# Africa's Missing

Outside Malawi's Kamuzu Central Hospital, relatives of patients prepare food.

*Abdoulaye Bio-Tchané and Etienne B. Yehoue*

## How aid can be better directed to entrench development in sub-Saharan Africa

BY SOME accounts, Africa is finally on a growth path. Sub-Saharan Africa is experiencing its fourth year of strong growth and is forecast to do well next year too. Higher oil revenues, strong commodity prices, and increased debt relief are being used to make inroads into poverty. While parts of Africa are still plagued by wars and tarnished by corruption, elsewhere improved macroeconomic performance and better policies are helping countries put their economies on a firmer footing. But is the good news temporary?

A look at the numbers gives pause for thought. After all, despite some recent progress, income per capita in Africa (measured in year 2000 dollars) is lower today than it was 25 years ago (see Chart 1). And, at least until recently, Africa was mired in a debilitating cycle of "stop-go" economic policies and bouts of civil strife that led to macroeconomic instability and high inflation.

However, Africa's lower per capita income cannot be explained by falling levels of formal education or of capital. Social and economic indicators reveal that Africa is more educated today than it was 25 years ago. Indeed, primary school enrollment now exceeds 90 percent and secondary school enrollment has also risen, although only to about 30 percent (see Chart 2). Similarly, literacy rates have reached 59 percent for adults and almost 70 percent for youth. Though these may not be perfect measures of human capital, they do indicate that human resources on the subcontinent have not been deteriorating.

Similarly, gross capital inflows to sub-Saharan Africa have increased over the past three decades, and the region has benefited from massive aid flows and recent debt relief. Aid flows into Africa are not enough to meet the Millennium Development Goals, but their recent surge has been noticeable and even poses challenges for the conduct of monetary policy in a few countries. However, rising aid flows have not enabled the subcontinent to deliver on the promise of economic development (see Chart 3). In other words, important though they are, education and capital are not enough to sustain high growth in Africa.

So what are the missing ingredients needed for sustained growth in Africa? Certainly, tropical diseases such as malaria and worm diseases create severe health conditions that reduce labor productivity. Also, the extractive institutions inherited from former colonizers have influenced the current weak institutions in Africa and have thus contributed to the unfavorable conditions for growth. But this article focuses on an often-overlooked key factor in Africa's long-term development: the need to foster the creation of an independent and fair government apparatus, supported by a strong civil society, an effective private sector, and institutions that provide oversight of government actions. Targeted external aid can assist the creation of this type of governance structure.


## Democracy is not enough

Despite the subcontinent's newfound growth, African states have been slow to adopt aggressive policy reforms that can deliver rapid and sustainable development similar to that experienced by Southeast Asia. What is the reason for this? Africa has tried both democracy and dictatorship. In general, both have failed to provide the conditions for sustained economic growth.

Since independence, Africa has been dominated by authoritarian governments. In fact, between 1946 and 2000, there were only 189 country-years of democracy in Africa, compared with 1,823 country-years of dictatorship (Golder and Wantchekon, 2004). In early elections immediately after independence, numerous parties competed and voters had a range of choices. However, perhaps because of the lack of a democratic culture or tradition, competitive multiparty elections were soon replaced by single-party rule.

Under dictatorship, governments enjoyed complete autonomy and were not beholden to particular interest groups. But these regimes did not deliver sustained growth (or in some cases *any* growth). Instead, they undermined state-society relations, which are so important for binding the government to society and providing institutionalized channels for continual negotiation and renegotiation of goals and policies (Evans, 1995).

Governments under these regimes lacked both sources of intellectual power and the advantage of decentralized private implementation. In some cases, these governments became predatory, promoting corruption by extracting rents or kickbacks at the expense of society. Clearly, African dictatorships did not demonstrate the type of autonomy that would create the conditions for highly meritocratic administrations with commitment and a sense of corporate coherence. As a result, they undermined economic development and, in doing so, provided the rationale for trying an alternative political system: democracy.

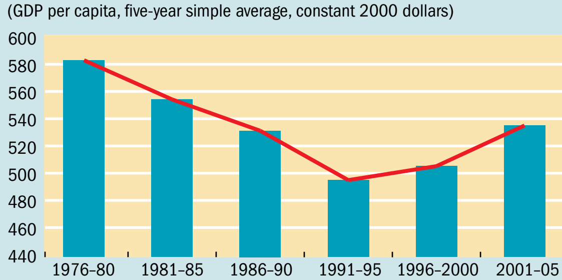
The 1990s witnessed many experiments in democratization in Africa. Indeed, all but four African countries staged some sort of competitive election during the 1990s (Bratton and van de Walle, 1997). Nonetheless, the emergence of democracy in many African countries has not yet created the conditions for sustained economic growth.

Chart 1

### Slow to catch up

Despite Africa's recent progress, it is only getting back to the income levels of the 1980s.

(GDP per capita, five-year simple average, constant 2000 dollars)



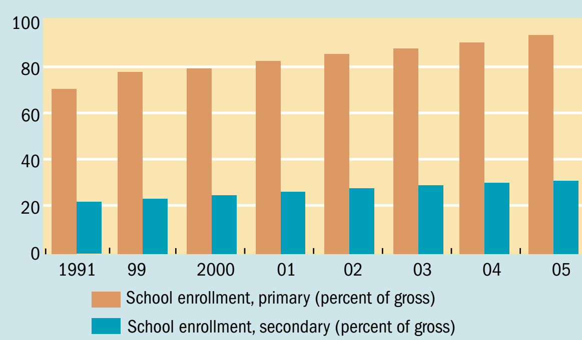

Source: World Bank, World Development Indicators database.

Chart 2

### Better educated

Africa's school enrollment is improving . . .

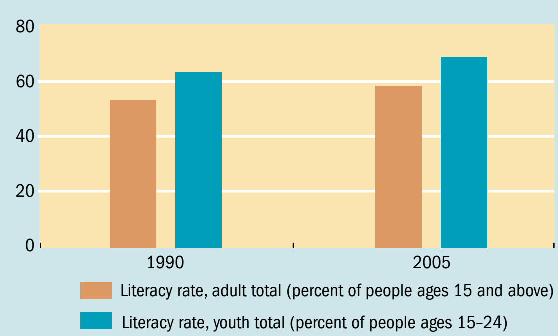
(percent)




Note: Source does not provide data for the periods before 1991 and between 1992 and 1998.

. . . and literacy rates are rising, indicating that education is not the main factor holding back development.

(percent)




Source: World Bank, World Development Indicators database.
Note: Source provides data only for 1990 and 2005.

A close look at the new political landscape seems to suggest that most of the political parties that emerged during Africa's transition to democracy follow ethnic lines. In many countries, ethnic political parties have flourished, and in those with a high degree of ethnic fractionalization, no single party is capable of winning a majority of the popular vote.

**"The incoherent bureaucratic institutions that result from a highly politicized administration leave the government incapable of resolving collective problems and transcending individual or group interests."**

A candidate wins a presidential election by forming a coalition. This leads to the emergence of "kingmakers," leaders of ethnic groups or political parties who are supposed to represent the preferences of those belonging to their groups. Their emergence is even more likely when the majority of voters are uninformed, because kingmakers can convince members of their group to mass behind a single party rather than distribute their votes across a range of parties. This occurs even if a kingmaker's preferences do not coincide exactly with those of the group members (Yehoue, 2007).

Coalitions are formed in these situations before elections, on the basis of candidates' promises of administrative positions or other rents to kingmakers in exchange for endorsements that will attract the votes of their group members. Candidates elected through such coalitions have to compensate the kingmakers to retain their support and survive in office. This fosters favoritism and clientelism; unqualified people are appointed to key positions in the administration. Thus, leaders of newly enfranchised ethnic groups use their new power of the ballot to buy favors or wrest group-specific benefits from the political machine. In other words, they trade political power for money.

This new political dynamic reduces government autonomy. Thus, ethnic groups unconsciously act as a rent-extracting technology that fosters highly politicized administrations and widespread corruption.

The incoherent bureaucratic institutions that result from a highly politicized administration leave the government incapable of resolving collective problems and transcending individual or group interests. Thus, rules and decisions are commodities, to be sold to the highest bidder. This produces an unpredictable environment of political rules and decisions. In these systems, state power reduces private productive capabilities, and distribution and growth both suffer. Thus, just enacting democracy is not a sufficient condition for good economic performance. Whether this is a necessary condition for economic growth is beyond the scope of this article.

### The way forward

What is the way out for Africa? Sustained growth demands good governance, which in turn requires that the government be well organized. Effective organizational structure of government is facilitated by highly selective and merit-based recruitment, which creates commitment and promotes corporate coherence. Also, some degree of insulation from the surrounding social structure enables the government to adopt growth-promoting policies. In other words, knowledge—in the sense of skills or competence to effectively manage state affairs—and some degree of government autonomy are essential to good governance and hence economic development.

Governments need some insulation from the surrounding social structure to avoid being hijacked by ethnic or special-interest groups. An autonomous government would be in a better position to adopt growth-enhancing policies, limit corruption, and promote accountability. A country can achieve an autonomous government by promoting a free press and by fostering the growth of both civil society and public institutions that encourage fiscal transparency while promoting private sector development to create jobs and spread wealth.

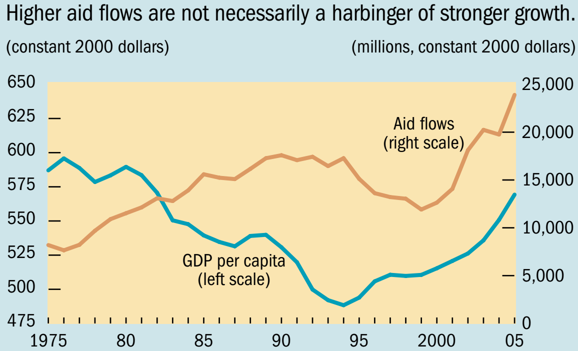
The development of a strong civil society is important, not only to liberate governments from kingmakers, but also to hold them accountable. The development of the private sector is crucial to create jobs and financial opportunity for public officials who might otherwise engage in corruption. Finally, the building up of institutions for fiscal transparency would help keep governments honest.

***Fostering civil society.*** The success of kingmakers in using ethnic groups to extract rents in the early stages of democracy is made easier because a large proportion of voters are uninformed. These uninformed voters believe that their interests are best defended by a leader belonging to their own ethnic group. Over time, as they become better informed,

Chart 3

**More aid for Africa**

Higher aid flows are not necessarily a harbinger of stronger growth.




Sources: World Bank, World Development Indicators database; Organization for Economic Cooperation and Development.

they start looking beyond ethnic identity, thereby reducing the impact of ethnic groups as a rent-extracting technology. At that point, elections can effectively perform their function of disciplining public officials, and corruption will decrease.

This dynamic occurs when informed voters in society organize and energize civil society. Civil society, through nongovernmental and other private organizations, then sensitizes voters about issues and provides training for political emancipation.

The importance of civil society in fighting corruption is well recognized in the policy arena. A government cannot combat corruption alone because it is perceived to be part of the problem, whereas the private sector, in its quest to maximize profits, has little legitimacy in fighting corruption and may be perceived as the initiator as well as the victim of corrupt practices (Bio-Tchané and Montigny, 2000). Civil society, as a third sector, has the legitimacy and the power to take up arms against corruption by raising awareness of injustices and the need for transparency. This, of course, is easier where there is real freedom of expression and of association. A free press, which facilitates the flow of information and helps educate voters, is crucial for developing civil society.

The need, therefore, is to encourage the development of both a free press and civil society and to reinforce the flow of information to create an informed electorate. As democracy matures and people become more informed through civil society activism, the government can thus reclaim some autonomy from the surrounding social structure. As this process leads to balanced state-society relations with the necessary political backing of the population, the government can then adopt growth-enhancing policies and formulate projects that go beyond responding to the immediate demands of politically powerful constituents.

***Promoting the private sector.*** The culture of corruption may also be facilitated by the limited opportunities for accumulating wealth through private activity in most African countries. Thus, politics becomes the road to wealth. Corruption, like violence, emerges when a lack of opportunities outside politics, combined with weak political institutions, channels energies into unacceptable behaviors (Huntington, 1968). In addition, there is a crucial distinction between corruption that stems from the public sector and corruption that stems from the private sector.

Corruption that stems from the public sector refers to nepotism, rent seeking by political parties or customs officials, fraud by public servants, favors to political kingmakers, mismanaged privatization, rigged procurement contracts, and extortion. Some of this occurs within the public sector without any interaction with the private sector; the rest results from interaction between the two. Corruption stemming from the private sector refers to illegal campaign contributions, bribes, gifts, and so forth. For example, a business owner may offer gifts to public officials in exchange for favorable application of laws and regulations. Technology-induced private sector expansion leads to a decline in corruption stemming from the public sector because it provides outside options to public officials who might otherwise engage in corruption (Ruhashyankiko and Yehoue, 2006). Ruhashyankiko and Yehoue also show that the decline in corruption stemming from the public sector outweighs the potential increase in private sector–driven corruption that could result from private sector expansion. In other words, technology-induced private sector development is associated with a decline in aggregate corruption, suggesting that anti-corruption policies should incorporate strategies for developing the private sector.

## "A free press, which facilitates the flow of information and helps educate voters, is crucial for developing civil society."

***Strengthening public institutions for transparency.*** Civil society will not be effective if it lacks the necessary information to raise awareness about issues, hence the need to strengthen institutions for transparency. Institutions for disclosing public information, especially those promoting fiscal transparency, must be reinforced.

The budget process should follow international practice in planning, resource allocation, and implementation. While many African countries have made progress in some areas of fiscal transparency standards, shortcomings remain in others. For instance, in Zambia, the 2005 *Public Financial Management Performance Report*, published by the Public Expenditure Management and Financial Accountability program in collaboration with the Zambian government, points out weaknesses in the extent of agency compliance with internal controls because of both inadequate information flows and capacity constraints. Because these make the budget less transparent, the original budget is not a good predictor of actual expenditures.

Similarly, while an IMF *Fiscal Standards Observance Report* recognizes that Ghana meets fiscal transparency standards in several areas, it notes that "(i) the coverage of the general and central government in the budget document is incomplete; (ii) a significant amount of budget spending is conducted through transfers to statutory funds, whose spending is not consolidated with that of the central government and is sometimes poorly reported; (iii) internal and external audits are ineffective, resulting in weak oversight and a major backlog of audit reports; [and] (iv) laws and regulation are implemented in a manner that hampers private sector activity" (IMF, 2004).

In addition, few African countries have a budget review law, which is a prime tool for controlling the execution of the budget and helping to identify potential corruption niches. For example, in some countries, the independence of the judiciary allows it to use some nonstandard budgetary practices and thus offers judges considerable latitude to siphon off money for their own purposes. Without a budget review law, such abuse is difficult to discover. In Benin, it was the budget review law, which went into effect in 1999, that brought to light a corruption scandal involving many judges diverting money from the system.

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Thus, it is vital to build up institutions like the audit office, whose role is essential to proper budget review. Internal and external audit capacity must be upgraded. Audit offices should be independent and staffed with well-trained accountants, because budget review requires considerable auditing capacity. Not only should budget review be mandatory and timely, but disclosure of the results is of utmost importance. Strengthening the specialized committees within parliaments to help improve their oversight role over the executive is also crucial. In particular, the parliamentary committee in charge of budget law should be staffed with experts in accounting and auditing. The technical assistance provided by the African Capacity Building Foundation to the specialized parliamentary committees in many African countries is a move in the right direction.

Similarly, reforming the procurement function to increase transparency is crucial, along with reinforcing banking supervision and making information about money laundering public. Transparency in public finance depends on strong institutions to apply the proper checks and balances. The purpose is to give civil society more information about corrupt behavior, so that uninformed voters will be sensitized to the importance of holding their leaders accountable.

## Implications for aid delivery

Our analysis has several implications for external aid donors. Given their importance in the fight against corruption, private sector development, civil society organizations (CSOs), and public fiscal institutions deserve particular attention, especially as aid to Africa is scaled up.

First, ***aid needs to be oriented toward supporting policies targeting private sector development,*** perhaps by promoting the emergence of venture capital or private equity funds and small and medium-size enterprise guarantee facilities. This can be done through a special program similar to the Competitiveness and Innovation Program set up by the European Commission to promote entrepreneurship and innovation.

Second, ***some funds should be redirected to news agencies and to CSOs in each country to promote both a free press and a dynamic civil society.*** One criterion for news agencies and CSOs receiving aid would be their independence from the government in office—in some countries, news agencies and CSOs collude with governments and can become agents for government propaganda.

Aid should be given to CSOs to gather information and to train voters about issues. CSOs receiving aid also deserve to be monitored. Thus, periodic surveys could be conducted by international institutions such as the World Bank, the U.K.'s Department for International Development, and France's Agence Française de Développement to judge their effectiveness.

Third, ***aid, if used to upgrade internal and external audit capacity, will also make it easier for CSOs to gather and disseminate information.*** These kinds of actions will help make voters more familiar with the issues, so that they can hold leaders who fail to adopt growth-promoting policies accountable. Such information would, in turn, increase the likelihood that elections would effectively discipline public officials. ■

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