Sustainable Poverty Reduction & Growth Acceleration in Sub-Saharan Africa

Role of International Economic & Social Policies

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Introduction

Sub-Saharan Africa (SSA) has suffered more than any other region from persistent poverty, vulnerability to fluctuations in international commodity markets and fragile growth. Due to natural constraints and insufficient resources in addition to internal conflicts and weak institutions, it has not been able to mobilize the domestic resources required to build the factors of human and economic development. Contrary to the growing intellectual opposition to the developmental approach to aid, Africa is more than ever in need of sustained domestic and international effort to build the physical, human and institutional capital needed for long-term, self-reliant development. The commitment of the international community and of the main donors to this objective, in which Japan has played a leading role, should be stepped up and sustained.

Sub-Saharan Africa: Region with Highest Incidence of Poverty

Unlike regions such as South and East Asia which have made major progress in poverty alleviation, SSA has been able to reduce poverty only moderately, from about 57% at the beginning of the 1990s to about 51% in 2005 *(Table)*. At this pace, it is difficult for these countries to meet the UN Millennium Development Goals (MDGs) set for 2015, particularly with regard to cutting poverty in half from the level of 1990. The main factor accounting for the persistence of widespread poverty, although not the only one, has been poor growth performance. Sharp declines in poverty are achieved in relatively fast-growing countries while poverty deterioration, or at best very small improvements, are observed in slow-growing ones. A review of the growth/poverty performance for a large number of SSA countries based on the most recent data shows indeed that poverty deteriorated, sometimes drastically, when growth slowed down or was negative, and declined when growth accelerated. This is also borne out by the growth-poverty experience of SSA as a whole, as shown in the *Table* below.

Insufficient Accumulation of Growth Factors Essentially Due to Lack of Resources

While reducing inequality can help alleviate poverty, the main driver for poverty reduction is acceleration of growth through investment in productive assets and infrastructure, human capital, good governance, including establishing an enabling business environment, openness and macroeconomic stability. These factors are adversely affected by political and social instability and internal conflicts, which has been sadly the case for too long in several Sub-Saharan countries.

Growth is a matter of productivity. In Africa, labor productivity is low as a result of insufficient investment in most of the factors listed above. Since a sizable majority of the active population is employed in agriculture or in the informal service sector, policies to raise productivity in these activities, particularly in agriculture, are very important for growth and poverty alleviation. One of the main lessons that the successes of India and China has taught us is that agriculture development policies were implemented prior to or concurrently with those of manufacturing.

Supply factors should be strengthened in rural areas: access to credit to purchase seeds and pesticides, technical assistance for efficient use of inputs, roads to connect to urban areas and ports, and access to finance for transporters of agricultural products. Reorganization of marketing channels is also needed in order to raise the share of farmers in the market values of these products. There should also be more

TABLE
Growth & poverty in sub-Saharan Africa (1980-2008)

Per capita GDP growth (%)		Poverty headcount (% of population living on less than $1.25 per capita per day)	
Period	Per capita growth	Year	Headcount
1980–1989	-0.8	1993	56.9
1990–1999	-0.7	1999	58.4
2000–2008	2.3	2005	50.9

Source: World Development Indicators, World Bank

intensive, targeted research in new drought- and desert-resistant seeds and plants with the aim to stimulate a green revolution in Africa. Most SSA countries do not have sufficient resources to invest in these supply factors. The decision taken by the G-8 meeting in L'Aquila, Italy, in July 2009 to mobilize $20 billion over three years for rural development in poor countries is a welcome decision, coming after two decades of neglect by both unilateral and multilateral donors.

Trade Policies Not Helping SSA Countries Compete in International Markets

Better integration in the international economy is one of the main policies conducive to growth and poverty alleviation. Today, most African countries cannot compete with more developed countries in agriculture or manufacturing. They are handicapped by low productivity, lack of infrastructure and difficult access to international markets, particularly if they are landlocked. These handicaps are compounded by the unfavorable trade policies prevailing in developed countries: production and export subsidies to farmers and high import duties. For instance, cotton produced in several African countries is not competitive with American cotton, which is heavily subsidized by the US government. Furthermore, the tariff escalation policy, which consists of raising import duties as products undergo additional transformation, squeezes the total value-added that African countries can get out of their output, thus precluding productivity gains that may result from further processing of raw materials or agricultural products.

China's domination of international markets for light manufacturing has made it even more difficult for African countries to compete globally. A few countries have been able to penetrate the Western European clothing and footwear markets, thanks to successful export and FDI promotion policies. African countries, such as Mauritius, Morocco and Tunisia, and non-African countries, such as Bangladesh, adopted decades ago trade and fiscal policies aimed at attracting both domestic and foreign investment to export-oriented clothing and footwear activities. Offshore zones and bonded warehouses were established early on, benefiting from tax exemptions, adequate infrastructure, relatively cheap labor and duty-free access to European markets. Unskilled labor-intensive exports grew very fast at a time when China's share in international markets was still not as large as it is today. Conditions have changed ever since, becoming unfavorable to the lagging SSA countries. Today, their labor-cost advantage, if indeed there is one, is not sufficient to allow them to compete with countries such as China.

Developed countries should provide African countries with preferential access to their markets so as to enable them to improve their international competitiveness. The African Growth and Opportunities Act (AGOA) and the European scheme of "Everything But Arms" (EBA) are commendable initiatives, both allowing duty-free access to manufacturing imports from African countries. Japan does not have a similar preferential scheme for imports from Africa. It has emphasized instead the need to enhance African export capacity through its "One product, one village" initiative. AGOA grants generous rules of origin, applying total exemption from import duties regardless of the share of local processing in export value. However, preferences are limited in time and renewed on an annual basis, which doesn't provide enough visibility to domestic or foreign investors. As for the European conditions of rules of origin, they are restrictive and hardly conducive to the promotion of African exports. More flexible rules of origin should be applied to help poor African countries compete in European markets, even if local content is too small in the early stages of industrialization and if other developing countries end up benefiting from the preferential treatment.

Economic Diversification Can Foster Growth, Reduce Vulnerability to Exogenous Shocks

Reliance on one or a few commodities has been detrimental both to growth and poverty alleviation, due to highly volatile international prices and production volumes as well. Experience shows that countries that have diversified exports have been more resilient to the volatility of commodity markets and agriculture. The development not only of light manufacturing for export, but also of tourism and other unskilled or semiskilled labor-using services has helped a few African countries such as Mauritius, Morocco, Senegal and Tunisia to achieve sustainable growth and sharper poverty reduction. A policy that has been particularly effective in circumventing bureaucratic impediments is to establish offshore areas that are equipped with adequate infrastructure, or bonded warehouses, which is even a better policy to spread growth and employment of low- and semiskilled workers within the country.

An increasing number of voices have come out against increasing aid and some of them have gone as far as advocating that it should be completely phased out over a well-defined time horizon. While recognizing the existence of problems of aid mismanagement and corruption, proponents of aid argue that millions of lives have been saved thanks to aid programs aimed at fighting tropical diseases such as malaria, and contagious diseases such as AIDS. They also argue that these countries are faced with a poverty trap because their income is too low to save and accumulate productive human and physical capital. Moreover, governments cannot harness enough local resources to invest in infrastructure, even if they make genuine efforts to improve governance and efficiency.

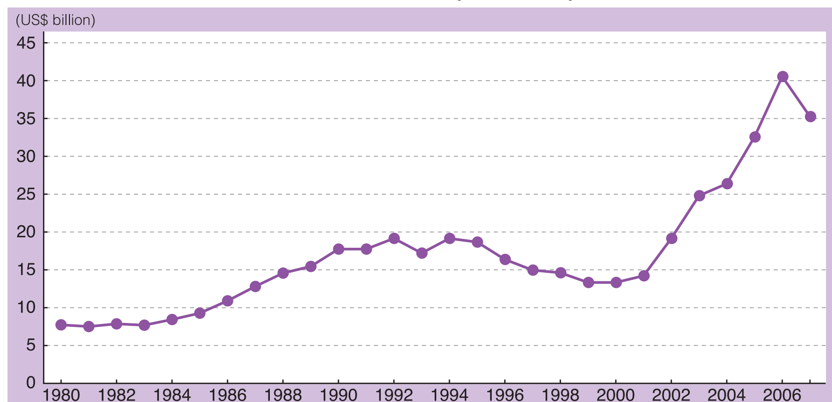
In contrast, aid opponents have argued that large amounts of aid have neither accelerated growth nor made any significant dent in

poverty in the receiving countries. They argue that it has fostered corruption, made governments unaccountable to their own people and weakened the social bond between them. The anti-aid camp doesn't claim in its majority to be against health-related aid, but it is definitely against attempts to radically transform African countries, and low-income countries in general, through aid. According to one prominent economist, the "transformational" approach has failed and a "marginalist" or incremental approach is now needed.

The frustration of the anti-aid camp with the lack of a major impact on poverty alleviation and growth in low-income African countries is understandable and should be understood as a strong call for a review of aid policies and management. However, this camp tends to underestimate the instrumental role played by aid in saving millions of lives and improving the health of others by financing health and food programs. Helping SSA countries transform themselves is for sure a huge and ambitious task, but it is the only way to make these countries self-reliant in the long run. Limited or incremental aid actions are far from sufficient to reach this objective. The donor community should strengthen, not weaken, the developmental approach to aid, which requires more funds than what has been provided so far. While evaluation of the effectiveness of aid in achieving its goals ought to be done more rigorously and frequently than in the past, including through controlled experimentation, this shouldn't be used as an excuse for diluting the development objectives and for scaling down aid flows. These countries still need a "big push" on several fronts, not only in health and food but also in education, infrastructure, and in building stable and credible public institutions as well.

CHART

ODA to sub-Saharan Africa (1980-2007)



Source: World Development Indicators, World Bank

International Aid Effort Not Sustained

Donors' renewed interest in stepping up aid since 2005 is very much welcome, given the dramatic decline in official aid flows in the 1990s and its high volatility in previous periods. Official development assistance (ODA) to SSA stagnated in the early 1980s at around $7.5 billion a year in current terms and declined in real terms. It was increased in the second half of the 1980s and early 1990s only to be sharply cut following the fall of the Berlin Wall in 1991 and the easing of the Cold War. This decline lasted through most of the 1990s and by 2001 ODA flows stood at about $13 billion in current dollars, down from $19 billion in 1994. In real terms, it was cut in half between the two years *(Chart)*.

Official interest in aid waned at a time when growth sharply slowed and poverty deteriorated in most least-developed countries *(Table)*. The gravity of the situation was brought to the attention of world leaders who convened under the UN auspices in 2000 in what has come to be known as the Millennium Development Summit in which the they set a comprehensive set of social goals, labeled the MDGs, which includes, in addition to other goals, cutting poverty by one half and achieving universal primary education by 2015. This commitment by the international community, and the onset of new international political challenges as well, led to a revival of interest in aid. The 2005 G-8 Gleneagles Summit in Scotland pledged to increase aid to SSA from $25 billion to $50 billion by 2010. This pledge was reaffirmed subsequently at the G-8 summits in Germany (2007) and Japan (2008). As a result, ODA aid flows increased for SSA almost threefold as compared to 2001, from $14 billion in the latter year to more than $40 billion in 2006. This sharp reversal in trends needs to be sustained by honoring recently made commitments in order to alleviate poverty and foster growth in SSA countries.

Bypassing Aid-receiving Governments Not Appropriate Solution

Aid disbursement should of course be closely monitored and both aid managers and receivers should be held accountable. Mismanagement and corruption should not be accepted as a fact of life; on the contrary, it should be strongly condemned and prosecuted before national and appropriate international jurisdictions. However, bypassing central governments in SSA and channeling aid directly to the people without involving the central authorities is not the appropriate solution. While insisting on holding them accountable to their own citizens, SSA states and public institutions should be strengthened, not weakened, because in the end, with improved governance, sustainable development can only be in the hands of SSA countries themselves as well as of their own people and institutions. JS

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