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On the Growth Performance of Sub-Saharan African Countries

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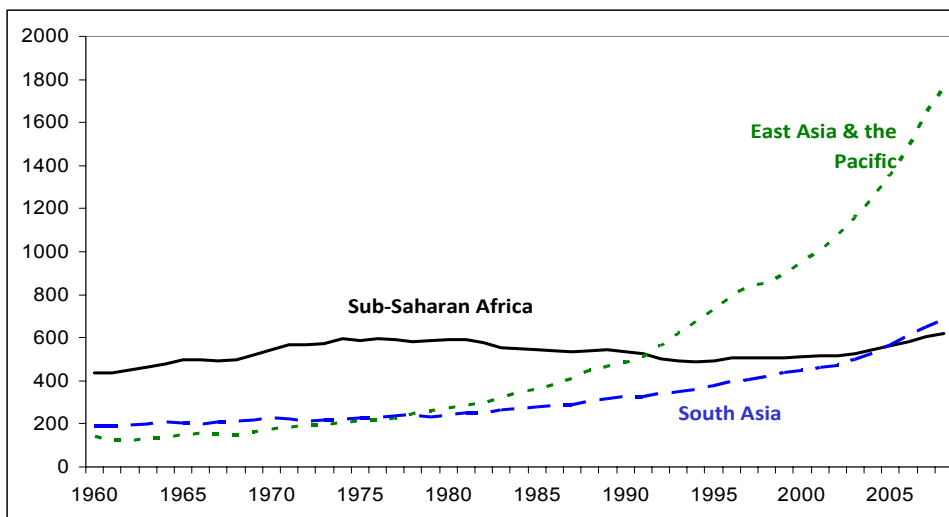
The article discusses some of the most important reasons for the poor growth performance of most countries in sub-Saharan Africa. While high protection levels in high-income countries in Europe and North America for agricultural trade have been cited as a major impediment for the development of African countries, they are unlikely to play a major role. Rather, a lack of integration into world markets and the relatively poor quality of African institutions are more likely to explain the low growth rates.

Keywords: agriculture, growth, institutions, sub-Saharan Africa, trade

1. Introduction

The persistent stagnation in sub-Saharan Africa is arguably the most important challenge in the field of development economics. While developing countries in Asia have achieved spectacular growth rates in recent decades, progress in sub-Saharan Africa has been quite limited. In fact, the standard of living in Africa in 2008 was hardly higher than in 1975 (figure 1). Today, sub-Saharan Africa has the lowest per capita income in the world. Excluding South Africa from income per capita figures would show that the situation is even worse for the other sub-Saharan African countries. Needless to say, world poverty levels are highest in Africa. In 2005, 50.9 percent of the total African population lived on less than one dollar and twenty-five cents a day (at purchasing power parity), whereas the same figures for East Asia & the Pacific and South Asia are 16.8 and 40.3 percent, respectively (World Bank, 2010).

This article attempts to survey some of the most important reasons for the disappointing African economic performance. Naturally, the issue is quite complex, and thoughtful scholars do not claim that any one particular factor is capable of explaining Africa's growth tragedy. Rather, it is more reasonable to assert that a variety of factors have contributed to the present situation in Africa. In this article, we will discuss several of the most important factors that have hindered African countries from developing much faster than they have in the past.



Source: World Bank (2010).

Figure 1 GDP per capita income in different regions, constant 2000 US\$, 1960-2008.

Frequently, agricultural protectionism in high-income countries is mentioned as the key factor in explaining the disappointing trade (and thus growth) performance of African countries. Hence, in the following section we first analyse the impact of agricultural policies in high-income countries, such as the European Union and the United States, on African trade and growth from a development perspective. We describe the present state of protection levels for agricultural trade, with a particular focus on trade barriers in high-income countries and their impact on sub-Saharan Africa. We then address the crucial question of the likely trade and welfare effects that the complete removal of agricultural protection in high-income countries would have on sub-Saharan Africa. Given current protection policies in high-income countries, this outcome is not very likely to be achieved in the short to medium run. Yet it provides a useful exercise in assessing the upper limit of the effects of a reduction of protectionist agricultural policies.

In a second step, we broaden the analytical framework and discuss various additional reasons for the African growth tragedy that have been pointed out in the most recent literature (section 3). In this section, we also highlight a few areas where Western donors might be in a position to assist in achieving a self-sustainable development process on the African continent in the mid to long run. Finally, the article ends with some concluding remarks in section 4.

2. Agricultural Policies in High-income Countries and African Exports

Agriculture is often the economic driving force in developing countries. Statistics from the World Trade Organisation show that agriculture accounts for over one-third of export earnings for almost 50 developing countries, and for about 40 of them this sector accounts for over half of export earnings (WTO, 2005). Moreover, the share of agriculture in the gross domestic product was 15.2 percent in Africa in 2007, much higher than in high-income countries (1.5 percent).¹ However, significant agricultural subsidies provided by high income-country governments to their farmers compromise the ability of developing-country farmers to participate in global agricultural trade, reducing their income and profit streams and their ability to escape poverty.

At the same time, consumers in high-income countries are denied the benefits of lower prices for food and agricultural products resulting from a competitive marketplace, while as tax-payers they are forced to subsidise high-cost production. Apart from subsidies, barriers to agricultural imports also remain high in developed

countries for specific products, creating obstacles to North-South trade. In this section, we first describe current trade barriers and market distortions affecting African countries' exports and, second, present the results of studies that simulated the effects of a complete removal of all forms of barriers and distortions on African trade, production and welfare levels.

2.1 Current Protection Levels and Distortions in Agricultural Trade

Though tariff levels have been reduced by developed and developing countries over the last couple of decades, they are still frequently applied in the agricultural sector. Also, tariffs for agricultural products are usually high in comparison to those for manufactured products. For example, the average import tariff for agriculture and food is 16 percent for high-income countries and 18 percent for developing countries, while for manufactures it is 1.3 and 8 percent, respectively, not including textiles and clothing (table 1).

Table 1 Import-weighted Average Tariffs by Sector and Region, 2005

Sector	High-income countries	Developing countries
Agriculture	16	18
Textiles and wearing apparel	8	17
Other manufactures	1.3	8

Source: UNCTAD TRAINS database. Income groups are classified according to the World Bank (2010) definition; that is, a nation belongs to the group of developing countries if its gross national income per capita in 2008 is below US\$11,906.

Yet these averages obscure large variations across countries, commodities and bilateral trades. For instance, exporters in sub-Saharan Africa face much lower tariffs than do exporters elsewhere. Sub-Saharan African exporters are eligible for various trade preference schemes offered by high-income countries. As part of the Generalised System of Preferences (GSP), since 2001 the EU has granted least-developed countries tariff- and quota-free access to their markets for all products except arms and munitions in their Everything But Arms (EBA) scheme.² Only three products were not liberalised immediately: bananas, rice and sugar. In the meantime, these have received duty- and quota-free access in January 2006, September 2009 and July 2009, respectively.

African countries that do not belong to the group of least-developed nations have the chance to use the EU's provisions for 77 former colonies in Africa, the Caribbean and the Pacific (ACP). In this program, the EU granted preferential (and often tariff-

and quota-free) access to their markets. Since these unilateral tariff preferences expired in 2007, they have been replaced by the ACP/EU Economic Partnership Agreements, which are in fact reciprocal trade agreements. Overall, the EU's EBA preferences are the most generous, since they allow tariff- and quota-free access for nearly all products originating in least-developed countries. The United States, conversely, has its Africa Growth and Opportunity Act (AGOA), which also provides tariff- and quota-free access to the U.S. market for those African countries which meet certain political standards.

In practice, however, the EU and U.S. preference schemes are less generous than they appear. For example, the EU's EBA preference scheme has relatively restrictive rules of origin, which have the potential to harm African exporters. Rules of origin define where a product comes from. For example, they may require that 50 percent of the raw materials originate from the preference-recipient country. High percentage figures for the rules of origin, together with the requirement to carry out bureaucratic procedures, increase administrative costs and thus lower the potential benefits from preference margins for African exporters.

Besides being protected by tariffs, agricultural producers in high-income countries are supported by export subsidies and by domestic support measures.³ Both measures support farm incomes and encourage agricultural output to varying extents. The market price support component typically raises domestic consumer prices of farm products. The value of, and the percentage of total farm receipts from, these support policy measures are relatively high. In 2004, all OECD countries spent about US\$280 billion per year on domestic support and export subsidies, which amounted to some 30 percent of total farm incomes (OECD, 2010). The figure for the EU is slightly above average (33 percent), whereas the U.S. percentage is somewhat lower (18 percent). The most protective OECD countries are Iceland, Japan, Norway and Switzerland, in which subsidies make up between 56 and 69 percent of total farm income. This means that far more resources have been retained in agricultural production in developed countries – and hence fewer in developing countries, including Africa – than would have been the case if protection had been phased down in agriculture.

These averages, however, do not reveal that subsidies have the potential to considerably distort trade patterns at the product level. For example, U.S. cotton subsidies, that is, domestic support and export subsidies, have greatly harmed West African cotton growers by obstructing access to the U.S. market and by lowering world market prices (Minot and Daniels, 2005). For a few countries in West Africa, cotton accounts for the major source of income and jobs in the agricultural sector (e.g., Benin, Burkina Faso and Mali). Sadly, even though West Africa is considered a

high-quality and low-cost producer of cotton, farmers of that region are not able to compete with subsidised U.S. cotton on world markets, depriving them of much-needed export revenues.

Summing up, although tariff preferences are relatively generous for African firms on EU and U.S. markets, exporters may still face high tariff barriers for a number of products, such as sugar or bananas. Also, agricultural subsidies distort production and trade patterns. Domestic production subsidies protect farmers in high-income countries against low-cost competitors from Africa or other developing regions, while export subsidies make them competitive abroad, thereby reducing exports of (African) developing countries. However, this induced competitive advantage applies to specific products only.

2.2 Market and Welfare Implications of a Complete Removal of All Forms of Agricultural Protection Policies

Given these distortions in the agricultural sector, we are interested in the effects of full liberalisation in high-income countries, that is, the elimination of all tariffs, export subsidies and domestic support, on sub-Saharan Africa. While this outcome is not very likely to be achieved in bilateral and multilateral negotiations due to fierce resistance from various lobbies and interest groups in high-income countries, the exercise should illustrate the maximum welfare gains that can be achieved in this sector.

So far, two studies have simulated the impact of a complete removal of all forms of protection policies in agriculture.⁴ Anderson, Martin and van der Mensbrugge (2006) estimate the potential gains from global trade reform for all countries.⁵ Assuming a complete removal of all forms of protection between 2005 and 2015, per capita income in sub-Saharan Africa would rise by 1.1 percent. Though this figure is larger than the predicted increase in welfare levels in high-income countries (0.6 percent), the relative magnitude of the effect is rather low. African production of agricultural and food commodities would increase by 2 percent, whereas agricultural exports would rise by 48 percent.

In addition, the study shows that cotton subsidy cuts would help cotton-exporting developing countries. The removal of all cotton subsidies would raise cotton prices on world markets and change trade patterns. According to the results, prices and volumes of sub-Saharan African (and other countries') exports would rise, thereby boosting farm incomes. For example, African cotton exports would be a huge 75 percent larger, and the share of all developing countries in global cotton exports would be 85 percent instead of 56 percent with subsidies in 2015. This forecast particularly vindicates

those countries' efforts to ensure that cotton subsidies receive specific attention in current WTO negotiations.

Another interesting result is the projected impact on poverty rates. Anderson and associates find that the poor in developing countries would gain most from a dismantling of protection policies. Full liberalisation would raise real factor returns for the poorest households most. For sub-Saharan Africa, the biggest factor price rise is for farmland (5.2 percent), followed by unskilled labour (5.1 percent). Since farmers and other low-skilled workers constitute the vast majority of the poor in African countries, such a reform would reduce both inequality and poverty.⁶

Anderson and his co-authors also calculate the relative importance of particular agricultural protectionist policies, namely import barriers, export subsidies and domestic support, for developing countries. The findings show that while subsidies are important, increased market access is crucial. More than 90 percent of the total gains from the elimination of protectionism can be achieved from an enhanced market access in agricultural goods. This outcome is particularly important, particularly in light of the fact that the (preliminary) compromise found at the WTO Ministerial Conference in Hong Kong in December 2005 only concentrates on the elimination of export subsidies by 2013. According to the calculations by Anderson and associates, this change would account for only 2 percent of the total possible gains in the agricultural sector. As a matter of fact, trade negotiators have not yet agreed on any (final) package that includes market access and/or domestic support. To date, any compromise established in the WTO Doha Round falls far short of reaching the potential gains that could be achieved in this sector.

In another paper, Hertel and Keeney (2005) address the same set of questions as Anderson, Martin and van der Mensbrugge.⁷ Assuming a removal of all tariffs and agricultural subsidies, total agricultural exports of South Africa, Southern Africa (excluding South Africa) and the rest of sub-Saharan Africa would increase by 41, 38 and 21 percent, respectively. Obviously, figures for individual countries vary considerably, though they are not reported by Hertel and Keeney. Welfare levels (total income) in the three countries/regions would increase by a total of some US\$550 million.

While the elimination of remaining barriers to trade for a few products would definitely boost African exports, both studies point out that the increase in per capita income levels would remain relatively low due to two *negative effects* that would reduce the welfare gains for sub-Saharan Africa. First, the elimination of all domestic and export subsidies in high-income countries would increase world market prices for agricultural commodities, since total supply would decrease. In contrast to (net)

exporters, net food importing countries in Africa (and other regions) would have to pay more for their imports, and their terms of trade would deteriorate.⁸ Second, in the case of complete removal of all tariffs in high-income country agricultural markets, not only African firms but also producers from other developing countries, such as Brazil or Argentina, as well as competitive firms in developed countries such as Australia, would gain identical access to EU and U.S. markets. Hence, sub-Saharan African producers, in particular the less efficient African firms, are likely to see their preferences and market shares erode, which would further lower their terms of trade. Anderson, Martin and van der Mensbrugghe (2006) estimate that the terms-of-trade effect would reduce the welfare gains for sub-Saharan Africa from 1.8 to 1.1 percent (table 2).

Table 2 Impacts on Real Income and the Terms of Trade from Full Trade Liberalisation, 2015

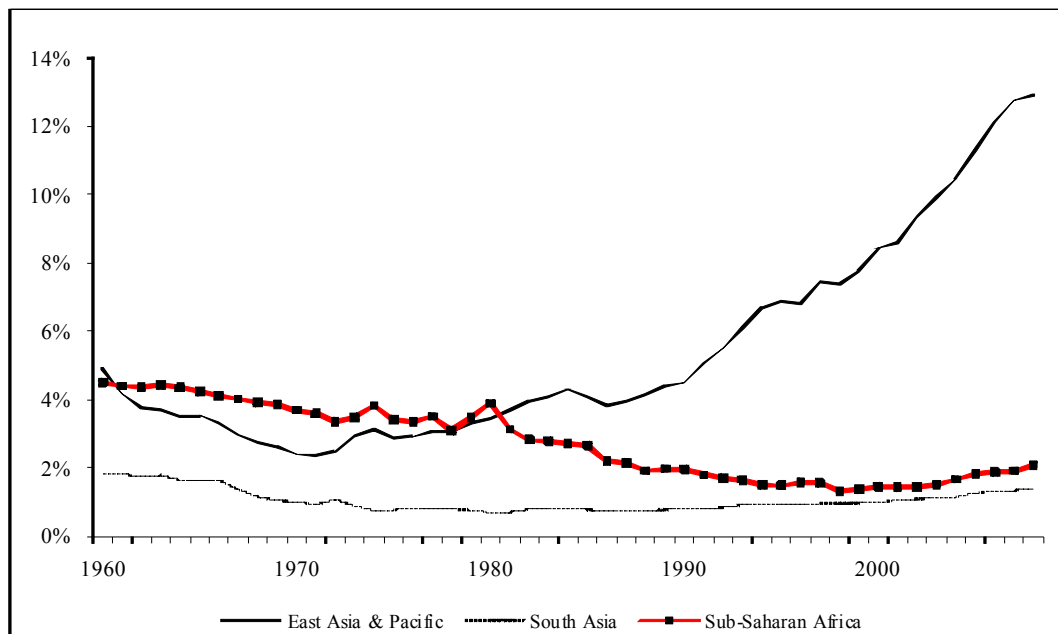
Country group	Real income	Terms of trade	Net impact
High-income countries	0.6	0.6	1.2
Sub-Saharan Africa	1.8	-0.7	1.1

Source: Anderson, Martin and van der Mensbrugghe (2006).

African countries have not been able to take full advantage of trade preferences in the past. Apart from the restrictive rules of origin, they are – on average – much less competitive than, for example, Brazilian sugar or Argentinean cattle farmers. Since African producers face similar constraints in other sectors as well, the share of African exports (and imports) in world trade has dropped in recent years. Despite beneficial trade preferences, Africa's share of world trade declined from 4.5 percent in 1960 to 2.0 percent in 2008 (figure 2). Other regions, such as East Asia & the Pacific, were able to boost their exports considerably over that period, even though they faced the same protectionist policies in high-income countries and had less favourable access to these markets.

3. Main Political and Economic Areas for Reform in Africa

Since agricultural trade liberalisation in high-income countries alone is not likely to increase African per capita income levels noticeably, we broaden the analytical framework and discuss various additional factors that have hindered African countries from achieving higher growth rates. The next section focuses on these further determinants, whereas section 3.2 concentrates on policy areas for reform.



Source: World Bank (2010).

Figure 2 Exports in percentages of world exports, regional shares, 1960-2008.

3.1 Factors Responsible for the Low Development Level in Africa

There is extensive literature on this subject.⁹ In the following, we do not endeavour to discuss all reasons for the low growth rates in Africa. Nor do we want to list them one after the other. For analytical purposes, we rather intend to group the various reasons into camps. This approach might help us to identify underlying causes and to find more effective ways to deal with them. In fact, three strands of thought stand out. First, the role of market integration through international trade and foreign direct investment (FDI) is emphasized. Supporters of this camp stress that both trade and FDI can increase productivity levels through economies of scale or technology

spillovers. Economies of scale are particularly important for sub-Saharan African countries with relatively small markets, since African firms would be able to drastically reduce average production costs through trade, that is, vis-à-vis access to larger markets. Moreover, they lack the most recent production technologies, which they might acquire through trade and/or FDI (figure 3). Both market size and production technologies are important explanations for supply-side constraints; that is, African firms lack the capacity to increase their production levels. Therefore, access to important markets in high-income countries is clearly a relevant issue, including in the above-mentioned agricultural sector.

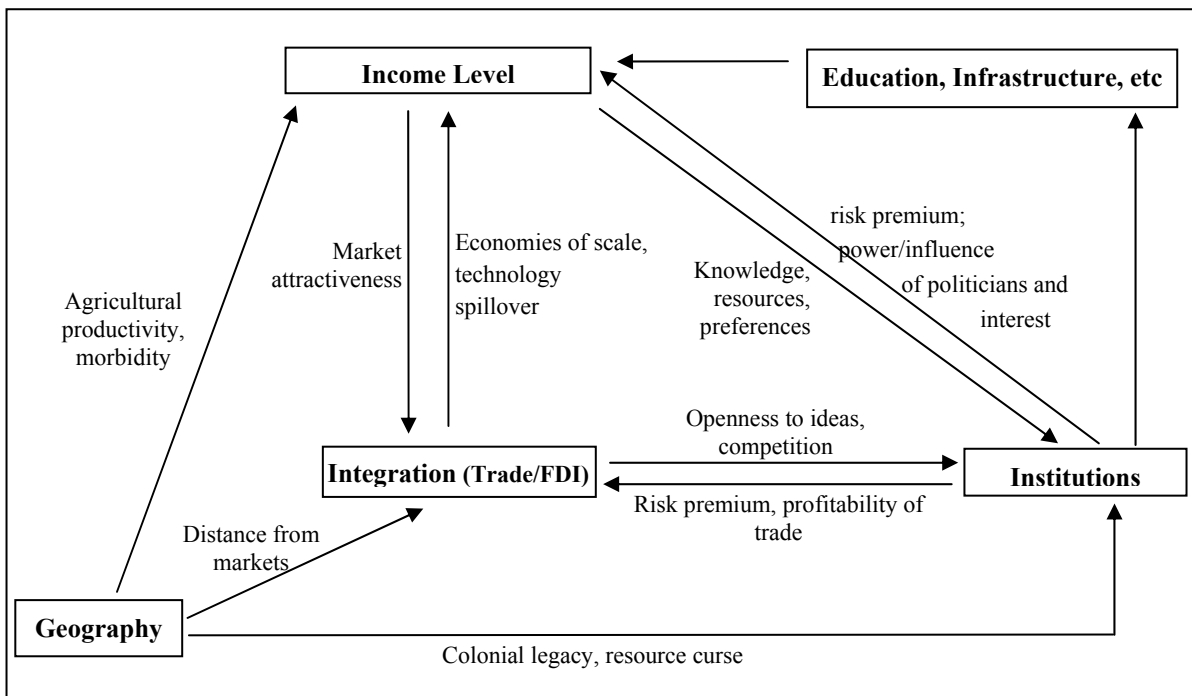


Figure 3 Determinants of income.

A second camp places institutions at the centre of the story. Institutions can be defined as humanly devised constraints that structure political, economic and social interactions (North, 1990). These comprise, among others, voice and accountability of the government, political stability, government effectiveness, regulatory quality, rule of law and the lack of corruption. From the perspective of this camp, what matter are the rules of the game in a society and their conduciveness to desirable economic behaviour. Indeed, there is strong evidence that institutional quality has a considerable impact on income levels because of, among other factors, (1) the reduced risk, as institutions define and enforce property rights, and (2) the restrictions on the actions

of politicians and interest groups, as institutions make them (more) accountable to citizens (WTO, 2004).

Unfortunately, most sub-Saharan African countries show rather low ratings for institutional quality. In fact, Africa usually has the worst scores among all regions for measures of institutional quality, such as good governance (table 3). Even worse, African political leaders and interest groups have considerable power in their countries, as democratic accountability, including several checks and balances, is not always ensured. This might in turn lead to an abuse of power and can negatively affect other areas of government policies, for example, education policies or public infrastructure, in turn depressing economic growth (figure 3).¹⁰ Likewise, excessive government regulations may lead to corruption due to complicated and costly bureaucratic procedures. As a consequence, Africa is a very difficult place to do business for entrepreneurs, and firms require a relatively high risk premium, which reduces investment and growth rates.

Table 3 Government Performance by Region/Country Grouping, 2008

Region	Voice & accountability	Political stability	Government effectiveness	Regulatory quality	Rule of law	Control of corruption
OECD high-income countries	1.26	0.91	1.49	1.43	1.47	1.51
Developing countries	-0.19	-0.13	-0.22	-0.21	-0.22	-0.23
Sub-Saharan Africa	-0.57	-0.55	-0.80	-0.72	-0.75	-0.64

Source: World Bank (2009). Note: All six indicators have a mean of zero and are measured in a range from -2.5 to +2.5. A higher figure means a better governance performance.

Strong and sustained economic progress also requires high human capital levels. Providing schooling for girls and boys as well as further training for workers is not only a fundamental human right, but also the key to higher productivity levels and thus elevated growth rates in all sectors of the economy. Without a skilled workforce, progress in any other area would be very difficult to achieve, as higher educational attainment levels are closely linked to, for example, lower birth rates or reduced HIV and AIDS infection rates. But again, institutional quality may also play a central role here, as there is a close linkage between good governance and educational attainment levels. African leaders with strong leadership and commitment in this sector are much more likely to deliver the basic (educational) services required.

The third camp emphasises that geography is the main factor hindering growth. Geography is a key determinant of climate, endowment of natural resources, disease burden (e.g., malaria or yellow fever) and transport costs (figure 3). It therefore exerts

a strong influence on agricultural productivity and the quality of human resources (Bloom and Sachs, 1998). In sub-Saharan Africa, the soil quality is poor and much of the continent is semi-arid, with rainfall subject to long cycles and unpredictable droughts (Collier and Gunning, 1999). In addition, diseases like malaria have had catastrophic consequences, resulting in low labour market participation rates and productivity levels, as infected humans are not able to work or are severely affected in their cognitive abilities.

Geography can also have an indirect effect through its impact on distance from markets and the extent of integration. Countries that are far away from major markets face additional transport costs that reduce the profitability of trade. Though sub-Saharan Africa is arguably closer to Europe and the United States, African exporters have higher transport costs than, for instance, their Asian competitors. In fact, the public infrastructure is relatively poor in most African countries, which dramatically increases transport costs. Also, there are a number of landlocked countries in Africa, for which transport costs are much higher (Djankov, Freund and Pham, 2010). In comparison to other regions, trade may thus not have the same beneficial effects for Africa.

In a similar way, geography has an indirect impact on income through the quality of institutions. Economic historians have emphasised the disadvantageous consequences that certain patterns of factor endowments, which engender extreme inequalities and enable the entrenchment of a small group of elite, have had on institutional development (Engerman and Sokoloff, 1997, 2002). A similar explanation, linking ample endowment of natural resources with stunted institutional development, also goes under the name of “resource curse”. Here, it is argued that abundant natural resources lead to rent seeking and corruption, which negatively affect institutional quality and thus growth and income levels (Sachs and Warner, 2001). In Africa, Nigeria is arguably the best example for the negative effects of abundant natural resources (oil).¹¹

In addition, the disease burden of tropical climates, another geographically related disadvantage, can also account for differences in institutional quality across countries. Acemoglu, Johnson and Robinson (2001) argue that settler mortality had an important effect on the type of institutions that were built in different regions of European colonisation. Where the settlers encountered relatively few health hazards, they established sound institutions that protected property rights and ensured the rule of law. In other areas, where disease was more prominent, they favoured extracting natural resources and showed little interest in building high-quality institutions. Acemoglu and associates claim that the colonial origins of good/bad governance still

have an impact on the government quality today, as institutional quality (at present) and settler mortality rates (in the past) are highly correlated. Unfortunately, with these findings the authors also conclude that the colonial legacy is partly responsible for the relatively low institutional quality in these nations.

Finally, two out of the three above-mentioned main determinants (market integration and institutions), not only influence income levels, but are (partly) determined by income levels as well. For example, while trade might boost welfare, trade might on the other hand expand as an outcome of increased productivity levels, which can be a signal for market attractiveness. Likewise, there might also be a reverse relationship between income levels and institutions, since citizens from richer countries are likely to have stronger preferences (as well as the knowledge and the resources) for high-quality institutions. Since the causality is not straight forward, any policy implications based on single determinants should be treated with caution.

3.2 The Role of Aid and Assistance for Self-sustainable Development in Africa

The three-fold classification offered above – geography, integration and institutions – allows us to organise our thoughts on the “deeper” determinants of Africa’s growth tragedy. In fact, these three are all factors that determine which societies will innovate and accumulate, and therefore develop, and which will not. Since long-term economic development is a complex phenomenon, an observation that applies in particular to Africa, the idea that any one (or even all) of the above deep determinants can provide an adequate account of centuries of economic history is, at first glance, rather unlikely. In reality, the collection and/or the interaction of these factors may well explain variations in cross-national incomes in Africa.

Despite the importance of all three factors, for African policy makers and Western donors, it is of high interest to know which of the three are most relevant. Are they all equally important? Does one of the explanations “dominate” the other two? And, above all, what does it all mean for African countries in practice? While the first two questions have been addressed in a number of recent studies, there is much less agreement on the last issue. The large majority of empirical studies come to the conclusion that integration has played a minor role for African (and other developing) countries thus far. Though trade is often positively associated with growth rates, the evidence is neither strong nor robust to various specification tests. Still, trade may play a contributing role in development, if high-income countries remove the remaining trade barriers or improve the growth and welfare impact of existing trade preferences through, for instance, fewer exceptions and more favourable rules of origin. Yet the key for a successful impact of trade on growth rates and welfare is to

improve Africa's capacity for trade. Frequently, African countries are not able to take advantage of trade preferences, evidenced by the fact that the allocated quotas for duty-free access are not always entirely used. African governments thus have to deal effectively with their supply-side constraints.

Likewise, it has been shown in several studies that while geography does have an important influence on income levels, it alone cannot explain differences in income levels, nor even explain them to a considerable degree (Easterly, 2009). Obviously, diseases like malaria and yellow fever do severely restrict labour market participation rates and reduce productivity levels. Yet the challenge for African governments and Western donors is to effectively confront these issues, for instance, through an increase in funding for research on a malaria vaccine and drugs. For example, the Melinda and Bill Gates Foundation has provided much-needed funds for extensive research on malaria prevention and treatment. Since the benefits of research and development in this area are potentially huge and the interest of international (Western) pharmaceutical companies is relatively low, further funding would be highly valuable.

Based on the results of various empirical studies, the most important variable for explaining differences in income and growth rates across countries is the quality of institutions. This outcome holds for various robustness checks regarding the data and methodology used. In fact, some studies come to the conclusion that institutions "trump" everything else.¹² They do not, however, state that other areas should be neglected. The quality levels of public infrastructure and educational attainment are still relatively low in Africa and deserve the special attention of both African governments and donors in Western countries. Also, if peace and security in Africa are not ensured, progress in other areas is futile to some extent. There is mounting evidence not only that institutional quality through, for example, good governance or high-quality government regulations plays a central role in the improved accountability of African governments but also, as various studies have demonstrated, that institutional quality is also associated with higher (public and private) investment, increased productivity levels, fewer supply-side constraints, an improved stock of human capital, better management of (ethnic) conflicts, less income inequality, better financial development and improved revenue management of natural resources.

Given the central role of institutions in economic and social progress, it is rather astonishing that most African governments (as well as Western donors) still insist that trade barriers in high-income countries or a lack of (budget) aid are the most important reasons for the African growth tragedy. In contrast, a growing number of development economists state that while reducing trade barriers for African products

as well as specifically targeted aid could be useful, in particular in key sectors like education, the highest gains can be achieved from an improved institutional setting, that is, better governance and fewer regulations. In this area, most of the hard work still lies ahead – and has to be done mainly by African governments. Above all, a clear commitment is required on the part of African leaders to reform their institutional settings, including coherent and consistent reform agendas. A number of countries, such as Ghana or Botswana, have already begun this task, but for the majority of African nations the process still has to be initiated. In fact, the most important task for African leaders is to accept that aid can only facilitate a self-sustainable development process, whereas major reforms have to be implemented from within.

Western donors, such as governments of high-income countries and international institutions, can facilitate this process by offering political and financial support to African governments that have clear and consistent reform agendas. In addition, non-governmental organisations could increase the public awareness that good governance matters. Also, Western donors and multinational organisations should emphasise that the transparency of their interactions with governments and firms is another key to increasing institutional quality in African countries.

Whereas it is recognized that good information is essential for informed policy-making and effective delivery, there is less agreement on the scope of changes and how to change institutions. Institutional solutions that perform well in one setting may be inappropriate in another setting without the supporting norms and complementary institutions. Or, in the words of Douglass North,

Economies that adopt the formal rules of another economy will have very different performance characteristics than the first economy because of different informal norms and enforcement. The implication is that transferring the formal political and economic rules of successful Western economies to third-world and Eastern European economies is not a sufficient condition for good economic performance. (North, 1994, p. 366)

Accordingly, there is still much to be learned about what improving institutional quality means on the ground. We do not have a comprehensive body of knowledge on the timing and sequencing of reforms. Nor do we know what might facilitate the enhancement of institutional quality, that is, what precisely can be done by outsiders to assist in the transformation of the institutional setting. To give an example, improved educational attainment levels might increase the demand for better institutions, which in turn would boost growth rates,¹³ yet we do not know how strong that impact would be and which other factors play a central role in that process. This is a wide open area of research, and Western donors should give advice to African governments on how to change the institutional setting in a welfare-improving manner

with the ultimate goal of self-sustainable development. The task, however, is extensive and demanding, since “blueprint” concepts are not very likely to succeed. Rather, what is needed is further analysis and commitment to further reform. However, the main responsibility for fundamental reforms is in the hands of African governments.

4. Concluding Remarks

African stagnation and poverty is perhaps the greatest tragedy of our time. Africa is the region with the lowest per capita income in the world. What is more worrying, no major progress has been achieved over the last 30 years. African governments (as well as Western donors and international aid institutions) face an enormous challenge. Poverty on such a scale demands a forceful response by all stakeholders involved. While some African leaders are trying to create much stronger foundations for tackling their most pressing problems, many countries are stuck in a process of low growth and widespread poverty that seems difficult to reverse.

African leaders need to show will and strong leadership and take full responsibility for their people. Also, Western donors have to engage in a new kind of partnership with Africa that takes full account of Africa’s diversity and particular circumstances. In the past, many approaches have been tried and often have failed. What is required is a new kind of development policy based on mutual respect and understanding, and rooted in a comprehensive analysis of what actually works, what does not and why. While investments in people and (public) infrastructure, along with peace and security and more and fairer trade are important factors that can contribute to a much needed process of self-sustainable development, we have pointed out in this brief survey that institutional reforms are essential for a self-sustainable development process in Africa.

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Endnotes

1. In a number of African countries the share is above 50 percent. The highest figure, that is, 55 percent in the year 2007, can be found in Liberia (World Bank, 2010).
2. According to the UN (2010) list, 33 out of 48 sub-Saharan African countries are least-developed countries. They are characterised by very low per capita income and human capital levels as well as low life expectancy rates.
3. The WTO still tolerates export subsidies only for agriculture.
4. To address this question, researchers usually employ a computable general equilibrium model. This type of model relies on a so-called social accounting matrix, which in fact is a description of the linkages between sectors in an economy. If tariffs on raw materials such as oil products are eliminated, for example, imports rise due to lower prices. Apart from imports, prices for products that use oil as a preliminary product, such as the chemical industry or the transport sector, are decreasing as well. Hence, we observe various effects in several sectors of an economy that these models are capable of taking into account. As a result, they provide estimates for changes in production, trade and welfare levels (per capita income) for all countries concerned.
5. In the following, we focus mainly on their results for sub-Saharan Africa and agriculture but do not report the outcome for all regions and sectors.
6. In fact, these figures are likely to be lower-bound estimates of the trade, welfare and poverty impact of the elimination of remaining agricultural trade barriers, since general equilibrium models cannot incorporate all dynamic effects of liberalisation. For example, changes in production technologies, which might lead to further welfare gains, are rarely taken into account.
7. Both studies use the same database but differ regarding the model used. In contrast to Hertel and Keeney (2005), Anderson, Martin and van der Mensbrugghe (2006) use the World Bank LINK model, which incorporates changes in factor returns and productivity levels in the mid to long run. By definition, the estimated welfare effects will therefore be larger for most countries.
8. The terms of trade are defined as the ratio of export over import prices. Assuming constant export prices, an increase in import prices lowers national welfare, since the country has to pay more for its imports.
9. See Easterly (2009), Commission for Africa (2005), Rodrik, Subramanian and Trebbi (2004) and Collier and Gunning (1999) for surveys.
10. Low institutional quality is also one of the reasons why Africa has been less able to cope with its numerous internal and external conflicts.
11. A number of papers have emphasised the linkage between resource endowments and civil and external conflicts in Africa. See Commission for Africa (2005) for a survey. Obviously, Africa's various conflicts have had devastating effects in the affected countries.
12. See, for example, Rodrik, Subramanian and Trebbi (2004).
13. In that case, there would be also a reverse effect in figure 3.