

What is happening in ‘poor’ Africa? : Poverty reduction in growth

Katsumi Hirano, IDE-JETRO

Globalization came to Africa

Africa was the focus of debates on poverty and development during the last quarter of 20th century, and also the main arena of development policies and poverty reduction during that period. Through such requirement, development economics has evolved into a very influential discipline heavily based on the case studies on Africa. Nevertheless, this academic evolution could not bring economic growth for African people and poverty problem became more serious one. The unprecedented large volume of ODA input to Africa was observed in the period but yielded almost no expected effect.

However, very unexpectedly for donor community, Africa’s economy has started to grow from the late 1990s and its growth rates have apparently accelerated from 2003 exceeding other regions. While it was widely argued that economic growth was prevented mainly by bad governance in Africa, highest growth rates are recorded now in African countries that are categorized in the worst governance group in the world. Economic growth in Africa, which was expected for long time, was realized but in the much unexpected form as above. The current situations in Africa cannot be fully explained by the conventional way of thinking that had dominated the discussion about Africa’s economy. The price surge of natural resources, exemplified by crude oil, has completely changed the situations of resource-related business, and brought FDI into Africa. Private sector’s mega-projects have completely transformed national economy of Equatorial Guinea, Mozambique, Angola, and others. Same phenomenon may reiterate itself in Zambia, Ghana, DRC, and others too. Such phenomena have collectively brought rapid economic growth in Africa as a whole. This indicates what factor and player is most eminent now in Africa’s economy. Decision making of investors inside or outside the continent is indispensable element to foresee the economic path of each country.

The current world seems to require Africa as politically-stable natural resources supplier. Africa is going to be incorporated again in the global economy as such. That incorporation has made Africa a high growth area, and its movement will be deterred in no way. The new situations have provided African countries with various business opportunities, which brought other investment than resource-related such as retail business, banking and finance, construction, transport, and so on. The same dynamism will be observed not only in Africa but also in the other parts of the world.

New strategy for poverty reduction

However, poverty problem is not improved at large in Africa. High economic growth does not contribute enough to poverty alleviation. Poverty reduction absolutely remains principle task because the majority of the African people are still confined in poverty.

Africa is not in a stage to go 'beyond' the conventional task of poverty reduction, but its strategy should go 'beyond' the past one. It should be modified because 'old' theory that provided foundation to therapies for poverty does not take the dynamics of the current Africa's economy in consideration. We must at first figure out fully the current Africa, and then consider the way of poverty reduction within its framework.

The governments who conduct development policies and donors who conduct aid policies are no more leading figures in national economy. Governments and public entities lost the weight under the structural adjustment program undertaken by almost every African country, and are not capable enough as policy-implementation bodies. We must think who is the most reliable partner holding motivation and adequate administrative capacities to implement projects, because the effectiveness of any project depends on its partner's ability. In this context, private companies have strong interest to keep their investment profitable and have trained staffs in the management. Selective companies who can yield good and stable profit in Africa are equipped with innovative business models and CSR means for social consideration. Without those, they could not maintain business in Africa that is a most difficult place for doing business.

In my assumption, aid policy does not have self-fulfilling capacity to attain its goal. And it cannot expect real effects if depending only on 'ownership' of recipient government in Africa. Aid policy, which had failed in creating economic growth and poverty reduction during 1980s and 1990s, can perform a supplementary role facilitating economic dynamism supplied by the private sector to serve for poverty alleviation. While the coverage of private-public partnership may not cover the whole suffered population, it will create more real results than ever through the powerful capacities of private companies.

Management of economic growth fruits

Africa as a whole enjoys now trade surplus that is accumulated mainly in the pockets of oil-producing countries. And also tax revenue has increased along with economic growth. Africa has relatively high financial capacities as compared with the past. Therefore, it must be considered how to utilize that money before asking aid.

The revenue from natural resources tends to invite rent-seeking activities and corruption. To manage the profit coming from natural resources is quite difficult task as shown in the collapse of Chad's Revenue Management Law. Tony Blair, Prime Minister of the U.K. at that moment, proposed "Extractive Industries Transparency Initiative" at the World Summit for

Sustainable Development in 2002, but only a few countries committed it. Norway's management of their oil revenue is probably the most desirable model, and the many Middle East countries put their energies on the financial management of their oil revenue through sovereign wealth funds. While the management and preservation of revenue from natural resources is more important than ever in Africa, the situations seems to be tough as seen in Chad or in Sudan.

Job creation

Poverty reduction through economic growth is a philosophy of Japanese aid policy. That is different way of thinking from social policies of safety-net type. Economic growth in this context means one to be accompanied with increase of employment or full-employment, which happened in the East Asia but hardly did in Africa. Because this instruction is much based on Asian historical experience, it should be translated or rearranged to be able to function in the conditions or comparative advantage of other countries like Africa.

African countries have no comparative advantage in labor due to its high cost. The fundamental cause of high labor cost in Africa will be found in high price of food stuff brought by low productivity of agriculture. In spite of that the half of the labor force still engaged in agricultural sector, per capita cereal production in Africa is less than one-third of the world average and Africa heavily depends on food import. In addition, 80% of its population in poverty lives in rural area. Therefore, agriculture must be developed in order to save the majority of the poor and to attract labor-intensive industries. Asian history of development indicates this requirement. Private sector's participation is expected even for the agricultural development.

And also business opportunities will be explored along with new investments for employment expansion, while those may not be dramatic like in Asia. Demand for construction materials, various consumer goods and services, whichever can be produced on the spot, has expanded in the current boom. At this again, collaboration with private companies who engaged in production, logistics or retail for those goods and services will be fruitful.

Challenge for new Africa

Natural resources' endowment used to be discussed generally to have counter-development effect. However, Africa has become a more hopeful place than ever owing to the current economic growth. Development policies and aid policies, which used to be designed in economic 'vacuum', can find partners and rely on market dynamism.