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Why has much of sub-Sahara Africa failed to develop economically?

'Africa is the largest and most complex development challenge facing the world today.' (Bloom and Sachs 1998)[1]

May 6th, 1957 was a great day in the history of Sub-Sahara Africa. This signalled the beginning of the end of the colonial era. Ghana (formerly the Gold coast) was made independent to great hysteria and ambitious predictions. Indeed Andrew Karmack the head of the world banks economic department at the time predicted that Ghana had the potential to grow at 7 per cent per anum.[2] In reality Ghana failed to develop and after 50 years of stagnation and missed opportunities it finds itself still with near 40% of its population living of a $1 per day[3].

What went wrong? This is a typical case of African development. President Nkurumah's (Ghana President on indepence) economic reforms brought nothing but high inflation and food shortages. This prompted the military to strike in 1966, the first of 5 successful coups in the next decade and a half. The rest as they say is history.

Sub-Sahara Africa is the world's poorest continent: half of its 700m people subsist on 65[4] cents or less a day. But what is more worrying is that as an entity it has grown

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[1] Taken from: Azam et al., (2002:178)
[2] Taken from Easterly (2001:26)
[3] HDR (2001:119) Table 3 Human and income poverty. Note the figure is 38.8% and measured by 1993 US PPP$ for the years 1983 - 99
[4] Economist SSA surveyor (2004:3)

poorer over the last 25 years whilst other regions have grown quicker largely on the crest of the technological wave.

So what exactly has gone wrong with Africa? And why hasn't it developed as many predicted it would? The author argues that the first thing to look at is colonialism and the legacy this has left upon state apparatus and the ability of African countries to self govern.

World War II signalled the end of European colonialism. As at the end, Europe was exhausted and its sphere of international influence declined as a new Soviet, USA dominated status-quo was established. Indeed even before the start of the war American and British governments had jointly agreed that Europe's colonies would be ready for independence by the end of the 20th Century[5]. In reality this happened a lot quicker than anticipated and after Sudan was made independent in 1956 from the "Anglo-Egyptian condomium" the rest fell like a stack of dominos. In the end Africa's move to independence was overly abrupt with 34 colonies representing two thirds of the continent's GDP and three quarters of its population[6] being granted independence by 1968.

The author argues that because independence was in the end rushed through, many African countries lacked the experienced personnel or intellectual base to independently govern a country. For instance on independence Tanzania had only 16[7] graduates with limited experience of running a government or sophisticated economic

[5] Oliver and Attmore. Taken from Ndulu and O'Connell (1999:46-47).
[6] Ndulu and O'Connell (1999:47).
[7] Economist Sub-Sahara Surveyor (2004:5)

apparatus. Is there any wonder that economic policy (as the writer will show later) failed?

Political institutes left by the colonial masters were modelled on their European counter parts. Although fine models in their own right, maybe they were not best suited to the African experience. Before the European invasion, Africa was divided into several thousand kingdoms and chieftaincies whose system of government had evolved over thousands of years. By the time of independence the European nations had squeezed the whole lot into ill thought out, clumsy borders which in many cases bore no resemblance to pre-existing political or tribal groupings. Whilst governing, the colonial authorities had controlled and in some cases even fuelled simmering tribal conflicts that upon leaving in many cases boiled over. This can be seen in the internal conflicts in Ethiopia, Nigeria, Sudan, Uganda, Zaire, Angola, Mozambique and, most vividly, in Rwanda (were the Belgium ruled the Hutu's through a Tutsi's elite) all coming to a violent head within a decade of independence.

Indeed Gregory N Price argues in his paper "does colonial heritage matter" that colonial heritage is responsible for as much as 30% of the growth gap between Sub-Saharan Africa and other non-industrial countries. In fact he goes as far as to argue that,

"…….to a large extent, Sub-Saharan Africa's "colonial past is destiny." At least over the 1960-85 time period, Sub-Saharan Africa's growth path was determined by its colonial past." [8]

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[8] Price (2003:493)

Although Price in his paper largely focused upon the extractive techniques used during colonialism, Easterlin agreed with the observation but for differing reasons. He looked at its effects on education (an issue the author will address in more detail later in the paper), claiming that,

"…colonialism was a major deterrent to the growth of mass education, and thus lends weight to the "explanation" for underdevelopment."[9]

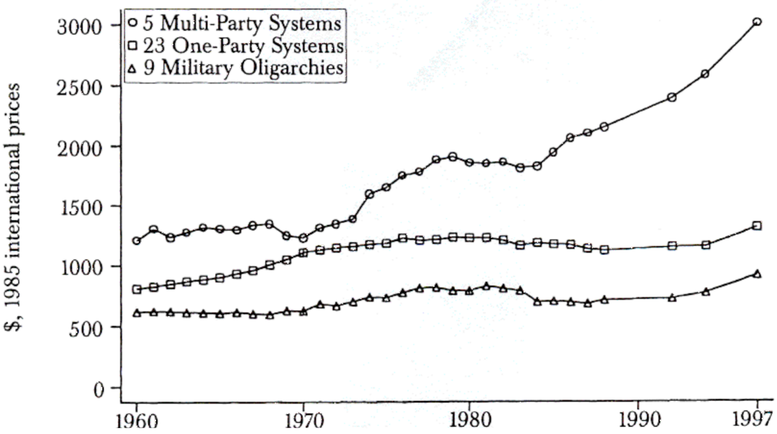
By 1988 democracy had largely proven to fail in Sub-Saharan Africa. With only 5 countries Botswana, Zimbabwe, Mauritius, Senegal and Gambia[10] participating in meaningful political competition at the national level. With the other 42 nations falling into other political systems including 11 military oligarchies.

An example of just how badly democracy has failed in SSA is shown by the fact that no ruling leader was removed by the ballot box until the people of Mauritius removed their Prime Minister in 1982. The only such democratic act until the 1990s.

The graph below depicts the effect on GDP per capita of the various types of rule. Clearly showing that were democracy has been allowed to flourish income has been markedly higher. So the author argues, if democracy had prevailed throughout SSA growth rates as a whole may have been higher.

[9] Easterlin (1981:12)
[10] Ndulu and O'Connell (1999:47).

Figure 3
Real GDP per Capita by Political Regime



[11]

An alternative explanation for this correlation could be that strong economic growth and subsequent reform actually breeds democracy and not the other way around as Inglehart argues,

"…economic development is conducive to democracy not only because it mobilizes mass publics, but also because it tends to give rise to supportive cultural orientations.[12]"

No matter which is the horse and which the cart, it seems there is a connection between democracy and long term economic. Although some countries have grown by using other systems, such as communism, this has not been sustained over the long-run. As such systems lack entrepreneurial incentive. Indeed Karl Marx himself

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[11] Bratton and Van de Walle (1997). Taken from Ndulu and O'Connell (1999:51) Note the data used is only from the 37 countries this was available for.
[12] Ronald Inglehart 1997. taken from Moreno (2001:28).

noted that the industrial revolution began as social changes created a profit seeking middle class for the first time.[13]

Political instability has had a negative effect on growth in SSA for a number of reasons including: the reduction in the availability of factors of production; increasing the price of capital as the likelihood of loan defaults would tend to rise; an increase in the brain drain; and by the uncertainty acting as a disincentive to longer term investment projects.[14]

As previous mentioned many SSA nations along with frequent coups, have been subjected to long periods of authoritarian rule usually brought about by this military action. This can have a destabilizing economic effect as Ndudu and O'Connell note,

"Leader(s)…act on behalf of private factions, be they social classes, military cliques or ethnic groups. They engage in economic redistribution often from the poor to the rich and at the expense of economic growth,"[15]

So why has democracy failed?

Lipsett put a theory forward regarding this as long ago as 1959[16]. He argued that a relatively high level of development was a perquisite for democracy to grow. This argument claims democratic institutions are consistent with political stability only

[13] Taken from Easterly (2001:281)
[14] Fosu (1992:830)
[15] Ndulu and O'Connell (1999:53)
[16] Ndulu and O'Connell (1999:50)

where widespread literacy supports a tradition of informed participation by a wide electorate. In 1970 SSA literacy rate was only 26%.[17]

Africans also fail to grasp the European concept of equality in democracy. Indeed the author witnessed first hand in rural Uganda the distain that exists in many regions towards this system. "Why should a village elder have the same amount of voting power as a freshly indoctrinated young man?" One aging gentleman asked. As in this part of Africa traditionally disputes were resolved not by the ballot box, but through the medium of discussion. With age and experience giving a weighting to peoples opinions.

And as Mobutu Sese Seke of Congo summed up this distaste for the democratic process by declaring that, "democracy is not for Africa.[18]"

As a result of countries rushing through independence, and democracy largely as a result failing, this has lead to a situation in which Azam et al. describe were,

"…the bad policy decisions, which seem to be the main proximate cause of slow growth in Africa, is traced to the lack of social capital and deficient political institutions."

SSA countries have been characterised since independence by economic instability brought on by periods of high inflation, high budget deficits and decreasing terms of trade.

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[17] Ndulu and O'Connell (1999:50).
[18] Economist Sub-Sahara Surveyor (2004:5)

Excessive fiscal defects in post-colonial SSA have tended to be a constant feature. For instance between 1985–94 this figure averaged 4.33 per cent of GDP[19] four times the figure in East Asia. Long term deficits are bad for growth because they cannot be sustained and have to be addressed at some stage. Usually in the absence of external funding these are financed by the cutting back government spending to key social institutes or by the loosening of monetary policy, thus placing inflationary pressure on the economy. The World Bank undertook a research project to explore this problem concluding that: "Deficits ….are unambiguously bad for growth."[20]

High levels of inflation have also been characteristic of the economic existence of SSA countries since independence. High levels of inflation are initially bad for an economy because they act as a disincentive to save, an important component of any development plan. But inflation becomes an even bigger problem when it creates negative interest rates. This puts a lot of strain on the banking system which in essence acts as the heart of the economy pumping money around. Examples of SSA countries that have had negative interest rates included Ghana, Zaire (Congo) and Zambia all of which also experienced prolonged periods of negative growth over the same time period.[21]

External shocks have periodically effected SSA terms of trade (such as during the oil crises). These may have one of two effects on the respective economies. Firstly as what happened in much of SSA it effects export growth via reducing profitability. Secondly deterioration in the terms of trade may effect a countries growth directly via

[19] Azam et al (2002:181)
[20] Report undertaken by Easterly et al. (1994). Quote taken from Rodrik (1996:14)

the worsening of the current account. Inexperienced administrations have handled these badly by increasing import controls, devaluations or the tightening of monetary or fiscal policies. The end result is that terms of trade detoriation could count for as much as 45 per cent of the decline in per capita growth rates in SSA between 1970-95.[22]

Another problem which arises from bad governance is the inability to properly manage the countries burecracy. Rodrik argues that one of the main reasons for the huge success of Taiwan and Korea was the fact that prior to "take off" they had very even income distributions. This he argued allowed the government more time to properly monitor the performance of these bureaucracies and make sure they helped and didn't hinder the development process. He argues that bureaucracies are prone to two problems that hinder economic development.

"….they can be captured by the interests they are supposed to regulate and they can create excessive red tape discouraging economic activity."[23]

For example when a new company is set up, it needs to register for both tax and statistical purposes. This should be a simple procedure but not in SSA. In Australia it takes 2 days and costs 2% of the countries annual income per capita, in Congo by contrast the figures are 215 days and close to 900% of GDP per capita. There is also a problem with enforcing contracts in Africa as for instance in Angola it takes 865 days to enforce a simple contract (compared with 50 days in Singapore) and costs of near

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[21] Easterly (2001:228) Table 11.2.
[22] Azam et al (2002:181)
[23] Rodrik (1996:21)

$900 are incurred to recover a $100 debt in Malawi.[24] These act as both a disincentive to local business starting up and to business transactions. Clearly acting as a disincentive to growth.

It's also worth noting that, less than 10% of SSA land is formally owned and de Soto estimated that the total value of Africans informal land in 1997 was roughly equal to $1 trillion, a figure more than 70[25] times the amount of aid the continent receives annually.

To put it in the words of the great Peruvian economist,

"A thriving market economy requires among other things, institutions that provide secure individual rights…..The incentives to save, to invest, and to produce depends particularly upon individual rights to marketable assets-on property rights." [26]

There are two reasons that land ownership is so important. These are: the security and forward planning direct ownership brings about; and the second is an increased ability to acquire loans for investment as property is internationally used as collateral.

Since a lot of Sub-Saharan countries lack the basic framework conducive to business this also acts as a disincentive for FDI. Foreign investment can be very important for a growing economy, as along with soaking up excess urban labour, it promotes technological transfers, trains workers (thus improving human capital), it stimulates domestic investment and as a result enhances economic growth. Africa's share of FDI

[24] Figures taken from Economist sub-Sahara surveyor (2004:12)
[25] Figures taken from Economist sub-Sahara surveyor (2004:6)

has been steadily declining since the 1970's when it equalled some 19% of the worlds total to the end of the 1990s when the figure dropped to just 3%.[27]

There are many variables that effect the level of FDI and can be argued have made SSA unattractive for such aided development. These include: poor educational levels, bad economic structure, poor infrastructure development, closed economies, and poor institutional quality.

As mentioned above education can play a huge part in the development or otherwise of a nation state. As the secretary to UNESECO Frederico Mayor, stated,

"The level of education of the overall population of a particular country …determines that countries ability to share in the world development...to benefit from the advancement of knowledge and to make progress itself while contributing to the education of others."[28]

Richard Easterlin in his famous presidential address noted that in the United States and Germany, "the development of widespread formal schooling clearly preceded The onset of modern economic growth."[29]

Easterlins argument is very similar to Mayors, as he argues the higher the level of education of the population the more likely it will be that new technology will diffuse throughout the economy.

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[26] Bethell (2003:11)
[27] Asiedu (2004:42)
[28] Easterly (2001:72)
[29] Easterlin (1981:6)

Indeed Rodrik noted that a good base education level was one of the two main reasons behind the remarkable South East Asian success. He noted that,

"This may have made it easier to establish a competent bureaucracy as well as enhancing the productivity of interventions aimed at boosting private investment."[30]

Of course education affects other things such as (an inverse impact on) population rates, but the author argues that high population rates have little bearing on a countries growth levels, and notes the current growth miracle in China as an example.

Although education levels themselves are important and provide a good base for growth, it would be a mistake to claim that this is single most important factor to determine development. For instance between 1960 and 1997 Zambia had a faster growth in human capital than South Korea but had 7[31] points per year slower growth. Also countries such as the Philippines and Ecuador[32] have remarkable levels of Education but not the economic development to go with it.

By using adult literacy as a proxy we can see that as a whole SSA education levels have grew from 26% in 1970 to 60.5%[33] in 1999. Yet over the same period the continent has largely stagnated. Clearly education can play a part in growth, but only a part.

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[30] Rodrik (1996:20)
[31] Easterly (2001:74)
[32] HDI (2003:238) Note despite having 95% adult literacy and an education rating of 90 Philippines has GDP per capita of $3,840 (ppp), the figures for Ecuador are 91.8%, 85 and $3,280 (ppp).
[33] 1999 figure taken from HDI (2001:177) 1970 figure as earlier taken from Ndulu and O'Connell (50:1999).

High levels of infrastructure are also conducive to an attractive business environment. It would be very difficult to run a multinational business without phones or roads. One surveyor has estimated that the effect is a much as 1 percentage point increase in the level of infrastructure investment yields an increase as much as 0.6 points of GDP[34].

By taking telephone lines and mobile phone ownership as a measure of infrastructure development. We find that SSA has preformed relatively well, moving from 11 (per 1,000) in 1990 to 43 in 2001, however the figures for the developing world as a whole for the same time period have increased from 21 to 162[35].

As FDI on the world market is a zero-sum game clearly if the levels of infrastructure are anything to go by SSA countries will be relatively unattractive to foreign business.

And as Elizabeth Asiedu of Kansas University noted,

"…..although SSA has improved its infrastructure, liberalised its investment framework and reformed its institutions, the degree of reform was mediocre compared with that implemented in other developing countries. As a consequence relative to other regions, SSA has become less attractive to FDI."[36]

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[34] Easterly (2001:234)

[35] HDI (2003:277) note that the figures used are the sum of landlines and cellular phones (per 1,000 population), as the author would argue in this age of modern technology equal weighting can be placed on both, as a medium for business.

[36] Asiedu (2004:47)

Another reason for lack of private investment in SSA is the lack of credibility and poor economic policies implemented by the respective governments. Because poor policies were implemented, which in a lot of cases lead to an unstable economic environment (as mentioned above), this has also had a detrimental effect on the level of foreign investment. Also uncertainty can delay investment decisions because of the lack of credibility of political institutions and the perceived threat of policy reversals[37].

As Azam et al. noted about SSA countries,

"Those that have shown strong reforms have restored the growth process, like Uganda and Ghana, and those that have not allowed policies to distort the economic environment have witnessed growth like Botswana and Mauritius."[38]

The author argues that Africa is in the centre of a vicious circle were by democracy has failed, this has lead to a system of bad governance, and underinvestment which has had a detrimental effect on both foreign and domestic investment (and even levels of saving), which lead to poor levels of growth, which lead to less finance available to reinvest, which lead to a less attractive investment environment…..and the circle continues.

Aid directed towards SSA was mainly based around a similar assumption that these countries were caught in a so called poverty trap. This was initially based on the work by W.W Rostow and his book of 1960 "The stages of economic growth". He

[37] Gunning (2000:4) Notes that in 7 out of 10 African countries trade policies were reversed more than once.

claimed that in order for country to "take off" it would need to increase investment from 5 – 10%. The general assumption was that because the people of Africa had such low incomes, this left them with insufficient money to save and hence invest. The term "financing gap" was subsequently coined. All aid was initially targeted to fill this shortfall.

In the end the financing gap has proven to be a miserable failure. To use Zambia as an example if the financing gap theory had worked the $2 billion of aid it has received would have lead to a GDP per capita of $20,000, not the $600[39] it now equates to.

So what went wrong? The author argues there are three interlinked reasons why this policy failed so drastically:

(i) Capital flight: the general assumption was that one dollar of aid would be able to compensate for a dollar of private investment. In reality this has been far from the case and some estimates claim that as much as 80% of all aid flowed out soon after in the form of capital flight.[40]

(ii) Consumption fuelling: aid may simply substitute current domestic saving levels and lead to direct consumption. In fact it may have detrimental effects because,

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[38]Azam et al. (2002:183)
[39] Easterly (2001:42)
[40] Economist surveyor on SSA (2004:12)

“Aid may…retard long-run economic growth in many other ways, for instance by altering the consumption of investment with a bias towards activities that are not directly productive or have a long gestation period.” [41]

(iii) The policy environment: Finally aid has proven to be more successful in a good policy environment. This is in line with the conclusion of the World Bank (1998) report ‘Assessing Aid’ which stated that,

“…an increase of US$ 10 billion in aid, favouring countries with sound management, would lift 25 million people per year out of poverty. By contrast, an across-the-board increase would lift only 7 million out of poverty.”[42]

So the author notes that the reasons why aid is deemed to have failed all lead back to bad governance. Donor countries got it wrong. They recognised that a “vicious circle” existed but the wrong one, so subsequently tackled it wrong. It’s only recently that they have belatedly realised that the problem needs to be solved from the very top, with more aid being directed to or tied to countries with good governance or strong reforms such as Uganda.

All of this aid and concern for Africa has a schizophrenic feel about it. As President Yoweri Musevini says, “aid without trade is a lullaby-a song you sing to children to help them sleep.”[43] This can be shown by the OECDs unwillingness to compromise

[41] Quote by Keith Griffin taken from Prank (2001:618)
[42] Prank (2001:613)
[43] See for quote and figures SSA surveyor (2004:12)

their $320 billion[44] a year protection of their agriculture (a figure not very short of Africa's total annual GDP) and the collapse of the recent round of WTO talks.

Indeed SSA has been increasingly marginalized in world trade. For instance in the 1950s its percentage of world trade was equal to 3% in contrast it now equals 1%. Azam et al. look at the literature and suggest that this may be a reflection on the continent increasingly, looking inwards at a time when the rest of the world was opening up, and the persistence of structural and trade policies which militate against international competitiveness.[45]

The author notes that in response to this several things are worth highlighting. For instance Rodrik[46] observed that 2 of the miracle performers (Taiwan and Korea) only opened up in the 1980's even though their growth and development started in the 1960s, and China the most recent success story has only gradually liberalised at a very pedestrian rate. Also the author notes that this marginalisation in trade (as mentioned above) may also be a result of barriers to the rich OECD markets. The Economist[47] estimates that the tariffs for SSA countries trading with OECD's is roughly ten times the figure charged to industrial countries.

The notion that good governance can spur economic growth is not a new one indeed it was put forward as long ago as 1755 by Adam Smith. Who included in his key factors

[44] Economist SSA surveyor (2004:12
[45] Azam et al. (2002:194 -97)
[46] Rodrik (1996:17) Table 3 the Washington Consensus and East Asia.
[47] Economist SSA surveyor (2004:12)

to spur growth the three pillars of "peace, easy taxes, and tolerable administration of justice."[48]

A good regional example of how a well governed, democratic politically stable country can lead to growth and development is that of Botswana. Were good governance, stability and sound economic policy have lead to huge levels of growth averaging 8.2% between 1966 -1996. Botswana has done this by not feeling sorry for its self but rather by proper thorough planning (through a series of National Development Plans) and sound fiscal and monetary policy.[49]

The author has tried to show in this paper some of the reasons for SSA slow growth and tried and link them to a failed political system creating an atmosphere of bad governance and a vicious circle of poor growth, with all aspects being interlinked. In reality nobody has the complete solution as to the reason(s) Africa has failed to develop. It's possible for the author to offer some factors that "may" have contributed to this slow growth but the sheer magnitude of the question defies a finite answer within the boundaries of such a short paper.

[48] Ndulu and O'Connell (1999:53)
[49] World Bank (1999)

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