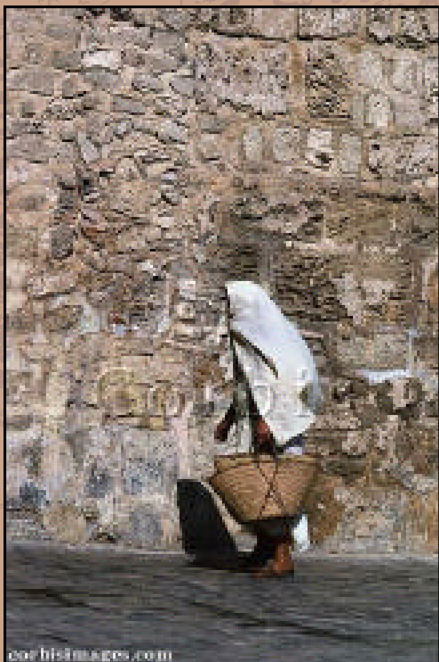
Reforming Africa's Institutions

Ownership, Incentives, and Capabilities

Edited by Steve Kayizzi-Mugerwa



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Introduction

Steve Kayizzi-Mugerwa

African governments have pursued political and economic reforms since the late 1980s in a bid to promote economic growth, reduce poverty and encourage popular participation and good governance. Financial support from bilateral and multilateral donors has been crucial for the implementation of these reforms. Recent assessments indicate, however, that outcomes have been far from satisfactory. Where better results have been observed there remain serious questions of sustainability. The poor outcomes have been blamed on the weaknesses of the public sectors in Africa. According to their critics, African bureaucracies play a contradictory and conflict-ridden role, being at once part of the problem and the cure. Weak public institutions have implied loose operational guidelines for public service work, while on the other hand poor finances have reduced incentives and morale among employees (Lienert, 1998; Lienert and Modi, 1997; Olowu et al., 1997; Klitgaard, 1989).

For African countries to benefit from economic reforms demands a new modus operandi for the public sector. Distortions in its core functions must be eradicated by altering the incentive and induction systems for public employees and by changing the operation of the civil service. Furthermore, African governments need to care about their reputations and credibility, not only with respect to their domestic constituencies but also in relation to the donor community. Past experience has shown that, when governments cannot be taken at their word, their policy effectiveness, in fighting poverty for instance, becomes seriously eroded (Kayizzi-Mugerwa, 2001; DFID, 1997).

The chapters presented in this book have three areas of emphasis, all related to the public sector's capacity to internalize reforms in the pursuit of growth and poverty reduction. The first area is reform ownership, which relates to the ability of policymakers to define and implement policies and to manage recipient–donor relations. The second area relates to incentives in the public service and how they influence public sector efficiency and productivity. The third area is concerned with the development of institutional capabilities in the public sector and thus with the public sector's reputation and credibility.

Part I: The political economy of reform ownership

When policymakers are responsible for the formulation and implementation of their reforms, they are apt to defend them before their domestic constituencies and the donor community – they are said to 'own' their reforms. However, the concept of ownership has been used in so many contexts in recent years that its operational usefulness has diminished considerably as a result. In this volume, ownership will be taken to mean that governments have internalized reforms to such an extent that they are prepared to defend them before their domestic constituencies.

Although the donor community has emphasized the importance of ownership for reform success, few African countries have been able to establish an institutional culture that is supportive of domestic reforms. The failure of economic reforms to have lasting impact in Africa has, thus, been blamed on the lack of ownership by governments. In return, policies continue to be imposed from 'above' by donors or multilateral agencies, and domestically by the governments themselves, without the participation of the population. This lack of ownership can be blamed on the crisis-ridden nature of the African economies. In many of them 'fire brigade' operations, supported by donors, were necessary to prevent further decline, but failed to provide scope for ownership by domestic leaders. Africa has also lacked structures for consensus building, with political exclusion more the norm than the exception. The political environment has not supported the evolution of good governance (Aron, 1997; Coolidge and Rose-Ackerman, 1997).

The failure of policymakers to undertake measures for better public management and accountability has negatively affected their relations with donors. On the other hand, donor bureaucracies and those of the multilateral agencies have exhibited a lag in adapting to the new thinking which emphasizes partnership (van der Heijden, 2000; Asian Development Bank, 1999). The threat of aid embargo is still used by donors as a disciplining device, although experiences from Kenya, Zambia and Malawi indicate that this tends to hit the poor and vulnerable groups harder than the more affluent ones, and without pushing governments towards improved accountability (Bigsten and Kayizzi-Mugerwa, 2000).

In a review of the African experience, which sets the tone for the chapters in this section, Abdalla Hamdok argues that good governance is a prerequisite for sustainable development. Growth and development demand law and order, the creation of transparent administrative structures, the extension of social infrastructure to the rural areas, the protection of poor and vulnerable groups and their inclusion in the decision-making process, and the preservation of peace and security. The complex informational and financial demands of globalization also dictate that African countries should strive for more efficient and transparent governments. He concludes, however, that ultimately it is politics that determine the nature of governance. It is thus important for African countries to open up their political space and exercise more inclusive politics. The best way of nurturing good governance is to let citizens participate in decisions that affect them. This is best done via devolution of power and by strengthening domestic institutions.

Yvonne Tsikata discusses the ownership debate, closely related to governance, with a comparative study of Ghana and Tanzania. Ghana embarked on reforms as early as the 1980s, whereas Tanzania came on board much later. She argues, however, that conditionality by donors masked domestic efforts at reform ownership in both countries, stifling debate and making it difficult for domestic groups to participate meaningfully. She also notes that political legitimacy is not the only basis for economic reform. Rather, successful reforms generate growth and improve living standards, making it possible for initially illegitimate regimes to garner support. The experience of Ghana, Korea and Uganda suggests that, in the face of tangible economic results, political illegitimacy can be tolerated for a while. In the long run, however, reforms generate demands for political change, and governments eventually have to address political reforms as well.

Tsikata concludes that domestic politics, the aid relationship and public sector accountability are important determinants of reform ownership. In most African countries, public discourse on economic development and reform remains inadequate and the means of sanctioning poor government performance are equally meager. Ownership should also imply that, when citizens are dissatisfied with public policy, they are able to hold the government accountable. On the other hand, donor assistance, by helping to deliver growth and reduce poverty, strengthens the hand of government. Related to this is the need for a strong institutional mechanism for accountability. In a sense, accountability buys the recipient country implementation space. On donor–recipient relations, Tsikata argues that, for true partnership to emerge, both sides need to let go of old conceptions and focus on strengthening institutions that can facilitate domestic ownership.

Do donors matter for institutional reform in Africa? In responding to the question, Tony Addison argues that, in spite of over twenty years of debate on institutional development in Africa, in terms of results there is still precious little to show for the effort. Addison argues that part of the problem is that policymakers have failed to transcend the 'partial equilibrium' outcome of the earlier policies. African governments need to write a new social contract with their populations, based on the creation of democratic institutions and the expansion of the private sector, as opposed to one that emphasizes expansive government and public sector employment. He notes, however, that in implementing reforms it has been difficult to move ahead on issues such as the privatization of utilities and infrastructure and better public management. Democratic reforms have also been slow. Addison concludes that helping African policymakers to reform public management, the security sector and their revenue generation capacities should be a major task for donors. Improvements in these areas might help convince a skeptical population and business sector of the merits of economic reforms, thereby helping governments to exit the partial equilibrium.

In a chapter on donors and policy making in Zambia, Hendrik van der Heijden argues that, even where policymakers seem to be genuinely interested in reform, the process could still be derailed by domestic politics. In the early 1990s, a new Zambian government was elected under President Chiluba, promising political and economic reforms. It was soon engulfed in corruption and policy failure: the economy contracted and the privatization of the mines and measures to improve governance and accountability were delayed. However, donors continued to support the country, hoping that its fledgling democratic institutions and its earlier enthusiasm for reforms could still be salvaged. Van der Heijden concludes that, when the national commitment to development wanes, aid cannot fully substitute for it. Conversely, where there is national commitment, conditionalities are not needed. To address socioeconomic challenges of the decade, Zambia needs to adopt a fundamentally different approach, one that does not attempt to achieve economic development by maximizing access to external assistance and debt relief, but rather one that aims at maximizing internal development efforts to achieve growth. Transposing Zambian experience to Africa as a whole, van der Heijden argues that donors are willing to support policies and programs that are genuinely owned by policymakers. They should refrain from imposing intrusive conditionalities.

Part II: Incentive structures and performance in the public service

The public sector reforms pursued in Africa for much of the 1990s belong to two generations (Lienert, 1998; Lienert and Modi, 1997). The first generation focused on improvement of incentives in the public sector by first reducing the size of the civil service and then raising remuneration for those remaining in the system. This also included ridding central registries and payrolls of ghost workers. The second generation of reforms focused on the improvement of management systems and raising accountability in the service. There was also need for the creation of non-monetary incentives, including promotion, the assignment of more challenging tasks and training. Related to training was the general concern that a mismatch existed between the skills acquired during earlier regimes and those required by the new tasks of government: to create an enabling environment for growth, poverty reduction and private sector development (Schiavo-Campo, 1996; Van Rijckeghem and Weder, 1997). The chapters in this section look at incentive structures and performance in the public service, covering the subjects of wage structures, mechanisms for professional advancement, as well as public sector efficiency.

In his essay on economic and institutional reforms in French-speaking West Africa, Anders Danielson notes that reforms in this region were mainly triggered by national crises, hence the abrupt manner in which they were implemented. For example, a rapidly deteriorating economy or political turmoil forced governments in Benin, Mali and Côte d'Ivoire to embark on reforms, although these were often shallow and characterized by reversals. With respect to civil service reform, Danielson argues that, as in other African countries, the process has been politically difficult. The easier reforms, such as the elimination of ghost workers, needed to be accompanied by retrenchment of the labor force. However, governments have tended to undertake retrenchment only when forced to do so by donors and to rehire at the earliest opportunity. Moreover, wage restructuring was made difficult by the wage compression caused by the 50 percent devaluation of the CFA (Communauté financière africaine) franc in 1994. Danielson concludes that although the countries of the West African Economic and Monetary Union (WAEMU) are somewhat distinct from the rest of sub-Saharan Africa – notably with respect to their shared institutions and common currency and monetary policy – they have performed much like the rest of the continent in the past decade. Their close economic cooperation has not helped them to evolve a stronger institutional culture for policy implementation or to attain better levels of economic performance.

Dick Durevall's chapter looks at how Malawi has addressed the questions of incentives, governance and accountability in its public sector reform. For decades the country was ruled by an autocratic leader and a system of governance that demanded full subservience to the center. Ironically, government officials exhibited a high level of accountability at this time, also partly thanks to a well-functioning economy and reasonably high wages in the public sector. During the 1990s, however, incentives were seriously eroded. Inflation as well as the effects of the various salary reviews led to wage compression. Policymakers were forced to embark on public sector reforms. Durevall concludes that the degree to which the bureaucracy and the rest of the population have embraced the changes can be questioned. The country's president remains the driving force behind public sector reform and it will take time before the changes are accepted as part and parcel of government machinery. To succeed, reforms require champions within the public sector, not just at the top. It is only when accountability is internalized within the civil service that it will be felt elsewhere in the country.

Damiano Kulundu Manda paints a similar portrait of the Kenyan civil service. The factors affecting performance include poor remuneration, lack of supplies and equipment, absence of career development prospects and poor delegation of responsibility. As in other African countries, policymakers are keen to improve the performance of the public service but are constrained by lack of finances and by politics. Raising public sector wages to a competitive level, even after a substantial number of employees have been retrenched, will still demand substantial resources. On the other hand, large-scale retrenchment of the civil service is not popular among influential groups. Kulundu Manda concludes that the Kenyan government has no choice but to embark on an effective reform program to ensure that the public sector increases its efficiency, especially in tackling the complex social issues that have arisen in the past decade. It should also be possible for young people to make a career in the civil service. For this to happen, however, the government needs to raise the public sector's profile by improving recruitment and promotion procedures and by paying civil servants competitive wages.

In a chapter on the Nigerian civil service, Mohammed Salisu argues that Nigerians had every reason to expect their public sector to be efficient and well attuned to the development needs of the country. With one of the largest pools of human capital on the continent and endowed with vast oil wealth, the country was, on the face of it, not subject to the resource constraints experienced by other African countries. Still, its civil service has performed poorly in recent decades. The abundance of oil resources has in retrospect subverted concerns for increased efficiency in government, while also expanding the public sector beyond sustainable levels. But the perhaps most important outcome of the combination of oil riches and ineffective government was the emergence of a 'hidden' economy in Nigeria. Corruption has become an endemic feature of public sector activities. Salisu argues that corruption has led to a partiality for capital-intensive projects, because these are best suited to the culture of bribery. The productivity of the public sector has declined as a result, while the effects of industrial policy on investment have been distorted. Salisu concludes that to turn the tide of public sector inefficiency and corruption in Nigeria will demand the creation of efficiency-based incentive schemes linking reward to performance. Also, political interference in the daily operations of the civil service should be minimized if the public's confidence in the public service is to be restored.

In their chapter on Mozambique, José Sulemane and Steve Kayizzi-Mugerwa indicate that the poor state of the country's public institutions is partly a legacy of its conflict-ridden colonial history, aggravated after independence by civil war, malnutrition and mass poverty. In recent years the government has embarked on institutional reform with measures to improve wages for public workers, and has also undertaken far-reaching social reforms helping to revive service provision in the districts most affected by the civil war. However, paucity of resources has made it difficult to implement reforms fully. Still, Mozambique has demonstrated that, given political will, even poor African countries can begin to reform their public sectors. The authors conclude that, owing to shortage of financial and human resources in Mozambique, the influence of the donor community in public sector reform has become disproportionately large. There is, thus, a question of sustainability. However, given Mozambique's recent history of civil war and weather shocks, policy autonomy and financial independence are not the goals to strive for at the moment. More important is the improvement of capacities in the public sector in general and the civil service in particular to ensure that future reforms are driven from within.

Part III: Developing institutional capabilities

The chapters in this section portray a complex picture of the challenges facing African bureaucracies in their efforts at institution building at both center and local levels, establishing legal frameworks to ensure orderly insolvency and debt recovery procedures, as well as private sector development. In order to reach specific targets in reform efforts, African governments have sought to 'fence off' some projects and programs from the rest of the public service. Besides reducing political interference and bureaucratic 'overload,' the goal has also been to instill a more business-like approach to public sector management (Munene, 1995; Rose-Ackerman, 1986).

This section on institutional capabilities begins with a chapter on the political economy of privatization. Although the issue of making development policies more inclusive also relates to private sector development, Steve Kayizzi-Mugerwa argues that the process of privatization has varied from country to country depending on institutional constraints and donor leverage. He notes that, although formal explanations emphasize the normative benefits of privatization, including higher efficiency and increased investment, the process has been driven by politics as well. A review of the laws setting up privatization agencies in the various countries shows that policymakers sought to ensure that their supporters were on board. In no African country were the voucher-based privatizations – used earlier in Eastern Europe – attempted, most likely because African populations were not in a position to demand a stake in the companies as their constitutional right. In some countries, however, there were attempts at affirmative action. Some firm sizes were reserved for indigenous Africans, and in other cases funds were set aside to enable Africans to acquire businesses.

Kayizzi-Mugerwa concludes that privatization should not be seen as a static process. It soon acquires its own dynamics and support groups. After a decade of privatization, many governments in Africa are now privatizing with less domestic opposition than a decade ago. Although privatization has not made governments richer, it has shown that companies can function efficiently outside the ambit of the public sector.

On the theme of inclusive policies, Moses Golola argues that decentralization in Uganda was accorded a dual mandate: enhancing the process of democratization (that is, encouraging participatory democracy via self-determination, self-governance and social justice), and the mobilization of the people for production. To be meaningful, however, political decentralization must be accompanied by financial decentralization. A notable difficulty in Uganda has been how to devise a policy for revenue sharing so that the poorer districts, with little of their own local revenue, also benefit. Direct handouts from the center make policymakers at the local level beholden to the central bureaucracies, and the intended positive impacts of decentralization on local self-determination fail to be realized. Golola concludes that, in spite of continuing tension between center and locality, decentralization has brought tangible benefits to districts in Uganda. Populations are able to influence decisions that affect them, and political consultation has become simpler and less formal. He warns, however, that a high level of accountability is required if decentralization is to lead to local development. The corruption and malfeasance evident at the center should not be 'decentralized' to the local level.

Laws and regulations are crucial to the development of the private sector in Africa. However, in his discussion of the role of insolvency law in institutional development, Clas Wihlborg argues that, although concerns over administrative and economic management structures have tended to dominate the debate, the promotion of the private sector demands that issues of debt recovery and insolvency be put on the agenda. In countries where procedures for debt resolution and for orderly insolvency are missing, business risk increases markedly and few investors will want to engage in new but risky ventures, because failure would lead to long-term indebtedness. Wihlborg concludes that all economic actors stand to gain from the reduction of the risks that emanate from a poor business environment. However, insolvency touches on the very fundamentals of the political and economic system of the country; enforcement of an insolvency law can thus be problematic. Powerful domestic groups need to be convinced that the law does not threaten them.

Discussions of reform ownership tend to focus on the modern sector of the economy. However, Aili Mari Tripp argues that informality does not imply lack of form; rather, the activities engaged in lack formalization. This makes them more adaptable and resilient. Thus, whereas formal institutions, both private and public, have responded poorly to economic crisis in Africa, informal institutions have responded dynamically, providing livelihoods to the population. Savings clubs, engaged in by many groups, have been crucial in generating savings for investment. Relations in the informal sector are based on mutuality, reciprocity and fairness. These provide the flexibility and public spirit needed to overcome crisis. Tripp concludes that government policies harm the informal sector more than they help. Informal operators continue to have poor access to services and credit, their property rights are poorly respected and they are subjected to harassment from the police and other authorities. It is necessary to change this official attitude if the interests of the poorest groups in Africa are to be protected.

In the last chapter of the volume, Arne Bigsten looks at the relevance of the Nordic model to African development. Whereas Nordic countries were still a poor agrarian outpost at the European periphery at the turn of the twentieth century, roughly sixty years later they were among the most affluent countries in the world. Furthermore, they had managed to achieve rapid growth while preserving a high degree of social compassion. To what extent could African countries benefit from the Nordic experience? Bigsten argues that, although institutions evolve from particular country and regional circumstances, there are still a number of areas where Africa could draw lessons. Political inclusion has been a key ingredient in the maintenance of political stability in the Nordic countries. African governments also need to build on a much broader political base than is currently the case in order to ensure stability. Another issue is social compassion. Nordic countries have striven to minimize welfare gaps among their citizens and to care for the poor and vulnerable. This has been made possible by focusing on the provision of social services such as health and education. However, the provision of social services requires financing, which can lead to high rates of taxation. African countries have so far had low tax income and donors have funded a substantial amount of their social expenditure. If the problem of improving social provision is to be tackled, African countries need to find a more sustainable revenue base. Bigsten concludes that a high degree of public accountability is crucial for reform success. Populations soon withdraw support from unaccountable governments, thereby derailing their programs.

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There is not a single African country that did not attempt public sector reforms in the 1990s. Governments no longer see themselves as sole suppliers of social services, frequently opting for partnerships with the private sector. Efficiency and choice have entered the language of the planning and implementation units of Africa's line ministries, while privatization is no longer the controversial subject it was a decade ago. There have also been moves towards more open and democratic governments.

Reforming Africa's Institutions looks at the extent to which reforms undertaken in sub-Saharan Africa in recent years have enhanced institutional capacities across the breadth of government. To what extent have reforms been internalized and defended by governments? The authors also look specifically at the impact of public sector reforms on these economies and pose the question whether 'ownership' can be attained when countries continue to be heavily dependent on external support.

Steve Kayizzi-Mugerwa has undertaken research on many African countries and published widely on issues related to growth, economic adjustment, and poverty reduction. Formerly Associate Professor of Economics at the University of Gothenburg, Sweden, he is now attached to the IMF's Independent Evaluation Office in Washington, DC. During 2000–1, he directed the project on Institutional Capabilities, Reform Ownership and Development in sub-Saharan Africa at the United Nations University World Institute for Development Economics Research (WIDER) in Helsinki.

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