Pakistan Journal of Applied Economics, (1995), Vol. XI Nos. 1&2, (167 – 186)

"GOOD GOVERNANCE" AND STRUCTURAL ADJUSTMENT PROGRAMS – The World Bank's Experience in Africa South of Sahara

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I. Introduction

In the past – until the epochal year of 1989 – the thinking of many African governments has been dominated by the dichotomy between capitalist and socialist development models. Thank God, this era with all its errors is over – a long time which cost the developing world expensive detours and dangerous illusions. Foreign aid helped the African governments to finance expensive development plans which were based more on wishful thinking than on realistic expectations. With the end of the cold war *a new healthy realism in international politics* came up, including a more pragmatic attitude by the donor community towards the necessary reforms in highly indebted countries. Although this new "unfriendly" policy of a greater realism came as a shock to some governments, in my view it had the advantage of forcing the governments and the peoples in Africa and elsewhere in the Third World to think about new ways to overcome their present economy as well as political crisis and to reduce their heavy dependence on foreign donors. The *democratization* of nearly all societies in Africa since 1985 (the coup d'etat against President Numeiri in Sudan) can be seen as a direct reflection of this new situation after the end of the cold war.[1]

Social scientists all over the world are increasingly concerned with the question

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[1] Rainer Tetzlaff, Democracy and Development as Universally Valid Standards? Opportunities and Risks of Democratization in Non-European Countries after the End of the East-West Conflict, in: State and Law. A Biannual Collection of Recent German Contributions to These Fields, Vol. 49/50: Focus: Transition to Democracy, ed., by the Institute for Scientific Co-operation, Tubingen [(1994), p. 17-43].

whether *"adjustment"* can contribute to development and, in case, what kind of adjustment. Is adjustment, as advocated by the Bretton Woods institutions (World Bank and IMF), really the necessary first step on the road to sustainable, poverty reducing growth? Too often there has been little effort to determine whether the disappointing economic performance in the aggregate represents *a failure of adjustment or a failure to adjust*, i.e., the neglect of the government and the dominant interest groups in a developing country to launch the painful, although necessary, reforms in the public as well as the private sectors of economy and administration. Opponents sometimes have criticized adjustment as an alternative to measures supporting long-term development. The resulting confusion has led to sterile debate about the efficacy of adjustment policies. More important, it has risked creating pessimism among politicians as well as scientists in developing and industrialized countries in regard to the question whether it is justifiable and worthwhile at all for the poorer states of the modern world society ("Weltgesellschaft") to undertake the great efforts to adjust: are the great sacrifices of the people, normally combined with structural adjustment policies, justified and acceptable? Is it fair to expect from them efforts to adjust when – as it is the case with Africa – hardly anybody can say to what kind of *international economic order* the African states can adjust to with reasonable costs in the decades ahead?

Since the late 70s the people and states of Africa have faced a unique crisis – a crisis of economic growth, social development, cultural identity and political institutions. Some ten states (Liberia, Somalia, Sierra Leone, Angola, Mozambique, Zaire, Sudan (South), Rwanda, Burundi) even collapsed as sovereign states: their political and judicial institutions crumbled. Local warlords dominate the political arena. Observers have named these phenomenons *"the African crisis"*, i.e., the simultaneous appearance of several negative trends in different fields of social and political life and – even worse – their mutual reinforcement that leads to increasing poverty, migration and desperation. Is this downward spiral irreversible? Can the policy of "structural adjustment", as advocated by the World Bank and the International Monetary Fund (IMF) be an answer to the "African crisis"? What can be learnt from the African experience with structural adjustment programs (SAPs)?

Africa South of Sahara (ASS) can draw some lessons from the more successful *Asian* societies which face poverty-related challenges at a large scale. Often there is *synergy* between policy reform and a country's level of development. Greater technical and institutional capacity makes it easier to adjust policies to changing conditions, and stronger adjustment efforts increase the returns on investment and speed up the development process. Regarding the African crisis from this perspective the question arises whether in Africa the (socio-economic) preconditions do exist at all in order to move from the vicious circle of bad policies and a low level of development to a virtuous circle of good policies and a higher level of development? Before I try to explore answers to these questions concerning the capabilities and perspectives of reform strategies in Africa, I will cast a quick look at the discussion on the need of structural adjustment policy in Pakistan and will describe some of the salient trends of Africa's past "development" (during 1960-1990).

II. Pakistan's Experience with Foreign Involvement

In regard to the public controversy in Pakistan about the impact of the IMF and the World Bank on the development of the country, it is worthwhile to recall *a political debate*, which took place before the last parliament elections: A caretaker Prime Minister (Moeen Qureshi) justified his highly unpopular measures, concerning structural adjustment reforms, by saying:

> *There was simply no other choice*. Our economy was on the cusp of a total collapse. The so-called economic package was not the result of growing pressure from the IMF or World Bank, [....] they were dictated by the *poor health* of Pakistan's economy.

Obviously the professionals of the caretaker government – who showed clear leanings towards western-style democracy and free market economics of the kind espoused by the international financial institutions – declared *bad governance* "as the main cause" to explain the weak performance of the Pakistani economy. Almost the entire package was approved, with slight variations, by the two important political leaders, by both Benazir Bhutto and Nawaz Sharif, before it was announced by the Prime Minister. Nobody demanded the complete withdrawal of these reform measures, or could present a serious alternative! And perhaps there was even – as some people maintain – a *consensus* among the rival political camps that such extreme and highly unpopular steps were better carried out by a *non-political government*, accepted by the next elected representatives as a *fait accompli*'.[2] The most crucial problem concerning structural adjustment policy was the *implementation* of a more or less economically reasonable politics without loosing political credibility as a *national* government and betraying the aspirations of the voters. In other words, without undue demand on the patience of the people suffering from poverty, unemployment and high inflation rates.

Obviously a contradiction between SAP and political democracy exists: How can a democratically elected government *convince* the population that the bitter pill of structural adjustment has to be swallowed to lift the economy out of its present morass; how can a public be made prepared to pay for the wrongdoings of past governments? How can public confidence in the authority of the state be reinstalled,

[2] Zaffar Abbas, Moeen Qureshi & Associates, in: The Herald [September (1993), p. 26]. For a detailed analysis see S. Akbar Zaidi, The Structural Adjustment Programme and Pakistan: External Influence or Internal Acquiescence?, in: Pakistan Journal of Applied Economics, [Vol. X, Nos. 1&2 (Summer and Winter 1994), p. 21-46].

when at the same time the main task of the new government is to follow the 'advice' of the international finance institutions to regain creditworthiness? Facing such politically risky challenges it is not surprising that Bank officials often complained about *"lack of ownership"*, or lack of client-interest in "IBRD-supported" operations. The Wapenhans Report, published in 1992 by the World Bank, identified insufficient "ownership" as one major and frequent problem in need of redress.

Concerning the question of "ownership" of SAP, the dispute in Pakistan focused on the question of *foreign involvement* in political decisions which are regarded by the public as a matter of national sovereignty.

> There is much that is good in the text of the budget, and some that is ill-advised, but the context in which the budget has been prepared, especially the role which agencies external have played in its formulation and presentation should be a cause of concern to all. [...] The degree of involvement of the IMF/WB staff in the preparation of our budgets is far more disturbing than the actual structure of the budget itself. [...] In fact, successive agreements with IMF/WB have weakened the ability of the government to manage its own economic affairs, formulate comprehensive plans (as opposed to macroeconomic frameworks), and design independent policies. [...] With national institutions of economic management completely undermined, there is now no forum in government where the IMF/WB liberalization strategy can even be discussed.[3]

The poor results of SAP supported by the World Bank and other donor agencies are of increasing concern to the Bank management. Nowadays you can hear much more self-critical voices from the World Bank officers, who seem to understand that they have to change their attitudes towards borrowers in order to solve the thorny "ownership" question. "The challenge for the Bank" – so one of the Bank's directors quoted recently – "is to change the ways it interacts with borrowers, from a pattern dominated by prescription, imposition, condition-setting, and decision-making to one characterized by explanation, demonstration, facilitation, and advice".[4]

III. Low Returns on Investment and "Bad Governance" – Main Causes of the African Crisis?

Since the 70s the people and states of Africa South of Sahara faced a unique crisis – the *"African crisis"* – i.e., a crisis of economic growth, social development, cultural identity and political institutions. Overall economic growth in SSA has

[3] Arshad Zaman, Few Options Before Budget-Makers, in: Dawn 'Economic and Business Review,' [June 11-17, (1994)].

[4] Kunibert Raffer, "Structural adjustment", liberalisation and poverty, in: Journal fur Entwicklungspolitik, [X/4, (1994), S. 431-440, here p. 434].

averaged 3.4 per cent a year since independence – hardly faster than the increase in population. By 1987 this region of some 450 million people had a total gross domestic product (GDP) at market prices about that of Belgium which has only 10 million inhabitants.

Of course, there is no single explanation for Africa's poor performance with regard to growth, development and progress, but one of the most important factors seems to be *low returns to investment*. Measured simply as the ratio of the growth of output to the rate of investment in a given year, African returns on investment have fallen steadily. By the 1980s they were only about one-tenth of the levels in poor South Asia.

According to World Bank reports, a large part of the explanation for Africa's present economic crisis lies in *poor public resource management*: "Together they have undermined the efficiency of the private sector and added greatly to the high cost of doing business in Africa".[5] In response to the African crisis, – often triggered by 'external shocks', but engendered by poor policies – the *World Bank* intensified its structural adjustment programs in the 1980s. One of its main political aims thereby was related to the enforcement of *"good governance"*, meaning the manner in which power is exercised in the management of a country's economic and social resources for development.

In view of the World Bank experts, African governments could be characterized by:

- *lack of accountability*, transparency and predictability on the part of politicians and bureaucrats;
- the *absence of the rule of law* (in other words: wide-spread corruption), and
- a *weak public administration*, which accounts for more than 50 per cent of non-agricultural employment, compared with 36 per cent in Asia and only 27 per cent in Latin America.

What caused the returns to investment to decline? Drought says the World Bank is not the answer; its effect on production in the 1980s were hardly any worse than in the early 1970s. Falling world demand is not the reason; African exports have actually lost market share; "Everything points to declining productivity. Africa's crop yields are smaller, its cropping cycles on irrigated land are fewer, its transport costs are higher, and its utilization rates for factory capacity are lower".[6]

Higher investment costs have contributed to *lower productivity*. Investment costs are usually more than 50 per cent higher in Africa than in South Asia. Part of

[5] The World Bank, Sub-Saharan Africa: From Crisis to Sustainable Growth, A Long-Term Perspective Study, Washington, [(1989), p. 55].

[6] The World Bank, ibid, p. 26-27.

this difference may reflect overvalued currencies in Africa, although the effect of exchange rates is reduced to the extent that investments are more import-intensive. These costs have risen in the 1970s and 1980s as infrastructure and institutional constraints have become more binding. Costs of operating and maintaining investments are higher too in Africa – often more than double to that of South Asia. Costs are high partly because of Africa's particular circumstances. Difficult topography makes road construction and irrigation expensive. Low population densities and widely dispersed settlements (20 persons per square kilometer in SSA compared with 146 in low-income Asia) also increase costs. Landlocked countries face even greater difficulties. Undiversified economies short of skilled local labour depend on expensive import of skills and goods. "But a large part of the explanation for Africa's present economic crisis also lies in *poor public resource management and bad policies*. Together they have undermined the efficiency of the private sector and greatly added to the high cost of doing business in Africa".[7]

What can be regarded as encouraging is the fact that in the 1960s, before their takeoff, *Asian* states like Indonesia, Malaysia, and Thailand had conditions similar to those in Africa in 1990. GDP per capita was higher on average in South-east Asia, but Indonesian income was close to that in Ghana, Malawi, and Tanzania today, and Thailand's was comparable to that of the middle-income African countries today. One major *difference* between Asia then and Africa now: Africa has lower *primary school enrollment*. This is not inconsequential, emphasis on universal primary education was a key to achieving rapid and equitable economic growth in the best-performing Asian countries. Africa's *runaway population growth* also puts it at more of a disadvantage than Asia in the 1960s. With half the population under 15 years of age , working age Africans face an enormous challenge – bringing about the high rate of economic growth needed to provide a better future for the next generation. The importance of reforms for Africa's economic future cannot be overstated, concluded the World Bank experts. "With today's poor policies, it will be forty years before the region returns to its per capita income of the mid-1970s".[8]

IV. "Bad Governance" – What does it Mean in the African Context?

Africa's structural adjustment programs, and those elsewhere, were almost always mounted in response to a crisis triggered by "external shocks" but engendered by poor policies. No economy can function well for long if it has rampant inflation, an overvalued exchange rate, excessive taxation of the agricultural sector, scarce supplies of needed imports, regulation on prices and production, deficient

[7] The World Bank, ibid, p. 27.

[8] World Bank, Adjustment in Africa: Reforms, Results, and the Road Ahead, A World Bank Policy Research Report, Washington, [(1994), p. 39].

public services, and limited financial services. The World Bank maintains that policies in Sub-Saharan Africa have generally been worse than those elsewhere. Some people believe that its concern about governance arose from one major source: the failure of its structural adjustment programs (SAP) to be a success on the African continent. After some groping, the Bank settled on the following definition of *governance:* "The manner in which power is exercised in the management of a country's economic and social resources for development". Discussions of governance by the World Bank often include several specific problems: lack of accountability, transparency, and predictability on the part of politicians and bureaucrats and the absence of the rule of the law (corruption).[9]

Structural adjustment programs can establish a framework that encourages sound investment and efficient resource use. Since the 1980s nearly all African states had no alternative than to undergo structural adjustment programs (SAPs) according to World Bank standards. Upto now the results of such SAPs in 29 countries in Sub-Saharan Africa have been analyzed for the period 1987 to 1991. The results are not too encouraging.

The evidence shows that *poor policies* still is a major cause for the economic decline of the African states. Even potentially wealthy states, well endowed with natural resources like Zaire and Nigeria, failed to escape the economic crisis. For example, *Nigeria* never seriously diversified its exports (it still depends on oil exports to more than 80-90 per cent), *Indonesia* strengthened and diversified non-hydrocarbon exports throughout the 1970s and 1980s, oil exports constituted only about 20 per cent of Indonesia's total exports by the end of the 1980s, compared with 50 per cent before the first oil price shock. Thus the same external challenge has been answered by the two governments – incidentally in both cases military regimes – by completely different strategies.[10]

"Poor policies" clearly hurt Africa's long-term growth far more than a hostile external environment did. Cross-country econometric analysis shows that ASS has grown more slowly than other regions even after differences in macroeconomic policies, endowments, political instability, and external shocks are taken into account. There are however *four endogenous factors* which account for the residual difference in growth performance.

First, the *governmental bias against agriculture and the interests of the farmers*, perhaps the most important "omitted" variable in econometric analysis. In ASS agriculture has been very heavy taxed, much more than in other regions. Producers of agricultural exports – received real prices that were half to those received by producers of similar crops in other countries. This stifled the regions' agricultural

[9] Carol Lancester, Governance and Development: The Views from Washington, in: Institute of Development Studies (IDS), Sussex, (1992).

[10] World Bank, Adjustment in Africa: Reforms, Results, and the Road Ahead, Washington, [(1994), p. 33].

growth: the over-exploited peasants and farmers reacted rationally: they refused to produce for the market or smuggled their products across the borders.

Second, *the bias against privatization: the intervention by an unproductive consumption-fixed "state class" (bureaucratic bourgeoisie)*. African governments continued to take an active stance in setting prices, nationalizing banks, establishing price controls, rationing foreign exchange, creating public monopolies for agricultural exports, imposing licences to restrict the activities the private sector could undertake, and creating many state enterprises and giving them special access to scarce credit and foreign exchange. All these interventions created a *strong bias against the private sector*. Administrative bottlenecks, rents from licensing requirements, and inefficient public services imposed high costs on private business.

Third, the *institutional instability* and the *bias against private business*. The gradual breakdown in *judicial systems* and the *expropriation of private property* in many countries in the 1970s left many private enterprises, particularly foreign ones, doubtful about the wisdom of continuing to invest. Today, with the exception of Nigeria and South Africa, no African country can attract foreign investment: even French capital is leaving the continent. A country like *Ghana* with its pragmatic president, Jerry Rawlings, under whom Ghana implemented administrative and financial reforms required by the structural adjustment policy of the World Bank, has not been successful in attracting private investments on a large scale. Obviously, a military president cannot replace a civil society: a strong political leader may be able to command the dissolution of an overstuffed department in a ministry, for example, but he can hardly persuade or force private businessmen to have confidence in the political regime of the day and to invest their private savings. Development needs longer periods of political stability and trust in the durability of legal institutions.

Fourth, *the failure of African version of "developmental dictatorship" or the bias against a political culture of participatory democracy*. The centralization of political power and the widespread deterioration in governance since the 1970s has played some role in Africa's poor economic performance. As countries tried to meet the aspirations for rapid development that were unleashed at independence, and tried to consolidate their political base, they expanded the role of the bureaucratic state. Highly authoritarian and centralized governments were inimical to the development of local organizations and peoples' associations that might have demanded better governance.

According to the World Bank experts, the lesson to be learnt from three decades of "development" in SSA is that the *political class* (leaning on the public sector as the material basis of its existence) lies at the core of the economic stagnation and political decline. Governments were intervening – with poor results – in activities where markets work reasonably well, such as allocating foreign exchange and directing credit. They were also doing a poor job of providing such essential services as roads and primary schools. In 1990 the former *President of the World Bank, Barber Conable*, warned the African Governors of the World Bank at their annual meeting with him:

> Allow me to be blunt: the political uncertainty and arbitrariness – evident in so many parts of sub-Saharan Africa – are major constraints on the region's development ... I am not taking a political stance here, but I am advocating increased transparency and accountability in government, respect for human rights and adherence to the rule of law... Governance is linked to economic development, and donors are showing signs that they will no longer support systems that are inefficient and unresponsive to the people's basic needs.[11]

Nigeria is a sad example of a military government of an African country which started to pursue programs of political democratization and economic adjustment, thanks in part to internal and external pressure, which ended in complete political and economic disaster, caused by a greedy, corrupt military regime. When the Babangida military administration came to power in a coup in August 1985, it declared a phased program of transition from military to democratic civilian rule, but shortly afterwards it became clear that the Nigerian state could not develop the economy; instead, it became an obstacle to development. The Babangida regime, in spite of all early confessions to democracy and free market-reforms, managed to control large parts of the economy and the society and did this in a very inefficient and expensive manner. In addition to mismanagement of public funds, it has fostered a web of corruption and venality and encouraged a piratical version of capitalism in which state managers appropriate public resources for private, largely non-productive, gains. "To that extent, what has been encouraged has been a political culture perceiving political power as a fiduciary discountable for private material ends".[12]

V. Reforming the Public Sector or Privatization?

Although the message of privatization is very clear in principle, its implementation has proved to be a very difficult task. According to the latest findings of the World Bank, the *public enterprise sector* plays too big a role in economic activity and employment in all of the twenty-nine adjusting countries in Africa. The available data on the public enterprise sector are sparse and disappointing, showing no significant reduction in the number of enterprises, little improvement in their

11 Quoted in: Pierre Landell-Mills and Ismael Serageldin, Governance and the External Factor, Washington, [(1991), p.6].

12 Adigun Agbaje, Adjusting State and Market in Nigeria: The Paradoxes of Orthodoxy, in: Afrika Spectrum, 27 (1992), p. 123-137, here p. 125-126.

financial performance, unacceptable returns on government investment, and the inability to meet the demand for cost effective, efficient provision of public utilities. *Divestiture* is proceeding slowly among small and medium-sized firms and scarcely at all among large enterprises – not surprising since most big enterprises were classified as "strategic" ("strategic" firms, generally utilities, telecommunications, major transport parastatals, heavy industries, and agricultural marketing boards, are exempt from divestiture because of their economic importance). Spotty evidence suggests that financial flows from governments to public enterprises remain high, and there is some danger that direct fiscal transfers are being replaced by less obvious subsidies, such as bank financing.

Among the 29 adjusting countries, governments have divested themselves of about 550 firms – less than one-fifth of the total number of public enterprises – either by selling their holdings or liquidating non-viable enterprises, with slightly more privatizations than liquidations. But progress has been slow and uneven: half the countries have been extremely slow to privatize any enterprises. In *Kenya* there have been almost no sales in ten years. Sometimes enterprises are reported as sold when they are merely up for sale. Sometimes sales are recorded when the privatization agency and a buyer reach a preliminary agreement, even though the deal later falls apart. Of twenty-one enterprises listed as privatized in the *Ghana* divestiture agency's 1991 report, eleven returned to the state's portfolio in 1992.

Other difficulties have occurred. Many privatizations did not lead to greater efficiency because the new owners received favours – tax benefits, duty-free imports, tariff protection, and privet access to credit and other scarce inputs – that reduced the social benefits. Pressure on governments to sell may also have led to ill-considered transactions. And cronyism and corruption have undercut the benefits of privatization. It is no surprise, then, that such limited privatization has had little impact on efficiency and economic growth.[13]

According to a 1990 World Bank evaluation report, less than one-third of the World Bank-financed projects in Africa were likely to be *sustainable* (i.e., able to maintain an adequate level of net benefits after the investment phase is completed). In other words, for the majority of World Bank projects in Africa, once the Bank stops pouring in the money, the project ceases to be of benefit to the country. Unfortunately, a failed project is not simply another bank-financed boondoggle, but represents a potential drain on the nation – and another disappointment to the struggling poor of the Third World.

In agriculture, the Bank has had "a devastating effect on Third World agriculture and bears some responsibility for the starvation plaguing many nations".[14] Bank

[13] World Bank, Adjustment in Africa, Washington, [(1994), p. 103f].

[14] J. Bovard, The World Bank and the Impoverishment of Nations, in: Perpetuating Poverty, The World Bank, the IMF, and the Developing World, edited by Doug Bandow and Ian Vasquez, CATO Institute, Washington, [(1994), p. 70].

projects scorned the need to permit or assist the development of private markets for farm goods. An evaluation report, however, noted that the World Bank's agricultural projects lacked measures for providing a framework within which markets could operate more efficiently – commercial legal code, regulation or inspection – and any attempts at privatization. Some World Bank projects have created processing and marketing monopolies for export products, and small holders compelled to use them. Examples include cotton, tobacco, meat, tea, coffee, cocoa, palm oil, and rubber. The evaluation report noted that, although many World Bank studies were done on agricultural pricing and marketing issues, "there is virtually no evidence that any study was subsequently acted on".[15]

VI. The "Weak State" and the Weak Private Sector – Evidence from Nigeria

Although one cannot deny that in most African countries the scale of public sector corruption and inefficiency witnessed since independence has reached enormous dimensions, it would be too simple to blame the weak state sector for the instability and non-development of these countries. For Nigeria it has been stated that "the *private sector* has not been conclusively shown to be more economically and socially productive, less corrupt, or more patriotic than the public sector".[16] It is often overlooked that the scale of public sector corruption could hardly have been possible without private sector connivance and participation. One lesson that has come out at recent privatization and deregulation attempts in Nigeria is the extent to which the terrain of the struggle for scarce resources is gradually shifting from public bureaucracies into *private bureaucracies*, without a complementary shift in the nature of such struggles and in the role of the state as a major determinant of the terrain and essence of the struggle. For instance, with regard to privatization and deregulation of the Nigerian economy, one major source of strain was the fear among politicians and businessmen in northern provinces, which had benefited more from the old import-license regime and state regulation of the economy through their access to political power, that the new program of deregulation was bound to favour southern interests more than northern interests. Among some people of the northern elite, the privatization had been regarded as a plot by the Yoruba to seize private control to public assets.[17]

As Larry Diamond has pointed out, therefore, the key question relates to the extent to which reforms could be thwarted by entrenched interests which hinder meaningful change by constituting themselves into a source of continuity in state

[15] World Bank, World Bank Operations Evaluation Study, Agricultural Marketing: The World Bank's Experience, 1974-85, Washington, [(1990), p. 3].

[16] Adigun Agbaje, op. cit., p. 126.

[17] Ibid.

and non-state behaviour. It would thus appear that for deregulation through privatization to achieve meaningful results, it must be accompanied by corresponding changes at other levels – social changes which take some time. Of necessity seems to be the organic development of an emerging *national bourgeoisie* that does not completely depend on the state for its survival and is, therefore, less likely to perceive electoral struggle as a matter of life and death and less prone to pursue wealth through political corruption.[18] Speaking at an abstract level, in the long run a *profit-seeking society* would have to replace a rent-seeking society, which cannot develop the productive forces of a society.

VII. Better Government for Sustainable Development

Many times Bank staff have regarded these problems in particular as discouraging private investors from risking their capital in the uncertain and unpredictable political environment in Africa. Even in countries where economic reforms have been extensive, investors remain unsure how long the new policies will last (especially where elections are pending), whether their property will be protected by the law and the courts, and whether *corruption* which has been so widespread will not in the end consume their possible profits. In 1989 the World Bank conceived a new strategy for the next generation, called *"sustainable growth with equity"*. One of the new magic words has been *sustainability* – a phrase which indicated a new thinking in developmental philosophy, taking into account the requests of the future generation for the means to survive under decent conditions. The idealistic concept of "sustainable development" was first introduced by the Brundtland Commission:

> Sustainable development seeks to meet the needs and aspirations of the present without compromising the ability to meet those of the future. Far from requiring the cessation of economic growth, it recognizes that the problems of poverty and underdevelopment cannot be solved unless we have a new era of growth in which developing countries play a large role and reap large benefits.[19]

According to the World Bank and IMF the aim of sustainable growth could not be reached unless the preconditions for "better governance" were be erected in developing countries. Especially Africa required not just less government (in the sense of less direct interference by state authorities into economic development), but

[18] Larry Diamond, Nigeria: Pluralism, Statism and the Struggle for Democracy, in: Diamond, L., Linz, J., Lipset, S.M., eds., in: Democracy in Developing Countries, Vol. 2, Africa, Boulder, [(1988), p. 84].

[19] Gro Harlem Brundtland, (Our Common Future in German): Unsere gemeinsame Zukunft, Der Brundtland-bericht der Weltkommission fur Umwelt und Entwicklung, hrsg. von Volker Hauff, Greven, [(1987), S. 9l].

better government. Africa's weak public administration has been discovered as constituting one of the biggest obstacles to economic growth and social development. The principal causes for this are:

- The uncontrolled expansion of staff in the civil services and public enterprises, which have often functioned as welfare agencies for unemployed school leavers;
- the rapid promotion and turnover of poorly qualified staff who have little in-depth understanding of either the institutions they manage or of the broader context in which they are expected to function;
- difficulties faced by managers in motivating and disciplining their staff owing to the social and political context in which they operate;
- insufficient appreciation in government that public agencies work best if staffed and run by professionals according to objective rules and criteria.[20]

Public employment in Africa accounts for more than 50 per cent of non-agricultural registered employment, compared with 36 per cent in Asia and only 27 per cent in Latin America.

> Chronic overstaffing has damaged performance severely, partly because staff are badly deployed and denied adequate material support and partly because idle staff undermine the morale of those who want to work. Pressure on the wage bill can be eased by eliminating ghost workers, double payments, and automatic promotion. Merit-based pay systems, which relate bonus payments to performance and not status and which pay a greater part of salary in that form, help to motivate staff.[21]

Staffing is but one aspect of the "*soft state*" – *syndrome*, albeit a crucial one. Complicated staff and financial regulations which are barely known and erratically applied contribute to a gross lack of accountability. Overspending and misappropriation of funds occur routinely and pass unnoticed because of poor accounting and lack of audits. Another crucial deficit is the missing capacity of African governments to undertake the *analytical work* on which key policy decisions concerning structural adjustment programs have to be based. There is still an excessive dependence on foreign advisers; trained nationals who are already available, but not properly used – very much to the anger of these local experts! It is estimated that more than 80,000 people are working in Africa as *technical assistance*. They include senior policy advisers to governments, senior managers of operational agencies, and

[20] World Bank, Sub-Saharan Africa: From Crisis to Sustainable Growth, Washington, [(1989), p. 55].

[21] World Bank, Sub-Saharan Africa: From Crisis to Sustainable Growth, Washington, [(1989), p. 56].

senior technical professionals – technicians, nurses and teachers. This high level of technical assistance has to be set against the enormous growth in the number of educated, trained and experienced Africans that has occurred since independence. The human resource capacities of Africans will continue to expand during the next generation. Therefore there exists no alternative to a pattern of labour- and skill-intensive development which would provide job opportunities in the private market at a large scale. What Africa needs is an *inward-looking structural adjustment program:* all national energies and resources and external ODA-transfers (ODA: Official Development Aid) should be directed towards the preferential development of local income-generating activities. This gigantic task of economic transformation of still neo-colonialistic structured dependent economies cannot be tackled without a reasonable strong national state. But what may "reasonable" mean?

VIII. "Market-Friendly" Government Interventions and the Examples of the "East Asian Miracle"

It seems evident that the civil service sector needs urgent reforms in most African countries; but experts who regard privatization and deregulation as the key to solve the "African crisis", sometimes overlook the crucial role a "reasonable", "wise" government would have to play in promoting the development of human resources and in encouraging the productive social classes, mainly in agriculture. *Japan, Taiwan and South Korea* are often cited as examples of successful private-public sector co-operation. It is sometimes said that the relation is *supportive*, not antagonistic. Governments intervene by encouraging and promoting selected activities, not by prohibiting and restricting.

The skill of these policies does not lie so much in the disputed art of "picking winners" as in creating winners – argues *Prof. Paul Streeten* (a consultant to the UNDP on the Annual Human Development Report):

> The East Asian success stories illustrate that the same type of intervention, such as subsidized interest rates, that in Latin America have impeded growth, has been used by these governments to accelerate growth. The role of corruption and its control also contributes to explaining differential performance. It is now generally acknowledged that "getting prices right" has not been the principal, and certainly not a sufficient recipe for the success of East Asian countries, although their government interventions have been "market-friendly", and the markets have been "people-friendly".[22]

[22] Paul Streeten, Markets and States: Against Minimalism, in: Journal für Entwicklungspolitik, Wien, Nr. X/4, (1994), p. 413-430, here p. 41.

In a recent publication about the *"East Asian Miracle"* the World Bank admitted that it faced *"a central methodological problem"*: When analyzing the "high-performing East Asian economies" (HPAE, i.e., Japan, Hong Kong, Korea, Taiwan, Singapore, Indonesia, Malaysia and Thailand) the Bank knew in advance that their interventions did not inhibit growth. "But it is very hard to establish statistical links between growth and a specific intervention, and even more difficult to establish causality".[23] In spite of this the report concludes with a neo-classical argument: "that promotion of specific industries generally did not work and therefore holds little promise for other developing economies ... the fact that interventions were an element of some East Asia economic success stories should not become a reason to resist needed market-oriented reform".[24]

In the African context, one would find very few cases of "market-friendly" and "people-friendly" state interventions – to use Paul Streeten's terms. Mauritius and Botswana can be named as such rare cases. But in general, it is fair to say that the political elites in Africa did not act very much development-oriented.[25] They seldom developed the ambition of becoming a national leader of great developmental movement, compared with the importance of the function as the political "spiritus rector" of the development strategy – as played by *President Lee Kwan Yew* for Singapore for example. In comparing poor East Asia with Africa South of the Sahara, it has become fashionable among those who know both regions to say the key difference is that Africa has not produced a Lee Kwan Yew. A long-time Prime Minister of Singapore, Mr. Lee has come to personify the idea of *benevolent authoritarianism*, a paternalistic ruler who brooked no dissent but nonetheless guided his city-state into the ranks of East Asia's "little dragons". Africa has had its share of towering figures. But by contrast, some of the best known – Kwame Nkrumah and Kofi Busia, Presidents of Ghana, Tanzania's Julius K. Nyerere, Zambia's Kenneth Kaunda, Houphouet-Boigny of the Ivory Coast and Sudan's Ex-President Jafar Numeiri – all, as the political leaders of authoritarian one-party regimes, ran their countries' economies into the ground (let alone President Mobuto of Zaire with his "cleptocracy" or the military junta leaders in Nigeria, Togo, Benin, Algeria, etc.).

The experience of the HPAEs broadens our understanding of the range of policies that may contribute to rapid growth and social development. It also teaches us that willingness to experiment and to adapt policies to changing circumstances

[23] The World Bank, The East Asian Miracle: Economic Growth and Public Policy, Summary, A World Bank Policy Research Report, Washington [(1993), p. 7].

[24] Ibid. p. 33.

[25] Axelle Kabou, A courageous social scientist from the Cameroons with practical experience as a development aid-worker, even maintains that African elites "refuse" themselves to the efforts of development, leaving these to the Europeans, see: Axelle Kabou, Weder arm noch ohnmächtig. Eine Streitschrift gegen schwarze Eliten und Weiße Helfer, Basel, (1993).

is a key element in economic success. "What we have not discovered fully" – concludes the Bank's report on the causes of the "East Asian miracle" – "is *why* the governments in these economies have been more willing and better able than others to experiment and adapt; answers go beyond economics to include the study of institutions, and the related issues of politics, history and culture".[26]

It was President *Yoweri Museveni* of Uganda who offered the argument of greater *discipline* of Asians compared to Africans as one possible explanation of the difference in economic growth and social development: "People from East Asian countries, with scarce resources and large populations, may tend to be more disciplined than people who take life for granted ... Some Africans have so much land that they don't know what to do with it".[27] This seems to me an interesting, but of course not sufficient argument. Much more important are strategic decisions such as land reforms. The economically successful countries in Asia – Taiwan, South Korea and recently Thailand and Malaysia (but not the Philippines) started *land reforms, a precondition for sound development:*[28] By privatizing land holdings, East Asian countries saw agricultural production increase; in Africa, land was communally owned in the traditional society, expropriated and exploited by the state after independence; prices for farm products typically have been set by state marketing boards. The urban bureaucratic bourgeoisie – in German "die Staatsklasse"– lived from the economic results, produced by farmers, who suffered from negative terms of trade and high taxes. The social contradictions between the state and the peasants have never been dissolved, leading to an ever increasing alienation between the two segments of the society.

IX. The Nordic Development Paradigm – A Solution for Africa?

In its "long-term perspective study" on Africa from the year 1989, the World Bank discussed as a solution for the African crisis what it called the *"Nordic development paradigm"*. This concept offers an alternative development model where the state assumes a leading role in building human resources, administrative and physical infrastructure capacity, while the goods-producing and non-infrastructure service sectors are left to the flexibility and incentives of private enterprise and market discipline.

Obviously the five Nordic countries (Sweden, Norway, Denmark, Finland,

[26] World Bank, The East Asian Miracle, op. cit., p. 34.

[27] Yoweri Museveni, quoted in: Keith B. Richburg, Why is Black Africa Overwhelmed While East Asia Overcomes?, in: International Herald Tribune, [(14.07.1992), p.6]. Also see Peter Meyns and Dani Wadada Nabudere eds., Democracy and the One-Party-State in Africa, Institut fur Afrika-Kunde, Hamburg, (1989).

[28] Cf. Dieter Senghaas, Von Europa lernen, Entwicklungsgeschichtliche Betrachtungen, Edition: Suhrkamp, Frankfurt/Main [(1982), S.258ff].

Island) shall function as an example of successful development for the less developed countries of ASS. In the mid-1800s the Nordic countries were agrarian economies with low income levels. Starting with Sweden around the 1870s, they have all experienced high growth rates to become advanced industrial economies. In 1987 the five Nordic countries had an average per capita GDP of $19,670, slightly above that of Japan and the United States, and 48 per cent higher than the European Community average. Moreover, Scandinavia's *social indicators* are among the best in the world. Like other countries, the Nordic countries had their own unique circumstances. However – according to the assessment of the World Bank – there are two noteworthy factors behind their success: the relative roles of the state and the market and the pattern of trade orientation and regional co-operation.

In recent World Bank publications the Nordic countries serve as a good example for the appropriate use of *state power vis-a-vis the private sector*, or the market forces. At an early stage of development the Nordic states assumed the role of providing infrastructure, high-quality administration, and social services, while the goods-producing sectors were largely left to private enterprise and market discipline. The state actively promoted universal access to social services, encouraged a *harmonious partnership between labour and entrepreneurs*, and kept a light rein on the private sector.

A unique innovation occurred in the relationship between the state and the society and between the classes: the Nordic peoples managed to mobilize *consensus* among organized labour, capital, and government. Not ideologically-based competition and class struggle, but a *concept of power and wealth sharing* by fair cooperation for the benefit of all was seen as essential for economic development and political stability. This pattern of *inclusive democracy* [29] can be seen as the direct contrary of the type of *zero-sum-politics* which until recently has been so common in Africa. This follows the logic that the winner gets all, while the opposition receives nothing, is blamed as a traitor to the common weal and, therefore, must be excluded from public life or even be oppressed.

The prudent policy of partnership between the state and the society was in sharp contrast to the practice in *socialist countries*, where governments took over ownership and direction of the means of production. It was also in contrast to the planned economies in the Third World, where governments tried to capture the "commanding heights" of the economy in the goods-producing sectors. In principle, one can agree with the following thesis: the Nordic countries represent a unique success-story in regard to economic development by intelligent "people-friendly" good governance. Encouraged, but not directed, by a social-democratic state

[29] "Inclusion" and "Universalization" of values and principles, beyond the "natural" borders of primordial units like clans and ethnic groups, belong to the main principles of western culture and modernization; see, Richard Munchen, Die Struktur der Moderne, Grundmuster und differentielle Gestaltung des institutionellen Aufbaus der modernen Gesellschaften, Edition: Suhrkamp, Frankfurt/Main, [(1992), p.267f].

regime, the *private entrepreneurship* became the prime mover in the establishment and expansion of the goods-producing sectors and their trading and financial institutions.

But one cannot overlook the fact that in Africa since colonial times the development of indigenous entrepreneurs had been hampered, and it was therefore naive to pretend that African firms could be transformed overnight into effective competitors on the world market. They face competition from foreign capital and transnational corporations and, today, they as new-starters have to compete on a rather well-established and complicated world market with aggressive traders, firms and businessmen from the more advanced European and Asian countries. When, for example, the People's Republic of *China* and other Asian countries will have fully developed their world-market-related trade and investment policies, then – I am afraid – the chances of African business as sustainable competitors on world markets will shrink even further. Adam Smith's "invisible hand" would not be enough to protect the emerging national bourgeoisie.

Perhaps it would be more prudent to foster African entrepreneurship by recognizing the role and vitality of the so-called *"informal sector"* – replacing discriminatory legislation, by unshackling small businessmen from unnecessary and unhelpful regulations and controls, and by facilitating access to credit and markets. In any case, the development of African private businessmen in informal as well as formal sectors will be necessary as an important basement for the emergence of a *national bourgeoisie*, as active part of a civil society. Without a self-confident national (local) bourgeoisie which needs and fights for a calculable constitutional state, and the emergence of a politicized labour force, including well educated middle classes,[30] the Nordic development paradigm will be of little use to Africa's political and commercial elites.

The emergence of a *"civil society"* is the order of the day – a difficult, contradictory and time-consuming process of social change. In Africa most likely it will take a long time – perhaps one, two, three generations? – but the question whether a democratic transformation via adjustment will be possible at all depends to a large extent on the development of a *suitable administrative framework* and the *developmental philosophy of the ruling class.*

X. Conclusion: Structural Adjustment Policy and the Necessity of a National Consensus

There is consensus that some kind of structural adjustment is essential for

[30] Cf. the thesis of the emergence of "strategic groups" and "conflict-prepared groups" (in German: "konfliktfahige Gruppen") as a precondition for *democratization* in developing countries in: Gunter Schubert, Rainer Tetzlaff, Werner Vennewald (Hrsg.), Demokratisierung und Politischer Wandel, Theorie und Anwendung des Konzepts der strategischen und konfliktfahigen Gruppen (SKOG), Munster und Hamburg, [(1994) LIT Publishing House].

overcoming the "African crisis". But the dilemma is that up to now the results have not been very promising. Even Africa's best performers (Ghana, Kenya, Uganda) have worse macroeconomic policies than the newly industrializing economies in Asia. The *objective* of structural adjustment programs, as advocated by the World Bank and IMF, is to establish a market-friendly set of incentives that can encourage the accumulation of capital and more efficient allocation of resources. But in reality African governments hesitated – mainly for political and social reasons – to pursue the path of the newly industrializing countries of East Asia. Why the political elites in most African countries have not been willing or able to experiment with economic and fiscal reforms as wanted by the Bretton Woods institutions, is still a desiderata for further research.

In theory the statement by Michael Bruno, the Chief Economist of the World Bank, is correct:

> Political leaders must build a broad-based consensus on the need for reform so that adjustment programs are not derailed by *powerful interest groups*. One of the major challenges for the next generation of adjustment programs is for governments and donors alike to find ways of widening ownership and building consensus.[31]

But the nub of the failure story, as far as structural adjustment programs in Africa are concerned, is the practical experience by governments and people that efforts to adjust are not rewarding, as if people would not believe in the possibility of overcoming poverty and underdevelopment.

Empirical evidence in countries like Zambia, Benin, or Burkina Faso, points to the fact that there is an *inbuilt-contradiction* between structured adjustment policy and liberal competitive democracy, in the sense that you can have economic progress or liberal democracy, but hardly both – at least not in the *early* stages of development. Organized social groups, belonging to the urban middle classes such as industrial workers, clerks, journalists, lawyers and other professionals as well as students, are generally the strongest *supporters* of democratic reforms, however at the same time they tend to become the *first victims* of structural adjustment programs, because structural adjustment means – among many other things – overcoming the *"urban bias"* in the allocation of public funds (in favour of the directly productive social classes as farmers and industrialists). You can call this a paradox of democracy, typical for all underdeveloped highly indebted countries. It is extremely difficult to build support among a privileged bureaucracy for measures that will ultimately undermine their position. Therefore the World Bank had to include into SAP *social components* in order to compensate the "losers" during

[31] Quoted in: World Bank, Adjustment in Africa: Reforms, Results, and the Road Ahead, op. cit., p.XII.

adjustment.[32] The future will show whether this policy of intervention will be sufficient to convince such groups to accept the rules of the competition game.

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[32] Cf. Alexandre Marc, Carol Graham, Marc Schacter, Social Action Programs and Social Funds, A Review of Design and Implementation in Sub-Saharan Africa, World Bank, Human Resources and Poverty Division, Technical Department, Africa Region, Washington, (1993).