Theme 4 Political will and barriers to economic growth

The business environment in its totality needs a serious rethink. The current tug of war between populist inward-looking strategies for growth and growth as driven in a globally competitive environment will be the deciding factor for the future. The table below from the Mo Ibrahim Foundation provides us with a report card on the progress Africa is making on becoming a more inviting place for business development, whether foreign or local. With the exception of customs efficiency and regional integration, the table suggests that the ease of doing business in Africa is not improving significantly.

Business environment	2017 African score/100.0	10-year AAT* (2008–2017)	5-year AAT* (2013–2017)	Trend classification
Business regulatory environment	46.7	-0.04	-0.03	Slowing deterioration
Absence of excessive bureaucracy and red tape	24.4	-0.47	-0.88	Increasing deterioration
Absence of restrictions on foreign investment	55.3	-1.68	-0.48	Slowing deterioration
Efficiency of customs procedures	48.7	+0.78	+0.48	Slowing improvement
Robustness of banks	46.3	-2.34	-2.10	Slowing deterioration
Satisfaction of employment creation	30.2	-0.34	-0.28	Slowing deterioration
Government development of regional integration	58.8	+0.18	+0.60	Increasing improvement

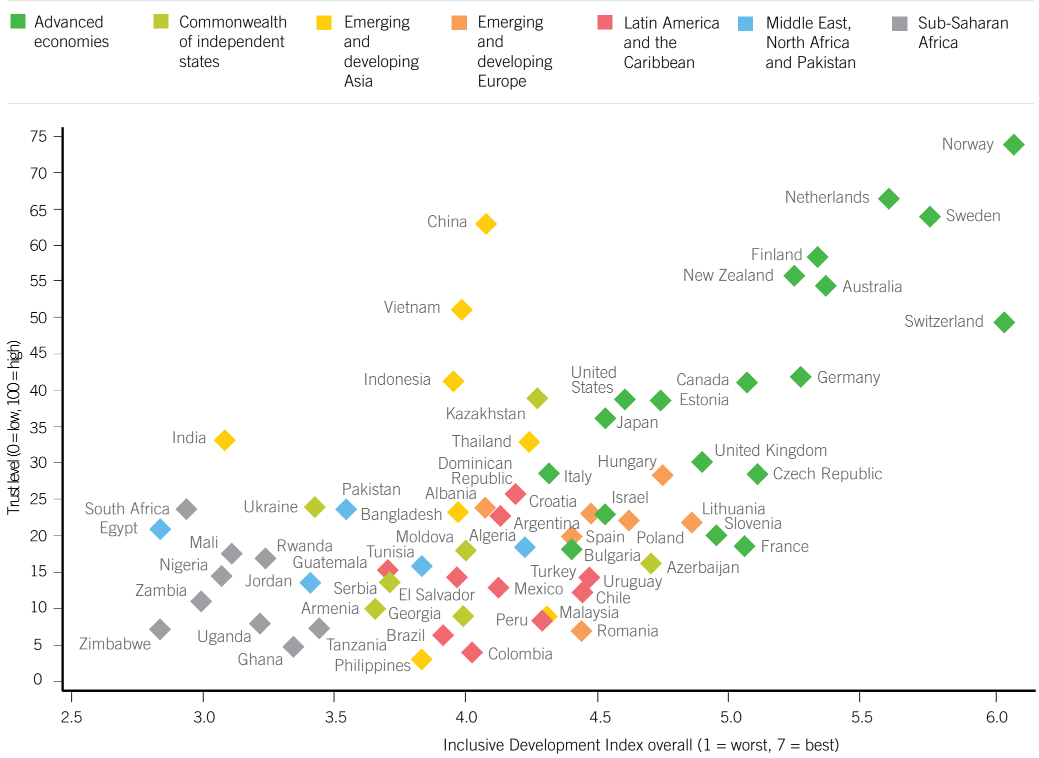
* Average annual trend

Source: Mo Ibrahim Foundation

Social inclusion, diversity and economic growth

But there's more to meeting growth imperatives than simply addressing issues around ease of doing business. For example, in countries where there is a lack of economic inclusion and social cohesion, these factors have been shown to be negatively correlated to economic development. As the World Economic Forum scatterplot suggests there is a decided relationship between inclusive development and interpersonal trust in those countries that are able to translate economic growth into broader social benefit. As one of our earlier charts highlights, Africa has not been particularly successful on that score.

Inclusive development performance and interpersonal trust



Sources: World Values Survey (2014), World Economic Forum

Lack of social cohesion is a function of other factors than simply government's inattention to economic inclusion. Much has been made of the impact that diversity has within companies on improving business decision-making and corporate results. But looked at from the broader context of social cohesion, ethnic, linguistic and political diversity have been found to also have 'a statistically and economically important negative effect on economic growth in a cross-section of countries.'[1] Perhaps the most important study to address this phenomenon was by Easterly and Levine in 1997. That study found that moving from an ethnically homogeneous country to one with a diversity of ethnic communities corresponded with a decrease in annual economic growth rates of more than 2%. They then applied this finding to Africa, reasoning that, because African countries are typically ethnically diverse, the strong link between ethnic heterogeneity and slow growth was quite likely an important part of the explanation for that region's 'growth tragedy'.

Most and least fractionalised African countries according to PREG* and ELF measures**

Ten least fractionalised countries				Ten most fractionalised countries			
PREG		**ELF**		**PREG**		**ELF**	
Botswana	0.00	Burundi	0.04	Zaire (DRC)	0.80	Tanzania	0.93
Burkina Faso	0.00	Madagascar	0.06	Cameroon	0.71	Uganda	0.90
Lesotho	0.00	Somalia	0.08	Zambia	0.71	Zaire (DRC)	0.90
Madagascar	0.00	Rwanda	0.14	Chad	0.66	Cameroon	0.89
Seychelles	0.00	Lesotho	0.22	Nigeria	0.66	South Africa	0.88
Somalia	0.00	Mauritania	0.33	Angola	0.65	Nigeria	0.87
Swaziland	0.00	Botswana	0.51	Uganda	0.63	Côte d'Ivoire	0.86
Guinea-Bissau	0.05	Zimbabwe	0.54	Liberia	0.62	Chad	0.83
Mali	0.13	Mauritius	0.58	Mauritius	0.60	Kenya	0.83
Senegal	0.14	Benin	0.62	Tanzania	0.59	Liberia	0.83

* Politically relevant ethnic groups
** Ethnic-linguistic fractionalisation
Source: Posner

The fact of the matter is that getting growth right for Africa is a complex challenge. At the most micro level, there are natural cultural factors that, if not adequately addressed, become barriers to inclusion and inclusive growth. Moving up a level, governments need to be more responsive to making it easier for business to invest and build in Africa.

But as our next theme, Theme 5, will highlight, strategies for growth will be significantly impacted by the partnerships each African nation chooses to form (and the conditions of those partnerships) with countries or economic blocks outside their borders.

[1] Easterly, W & Levine, R. 1997. Africa's Growth Tragedy: Policies and Ethnic Divisions, *The Quarterly Journal of Economics*, Volume 112, Issue 4 (online).