WHY IS AFRICA STILL POOR?

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Several studies on poverty and economic performance have come to the conclusion that Africa is the poorest region on the planet earth. Amidst such studies are those by Todaro (2006), Artadi (2003), Doyle (2009), and Sachs (2003). A more look into the poverty of Africa has made some to call it Extreme Poverty of Africa amidst which is Cozay (2010). However poverty has been defined from different perspectives and deferent disciplines. Some have defined poverty in terms of deprivation while some have gone further to consider relative and absolute status of it. From a deprivation perspective, a poor African argues on Cozay (2010) that "*Poverty is not going empty for a single day and getting something to eat the next day*. *Poverty is going empty with no hope for the future. Poverty is getting nobody to feel your pain and poverty is when your dreams go in vain because nobody is there to help you. Poverty is watching your mothers, fathers, brothers and sisters die in pain and in sorrow just because they couldn't get something to eat. Poverty is hearing your grandmothers and grandfathers cry out to death to come take them because they are tired of this world. Poverty is watching your own children and grandchildren die in your arms but there is nothing you can do. Poverty is watching your children and grandchildren share tears in their deepest sleep. Poverty is suffering from HIV/AIDS and dying a shameful death but nobody seems to care". "Poverty is when you hide your face and wish nobody could see you just because you feel less than a human being. Poverty is when you dream of bread and fish you never see in the day light. Poverty is when people accuse you and prosecutes you for no fault of yours but who is there to say some for you? Poverty is when the hopes of your fathers and grandfathers just vanish within a blink of an eye. I know poverty and I know poverty just like I* *know my father's name. Poverty never sleeps. Poverty works all day and night. Poverty never takes a holiday".*

The question can be, is **Africa really such poor?** According to the definition above, a number of studies have shown that, 40 to 70% of the African Population lives in slums, More than 50 percent of Africans suffer from water-related diseases such as cholera and infant diarrhea. More than 800 million people go to bed hungry every day, 300 million are children. Of these 300 million children, only eight percent are victims of famine or other emergency situations. About 20% of African children die before age five. More than 90 percent are suffering long-term malnourishment and micronutrient deficiency. 200,000 child slaves are sold every year in Africa. There are an estimated 8,000 girl-slaves in West Africa alone. It has further been registered that between 12 and 14 million African children have been orphaned by HIV/AIDS. Cozay (2010)

From a country comparison perspective, the population below poverty line is highly dominated by African countries. Out of 72 countries ranks whose data is available, the first 40 countries, 27 are from Africa (Geograpthy.com. 2006). According to Gross Domestic Product (GDP) the first country in Africa comes at rank 32 in the world *i.e.* South Africa, while other are clustered from 98 above (Wikipedia. 2009). And lastly according to Human Development Index by UNDP (2009), the first African country comes at rank 52 (Libya) amidst 182 countries. A close monitoring of country status has shown that Africa has been down the rank in all the variables for a long time despite all efforts, and some have argued that it has been going down the ranks (Collier 1999, Artadi and Sala-i-Martin (2003), Easterly and Levine (1997).

Africa’s economic history since 1960 fits the classical definition of tragedy: potential unfulfilled, with disastrous consequences (Easterly and Levine. 1997).Collier (1999) points out that African economic performance has been markedly worse than that of other regions. During the 1980s per capita GDP declined by 1.3 percent per annum, a full 5 percentage points below the average for all low income developing countries. During 1990-94 the decline accelerated to 1.8 percent p.a. and the gap widened to 6.2 percentage points. Cozay(2010) in presenting the situation of Africa asks the question **"Why is Africa Still Poor?".** It is this question that this paper will be answering. I will start with presenting a writing on why Africa is still poor from a domestic and external perspective focusing; on policy, geography, and institution, and a look into institution geography debate, the critic, my view of Africa, and lastly present a new look on Africa.

Internal causes

Social Capital

Many studies have been done in trying to answer the question. Collier (1999) argues that there are three conceptually distinct causes of slow growth: geography, macroeconomic policies, and microeconomic policies. He stipulates that no social institution from a 'social capital' perspective created has promoted growth. Possible barriers to social interaction are ethno-linguistic fractionalization and inequality. On this measure the average African country is more than twice as fractionalized as other developing regions. Easterly and Levine (ibid) calculates that, it directly accounts for 35% of Africa's growth shortfall. It is also correlated with poor policies, overall it accounts for 45% of the growth shortfall. This has been qualified as the case where political rights are limited.

Policy

The second thing that Collier (ibid) has pointed out is the lack of openness to **trade**. He characterizes it as the main manifestation of African control regimes. The lack of openness was manifested in the restriction of international trade, whether directly through quotas, tariffs and export taxes, or indirectly through foreign exchange controls and marketing boards. Sachs and Warner (1997) calculate that the 1.2 % per annum growth short fall is partly due to trade policies, while Easterly and Levine (1997) puts it at 0.4%. Artadi and Sala-i-Martin (2003) points out that it is widely believed that economies that are open to international forces tend to benefit from trade and tend to have more access to foreign technological progress through Foreign Direct Investment (FDI). Rodrick (1998) alludes to the fact that the removal of trade restrictions can be expected to lead to high economic performance in the region.

The other aspect that has led to slow growth in Africa is deficient **public policies**. Because African governments "before democracy" did permit only a low level of civil liberties, ordinary people were denied the channel of popular protest and this worsens project performance (Isham *et al.*, 1995 in Collier .Ibid). With such a situation it has been pointed out that the controlled regimes led to highly selective beneficiaries, while permitting more generalized service delivery to be inefficient. There is also evidence that wages in the public sector reward kin group connections rather than skills (Collier and Garg, 1998in Collier ibid). The same was found in Ghana by Easterly and Levin(1997) where infrastructure investment followed a rent seeking and reward type soon after independence. Collier and Gunning (1999) further argues that at the inception of independence public sector employment was the main priority, managers were not under severe pressure for actual delivery of services from their political masters. **Policy was biased towards urban** They expanded the public sector while imposing wide-ranging controls on private activity. Public sector expansion was an end in itself. The reward was also based on social connections rather than skill. This made it difficult for managers to motivate staff. An example is given of Ghana where by the late 1970s the public sector accounted for three-quarters of formal wage employment (Ghana Central Bureau of Statistics, 1988),

Lastly donor dependence characterizes African budgets. Collier (1999) acknowledges that there has been a growth in aid dependence from 2.7% in 1994 to 12.4 % share of GDP, which he categorizes it as high dependence. Though such is the case he stipulates that good policy environments (proxied by a composite measure for macroeconomic policies) aid significantly increases growth whereas in poor environments it actually reduces it. On average the African policy environment has been poor on this measure.

If investment is to be linked to policy, Artadi and Sala-i-Martin (2003) have argued that Africa did not grow because they did not invest enough. Investment in physical capital plays a key role in the process of economic growth and development. On the other hand Collier and Pattillo (2000 in ibid) argue that the rate of return to investment in Africa was about one third below that elsewhere. They also show that investment risk was very high for a variety of reasons; among them, political instability, price volatility, the tendency of government to engage in large policy reversals, and an uncertain macroeconomic environment. This is why investors did not prefer Africa.

Easterly and Levin (1997) have further argued that many African countries have adopted growth retarding policy packages a situation that has also perpetuated their poverty.

Public Goods Delivery

Collin and Gunning (1999) further argues that poor public service delivery also handicapped households through inefficient education, health and extension services. A survey of primary education expenditures in Uganda found that, of the non-wage money released by the Ministry of Finance, on average, less than 30 percent actually reached the schools (Ablo and Reinikka, 1998 in ibid). Since major areas of economic activity were reserved for the public sector—often including transport, marketing and banking—and African elites looked to the public sector rather than the private sector for advancement, as viewed on policy above. Therefore Africa was slow to develop indigenous entrepreneurs. A worse still case For example, for many years manufacturing firms wishing to set up in Kenya had to acquire letters of no objection from existing producers, which resulted in a predictably low level of competition. While governments favored manufacturing, the basis for industrial growth in this area was also undermined, since trade and exchange rate policies induced industrial firms to produce under uncompetitive conditions and only for small and captive domestic markets. (Collier and Gunning 1999)

One of the institutions that enable growth is rule of law. However Widner, (1999 in Collier and Gunning 1999) has argued that African commercial courts are more corrupt than those in other regions. As a result, firms face greater problems of contract enforcement. Some firms can overcome these by relying upon their social networks to screen potential clients, but it is common to restrict business to long-standing clients (Bigsten et al., 1999 in ibid). The problem of contract enforcement thus makes markets less competitive and reduces the potential gains from trade, while tending to perpetuate the dominant position of minorities in business. It can further be argued that the lack of competitive spirit erodes consumer surplus and promotes welfare loss. Thirdly it lowers potential capital accumulation levels for the country.

Ethnic Diversity

Easterly and Levin (1997) argues that ethnic diversity helps account for Africa's growth tragedy. high levels of ethnic diversity are strongly linked to high black market premia, poor financial development, low provision of infrastructure, and low levels of education. They attribute the earlier stated increased adoption of poor policies and under providing growth-enhancing public goods to ethnic diversity. Implicitly they propose ethnic diversity generating conflict which affects economic performance in the end. A situation that has been termed resource curse and is common for Africa with Rwanda and Democratic Republic of Congo as examples. They further state that high levels of ethnic diversity have encouraged growth-impeding policies. A good example that is given is Botswana which has one of the most ethnically homogenous populations in Africa and has adopted some of the best policies in Sub-Saharan Africa.

Ethnically fragmented economies may find it difficult to agree on public goods and good policies. They also may be politically unstable. Artadi and Sala-i-Martin (2003) clarifies that, whatever the origin, ethno-linguistic fights tend to generate to inefficient economic outcomes. Of course the worst economic outcome arises when ethnic conflicts lead to war.

However the assertion has been found to be limited. The proponents alludes the fact that they do not claim to have comprehensively detailed the links between ethnic and public policies, although polarization predicts poor policy choices in a variety of political economy models.

Studying Botswana as an African Success, Acemoglu et.al (2003), states that the success of Botswana is not in ethnicity but institutions.

Geography and risk

Sachs and Warner (1995, 1997, 2001, and 2003) are the major proponents of geography and risk causes of slow growth. They have argued for a direct effect of climate on economic performance. It has also been documented that the continent is semi-arid, and this has made agricultural production intrinsically risky. One-third of the available land is too dry for rain-fed agriculture and about one-half of the rest is of marginal quality (FAO, 1986, Wood and Mayer, 1998 in Collier 1999). Soil quality is poor. Since the 1960s there has been a trend deterioration in African rainfall. This is compounded by the fact that the African population is disproportionately landlocked. *To be examined more on institution geography debate*.

Exterior

States

Collier and Gunning (1999) have also attributed Africa's slow growth to external forces; colonial heritage. They argue that since the Berlin conference (1884) for partitioning Africa, Africa has much smaller countries in terms of population than other regions. Sub-Saharan Africa has a population about half that of India, divided into 48 states. These many states, combined with low levels of income, make Africa's national economies radically smaller than those of other regions. Very small states might be economically disadvantaged for several reasons. If government has some fixed costs, either in its administrative role or as a provider of services, then it may be hard for a small state to perform at minimum cost. In other words they don't enjoy economies of scale. Small economies are also perceived by investors as significantly more risky. Finally, they may have a slower rate of technological innovation; Kremer (1993 in ibid) argues the incidence of discoveries may be broadly proportional to the population, so that if discoveries cannot readily spread between societies, then there is bound to be slow growth.

Trade

Collier and Gunning (1999) have further argued that, Africa's exports are concentrated in a narrow range of commodities 'of which many are primary products', with volatile prices that have declined since the 1960s. The deterioration in the terms of trade for such commodities as provided for in the Prebisch-Singer Thesis, has undoubtedly contributed to Africa's growth slowdown. Since 1980, African export revenue per capita has sharply declined, which in turn has induced severe import compression of both capital goods and intermediate inputs. Moreover, because African economies are so much smaller than other economies, external barriers of a given height have been significantly more damaging.

Aid

From the donor perspective, Africa has attracted much more aid per capita than other regions. Donor allocation rules have typically favored countries which have small populations and low incomes, and were recent colonies—and African countries met all three criteria. There has been a long debate as to whether aid has been detrimental or beneficial for the growth process (Collier and Gunning. 1999). World Bank (1998 in ibid) points out that early critics claimed that aid reduced the incentive for good governance. However, it has been documented that the effect of aid on growth has been shown to be policy-dependent.

By the 1990s, several African economies had accumulated unsustainable international debts, largely from public agencies. Clearly, this is one way in which poor decisions of Africa has contributed to its present. There is a good theoretical argument that high indebtedness discourages private investment due to the fear of the future tax liability. There is some supporting evidence for this claim, although since poor policies lower GDP, using high debt/GDP as an explanatory variable may simply be a proxy for poor policies more broadly (Elbadawi et al., 1997 in ibid).

Institutional- Geography Debate

I now turn to the hot debate as to whether Africa's perpetual poverty can be explained through geography or institutions.

Geography/ Endowment Hypothesis

Sachs and co-authors are the proponents of the hypothesis. Amidst the well known co-authors to Sachs is Warner. The geography hypothesis claims that differences in economic performance reflect differences in geographic, climatic, and ecological characteristics across countries. It is built on three views (Acemoglu *et.al*.2002)

1. Climate has a direct effect on income through its influence on work effort and productivity.
2. "Certain parts of the world are geographically favored. Geographical advantages might include access to key natural resources, access to the coastline and sea— navigable

rivers, proximity to other successful economies, advantageous conditions for agriculture, advantageous conditions for human health" Sachs (2000)

3. Certain geographic characteristics facilitate or enable industrialization.

According to empirical estimation by Acemoglu (*et.*al 2002), latitude have been found to have a significant value in economic performance.

Sachs and Warner (1997) points out that Africa's distinctive geography with a substantial population in landlocked countries, and a very high proportion of land in tropical climates surely have contributed to the poor economic outcomes in Africa, but in ways that are consistent with the effects of geography evident in other parts of the world. Adding to point 2, they further acknowledged that most countries in Africa are landlocked making them to face higher costs for all international activities, in particular, face very high costs of shipping, since they must pay road transport costs across at least one international boundary in addition to sea freight costs. Although air shipments can help overcome many of these problems, only certain goods can be economically shipped by air, and most countries still import and export the majority of goods by the sea (Sachs and Warner .ibid). This affects their industrial investment, assuming industries are essential for development as well as productivity for economic performance.

The hypothesis also proposes that Africa's location on the tropics makes the multiplication of germs and diseases fast than any other earlier. This therefore affects productivity.

Critic

The geography/ endowment hypothesis has been criticized mainly from the views presented; Acemoglu *et.al.*(2002) has argued that;

1. Certain geographic characteristics that were not useful, or that were even harmful, for successful economic performance in 1500 may turn out to be beneficial later on. They propose **“temperate drift hypothesis,”** emphasizing the temperate (or away from the equator) shift in the center of economic gravity over time. According to this view, geography becomes important when it interacts with the presence of certain technologies. But with the arrival of “appropriate” technologies, temperate areas became more productive.
2. From advantages perspective, “since technologies in the critical areas of agriculture, health, and related areas could diffuse *within e*cological zones, but not across ecological zones, economic development spread through the temperate zones but not through the tropical regions”.
3. From transport perspective, if countries differ according to their transport costs, it might be those with low transport costs that take off during the age of industry. Moreover, many of the previously prosperous colonies failed to industrialize include islands such as the Caribbean, or countries with natural ports such as those in Central America, India, or Indonesia. Further, transport costs appear to have been relatively low in some of the areas that failed to industrialize

Acemoglu therefore assets that geography on its own does not explain today’s Africa. Geography works through institutions a thing that Sachs denies, even in his later papers. Sachs (2003) in his Paper “*Institutions don’t rule*” asserts that it is much more likely that the quality of institutions in a given time period will affect the *growth rate* of the economy during that period (controlling for initial income), as opposed to the contemporaneous *level* of national income. It is also very doubtful that a process as complex as economic development can possibly be explained by two or three variables alone, much less the particular "geography" variables. However using malaria as a proxy for riskiness in the tropics, the results are strong and robust. In every single regression, both the quality of institutions and the malaria risk variables are statistically significant at the 0.05 percent level, and in most cases at the 0.01 percent level.

Institutional Hypothesis

The major proponent of the hypothesis as seen is Acemoglu. The origin of institutions according was according to where colonizers could settle, and potential for economic gains. Where the environment as favorable for settling they established settler economies which in turn produced better institutions more especially of property rights. Where they could not settle they introduced extractive institutions if there was economic potential for extraction.

Young (1994 in Acemoglu *et.al* 2001) emphasizes that the extractive institutions set up by the colonialists persisted long after the colonial regime ended. An example of the persistence of extractive state institutions into the independence era is provided by the persistence of the most prominent extractive policies. Persisting factors can best explain the existence of these institutions and also the present Africa. Factors to persistence of institutions

1. Setting up institutions that place restrictions on government power and enforce property rights is costly

2. The gains to an extractive strategy may depend on the size of the ruling elite. When this elite is small, each member would have a larger share of the revenues, so the elite may have a greater incentive to be extractive.
3. If agents make irreversible investments that are complementary to a particular set of institutions, they will be more willing to support them, making these institutions persist.

Acemoglu *et.al* (2001) proposes that there is a strong correlation between institutions and economic performance. Nevertheless, there are a number of important reasons for not interpreting this relationship as causal. First, rich economies may be able to afford, or perhaps prefer, better institutions. Secondly, there are many omitted determinants of income differences that will naturally be correlated with institutions. Finally, the measures of institutions are constructed *ex post*, and the analysts may have had a natural bias in seeing better institutions in richer places.

The British established better property rights where they settled, usually better institutions were also where the population density was low. As presented on Botswana debate, the better institution in avoiding resource cause was the law for government to own all germs.

Critic

Sachs (2003) in his paper sited above "*Institutions don't rule*", tries to critic the institution hypothesis. Apart from the robust and strong results of geography on economic performance written above, he further states that adding a geography sample people at the coastland enjoy life and higher per capita incomes than countries with substantially hinterland or even landlocked populations. This has been proven true in the large sample of countries.

Conclusion

Domestic or External, institutional or geography?

The argument as to whether current economic status of Africa is external or internal has been a long one. However, Collier and Gunning (1999) records that until recently, there was broad agreement that Africa's problems were predominantly associated with its external relations, although some analysts emphasized the policy-induced lack of openness and markets, while others attributed poor performance to over-dependence on a few commodities, the prices of which were declining and volatile. It is clearly observed that as much as Africa claims to be having sovereign states; it has lacked the inbuilt policies for policy; trade and governance, and even institutions as perceived to be costly by Young above, such that they may need external funding for them to change.

Because of its heavy dependence on donors, Africa has largely been having policies from overseas which dictate what has to be done without clearly understanding countries as facing their own unique situations. A good example is the Washington Consensus which assumes the countries in Africa are homogenous while, in actual sense they heterogeneous.

The governance of African countries has faced a lot of intervention from overseas a situation that has been termed neo-colonialism. Even the institutions established by themselves when Africans apply them to suit their culture and environment have been categorized as inhuman but to still be guided by colonial masters. This has made Africa to have no choice of its own.

It has also to be noted that the proposition of a global village and donor dependence has made Africa to be subjected to shocks that are not its own like the financial crisis and oil shocks in industrialization.

The question is **can Africa grow faster than seen?** Yes it can. Regardless of whatever has been stated whether geography or institution, external or internal, Pinkovsky and Sala-i-Martin (2010), have shown that Africa's poverty is falling much faster than one can think. This has been stated in relation to the achievement of millennium goals.

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