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BEYOND POLICY REFORM IN AFRICA: *Sustaining Development Through Strengthening Entrepreneurship and the Non-governmental Sector*

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The Changing Development Context in Africa

The 1980s were the decade of “top-down” policy reform in Africa, as over 20 governments initiated economic reform programs. Policy reform was put on the agenda of African governments in the early 1980s primarily by the international donor community in response to: 1) the fact that donor projects, especially in agriculture, were being thwarted by the broader policy and institutional environments within which they took place; and 2) the fact that, in the aftermath of the economic shocks of the 1970s, African economies had begun to drastically slow down.

The World Bank and bi-lateral aid agencies exerted pressure on generally unwilling African governments to undertake structural adjustment programs, provided them with technical assistance in support of adjustment, and disbursed balance-of-payments loans and grants to finance imports and to bolster

government budgets. Donor efforts to generate reform tended to focus on key decision-makers — senior politicians and top bureaucrats. Economic reform programs were initiated both at the macro-economic level and in various sectors of the economy, including the social sectors. Donors were very often involved in policy dialogue about macro-economic adjustment programs, and have undertaken their own sector-level policy reform initiatives, an increasing number of which are in the social sectors.

Donor-supported reform activities in Africa were crucial in placing new issues and ideas on the policy agendas and into the public debates in most African states. In a number of countries undertaking reform, agricultural production has been once again placed on a positive track, economic growth rates have risen, and export volumes have begun to expand. On the other hand, the implementation of reform has proven to be significantly more difficult than had been foreseen by the donors. Targets in both macro-economic and sectoral reform have had to be continually adjusted downward and the timing of reform programs have had to be extended. In many countries, reform efforts were only half-heartedly undertaken by governments seeking donor funding; elsewhere they became victims of political unrest. Nowhere in Africa have existing policy reform

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programs generated the significant new levels of private investment that will be needed to restore self-sustaining growth. While “top-down” policy reform was appropriate for initiating change and for generating some important “front-end” macro-economic and sectoral reforms, it is less well-suited for institutionally-complex, longer-term sector assistance activities. Nor is it sufficient for addressing the need for African countries to fundamentally change the way they have approached economic development. “Policy reform” is too narrow a concept for addressing broad issues of overall development strategy and state - society relations.

The limited success of “top-down” policy reform efforts led to renewed discussions concerning the roots of development failure in Africa. As the 1980s wore on, a growing number of observers argued that, in Africa, the predominant role of government is, in and of itself, an important source of both the generally poor economic performance and of the difficulties in sustaining the economic reform process.

Indeed, a major component of the emerging consensus concerning the sources of Africa’s economic crisis is that bad governance — leadership behavior, policies, and the performance of public institutions — has been at the core of Africa’s problems. A major component of the governance problem in Africa is the lack of government accountability. Donors have been accused of contributing to the lack of accountability by negotiating reform programs with participation limited to senior government officials.

The political context within which development efforts in Africa will take place in the 1990s will be qualitatively different from that of the 1980s. Up until recently, the African political scene was dominated by various forms of what have been called “development dictatorships.” These regimes promised effective economic performance and rising living standards through state-centered development and heavy regulation of the private sector. In return, they claimed the right to maintain a centralized and authoritarian system of governance. While most donor agencies have long expressed skepticism about “development dictatorship” as a form of governance, at the same time, these political formations facilitated donor tendencies for a top-down, technocratic and apolitical approach to economic development, and especially towards policy reform, while limiting the potential for donors to undertake more innovative and participatory approaches.

“Top-down” efforts at economic policy reform will be more difficult given the political changes that are sweeping Africa. Already weakened by their dismal economic performance, African “development dictatorships” became the targets of rising popular protest in the aftermath of the revolutions in Eastern Europe and the collapse of communism. All over Africa, old models of politics and development are under attack. In many countries, “development dictatorships” have been overthrown; in many others they are teetering in crisis. In virtually every country on the continent, there are rising calls for greater popular participation in government and greater accountability by government.

Popular Participation, Markets, and Competition

Political change in Africa is forcing donors to re-examine their approach to development issues in general and to policy reform in particular. The demise of “development dictatorships” and the political effervescence in Africa presents an opportunity to enhance the role of the non-governmental sectors in both projects and programs and in both the productive and the social sectors.

Increasing the non-governmental role should not be done simply for its own right, nor primarily out of frustration with government performance, however justified such frustration may be. Rather, the shift to a larger non-governmental role flows out of the conviction that addressing development issues only through government can never succeed. Even accountable and effective governments cannot provide the answer to the myriad problems of development.

A strong civil society is central to sustainable development.

Increasing the non-governmental role should be a major part of a broader strategy to promote the themes of popular participation, markets, and competition as organizing principles for African societies. These themes must be given specific content on the basis of the cultures and histories of each country. While it is not the role of donor agencies to impose particular versions of these themes on Africa, donors can play an important role in facilitating the growth of such principles by expanding the scope of its policy dialogues and by working with a broader range of both non-governmental and governmental actors. While this does not imply a revolution in the way donors conduct business in Africa, it does mean that they should be

pro-active in looking for ways to 1) broaden the scope of "policy dialogue" activities; 2) increase the role of non-governmental actors in all phases of policy reform; and 3) enhance the capacity of the non-governmental sector to play a broader role in national development.

The transition to a participatory society organized to utilize the market mechanism and promote competition will necessitate changes on the part of both government and the private and the non-governmental sectors. Governments in Africa generally see their roles in terms of control over society and direct influence over the distribution of resources. In such a context, the commercial private sector sees its relationships with government (rather than efficiency or productivity) as the key to profitability. The non-governmental sector is seen by government as, at best, an implementing agency for government policy. The government-NGO relationship almost inevitably becomes hostile when NGOs attempt to go beyond their government-prescribed role. For broad-based and sustainable development to occur, these relationships must be changed.

Enhancing the non-governmental role in development has both short-term and longer-term objectives. The immediate objectives are to 1) generate a broader range of perspectives as inputs into the policy decision-making process; 2) enhance the likelihood of effective implementation of policy reform by broadening the range of actors involved in implementation; 3) increase the political viability of policy reform through broadened participation and commitment; and 4) as a result of all of the above, increase the likelihood that policy reform efforts will have a significant social and economic impact. In the longer term, enhancing the non-governmental role will be crucial for indigenizing and sustaining the entire process of development in Africa.

While seeking greater utilization of the market mechanism and enhanced competition, donor policy reform approaches have not been consistent with achieving those same goals. Policy reform too often has been seen as an event, rather than as a dynamic, socio-political process. Far too much attention has been placed on the technical component of reform and on the process of reaching a pre-program agreement with the host government on specifics of a reform agenda. But, initial technical analysis, no matter how skilled, and the signing of an agreement with government, are only a starting point for

successful policy reform. For such reforms to be effectively implemented, they will inevitably need to be reviewed and modified in a complex bureaucratic process. For them to be politically sustainable, they will need to be vetted and modified, promoted and opposed, by interest groups in "civil society."

In a number of innovative USAID activities in Africa, in both the productive and the social sectors, elements of such an approach have already been introduced.

Increased non-governmental involvement in education is part of several current basic education new programs and projects. In Mali, the basic education expansion program includes a "matching grant" component that supports local-level Parents Associations with leadership and management training to enable them to both participate more directly in the management of local schools and to involve them in national level discussion of education policy. In Kenya, the design of the new export development support project was heavily influenced by a series of studies undertaken by the Kenya Association of Manufacturers and by extensive meetings with actual and potential exporters, both in the manufacturing and horticultural sub-sectors.

Through these discussions, it was learned that inadequate attention had been paid to how local firms would access the newly formed export processing zones (EPZs). On the basis of these discussions, a swap mechanism was designed that addressed the problem. While the export activity is a project, rather than a program, government agreement on the swap was a precondition for moving ahead on the activity.

The transition to a society based upon participation, markets and competition will be both difficult for government, and pose new challenges for society as a whole. A particularly important challenge in societal transitions is ensuring fairness; that the opportunities to benefit from the new environment are not monopolized by a privileged group, be they businessmen, urban dwellers, or the educated. In other regions of the developing world, non-governmental foundations and think-tanks have been created that have served both as the sources of ideas and technical expertise, and, as importantly, as "bridging institutions" between government, the private sector, NGOs and donors. These "bridging institutions" can play an important role in expanding the scope of those empowered to benefit from societal transitions, thus enhancing their sustainability.

While more long term in focus, and costly, several of these initiatives have begun to have a major positive impact.

Two of the most interesting examples of these are the Institute for Liberty and Democracy (ILD) in Peru and FUSADES in El Salvador. The ILD, founded by Hernando de Soto, focuses on problems facing the informal sector in several Latin American countries.

It undertakes "action research" to document the contribution of the informal sector to the economy and the constraints that the legal and regulatory environments pose on informal sector enterprises.

The ILD also works directly with grass-roots informal sector organizations, helping them gain direct access to policy-makers so that they can make their own case. FUSADES undertook a major program in economic literacy that played an important role in generating a broad societal understanding of the implications of economic reform and private sector development. FUSADES developed a program of technical assistance to micro- and small-scale enterprises to enable them to take advantage of policy reforms undertaken. Enhancing the non-governmental role in policy reform is also part of FUSADES' strategy to ensure that the policy reform process is, and is perceived to be, equitable.

FUSADES undertook a broad research agenda, with local researchers increasingly leading these efforts as domestic capacity improved.

One Key to Successful Reform: Entrepreneurship

Building African entrepreneurship is a key factor in the development process. Entrepreneurs are crucial to development because they innovate and, via risk-taking, they create wealth. Entrepreneurs hire and manage the labor force. They open up markets and find new combinations of materials, processes and products. They initiate change and facilitate adjustment in dynamic economies. A major lesson of global economic development is that it is the private entrepreneur who is the most efficient generator of wealth. In the absence of a dynamic entrepreneurial sector, sustained broad-based development is impossible to achieve. Without an expanding economic base created by entrepreneurship, the resources needed to sustain human resource development will not be generated and poverty will not be alleviated.

Unfortunately, entrepreneurship has been downplayed in Africa, especially in the independence period.

Africans, both in and out of government, have often equated private entrepreneurship with exploitation. As part of the reaction against colonial capitalism,

the belief was widespread in Africa that entrepreneurial functions were either unimportant or could be better performed by the state. Aid agencies, through working overwhelmingly with recipient government agencies, willingly or unwittingly, reinforced this anti-entrepreneurial bias. In virtually no African government is there an understanding of the need for a dramatically changed role for government in a private sector-led economic strategy, nor of the nature of the international marketplace.

Governments seem to feel that once a few regulatory, legal and administrative reforms are announced, that both domestic and international investors will rush in.

Nothing could be further from the truth. In addition, in most African countries, almost nothing has been done to inform and educate the general public about the implications of private sector development.

African publics have been socialized by a generation of hostile official rhetoric towards the private sector.

Without a broad consensus among the population regarding the range of changes that will be introduced by private sector development, it is difficult to imagine the new system actually working, despite any changes that might be introduced into the policy, regulatory, and legal environments.

The model of economic reform that has been pursued by the international donor community (including the IMF and the World Bank) is supposed to have three steps. First, basic macro-economic stability is restored through appropriate exchange rate management and effective fiscal and monetary policies; second, structural changes are put into place so that prices reveal true market scarcities; third, on the basis of the first two steps, entrepreneurship is enhanced and new private investment takes place.

Without the third step, economic reform is meaningless and doomed to failure. In most of Africa, this three-step process of successful reform has been short-circuited, with the most problematic element being the disappointing investment response.

Generating new investment and enhancing entrepreneurship has been the missing dimension of economic reform so far in Africa. The World Bank has listed several African countries as performing less well than expected under structural adjustment, in large part due to the disappointing investment responses. This is despite the fact that, on paper, the economic reform process appears to be working well.

The World Bank reports that an ever-increasing proportion (now close to 100%) of the conditions attached to their policy reform loans and credits are being met. A recent comparative study undertaken

for the Center for International Private Enterprise (CIPE) judged the policy environments in African countries included in its sample as only slightly less effective than those in Asia and Latin America. Yet, in Africa, as opposed to Asia and Latin America, there has been disappointing investment response to adjustment measures. Measures of structural reform and the apparent effectiveness of conditionality have become disconnected from actual investor confidence.

International investors look at Africa and see continuing capital flight; they look at Asia and see re-investment. The true test of an improved climate is a significant increase in local investment and a return of flight capital. This is not taking place in Africa.

In fact, after nearly a decade of donor involvement in economic reform, Africa is increasingly dependent upon donor resources to finance both new investment and, indeed, to underpin the basic provisioning of many countries. It is estimated that the annual level of capital flight from Africa may still remain as high as \$5 billion.

How can this discrepancy of active structural adjustment yet little investment response and continuing capital flight be explained? Businessmen and women (and many other observers) believe that changes in the formal procedures have been more apparent than real, have been undertaken to please donors rather than out of a real belief in the private sector, and, thus, have been insufficient to address the extent of the problem. The mere fact that donors and governments have declared that the enabling environment is much improved over past conditions has been insufficient to warrant significant private sector investment. Despite some formal changes in the regulatory environment, in virtually all African countries, continuing lack of property rights and meaningful contract law, as well as the hostility of government officials and the lack of a fair judicial process, have served to lower investor confidence. In a recent paper prepared for the African Development Bank, Ernest Wilson speaks of the "Great Wall" that divides African public and private sector elites.

Wilson found little "support for the possibility that the public sector should promote rather than preempt the private sector."

Despite these formidable difficulties, the African private sector exists and, in fact, is a growing presence in most countries. The crisis of the 1980s and the initiation of economic reform efforts have expanded the opportunities for the private sector, albeit in many countries, this has been confined to the "parallel economy" and has had only limited benefit

for the economy as a whole. Consider briefly the case of Tanzania, a country that has a good record of macroeconomic reform, together with the scaling back of state intervention especially in the rural areas.

This has generated a real supply response in agriculture, and increasing agricultural output has generated a wide range of business opportunities both up and down stream. But, due to a continuing stifling regulatory environment, these opportunities have by and large been taken up in the informal sector. This has been reinforced by the government's crowding out of the private sector in the state-controlled banking system. As a result, entrepreneurs can't "grow" businesses. Successful entrepreneurs multiply the number of their businesses rather than seeking economies of scale and higher levels of competitive advantage, both of which would be much more advantageous to overall economic development prospects.

But not all African entrepreneurial activity is confined to the informal sector, nor is the informal sector only made up of micro-enterprises. A recent IFC paper by Keith Marsden on African entrepreneurship challenges the oft-expressed notion (most recently in the World Bank Long-term Perspective Study) that the African private sector is comprised of a small number of large corrupt firms whose position depends on political patronage and a vast number of micro-scale enterprises. Marsden found that, on the contrary, the "middle is not missing," that there are in many countries small and medium enterprises operating in highly competitive environments. Recent research on businesses in the slums of Nairobi found a substantial number of informal entrepreneurs operating complex organizations that competed against established international firms.

While in Asia and Latin America, private sector development initiatives have been aggressively pursued to complement economic reform efforts, this has not been the case in Africa. The Economic Commission for Africa (ECA) has been largely hostile to the private sector, while the African Development Bank has only very recently begun its private sector initiative. As late as 1987, an ADB "experts commission" said virtually nothing about the private sector in their report on future directions for the Bank. The good news is that this is beginning to change. The African Development Bank has set up a \$200 million initiative to support the private sector.

In its long-term perspective study on Africa, the World Bank states that "entrepreneurs will play a

central role in transforming Africa's economy. A consensus, increasingly reflected in policy reforms and other initiatives is forming around this vision of Africa's future." The Bank has begun to move away from its attitude of aloofness towards the private sector. Several African governments have initiated real dialogues with the private sector.

The bad news is that the World Bank overstates the consensus on private sector development, which in fact remains fragile and narrow, partially due to the way in which donor organizations have engaged in policy dialogue on the issues involved. For the most part, discussion of the need for private sector development has occurred between donors and senior government officials. The private sector itself has been largely removed from these discussions, as have been the officials who will have to implement new government policies towards the private sector. Pro-private sector economic reform initiatives will remain politically fragile until the business community is more actively brought into the reform process and, with government, is successful in building a broad public understanding of, and constituency for, such reforms.

Facilitating a Changed Governmental Role

As a result of both economic crisis and severe budget pressures arising out of stabilization efforts, the capacity of most African governments has severely deteriorated in recent years. This has been reinforced by the increased politicization and corruption of civil services, as personal connections replaced technical competence as criteria for advancement. This weakening and deepening politicization of African governments has led to the temptation to simply avoid government and work with the private commercial and non-governmental sectors to gain development objectives.

While in certain circumstances such an approach is justified, it should not be raised to a strategic principle. In every society, important trade-offs must be made; it is the role of government to create the processes through which such trade-offs are decided. Maintaining the consent of the governed—a key to political and societal stability—depends upon those trade-offs being perceived as fair. To eschew working with government, while sometimes having immediate benefits, is likely to be a self-defeating approach if one's goal is to create an enabling environment for broad-based growth. Historical experience points to

the simple fact that effective governments are crucial to development success.

Drawing largely from the experiences of the Asian NICs, the World Bank's most recent World Development Report stresses the importance of a "market-friendly" approach, to development. In such an approach, the private sector does not replace government; rather, government institutions are transformed so that they can play a key role in facilitating economic growth. Development success in Asia depended upon governments working with the private sector while at the same time standing above vested interests to create the social, political, legal, and institutional infrastructure and climate needed for rapid economic growth.

The problem in Africa has not been too much government as much as government doing the wrong things, government tangled in the web of narrow interest groups, and government becoming heavily politicized (less in support of a privileged group of business interests, as in some Latin American cases, and more in favor of expanding its own role for its own sake). As a result, in Africa, governments have generally taken a "market-hostile" approach to development and have seen the private sector as a threat rather than an ally in the quest for both economic development as well as other political goals.

One key to successful policy reform in Africa in the 1990s will be changing the role of government institutions. Government institutions need to be facilitators of the rapid diffusion of information; they need to enhance their political and strategic management skills geared to a more open and plural environment; most importantly, they need to gear their activities towards facilitating market-based transactions rather than directly controlling events through bureaucratic fiat. These changes will not be easy to achieve, and are likely to be impossible without active donor participation. Thus far, donor involvement in institutional reform has been limited to enhancing policy analytical capacity and to very narrow technical support. A World Bank review of its institutional reform efforts in support of policy reform found that such reforms have not gone very far, especially in Africa, because of weaker than expected management capacity, poorly executed technical assistance, inadequate training, and failure to monitor and supervise the proposed institutional reforms. This suggests the need for much broader assistance to facilitate African governments

effectively responding to the new situations created by economic reform and political liberalization.

Implications for International Donors

The analysis presented in this concept paper has a number of implications, both strategic and operational, for how donors might undertake their work in the future:

First, while political change does not provide a panacea for curing Africa's ills, the new political context offers the opportunity for donors to assist African countries in broadening popular participation in development and in re-thinking broad issues of development policy and strategy. The inter-connected themes of participation, markets, and competition should be stressed. These efforts should be seen as part of a larger process of creating an environment conducive to development and of developing new approaches that release the pent-up energies of suppressed private and community initiatives.

Second, donors need to broaden their approaches to policy reform, policy dialogue, and development strategy. In addition to working with African governments, who have the ultimate responsibility for providing an environment within which broad-based market-led development can occur, the non-governmental sector should increasingly be engaged, both in the formulation and implementation of specific policy reform programs and in developing new strategies and approaches to development. As part of this, donors should involve a broad range of non-governmental voices, both in the commercial and voluntary sectors, in the analysis and policy discussions leading up to the decision to undertake sector assistance programs as well as in the design of such programs. In addition, non-governmental groups should be seen as a potential vehicle for the implementation of policy reform efforts. To support this, projectized activities should be designed to enhance their ability to undertake such work.

Third, donors should develop a longer-term strategy for strengthening the ability of the non-governmental sector to develop broad strategic and thematic approaches to development problems and to play a substantial role in shaping societal choices on these issues. This will necessitate the building of bridging mechanisms between the private sector and other non-governmental groups and government. In other

parts of the developing world, there is a wealth of experience in such activities. Several USAID missions in Africa, including Kenya and Zimbabwe, have succeeded in enhancing the private sector role in policy. Potentially important bridging mechanisms are independent policy research institutes, informal sector research-action agencies, and foundations. The viability of developing such institutions in Africa should be explored. Such bridging institutions will enhance the political viability of new development

strategies and policy reforms and enhance the likelihood that political change has its desired social and economic impact.

Fourth, the substance of donor-supported policy reform initiatives should more directly address the policy and institutional constraints to expanded investment by both formal and informal enterprises.

In particular, improving domestic investor confidence needs to be addressed much more directly in the design of policy reform initiatives. Improving domestic investor confidence is the single most important element in generating foreign investment, much more important than investment codes or investment missions. Investor confidence will only be improved if the African private sector plays a more direct role in the design and implementation of policy reform initiatives. The development of specific private sector strategies must reflect the microeconomic realities of the private sector and realize that entrepreneurs invest in businesses for profits and income. The best source of these realities are businesswomen and men.

Fifth, donors can play an important role in enhancing the capacity of the private sector to respond to the new environments being created by economic policy reform. The goal should be to help develop an activist commercial private sector, capable of delivering services to its members and giving voice to their concerns. Activities in this regard should focus on both the formal commercial sector and the informal and micro-enterprise sector. While the micro-enterprise sector is important in ensuring that economic growth is equitably distributed, enhancing entrepreneurship in the formal economy, and building strong linkages into the world economy, are the most important factors in generating growth. There is no inherent conflict between support of micro-enterprises and support for overall private sector development.

Sixth, donors need to put more emphasis on working with host governments in transforming their institutions to enable them to play a more appropriate role in the development process.

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