During the last decade or so, Africa, once labeled by the *Economist* as the “Hopeless Continent,” has been rebranded by the same magazine as “Africa Rising.” Described by then-British Prime Minister Tony Blair in 2001 as “a scar on our consciences,” Africa has become the home of “roaring lions” and the “fastest billion”—contrasting with the image of the world’s most impoverished “bottom billion,” in the words of the economist Paul Collier. These new monikers and the ebullient optimism they reflect are a welcome change. They have replaced a costly “Afropessimism” that reigned in Western media and academic circles during much of the 1980s and 1990s. The costs of the negative stereotypes of that period were felt not only in terms of Africa’s self-esteem but also financially: They depicted Africa as economically much riskier than it ever was and dampened the animal spirits of investors.

Afropessimism never caught on in Africa itself. With 70 percent of its population under the age of 20, the continent is perhaps too youthful to indulge in despair. Now the threat to sound reflection on the future is “Afro-euphoria.” But opinion surveys by Afrobarometer suggest that Africans may also be immune to the new fad.

However, as the graph on the next page suggests, we should bear in mind that this is not the first time that postindependence African economies have grown rapidly. The first decade of independence saw growth rates that exceeded the current ones. Africa then endured the lost decades. It took close to two decades of growth to regain the peak income levels of the 1970s: Much of this has simply involved recovery from the consequences of the adjustment debacle that resulted from policies imposed in the 1980s and 1990s by the International Monetary Fund and the World Bank.

There is a difference between recovery and catching up with the rest of the world. Recovery basically puts to use existing, underutilized capacities to get back to earlier levels of development. Catching up involves the creation of new capacities and is thus an inherently more demanding task. The real challenge for Africa is not merely recovery but “accelerated development”—the unfulfilled promise made by the World Bank to Africa in its landmark 1981 Berg Report.

Given this postcolonial experience, there are three tasks that should preoccupy policy makers. The first task is simply trying to understand the factors behind the economic recovery, separating fortuitous windfall gains from the more durable factors that can be harnessed to sustain the current boom and make the recovery stronger and more inclusive. The second task is to assess the magnitude of the growth and its adequacy for addressing the severe underdevelopment and poverty that afflict the African continent. The third is to deal with the legacy of the structural adjustment debacle.

**Paternity claims**

Claims to paternity of the African economic recovery have come from many quarters. Incumbent
politicians claim that their wisdom, foresight, and astuteness produced the “miracles” that have taken place under their watch. Yet most leaders would be hard-pressed to explain what particular policies or acts of theirs account for the high growth in their respective economies. It can, however, be attributed to greatly improved governance in Africa, thanks to a broad trend of democratization.

International financial institutions (IFIs) such as the World Bank and the IMF have argued that the adjustment and stabilization policies that they imposed in Africa are finally bearing fruit. These claims are rather disingenuous for a number of reasons. For one, at no time did these institutions indicate that their policies would have such a long gestation period. Since there were no clear indications of the time lag between policy and recovery, they could claim success for any recovery occurring at any time.

Nevertheless, one can surmise from earlier pronouncements that the envisaged time lag was three to five years. Indeed, within a few years of initiating its policies in the 1980s, the World Bank began producing numerous tables of “good adjusters.” The interesting thing about these tables was how briefly countries featured on them before they were relegated to the group of “poor adjusters.” Much of the supposed success had to do with the funding from IFIs and other donors that often temporarily relaxed foreign exchange constraints on production and led to improved capacity utilization. Generally, this had a one-off effect, as austerity measures imposed by the IFIs as conditions for the funding caused countries to fall back onto the low-growth path. The donors themselves were at great pains to deny that their money had anything do with the recoveries, insisting instead that their policies accounted for the turnaround.

There was a considerable academic literature, some of it produced within these financial institutions themselves, suggesting that their policies led to poor performance—or at best had produced few, if any, positive outcomes. In the mid-1980s, the IFIs and economists associated with them began to suggest a whole range of explanations for the poor results of their policies. By 1989 the World Bank...
Bank had identified bad governance as the problem. This was soon followed by a call for “getting institutions right,” building on the work of the American economist Douglass North, which was easy to link to a market reform agenda because it focused on the protection of property rights. New property laws were enacted, central banks were given independence, and many other autonomous institutions were set up to reduce the discretionary role of politicians.

When these changes did not seem to lead to the expected result, new culprits were identified. There was unfortunate geology that nourished the “resource curse”—the idea that rents from natural resources destroy the export competitiveness of other industries, and make the state less accountable and more prone to corruption. There were borders that rendered many countries landlocked or ethnically diverse and conflict-prone. There was the lethal cultural brew of neopatrimonialism, a form of clientelistic rule in which political power is personalized and whose ingredients were African culture and Western rationality. And there was the colonial heritage that left Africa with only extractive institutions. Obviously, the more that is attributed to these exogenous factors, the less agency and policy are considered to play an important role in the performance of African economies.

Finally, we should recall that up until the sudden surge of African economies in the mid-1990s, advocates of the Washington Consensus (a set of ideas about the liberalization of markets, macroeconomic policies, and the role of government that formed the basis for IMF and World Bank policies in the 1980s and 1990s) argued that the failure of their prescribed policies was due to recidivism and noncompliance by African governments. We would need to know the factors behind political leaders’ supposed Damascene conversion to “good policies” for the story to make sense.

In any case, the Washington institutions themselves expressed doubts about the efficacy of their model and admitted that, through errors of omission or commission, their policies had done harm to African economies. The mistakes added in this mea culpa included neglect of infrastructure, assumption of “policy ownership” by donors, excessive retrenchment of the state, neglect of tertiary education, “one-size-fits-all” institutional reform, and wrongly sequenced privatization and financial sector reforms. There were attempts to revise the policy package into something known as the post–Washington Consensus. However, the dramatic recovery of African economies has allowed this mea culpa to be conveniently set aside, and African countries have been urged not to waste time looking at the recent past.

**Recovery factors**

So what lies behind the recovery? Different factors have played out differently in various countries, but we can highlight a number of significant ones. The first is improved earnings from exports due to significantly improved terms of trade since the mid-1990s. A major reason for improved export performance is closer linkage with more dynamic economies. For much of the postcolonial period, African nations were intimately associated with the economies of their erstwhile colonial masters through arrangements that tended to reinforce inherited export structures. African economies were thus tethered to slow-growing partners. But during the last decade, the share of African exports going to Asia has more than doubled, to 27 percent of total exports, allowing African countries to benefit from Asia’s high growth rates.

There is, however, a disturbing side to this improved export performance that raises questions about its long-term sustainability: The expansion in export earnings has been based on increased prices rather than increased production of export commodities. Furthermore, the export structure exhibits no diversification, rendering many countries just as prone to “monocropping” (relying on a single export commodity) as they were under colonial rule.

Another cause of the recovery is a revival of foreign direct investment (FDI). Whereas in the early 1990s FDI was directly associated with privatization policies that naturally tapered off, much of the new investment is driven by factors unrelated to policy. Two sectors have proved especially attractive to FDI: mining, and information and communications technology. The latter attracted more than 50 percent of FDI investment into Africa from 1996 to 2006.

During the period of structural adjustment there was little public investment in infrastructure; the
belief was that the private sector would step in to provide public services in a more efficient way. In the event, private-sector infrastructure investment was not forthcoming, apart from telecommunications and mining infrastructure.

Public investment, especially in infrastructure, has picked up recently. Governments have financed this investment mainly with their own resources and loans from other emerging economies. Some of the more resource-rich countries have also been able to raise money in financial markets to invest in infrastructure. For the least developed countries, debt relief has positively affected public investment, but policies accompanying that relief have attenuated the full benefits by limiting state capacity and by inducing greater consumption rather than saving.

A case can also be made that political changes have had a positive impact on economies. The end of militarism and the greater democratization of African countries have placed economic performance at the core of states' sources of legitimation. The success of a leader, even in the remaining authoritarian strongholds, is no longer measured by the longevity of his reign, and even less so by the number of self-awarded medals on his chest, but by the performance of the economy and the stability of the political order.

The urgency of development is strongly felt by a young population that is aware of Africa's lagging behind and of the economic achievements in other parts of the world. In addition, democratization—bringing greater accountability to local constituencies—over the years has made it harder for external actors to impose their preferred policies. These political changes are no small matter, given the fact that Africa has had many leaders whose political aspirations never rose beyond satisfying local clients and the external masters who underwrote their rule.

The Washington Consensus lost its intellectual bearings following the 2008 financial crisis, which became a crisis of neoliberalism in the West. The increased foreign exchange reserves of many African countries have tended to undermine the conditionality-enforced policy regime, creating more policy space for African leaders. New aid donors, such as China and India, have no particular commitment to the consensus that donor institutions have wielded over the years. China may have made certain diplomatic demands, but it is not generally known to interfere in the macroeconomic policies of aid recipients or to insist on a certain regime type.

**DONOR ERRORS**

Even when the IFIs admitted to certain policy errors, they did so in a backhanded way and without spelling out their full implications. The cumulative effects of the maladjustment they caused pose serious problems for Africa's attempts to go beyond recovery and accelerate its catch-up pace.

One obvious error was the devastating erosion of state capacity produced by reckless downsizing and formulaic retrenchment, the demoralizing of the civil service, and neglect of the physical apparatus of the state. In addition, poorly coordinated donors' massive interference with and experimentation on local institutions, and their assumption of policy “ownership,” undermined the legitimacy of local political and bureaucratic actors by reducing their effectiveness through one-size-fits-all reform. The view of the IFIs was that African countries had bloated civil services; Africa now has the lowest number of civil servants per 100 citizens, making it the least governed continent.

Much of the institutional reform focused on enhancing the restraining arms (independent central banks, courts, police, accounting tribunals), rather than the transformative arms of the state (the so-called spending ministries in charge of social services, industry, agriculture, infrastructure, and so on). The state was effectively removed from the development policy arena, which was occupied by peripatetic experts, fencing off key institutions from local political oversight. The extent to which the donors controlled African economies became an embarrassment to the donors themselves, and they began to fret about “ownership” and “partnership.”

Africa has substantial human resources and is moving toward a more favorable demographic profile, which can facilitate stronger economic growth. But this depends on whether the population is educated and provided opportunities for employment. One costly error of the adjustment policies was the neglect of tertiary education, based on the dubious argument that rates of re-

*There is a difference between recovery and catching up with the rest of the world.*
Can Africa Turn from Recovery to Development?

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Investment needed

Compared with the importance of mining and telecommunications in the revival of FDI, investment in other sectors, such as agriculture and manufacturing, has not recovered. Investment rates in the early 1960s averaged between 7 percent and 8 percent of GDP, rising to a high point of about 13 percent during 1975–80, before falling back to about 7.5 percent during 1990–95. Starting in the second half of the 1990s, investment rates rose slowly. They are currently close to 10 percent—too low to sustain the structural transformation of Africa’s economies.

The low investment is related to low savings. Africa’s growth path has been consumption-intensive, at least when compared with the investment-driven East Asian model. Wal-Mart goes to Africa not to buy manufactured goods for the US market, as it does in China, but to sell goods to the new middle class. The proliferation of shopping malls in Africa is the reverse side of deindustrialization—cheap imported goods have undermined local industry.

The IFIs pressed African states to refrain from investment in basic public goods. One effect of this jaundiced view toward publicly provided infrastructure has been poor responsiveness to incentives, and especially to the opportunities of the current boom. The results can be seen in traffic congestion, electricity blackouts, and overall high transaction costs. Lack of infrastructure is proving to be one of the major constraints on diversifying African economies and placing them on a sustainable course.

Donors also erred with financial reforms whose failures they initially misinterpreted as a matter of incorrect sequencing, since the reforms took effect before fiscal consolidation. Later, they admitted that financial liberalization before the establishment of proper regulatory institutions led to fragmentation, financial chaos (including the collapse of a number of banks), and high levels of noncompetitive behavior due to the wide gap between interest rates paid to savers and those paid by borrowers. This gap often reflects the low levels of competition among banks in Africa, though the banks attribute it to high transaction costs. The reformed financial sector does not mobilize savings or allocate deposits productively. Much of the credit it extended went to speculative real estate investments and into consumption, symbolized by the shopping malls that have mushroomed all over Africa.

The donors also demanded that African countries liberalize their capital accounts. An immediate effect of this was a drastic increase in economic volatility. In turn, this volatility prompted an obsessive focus on foreign exchange reserves, leading in many countries to excessive accumulation of reserves.

Missed opportunities

One widespread consequence of these failed policies was the deindustrialization of the continent. Quite remarkably, the current commodity boom has not been accompanied by systematic attempts to industrialize. This is in sharp contrast to the situation in the 1960s and 1970s, when initial attempts at industrialization were made—though not always successfully. Now there is a low level

From the archives of Current History…

“The situation in French West Africa today is one of surpassing interest as one phase of the vast colonial enterprise which has divided Africa up among a half dozen white powers of greater or lesser magnitude. France, following her special policy, has drawn no color line and, in refreshing contrast with the other powers, has admitted her black colonials to citizenship and even laid the foundation of an educational system which may yet prove the nucleus of a great mulatto empire in the heart of Africa. But the germs of race conflict are there as they are elsewhere in Africa; and only enlightened French policy and educated negro leadership can ultimately solve the problem for both sides.”

W. E. B. Du Bois

“France’s Black Citizens in West Africa”

July 1925
of diversification of African exports, particularly with respect to manufactured goods.

With no industrial policies or financial institutions to underwrite industrialization, African economies have not been able to enhance the interface between raw material production and manufacturing. As a 2014 United Nations report observes, “If Africa does not capitalize on its opportunities to diversify and add value to these presently lucrative activities, it may miss the opportunity presented by the commodity boom.”

Up until the mid-1990s poverty rates in Africa were increasing. There is evidence suggesting that poverty has fallen since then. However, most of the data is for absolute levels of poverty, based on a one-dollar-a-day limit. This focus ignores the issue of inequality in Africa, which is politically more salient. The Africa Progress Panel led by former UN Secretary General Kofi Annan reported in 2012 that little progress had been made in addressing inequality. In the sub-Saharan region, inequality is now higher than in all other regions of the world except for Latin America and the Caribbean. This can be partly attributed to the fact that economic growth is not creating jobs in the formal sector, and large numbers of people must resort to casual and precarious work.

A major promise of adjustment policies was to reverse Africa’s agricultural production decline and, even more significantly, to bring about a reversal in reliance on imported food. But per capita food availability remains way below the average levels of the years before the 2008 financial crisis. The agricultural transformation did not take place. This failure can be attributed to the collapse of rural infrastructure, the disappearance of marketing boards that have not been adequately replaced by the private sector, and low levels of investment in research and extension services, an outcome of the state’s retrenchment.

**Reasons for Hope**

One of the most significant conceptual transformations that took place in Africa during the era of structural adjustment (1980–95) was the recognition of the importance of markets as institutions for the exchange and allocation of resources. The adjustment debacle underscores the importance of regulating markets and of making them socially acceptable and politically viable. An important challenge for Africa is to go beyond the conflation of “pro-market” policy with capitalism and the “pro-business” regimes it entails. This requires that states conduct a proactive relationship with business, applying both carrots and sticks.

Countries need space not only to craft policies that are appropriate to their circumstances, but also for experimentation. For more than a decade, African policy making was limited to a narrow space prescribed by the Washington Consensus. Things are changing now, facilitated by the collapse of that doctrine. The IFIs, with their tarnished brand, have retreated from several once-firmly held positions about the role of the state in development and the nature of market failure in developing countries. In addition, the more favorable foreign exchange positions of African governments have reduced the leverage of donors and their ability to impose prescriptive conditions attached to loans, dramatically increasing the policy space of those governments. This is the paradox of IMF programs: When countries are obliged to (wastefully) accumulate reserves, they become less pliable.

For latecomers, the developmental role of institutions is central. After years of touting Asian economies as proving the effectiveness of policies advocated by the IFIs, in 1993 the World Bank finally accepted the overwhelming evidence that the state had played a central role in the developmental experiences of these countries. Yet even when it admitted that industrial policy had proved effective in Asia and, indeed, in virtually every instance of economic catch-up, this reversal was still accompanied by caveats about why Africa could not replicate the Asian experience. The continent was said to be laboring under various forms of culturally bound forms of government that made it impossible to think about the collective good.

In more recent years, this dogma has softened, and perceptions of the African capacity to pursue industrialization strategies have changed. Even so, unbridled one-size-fits-all experimentation has left the continent without adequate institutions to manage the structural changes it needs: institutions for mobilizing financial resources and allocating them with a long-term vision, and institutions for drawing up and implementing industrial policy. During the era of adjustment, the expres-
“industrial policy” was taboo in policy circles, associated with the much maligned “import substitution strategies” that involved state protection of infant industries.

Africa has plentiful natural resources that, if harnessed, could enhance its development potential. This has been obscured by a debate focused on the concept of the resource curse, founded on a rather tendentious deployment of data. If there has been a resource curse, it is to be found in the low earnings of African countries due to poor terms of trade or the rapacity of foreign mining interests and their local collaborators. The most disturbing outcome of this trend has been the failure to capture mineral rents during the current commodities boom. Many other parts of the world have addressed these problems through various forms of resource nationalism. Africa may need a dose of that. There are now heated debates on the continent about what share of resource rents should go to the state, and calls for renegotiating a number of shadowy deals that African governments entered into.

African economies are generally recovering and growing fairly rapidly. But a number of factors in the recovery, such as the commodities boom, are one-off events unlikely to be repeated in the immediate future. One challenge is to identify internal drivers that can sustain growth into the future. These will include improved and prudent mobilization of human, material, and financial capital, which entails making the most of the continent’s vast resources through increased technological mastery in order to achieve socially inclusive (and therefore politically sustainable) growth. Another challenge is to address the social problems that the new economic growth spawns, such as inequality—problems that are too often neglected by the Africa Rising narrative.

From Current History’s archives…

“What is really at stake in the policy reform movement is the degree of intervention by donors and their ability to prescribe changes in African economies that will be effective and workable in improving the efficiency of resource use. The policy reform movement is distinguished from earlier aid conditioning in the scope of its intervention. It involves shifting economic resources and, by implication, political power among groups in African societies.”

Carol Lancaster “Africa’s Development Challenges,” April 1985