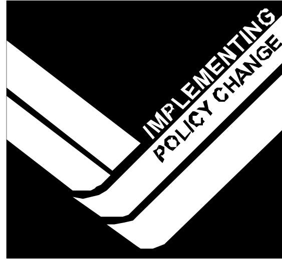

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THE IMPLICATIONS OF POLITICAL CHANGE IN AFRICA FOR THE SPECIAL PROGRAM FOR AFRICA (SPA) DONORS:

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Introduction

The winds of political change have blown strongly across the African continent since 1990, igniting political protest and generating political reform. All around the continent, the political formations — single-party states, individual rule, military dictatorships — that dominated the African scene since independence have come under unprecedented pressure from popular protests and new political movements. Political change is a fact of life in over twenty-five African countries, and continues to spread. But one of the major themes of the papers prepared for this workshop is that the outcome of this process is very unclear and that there is a wide range of variation among African countries. In general, the process of political liberalization — the weakening of authoritarianism and the opening up of wider opportunities for political participation — appears to be far more certain than does the process of democratization — the creation of new political institutions that entrench the principles of popular sovereignty.

The papers prepared for this workshop suggest that three major factors explain recent political trends of protest and reform in Africa. The first factor is the failure of Africa's existing political formations. These regimes promised effective economic performance and rising living standards through state-directed development and through heavy regulation of the private sector. In return, they claimed the right to maintain a centralized and authoritarian system of governance. With very few exceptions, African states have failed as promoters of development. This failure served to substantially weaken their claims to political legitimacy, especially among urban middle classes who have formed the core constituency for reform efforts all over Africa.

The second factor explaining protest and reform has been the fallout from the collapse of communism in Eastern Europe which discredited socialist and statist models of government, while at the same time undermining the confidence of many African ruling blocs. Simultaneously, it spurred political protest by those disenchanted with the status quo who became emboldened by the success of popular movements in

Eastern Europe. Finally, it put the issue of democracy on the agenda of donor countries.

The third factor explaining protest and reform is the cumulative impact of economic reform endeavors. This impact has been felt in two very different ways that paradoxically have been mutually reinforcing. While efforts at economic reform provided the initial target of many of the urban middle-class protest movements that later became more deeply politicized, at the same time the logic of economic reform suggested to the same urban middle-class the need for deeper institutional and political change. This two-sided impact of reform is seen in the ambiguous attitude of many of the new political movements towards economic reform efforts. For example, the opposition MMD in Zambia both criticized some of the government's stabilization initiatives as being too harsh, while at the same time calling for fuller implementation of structural adjustment measures. A similar attitude was taken by the Kenyan opposition.

The papers prepared for the workshop broadly agree that Africa's institutional setting, social structure, and political culture unfortunately provide a weak base for the construction of democratic polities. The deterioration of state capacity under the impact of the economic crisis will make it very difficult for new regimes to democratically manage the increased political participation generated by political liberalization. A large and poor peasantry, a small industrial working class, an expanding urban underclass, and a tiny privileged group of state-dependent bureaucrats, politicians, professionals, business persons and land-owners, as one sees throughout much of Africa, do not make up a class structure that disperses power and facilitates political accommodation. Finally, what Bratton refers to as the "neopatrimonial" political culture is unlikely to change quickly, and will make both successful democratization and improved governance even more problematic.

But while the future of democracy is thus unclear in Africa, all of the authors believe that the events of recent years have had, and will continue to have, a positive impact. Especially important has been the placing of new issues and ideas on the African political agenda. These include the end of arbitrary regulation and state exaction, the recognition of basic civil and political liberties, and greater transparency and accountability in public decision-making. The projection of these governance issues into open public debate is certainly a positive outcome of recent events. It suggests that even a little democratization is almost certainly a good thing in Africa.

Nor should the weak basis for democracy in Africa be taken as a permanent condition. In the short-run, the most important factor that can support the democratic trend is strong economic growth. Rapid growth, and an expanding private sector, will lessen the premium on political power and ease social tensions by raising living standards for all. But is rapid growth possible in the context of political reform? What might be the impact of liberalization and democratization on the process of economic

The relationship between political liberalization and economic reform is remarkably understudied, especially vis-a-vis Africa. Research that does exist from other parts of the world suggests that while political liberalization and economic reform are mutually reinforcing in the long run, there is significant potential for short-term tensions between the two processes. In the initial stages of political liberalization, economic reform is almost invariably put on hold as contestation between incumbents and challengers dominates national agendas. As discussed earlier, the economic protests that later became politicized generally began as conservative reactions against economic reform. Regimes that are eager to contain popular protest and minimize political concessions will sacrifice economic reform initiatives, especially if they begin with limited political will. The run-up to elections in newly-liberalized polities will also strain economic stabilization efforts, in particular the maintenance of budgetary discipline. Van de Walle (1992) suggests that economic reform will be most difficult in countries with unresolved political transitions, citing the examples of contemporary Zaire, Cameroon and Kenya.

Both Van de Walle (1992) and Sandbrook (1990) believe that, in the aftermath of successful political transitions, the prospects for economic reform are somewhat improved. The conflict between political liberalization and economic reform is likely to be less severe in Africa than elsewhere in the developing world since Africa, with some possible exceptions, has never had successful "developmental authoritarianism" on the Asian and Latin American models. The timing of political liberalization in Africa also mitigates conflicts between political liberalization and economic reform. The overwhelming global trends of open market economies and political pluralism mean that there is

no credible alternative to economic liberalization. The demise of cold war ideological struggles means that domestic politics will be less vulnerable to compromise-limiting ideological-based conflicts, creating more space for practical compromise. Both authors stress the "new broom" effect of enhanced legitimacy of new regimes to undertake reform measures.

Beyond electoral pressures that will make the maintenance of stabilization efforts difficult, there are three dangers to broader economic reform in new democracies. The first is that new players will reject policy advances already achieved simply because they are identified with the old regimes. The second is what might be called the "Indian model," where fractious politics and multiple payoffs to powerful interests prevail. Third, there is the danger that economic policymakers will not be able to gain insulation from day-to-day political pressures. Here there may be a tension between the twin goods of political accountability and technocratic insulation.

Recent experience in Asia and Latin America does not suggest that economic reform efforts will necessarily be subverted by political democratization. Even in those poorly performing countries, reform efforts have withstood electoral tests where economic conditions prior to reform were broadly believed to be disastrous and unsustainable. In strongly performing countries, reform efforts have been sustained even in the face of major political change. The experience of Chile, where the economic policy baby was not thrown out along with the authoritarian bathwater, offers hope to those who fear the economic effects of democratization.

With these themes in mind, let us now explore more directly the implications of the recent political changes in Africa for the Special Program for Africa (SPA) donors' efforts to promote economic reform.

Reform Content Issues

There are several important issues regarding the implications of political liberalization for the content of economic reform programs: Are economic reforms easier or more difficult to implement in liberal political systems as compared to authoritarian systems? Are there particular types of reforms involving both economic policies and governance that are easier/more difficult in democratic rather than authoritarian systems?

Among development scholars and practitioners, there are still those who believe that economic reforms are more easily implemented by authoritarian governments since they can often ignore the protests of economic interest groups adversely affected by the reforms. Others believe that economic reform programs are likely to be more effective and durable when implemented by democratic governments which must gain support for the reforms by key societal interest groups. With a broad based consensus on reforms, it is argued, the reform programs are more likely to be implemented fully and maintained. It is also argued that good governance is important for successful economic recovery and development, and is more likely in democratic systems that are open and accountable to their peoples.

Empirical evidence suggests that it is less the form of government and more the strength of leadership commitment and state capacity that determines the effectiveness and durability of reform programs. Strong executives in authoritarian and democratic systems are more able to implement effective reforms than weak executives in either system. There is also evidence to suggest that good governance (particularly in the area of economic management) is not guaranteed in democratic systems nor is it precluded in authoritarian ones. The Korean economic miracle occurred under the leadership of authoritarian governments; democracy in The Gambia has not ensured good economic governance.

The problem with these debates is that they are conducted at such a high level of aggregation that they miss important distinctions between types of reform programs and types of regimes. More relevant to the challenges facing foreign assistance donors are the issues involving the content of reform: Are there types of reforms that are more easily implemented once a government has liberalized politically? Are there types of reforms that are more difficult in such governments? Does the degree of political liberalization affect the types of reforms that can be implemented?

In answering these questions, there is an important issue to resolve: What has been the impact of political liberalization on key constituencies whose support or opposition to reforms affected their implementation? In most countries which have moved from authoritarian to democratic systems, a new political elite has taken power and the old patron-client networks are weakened. There are two areas where such networks appear to have played a

role in blocking economic reform programs: financial sector reform and trade liberalization.

Before financial sector reform efforts, the banking system (whether under direct government control or not) was an important channel for resource transfers to cronies of the authoritarian leadership through unsecured loans or loans that neither lender or borrower ever expected to be repaid. A new regime may not be able to collect on those past loans but may be able to establish new banks and regulations that will ensure that they work as commercial rather than as political institutions.

Trade liberalization opponents, whose enterprises had survived because of government largess and protection from foreign competition, saw the reduction of trade barriers as a threat to their business. A new regime will not feel the same obligation to protect the economic interests of the crony capitalists of its predecessor and may be able to implement trade liberalizing reforms more expeditiously. (This is not to argue that the only blockage to trade liberalization was the crony networks of the previous regime. Trade liberalization may simply be less difficult in a new regime but not without problems. In the CFA countries, for example, trade liberalization in the absence of a devaluation of the CFA franc would destroy even efficient domestic industries and so would be unwise no matter what regime is in power.)

One set of reforms urgently needed no matter what type of regime is in power is reform of the civil service. This involves not simply downsizing the civil service (which is too large and too expensive in most African countries), but improved organization to operate more transparently, accountably and effectively. The weakness of the civil service in African countries is a binding constraint on development. There are a number of countries, such as Kenya, where the capacity of civil servants is high but the organization and leadership of government agencies and state-owned enterprises severely constrains public servants. If these other reforms are not addressed, capacity building alone will not make the civil service in African countries — and by extension, the governments of those countries — any more effective in managing their economies and polities.

Civil service reform, however, may be one of those reforms that is very difficult in newly democratic regimes, particularly reforms involving lowering of wages or employment levels which adversely affect the interests of unions. In a number of countries, the unions are now important political players in the political system, and have played roles as important allies of reform minded governments faced with opposition from the military. However, such reforms are not impossible, and have been successfully implemented in Benin, for example.

Economic reforms in Benin suggest an additional point. Negotiations with unions representing public service employees on economic reforms directly affecting their members are probably unavoidable in new democracies since unions retain a measure of political influence as well as the ability to damage the economy through strikes against policies they dislike. However, it is not impossible to obtain union agreement to painful reforms like downsizing the civil service — if governments have something positive to offer the unions in return, for example, severance payments or modes, increases in wages of the remaining civil servants.

The government of Benin pursued both of these tactics in obtaining union agreement to civil service retrenchments and lower increases in wages than union leaders had been demanding. Compensatory payments and side payments may both become essential and explicit elements in reform programs in new democracies where those reforms require agreement by representatives of politically powerful groups whose interests are harmed by the reforms. (This point can be extended to downsizing military employment and expenditures.)

More generally, where economic reforms adversely affect a significant proportion of the politically active population (such as reductions in subsidies for transportation or basic staples), it may also be important to ensure that some aid is used to finance visible signs of economic improvements such as rehabilitating schools or health clinics. These types of activities may be especially needed in countries where the benefits of economic reform (specifically, the anticipated rise in private investment) are likely to be slow in coming, making symbols of economic progress critical for the political sustainability of reform programs as well as the governments implementing them.

Political liberalization can affect the implementation of one other important type of reform: those involving governance. Authoritarian regimes will usually resist reforms intended to strengthen

legislatures, judiciaries and other key political institutions. But newly democratized regimes, fresh from battling for more open, accountable political systems, will usually be open to external advice and assistance for such reforms — at least in the early stages of its existence. It might make good sense for external donors to be prepared to provide aid to help legislators gain more access to the information needed to make them more effective participants in national decision making — not only providing them with training but helping to finance the local equivalent of a "Congressional Research Service." Judges and lawyers often need retraining as well as better access to legal materials. Political parties can be aided not only with advice but with materials (computers and so on). The media, which must play a key role in an open and accountable political system, often is in urgent need of training, equipment and information. (Journalists frequently have an especially difficult time in reporting accurately on economic issues.) Donors need also to consider what measures they can take to persuade and create incentives for the military to remain out of politics for they may prove the greatest threat to the survival of democratic regimes in Africa. There is much to be done in all of these areas. And the ideal moment to offer assistance is at the very beginning of newly elected regimes—before they come to regard the legislature, the judiciary and the media as annoying constraints on their freedom of action.

We have thus far been examining economic reform issues in newly democratic societies. But many states in Africa have implemented only partial political reforms and the old political elites, with their long established patronage networks, have remained in power. As Van de Walle (1992) suggests, these may be the regimes where economic reforms are most difficult. A politically mobilized population is already discontented with economic decline, the impact of past economic reforms, and the absence of full political liberalization. They will likely be less tolerant of any economic reforms the regime tries to implement where those reforms adversely affect them. And the likelihood of demonstrations, strikes and riots against reforms turning into demonstrations against the regime will make the regime reluctant to implement politically painful economic changes, such as civil service reforms and reductions in subsidies. At the same time, the patronage networks which have so benefited from economic abuses and corruption in the past are still in place, able to resist reforms that adversely affect their interests. It may be necessary for external donors to concentrate on persuading these partially liberalized governments to liberalize fully before they contemplate ambitious financial support for programs of economic reforms.

Reform Process Issues

The international donor community has been at the forefront of promoting economic reform in Africa. While some observers have tended to overstate the role of the donors (by not recognizing the inevitability of some sort of adjustment given the depth of economic crisis in most African countries), both the content of reform and the reform process have been definitively shaped by the active involvement of the international community. The role of the donors has been particularly important in: putting the ideas of economic reform on the agenda of African policy-makers; diffusing the analytical underpinnings of structural adjustment to African technocrats; and providing financial incentives for coherent, as opposed to "ad hoc," adjustment in the context of deepening economic crisis.

At the center of the donors' approach to the promotion of economic reform in Africa has been conditionality, the agreements between donors and recipients that exchange financial transfers (either grants or loans) by the donors for policy changes by the recipients. While never publicly articulated, the donors brought an implicit political strategy to their efforts to promote economic adjustment. This strategy involved gaining leverage over recipient governments through the carrot and stick of conditionality; and using that leverage to diminish the role of the state and to shift influence over policy decisions from politicians to technocrats, who could be insulated from day-today political pressures. Policy conditionality served to initiate the reform process, while empowering technocrats, and providing them with autonomy, and was thus viewed as the instrument for sustaining policy reform.

Throughout most of the 1980s, donor efforts to generate economic reform focused on gaining the support of key decision makers — senior politicians and, especially, top economic technocrats. Individuals such as Philip Ndegwa in Kenya and Mamadou Toure in Senegal became crucial interlocutors between donors and African heads of state. This approach corresponded to the hierarchical structure of the institutional arrangements that dominated the African political landscape. Donors have believed that technocrats could rise above petty

political rationality, especially if backed by the resources of conditionality-based donor programs. Donor strategies were marked by efforts to buffer technocrats from political pressures in the short-run and to create more "rule-driven" mechanisms for policy choice that could be supervised by technocrats in the long-run. What was envisioned was a leaner, but much more effective, state with policy-making dominated by an empowered technocratic elite.

Ironically, despite the critique of the African state implicit in the donor approach to policy reform, donor strategies corresponded quite nicely to the apolitical rhetoric and hierarchical nature of the existing African regimes, and, in fact, sought to shift from one narrow focus of decision-making, i.e. top politicians, to another, i.e. top technocrats. In addition, while the content of donor programs have put increasing emphasis on the governance theme of the need for transparency in public institutions and governmental operations, the processes by which donors have interacted with African governments on policy reform have been far from transparent. On the contrary, donor government relations on economic reform remain under a shroud of secrecy.

Donors have had some success in some countries with this top-down approach of conditionality and empowering technocrats. In particular, conditionality has been successful in initiating reform programs, especially in areas that are simple to monitor and are not administratively intensive. Exchange rate management and food pricing policy are examples of issues in which reform has proceeded well in a wide range of states. In some countries, technocrats have gained greater influence. In Malawi, for example, President Banda was successfully removed from direct control over Press Holdings and decision-making power was given to technocrats. In Benin, the government created a "Structural Adjustment Board" that was independent of the dominant party.

But, conditionality has been much less successful in sustaining economic reform programs or in facilitating reforms that are administratively and politically complex. Donors have not had much success in leveraging more permanent shifts in authority towards technocrats. Sensing the donor strategy, a number of governments (Kenya, Tanzania, Senegal) have increased the influence of technocrats during the run-up to key negotiations with donors, only to have their influence reduced after the agreements have been concluded. In many, if not most countries, the most skilled technocrats have all but given up their responsibilities as economic managers to become full-time fund-raisers in search of quick-disbursing, policy-based financing.

Rather than leading to fundamental policy transformation and dynamic economic growth, donor efforts to promote economic reform have generated what might be called the "partial reform" syndrome, where a willingness to initiate adjustment measures is not supplemented by the basic institutional and attitudinal changes needed to carry through a transformation to market-oriented and private sector-led growth. Adjustment efforts have some success in eliminating the worst distortions and in restoring low-level economic growth, but do not really transform either policy-making or the overall economic environment.

The limited success of donor efforts to promote economic reform in the period preceding the onset of recent political changes in Africa reinforces other points made by van de Walle and Sandbrook that suggest that political change may be less threatening to economic reform than some observers have stated. Nor has the political sustainability of reform only been made problematic due to political liberalization. Even before the political crisis of African authoritarian regimes emerged in 1989, the World Bank and other donors were becoming concerned about the political dimension of the sustainability of reform. Their response was to emphasize the need for host-country "ownership" of the adjustment program and process. But the notion of "ownership" has never been clearly defined, nor does it appear to have had much real impact on how donor policy reform programs are in practice undertaken.

How might donors modify the processes by which they undertake activities in support of economic reform in Africa to take into account, and support, the new trends of political liberalization? The following are offered as ideas for the SPA donors to discuss and consider, rather than as fully-articulated recommendations.

1) Donors involved in policy reform should consider making more explicit efforts to ensure that the central governance themes — transparency, accountability, rule of law, and participation — shape their own efforts to promote economic reform in Africa. This would imply, in general, a more open approach to the information and analysis generated in the preparation and supervision of donor-assisted programs. Indeed, it would make the free flow of information a major

theme of both the content and process of economic reform. It would also bring anti-corruption themes to the top of the agenda. It would imply that conditionality agreements become more straight-forward and monitorable. And it would imply that donors would encourage governments to involve a broader range of actors, both governmental and non-governmental, in the design and implementation of programs. These "reforms to policy reform" would necessitate substantial changes in the procedures of many donor agencies, and are likely to be resisted by host governments, even those that are newly-democratic.

2) Political liberalization creates an opportunity for donors to move away from the "top down" pattern of policy reform that dominated their efforts in the 1980s. The political sustainability of policy reform in the new political environments will demand far greater attention to political base-building than was the case in the 1980s. While newly democratic regimes in Africa are likely to be more serious about economic reform than their predecessors, they also base their legitimacy on a more participatory policy process. Sustaining economic reform in this context is likely to necessitate donors paying more attention to the processes by which policies are made and implemented. In the past, donor agencies have focused too narrowly on the content of policy.

Donors can assist governments in: (a) ensuring that a range of inputs, especially from those affected by and those responsible for implementing policy, are brought into the policy process; (b) building the institutional capacity to manage a broad-based policy process; and (c) creating the capacity to effectively implement and monitor the impact of policy. They can also support "accessory" packages, whose main rationale is to enhance the overall political viability of economic reform. The details of such packages are described below. A range of such activities are being initiated in Eastern Europe and the states of the former Soviet Union. Such an approach involves going well beyond the existing donor efforts to build domestic "ownership" for economic reform.

3) A more open political environment means that donors should consider taking political issues more seriously at the design stage of policy-oriented programs, especially in longer-term, institutionally-oriented sector assistance programs. In such a case, reform "front-loading" is not possible, and effective political analysis may have an important role to play due to the possibility that government's commitment to the program is limited and/or the possibility for political de-railing is present. Donors might build political analysis into the design process itself, in order to better ensure that the outcome of the process is a politically feasible program. In addition, the design process itself can be structured in such a way that the political feasibility of the program is enhanced. Such an approach would more explicitly accept the limited leverage of conditionality. A thorough political economy analysis that begins at the very early stage of program design can throw light on a range of political elements that will have an important impact on whether or not a program is likely to work. Such an analysis would examine the decision-making process within the issue-area to be addressed by the reform program. It would analyze who the main "stakeholders" are and how they are likely to be affected by various reform options. Finally, it would explore the process by which the particular policy and/or institutional reforms will flow through the bureaucracy, and assesses the ability of the institutions involved in implementation to actually get the job done.

Such political analysis can facilitate both the design of the program and an effective dialogue with government. For instance, decision-making analysis is especially important in determining who in government are the key policy-makers and for structuring the policy-dialogue. The "stakeholder" analysis is especially important in assessing the potential for active opposition to the reform process and in deciding whether a "frontal assault" approach or a more gradual approach is likely to be more appropriate. Understanding potential winners and losers will allow dialogue between donors and governments over whether or not the policy reform agenda should include some "compensation" for losers as a means of diminishing opposition reform. Side payments, even if largely symbolic, to powerful groups opposed to reform to offset the impact of reforms on their interests is but one possibility. PAMSCAD in Ghana, ostensibly intended to offset the social impact of adjustment on the poor, also promised to provide jobs for some of those released from government employment. While never large enough to make a substantial impact on its targeted beneficiaries, PAMSCAD was a useful political symbol for government's continuing concern with social welfare. These types of programs will be especially important in public service reform programs aimed at reducing the size of the civil service.

4) Donors should consider deepening current efforts to build collaborative procedures for the analysis and design of programs. The political viability of policy reform programs are likely to be enhanced if the analytical and design processes are highly collaborative. Such collaboration should include voices from both government and from non-governmental actors who are expected to play an important role in the aftermath of the reform, especially the private sector. Such an approach might improve political viability in several ways. First, collaborative technical analysis and design will increase the likelihood that host government (and private sector) participants will feel "ownership" towards the policy and/or institutional reform package developed, rather than seeing it as a donor intrusion. Second, collaborative analysis and design gives all involved insight into the assumptions that various actors bring to the process, and will help generate specific ways in which political feasibility can be combined with economic good sense. Finally, collaborative technical analysis and design will give insight about whether specific "side-payments" might be needed to sustain the reform package.

Governance Issues

Both bilateral and multilateral donors are committed to supporting "better governance" in Sub-Saharan Africa. Few would disagree that good governance is necessary for development. But promoting good governance (and penalizing poor governance) with aid is complex. The first problem is the definition of "governance". Bilateral donors have generally identified good governance with democracy and most have announced that their aid will be tied to progress toward democratization (though not all have acted in accordance with their statements). The definition of good governance by multilateral donors has been less clear. This appears partly due to a lack of clarity in staff thinking in these organizations and in part the organizations' inability to come out explicitly in support of democracy due to the perceived limitations imposed by their articles of agreement. (The World Bank appears at times to have gone beyond these perceived limitations in pressing several African governments to implement political reforms.)

The lack of clarity and coherence in donor policies supporting good governance raises several problems. The one is coherence among donor agencies. If donors are to condition their aid (including aid in support of economic reform) on political reforms, they will fail unless they act consistently over time and in a coordinated fashion. It is no good for the bilateral donors to withhold aid because a government has had a fraudulent election or no election at all while the multilaterals continue to lend to that government because its economic reform record is good or because it is relatively honest. And it is pernicious for donors to declare their support for democracy one time and appear to back off of that support another time.

The problem of coordination has yet to be addressed fully. For political conditionality to be effective and credible, the World Bank and the IMF would have to support donor policies denying development aid to African governments where those governments had failed to implement adequate political reforms. This may mean that the articles of agreement of these institutions need to be reinterpreted. This is a controversial point but it is simply another logical step in the evolution of development thinking in these institutions, particularly in the World Bank. If was first thought that aid could support development through financing productive investment projects. It was discovered at the beginning of the 1980s that investment projects could not promote development where a country's overall economic policies were unsupportive of development. So aid shifted to financing economic reforms. But economic reforms failed to bring about a significant improvement in economic performance in Africa. In 1989, the Bank pointed to the problem of governance as a further bloc to development. It is only logical that obstacles relating to poor governance must be removed if development is to proceed. And while the Bank has not openly pointed to the need for democratic polities as key to removing those obstacles, the institution's emphasis on transparency and accountability appears to imply democratic political reforms. The Bank needs to accept the logic of its past arguments.

A second dilemma involves the specific criteria for providing or withholding development aid in response to democratic reforms and good governance. Should development aid be provided only when recipient governments have crossed a notional "threshold" of democracy — for example, have permitted freedom of speech and assembly, have held free and fair elections and have permitted the winner of those elections to take power? Or should aid be based on a scale of democratization where a little bit of political liberalization is rewarded with a modest amount of development aid and greater strides towards democracy are rewarded with larger amounts

of aid? The increased freedom of speech and the permission to form opposition parties would, in this case, provide the basis for the resumption of modest aid programs to Kenya (provided the government did not reverse those reforms) even though the elections were flawed.

We propose here a governance strategy to guide the provision of program aid by all donors: that the most sought-after economic assistance — fast disbursing aid associated with economic reform programs — be provided Africa governments only if they meet the following criteria: (a) meet internationally accepted standards of human rights behavior; (b) are prepared to implement and maintain acceptable economic reform programs; and (c) have implemented political reforms including freedom of speech consistent with internationally accepted norms, freedom of association and assembly (including the right to form political parties) and have held free and fair elections and continue to do so. In reality, most aid recipients already meet the first criteria. In theory, program aid is already conditioned on the second criteria. The third criteria would set minimum political conditions for receipt of quick-disbursing program aid. (Emergency assistance and project aid need not be included in this strategy on supporting good governance in Africa.) Not only does this approach make good economic sense, ensuring that the aid were used responsibly, but it makes good political sense. Many observers of Africa believe that the many social and economic problems of the region — low literacy rates, low incomes, ethnically and religiously divided societies, militaries used to wielding political power, the absence of a middle class, a poorly developed civil society — will prevent democracy from being established and enduring in the region. What they overlook in the case of Africa is the heavy dependence of many African governments on foreign aid and the potentially important role aid donors can play in tying that aid to political reforms. The political reforms themselves, if they are sufficient and maintained, may well lead to the development of conditions which will sustain democracy in Africa long after the aid is withdrawn. This leads us to a consideration of incentives issues in donor polices.

Incentives Issues

Donor efforts to promote economic reform in Africa through policy-based assistance have been complicated by a series of difficult incentives issues. It is important to understand these problems in order to ensure that financial programs intending to promote the reconciliation between political liberalization and economic reform do not end up having a perverse effect.

The record in Africa and elsewhere suggests that policybased program assistance is not an instrument that can be indiscriminately wielded in a wide range of circumstances. This is not to suggest that program assistance cannot be an effective use of donor resources, but that the potential for misuse is probably greater than in the case of project aid.

Policy-based resource transfers are tricky mechanisms for donors. If they work as intended, the financing provided by donors facilitates policy reform by lowering the political risks attached to it and increasing the speed and likelihood of a supply response. The World Bank's analysis of successful policy reform suggests a "virtuous cycle" in which donor resources, in the context of a firm government commitment to reform, help to close the financing gap and increase the likelihood of private investment while al the same time serving as a source of discipline against policy back-sliding. Examples of such a "virtuous cycle" in Africa are very limited. Mauritius is clearly one; Ghana has some of the attributes, but has not generated the private investment response.

But "policy-based" resource transfers can also limit the imperatives for fundamental adjustment. In a context where government continues to dominate the economic and political landscape, they may promote not adjustment but a restoration of the status quo ante. This was clearly the case in countries like Zaire, Zambia and Liberia; while elements of this outcome have also been apparent in Kenya, Cote d'Ivoire and Senegal.

While African states have had a powerful incentive to enter into conditionality-based agreements — their desperate need for the foreign exchange that accompanies such agreements— they have much weaker incentives to implement the conditions agreed upon. The weakness of these incentives derive from several different sources: characteristics of the international system, incentives in donor agencies, and politics in African countries. The most important disincentive to African countries implementing conditionality-based agreements is that non-implementation will often not be sanctioned. While in theory, donors should be able to ensure

compliance to programs by threatening to withhold future funding if the conditionality attached to existing programs is not implemented, in practice this does not often happen. In fact, there is a strong bias in the donor community against sanctioning non-compliance.

The multiple roles of the donors — agents of external interests, promoters of reform, major creditors, and "financiers of last resort" — largely explain why sanctioning non-compliance is so rare. International pressures on donors to continue to supply liquidity to African states, largely growing out of humanitarian concerns about African poverty and that Africa not fall further behind the rest of the world, undermine the willingness of donors to sanction non-compliance with conditional agreements. Moreover, given that debt repayments may be put at risk if programs are canceled, the IMF and the World Bank themselves had a growing disincentive to enforce conditionality as their financial exposure in Africa increased throughout the 1980s.

This bias against sanctioning non-compliance is reinforced both by the difficulty in monitoring compliance and by the bureaucratic incentives within donor agencies. Program conditionality is often very difficult to monitor, with the possibility that reforms enacted can be countermanded by other initiatives outside the scope of the program. The resources provided for monitoring and evaluation of conditional programs are minuscule compared to the task involved. In the 1980s, the path to career success in the World Bank and other donor agencies was through participation in the design and implementation of successful policy reform programs. Bank staff members have a strong incentive to portray the conditional lending activities in which they have been involved in the best light possible. Similarly, at an institutional level, given the controversy attached to conditionality, the Bank and other donors have a broad interest in enunciating the positive. In such contexts, recipient governments have gained a good deal of flexibility in how (or whether) they implement conditionality-based programs.

This is not to imply that there are never sanctions for non-implementation. When a government publicly repudiates a program, as Zambia did in 1987 and Kenya recently did, some IFI funding does get cut off. Also, governments do have to show some real efforts in order to even qualify for policy-based programs. IMF programs are sometimes discontinued, and World Bank programs usually are only undertaken in the context of an IMF program. But discontinuance, in and of itself, has not heavily damaged a country's ability to re-approach the IMF and the World Bank later and renegotiate a new program. For the World Bank, the main sanction that has been utilized in adjustment lending is the delayed dispersal of funds, not a particularly powerful lever of influence. The point of this discussion is that recipient governments are aware of the very limited sanctions for non-implementation and are thus less likely to feel compelled to implement conditions to which they have agreed.

The limited likelihood of sanctioning creates a context where recipient government officials have an interest in expressing an over-commitment to reform, and in minimizing the potential difficulties, political or technical, they might face in implementing reform programs. Donors involved in economic reform in Africa have been slow to acknowledge the inherent problems that the process of conditionality entails. In general, the entire conditionality "game" whereby donors attempt to "buy" as much reform as they can with a given amount of money, while recipient governments try to get as much money from the donors as they can for as little reform as possible, draws government attention away from the serious need for economic restructuring by creating a context in which the benefits of reform become identified as increased donor resources rather than improved economic performance.

Decisions concerning economic reform all too often become responses to external pressures and attempts to maximize external resource flows rather than efforts to grapple with imperative domestic problems. African governments have been quite successful at this side of the economic reform enterprise; during the 1980s, foreign aid as a proportion of GDP for Africa as a whole almost doubled (in the past twenty years, the proportion of total development assistance received by Africa has more than doubled to over one-third of the global total). Just imagine what might have been achieved in the areas of economic growth and poverty reduction had similar serious effort been placed there. Unfortunately, real GDP growth in Africa has slowed in each decade since the 1960s, and, thus far, economic reform efforts have failed to reverse this trend.

This discussion of incentive problems with policy-based assistance needs to be kept in mind as donors grapple with how to respond to the financing needs of

democratizing regimes in Africa. Many of these regimes will find themselves in virtually bankrupt condition, and will seek substantial donor flows. In addition, as noted by both Bratton and Van de Walle (1992a, 1992b), thus far newly-democratic regimes have shown considerable commitment to economic reform, with Benin and Zambia being prime examples of this. It might appear that there is an overwhelming case for large donor flows, with somewhat weakened conditionality. In his paper, Michael Bratton appears to suggest such an approach.

But there are also dangers to such an approach. Providing too much aid to quickly to new governments in response to political change can undermine the incentives to implement painful reforms and the incentives for their publics to accept those reforms. (There were some reports that resistance to economic reform increased in Benin because there was a widespread belief that President Soglo had a secret pot of money provided to him by foreign aid donors.) Sanctioning non-compliance with economic policy conditionality is likely to be very difficult for donors in newly-democratizing regimes who will, rightfully, have the goodwill of the international community. Given the likelihood of a very high level of political demands upon such regimes, the incentives to maintain difficult policy choices, especially on stabilization and demand management type issues, will not be strong. Weakened conditionality and a large donor flow, in such circumstances, may have the perverse effect of encouraging the postponement of tough policy measures. This would be doubly unfortunate, since it may very well be that the political capacity for undertaking large and difficult reform is greatest in the early days of a newly democratic regime. The point is that just as too little aid can contribute to the failure of reform programs to be fully implemented, too much aid can play a similar role.

Large inflows of aid can also undermine the independence and credibility of the new regimes and promote the maintenance of patronage networks so familiar in Africa. Political allegiances based primarily on patronage relationships may limit the accountability of government since it will be neither judged nor penalized on the basis of its performance in managing the economy, but rather, on the amount of largess it can spread about. Unfortunately, while the problem of the appropriate level of assistance is an important, there is no easy formula to help decide how much is enough in particular countries. Making that determination will take information, coordination, and savvy political judgment by donors.

There is an additional issue related to the amount of aid provided African countries, especially fast-disbursing policy-based assistance. The dependence of many of Africa's poorer countries on foreign aid is already extraordinarily high by historical standards — double or even triple the ratio of aid to GDP provided Korea or Taiwan several decades ago. Few believe that relying on foreign governments and international agencies for 15% (or more) of GDP, the entire public investment budget and a large proportion of import financing over an extended period of time can be healthy for a recipient country or its government. For instance, in the 1980s, countries such as Ghana and Uganda received extraordinary levels of support due to their commitment to economic reform. These commitments became, in practice, virtually open-ended. Over time, these resource flows have become less a lever for reform and more of a crutch for regime maintenance.

The continuation of ever-increasing amounts of aid with no termination point provides recipient governments with what is, in essence, a "soft budget constraint," saving them from fully confronting their own economic problems. In such circumstances, populations may resist reforms because they do not believe they are necessary given the amount of foreign aid their governments can expect. Donors have correctly sought to limit "soft budget constraints" in public enterprise restructuring programs and in fiscal and budget reform programs. It is unfortunate that the overall level of aid in several African countries encourages, at the macro level, the same phenomenon.

Thus, while we believe that it is correct for the SPA donors to focus their financial support on those countries that have moved the farthest on political liberalization, donors should avoid the temptation of trying to create "African winners" through a large and long-term commitment of donor resources. Recall that donor efforts to support reform, especially through the cash transfer mechanism, have tended to sustain the partial reform syndrome. This suggests that the over-commitment of donor resources, out of a desire to create "African winners," is likely to be counter-productive. Foreign assistance can never play the central role in creating winners. Asian experience is instructive here. One of the key factors prodding the Koreans and Taiwanese to address their

economic policy failures was the prospect that foreign aid (primarily from the US) would soon be sharply diminished. Donors should consider a similar approach to African countries.

While it is appropriate to give additional financial support to newly democratic regimes, especially those undertaking difficult reform initiatives, such special support should be strictly time-bound. One approach for the SPA donors to consider for newly-democratizing regimes is a time-bound package (say, three to four years) of extraordinary support for undertaking economic reform programs in areas that have been the most problematic for past efforts, and were precluded by the very nature of old ruling regimes. A prime example of such an issue would be civil service restructuring. Such an approach would provide an incentive for newly democratic regimes to think big, and to "strike while the iron is hot" on a major reform that addresses key constraints to the effective transition to a market-based economy. But it would be less likely to bring with it the downside of over-dependence upon foreign resources and relinquished responsibility for key policy decisions.

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