The End of the Great Illusion

Most African Countries Face Uncertain Future

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Over the decades, ever new hopes have been voiced that sub-Saharan African could in the foreseeable future escape the poverty trap. A memorandum of German Africa experts in various research institutions concludes that these hopes are not realistic. Based on these findings, this article says that only two African countries are among the "emerging economies", and eight others "potential reform countries". The remainder of the 48 African countries will need at least 50 years to escape from only the worst level of poverty.

Since the 1970s, the World Bank and the IMF have doggedly published fresh reports on Africa's economic prospects. The range of the studies, the great care with which the material was processed, and the reports' often unsparing openness in analysing the problems is impressive. Most of them are quite substantial surveys containing important recommendations on strategy. But they suffer from a glaring shortcoming: time and again, the reports have raised hopes by projecting positive scenarios. Africa's poverty, they said, could in the foreseeable future be reduced by 30-50 per cent if only economic reforms would set the right course. But all these predictions have proved to be wishful thinking. Nothing of the sort has happened.

Promising economic reforms

What actually favours a breakthrough in economic growth? It is undeniable that Africa has launched some promising reforms, and a few countries have reached 'take-off' stage. Due to structural adjustment programmes, inflation dropped markedly in most countries. Fiscal imbalances were eliminated. Market liberalisation, opening of foreign trade and abandonment of marketing boards resulted in a lowering of customs tariffs and abolishment of administered prices and thus a better allocation of resources. The countries' exchange rates have mostly been adjusted, so that no negative impacts on economic development can result from this source. Realistic exchange rates have also boosted many countries' exports. There have been small successes, too, in GDP growth (gross domestic product) since 1994 after years of stagnation. But the debt crisis has not yet been remedied.

New hopes?

A new World Bank study[2] on Africa's prospects of economic growth says: "Halving the incidence of severe poverty by 2015 will require annual growth of 7 percent or more – and a better distribution of income". Every sensible development economist will view economic growth of 7 per cent as unrealistic. But let us assume this wish came true (graph 1). The following simple calculation shows how long it would take to eliminate African poverty given even that growth rate.

Assuming a demographic transition (stabilisation of population growth) after 35 years, it would take Africa 50 years to increase its current average per capita income from US$ 500 to $ 3,800. The latter figure is about the present level of Mauritius.

2. Ivory Coast, with a current per capita income of $ 800, would achieve the Mauritius level within 32 years.

3. Various World Bank and IMF reports and papers assume probable economic growth rates of 3 per cent, not 7 per cent. What impacts would a GDP growth rate of, say, 4 per cent have? Low-income countries (LICs) could attain a per capita income of about $ 500 in 25 years, and $ 1,300 in a further quarter-century. Countries starting from a higher level would need correspondingly less time.

4. However, let us take as a basis the IMF's Global Economic Prospects (2000) report, which predicts that Africa's GDP is likely to grow by 3.4 per cent. That means that given an average population growth of 2 per cent, per capita income will increase by 1.4 per cent per year. Other IMF studies give different – both lower and higher –

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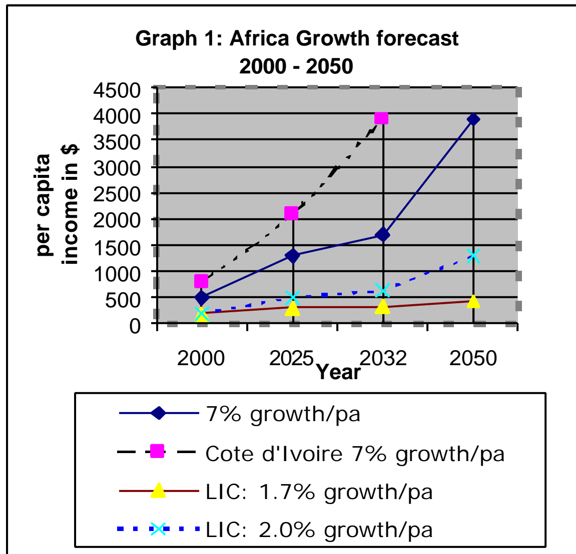
[2] World Bank 2000; Kappel 2001.

growth rates. Let us assume that a 1.7 per cent increase in per capita income is achieved. The result for the LICs, with a current per capita income of $ 200, means they would need at least 50 years to reach a level of less than $ 500. But taking account of the loss of human capital due to HIV/Aids, the assumed economic growth rates of 4 per cent, and possibly even 1.7 per cent, are to be viewed as still too high.



The prospects for countries with a better starting position look much better, of course. But according to the World Bank, only nine out of 48 countries have a per capita income of more than $ 1,000, and only five (Gabon, Seychelles, Botswana, Mauritius and South Africa) have a level of more than $ 2,500.

So what does it mean if we take the World Bank's predictions seriously as an assessment of the poverty situation in Africa? Despite a very high annual GDP growth rate of 7 per cent and better access to resources for the people (that is, redistribution), at least 250 million Africans would still be poor even after 15 years. Taking the somewhat more realistic prediction of 4 per cent growth, poverty in most countries would be only marginally reduced. Given growth rates of 3 per cent, the number of the poor could not be reduced.

During the last 20 years, only a few countries have shown average annual economic growth of more than 3 per cent. If the trend of the last two decades continues, and this means hardly any growth in per capita incomes continues, poverty will spread further.

African reality

African countries are becoming increasingly differentiated. But based on economic criteria such as GDP growth rates, per capita income, investment levels and productivity, as well as measuring them against the UNDP index of human development, income distribution and the existence of stable institutions, they can be placed in five groups.

A) ***Emerging economies***: Only two countries, Mauritius and Seychelles, at present show promise of achieving further strong growth.

B) ***Potential reform countries***: This group covers eight countries: Botswana, South Africa, Namibia, Lesotho, Equatorial Guinea, Gabon, Ghana and Cape Verde. Botswana has achieved the highest GDP growth rate during the last 40 years, although its growth is currently weakening due to loss of human capital and great inequalities. South Africa's transformation process must be rated as very complicated. Its distribution of income is extremely unequal, its society is still split, and despite a basically acceptable economic policy its labour market problems in particular are worsening, leading to an unstable investment climate among foreign and domestic investors. South Africa's economic growth has been low for years. Ghana has for years been regarded as a shining example of successful structural adjustment, but its economic situation is precarious. The country's only export successes are in traditional agricultural products. Price shocks have resulted repeatedly in economic stagnation. In boom times, Ghana has been unable to diversify its production base. The industrial sector is small, and productivity extremely low.

Given continued economic reforms, these two country groups (A and B) can certainly achieve greater GDP growth and exports. Some countries have in recent years realised extremely high growth rates in both exports and GDP, such as Equatorial Guinea with its oil exports. Will that develop

into a new 'growth miracle'? The potential reform countries need growth rates of 6-8 per cent over a long period to achieve a breakthrough in fighting poverty, slowing high population growth and boosting investment. This is particularly difficult for countries dependent on oil revenues, for this is where economic policy measures against 'Dutch Disease' (over-reliance on one valuable export), terms-of-trade shocks and orientation on rents are necessary to get a diversification process under way.

C) ***Stagnant LICs with poor development prospects***: These economies are stagnant, all growth indicators are poorly developed. This group includes Uganda and Ivory Coast, whose potential is often overestimated.

D) ***Stagnant LICs without prospects of development in the long term***: Most of these countries will remain in a growth trap. They are caught in a vicious circle of poverty and armed conflict. Nigeria belongs to this group due to its more than 20 year-long economic and political decline. Even if the country entertains new hopes, it will achieve nothing in the short term.

E) ***Countries currently without prospects***: Among others, these are war-torn Sierra Leone, Angola and Liberia, as well as Ethiopia and Burundi which tend to relapse into chaos time and again.

The countries in groups C, D and E, all of which are LICs, account for about four-fifths of the African states south of the Sahara. They are hardly able to sustain growth, and their serious economic problems make that clear:

1. There is a persistence of dysfunctional institutions. Neo-patrimonial states which depend on rents are in place almost everywhere. But political stability, security of property rights and a developmental state are the decisive preconditions for development.

2. Their low level of capital accumulation is concomitant with low growth of technological progress.

3. Their low degree of human capital development makes things even more difficult.

4. Their dramatic increase in urbanisation is characterised by growth of the urban informal sector and the agricultural sector on the periphery of major urban areas. The informal economy is widely spread. There is a danger that lacking macro-economic stability and existing rent-seeking worsen the dysfunctional aspects of the informal economy. The informal sector, illegal economic activities, and war economies overlap and permeate the economic life in many states.

5. The low vertical range of their production is a trademark of the African economy. Exports of manufactured goods come mainly from the countries in groups A and B, or from others with a politically-driven import substitution policy. This has not been the case to date in countries of groups C, D and E, where agricultural and raw materials exports continue to predominate.

6. Their savings rate is low, meaning investments cannot be financed from national savings stocks. Investment activity depends on imports of capital, and most of these come from development assistance. But in most of the countries not even a doubling of investment rates would result in the required growth.

7. Very many LICs rely on development assistance, because foreign direct investment, portfolio investment and bank loans are the exception. In many cases, non-repayable transfers flow to the neo-patrimonial elites as rents and little is used productively. Via development assistance, parallel institutions come into being which weaken the state institutions.

8. A major factor of these countries' long-term underdevelopment is still a very great inequality in income and wealth. All assessments say this will grow further in the next few years due to rural-urban migration. That increases the danger of political and social unrest, and thus the risks.

On the whole, therefore, the ability of African societies to cope with the challenges of the future has declined rather than improved. The development of social institutions has not been able to keep pace with the speed of today's world. Rather, against the background of pressure to

modernise, a decline in social cohesion can be noted. It is likely that many countries will have to be regarded as "structurally non-developable".

Development through structural stability

A 'Memorandum on a New Start for German Africa Policy'[3] presented late last year by a group of German Africa researchers develops proposals which take account of the conditions described here. The authors suggest a concept of structural stability for the countries in the groups C, D and E:

"The central idea ... is the sustainable strengthening of fragile and instable social and political institutions and norms. Institutions of civil society and the state must be empowered to develop constructive and non-violent mechanisms to settle fundamental and acute conflicts of interests and to reduce these conflicts."

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[3] Engel/Kappel/Klingebiel/Mair/Mehler/Schmidt 2000.

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