

[Home](#) > Africa's Economic Boom

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Why the Pessimists and the Optimists Are Both Right  
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Can you hear me now? Swaziland,

August 2010 (Reuters / Sipiwe Sibeko)

Talk to experts, academics, or businesspeople about the economies of sub-Saharan Africa and you are likely to hear one of two narratives. The first is optimistic: Africa's moment is just around the corner, or has already arrived. Reasons for hope abound. Despite the global economic crisis, the region's GDP has grown rapidly, averaging almost five percent a year since 2000, and is expected to rise even faster in the years ahead. Many countries, not just the resource-rich ones, have participated in the boom: indeed, 20 states in sub-Saharan Africa that do not produce oil managed average GDP growth rates of four percent or higher between 1998 and 2008. Meanwhile, the region has begun attracting serious amounts of private capital; at \$50 billion a year, such flows now exceed foreign aid.

At the same time, poverty is declining. Since 1996, the average poverty rate in sub-Saharan African countries has fallen by about one percentage point a year, and between 2005 and 2008, the portion of Africans in the region living on less than \$1.25 a day fell for the first time, from 52 percent to 48 percent. If the region's stable countries continue growing at the average rates they have enjoyed for the last decade, most of them will reach a per capita gross national income of \$1,000 by 2025, which the World Bank classifies as "middle

income.” The region has also made great strides in education and health care. Between 2000 and 2008, secondary school enrollment increased by nearly 50 percent, and over the past decade, life expectancy has increased by about ten percent.

The second narrative is more pessimistic. It casts doubt on the durability of Africa's growth and notes the depressing persistence of its economic troubles. Like the first view, this one is also justified by compelling evidence. For one thing, Africa's recent growth has largely followed rising commodity prices, and commodities make up the overwhelming share of its exports -- never a stable prospect. Indeed, the pessimists argue that Africa is simply riding a commodities wave that is bound to crest and fall and that the region has not yet made the kind of fundamental economic changes that would protect it when the downturn arrives. The manufacturing sector in sub-Saharan Africa, for example, currently accounts for the same small share of overall GDP that it did in the 1970s. What's more, despite the overall decline in poverty, some rapidly growing countries, such as Burkina Faso, Mozambique, and Tanzania, have barely managed to reduce their poverty rates. And although most of Africa's civil wars have ended, political instability remains widespread: in the past year alone, Guinea-Bissau and Mali suffered coups d'état, renewed violence rocked the eastern Democratic Republic of the Congo, and fighting flared on the border between South Sudan and Sudan. At present, about a third of sub-Saharan African countries are in the throes of violent conflict.

More mundane problems also take a heavy toll. Much of Africa suffers from rampant corruption, and most of its infrastructure is in poor condition. Many governments struggle to provide basic services: teachers in Tanzania's public primary schools are absent 23 percent of the time, and government-employed doctors in Senegal spend an average of only 39 minutes a day seeing patients. Such deficiencies will become only more pronounced as Africa's population booms.

And then there's the fact that African countries, especially those that are rich in resources, often fall prey to what the economist Daron Acemoglu and the political scientist James Robinson have termed “extractive institutions”: policies and practices that are designed to capture the wealth and resources of a society for the benefit of a small but politically powerful elite. One result is staggering inequality, the effects of which are often masked by positive growth statistics.

What should one make of all the contradictory evidence? At first glance, these two narratives seem irreconcilable. It turns out, however, that both are right, or at least reflect aspects of a more complex reality, which neither fully captures. The skeptics focus so much on the region's commodity exports that they fail to grasp the extent to which its recent growth is a result of economic reforms (many of which were necessitated by the misguided policies of the past). The optimists, meanwhile, underestimate the degree to which the region's remaining problems -- such as sclerotic institutions, low levels of education, and substandard health care -- reflect government failures that will be very difficult to overcome because they are deeply rooted in political conflict.

However, even if both narratives are reductive, the optimists' view of Africa's future is ultimately closer to the mark and more likely to be borne out by developments in the coming decades. Africa will continue to face daunting obstacles on its ongoing path to prosperity, especially when it comes to improving its human capital: the education, skills, and health of its population. But the success of recent reforms and the increased openness of its societies, fueled in part by new information and communications technologies, give Africa a good chance of enjoying sustained growth and poverty reduction in the decades to come.

## BOUNCING BACK

After several lost decades, during which debt, disease, famine, and war held back Africa's development, things began to improve in the late 1990s. So far, the gains have proved durable. Despite the global financial crisis of 2008 and its lingering effects, the economies of sub-Saharan Africa grew at an average of 4.7 percent a year between 2000 and 2011. This robust performance has resulted in the first overall decline in the region's poverty rate since the 1970s, from 58 percent in 1999 to 47.5 percent in 2008. These positive trends have been widespread, with every part of the region benefiting. And the change in fortunes has not been limited to certain kinds of economies: oil exporters such as Angola and Nigeria have boomed, but so, too, have oil importers such as Ethiopia and Rwanda. Not all states have benefited equally, of course; fragile states such as Burundi and the Central African Republic, which are still struggling to recover from violent conflicts, have experienced only modest growth.

Africa's rebound has had many causes, including an increase in external assistance (partly from debt relief), a buoyant global economy until 2008, and high commodity prices. But the most significant has been an improvement in macroeconomic policies across all of sub-Saharan Africa, which has inspired confidence in investors and consumers. According to the World Bank's most recent annual "Country Policy and Institutional Assessment," the region's overall macroeconomic performance is now on par with that of developing countries in other regions. With stronger macroeconomic policies, African countries have taken advantage of the commodities boom that peaked before the global economic crisis and avoided a collapse when commodity prices plummeted. For example, in early 2008, when the international price of oil rose above \$100 a barrel, some oil exporters in the region, such as Angola, Gabon, and Nigeria, planned their budgets as if oil prices were only \$65 a barrel. When the price ultimately did fall to that level, in the fall of 2008, those countries were not caught off-guard and had a cushion to fall back on.

During the crisis, most countries continued with prudent economic policies; some even accelerated their reforms. Partly as a result of such efforts, African economies kept expanding throughout the global recession, and sub-Saharan Africa has maintained an average annual growth rate of nearly five percent since then, despite continued volatility in the global economy.

## THE POLITICS OF GROWTH

In large part, the vast improvement in macroeconomic policy that began in the late 1990s can be traced to two factors. First, with the end of the Cold War, politics in Africa became freer, more vibrant, and more open to previously marginalized groups. As support from the United States or the Soviet Union diminished, autocratic regimes began to lose their monopolistic grips on power. Calls for multiparty democracy spread, and countries throughout the region held competitive elections. Such openings were limited, to be sure, but they provided a voice to many segments of African societies that had previously been marginalized, such as poor farmers in rural areas. Since the mid-1990s, those groups have benefited as politics has become more competitive, media have become freer, and communications technology has rapidly spread, especially since 2000. In several countries, including Ghana, Nigeria, Tanzania, and Uganda, these political changes brought to power more competent leaders, willing to place technocrats trained in modern economics in senior positions in the government, replacing the politically connected but less well-trained bureaucrats who often held similar posts in previous regimes.

Political liberalization also had a less direct but still profound effect on macroeconomic policy. In the past, many authoritarian African regimes kept their exchange rates artificially high, benefiting the small groups of urban elites on whom the regimes relied by making it easier for them to buy food and imported luxury goods. This policy amounted to a transfer of wealth from the rural poor to the urban rich, since the high exchange rates made it harder for farmers to export their crops. With the introduction of competitive elections, governments realized that they needed the support of the rural poor, who constitute a majority in most African countries, and so they allowed their countries' exchange rates to become more competitive. As a result, agricultural productivity and output rose as farmers received higher prices for their produce.

The second important factor that contributed to the improvement of African macroeconomic policy in the 1990s also involved the democratization of policymaking -- spurred, in this case, by external intervention. When African countries were desperate for international aid in the 1980s, donors made their financial support contingent on the adoption of reform programs that African governments designed with input from the World Bank and the International Monetary Fund. But beginning in 1999, potential donors began to require African governments seeking debt relief to also consult with their own citizens -- civil-society groups, businesses, community organizations -- as they crafted policies to help the poor. This new process increased the chances that local citizens would buy into the policies. In the early 1990s, when international donors proposed changes to Zambia's system for pricing maize, the agriculture ministry rejected the changes, and they were never put in place, leading to periodic food shortages. A decade later, the government proposed similar reforms, but only after conducting consultations with a wide variety of Zambians whom the changes would affect. As a result, the public generally accepted the ideas; the reforms were implemented, and shortages were minimized.

Economic reforms, however, are not the only cause of Africa's growth surge. Three other factors have started to play a major role: demographic changes, urbanization, and technological advances. Since 1960, the dawn of the postcolonial era, the population of sub-Saharan Africa has grown rapidly, from fewer than 250 million people to around 900 million today. But around 2000, fertility rates began to decline, and so did child mortality rates. Consequently, working-age adults have come to constitute the fastest-growing segment of the region's societies. This shift has created a potential demographic dividend, since economies improve when there is a healthy ratio of working-age adults to dependents.

No country or region, meanwhile, has ever reached what the World Bank considers high-income status with low levels of urbanization. African populations have traditionally been mostly rural, but the cities of sub-Saharan Africa are growing at astonishing rates. The trend is such that by 2033, most of the region's inhabitants will live in cities -- as most of the world's population already does. Firms have exploited this increased urban consumer base to enjoy economies of scale, benefiting themselves and consumers, who now have access to low-cost goods.

Perhaps the most visible sign of Africa's economic reemergence is the so-called mobile revolution. Cell phones have become ubiquitous, even in the poorest places. The change can be traced back to the reforms of the late 1990s, when several countries began opening up their telecommunications sectors. At the same time, technological breakthroughs have made low-cost cell phones affordable to a large number of Africans. In many African countries, the calling rates are among the lowest in the world. The explosion in mobile technology has spurred innovations such as M-Pesa, the mobile-money system widely embraced in Kenya

and Tanzania, which allows users to make purchases and send cash transfers using their cell phones. In many countries, the spread of mobile devices has also allowed the information and communications sectors to become important parts of the economy; in Kenya, these industries are growing at an average of 20 percent each year, and in 2010, they accounted for five percent of the country's GDP.

Optimists have seized on all these trends to make the case that this African economic boom will prove sustainable. Much of the progress has resulted from political changes. But the remaining obstacles to a more lasting transformation of African economies will also depend on politics. And those problems might prove far more difficult to overcome.

## MORE MONEY, MORE PROBLEMS

Africa faces a number of deep development challenges -- in economic growth, poverty reduction, human development, and governance -- that at the very least call into question the durability of the gains made during the last 15 years, and could even undermine them. Despite Africa's recent growth, there are few signs of what economists refer to as structural transformation: the shift from low-productivity agriculture to higher-productivity manufacturing and services. Sub-Saharan Africa's manufacturing sector remains dormant, and some countries, such as South Africa, have even experienced deindustrialization. And while there has been an increase in trade among the region's countries, their connections to the world economy remain weak and concentrated in just a few sectors, especially commodities and natural resources. These development challenges are the result of government failures, which helps explain their persistence amid rapid growth -- but also points to possible solutions.

Perhaps none of these problems is more troubling than the seeming inability of African countries, including the fastest-growing economies, to convert growth into progress in fighting poverty. Despite years of significant oil revenues, the governments of Angola, Gabon, and Nigeria have not used their newfound wealth to significantly improve the welfare of their poor citizens. More troubling is the fact that during the past five years, some non-oil-producing countries, such as Burkina Faso, Mozambique, and Tanzania, have managed to reduce their poverty rates by only three or four percentage points, despite enjoying annual economic growth rates of around seven percent. That growth was very clearly driven by economic reforms, not the commodities boom. The persistence of poverty in those three countries is now providing rhetorical ammunition to the political elites who benefited from the misguided policies of the past, resisted reforms, and now want to reverse the changes. It also confirms the worst suspicions of critics of economic liberalization, who can point to these poverty numbers to argue that pro-trade reforms have simply made the rich richer and the poor poorer.

A more careful look at these countries, however, shows that the problem is not too much reform but too little. Specifically, the reforms have generated growth in only some sectors, especially services, with industries such as retail and wholesale trade, telecommunications, and public administration benefiting the most. But those industries provide relatively few jobs for low-skilled workers, and the reforms did not address the sectors in which the poor actually work. For example, in Mozambique, growth has come from large investment projects in mining that were made possible by changes in the country's foreign investment regulations. Such projects have increased aluminum exports and boosted GDP but created only 2,000 direct jobs. Most of Mozambique's labor force, meanwhile, is employed by small farms or household enterprises -- parts of the economy in which productivity is growing very slowly.

In cases where there have been reforms in industries that employ the poor, corruption has sometimes prevented the benefits from accruing to the intended recipients. Tanzania, for example, has spent heavily to support its agriculture industry, especially on fertilizer subsidies. In 2009, to better target and streamline the subsidies, the government introduced a market-like system of vouchers: farmers could use government-issued vouchers to purchase fertilizers, and sellers would be reimbursed by the government. Unfortunately, local elected officials ended up gaining control of about 60 percent of the vouchers, making it difficult for poor farmers to access the government support.

## IF YOU BUILD IT, WILL THEY COME?

Even in countries that have achieved both rapid growth and poverty reduction, such as Ethiopia, Ghana, and Rwanda, there has been remarkably little structural transformation. The share of GDP represented by manufacturing, for example, is scarcely higher than it was before these countries started enjoying serious growth. There are many reasons why competitive manufacturing has not taken off in Africa, but most of them revolve around the high costs of production. Even though per capita incomes in Africa are among the lowest in the world, wages are relatively high and unit labor costs are even higher.

A major explanation for these high costs is the poor state of infrastructure. All across sub-Saharan Africa, anyone trying to do business is constantly stymied by power cuts, impassable roads, and leaky water pipes. Behind each of these infrastructure problems is a government failure that, although harmful to the economy, reflects a political equilibrium that will be difficult to undo simply by building new infrastructure.

Road transportation offers a good illustration of this problem. Exporters in the region face some of the highest transport prices in the world, especially when trying to ship goods from landlocked countries to a port. But a 2009 study published by the World Bank showed that vehicle operating costs along the four main transport corridors in sub-Saharan Africa are no higher than those in France. The difference between prices and vehicle operating costs is explained by the massive profit margins enjoyed by trucking companies in sub-Saharan Africa, some of which are close to 100 percent. The companies are able to charge a hefty premium thanks to regulations in most African countries that prohibit would-be competitors from entering the trucking industry. These regulations were introduced 40 years ago, when African governments, reflecting economic thinking at the time, viewed trucking as a natural monopoly because a single company could more easily ensure that trucks rode at full capacity. Not surprisingly, the outdated rules are now difficult to revoke because decades of high profits have provided the trucking industry with plenty of funds to pay for lobbying to maintain the status quo. This problem is especially acute in places where the trucking business is controlled by politically connected families.

The region's water and electricity deficits also stem from political problems. Governments typically set prices for water and electricity that are below cost, with the intention of protecting the poor. As a result, the water and electrical utilities require government subsidies to operate. This relationship allows politicians to find ways to influence how the utilities are run and who receives their services. Officials often give priority treatment to neighborhoods they favor, which are not necessarily where the poor live. Furthermore, the subsidies rarely cover costs, so the utilities neglect maintenance, leading to leaky pipes and power outages. The rich opt out of the shoddy system altogether and use their own water tanks and electricity generators. The poor in underserved areas must rely on candles for lighting and buy water

from private vendors, which costs multiple times the metered rates. One result of this political distortion is that since 2000, the percentage of households with access to water has declined in almost every urban area of Africa.

In addition to these deficiencies in infrastructure, a host of other factors serve to drive up the cost of doing business in the region, including the fact that African countries have some of the most complex and least transparent business regulations in the world. Like the distortions that shape transportation and infrastructure, these regulations did not come about by accident, nor is their persistence due to a lack of government capacity: they exist in order to serve specific political interests. If these interests are sufficiently powerful, they can block attempts at reform.

But simply improving the business climate will not lead to structural transformation. The reason is that business regulations mainly affect those who work in the private wage-employment sector, a group that accounts for less than ten percent of the region's labor force. Most Africans work for small farms or household enterprises, in what is often called the informal sector. This is unlikely to change in the medium term: in Uganda, for instance, even under the most optimistic assumptions, over 70 percent of the labor force will still be in the informal sector by 2020.

For that reason, structural transformation will depend not only on creating more wage and salary jobs but also on increasing the productivity of the informal sector. Improving infrastructure and reforming regulations will help to some extent. But more important are measures that can improve the skills of workers in the informal sector, in which those with barely any education are disproportionately concentrated. By increasing the skills of such workers, African governments can increase the productivity of small farms and household enterprises -- and the incomes of the people who work there.

## RAISING HUMAN CAPITAL

Without a doubt, it will prove difficult to improve the skills of Africa's labor force enough to propel structural transformation. The fact is that despite some catch-up over the last decade, the countries of sub-Saharan Africa still have the lowest levels of human capital in the world. In one sense, that is not surprising: after all, at the time they won independence, most of these countries had very few people with higher education. Africa also has been buffeted by an onslaught of public health crises, including the world's worst manifestation of the HIV/AIDS pandemic.

The region's lack of sufficiently educated, skilled, healthy workers is even more distressing because for decades, donors and African taxpayers alike have spent considerable resources on health and education; yet they have little to show for it. Even in places where governments and foreign donors have improved access to schools and health clinics, there has been limited improvement in quality. Postapartheid South Africa, for instance, has increased its public spending on schools to redress the inequitable allocations of the past. Enrollment rates have risen dramatically, but learning outcomes have hardly changed, and only two in five young adults complete secondary school.

At least three factors explain this phenomenon. First, resources allocated to addressing the problems of poor people do not always reach their intended recipients. A landmark 2001 World Bank study on public spending showed that in Uganda, only 13 percent of the nonwage resources allocated to public primary education actually found their way to schools.



Similarly, a 2009 study on health spending in Chad showed that less than one percent of nonwage spending ever arrived at primary clinics. Second, even when resources do reach schools or clinics, there are often no teachers or doctors there to use them. A recent report by the African Economic Research Consortium found that health workers in Senegal and Tanzania were absent 20 percent and 21 percent of the time, respectively. Finally, even when providers are present, the quality of their services is exceedingly poor. According to a 2009 World Bank review of public expenditures, teachers in Uganda spend less than 20 percent of class time teaching. Teachers in Tanzania spend slightly more time on instruction, but only 11 percent of them have what education experts consider to be the minimum level of language skills required for the job. The situation in the health sector is worse: in Tanzania, the average total amount of time doctors spend seeing patients is only 29 minutes per day.

These failures to deliver services are not simply the result of unprofessional conduct; underlying them is the fact that basic public services have been stolen by or diverted to political elites. The leakage of public funds intended for education and health care is the most straightforward example. Since these are expenditures for things other than salaries, officials are easily able to alter the amount of funding that is actually distributed. As the economists Ritva Reinikka and Jakob Svensson showed in a 2004 study, the amount of funding an African school receives likely depends on the principal's ties to a government bureaucrat or a local politician. The poor performance of service providers is similarly bound up in this form of patronage. Many teachers, for example, also serve as political operatives: relatively well-educated people who run election campaigns for local politicians and are then rewarded with teaching jobs, positions for which they are not necessarily qualified and that they do not always take very seriously.

The way political forces can thwart the delivery of services was illustrated in a recent study published by the Center for Global Development. The study analyzed the results of an experiment in Kenya that aimed to reduce teacher absenteeism by replacing salaried teachers with contract workers. In some cases, the plan was administered by a nongovernmental organization; in others, the government handled the hiring. Student learning outcomes improved when the plan was implemented by nongovernmental organizations but did not in the government-run cases. The study's authors concluded that the difference stemmed from the ability of teachers' unions to lobby the government to weaken the plan in various ways: for example, by delegating oversight to district officials who were not ultimately accountable to the government. The nongovernmental organizations did not succumb to the same pressure. The larger lesson is that efforts to solve problems such as teacher absenteeism with technical solutions, such as introducing contract teachers or electronic monitoring, will not succeed if the political system is not aligned with the ultimate goal.

## REASONS FOR OPTIMISM

It can be hard to stay optimistic about Africa's future when one considers the political pathologies that stand in the way of improving its human capital. But it is crucial to recall that the recent growth in sub-Saharan African economies resulted from fixing distorted macroeconomic policies that seemed irredeemable only 15 years ago. Triggered by reactions to the debt crises of the 1980s, the collapse of the Soviet Union, and the political liberalization of the 1990s, a regional consensus formed in favor of prudent macroeconomic policies. Those policies delivered growth, which created political support for further reforms, even during the global economic crisis of recent years.



The region now finds itself at another inflection point. Luckily, today, the combination of democratization, demographic change, rapid urbanization, and increasing levels of education has substantially altered policymaking processes, mostly for the better. There is now more political space to voice alternative views and challenge government policies. Even those who are opposed to reforms are less likely to resist if they feel they have been consulted. Moreover, thanks to better economic policies, foreign donors are less compelled to impose reforms from the outside, which creates even more space for homegrown reform efforts.

The almost complete connectedness of the region through cell phones will also aid reforms and structural transformation. Cell phones, by helping spread information of all kinds more quickly, enable poor people to learn about such issues as the regressive nature of government subsidies and the anti-poor bias of infrastructure spending. They also allow people to find out what their peers are thinking, greatly lowering the costs of mobilizing collective action. The spread of communications technology has also made it easier for politicians to discover what citizens are thinking -- whether they want to or not -- meaning that the voices of people living in marginalized areas will be heard more clearly in national capitals.

Whether one sees Africa's glass as half-full or half-empty depends on one's belief in the possibility of political change. The obstacles to durable growth in the region are primarily political. That hardly means that they will be easy to solve, as even a cursory glance at the troubled record of governance in postindependence Africa makes clear. But it does mean that they are not intractable. Sub-Saharan Africa's recent history of political change and reform leading to growth justifies a positive outlook. Believing in a more prosperous African future requires a healthy dose of optimism, but not a leap of faith.

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