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Africa in the World Economy

The National, Regional and International Challenges



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Jeffrey Sachs, Andrés Solimano and Wing Thye Woo

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Edited by
Jan Joost Teunissen and
Age Akkerman

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2

Understanding African Poverty: Beyond the Washington Consensus to the Millennium Development Goals Approach

Gordon McCord, Jeffrey D. Sachs and Wing Thye Woo¹

1 The Misperceptions About African Poverty

The era of structural adjustment, which can be dated approximately to the last two decades of the twentieth century, was a failure for African economic development. Africa was the only major developing country region with negative per capita growth during 1980 to 2000; its health conditions are by far the worst on the planet; its soaring population is exacerbating ecological stresses; and despite the policy-based development lending of structural adjustment, it remains mired in poverty and debt.

What went wrong? In the extreme interpretation of the Washington Consensus by its proponents, as well as by its critics, its unambiguous promise is that if a developing country were to implement conservative macroeconomic policies while expanding the role of the private market at the expense of the state, then it would achieve sustained high growth rates on its own. By extension, if a developing country is failing to grow, the problem must be either macroeconomic mismanagement or a hindering of the private market expansion in the country, usually attributed to corruption or more broadly “bad governance”.

¹ Paper presented at the conference “Africa in the Global Economy: External Constraints, Regional Integration, and the Role of the State in Development and Finance” organised by FONDAD, held at the South African Reserve Bank, Pretoria, 13-14 June 2005. We are grateful to Yonghyup Oh, Andrés Solimano, and Jan Joost Teunissen for insightful comments that clarified our thinking.

This first assumption – that Africa is suffering from a governance crisis – is unsatisfactory. Poorer countries systematically have poorer governance measures than richer countries, since good governance itself requires real resources. Regression analysis in Table 1 shows that Africa's governance, on average, is no worse than elsewhere after controlling for income levels. Using four different widely accepted measures of quality of governance, we estimate the effect of being a tropical African country after controlling for income, and find that for all four indicators, poor governance among developing countries is associated with having low income, and not with the Africa dummy.

This finding is not surprising, since – despite much rhetoric to the contrary – it is quite intuitive that good governance requires resources. For example, low-income country governments frequently need to raise civil service pay scales to make them comparable to the salaries offered by the private sector, international agencies, and development partners. Higher pay is needed to attract and retain highly qualified public sector workers and to reduce the incentives for corruption and moonlighting. Yet impoverished countries lack adequate domestic resources to meet such challenges. In addition, governments require resources to make necessary investments in the physical infrastructure of the public administration to improve service delivery and reduce opportunities for corruption. Some examples include:

- Communication and information infrastructure for all levels of government, including computer and telecommunications services for government offices, public hospitals, land registries, schools, and other public institutions.
- Information systems to improve the speed, reliability, and accountability of public sector transactions and systems to share information across branches of government. India, for example, is working to put all land deeds into a national database, which citizens can gain access to from anywhere in the country. This will eliminate the need for citizens to travel in order to request a copy of the deed to use as collateral in a loan.
- Modern technological capabilities for the customs bureau, to speed shipments, reduce smuggling, and control cross-border movements of illegal or dangerous goods.
- Modern technological capabilities for law enforcement, including national criminal databases, information systems to reduce response times, and adequate dissemination of information to local law enforcement.

Table 1 Governance Quality and Income^a

<i>Independent Variable</i>	<i>Dependent Variable</i>			
	Corruption Perceptions Index, 2003 ^b	Index of Economic Freedom, 2001 ^c	Average Kaufmann <i>et al.</i> indicators, 2000 ^d	Average ICRG indicators, 1982-1997 ^e
Log (GDP pc PPP 2001)	1.05 (5.31)	-0.48 (-4.75)	0.40 (5.20)	0.45 (4.00)
Dummy variable for tropical sub-Saharan Africa ^f	0.58 (1.57)	-0.27 (-1.58)	-0.05 (-0.33)	0.15 (0.71)
R-squared	0.40	0.27	0.42	0.29
N	67	82	92	73

Notes:

^a The sample consists of ninety-two countries worldwide, excluding high-income countries and former republics of the Soviet Union. All regressions are ordinary least squares and include a constant term (not reported). Numbers in parentheses are *t*-statistics; coefficients within statistical significance at the 5 percent level are in bold.

^b From Transparency International, this index relates to the degree of corruption in the country as perceived by business people, academics, and risk analysts and ranges between 10 (highly clean) and 0 (highly corrupt).

^c The index is published by the Heritage Foundation and the Wall Street Journal and ranges from 1 to 5, where 5 indicates the greatest government interference in the economy and the least economic freedom.

^d Average of six World Bank governance indicators measured in units ranging from about -2.5 to 2.5, with higher values corresponding to better governance outcomes.

^e Average of six governance indicators from the PRS International Country Risk Guide, with values ranging from 1 to 6, with higher values reflecting better governance.

^f Refers to sample of 33 countries defined in Sachs *et al.* (2004).

Source:

Authors' regressions using data from Kaufmann *et al.* (2002); PRS Group (2004), Kaufmann *et al.* (2003), Miles *et al.* (2004), Transparency International (2004).

- Electronic government procurement and logistical systems, for example, to ensure reliable access to essential medicines in government clinics and hospitals.

A second common assumption – that Africa grows slowly because of its poor governance – also rings hollow. Many parts of Africa are well governed, and yet remain trapped in poverty. Governance is a problem, but Africa's development challenges are much deeper. Even after controlling for governance (again using several different measures of governance quality), sub-Saharan African countries grew more slowly

Table 2 Governance and Africa's Economic Growth^a

<i>Independent Variables</i>	(I)	(II)	(III)	(IV)	(V)
Tropical Sub-Saharan Africa Dummy ^b	-3.28 (-6.56)	-3.06 (-6.50)	-2.68 (-6.11)	-3.43 (-7.05)	-3.40 (-6.46)
Corruption Perception Index 2003, Transparency International ^c	0.83 (5.23)				
2001 Index of Economic Freedom ^d		-0.96 (-2.75)			
2000 Average Kaufman, Kraay, Zoido-Lobaton indicators ^e			1.89 (5.91)		
1982-1997 Average ICRG Indicators ^f				1.56 (5.29)	
1982 Average ICRG Indicators ^f					0.68 (3.78)
Log (GDP p.c. PPP in 1980)	-2.07 (-7.02)	-1.65 (-6.06)	-1.75 (-7.07)	-2.00 (-7.01)	-1.82 (-5.84)
R-squared	0.58	0.46	0.59	0.59	0.54
N	60	71	78	65	52

Notes:

^a The dependent variable is average annual growth of GDP per capita, 1980-2000. The sample consists of 92 countries worldwide, excluding high-income countries and former republics of the Soviet Union. All regressions are ordinary least squares and include a constant term (not reported). Numbers in parentheses are *t*-statistics; all coefficients reach statistical significance at the 1 percent level.

^b Refers to sample of 33 countries defined in Sachs *et al.* (2004).

^c From Transparency International; this index relates to the degree of corruption in the country as perceived by business people, academics, and risk analysts and ranges between 10 (highly clean) and 0 (highly corrupt).

^d The index is published by the Heritage Foundation and the Wall Street Journal and ranges from 1 to 5, where 5 indicates the greatest government interference in the economy and the least economic freedom.

^e Average of six World Bank governance indicators measured in units ranging from about -2.5 to 2.5, with higher values corresponding to better governance outcomes.

^f Average of six governance indicators from the PRS International Country Risk Guide, with values ranging from 1 to 6, with higher values reflecting better governance.

Source:

Sachs *et al.* (2004). Regressions use data from Kaufmann *et al.* (2002), Miles *et al.* (2004), PRS Group (2004), Transparency International (2004).

than other developing countries, by around 3 percentage points per year, as shown by the regression analysis in Table 2. Africa's crisis requires a deeper explanation than governance alone.

Our explanation is that tropical Africa, even in well-governed parts, is stuck in a *poverty trap*, too poor to achieve robust, high levels of economic growth (and in many places, simply too poor to grow at all). More policy or governance reform, by itself, is not sufficient to

overcome this trap. The fallacies of the Washington Consensus detailed in Woo (2004) certainly apply to the African case:

- While the expansion of the analytical sphere of the Washington Consensus from just merely “get your prices right” to include “get your institutions right” is a quantum improvement in its understanding of the growth process, this second-generation Washington Consensus is still woefully incomplete in its prescriptions for the African countries. For example, the Washington Consensus preaches “free trade regimes” while the successful East Asian growth experience featured extensive import tariffs and export subsidies.
- The Washington Consensus tends to deny the state its role in providing an important range of public goods, and does not acknowledge the importance of these public goods before “self-help” can work in Africa. The Washington Consensus is guilty of linear thinking on the complex growth phenomenon where certain prerequisites must be met before sustained growth is ensured.
- The Washington Consensus does not understand that the ultimate engine of growth in a predominantly private market economy is technological innovation, and that the state can play a role in facilitating this innovation.
- The Washington Consensus does not recognise the constraints that geography and ecology could set on the growth potential of a country. Having malaria and being landlocked seriously hamper foreign investment, regardless of the quality of governance.

A better explanation of Africa’s poverty trap would move beyond the limitations of the Washington Consensus to recognise that *before* privatisation and market liberalisation can unleash private sector-led economic growth in Africa, a massive amount of public investment in health, education, and infrastructure is required, which African countries cannot afford. Africa’s poverty trap is the outcome of a complex web of many interactive factors, including structural conditions and socio-political history:²

- Very high transport costs and small markets;
- Low-productivity agriculture;
- Very high disease burden;
- A legacy of adverse geopolitics;
- Very slow diffusion of technology from abroad.

² See Sachs *et al.* (2004) for a formal model of some mechanisms that can create a poverty trap, i.e. the bad equilibrium in a multiple equilibrium world.

High Transport Costs and Small Markets

To a remarkable extent, Africans live in the interior of the continent and face enormous transport costs in shipping goods from coastal ports to where they live and work. These costs are much higher than in Asia. Moreover, the Sahara effectively cuts off sub-Saharan Africa from high-volume overland trade with Europe, its major high-income trading partner, adding to the high costs of transport. Problems of isolation are compounded by small market size. High-intensity modern trade in Africa can only get started with an extensive road system, which is expensive to build and maintain.

Low-Productivity Agriculture

Most Africans live in the sub-humid or arid tropics, with few rivers to provide irrigation and a lack of the large alluvial plains, typical in much of South and East Asia, which permit cheap irrigation. As a result, Africa has the lowest share of food crops produced on irrigated land of any major region of the developing world. African agriculture also suffers from high transport cost of fertiliser, erratic rainfall, high rates of evapo-transpiration due to high temperatures, and a secular decline in rainfall across the continent during the past 30 years, perhaps linked to long-term climate change. Finally, the new seed varieties that sparked the Green Revolution in Asia and Latin America are poorly suited to African farming conditions.

Very High Disease Burden

Africa carries a disease burden unique in the world. In recent years, the most prominent disease has been HIV/AIDS, wreaking economic and social catastrophe throughout the region. The spread of HIV is fueling an epidemic of TB, which takes its heaviest toll among young productive adults. In some high HIV prevalence African countries, TB infection rates have quadrupled since the mid-1980s, placing overwhelming burdens on existing TB control programmes. Africa is also home to numerous endemic tropical diseases, especially vector-borne diseases. Among these, malaria is by far the most consequential. Of the more than 1 million malaria-related deaths every year, it is estimated that 90 percent occur in sub-Saharan Africa, the great majority of them among young children.

A Legacy of Adverse Geopolitics

On top of the structural challenges, Africa has suffered brutally at the hands of European powers for almost five centuries, and the record with Arab powers has been little better. A massive slave trade helped undermine state formation and may have depopulated Africa's coastal regions. In the nineteenth century, the slave trade was replaced by direct colonial rule and a century of exploitation by European imperial powers, who left very little behind in education, healthcare, and physical infrastructure. Adding to the burden, during the Cold War politics of the late twentieth century, many African countries found themselves to be battlegrounds in a global ideological struggle.

Very Slow Diffusion of Technology from Abroad

Africa has been the great laggard in technological advance, notably in agriculture and health. The uptake of technologies to prevent and treat major diseases, such as malaria, has been extremely slow. In agriculture, most of the developing world had a Green Revolution surge in crop yields in the 1970s–90s as a result of scientific breeding that produced “high-yielding varieties” combined with increased use of fertilisers and irrigation. The absence of a Green Revolution in Africa had a clear impact. Sub-Saharan Africa has the lowest cereal yield per hectare of any major region and the only major region with a (slight) decline in food production per capita during 1980–2000.

Africa's extreme poverty leads to low national saving rates, which in turn lead to low or negative economic growth rates. Low domestic saving is not offset by high inflows of private foreign capital, for example foreign direct investment, since Africa's poor infrastructure and weak human capital discourage private capital inflows. With very low domestic saving and low rates of market-based foreign capital inflows, there is little in Africa's current dynamics that promotes an escape from poverty. Something new is needed.

2 The Way Out of the Poverty Trap in Africa: MDG-Focused Investments

Sachs *et al.* (2004) and the United Nations Millennium Project (2005), an independent advisory project to Secretary-General Kofi Annan, argue

that what is needed is a “big push” in public investments to produce a large “step” increase in Africa’s underlying productivity, both rural and urban. Foreign donors will be critical to achieving this substantial “step” increase. In particular, well-governed African countries should be offered a big expansion in official development assistance (ODA) to enable them to achieve the Millennium Development Goals (MDGs), the internationally agreed targets for poverty reduction by the year 2015. The MDGs are useful intermediate targets in the process of helping Africa to break out of its poverty trap because they address the key areas in which major productivity improvements are both needed and achievable. We note with regret that the rich countries have repeatedly committed themselves to help Africa achieve these goals, with more funding if necessary, but some of them have yet to deliver fully on that promise.

The UN Millennium Project’s reports identify how a big push in key investments in social services, basic infrastructure, and environmental management could enable Africa to meet the MDGs, and how that, in turn, would help to extricate Africa from the current development trap. This will require a comprehensive strategy for public investment in conjunction with improved governance. The Project has laid out an investment strategy focusing on *interventions* – defined broadly as the provision of goods, services and infrastructure – grouped into nine intervention areas:

- Rural Development;
- Urban Development;
- Health;
- Education;
- Human Resources;
- Gender Equality;
- Science, Technology and Innovation;
- Regional Integration Priorities; and
- Public Sector Management Priorities.

Rural Development

The first investment area focuses on raising rural productivity, since three quarters of Africa’s poor live in rural areas. In particular, the investments in farm productivity will increase rural incomes and reduce chronic hunger, predominantly caused by insufficient agricultural productivity. A Twenty-First Century African Green Revolution is

needed, and feasible, to help launch an environmentally sound doubling or more of agricultural productivity. Additional interventions in roads, transport services, electricity, cooking fuels, water supply, and sanitation all provide a basis for higher productive efficiency.

Urban Development

Throughout sub-Saharan Africa, the large cities do not have internationally competitive manufacturing or service-based industries. To generate such industries, an MDG-based urban strategy needs to focus on urban infrastructure and services (electricity, transport, water, sanitation, waste disposal, and so forth) and slum upgrading to attract foreign investment. Of course, the success of urban development and the establishment of viable export industries across Africa are contingent on improving access to rich countries' markets, particularly for apparel and light manufacturing, and the flexibility to use targeted industrial policies as needed. As populations are growing very rapidly across the continent, African countries must develop mutually reinforcing investment and urban development strategies that maximise job creation and prevent slum formation.

Health

Investments are needed to address Africa's extraordinary disease burden, widespread micronutrient deficiencies, and extremely high fertility rates by focusing on health, nutrition, and family planning. This package includes health-system based interventions to improve child health and maternal health; prevent the transmission of and provide treatment for HIV/AIDS, TB, and malaria; improve nutrition; and provide reproductive health services. Halting the AIDS, malaria, and TB epidemics is of enormous importance.

Education

MDG-based strategies in Africa should aim for universal completion of primary education, and increased access to secondary and tertiary education. In designing this package of interventions, particular attention needs to be paid to increasing girls' completion rates through additional demand-side interventions, such as incentive payments to poor households to encourage them to keep their daughters in school.

Human Resources

To achieve the MDGs in Africa, significant investments in human resource development are needed urgently, since health, education, agricultural extension, and other critical social services cannot function without cadres of properly trained staff. Given the need to reach rural and often remote areas, we put great stress on scaling up the training of vast numbers of community workers in health, agriculture, and infrastructure, with training programmes that are one-year long. This process of scaled-up community-based training should start right away.

Gender Equality

As indicated above, all MDG-based investment programmes for Africa should pay particular attention to promoting gender equality, both as a goal in itself and as a crucial input to achieving all the other Goals. This includes ensuring full access to reproductive health rights and services, as well as guaranteeing equal property rights and access to work, backed by affirmative action to increase political representation. Of particular concern in many parts of sub-Saharan Africa are persistently high levels of violence against women and girls, which need to be confronted with public awareness, legislative and administrative changes, and strong enforcement.

Science, Technology, and Innovation

An essential priority for African economic development is to mobilise science and technology. Tropical sub-Saharan Africa produces roughly a twentieth of the average patents per capita in the rest of the developing world. And it has only 18 scientists and engineers per million population compared with 69 in South Asia, 76 in the Middle East, 273 in Latin America, and 903 in East Asia. We stress the need for increased investments in science, higher education, and research and development targeted at Africa's specific ecological challenges (food, disease, nutrition, construction, energy).

Regional Integration Priorities

Regional integration is essential for Africa. It will raise the interest of potential foreign investors by increasing the scope of the market. It is

also important in achieving scale economies in infrastructure networks, such as electricity grids, large-scale electricity generation, road transport, railroads, and telecommunications – and in eliciting increased R&D on problems specific to Africa’s ecology but extending beyond any single country (e.g. public health, energy systems, and agriculture). Regional programmes, such as those advanced by the New Partnership for Africa’s Development (NEPAD), thus require greatly increased support.

Public Sector Management Priorities

Although governance in Africa is not systematically worse than that in other countries after controlling for income, many of the government systems are still weak on an absolute scale and require significant investments in public administration. Information management systems and investments in the training of public sector managers will undoubtedly be crucial. Addressing this issue should be closely linked to reversing and treating the AIDS pandemic, which is taking the lives of hundreds of thousands of civil servants throughout the continent.

3 Implementing the MDG Strategy: National-Level Processes for Scaling-Up

To be aligned with the MDGs, the full intervention package must be converted into a country-level investment plan, one that works backward from the outcome targets to identify the infrastructure, human and financial resources needed to meet the targets – this methodology is hence dubbed a “needs assessment” approach to the MDGs. The UN Millennium Project estimates the costs of the interventions for three African countries – Ghana, Tanzania, and Uganda – chosen for their high levels of extreme poverty, insufficient progress towards achieving the MDGs, and good governance relative to their level of income; and concludes that the financial costs required to meet the MDGs to be around \$110 per capita. Of the \$110, around \$40 could be financed through increased domestic resources (both public and private), leaving a remainder of \$70 that would need to be funded through official development assistance. The overall results suggest that, in order to reach the MDGs, these countries will require average annual official development assistance (ODA) equivalent to at least 20 to 30 percent of GDP through to 2015.

The UN Millennium Project's core operational recommendation is that each developing country with extreme poverty should adopt and implement a national development strategy that is ambitious enough to achieve the MDGs. The country's international development partners – including bilateral donors, UN agencies, regional development banks, and the Bretton Woods institutions – should give all the technical and financial support needed to implement the country's strategy. In particular, official development assistance should be adequate to fill the financing needs, assuming that governance limitations are not the binding constraint, and assuming that the recipient countries are making their own reasonable efforts at domestic resource mobilisation. For many low-income countries, such a policy-design mechanism already exists that allows governments to design of a national strategy in collaboration with their development partners as well as with civil society and the private sector. This strategy is called the Poverty Reduction Strategy Paper (PRSP), which is the main country-level framework used jointly by the international development agencies and the national governments to focus their development efforts.

As the central country strategy document, however, poverty reduction strategies must be aligned with the Millennium Development Goals (in countries where the Goals are already within reach, "MDG-plus" targets can be set). So far, most national strategies have not been ambitious enough to meet the MDGs, and have instead planned around modest incremental expansions of social services and infrastructure, based on existing budgets and levels of donor aid. Instead, MDG-based poverty reduction strategies should present a bold, 10-year framework aimed at achieving the quantitative target set out in the MDGs. They should spell out a financial plan for making the necessary investments, then show what domestic resources can afford and how much will be needed from the donors. Although poverty reduction is primarily the responsibility of developing countries themselves, achieving the MDGs in the poorest countries – those that genuinely aspire to the MDG targets – will require significant increases in official development assistance to break the poverty trap. Importantly, the UN Millennium Project is not advocating new development processes or policy vehicles, only that the current processes be MDG-oriented.

The core challenge of the MDGs lies in financing and implementing the interventions at scale – for two reasons. One is the sheer range of interventions that should be sequenced and integrated to reach the Goals. The second is the need for national scaling up to bring essential

MDG-based investments to large proportions of the population by 2015. Scale-up needs to be carefully planned and overseen to ensure successful and sustainable implementation. The level of planning is much more complex than for any single project, and requires a working partnership between government, the private sector, NGOs and civil society. In the past, scaling up has been immensely successful when governments are committed to doing it, communities are encouraged to participate in the process and implementation, and long-term predictable financing has been available.

4 A New North-South Compact for Economic Development

A new framework for donor-African relations will be required to underpin the big investment push needed to meet the MDGs. The package of public investments proposed by the UN Millennium Project implies a significant increase in ODA transfers to Africa, perhaps a doubling or more. Donor-recipient mechanisms will be needed to translate large-scale aid flows into effective investments and poverty reduction. Where domestic governance is adequate (e.g. at or above the norm for countries at the given income level), aid processes should be guided by four core principles:

1. Policies should be aligned with the 2015 time horizon, with that MDG target date serving as the planning horizon for both recipient countries and donors;
2. The public investment programme needs to be guided by bottom-up assessments of *needs* rather than *ex ante* budget constraints set by the donors;
3. Donor assistance needs to be harmonised and coordinated around budget support, particularly in countries where governance structures are not the limiting factor to accelerate progress towards the MDGs (only approximately 27 percent of net bilateral ODA to sub-Saharan Africa took the form of budget support in 2002); and
4. Donor financing requires new notions of sustainability, including recognition that in some cases grant financing is the only way to pay for the investments and leave the recipient countries with viable public finances at the end of the process.

In practical terms, African governments could implement these guiding principles through a three-stage process. First, each country would convene a planning team comprised of government representative, key

stakeholders, and technical advisors – the bilateral and multilateral donors, UN specialised agencies, and civil society leaders – to conduct an MDG needs assessment. In the second step, the needs assessment feeds into a ten-year public investment and human resource strategy. The third step is to construct the medium-term budget framework (e.g. for three to five years, as with the PRSP), which would finance the first three to five years of the 10-year investment strategy. Government-led coordination will be crucial not just for crafting plans but also for implementing them. As their part of the bargain, recipient governments will need to implement a clear and transparent system for monitoring and evaluating the implementation of plans, building in regular milestones to monitor progress, and checkpoints through which plans can be adjusted as necessary.

In developing an explicit MDG-based planning framework, increased ODA inflows will raise a number of structural macroeconomic issues. Countries must maintain their efforts to mobilise domestic revenue and foster domestic savings and investment in order to support long-term economic growth. With significant increases in ODA inflows, issues of Dutch disease will arise and need to be managed carefully. Finally, underlying this discussion of macroeconomic programming is the consideration of what to do if donor funds are not readily forthcoming to meet the needs of the MDG-based Poverty Reduction Strategies (PRSs). In that case, of course, the MDGs are unlikely to be met. The IMF, however, should not simply urge a country to live within its means. The Fund should present the technical case that the country could achieve the MDGs if given additional support, and should urge donor countries to expand the level of available support such that it is sufficient to enable any well-governed African country making the effort to achieve the MDGs.

In countries where governance is weak, the preceding framework will not apply, mainly because development aid allocated to poorly functioning governments can easily be squandered or even used to reinforce bad practices. The key is to understand the nature of the poor governance, and to take actions that make sense in the context. As mentioned previously, in some cases what is called poor governance actually derives from a lack of financial resources to carry out reasonable public functions. In other cases, the problems of governance are deeper. They may involve violent conflict, authoritarian rule, or corrupt and predatory practices by the state. When the problem is violent conflict, the role of aid needs to be focused in the first instance on peace making, peacekeeping, and

humanitarian assistance. When the governance problem is entrenched despotic rule of some sort, large-scale aid transfers to the government are ill advised; aid to such governments should be limited and should instead be substantially allocated through non-governmental organisations and international agencies.

Sachs *et al.* (2004) have also compared the aid flows needed to achieve the MDGs (equivalent to 20-30 percent of recipient countries' GDP) with the benefits of increased international trade liberalisation. Although trade reform is welcome and important, the paper outlines how it is certainly not sufficient to achieve the MDGs in tropical Africa. This is for two reasons. First, trade gains do not directly provide the targeted public investments needed in health, education, rural development and other social sectors. Second, gains from trade liberalisation are commodity-specific and therefore country-specific. Non-foodstuff exporters, such as the cotton producers of West Africa, will enjoy significant benefits from trade liberalisation with welfare benefits estimated at perhaps 2 percent of GDP. Meanwhile, net food importing countries will in many instances be adversely affected by trade liberalisation that increases global food prices.

After surveying the range of estimates from a number of studies, Sachs *et al.* (2004) concluded that:

“Even if the Doha trade negotiations yield African countries the most optimistic outcomes, these countries' benefits will likely not exceed 1 or 2 percent of GDP per year. This level of welfare increase would amount to progress, but the economic benefits are at least an order of magnitude less than the level of resources required to achieve the MDGs in the poorest countries. So while the benefits of trade are real and non-trivial, they are not a substitute for sustained increases in ODA needed to fund the public investments required to attain the MDGs.”

In considering the small population size of most African countries and the large number of landlocked countries, there is a critical need for deepening regional integration and investments in cross-country transport, energy, and communication infrastructure, as promoted by the New Partnership for Africa's Development (NEPAD). Not only does sub-Saharan Africa have extremely low per capita densities of rail and road infrastructure, but existing transport systems were largely designed under colonial rule to transport natural resources from the interior to the nearest port. As a result, cross-country transport connections within Africa tend to be extremely poor and are in urgent need of extension to

reduce intra-regional transport costs and promote cross-border trade.

In addition, many of Africa's challenges in agriculture, health, environment, or access to energy services require breakthroughs in science and technology. Examples of promising technologies that could help Africa achieve the MDGs include new vaccines or treatments against malaria and HIV/AIDS, improved varieties and cropping systems for predominantly rain-fed and drought-prone agriculture, cost-effective information and communication technologies, and low-cost water treatment and purification systems. While private markets in developed countries are able to engage in development-stage scientific activities and, to a lesser extent, research-stage scientific activities, this is not the case in poor countries. Even though these market failures have been understood for some time, the international system has so far not responded adequately. Appropriate solutions could consist of global coordinating mechanisms based on one of the following models: (i) pre-commitment purchase agreements, (ii) *ex post* prices, (iii) public-private partnerships based on contractual terms that ensure free access to intellectual property rights generated through publicly funded research, and (iv) direct financing of research.

The UN Millennium Project's conservative bottom-up estimates suggest that the current level of ODA is a limiting factor for achieving the MDGs in the well-governed African countries and that those countries need an additional \$40 or so per capita per year in development assistance. If we supposed that 620 million Africans were to receive that amount, it would add about \$25 billion a year to the roughly \$18 billion a year provided in 2002. If the increment were limited only to well-governed countries, the overall increase would be perhaps a bit more than half of the \$25 billion a year, depending on where donors draw the line. The UN Millennium Project calculates that the total cost of supporting the MDG financing gap for every low-income country would be \$73 billion in 2006, rising to \$135 billion in 2015. In addition to these direct costs of investments in the Goals, there are added costs at the national and international level – in capacity-building expenditures of bilateral and multilateral agencies, outlays for science and technology, enhanced debt relief, and other areas. In total, the UN Millennium Project finds that costs of meeting the MDGs in all countries are on the order of \$121 billion in 2006, rising to \$189 billion in 2015, taking into account co-financed increases at the country level.

The bottom line is how small even these "large" numbers really are. In the Monterrey Consensus, and on many occasions both before and since,

the rich world has committed to official development assistance of 0.7 percent of donor GNP. With a combined GNP of around \$31 trillion, the donor countries of the OECD have in effect committed to donor flows on the order of \$217 billion, compared with actual flows of around 0.25 percent of GNP, roughly \$78 billion per year. Even the UN Millennium Project's estimate of \$135 billion per year (this includes ODA for non-MDG purposes as well) would put the donor countries at around 0.44 percent of GNP (rising to \$195 billion or 0.54 percent of GNP in 2015), far below the long-standing commitment.

Large-scale aid is not sufficient for ending the poverty trap, nor even warranted, when domestic governance is poor. Official development assistance should be scaled up significantly only for countries that can help themselves. ODA numbers should not be picked out of the air, but instead based on true needs assessments on a country-by-country basis. The situation in much of Africa is sufficiently desperate and the potential benefits of increased donor-finance investments is sufficiently high, that the world community should start immediately partnerships with well-governed African countries to help them to end their poverty trap once and for all.

5 One Extreme Implication from the Fixation of the Washington Consensus on "Institutions"

"Bad governance" continues to be the lens through which the Washington Consensus interprets the failure of economic development in Africa. According to the investment banker and ex-World Bank official, Percy Mistry (2005), the annual \$50 billion capital flight from Africa is evidence that "Africa is failing to develop not because of a shortage of money. Rather, it suffers from a chronic inadequacy of human, social and institutional capital. Without such human, social and institutional capital (which is not the same as capacity building), development in Africa will not occur, no matter how much aid is thrown at it In any event, it is unlikely that the MDGs will be achieved in Africa by 2015 regardless of the amount of aid provided. The absorptive capacity does not exist to handle it." (Mistry, 2005, p. 2, pp. 11-12).

While Mistry (2005) recognises that Africa lacks the technical capacity to use aid most advantageously and to react fully to new economic opportunities (e.g. those created by globalisation), he rejects aid-funded capacity building as the method to solve this "binding constraint on

African development”.³ His answer is to import skill labour and put Africa under receivership: “The human capital that Africa needs will have to be sourced from around the world”. Specifically, “the installation and embedding in Africa of human, social and institutional capital on a permanent basis” (Mistry, 2005, p. 5) should occur as follows:

1. “African leaders and governments ... [should] pursue immigration policies as open as Africa’s investment policies – something that no aid agency has suggested or required of African governments in the context of economic reform” (p. 6);
2. “To support civil administration donors might consider establishing a permanent civil service for Africa. Such a service could adopt international (e.g. United Nations) standards of compensation and benefits to enable it to employ civil servants from around the world – with qualified Africans being given a clear preference – operating to international standards of probity, competence and efficiency.” (p. 8);
3. “The international community could also create an international judicial service for Africa on lines similar to those suggested for civil servants. Such a judicial service could employ retired judges, advocates and attorneys from developed and developing countries or provide opportunities for serving lawyers in other countries to undertake rotational assignments in Africa under arrangements that provided continuity and quality control.” (p. 8)
4. “The same could be done with an international law enforcement service for Africa whose remit would include regular policing as well as specialised law enforcement, such as narcotics trafficking, human trafficking, internal revenue, customs and excise.” (pp. 8-9)

Mistry suggested that the last three “types of international services could be established and administered over the long term with oversight by agencies such as the Crown Agents who have experience in these particular areas of governance.” Mistry, of course, realised that “[this] kind of thinking out of the box ... may, at first glance, smack of expatriate patronisation of the worst kind. It is worth asking, however, whether it is any worse than the condescension Africa now suffers from

³ “Africa and the donor community can argue that Africa has the capacity to develop its own human, social and institutional capital organically – to cope with increasingly complex challenges of development in a globalising world. But such a choice will mean Africa and its donors continuing to explain for the next half century – as they have for the past four decades – why development still eludes Africa.” (Mistry, 2005, p. 5).

daily with micromanagement of African economic and political affairs from Washington D.C., London, Paris and Brussels – a consequence of its chronic dependence on aid.” (p. 9).

Clearly, Mistry’s recommendations represent one extreme interpretation of “bad governance” in Africa, and it is most likely a minority view within the Washington Consensus camp. Bluntly put, Mistry is claiming that the “bad governance” is the outcome of Africans being incapable of governing themselves, at least up to this point; and that the moral thing for rich countries to do is to “re-colonise” Africa for its own good. Building upon the fundamental assumption of the Washington Consensus that the engine of modern economic growth are the economic institutions that originated in Europe and North America, and Mistry added the twist that in order for these institutions to work properly in Africa, qualified people from other countries will have to be in charge of these institutions – until the Africans are ready to take over.

The lucky truth for Africa is that Mistry is wrong in many of his claims, and in his prescriptions. To consider but a few examples on each front:

Facts

Mistry claimed that “the neosocialist wave that emerged in the latter half of the 1990s saw international development agencies being led by a new generation whose rhetorical commitment to social justice exceeded their capacity to learn from history” (p. 13). How could the neosocialists have usurped power at the World Bank and the IMF after the collapse of communism in Eastern Europe and the Soviet Union, after the highly successful reign of Margaret Thatcher, Ronald Reagan, and Helmut Kohl, and the turn of China from in-your-face communism to closet capitalism? Furthermore, the latter half of the 1990s were the high point years of the institution-fixation type of Washington Consensus – which is why the IMF saw the Asian Financial Crisis as a Crisis in Crony Capitalism.

Mistry also claimed that the ODA lobby and the neosocialists (naturally) have been using disinformation⁴ successfully to secure “larger appropriations for aid budgets” (p. 13). Mistry is correct about

⁴ Africa and the donor community are arguing “for more aid when they know (and acknowledge in camera) that it won’t work ... [and they] pretend that money (particularly concessional aid) is the binding constraint” (p. 5).

the amount of aid only if we measure foreign aid in absolute numbers rather than as a proportion of donor's income or as aid per citizen in the recipient country – and we think that the absolute numbers measure is the least defensible analytically. The data show that with the end of the Cold War, foreign aid had stagnated or declined as a proportion of GDP in most rich countries until the late 1990s. In the case of the United States, foreign aid rose markedly only after Usama Bin Ladin attacked the United States on September 11, 2001. Should we therefore be surprised that the African countries have generally not improved their performance in the 1990s in the face of reduction in ODA?

Prescriptions

Jumpstarting growth through inward immigration certainly worked for the lands of recent settlement like Australia, New Zealand, Canada, and the United States; but it is certainly not the mechanism that launched East Asian economic growth in the second half of the 20th century. Immigration in short is *not* a precondition for modern economic growth to take place. The fact is that ideas can travel from one country to another without permanent mass migration. The problem is not that Africans are incapable of learning; the problem is that the typical poor African economy cannot even afford to educate everyone at the primary school level. Capacity building, not mass migration, is the operative concept, and poor African countries cannot afford capacity building.

Mistry pointed out that Botswana “has managed to attract immigrants of the required calibre” and he concluded that its “experience provides an example that the rest of Africa would do well to consider” (p. 7). What Mistry neglected to mention is that Botswana has rich diamond deposits and had a small population to begin with. The mining of natural resources afforded Botswana the ability to support a larger population at a new higher standard of living. If a landlocked semi-desert African country like Mali wishes to attract a massive inflow of foreign talents, the only way to do so would be to give high subsidies to the new immigrants. We do not see how Mali would be able to afford this policy – unless it expropriates the land of the existing residents and gives it to the new arriving residents, a common action by many colonial governments in the past. Since Mistry is surely not suggesting that the African governments treat its new citizens better than they treat the existing citizens, his suggestion for immigration into

Africa is a non-starter for the poorest African countries. The usual phenomenon in migration is that many more people move from poor to rich countries than vice versa. Hence, Mistry's idea that there would be a large inward migration of skill labour into a poor landlocked semi-desert country if the country were to permit it (in addition to deregulating the economy into a neoclassical paradise) seems to us to be putting the cart before the horse.

Finally, among the many valid objections to why colonialism cannot, and should not, be the institution to initiate and sustain economic development in Africa, the most telling one is that it has been tried before on a massive scale before World War II, and it did not work most of the time. It is a sad sight indeed to see extreme proponents of the Washington Consensus like Mistry engaging in mental contortions about the causes of "bad governance" in order to avoid recognising the existence of poverty traps.

6 Summing-Up

The Washington Consensus is an economic programme focused myopically on short and medium-term stabilisation of output, prices, and the balance of payments, and not on long-run sustained growth, particularly in the poorest countries. This accountant's approach to economic management means that little attention is given to national specificities because accounting statements are the same everywhere in the world (even though the same outcomes might have been generated by different sets of factors). Why is there this accountant's mentality toward economic management?

The answer lays in the institutional weaknesses of the international financial and development institutions, especially the World Bank and the International Monetary Fund, and the need for root-and-branch reforms there. The recent negative experiences with the EEFSU economic transition and the Asian financial crisis show that bureaucratic inertia, operational convenience, and governance problems within the international financial and development institutions coalesced to produce the "one size-fits-all" type of policy packages. We have to change the incentives within existing international economic organisations, most importantly by making them goal-oriented so that they design their programmes specifically to meet the internationally agreed Millennium Development Goals. They should help countries make

financial plans to fund poverty reduction strategies that are ambitious enough to meet the Goals, and in countries where there is insufficient domestic and aid finance to make the necessary investments, the IMF and World Bank should request more funding from the donors. Our suggested role for the World Bank and the IMF are very different from their current role, we want them to transform themselves from being creditor institutions to become genuinely international institutions. These international financial and development institutions, and the international economy, would benefit greatly in the long run if the voting structure were altered to better represent developing countries, if an international bankruptcy court were created, and if the international financial and development institutions built into their programmes policies regarding the tragedy of the global commons brought about by the trend of higher global economic growth.

In conclusion, it needs to be re-emphasised that the causes of under-development are many. The reality is that countries differ in structure and in the international economic constraints they face; many combinations of different shocks produce similar readings on a number of economic indicators; and country characteristics and the international situation could change abruptly. A practice of differential diagnosis is needed to correctly identify what is causing a poverty trap or hindering economic growth in a particular country, and country-level plans need to be made accordingly. The international frameworks exist to do this correctly – the PRSP process brings together the developing country government, private sector, and civil society with the donors to design a strategy. The missing piece, however, has been the financing for strategies that are ambitious enough to break the poverty trap and meet the Millennium Development Goals. The recent commitment of the European Union to reach the 0.7 percent of GNP target in ODA is a welcome step. Now Japan and the United States must pull their weight if the world is to have a hope at ending extreme poverty and achieving true security for us all.

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