip the UNPKOs well and not believe that one measure alone (e.g. negotiated settlements, UNPKOs, power sharing or elections) can stabilize the peace.

Other forms of third-party support come in the form of development aid. There is evidence that aid is most effective in situations of good governance, but fragile states are characterized by poor governance. Aid is therefore less likely to be growth enhancing, but the needs are particularly high. In fragile situations, donors should operate to the highest standards with humanitarian interests overriding geopolitical calculations.
Northern donors (Netherlands, Finland, Sweden, Norway and Denmark) as well as multilateral donors are less motivated by their self-interest and could be regarded as examples of good practise. All fragile states have more than 20 donors and coordination are essential to reduce the administrative burden in the recipient country. Many fragile states receive amounts of aid that are beyond their absorptive capacity; this deserves attention. Donors are also often rushing out money towards the end of the financial year, leading to poor project selection and realisation. Donors should have more flexibility across financial years to fulfil their aid targets.

Aid substitutes for a shortage of other financial resources in the immediate post-conflict situation. The longer-term consequences of aid dependence deserve serious consideration. High aid dependence undermines good governance by distorting political accountability. Governments who are dependent on aid pay too much attention to donors and too little to their citizens. Wood (2008) proposes capping aid to developing countries at “…50 per cent of the amount of tax revenue …”. Although this proposal is not specific to fragile states it would prevent a long-term dependence on aid. If aid were capped at 50% of tax revenue, governments would have an incentive to pay more attention to their own citizens. A cap should be phased in gradually – possibly over a decade for aid-dependent peaceful countries and 15 years for post-conflict countries. But in fragile countries where aid is so important, it is crucial that the engagement of the donor community be predictable over several years and respond to specific needs of recipient countries.

Remittances are much higher than aid and should be encouraged because many studies show their importance for domestic investment. Transfer costs should be reduced to further increase existing flows and to make them less volatile. Putting in place a macroeconomic framework that is conducive for remittance transfers through official channels would boost the developmental impact of remittances.

Debt finance through sovereign bonds has become more popular during the past 15 years, mainly due to the changes after the global financial crisis. Investors are looking for different opportunities while African governments want to finance projects for which they would not be able to receive funding from the multilateral development banks. However, sovereign development choices can only be financed through the markets when governments follow prudent macro-policies. Strong institutions (e.g. good oversight, low corruption) are essential to turn these funds into growth and development. Banking regulation in the Euro-Bond markets should also be tightened to ensure that bonds are only issued after a process of due diligence. The recent case of Mozambique’s default suggests that insufficient checks were in place in Mozambique as well as in the banks offering the bond sale.

Domestic policy makers should first run a high aid, low tax regime and then slowly build up tax revenues and reduce aid dependency. Tax compliance will improve when citizens perceive the state as providing public goods efficiently. The tax authorities have to be reformed but the reforms have to be supported politically and financially. The provision of public services can be achieved in many ways and it depends on country specificities whether services should be provided by state organizations or through independent delivery authorities. However, it should be kept in mind that taxation and public service delivery by the state are important processes of state building.
Reversing Fragility in African Economies through Inclusive Growth

Session chair: Hon. Phil Dixon, Deputy Minister, Man Power Planning, Liberia
Presenter: Prof Nicholas Ngapeh, University of Johannesburg, South Africa
Discussant: Dr. Rose Ngugi, Executive Director, KIPPRA, Kenya

Fragility has been wildly recognized as an issue of significant importance, but little has been done, not only in terms of its determinants, but how inclusive growth can influence it. Social and economic exclusion is often quite entrenched in fragile states. The objective of this study was to identify various dimensions of inclusivity of economic growth and study their impact on state fragility in order to draw policy implications for curbing or reversing fragility in Africa.

Two key propositions emerged from the review of previous literature:

i. The level of income is a necessary but an insufficient condition for addressing fragility in fragile states. This means that high income countries may be stable in terms of fragility, but they are still vulnerable to socio-political forces that brew instability depending on what happens to the level of income in the next period.

ii. Economic growth must lead to inclusivity for fragility to be definitely reversed. The response of societal agents to changes in the national wealth depends on how each of them is personally affected and can be better understood through the prospect theory framework. In this respect, it can be proposed that in addition to the level of income, the other state variables in the fragility function would be poverty and inequality, of both opportunities and outcomes.

African economies have on average, grown robustly in the last one and half decades (from 2000), averaging 5% per annum (Martins 2013), significantly above the average population growth rate of 2.9%.4 This is despite the recent global financial crises that caused a significant economic recession in most parts of the world. However, in the midst of this laudable performance, inequality has remained persistently high, and poverty not responding to growth in a commensurate measure relative to other regions of the world like South East Asia and Latin America. There is strong concern that the high economic growth

4. Average for 2005-2010, from World Development Indicators (WDI).
has not been beneficial to the majority of African population (McKay 2013). Despite the robust economic growth of the last decade, the region’s 14% poverty reduction between 1990 and 2010 (UNECA, 2015) is still just half of the regional target of 28% (Ngepah, 2016). This is despite a marked improvement recorded in SSA’s human development indicators.

World-Bank (2013) identifies persistently high inequality as the underlying reason for the slow pace of poverty reduction amidst high and robust economic growth in Africa. Inequality is a key determinant not only of the ability of growth to reduce poverty, but also of the level of growth itself. There are three concerns about inequality in this respect. First, it may reduce economic growth. Second, it may hinder the poverty-reducing power of growth. Third, it may promote the inefficient use of resources and breed unstable societies, leading to unsustainable development (Ngepah, 2016).

At the same time, a number of countries in fragility are caught up in a vicious cycle of violence, chronic poverty, inequality and exclusion from the gains of growth. OECD (2009) defines a fragile state as that which lacks political will and/or capacity to provide basic functions needed for poverty reduction, development and to safeguard the security and human rights of their populations (OECD, 2009: p76). In this respect, making growth more inclusive can contribute in reducing or even reversing fragility.

**Inclusivity-fragility relationship**

“All of Europe and all of Germany are rightly focused on the refugee crisis on the continent today, but if fragile states still have 47 percent of their people living on less than 2 euros a day by 2030, while the developed worldprospers, the flow of migrants and refugees will not stop,” by Jim Young Kim (World Bank, 2016)

This was the statement of the World Bank President, reiterating the conjecture that inclusive growth can reverse the adverse conditions in fragile states that are responsible for the migrant efflux and the refugee crises in the developed world, especially Europe and other parts of Africa, like South Africa. In South Africa, waves of xenophobic violence against African immigrants have often erupted. These have generally been concentrated in poor townships where immigrants compete for limited resources and business opportunities in these poor areas of the country. Ngepah (2017) has established a link between inequality within the poor and negative economic growth, suggesting that inequality of resources and poverty can interact to fuel conflicts, which are fundamental elements of state fragility.

Social and economic exclusion is often quite entrenched in fragile states, where the lack of solidarity in the society and the production process run very deep. In such societies, even if growth occurs, it ends up benefiting only a few, perpetrating further fragility. As such, inclusive growth will not happen spontaneously, but will take some significant policy efforts.

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5. Up to 70% primary enrolment rates in 2010, 60% adult literacy, falling child mortality from 175/1000 to 125/1000 between 1990 and 2010 (International Labour Organization 2013)
The relationship between fragility and growth is a deep-seated one. At the heart of it are three key concerns. The first one relates to the connection of fragility with poor and non-existent delivery of basic services. Delivery of services is not only important for the development of human capital necessary for an enhanced production system, but also supposes that even the delivery and maintenance of the complementary facilities of infrastructure of all types may be completely absent. In this context, the establishment of the private production system may be totally hindered.

Conclusion and policy implications

This paper aimed at investigating how to reverse fragility in African economies through inclusive growth. To achieve this objective, succinct literature was reviewed. The literature identified levels of per capita income, economic growth and a set of other variables as determinants of fragility. There is a lack of systematic modeling framework for fragility analysis in literature. This work uses prospect theory to argue for certain factors as state variables in determining fragility. In the framework, various indicators of economic exclusivity were integrated and an index of economic exclusion was also developed by means of PCA.

A number of estimation techniques were used to assess these indicators’ impact on fragility. I endeavor to control for various statistical biases that could arise from traditional estimators, given the nature of the data and underlying relationships. After estimating the determinants of fragility, various models were specified to screen for policy variables. The impact of policy variables was considered first through their direct relationship with fragility, and indirect relationship via their respective impacts on indicators of economic exclusion.

The findings suggest that poverty and inequality are the main determinants of fragility in the short run, together with levels of income. In the long run, income, inequality (average inequality, extreme inequality and gender inequality), poverty levels, adult dependency rate, productivity gap and labour shares all determine fragility at various degrees. Efforts to reverse fragility should target poverty and inequality reduction, reduction of dependency rates, gender balance in the labour market and increase in general levels of income.

It is noteworthy that economic growth does not appear to have any impact in the short run. In the long run, it impacts fragility significantly. This finding ties with the proposition put forward in the paper, that although growth is good for the poor (Dollar and Kraay, 2002), it is not the immediate solution for fragility. Growth without addressing the underlying factors that perpetuate economic exclusion will still leave a state in some sort of a fragility threat. Growth is important only to the extent that it translates into general higher levels of income, and this happens in the longer run. This finding leaves policy makers in fragile states with the daunting challenge of pursuing inclusivity, at the same time with economic growth.

Various policy levers were found as the means to tackle fragility issues. Democratization was the most important, having both direct impact on fragility, and indirect effects on
the underlying causes of economic exclusion. Although employment creation may be important, this work finds that fragile states have a high share of their population in employment. However, these employments are precarious, and a guise for poverty trap. The quality of employment is much more important than simply counting the number of people employed. Taken together with the fragility enhancing role of productivity gap, which is a human capital-based measure in this case, there is a strong recommendation therefore to enhance both the productive human and physical capital of fragile states. Infrastructure endowment, export levels and foreign direct investment are factors that can reduce fragility directly or indirectly through their role in economic inclusion. The fact that export share of GDP and not trade in general reduces fragility, suggest that general trade facilitation as opposed to export promotion will be too fluid to have the desired effect on fragility. Inflation, trade tariffs, and ineffectiveness in government social and consumption spending, work together to enhance fragility. Improving these through various policy levers will help in curbing or reversing fragility. Improving these through various policy levers will help in curbing or reversing fragility. Reliance on natural resources also enhance fragility. Economic diversification to reduce natural resource share of GDP will be important for stability and progress in fragile states.

It is worth emphasizing that fragility reducing measures will have to be customized to suit country specificities. In Niger for example, poverty and inequality reduction through human capital development will yield better fruits, whereas in Burundi, emphasis should be on poverty reduction and quality of labour. There are fragile countries with high levels of government social spending such as Zimbabwe, Mozambique and Niger. In these countries, the solution is not a budgetary allocation, but the quality of spending. The main caveat of this work is that existing fragility indicators generally have short spans. This is more acute for African countries, where data might be missing for other variables. This study managed to minimize this challenge first by using the state fragility indicator of the center for systemic peace, which has the longest span. Secondly, using various econometric techniques that saves degrees of freedom. This is why most of the inference in this work relies on fixed effects estimators with lagged regressors. In rare cases we compared results with advanced econometric techniques like SGMM and dynamic fixed effects.
Policy Roundtable

Session chair: Dr. Kupukile Mlambo, Deputy Governor, Reserve Bank of Zimbabwe

Panellists:

• Hon. Joseph Todd,
  Deputy Minister for Public Works, Liberia

• Ms. Barbra Barungi, Managing Partner, Imara Africa, Nigeria

• Mark Badu-Aboagye, President, Ghana Chamber of Commerce & Industry

• Dr. Jesimen Chipika, Deputy Governor, Reserve Bank of Zimbabwe

• Prof. Jane Mariara, Executive Director, Partnership for Economic Policy (PEP), Kenya

• Sena Yawo, Permanent Secretary, Ministry of Education, Togo

• Prof. Anke Hoeffler, University of Konstanz, Germany
Key Policy Issues and Recommendations

• Policy makers recognized that fragility is on the rise in Africa, and that the sources of fragility of African economies are multifaceted, and include conflict and/or political instability, limited diversification of economies, climatic shocks, and youth unemployment, among others, and that fragility is detrimental to sustained robust growth.

• One important caution they made was that when addressing fragility, it should be thought of comprehensively, not in isolation, and thus should include other initiatives such as regional integration, infrastructure development, international cooperation, technology, value chains, industrialization, capacity building, structural transformation, and effective policy frameworks.

• They debated on the vital role of pro-poor growth strategies for inclusive development, especially in such areas as raising agricultural productivity, provision of adequate infrastructure, social protection programmes, quality education and training, industrial development, technology and innovation as well as fostering dialogue and coordination among all relevant stakeholders;

• Commitments by African Heads of State and Government is vital too, and not bequeathing the burden of conflict to the next generation of Africans, setting as an objective the elimination of all conflicts by 2020; expressing their determination to anchor African societies, Governments and institutions on respect for the rule of law, human rights and dignity, popular participation, the management of diversity, as well as inclusion and democracy.

• They also committed themselves to place the African people at the centre of the Africa Union’s endeavours and to eradicate poverty. It was recalled that the African Union’s several communiqués and press statements on the need to build peace and security in Africa as a pre-requisite for economic growth and development had made a difference, but a lot still needs to be done.

• The delegates called for renewed efforts towards the implementation of the AU Policy Framework for Post-Conflict Reconstruction and Development (PCRD), adopted by the 9th Ordinary Session of the Executive Council held in Banjul, The Gambia, from 25 to 29 June 2006 [EX.CL/Dec.302(IX)].

• The policy makers also took note of the important role that private sector entrepreneurs and philanthropists play in strengthening domestic resource mobilization and in channeling more investments for job creation and income generating activities in countries in fragile situations in Africa and those emerging from conflicts.
• They anonymously agreed that fragility of growth is a critical constraint to structural transformation for inclusive and sustainable development in Africa, and thus the realization of the sustainable development goals.

• The need to increase investment in knowledge generation, human capital development, institutional strengthening, digital innovation and technology, youth and women empowerment, and skills transfers to address regional imbalances and thus pave the way for reduced growth volatility and fragility in African economies was also emphasized.

• The delegates talked about the many well-meaning declarations and strategies that have largely not been executed, and called for immediate action, and urgency in reversing fragility of African economies.

• The participants discussed how to improve the management of our natural resources, for the betterment of our citizens, and to leverage these natural resources to diversify our economies. This includes taking deliberate measures to reduce fragility of sectors such as agriculture and committed to pursue inclusive growth and development policies and to build more peaceful and more cohesive societies buttressed by dialogue and openness.

• They also agreed on empowering women, youth and other agents to see inclusive and resilient economic growth and development through agricultural and agro-industries, industrialization policies and strategies adopted by African governments.
ANNEX A

Seminar Papers

1. *Anatomy of Fragility and the Fragility of Growth in Africa* by Prof. Andrew McKay, University of Sussex, United Kingdom

2. *Fragility of Macroeconomic Management* by Prof. Alemayehu Geda, Addis Ababa University, Ethiopia

3. *From Fragility to Economic Recovery and Development: Rebuilding the Economy for Inclusive Growth and Development* by Prof. Anke Hoeffler, University of Konstanz, Germany and Dr. Janvier Nkurunziza, United Nations Conference on Trade and Development, (UNCTAD), Switzerland

4. *Reversing Fragility in African Economies through Inclusive Growth* by Prof. Nicholas Ngępá, University of Johannesburg, South Africa
ANNEX B

Seminar Programme

Wednesday 20 March 2019
08:00–18.30:00 Hrs  Registration/Accreditation

Thursday, 21 March 2019
09:00 –10:30  Official Opening Session

Session chair:  Prof. Mthuli Ncube, Minister for Finance, Planning and Economic Development, Zimbabwe

Welcome remarks:  Prof. Njuguna Ndung’u, Executive Director, AERC

Brief remarks:  Dr. Kathryn Touré, Regional Director for Africa, IDRC

Brief remarks:  Prof. Hyacinth Lephoto, Pro-Vice Chancellor, University of Lesotho

Keynote Speech:  Dr. Jesimen Chipika, Deputy Governor, Reserve Bank of Zimbabwe

10:30 –11.00  Tea/Coffee Break/Photo Session

11:00 –12:30  Session 1: Anatomy of Fragility and the Fragility of Growth in Africa

Session chair:  Hon. Salahaddine Issa -Toure, Deputy Speaker, National Assembly, Togo

Presenter:  Prof. Andrew McKay, University of Sussex, United Kingdom

Discussant:  Dr. Cyrille Honagbode, Policy Analyst, Centre d’Analyse de Politiques de Developpement, Benin

Floor Discussion

12:30 –14:00  Lunch Break
14:00 –15:30

**Session 2:**  Fragility and Macroeconomic Management

*Session chair:*  Gov. Tong Ngor, Governor, Bank of South Sudan

*Presenter:*  Prof. Alemayehu Geda, Addis Ababa University, Ethiopia

*Discussant:*  Prof. Margaret Chitiga, University of Pretoria, South Africa

**Floor Discussion**

15:30 –17:00

**Session 3:** From Fragility to Economic Recovery and Development: Rebuilding the Economy for Inclusive Growth and Development

*Session chair:*  Dr. Sarah N. Ssewanyana, Executive Director, Economic Policy Research Centre, Uganda

*Presenters:*  Prof. Anke Hoeffler, University of Konstanz, Germany
Dr. Janvier Nkuruzinza, UNCTAD, Switzerland

*Discussant:*  Dr. Frank Chansa Senior Researcher, Bank of Zambia

**Floor Discussion**

17:00 –17:30  Tea/Coffee Break

19:00 – 21:00  Dinner

Friday, 22 March 2019
8:30 –10:00

**Session 4:** Reversing Fragility in African Economies through Inclusive Growth

*Session chair:*  Hon. Phil Dixon, Deputy Minister, Man Power Planning, Liberia

*Presenter:*  Prof Nicholas Ngepah, University of Johannesburg, South Africa

*Discussant:*  Dr. Rose Ngugi, Executive Director, KIPPRA, Kenya

**Floor Discussion**

10:00 –10:30  Tea/Coffee Break
10:30 –12:30

**Sessions 5: Policy Roundtable**

*Session chair:* Dr. Kupukile Mlambo, Deputy Governor, Reserve Bank of Zimbabwe

*Panellists:*
- Hon. Joseph Todd, Deputy Minister for Public Works, Liberia
- Ms. Barbra Barungi, Managing Partner, Imara Africa, Nigeria
- Mark Badu-Aboagye, President, Ghana Chamber of Commerce & Industry
- Prof. Jane Mariara, Executive Director, Partnership for Economic Policy (PEP), Kenya
- Sena Yawo, Permanent Secretary, Ministry of Education, Togo
- Prof. Anke Hoeffler, University of Konstanz, Germany

*Communiqué Team:*

*Session chair:* Dr. Caleb Fundanga, Former Governor, Bank of Zambia

*Members:*
- Hon. Lucious Kanyumba, Former Minister for Education, Malawi
- Dr. Sarah N. Ssewanyana, Executive Director, Economic Policy Research Centre, Uganda
- Dr. Sara Ruto, Chief Executive Officer, Peoples Action Network for Learning (PAL) Kenya
- Dr. Witness Simbanegavi, Director of Research, AERC
- Dr. Wilson Wasike, Research Manager, AERC

13:15 – 13:25  **Vote of Thanks**

13:25 –14:25  **Lunch Break**

18:00 – 20:00  **Cocktail Reception**
ANNEX C

List of Participants

Benin

1. **Prof. Cyrille Honagbodé**
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To strengthen local capacity for conducting independent, rigorous inquiry into the problems facing the management of economies in sub-Saharan Africa.

The mission rests on two basic premises: that development is more likely to occur where there is sustained sound management of the economy, and that such management is more likely to happen where there is an active, well-informed group of locally based professional economists to conduct policy-relevant research.

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