Country Note G

Africa's Growth Tragedy: An Institutional Perspective

Africa's slow growth was unexpected (Easterly and Levine 1997; Collier and Gunning 1997). In the 1960s, most African countries were richer than their Asian counterparts, and their stronger natural resource base led many to believe that Africa's economic potential was superior to overpopulated Asia's. This view was shared by renowned economists, from Gunnar Myrdal in his well known *Asian Drama*, to Andrew Kamarck, the founding director of the World Bank's economic analysis complex, who listed seven African countries that he thought could grow at annual rates of 7 percent or more (Enke 1963; Kamarck 1967). More recently, many economic reports, including several by the World Bank, foresaw rapid growth in Africa.

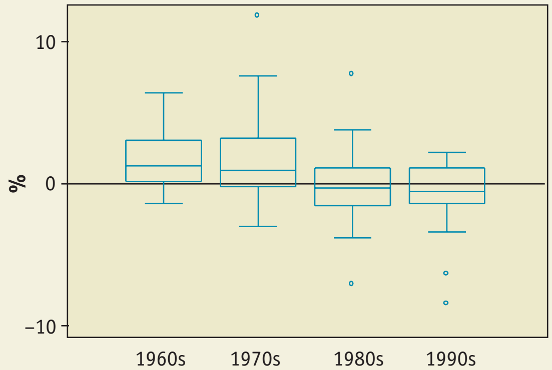
The continent's growth record, however, has fallen well short of expectations. Over the last four decades, in the 28 countries that have complete gross domestic product (GDP) series for this period, the median growth rate has gradually but persistently declined (figure G.1) and 11 countries now have income levels lower than at the time of their independence.

Ranked by their growth performance since 1960, 15 of the world's 20 slowest performers and only 2 of the 20 best performers are in Africa (table G.1). Perspectives on Africa have thus become much more guarded (Easterly and Levine 1997; Acemoglu, Johnson, and Robinson 2002).

As noted earlier in this report, growth has been poorly predicted not only in Africa but in the developing world in general. Growth is difficult to predict because it reflects processes of change, and complex historical and political forces. Social scientists and historians have limited predictive power particularly when it comes to breaks with past trends—which are the essence of development processes.

FIGURE G.1

Africa: Getting Poorer over Decades



Source: World Bank, *World Development Indicators 2004*.

Note: Box-and-whisker plot for decadal growth rates of 28 African countries that have GDP series from the 1960s onward. The plots show averages as well as the dispersion around them: median, first and third quartiles, and outliers.

Seeking to understand the deep forces influencing Africa's growth performance, researchers have increasingly looked into structural factors: geography (Sachs and Warner 1997; Bloom and Sachs 1998; Mellinger, Sachs, and Gallup 1999); ethnolinguistic polarization and inequality (Easterly and Levine 1997); and institutions.

The effect of institutions on growth has been a particularly fertile area of research in the last 10 years, bringing new analytical insights and perspectives (Acemoglu, Johnson, and Robinson 2001, 2002). For example, some see the origin of Africa's

TABLE G.1

African Growth in Context: Average Annual Growth Rates of Real per Capita GDP, 1960–2001

Best performers		*Worst performers*	
Botswana	6.4	Guyana	0.5
Korea, Rep. of	5.8	Argentina	0.5
Singapore	5.6	Côte d'Ivoire	0.5
China	5.6	Bolivia	0.3
Oman	5.4	Zimbabwe	0.3
Hong Kong, China	5.2	Burundi	0.3
Thailand	4.5	Nigeria	0.2
Ireland	4.2	Rwanda	0.2
Japan	4.1	Ghana	−0.1
Malaysia	3.9	Senegal	−0.2
Portugal	3.8	Chad	−0.4
Lesotho	3.6	Venezuela, R. B. de	−0.5
Indonesia	3.5	Central African Republic	−0.7
Spain	3.3	Zambia	−1.1
Hungary	3.2	Haiti	−1.1
Greece	3.2	Sierra Leone	−1.1
Norway	3.1	Madagascar	−1.3
Egypt, Arab Rep. of	3.0	Niger	−1.5
Finland	2.9	Liberia	−3.2
Italy	2.8	Congo, Dem. Rep. of	−3.3

Source: World Bank, *World Development Indicators 2005*.

Note: Real GDP per capita growth rates (only for countries with GDP per capita series since 1960).

institutional weaknesses in the long-lasting effects of European colonial rule, which had little incentive to develop African local institutions and focused instead on developing extractive institutions (Crawford 1994). As discussed in Country Note H on natural resources, the so-called natural resource curse has been another factor emphasized in the literature (Sachs and Warner 1995, 2001).

Recently, the focus has been on the African state. Scholarly research and policy making circles increasingly view poorly functioning state institutions as the root cause of Africa's development problems, and believe that solutions are to be found within the state itself and political institutions that link the state and society (Davidson 1992; Chege 1998; Herbst 2000; van de Walle 2001).

Post–World War II geopolitics played a role in many countries. The system of international relations polarized by the Cold War, which Africa's new democracies had to face after their independence, turned much of Africa into an arena of political struggle between the two superpowers. Cold War politics did not encourage the development of effective state institutions and good governance in Africa. In many instances, the United States and the Soviet Union supported political regimes and leaders intent on preventing such institutions from emerging (Herbst 2000).

From a longer historical perspective, the deeper cause may be the pattern of state formation in Africa (Herbst 2000). For geographical reasons, state power was particularly costly to consolidate in Sub-Saharan Africa: population densities were low and barriers to long-distance transport too numerous. Thus Africa's pattern of state formation and consolidation differed from those in some other parts of the world.

In Europe, for example, land was scarce relative to labor, and therefore incentives to exert control over land were strong, even if at the cost of wars. Nation-states that could efficiently perform key functions—mobilize fiscal and human resources, organize and finance an army, provide public goods through effective administrations, and establish legitimacy, not least though their ability to deal with citizens through representative institutions—were able to thrive. States that could not, disappeared.

Herbst argues that this Darwinian process of state selection and survival did not take place in Africa, where it was labor that was scarce, not land. The drawing of national borders by former colonial powers, independent of the new states' ability to exert their authority over their territories, worsened the problem by enabling "weak" states to persist without requiring them to strengthen their institutional foundations, effectiveness, or political legitimacy. Because their countries lacked the external threat of war or territorial conquest that had driven much of European state-building, postcolonial African leaders never faced significant incentives to extend their power—including power related to the provision of public goods on the entirety of their territory. States that did not have to fight to survive had no need to invest in effective administrative and fiscal institutions, to control domestic opposition, or to make political concessions to their citizens. Aid and the Cold War accentuated this state of affairs in some countries.

Other observers have emphasized the emergence of the African state, not as an organic evolution of existing societal and institutional arrangements, but as an artificial creation oblivious to those arrangements. Mamdani (1996), for instance, pointed out that European colonial rule created state institutions relying on customary law under a regime of "decentralized despotism," which was exerted through indigenous chiefs. The population was ill-prepared to participate as citizens in the modern states that succeeded colonial rule. Hence, Mamdani argues, most of Africa's postcolonial history is to be understood as citizens' struggle for their rights. Davidson (1992) emphasized that the nation-state as a mode of social organization was ill-suited to African realities. A European creation, it ignored the checks and balances embedded in indigenous power structures and their evolution in the years before colonial rule. It alienated political structures from the lives and needs of the population. As a result, following decolonization, modes of governance rapidly shifted to "neopatrimonial" systems of rule, characterized by "client-patron" relationships (Joseph 1998).

Seeking a solution to Africa's states' inability to exercise their authority across the territories they are to control, Herbst (2000) suggested rethinking colonially-imposed borders. While this is a highly controversial solution, Davidson (1992) also suggests that creative thinking is needed to find alternatives to nation states, that can incorporate indigenous African forms and traditions of governance. Recent reports suggest looser political arrangements, to enable greater autonomy in divided societies (World Bank 2000g; Ndegwa and Levy 2003).

While different forms of explanation—geographical, political, institutional—all provide useful insights and perspectives, it is unlikely that any single approach will be able to respond to all the questions that the continent's performance raises. For example, none is able to explain the differential growth within the continent. Why has Botswana been able to grow at the world's fastest rate for the past four decades, notwithstanding one of the highest rates of income inequality in the world and a reliance on natural resources, which has been a curse in many other developing countries? Why has Tanzania been able to maintain corruption at relatively modest levels, and to create a national ethic? Why has political stability been elusive in Côte d'Ivoire in the past 10 years, but not in Ghana? Among Africa's largest economies, why have some countries been able to grow so much faster than others (figure G.2)? As emphasized throughout this report, specificity is important for accurate analysis of growth and for design of effective growth strategies: depending on the country, or the time, some factors may be more important than others.

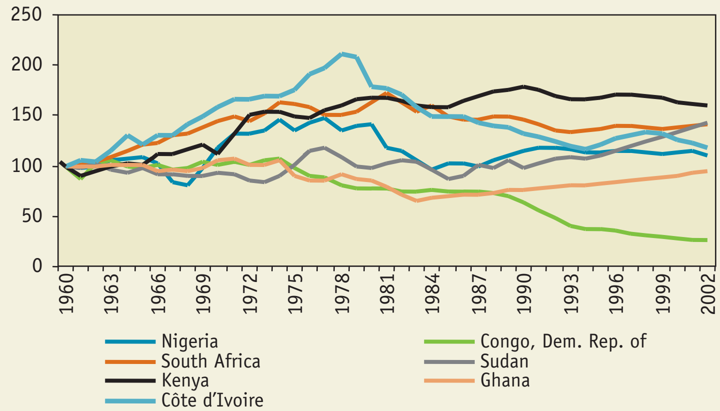
Recent improvements in policies seem to account for improvements in performance starting in the second half of the 1990s, when the median growth rate rose from –0.6 to a positive 0.9 percent—a significant 1.5 percentage point increase (figure G.3). Yet behind these policy improvements were improvements in political governance in some cases (Ghana, Kenya, Mali, Tanzania, Uganda) while in others there were improvements in security (Mozambique, Sudan), making it difficult to see a stable causal relationship. Although some studies (Gelb, Ngo, and Ye 2004) show that structural reforms and the quality of their implementation track African performance quite well (table G.2), there is in Africa a strong sense that improvements in the economic fortunes of the continent will depend on its ability to establish effective political governance structures and to ensure security—from which better policies will necessarily emerge. This perception is confirmed by the focus of new leaders on dealing with weak institutions—in, for example, Ethiopia, Ghana, Mali, Mozambique, Tanzania, South Africa, and Uganda (World Bank 2000g).

Expectations that the improvement noted above indicates a break with past trends need to be balanced with the knowledge that few developing countries have been able to transform episodes of growth into sustained and prolonged growth. As discussed in Country Note B, "Lessons from Countries That Have Sustained Their Growth," the key is countries' ability continuously to adjust and reform institutions in a manner that enables them to sustain higher levels of income and lay the basis for further growth.

FIGURE G.2

Africa's Seven Biggest Economies: Volatile and Unstable

(indexes, 1960=100)



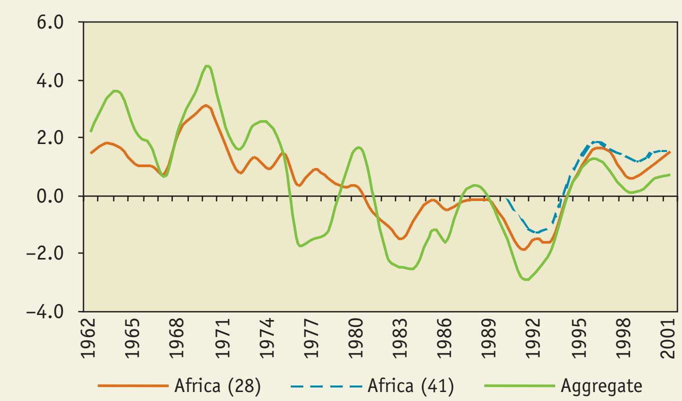
Source: World Bank, *World Development Indicators 2004*.

Note: African countries with the largest populations and with GDP per capita series starting in the 1960s.

FIGURE G.3

Africa: Rebounding in the Late 1990s

(median of GDP per capita growth rates)



Source: World Bank, *World Development Indicators 2004*.

Note: Numbers of countries in each sample are in parentheses. "Aggregate" is total Sub-Saharan African GDP over total population. Three-year moving averages.

TABLE G.2

Annual Growth in 17 African Countries, 1975–2003

Country	*1975–84*	*1985–89*	*1990–96*	*1997–2003*
Six sustained reformers	0.3	0.9	1.5	2.2
Six later adjusters	−2.3	0.1	−2.2	1.8
Five governance-polarized countries	−0.9	0.3	−0.6	−1.6

Source: World Bank, *World Development Indicators 2004*.

Note: Median of the real GDP per capita growth.
Eight (six) sustained reformers: Benin, Burkina Faso, Ghana, Malawi, Mali, Mozambique, Uganda, and Zambia (Mozambique and Uganda do not have a complete 1975–2003 GDP per capita series).
Eight (six) later adjusters: Cameroon, Chad, Guinea, Madagascar, Mauritania, Niger, Senegal, Tanzania (Guinea and Tanzania do not have a complete 1975–2003 GDP per capita series).
Five governance polarized countries: Côte d'Ivoire, Kenya, Nigeria, Togo, and Zimbabwe. This classification is from the 1994 World Bank study, *Adjustment in Africa*.