

Economic Systems in Africa
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Many African economies saw declines in many measures standards of living or well-being over the quarter decade 1980-2004. Gross National Income Product (GNI), the value of goods and services produced by nationals of a country in a year, declined for almost half of African countries, when measured in inflation adjusted dollars and on a per person basis. Life expectancy at birth remained below 50 years, and declined in many countries due to the HIV/AIDS epidemic (which may have been preventable through effective public action) and little progress in reducing deaths attributable to diarrhea, malaria, and tuberculosis. By 2004, only 42% of births were attended by skilled health personnel, and consequently infant and maternal mortality were the highest in the world.

African economies, with the exception of South Africa, had very small industrial sectors, and these largely stagnated during the 1980-2005 period. Bottling plants, industrial tanneries, soap manufacturing, and plastics facilities operated at extremely low levels of capacity and efficiency. Investment in new equipment generally yielded low returns, and many multinational manufacturing concerns shuttered or sold their African operations. Numerous case studies suggested that agricultural yields declined or stagnated in many economies. With the exception of the petroleum and telecommunications sectors, there was little foreign investment flowing into the capital-starved region; less than \$15 billion annually by some estimates. African share of world exports declined over the period 1980-2005, from 5% to

2%. Indebtedness continued to grow, reaching perhaps \$300 billion, despite sizable debt relief organized by the World Bank and International Monetary Fund under the Highly Indebted Poor Countries (HIPC) and Multilateral Debt Relief initiatives. Fiscal and monetary policy often exhibited stunning breakdowns, most starkly in the case of Zimbabwe, where inflation topped 1000% per year in 2006, and formal sector activity ground to a halt.

Economic stagnation, decline, and collapse were hardly surprising. Few African states provided the ingredients of Adam Smith's 1776 recipe for prosperity: "peace, easy taxes and a tolerable administration of justice." Instead states were characterized by conflict, corruption, lack of contract enforcement, and uneven provision of economic rights. The breakdown in public order resulted in negative trends in economic activity and measures of well-being.

The clearest indicator of the breakdown in order was the sheer number of violent civil conflicts in Africa. Of 45 countries in sub-Saharan Africa, almost half experienced at least one major year of civil war after 1980. These included Angola, Burundi, Chad, Congo (Kinshasa and Brazzaville), Côte d'Ivoire, Eritrea, Ethiopia, Guinea-Bissau, Liberia, Mozambique, Namibia, Rwanda, Senegal, Sierra Leone, Somalia, South Africa, Sudan, Uganda, and Zimbabwe. Moreover, a great many of these countries experienced sustained civil wars that lasted many years, even decades. Other countries experienced horrific outbursts of

violence that destroyed social life. A few experienced both. Sudan, for example, saw civil war in the south from 1983-2005, and also war in the western region of Darfur at low intensity over much of the period and then catastrophically violent in the period 2003-5. The Democratic Republic of Congo, formerly Zaire, saw civil war, including incursions by numerous neighboring states, over the decade 1994-2004. Somalia saw warlord rule and conflict even within Mogadishu, the capital city and largest urban area of the country, for the period 1991-2005. An extremist regime losing power in Rwanda initiated a genocidal slaughter of perhaps 800,000 persons in six months in 1994. Côte d'Ivoire experienced a brief, year-long spasm of violence in 2002 that resulted in the northern part of the country ruled by rebel forces. Civil conflicts significantly hampered the viability of formal, large-scale organization of economic activity.

Many regimes in sub-Saharan Africa used corrupt and arbitrary confiscation of property to maintain political power. The World Bank and other international organizations made good governance a central plank in lending and assistance to the continent, and conducted extensive research documenting and analyzing the strong link between corruption and poor economic performance. Corruption audits, for example, revealed tremendous misallocation of public funds for schooling and anti-poverty funds. In Uganda, an audit estimated that only 13% of the funds allocated for schools reached the intended recipients; the remaining funds could not be properly accounted for. Audits in Ghana, Tanzania and Zambia likewise found that more than 50% of allocations disappeared.

International prioritizing of good governance led regimes across the continent to at least pay lip service to new standards of transparency and accountability. There were, however, few cases of successful anti-corruption efforts. Corruption scandals rocked the Daniel Arap Moi government of Kenya, and the Mwai Kibaki government that succeeded Moi ostensibly carried the election because of their anti-corruption platform. Kibaki's anti-corruption czar, John Githongo, released a report detailing the corrupt activities of government ministers. The report read like a primer on state

corruption, named names, and provided documentary evidence. But Githongo was rebuffed by the president and subsequently sought asylum in the United Kingdom. In Nigeria, transition from the ultra-corrupt military leader Sani Abacha to the elected President Olesegun Obasonjo was likewise accompanied by a perception of Obasonjo as a corruption fighter. After five years of rule most observers felt Obasonjo had not been able to deflect the state from its corrupt ways. The anti-corruption organization Transparency International continued to rank African countries at the bottom of their corruption index. Only Botswana, South Africa, and Namibia scored in the top third of countries around the globe, and Ghana and Burkina Faso were the only other African countries in the top 100.

States in most African countries, even those unaffected by civil conflict, continued to abnegate their responsibility to provide for the rule of law in business transactions and economic affairs. Research documented the absence of public enforcement of contracts among economic actors, even in the formal sector of the economy. Due to the absence of enforcement, African firms relied on both costly measures to prevent fraud and breach of contract (such as insisting on cash payments), and on close-knit ethnic networks (thereby forgoing opportunities to trade with entrepreneurs of other ethnic groups). African states also continued their desultory approaches to rationalizing and implementing land legislation. Land tenure remained a confusing and insecure mix of formal and traditional tenure. Land disputes could be resolved by multiple authorities; investment in land-based activities, such as private irrigation schemes, suffered from the absence of secure land rights. Women in many regions of the continent continued to be denied rights to self-ownership in both national and local juridical settings. The rights of women in family law, especially in inheritance of assets, remained as brakes on women's abilities to invest and profit from their entrepreneurial talents.

The sources of the breakdown of public order—the frequency of conflict, the extensive corruption, and the inability to enforce contracts and secure rights-- are disputed. In cases of civil

conflict, research pointed to enduring colonial legacies of extractive states, suggesting the longer durée of the problems. Similarly, blame was placed on another enduring legacy of the colonial era, namely the artificial nature of polities that both included multiple and often hostile ethnic groups and that also divided ethnic groups across countries. The arbitrary partitioning of African states was demonstrably correlated with conflict, but also began to self-correct in the 1990s with separation of Ethiopia and Eritrea, a breakaway republic forming Somali, autonomy for southern Sudan, de facto division of Côte d'Ivoire, and de facto breakdown of state territory in Congo (Kinshasa). A different research agenda suggested a role for environmental causation, whereby increasingly variable and declining rainfall spurred hungry peasants to mobilize for civil war.

Finally, some critics accused the World Bank and International Monetary Fund programs of structural adjustment, conditions for receiving loans during the difficult global slowdown of the late 1970s and early 1980s, as leading to an inadvertent (or deliberate) decimation of state capacity, sending the state on a downwards spiral. States in Africa during the period indeed abandoned earlier attempts at state control over significant aspects of economic activity. Collective farms, state-owned enterprises, national banks, transport services, water and power supply, agricultural cooperatives, and other state institutions of the post-independence decades were largely abandoned through privatization or simple closure.

While the overall continental economic performance was strongly negative, there were important country and sectoral exceptions. Botswana remained an extremely strong economy. GDP per person grew by 6% annually over the period 1980-2004. Literacy rates for youth improved from an already high level of 70% in 1980 to 90% in 2005; literacy for youth in Burkina Faso, by contrast, barely reached 20%. Hundreds of kilometers of road infrastructure were built, most notably the trans-Kalahari highway. This growth occurred despite the HIV/AIDS epidemic that lowered life expectancy to 35 years and resulted in more than 60,000 orphans by 2005. The government did

move aggressively to combat the epidemic and its effects, committing to education, women's empowerment, and free distribution of anti-retroviral therapy for HIV positive persons.

The South African government post-apartheid likewise remained a prudent manager of the national economy, and pursued cautious policies during the period 1994-2005 despite the temptations of retaliatory nationalization following the peaceful transition to majority rule. GDP per capita remained steady in this period fraught with tension. One policy that contributed strongly to social peace and the sense of commitment to the continuity of the South African state and its economic institutions was the extension of state pensions to the black population following the transition. The resulting transfer of purchasing power to the elderly empowered key persons in society and benefited the health and schooling of their grandchildren. One blight on economic policymaking in South Africa was an unenlightened HIV/AIDS policy that was the mirror opposite of Botswana's and that aggravated the epidemic and its economic costs.

Several oil exporters saw large increases in GDP, though the distribution of oil revenues across the general population typically remained scandalously deficient. Equatorial Guinea was the prime example. GDP in the Equatorial Guinea grew fantastically from 1995-2005. Studies suggested that the ordinary person in the country benefited little from the growth. Corruption grew exponentially. Riggs Bank, a prominent Washington, D.C. bank, was fined \$25 million dollars by U.S. regulators for collusion with government officials in Equatorial Guinea, including the president, to steal hundreds of millions of dollars of public money. Similar situations were apparent in two other new oil exporters, Chad and Sudan. Sudan began exporting oil in 1999, but the unwillingness of the ruling elite to share the benefits of oil revenues led to uprisings in the marginalized region of Darfur.

The majority of people in African continued to derive most of their livelihood from the agricultural sector. Agriculture accounted only about 20% of value-added in the region, but 60% of the population resided in rural areas. Technical change and new crop varieties

transformed some agricultural regions, even as agriculture overall stagnated with the breakdown of marketing infrastructure that accompanied state collapse and civil conflict. In West Africa, peasant farmers proved adept at transforming agricultural practices: pineapple exports grew rapidly in Ghana; cotton farmers continued to earn substantial income, even as U.S. and E.U. production subsidies negatively impacted world prices for cotton; shea butter, or *karité*, largely collected and processed by women, became a major export for use in creams and lotions. In East Africa, the cut flower industry grew rapidly, serving the European market. In Central Africa, new varieties of cassava spread throughout the region, leading to increased yields and less production risk. But there were also agricultural failures on the continent. Zimbabwe's botched takeover and redistribution of commercial white farmers led to a 30% drop in agricultural output from 2000 to 2005. Farmers in Burkina Faso had initial successes exporting green beans to Europe, but undependable air cargo services and more complex food regulations in the European Union led to stagnation in the sector.

Telecommunication services saw stunning growth across the continent as cell phone licenses were granted to private entrepreneurs, and as internet cybercafés responded to a large demand for connectivity. Mobile phones began penetrating rural areas, where a significant minority of the population derived large benefit from the ability to coordinate or save face-to-face meetings. Whereas before an individual desiring to meet face-to-face would have to either send hand-delivered messages or go himself or herself to visit the person, and perhaps spend a significant part of the day simply tracking down the person, mobile phones permitted people at the apexes of social networks to be more easily contacted. By 2005 approximately 10% of the population was using mobile phone services.

The civil conflicts, corruption, and lack of public administration of most African states drove substantial economic activity into the informal sector. Studies of labor markets in major African cities suggested that growing percentages of educated urban youth were finding their first employment in the informal

sector. While there were debates about the earnings profiles of younger school graduates, many studies found that earnings were lower than in previous generations, and in particular that schooling was not generating the positive returns that it had. This led many to begin to doubt the payoffs from the extraordinary expansion of schooling enrolment in primary and secondary levels, at the expense of schooling quality. In fact, many studies showed that in the 1990s the returns to primary schooling were essentially zero; primary school graduates were not earning more than their counterparts who had not gone to school at all. This was a sobering reminder of the importance of the state in securing the basic pre-conditions for a private sector to thrive.

The beginning of the 21st century saw three major changes likely to significantly affect African economic systems. First, as China and India developed, the scale economies from urban agglomerations in those countries (concentrations of skilled labor, second-hand factory equipment, deep knowledge bases of financial intermediaries) meant that prices of their exported industrial products continued to decline. African economies were likely to face continued difficulties in developing industrial sectors. The opportunity to import consumer goods at low prices, however, would generate significant benefits and increases in real income for the average African consumer. Also, the rapid economic development in China and India meant that entrepreneurs in those countries were increasingly seeking foreign investment opportunities in Africa. Indeed, by 2005 there was considerable evidence that Indian and Chinese diaspora networks and multinational corporations were expanding rapidly in Africa.

Second, the liberalization of the textile trade offered enormous opportunities for labor in southern Africa. The United States encouraged textile mills through its Africa Growth and Opportunity Act (AGOA), and the ending of the Multi-Fiber Agreement, the international quota system for textiles, while initially favoring China, would eventually come to favor African producers.

Third, Africans themselves had been migrating out of the region in accelerating numbers, and new immigrant communities in

Europe and North America were generating large remittance flows back to the region. Money transfer firms such as Western Union and Moneygram expanded throughout the region. The diasporas were also creating a new generation of Africans of dual nationalities, educational backgrounds, and outlooks. This new generation was likely to significantly globalize African economies, in positive ways.

Further reading

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