

Obstacles to Africa's development

A country's growth rate generally depends on endowments, preferences, institutions, macroeconomic stability, an outward orientation, and financial market development. Indeed, the empirical and theoretical literature on growth and development has identified at least 62 statistically significant explanatory variables influencing the growth performance of different economies. Of these, three have consistently been reported as significant:

- Real per capita income, reflecting the country's stage of development and capturing the idea of convergence over long periods of time.
- Life expectancy at birth, reflecting the health dimension of human capital (figure 3.1).
- Primary school enrolment ratio, reflecting the educational dimension of human capital.

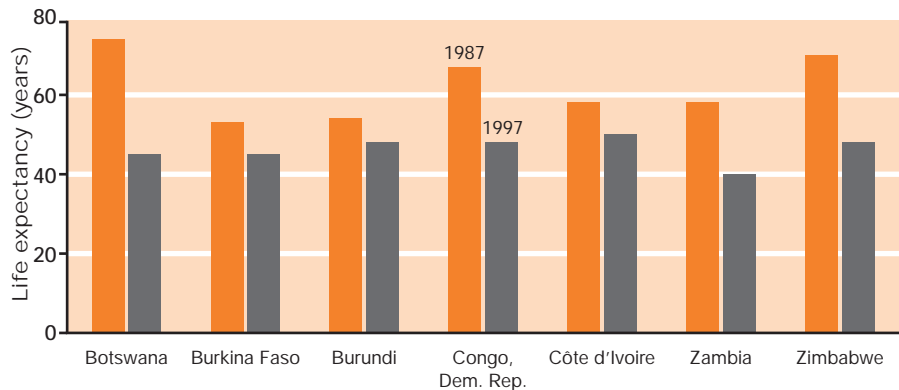
While necessary as determinants, these three are not sufficient to ensure high and robust growth and development.

A recent rigorous robustness analysis conducted on the remaining 59 variables and taking account of the above three initial conditions found only 22 variables to be robustly significant in explaining differences in growth performance among countries (Sala-i-Martin 1997). Seventeen of these are deemed relevant and can be grouped into six broad categories:

- Regional variables.
- Political structure.

Income, institutions, the political environment, and human capital are the most critical contributors to Africa's development

Figure 3.1 ► Impact of AIDS on projected life expectancy for seven Sub-Saharan countries, 1987 and 1999



Source: UNAIDS 1999.

- Market distortions.
- Investment share in GDP.
- Production structure.
- Openness (trade policy) variables.

There are three regional variables. The regional dummy variables for Latin America and Sub-Saharan Africa are negatively related to growth. The third regional variable is an “absolute latitude” variable, which shows that the farther away from the equator a country is the better its growth performance.

There are six political variables: the rule of law, political rights, civil liberties (positively related to growth), and the number of revolutions, military coups, and wars (negatively related to growth).

The market distortions category includes two market distortion variables that are bad for growth: real exchange rate distortions and the standard deviation of the black market premium. The third variable, degree of capitalism, is positively related to growth.

The investment variables include equipment and non-equipment investment, both of which are positively related to growth. But the influence of non-equipment investment on growth is only about a fourth that of equipment investment.

There are two production structure variables: the fraction of primary products in total exports, negatively related to growth, and the fraction of GDP in mining, positively related to growth. An openness variable reflects trade policy and includes one variable—the number of years an economy has been open between 1950 and 1990—that is positively related to growth.

Greater initial inequality in wealth and income distribution will likely be detrimental to long-run growth. Imperfect capital markets affect agents’ investment behaviour, resulting in lower productivity and efficiency losses. Under this theoretical construct credit constraints keep the poor from investing in education and hence in human capital formation. Political economy models have also shown that initial inequality is likely to increase voter support for inefficient redistributive policies, resulting in efficiency losses and lower growth.

Economists generally agree on the critical importance of “path dependence” to long-run growth. That is, “what eventually happens to an economy depends greatly on the point of departure. There is mounting evidence that large qualitative differences in outcomes can arise from small, and perhaps accidental, differences in initial conditions and events” (Mkandawire and Soludo 1999, p. 1).

Initial conditions are important in choosing policies. Policies not derived from or anchored to initial conditions may have unintended outcomes. Initial conditions govern and direct policies appropriate to circumstance, to speed of implementation, and to sequencing (which policy is implemented first, second, and so on).

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Africa starts the 21st century as the poorest, the most technologically backward, the most debt distressed, and the most marginalized region in the world

Given the diversity of initial conditions and the diversity of Africa, this chapter singles out income, institutions, the political environment, and human capital as the most critical contributors to Africa's development. The daunting challenges in these areas must be addressed if the continent is to claim its rightful place in the global economy and free its people from poverty. Africa has great natural resources and a large internal market. Above all it has the advantage of a late comer on the technological scene. With the right type of human capital investments in basic health and education, institutional renovation, and political commitment, there is every reason for Africa to move out of poverty onto a trajectory of sustained growth and development.

Low initial income puts Africa behind

Africa starts the 21st century as the poorest, the most technologically backward, the most debt distressed, and the most marginalized region in the world. It accounts for 12.5% of the world's population but produces only 3.7% of global GDP (figure 3.2). Even though it exports no less than a fifth of its GDP annually, it accounts for only 1.5% of the global trade in goods and services.

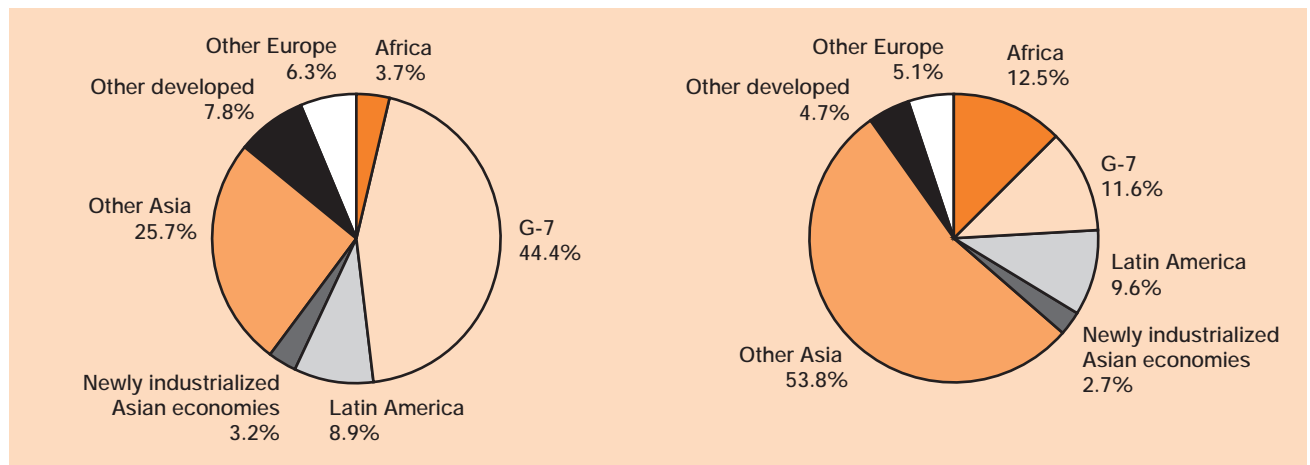
In 1998 Africa's 778 million people produced goods and services worth \$537 billion in 1990 prices (table 3.1). This amounts to a per capita income of \$691 a year, or \$58 a month, ranging from a high of \$5,975 for Seychelles to a low of \$92 for Mozambique.

Figure 3.2 ▼
Global GDP and population shares, 1999

At the regional level North Africa has the highest GDP at \$215 billion and per capita income of \$1,264, followed by Southern Africa's \$157 billion GDP and \$1,388 per capita

Global GDP share

Global population share



Source: IMF 1999.

income. Central Africa has the lowest GDP at \$27 billion and per capita income of \$937. East Africa, with a GDP of \$47 billion, has the lowest per capita income, \$188.

Italy's 58 million people have a GDP more than twice Africa's. The 9 million Swedes produce more goods and services than North Africa's 170 million people do. The 46 million people in the Republic of Korea produce almost as much as the five largest African economies, as well as all of Sub-Saharan Africa.

The African B5 countries are the densest (with 49 people per square kilometre). North Africa is the least dense (with 18 people per square kilometre). With the exception of Sweden, whose density approximates that of the region, the other countries have considerably more population per square kilometre than Africa does. Comparing GDP density (GDP divided by total area in square kilometre) in Africa with that in the selected countries provides interesting insights. Africa produces \$17,639 worth of goods and services per square kilometre. Italy produces 221 times this, Korea 170, Spain 62, and Sweden 31.

Africa's GDP also contrasts unflatteringly with the revenues of the largest multinational corporations in the world. The four largest multinationals (ranked by sales)—General Motors, Ford Motor Company, Mitsui & Company, Royal Dutch/Shell—had a combined revenue of \$593 billion in 1997, compared with Africa's GDP of \$518 billion. The sixth ranked company (Itochu Corporation of Japan) had sales revenue (\$118 billion) greater than Africa's largest economy (South Africa at \$115 billion) in 1997 (UNCTAD 1999).

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▼ **Table 3.1**
Income and population at the end of the 20th century

Region or country	Number of countries	Population (millions)	GDP (billions of dollars)	Per capita GDP (dollars)	Density per square kilometre	
					Population	GDP ^a (dollars)
North Africa	7	170	215	1,264	18	23,263
Sub-Saharan Africa	46	607	322	530	29	15,158
Sub-Saharan Africa, excluding South Africa	45	566	206	364	28	10,150
G5	5	290	316	1,090	49	52,896
Africa, excluding G5	48	488	221	452	20	8,992
Africa	53	778	537	691	26	17,639
Italy	1	58	1,171	20,190	196	3,900,000
Spain	1	39	552	14,151	79	1,100,000
Sweden	1	9	227	25,222	22	550,000
Korea, Rep.	1	46	298	6,478	470	3,000,000

a. GDP divided by total area in square kilometre.

Source: For African countries, Economic Commission for Africa; for other countries, World Bank 1998b.

Investment gains are fragile

Increasing productivity and allocative efficiency will allow African countries to better use their limited resources

Accumulating physical and human capital leads to higher per capita incomes. In recent years there has been concern about low investment in Africa. But several African countries engineered an investment transition before the early 1980s. An investment transition is a sustained increase in the investment rate (investment to GDP ratio) of five percentage points or more. A sample of developing countries yields 47 episodes of such transitions, 25 of them in Africa. Fifteen of Africa's transitions occurred before 1973, nine between 1973 and 1979, only one in the 1980s (Rodrik 1999).

Countries that experience an investment transition go from a growth rate of 0.8 percentage point less than world average to one 1.4 percentage points more than average—an increase of 2.2 percentage points. Only a few African countries were able to preserve these growth gains in the wake of the external shocks of the early 1970s, and most African countries saw their gains reverse while the investment rate remained high.

Why did this happen? A couple of reasons. Africa had no social institutions to resolve conflicts arising from external shocks. And first-generation economic reforms led to a decline in investment rates in Africa (see, for example, Elbadawi 1992). Africa continues to be undercapitalized. Investment has declined for all regions (table 3.2). While almost all 35 countries in the sample recorded a decline between the first period and the end period, some recorded an increase in the second period before recording a decline. Six recorded an increase in the investment rate. Uganda moved from 7.6% of GDP in 1974–80 to 15.6% in 1991–96, Ghana moved from 9% to 16.1%, Mali from 15.9% to 24.2%, The Gambia from 18.2% to 20.5%, São Tomé and Príncipe from 24.9% to 51.6%, and Lesotho from 28.7% to 87.9%.

Inefficient investment has also been a problem. In countries with declining per capita growth over the past three decades, the incremental output to capital ratio—a rough proxy for the productivity of investment—was lower on average than in countries that were growing. Increasing productivity and allocative efficiency will allow African countries to better use their limited resources. To the extent that this and other resource allocations can be accomplished quickly, countries could begin to grow without immediate increases in savings and investment.

Table 3.2 ►
Investment rates in Africa, 1974–96 (percent)

Location	1974–80	1981–90	1991–96
North Africa	36.4	30.1	24.2
West Africa	22.2	14.8	17.6
Central Africa	31.9	26.0	20.0
East Africa	14.9	14.7	14.6
Southern Africa	27.1	22.7	17.6
Africa	28.5	23.9	20.2
Sub-Saharan Africa	24.4	19.8	17.4

Source: Economic Commission for Africa, based on World Bank 1998b.

Institutions and good governance are the foundation of growth

With only 50 years of experience as modern societies, African countries have experimented with governance regimes ranging from the totalitarian extreme to the liberal democratic. The attributes of the state—economic management, the rule of law, and respect for private property—have been informed and influenced by the favored ideology of the day.

All well-functioning market economies are embedded in a set of non-market institutions. Three types of market-supporting institutions are especially pertinent to Africa: property rights, regulatory institutions, and conflict management institutions.

Property rights provide security, spur innovation

Secure and stable property rights have been key elements of modern economic growth. Entrepreneurs have little incentive to accumulate and innovate unless they control the return to the assets that they produce or improve. Formal property rights do not count for much if they do not confer control rights. And establishing secure control rights is rarely a matter of just passing legislation (Rodrik 2000). Control rights are upheld by a combination of legislation, private enforcement, and custom and tradition. They may be distributed more narrowly or more diffusely than property rights. And property rights are rarely absolute, even when set formally in law. Each society decides the scope of property rights and the restrictions on their exercise.

Regulatory institutions need autonomy and transparency

Markets fail when participants engage in fraudulent or anticompetitive behaviour. They also fail when transaction costs prevent them from internalizing technological and other non-pecuniary externalities. And they fail when incomplete information results in cheating or poor selection of investments. In African countries with pervasive market failures, regulatory institutions may need to go beyond antitrust measures, financial and banking supervision, aviation authorities, and communication commissions (box 3.1).

The biggest challenge for regulatory design is achieving political independence and autonomy and introducing rules to ensure accountability. Regulators should be appointed on the basis of professional rather than political criteria and should have formal protection from arbitrary removal from office. The appointment process should involve the executive and legislative branches to ensure proper checks and balances.

To be autonomous, regulatory agencies must first have their own resources—from their own funding sources. Relying on budgetary transfers controlled by politicians can threaten regulators' independence. One common way of funding is through levies on regulated firms. The levies can be viewed as user fees. But autonomy must go beyond financing to staffing, so that agencies can recruit staff with high expertise.



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Box 3.1 ►

How Mali and Senegal reduced fraud in customs administration

Like many African countries Mali and Senegal suffer from customs fraud. But in the 1990s they were able to reduce this crime.

Mali saw swift and early trade liberalization, but progress in customs procedures has been slow. In Senegal trade liberalization and improvements in customs procedures addressed certain classic determinants of fraud, such as high taxation, low wages, and broad discretion of customs officials. National political considerations have been important in both countries. In 1991 Mali ushered in a new government fully committed to reform (and less hindered by past political alliances), and civil society is holding government officials accountable for their actions. In Senegal a pro-liberalization business lobby has developed alongside groups that still use their political influence to avoid paying import taxes.

Following standard principal-agent models of corruption, a 1997 study uses econometric tests to explore three potential determinants of fraud in the Malian and Senegalese customs administration. First, do higher import taxes increase the incentive to engage in fraud? Second, do customs procedures allow customs officials to change the tax on an import without risk of detection? Third, are customs officials' wages high enough to deter corruption?

The results: protectionist trade policies promote customs fraud by increasing the incentive for private citizens to engage in illegal behaviour and for customs officials to abuse their office for personal pecuniary gain. Donors need to support institutional reforms that reduce customs officials' discretion and improve opportunities for monitoring. Hiring a preshipment inspection company can help reduce fraud when accompanied by reforms that ensure that the company has access to proper information. To achieve this Mali and Senegal have computerized customs.

In Mali and Senegal non-wage current expenditures in the customs administration are too low to provide customs officials with the basic necessities for their job, such as cars with fuel. Mali and Senegal could expect high returns (in revenues generated) if budgetary allocations were made for increased operating expenditures.

Donors need to realise that customs fraud is a product not only of problems specific to the customs administration but also of national political and institutional failures. Strategies to reduce corruption will face difficulties unless supported by broader political change.

Source: Stasavage and Daubree 1997.

Regulatory agencies must first have their own resources—from their own funding sources

Accountability requires transparency in the regulatory agency's decision-making. It also requires clear, simple procedural rules. The rules should set deadlines for decisions and permit removal of regulators in cases of proven misconduct. There should be detailed justifications and non-political reviews of decisions to ensure that all concerned parties have the opportunity to express their views in public hearings and to appeal decisions.

Peace and prosperity require conflict management

Societies differ in their societal divisions. Some have ethnically and linguistically homogenous populations and a fairly egalitarian distribution of resources. Others have deep cleavages along ethnic or income lines. These divisions can hamper social cooperation and engender social conflict. Healthy societies have a range of institutions that help resolve conflicts: laws, a judiciary, free elections, social insurance, social partnerships, representative political institu-

◀ Box 3.2
**Are Burundian
 conflicts ethnic?**

Burundians share the same language and culture, live in the same geographic areas, and have no distinguishing physical features. So ethnicity appears, at most, to be coupled with regionalism. According to Ndikumana (forthcoming), the prime cause of civil conflicts in Burundi is the desire of “the minority Tutsi elite from the South” to cling to power they have had since 1966 and to keep the rents associated with it. Guichaoua (1989) notes that the Fifth Five-Year Plan allocated 98% of gross fixed capital formation to a geographic area made of Bujumbura, the capital city and its surrounding areas, and the southern province of Bururi. This disparity is noticeable through discriminatory access to education, the most effective form of exclusion from future participation in all opportunities the country offers.

The table confirms the large disparities across provinces in access to education. Excluding Bujumbura, which is a special case, Muramvya is the most privileged province, Ngozi the least privileged. All provinces in the South—Bururi, Cankuzo, Makamba, Rutana—are privileged. All provinces in the North—Kayanza, Kirundo, Muyinga, Ngozi—are underprivileged. These findings seem to confirm Ndikumana’s (forthcoming) assertion that the Fifth Five-Year Plan in Burundi may be benefiting an elite group of Tutsis from the South. This has probably contributed to violent conflicts. The policy has provided a credible excuse that rebel leaders could manipulate to motivate the uneducated populace to fight. This illustration supports Ndikumana (2000), who wrote that the causes of violence in Burundi are complex and go beyond the alleged “age-old” animosities between the Hutu and the Tutsi. Ndikumana asserts that the main cause of the conflicts is the struggle for equal participation in fair competition in economic activity.

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 range of institutions that
 help resolve conflicts*

Classification of provinces by privilege index

	Ranking by number of students	Ranking by number of classrooms
Privileged	Muramvya (0.25), Cibitoke (0.33), Makamba (0.46), Karuzi (0.50), Bubanza (0.73), Cankuzo (0.78), Rutana (0.83)	Muramvya (0.25), Karuzi (0.37), Cankuzo (0.43), Makamba (0.61), Rutana (0.74), Bururi (0.80), Bubanza (0.91)
Consistent	Bujumbura (1.00), Bururi (1.00)	Bujumbura (1.00)
Underprivileged	Ngozi (4.52), Kayanza (2.34), Kirundo (2.00), Gitega (2.00), Muyinga (1.86), Ruyigi (1.40)	Ngozi (2.51), Kayanza (2.34), Kirundo (2.00), Gitega (2.00), Muyinga (1.86), Cibitoke (1.56), Ruyigi (1.10)

Note: The numbers in parentheses are privilege indices. Figures less than 1.00 suggest that the province is privileged because the number of pupils or classrooms exceeds an equitable distribution.

Source: Based on data from Caviezel and Fouga (1989).

Source: Ngaruko and Nkurunziza 2000.

tions, independent trade unions, institutionalized representation of minority groups. These institutions warn people that gains from social conflict will be limited and that the assets of those who lose will not be expropriated. The institutions tend to increase the incentives for social groups to cooperate by reducing the payoff to socially uncooperative behaviour (box 3.2).

Countries emerging from conflict need special handling in the design of their development programs

In the early post-independence era peace and stability emerged in several African countries. But the peace soon gave way to military coups, civil strife, and armed conflicts—all sharply increasing uncertainty and diminishing the expected profitability of investments. Studies have found that political, social, and government instability raised the investment risk in the poor-growth African countries and therefore was a disincentive for foreign investors (Collier, Hoeffler, and Patillo 1999).

Civil conflicts affect economic activity. They destroy physical and human capital, reduce savings, divert portfolios from domestic investment to capital flight, disrupt economic transactions, and distort government expenditure from public services to military expenditure. The combined impact is likely to be on the growth rate of the economy rather than a once-and-for-all reduction in output. Reduced growth, even if the inequality in the distribution of income and wealth remains the same, would increase poverty. This vicious cycle of conflict and poverty feeds on itself in a downward spiral. It is in this respect that countries emerging from conflict need special handling in the design of their development programs (box 3.3).

Box 3.3 ►
Civil conflict hinders structural transformation

Contrary to popular belief, in the past 40 years Africa has not had many more civil war “starts” (onsets) than other regions. Civil war starts are measured by the proportion (in percentages) of all observations (for each country for each year) of a civil war start during the period covered (in this case, 1960–99). Africa scored 8% while other developing countries scored 7%. The probability of onset of civil war in Africa is similar to that in other developing countries.

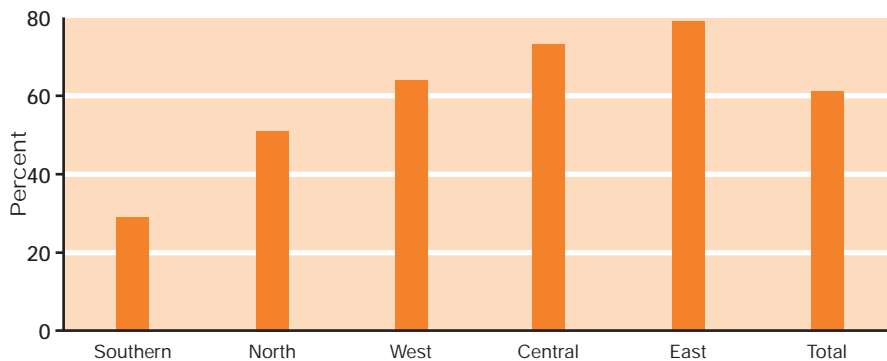
The structure and performance of African economies—low per capita income, slow GDP growth, fast population growth, and high dependence on primary commodities—increase the risk of conflict. But Africa’s social structure decreases the risk of conflict relative to other developing countries. African countries are ethnically and religiously diverse, reducing the occurrence of ethnic dominance. Political factors, such as weak democratic institutions and a lack of political and civil rights, increase the risk.

Conflict can affect an economy in different ways:

- Destroying vital physical and human resources.
- Causing social disorder, which increases the “cost of doing business” as private citizens divert scarce resources to protection and self-insurance.
- Diverting public expenditure from output-enhancing activities.
- Encouraging people to move assets (human, physical, and financial capital) out of the country.

During civil wars GDP adjusts to mirror the deterioration of the economic environment—and the effects are on the growth rate of GDP, not just the level. A recent study found that a year-long civil war reduces the annual growth rate of per capita GDP by 0.22 percentage points. Another recent study investigated the impact of civil conflicts on GDP in Uganda, revealing that civil wars shrink high-value-added sectors and enhance low-value-added sectors. This is exactly the opposite of what countries need to structurally transform an economy and enable sustainable growth.

Source: Collier and Hoeffler 2000a, b; Elbadawi and Sambanis 2000a, b; Collier and Binswanger 1999; Imai and Weinstein 2000.



◀ **Figure 3.3**
Africans affected
by civil conflict, by
region, 1963–98

Source: Economic Commission for Africa.

The most frequent form of conflict is civil war. In 1960–96 there were 28 civil wars in various parts of the world, half of them (and some of the longest—Mozambique and Sudan) in Africa. According to the records of the Organization of African Unity (OAU 1998), 26 conflicts erupted in Africa between 1963 and 1998, affecting 474 million Africans, or 61% of the population. No region was spared (figure 3.3). East Africa had the highest percentage of affected people (79% of the population, 189 million), followed by Central Africa (73%, 21 million), West Africa (64%, 144 million), and North Africa (51%, 87 million). Southern Africa recorded the lowest percentage (29%, 33 million).