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The State as an Obstacle to Development?

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List of abbreviations

ADB	African Development Bank
ADF	African Development Fund
AIDS	Acquired Immune Deficiency Syndrome
CIA	Central Intelligence Agency
CPI	Corruption Perceptions Index
DAC	Development Assistance Committee
ERP	Economic Rehabilitation Programme
FDI	Foreign Direct Investment
FRELIMO	Frente de Libertação de Moçambique
G8	Group of Eight
GDP	Gross Domestic Product
GoM	Government of Mozambique
GPA	General Peace Agreement
HDI	Human Development Index
HIV	Human Immunodeficiency Virus
IMF	International Monetary Fund
LDC	Least Developed Countries
NATO	North Atlantic Treaty Organization
NGO	Non-Governmental Organization
ODA	Official Development Aid
OECD	Organization for Economic Co-operation and Development
PARPA	Plano de Acção para a Redução da Pobreza Absoluta
PEAP	Poverty Eradication Action Plan
PFM	Public Financial Management
PPP	Purchasing Power Parity

PSR	Public Sector Reform
PWC	Price Waterhouse Cooper
RENAMO	Resistência Nacional Moçambicana
SADC	Southern African Development Community
SDC	Swiss Agency for Development and Cooperation
SISTAFE	Sistema de Administração de Fundos do Estado
TI	Transparency International
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
WB	World Bank

Preface

Why are some countries so rich and other countries so poor? At the dawn of the twenty-first century, a definitive answer to the fundamental question since the days of Adam Smith remains as elusive as ever. At the same time, never before has the question been more relevant. Indeed, a defining feature of the contemporary world economy is the dramatic inequality between countries. The economic divergence started with the industrial revolution in the 18th century, as Western Europe and the United States succeeded in breaking the shackles of poverty and economic stagnation and in achieving global economic dominance. Outside the Western world, Japan is the only country that has reached similar stages of economic development and prosperity. Instead, many Asian and Latin American countries, although they have taken off and grown faster during the twentieth century, are yet to catch up with rich countries. Africa – in particular the Sub-Saharan region – appears to be mired in poverty.

At the beginning of the new millennium, this pattern of international inequality remains largely unchanged. If anything, the divide between rich and poor countries seems to be inexorably widening. The major implication of this trend is that low-income countries will continue to depend on aid and assistance from the rich world for a long time to come. Since the end of the Cold War, there have been unprecedented attempts by Western governments to rapidly develop poor countries. In particular, greater focus was placed on the African continent. A 2000 UN Summit agreed upon the ambitious and wide-ranging "Millennium Development Goals" (MDGs). In January 2005, British Prime Minister Tony Blair called at the World Economic Forum in Davos for "a big, big push forward" – financed by an increase in foreign aid – to end poverty in Africa. In February 2005, the international community endorsed the Paris Declaration with a view to make aid more effective. In July 2005, an important outcome of the G8 Summit in Gleneagles, Scotland, was the decision to double foreign aid to Africa, from $25 billion a year to $50 billion to finance the "big push". In addition, global campaigns such as *Make Poverty History* have contributed to putting the cause of ending poverty at the top of the agenda of the international community.

In view of the increased attention given to foreign aid in the fight against poverty, the following question becomes particularly relevant: *which role should the state in recipient countries play in the development process?* Traditionally, much of foreign aid has been given by states in the North to states in the South. It follows that increases in foreign aid would directly affect the state in recipient countries. Over the last few years, there has been a growing consensus among donor countries that a functioning and effective state in recipient countries would make an important contribution to development efforts. This change in thinking amounts to a momentous paradigm shift. The role of the state in promoting development, however, remains a much neglected topic in the literature. Scholars, policy-makers and practitioners are yet to develop a rich body of work on this issue-area. Moreover, a comprehensive assessment is largely absent in the existing literature, which often tends to give an uncritical view of the state. More attention and research on this subject are thus urgently required, not least because the newly favourable view on the role of the state has far-reaching implications for practice. The issue has become especially crucial in the aftermath of the Paris Declaration,

since developing countries have been assigned the responsibility to implement their own development strategies and to exercise leadership over the management of foreign aid.

This paper attempts to shed light upon the role of the state in the development process in four Sub-Saharan African countries that are historically and geographically close to each other: Botswana, Kenya, Mozambique and Uganda. *The main research question is whether the state acts as a catalyst for or as an obstacle to development*. Our hypothesis is that while the mere size of the state is not per se an impediment, the state may impair development if its institutions and policies are plagued by "bad governance". In order to test this hypothesis, we need to find indicators that stress the correlation between development and the state – that is, both the "quality" of state governance and the "size" of the state. The primary focus is on indicators measuring the *"quality"* of state governance (e.g. "Governance Matters" indicators published by the World Bank) as well as on indicators related to the *"size"* of the state (public expenditures, number of employees in the public sector, "ease of doing business" indicators measuring the quality of the regulatory environment). Socio-economic indicators – in particular the Human Development Index (HDI) – are also taken into account, for they provide a good overview of the development stage in the four countries under consideration.

The paper is organized as follows. The first section illustrates the historical evolution of views on the role that the state is expected to play in the development process. It begins with a brief description of the historical background and the purposes of foreign aid. It then concentrates on the role of the state in promoting development during the post-war era. The following four sections apply the set of multiple indicators presented above on the four countries. The next section draws generalizable conclusions by conducting a cross-country analysis. The last section briefly discusses the implications of the key findings of this paper for the Swiss Agency for Development and Cooperation (SDC).

1. The Role of the State in Foreign Aid: Historical Evolution

1. 1. Foreign Aid

1. 1. 1. Historical Background

The end of the Second World War in 1945 marked a momentous watershed in modern history of international relations. The deadliest conflict in human history had completely destroyed the pre-war order, brought about the defeat of the Axis powers, and severely weakened the European great powers. The United States and the Soviet Union emerged in the aftermath as the world's major centres of power. The growing military and ideological rivalry between the two superpowers, however, ushered in the emergence of the Cold War and in the de facto division of the world into two antagonistic blocs. As the undisputed leader of the Western camp, the U.S. set about building a liberal Western order. Major arrangements of the post-war settlement were, among others, the North Atlantic Treaty Organization (NATO), the United Nations (UN), and the Bretton Woods institutions (Ikenberry, 2000, p. 9). Another distinctive feature of the post-war era was the ***introduction of foreign aid***. Indeed, as Hans Morgenthau (1962) – one of the founding fathers of the discipline of International Relations – succinctly noted, foreign aid is among the "real innovations which the modern age has introduced into the practice of foreign policy" (p. 301). Lancaster (2007) corroborates this view by pointing out that "[f]oreign aid as we know it began as instrument of Cold War diplomacy. Without the Cold War, aid would likely not exist today ... Aid is, in short, a child of hardheaded, diplomatic realism" (p. 25).

1. 1. 2. Purposes of Aid

The diplomatic rationale behind the voluntary transfer of public resources among sovereign states is not the sole explanation for its establishment in the post-war era. In fact, from its inception, "foreign aid was used for four main purposes: diplomatic, developmental, humanitarian relief, and commercial. Cultural purposes were also present but less prominent" (Lancaster, 2007, p. 13).[1] According to Rossiter (1985), the ***diplomatic*** purpose refers mainly to "the advancement of donor's short-term political and long-term strategic interests" (p. 9). The bipolar geopolitical reality indeed required an active promotion of political and national security priorities by the two rival blocs. The ***developmental*** purpose, instead, points to the "support for economic and social progress and a reduction in poverty" (Lancaster, 2007, p. 13). It also reflects the now generally accepted view that rich countries have a moral obligation in promoting development in poor countries (Martinussen and Pedersen, 2003, p. 10). Aid for ***humanitarian relief*** constitutes the support provided by the governments of better-off countries in the event of natural disasters and man-made catastrophes. And the ***commercial*** purpose of foreign aid includes expanding a country's exports and securing access to raw materials imports.

[1] Martinussen and Pedersen (2003) classify the most important forms of foreign aid as follows: "development assistance and emergency relief; state and voluntary aid; financial, technical and commodity assistance; assistance in the form of grants and loans; bilateral and multilateral aid; and programme and project aid" (p. 39).

Further, Lancaster (2007, p. 15) argues that donors have added four purposes to their existing aid agenda after the end of the Cold War. One of the new motives is the promotion of ***economic and social transitions*** in former socialist countries. Another purpose is the ***promotion of democracy*** and institutional development in Africa, Asia, and Latin America. As Lancaster (2007) points out, "the goal is to spread democracy, not just as a means of furthering development (on the assumption that development is likely to proceed more rapidly in democratic polities) or for promoting international peace and security (based on a view that democratic countries do not wage war on one another) but as a worthy goal itself, reflecting the value placed on political and civil rights by the aid-giving country" (p. 15). In addition, more aid is being given with a view to address ***international public goods issues*** such as environmental problems (e.g. water pollution), disease (e.g. HIV/AIDS), and food security. Further, donors provide aid for ***mitigating conflicts and managing postconflict transitions***. In spite of the tidy differentiation of the various purposes of aid, however, it should be noted that the reality is much less clear-cut, that the purposes often tend to be inextricably linked with each other, and that each donor country pursues often a different mix of purposes.

1. 2. The Role of the State

Having so far focused on donors, the analysis now seeks to complete the picture by addressing *the role of the state in recipient countries*. There are, of course, other actors such as the private sector and NGOs, but the focus on the state is justified by the fact that "[d]evelopment assistance has for the most part been an inter-state affair, that is, aid from a government in the North to a government in the South" (Martinussen and Pedersen, 2003, p. 41). The fundamental question can be then formulated as follows: which role should the state in recipient countries play in the development process? The question, however, has been answered differently since the inception of foreign aid. Martinussen and Pedersen (2003) aptly point to "signs of pendulum-like swings ... in donor's relationship to the state in developing countries" (p. 52). More importantly, the views on the role of the state are of practical relevance as well. The strategies adopted by donors to implement their aid policy agendas indeed tend to reflect their views on the form and functions of the state. In order to comprehend the current debate on the state in recipient countries, it is therefore important to show how the complex interplay between aid strategies and donors' views on the role of the state has evolved throughout the last four decades.

1. 2. 1. The 1960s: Trickle-down

In the early post-war period, capital accumulation and technology were generally viewed as the main determinants of long-term economic growth and development (Bigsten, 2007, p. 296). The dominant aid strategy of donors incorporated these assumptions and thus adopted a two-pronged approach to development. Aid was given, on the one side, with a view to help meet budgetary and balance of payments needs, and on the other side, in order to finance physical infrastructure projects and technical assistance (Lancaster, 2007, p. 14). As Martinussen and Pedersen (2003) put it, "[t]he expectation was that modern technology and organization forms would trickle down and spread like modernizing rings in water to the sur-

rounding traditional society" (p. 44). Accordingly, the state in recipient countries was viewed as a crucial player in the implementation of this aid strategy. As a result, "[i]n the 1960s, the World Bank took the lead in enlarging the role of the state as the provider of modern infrastructure. The Bank supported the establishment of state boards and enterprises within trade, services and even production" (Martinussen and Pedersen, 2003, p. 52).

1. 2. 2. The 1970s: Integrated Rural Development Projects

Over time, limits of the trickle-down-approach of the 1960s became evident. The most serious drawback was that poor people appeared to not benefit from the general growth that actually occurred in recipient countries. Donors reacted by amending their aid strategies. It followed that "aid for development took on a more redistributive orientation" (Lancaster, 2007, p. 14). In other words, greater emphasis was placed on fulfilling the basic needs of poor people. The donors' new approach took mainly the form of integrated rural development projects (Martinussen and Pedersen, 2003, p. 45). As Bigsten (2007) points out, the basic argument was that "poverty reduction efforts should focus on agriculture and social sectors such as education and health" (p. 296). Just as importantly, the modified aid strategy implied a new view on the role of the state as well. Indeed, as Martinussen and Pedersen (2003) note, "[i]n the 1970s, the [World] Bank contributed to extending the state's institutional presence into all corners of society through support to the line ministries' coordinating role and to establishing integrated project organizations with close links to administration at local, regional and national levels" (p. 52). Hence, the state was assigned a more important role in the development process than in the previous approach of the early post-war period.

1. 2. 3. The 1980s: From Projects to Structural Adjustment Programmes

Oil price shocks, debt crises and global macroeconomic imbalances dealt a huge blow to developing countries during the early 1980s (Bigsten, 2007, p. 296). The domestic policy failures in developing countries, in turn, led to a paradigmatic change in donor's aid strategies. The new catchword of the World Bank (WB) and the International Monetary Fund (IMF) was "structural adjustment programmes". The basic conditionality was that donors would provide "aid to governments in developing countries in exchange for promises of liberalization" (Martinussen and Pedersen, 2003, p. 47). Consequently, developing countries were required, as Martinussen and Pedersen (2003) put it, "to 'roll back the state' ... and to create order in the macro-economic balances (balance of payments, debt, inflation and state deficits)" (p. 47). With regard to the role of the state, the new approach represented a revolution in development thinking. Indeed, Martinussen and Pedersen (2003) argue that "[i]n the 1980s, the World Bank's pendulum swing over to an attack on the state with demands for liberalization ..., privatization (sale of the state boards and enterprises that the Bank itself had often contributed to establishing), and cutbacks (firing of public employees, especially those lowest in the hierarchy)" (p. 53).

1. 2. 4. The 1990s: Political, Economic and Institutional Society-Building

The end of the Cold War was bound to have far-reaching implications for the aid industry. In addition to the economic level included during the 1980s, the donor community added the

political level to the aid strategies during the 1990s. As Martinussen and Pedersen (2003) observe, "[t]he donors made explicit demands for democratization in the form of multiparty elections, observance of political human rights and good governance. The latter meant ... open and transparent political-administrative systems that were accountable to the citizens; control of corruption and misuse of power; and a certain degree of decentralization of power to the local authorities" (p. 49). Bigsten (2007) also points out that "there was in the 1990s a shift back towards a policy emphasizing poverty reduction as the ultimate objective of development" (p. 296). The new approach to development, in turn, paved the way for a rethinking with regard to the state. As in the past, the World Bank set the tone of the debate, and its *World Development Report 1997* (1997) led to substantial reappraisal of the role of the state. Indeed, as Martinussen and Pedersen (2003) confirm, "[i]n the 1990s the Bank contributed to 'rehabilitating' the state, both ideologically ... and in the form of sector programmes via line ministries, credit programmes via special organizations and management of NGOs and local communities via local administrations" (p. 53).

1. 2. 5. The Paris Declaration: Focus on "Ownership"

In 2000, the international agreed upon the Millennium Declaration and the Millennium Development Goals. The latter place greater attention on the effectiveness of foreign aid, that is, on its ability to allocate resources to areas that will have the greatest impact in reducing extreme poverty and hunger, along with improving education, gender equality, health and environmental sustainability. The last Millennium Development Goal – to "develop a global partnership for development" – States that the effectiveness of foreign aid depends on the cooperation between donors and partner countries (World Bank & Canadian International Development Agency, 2008, p. 7). Building on these Goals, the Paris Declaration on Aid Effectiveness endorsed on March 2, 2005 aims at improving aid effectiveness by enabling developing countries to achieve their own development goals. Consequently, the Paris Declaration confirms the increasing emphasis on the role of the state through the key principle of "ownership", according to which "partner countries exercise effective leadership over their development policies and strategies and co-ordinate development actions".[2] Partner states are thus to be viewed as the main actors in assistance, and donor countries are expected to respect this leadership. Practically, low-income countries have to develop and implement themselves national development strategies that provide for the distribution and the coordination of foreign aid. As a result, general budget support emerges as the main aid modality: donors are moving away from earmarked aid towards programming flexible resources in support of the priorities of the partner country's government (Vokral, 2008).

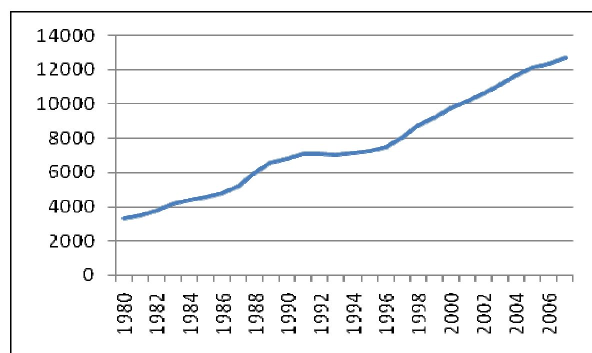
[2] The full text of the Paris Declaration can be retrieved on OECD website: http://www.oecd.org/dataoecd/11/41/34428351.pdf

2. BOTSWANA

2. 1. Macroeconomic Environment

Botswana is a former British protectorate. "When Botswana attained her independence in 1966, she was among the poorest countries in the world" (The Republic of Botswana, 2008, p. 13). One of the legacies of having been governed from outside the country was the relatively low level of infrastructure. Indeed, the road network, railways and airports were extensively built up only after the achievement of independence. In addition, the government was dependent on foreign aid during the early years (African Development Bank [ADB] / African Development Fund [ADF], 2002, p. 11). Since then, however, there has been a remarkable economic transformation. The performance during the period of 1995-2000 was particularly impressive: real gross domestic product (GDP) grew at the annual average rate of 5.8% (see Figure 2.1). With a per capita income higher than in any other country in Africa, Botswana was now well-positioned to qualify as a middle income country (ADB / ADF, 2002, pp. 1-2).

Figure 2.1: GDP per capita in Botswana



Source: World Bank (2007)

The positive economic performance was largely fuelled by the mining sector, which accounts for 40.5% of total GDP (Organisation for Economic Co-operation and Development [OECD], 2008a, p. 154). In particular, a key role was played by the diamond sector, which accounts for 75% of the exports and on which the economy remains dependent to a very high degree (African Development Bank / African Development Fund, 2002, pp. 1-2). Despite considerable efforts, Botswana has been unable to achieve significant diversification in exports (OECD, 2008a, p. 153). Another factor of vulnerability is the reliance on South Africa: most of Botswana's imports and exports are directed through its neighbour. As a result, the country tends to be directly exposed to domestic developments in South Africa (United Nations Conference on Trade and Development [UNCTAD], 2003, p. 13).

2. 1. 1. Managing the Economy

The principal objective of monetary policy in Botswana is to achieve a low and stable level of inflation that spurs growth and competitiveness (OECD, 2008a, p. 157). Although the economy is growing at a high pace, the country had an inflation rate of only 7.2% in 1999, in contrast to 16.5% registered in 1992 (ADB / ADF, 2002, p. 6.) One major contribution to pros-

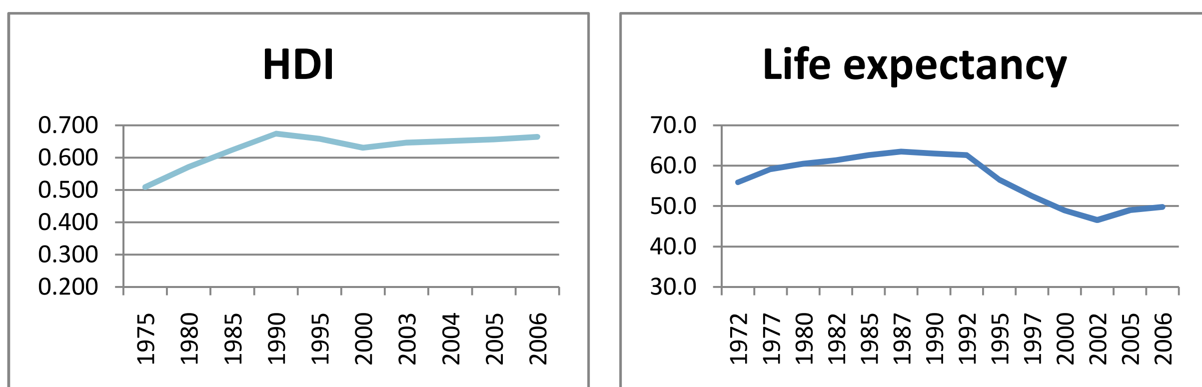
perity in Botswana are the proceeds – mainly from the mining sector – that were invested in basic physical and social infrastructure (including water, roads and schools), which in turn has fostered development of tourism and services such as finance and telecommunications (Coolidge & Rose-Ackerman, 1997, p. 36). Another important factor in promoting prosperity is the government's willingness and ability to share the benefits of economic growth. In order to ensure that all citizens benefit from the growing economy, the government has decided to provide a number of social safety nets (OECD, 2008a, p. 159).

Despite Botswana' stable macroeconomic environment, the country has not been successful in attracting foreign Direct Investment (FDI). In 2005/2006, FDI accounted for about 10% of GDP, down from 28% in the previous year. The fact that FDI is largely confined to the mining sector might be viewed as an indication of the failure of Botswana to attract substantial amounts of foreign investment. The country has lagged behind other Southern African countries, pointing to the need to improve the business climate. A number of initiatives have been undertaken, such as the enactment of new laws and policies with a view to promoting FDI. These reforms also target unemployment. Although the official unemployment rate has fallen to 21.5% in 1996, it remains high, with a rate of 17.6% in 2007 (ADB/ ADF, 2002, p. 3; OECD, 2008a, p. 154).

2. 2. Socioeconomic Indicators

In spite of having the highest per capita income in Africa, poverty is highly prevalent in the country (African Development Bank / African Development Fund, 2002, p. 2). The inequality of the distribution of wealth is best shown with the GINI-coefficient, estimated at 0.57 in the latest Household Survey in 2002/03 (IMF, 2005a, p. 5). According to the negative correlation between inequality and growth, this result suggests that there is an urgent need for Botswana to reduce poverty in order to obtain sustainable growth when mining revenues and government activities level off (Royal Norwegian Ministry of Foreign Affairs, 2002, pp. 35 and 37).

Figure 2.2: HDI and life expectancy



Source: World Bank (2007)

Botswana has a moderate HDI, with 0.654 in 2005 (United Nations Development Programme [UNDP], 2008a). The fast increase of Botswana's GDP has not been translated into a growing

HDI. The reason it keeps constant throughout the years lies in the decline of life expectancy, which has decreased from 63.5 (1987) to 49.8 years (2006) because of the upcoming of HIV in the 80s (Figure 2). According to the World Bank, 24% of the population was infected by HIV in 2008, which is one of the highest percentages in Africa.

2. 3. The Role of the State

2. 3. 1. The Size of the Government

The government crowded out development-enhancing private sector activities by ensuring the services of scarce human resources. Total public sector employment, including the parastatals, accounted for about 43% of total employment (Royal Norwegian Ministry of Foreign Affairs, 2000, p. 20-21). It is now being recognised that the government should gradually reduce its role and influence, transforming itself from a key participant in the economy to a facilitator. A step towards that end is the privatisation of enterprises. The newly created *Public Enterprise Evaluation and Privatisation Agency (PEEPA)* has prepared a master plan for privatising state-owned enterprises, but little progress has been achieved. One of the major difficulties is related to the absence of an effective regulatory framework to protect consumers from the monopolistic tendencies of some enterprises (OECD, 2008a, p. 161).

2. 3. 2. Government Expenses and Revenues

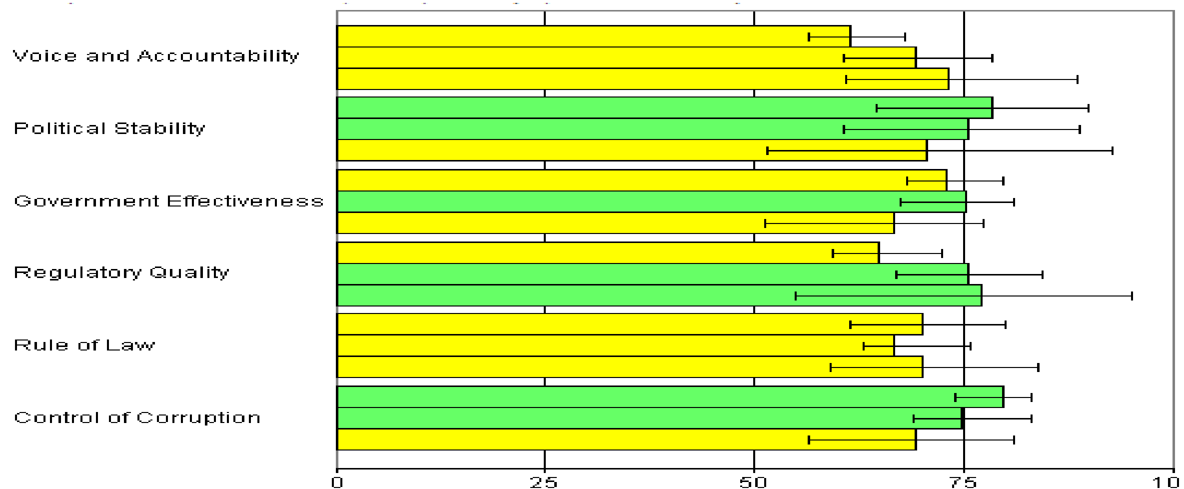
HIV/AIDS became a national emergency and its prevention and control is now being accorded the highest priority. Along with tuberculosis, the diseases had a major impact on health services (Republic of Botswana, 2005, p. 7). According to the World Development Indicators of the World Bank, expenditure in the health sector rose from 8% of GDP in 2001 to 18.2% in 2005. The spread of HIV/AIDS is undermining past achievements and intensifies pressures on expenditures just as budgetary resources are becoming more constrained. The authorities recognized the importance of fiscal adjustment in maintaining macroeconomic stability. They reiterated their commitment to achieving balanced budgets over the medium term and agreed that significant additional fiscal adjustment may be necessary in the context of the budget 2005/2006 in order to achieve this objective (International Monetary Fund [IMF], 2005a, pp. 4-7). Botswana's tax rates are generally low, and the tax legislation is simple and transparent. As public spending increased in response to higher revenues, significant shares of diamond revenues have also been saved. These savings boost the country's foreign exchange reserves, which have been managed prudently and transparently by the central bank. The government also has “medium-term plans to channel diamond revenues into capital investments” (Carstens, 2005).

2. 3. 3. Governance Quality

As mentioned in the last section, the economic transformation is due not only to the mining sector, but also to the prudent economic management and governance (The Republic of Botswana, 2008, p. 13; ADB/ ADF, 2002, p. 11). Botswana, which is the oldest multi-party democracy in Africa, has enjoyed remarkable political stability (OECD, 2008a, p. 163). It is

Africa's least corrupt nation according to *Transparency International* (36 out of 180) (Transparency International, 2008). In 1994, Botswana established a *Directorate on Corruption and Economic Crime* (Coolidge & Rose-Ackerman, 1997, p. 39).

Figure 2.3: Governance indicators: Comparison between 2007, 2002, 1996 (top-bottom order)



Source: World Bank (2008b)

Botswana enjoyed relatively good governance since its independence. It might be argued that the lack of systemic corruption, along with the high levels of political and macroeconomic stability, appears to encourage a long-run perspective among politicians. The economic success produced by this helps to maintain political stability, generating a “virtuous cycle” (Coolidge & Rose-Ackerman, 1997, pp. 37-38). Better governance is also an important factor in the fight against poverty and in the efforts to improve living standards. The past decade shows that improved governance promotes development (World Bank, 2008d).

2. 4. Aid Forms and Actors

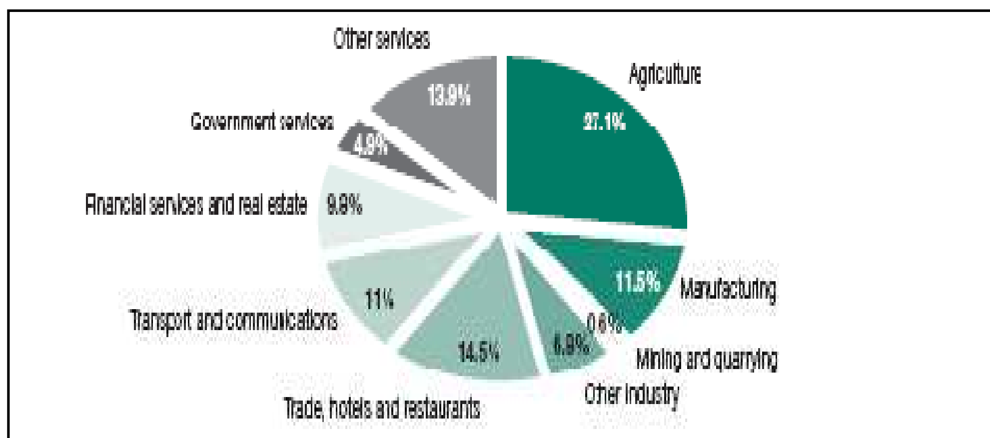
The World Bank Group has financed a total of 28 operations since the first operation was approved in 1964. As Botswana’s economy grew, the country tapped increasingly into its own resources for development financing, and stopped resorting to foreign aid. The Bank’s engagement shrank and its focus shifted to limited analytical and advisory work (The World Bank, 2008). As a result of its economic and social performance, the country has also ceased to be eligible for African Development Bank resources. The last borrowing from the Bank took place in 1992 (ADB / ADF, 2002, p. 23).

3. KENYA

3. 1. Social and Economic Environment

Kenya's economy is considerably strengthened by the diversity of its economic structure. Unlike countries such as Botswana, Kenya does not depend on a single industry. The *manufacturing sector* accounts for about 15% of GDP. Agro-based industries are performing best, along with producers of wood, cork and basic chemical products. Kenya also has a significant engineering industry along with producers of glass and construction materials and a large textile and clothing industry. In the *service sector*, tourism is dominant, accounting for nearly 50% of GDP (see figure 3.1). The *agricultural sector* (coffee, tea, cotton, sugar, tobacco and pyrethrum) remains the cornerstone of the economy, accounting for 27.1% of GDP and employing about 80% of the workforce. Kenya is also the second largest horticultural exporter in Sub-Saharan Africa, and the second largest exporter of flowers in the world (Euromonitor, 2008a). Furthermore, Kenya's economy may count on the sound *infrastructure* of its capital Nairobi, the main communication and financial centre of East Africa, as well as of Mombasa, the most modern port in East Africa.

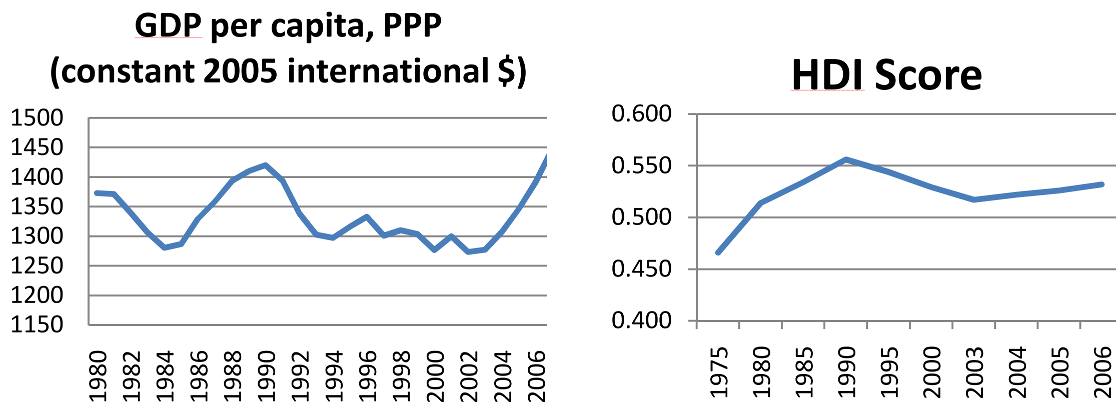
Figure 3.1: Structure of the Kenyan economy



Source: OECD (2008b, p. 349)

Whereas the Kenyan economy grew at an annual average of only 1.5% between 1997 and 2002 (Euromonitor, 2007), economic growth has been much stronger than expected since 2002. GDP growth was 5.8% in 2005, and in 2007 it reached 6.6%. Yet, growth fell sharply in the aftermath of the last elections. The Kenyan economy staged a recovery in the second half of 2008, but another downturn is expected in 2009. However, the economic growth has largely failed to raise Kenyans' standards of living, because Kenya's population has at the same time quickly increased. The number of people in Kenya living in income poverty increased from 11.3 million people in 1990 to 17.1 million in 2001 (Government of Kenya, p. 16). In 2006, 46% of the Kenyan population still lived under the poverty line. Even if life expectancy is higher than in most Sub-Saharan countries (54.1 years in 2007), there has been no sign of progress in terms of the rating of HDI since 1990 (see figure 3.5).

Figure 3.2: GDP per capita and HDI score



Source: World Bank (2007)

Besides, Kenya is one of the most unequal countries in Africa. First, income distribution is geographically extremely unequal; in Nairobi, 30% of people live below the poverty line while in the northwest the figure is 95%. Second, Kenya's Gini coefficient which indicates income inequality on a scale of 0-1 (where 0 is equivalent to perfect equality and 1 is equivalent to perfect inequality), rose from 0.43 in 2000 to 0.52 in 2007. This level of inequality is not unusual in Sub-Saharan Africa, but while the situation has improved in most countries, income disparity worsened in Kenya despite strong economic growth (Euromonitor, 2008b). However, Kenya has a well-established middle class of professionals, which separates it from many other African countries that are divided between the extremely rich and the very poor. 19.7% of households in 2007 had an income of US$2,500 to US$10,000, which puts them within the broad limits of the middle class for Kenyan standards.

The government has set very ambitious targets in its promising "Kenyan Vision 2030 Strategy". They include annual rates of growth of 10% by 2013 and the annual creation of 500,000 jobs, through the implementation of five-year plans providing for investment in infrastructure and education. The plan's future, however, is uncertain and will depend on the priorities agreed to in the parliament.

3. 2. The Role of the State

3. 2. 1. Political Context

A former British Crown Colony, Kenya was granted independence in 1963 in the aftermath of the Mau Mau rebellion that broke out in 1956. The country's first president Jomo Kenyatta was in power until 1978. At Kenyatta's death, Daniel Arap Moi took over from him; he had an increasingly autocratic style and repression increased. In the first democratic, multiparty elections in 1992, and then in 1997, Daniel arap Moi won re-election, but he was constitutionally barred from running in 2002, and Mwai Kibaki was elected President.

Kibaki was re-elected as President in December 2007, defeating Raila Odinga of the Orange Democratic Movement. The poll was widely criticised by both western observers and opposition leaders. It also led to the worst violence since independence: More than 1,500 people were killed in the violence following the latest election and over 300,000 were forced from their homes. International negotiations eventually resulted in a change in the composition of the government in March 2008 (Euromonitor, 2008a).

3. 2. 2. The Size of the Public Sector

The Kenyan government considerably simplified the business regulation by eliminating 205 business licenses and simplifying another 371 under the new Licensing Laws (Repeals and Amendment) Act, 2006 out of a total 1,325. As a result, Kenya was ranked among the top ten global reformers in the World Bank's *Doing Business Report 2008*. Besides, Kenya was awarded the UN Public Service Award in the category of "Improving Transparency, Accountability and Responsiveness in the Public Service" in 2007. In addition, the Ash Institute for Democratic Governance and Innovation at Harvard University's John F. Kennedy School of Government nominated the Kenyan government for an international award for improved performance in the public service (OECD, 2008b, p.354).

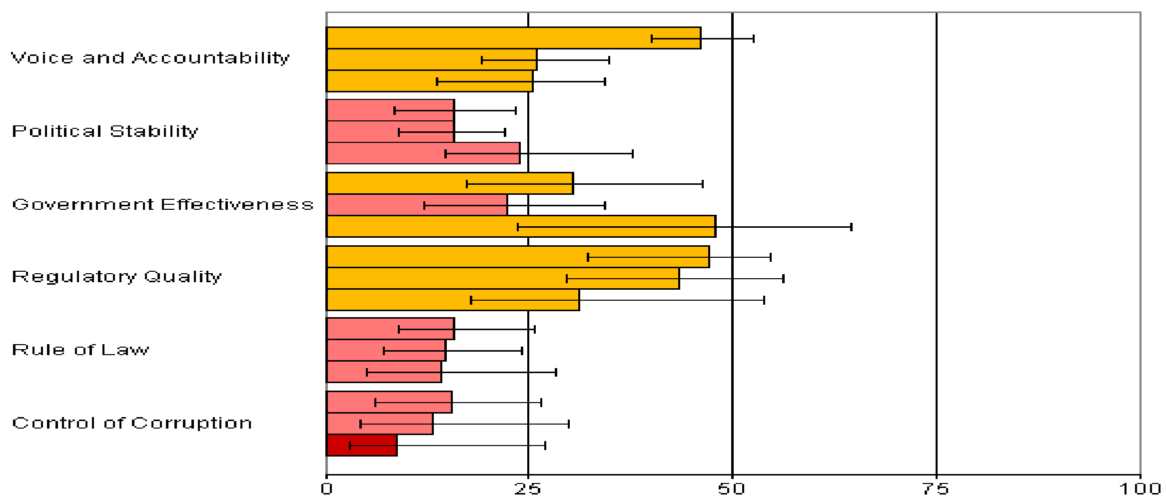
Despite this, the Kenyan public sector is still too large and inefficient, absorbing a disproportionate part of government revenues. Throughout the 1970s and 1980s public employment grew much faster than the economy or the government budget. The overall share of the public sector in total wage employment rose from 32% in 1964 to 50% in 1991. By 1993, however, action on this issue had become imperative because of the economic crisis that erupted in the same year. A civil service reform program was launched, supported by the World Bank, UNDP and several bilateral donors. A central component of the program has been the retrenchment of workers in the lower wage categories through a voluntary retirement incentive scheme; some 50,000 low-wage employees were retired without replacement between 1993 and 1998 (O'Brien, 2001, p. 62). However, progress has been limited: the government still employs one third of the Kenyan labour force (Economist Intelligence Unit, 2008), and compensation of employees represented *59%* of government expenses in 2005 (World Bank, 2009). Roughly *two-thirds* of the taxes collected are spent on servicing debts and paying the inefficient public sector (Euromonitor, 2008a).

3. 2. 3. Governance Quality: the Problem of Endemic Corruption

Through a consultative process that involved the civil society, private sector, donors and other stakeholders, the government formulated from 2003 onwards an ambitious governance agenda, called the Governance, Justice, Law and Order (GJLOS) Reform Program (African Development Fund, 2004, p.13) , which is based on the idea that "governance, justice, law and order are not merely one of several pillars of reform, they are the bedrock of reform. Put differently, without governance, justice, law and order, there is no government, i.e. there is no rule of law, and no avenue by which citizens can claim their rights in a non-conflictual manner" (Government of Kenya, 2005, p.24). The governance agenda proposes a far-reaching reform of the judiciary, strengthening of the rule of law and security and implementing reforms in public administration systems that are critical for improving transparency and accountability.

Thus, legal acts have strengthened independence and integrity of the judiciary, improved access to knowledge of law, recruited magistrates, decongested prisons, improved training of the police, recruited new police officers, improved living conditions of police officers (African Development Fund, 2004). As a result, at least before the 2007 turmoil, most governance indicators were on the rise – in particular as far as voice and accountability and regulatory quality were concerned, which indicate that Kenya underwent progress in terms of governance quality (see figure 3.3).

Figure 3.3: Governance indicators in Kenya: Comparison between 2007, 2002, 1996 (top-bottom order)



Source: World Bank (2008b)

However, under President Moi, who ruled the country between 1978 and 2002, corruption became rampant, which caused donors to withdraw; nowadays, endemic corruption, especially at the government level, still significantly increases the costs of doing business in Kenya. Furthermore, to quote from Nguzo za Haki - a publication of the Kenya National Commission for Human Rights (KNCHR) - corruption is "a complex phenomenon that undermines government's capability of working for the poor", insofar as corruption distorts access to public service where people have to pay bribes in return for service, diverts resources from intended public use into private use, perpetuates discrimination in the way citizens are able to access public services, and leads to the infringement of political and civil rights (Government of Kenya, 2005, p. 38). As a result, the poor are hardest hit by corruption; they simply cannot afford it.

In April 2003, two laws provided for a reduction in corruption: The Anti-Corruption and Economic Crimes Act and The Public Officer Ethics Act. The latter provides for codes of conduct for all public officers, including members of Parliament, the executive, the judiciary and which compels all officers to declare their wealth (African Development Fund, 2004). More importantly, the Anti-Corruption and Economic Crimes Act established the Kenya Anti-Corruption Commission (KACC), which has been the main symbol of the Kenyan Government's commitment to eradicate corruption "through Law Enforcement, Prevention and Public Education" (KACC, 2009). The Commission investigates any matter that raises corruption

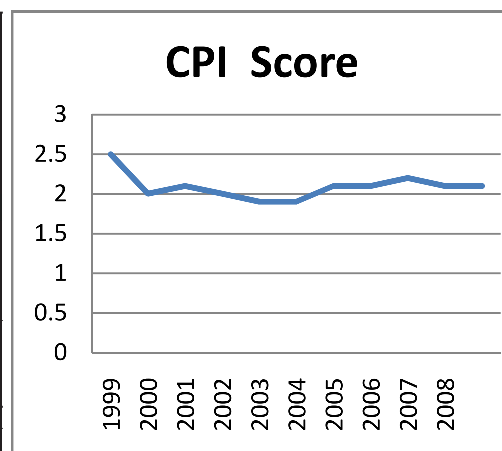
suspicions, and may institute civil proceedings against any person for the recovery of property or for compensation; and recovery of such property even if the property is outside Kenya (Government of Kenya, 2005, p. 24). At the request of any person, the Commission may also advise and assist persons or public bodies in order for them to eliminate corrupt practices. The Commission also examines the practices and procedures of public bodies in order to facilitate the discovery of corrupt practices. Finally, the Commission has the mandate to educate the public on the dangers of corruption. For instance, in March 2009, a total of 446 reports were processed by the KACC, 146 taken up for investigations, 17 forwarded to other investigative agencies and 55 referred to various public service organizations.

Figure 3.4: Indexes of corruption in Kenya

Table 7: Summary Rankings of Top Ten Offenders

	Likelihood		Impact		Severity	
	2005	2004	2005	2004	2005	2004
Kenya Police	82.2	81.6	32.0	25.6	38.8	44.9
State Corporations n.e.s	46.2	38.5	3.5	2.5	17.9	14.7
Local Authorities n.e.s	66.9	58.9	12.3	8.7	25.6	23.4
Teachers Service Commission	66.7	57.6	0.8	0.8	36.7	21.2
Kenya Prisons	91.4	-	1.3	-	31.4	-
Judiciary	72.0	69.6	2.5	2.0	31.7	26.1
Provincial Administration	57.0	54.7	21.9	18.6	24.3	23.1
Ministry of Lands and Settlement	71.0	65.7	3.0	2.8	21.0	36.3
Ministry of Health	75.0	45.7	1.5	0.7	18.8	8.6
Mombasa City Council	67.3	-	1.4	-	4.7	-
Nairobi City Council	*21.3*	*79.2*	*0.7*	*2.4*	*0.0*	*20.8*
Immigration Department	*20.0*	*61.5*	*0.6*	*0.7*	*0.0*	*23.1*
Kenya Revenue Authority	*20.1*	*57.6*	*0.4*	*1.6*	*0.0*	*15.2*
Min. of Culture, Gender& Sports	-	*48.0*	-	*0.5*	-	*16.0*

	Frequency		Cost		Size	
	2005	2004	2005	2004	2005	2004
Kenya Police	5.1	2.5	740.4	2377.2	1,465	10,831
State Corporations n.e.s	1.2	0.3	243.2	6.0	10,783	1,286
Local Authorities n.e.s	3.0	1.4	138.4	24.8	995	427
Teachers Service Commission	0.3	0.1	10.8	5.1	11,325	13,115
Kenya Prisons	2.0	-	6.8	-	931	-
Judiciary	1.2	0.4	51.5	12.2	5,053	3,606
Provincial Administration	1.3	0.7	142.0	73.6	1,136	1,093
Ministry of lands and settlement	1.3	0.3	55.7	12.2	3,901	3,037
Ministry of Health	2.7	0.1	8.5	0.3	629	713
Mombasa City Council	1.1	-	19.8	-	3,346	-
Nairobi City Council	*1.9*	*0.3*	*9.2*	*2.7*	*314*	*1,266*
Immigration Department	*0.7*	*0.1*	*23.8*	*0.7*	*3,153*	*2,644*
Kenya Revenue Authority	*1.3*	*0.5*	*61.3*	*6.1*	*4,069*	*1,571*
Min. of Culture, Gender& Sports	-	*0.6*	-	*3.1*	-	*1,816*



Sources: left: TI Kenya (2006); above right: TI (2008)

Despite the establishment of the Kenyan Anti-Corruption Commission, and the fact that Kenya was the first country to sign and to ratify the UN Convention against Corruption (December 2003 in Merida, Mexico), it was estimated that senior officials siphon off more than US$1 billion a year in public revenue still in 2007 (Euromonitor, 2007). In 2005, the likelihood of encountering bribery attained 82.2% in 2005 as far as the Kenyan Police was concerned and even 91.4 % with regard to Kenyan prisons. In 2008, Kenya still ranked 147th out of 180 countries in Transparency International's Corruption Perception Index (CPI). As shown by the chart below, no improvement has been noticed by Transparency International since 1998. Transparency International-Kenya's Kenya Bribery 2008 Index (TI Kenya, 2008) shows that respondents encountered bribery in over half (56%) of their interactions with all

organizations, both public and private, compared to 54% in 2007, with both of these figures significantly higher than those obtained from the 2006 and 2005 surveys (47% and 34%, respectively). As a result, prior to the 2007 election, western donors had threatened again to cut off aid because of government corruption (Euromonitor, 2008a).

The present government was elected in 2007 on an anti-corruption platform but it has so far done little to fulfil its promises, especially since President Kibaki seems to be too enfeebled to continue with his efforts to root out corruption. Thus, corruption appears to be flourishing again in the ruling coalition. New scandals occurred, notably in skewed distribution of oil and maize, but also in the immigration, tourism and financial sectors, so that it seems to some that corruption is “back to Moi-era levels” (“Kenya corruption ‘back to Moi-era levels’”, 2009). As a result, investors still cite corruption as the major deterrent to doing business in Kenya, which otherwise has been one of Sub-Saharan Africa's most attractive spots for foreign money.

4. MOZAMBIQUE

4. 1. Historical Context

Mozambique had been a Portuguese colony for over 500 years. In 1962, the nationalist movement, the Liberation Front of Mozambique (*Frente de Libertação de Moçambique*, FRELIMO), was founded to counter the Portuguese rule. The ensuing armed struggle – the Mozambican War of Independence – between the Portuguese and FRELIMO ended in 1975 with Mozambique achieving independence. Peace, however, turned out to be short-lived. FRELIMO, which had established itself as the sole legal party after the abrupt departure of the Portuguese, was pitted against an insurgent group, the Mozambican National Resistance (*Resistência Nacional Moçambicana*, RENAMO). The latter was created and backed by former Rhodesia, and after Zimbabwe's independence, by South Africa's Apartheid regime, with a view to destabilize the Marxist-oriented FRELIMO that supported the national liberation movements of these countries. Fighting between FRELIMO and RENAMO – the Mozambican Civil War – began in 1977 and ended in 1992 with the signing of the General Peace Agreement (GPA) in Rome.

Mozambique then faced the daunting challenges related to post-war reconstruction. One of the legacies of decade-long military conflicts was the extreme socio-economic backwardness of the country, with "high levels of external and internal debt, a disordered economy, destroyed infrastructures, unskilled human resources and millions of citizens directly and indirectly affected by the civil war" (African Development Bank [ADB], 2005, p. 5). But the restoration of peace paved the way for increased political stability. This, in turn, helped the transition from a socialist regime based on a centrally planned economy to a democratic multiparty political system with a market-based economy. The introduction of market-based economic reforms actually begun already during the mid 1980s as the FRELIMO regime, in spite of its formal socialist commitment, turned to the West by becoming member of the Bretton Woods institutions in 1986 and by adopting a structural-adjustment Economic Rehabilitation Programme (ERP) in 1987 (Arndt, Jones and Tarp, 2007, p. 242). The first democratic elections were successfully held in 1994, with FRELIMO emerging victorious and staying henceforth in power. The result of the general reconstruction effort and of political and economic liberalization was an impressive success in economic growth and poverty alleviation. Indeed, as Arndt, Jones and Tarp (2007) point out, "Mozambique is a success story in terms of growth and poverty reduction since 1992" (p. 280).

4. 2. Macroeconomic Environment and Socio-Economic Indicators

In assessing the performance of the post-war era, it is important to take into account the desperately low base from which the reconstruction effort was actually initiated. Since 1992, Mozambique has succeeded in achieving a stable *macroeconomic environment* (Tarp and Lau, 1996). An important indicator of this rapid and sustained trajectory of improvement is the GDP growth rate. As Arndt, Jones and Tarp (2007) note, "annual real growth is estimated to have averaged 6.5% for the period 1992-2004, against 7.8% on aggregate" (p. 243). Although

there are important variations between income groups, regions, and urban and rural areas (World Bank, 2008), "growth has been supported by robust recovery of the agricultural sector, with manufactures, transport and communications also playing major roles. Growth has also been boosted by a small number of large enclave-type foreign investments" (Arndt, Jones and Tarp, 2007, p. 243). The improved macroeconomic stability is also reflected in other indicators, such as improvements in debt sustainability, control over inflation, reduction of the exchange rate, and growth of international reserves (Arndt, Jones and Tarp, 2007, p. 254). The pattern of improvement is further confirmed by the average annual growth of GDP per capita, which increased from 1.6% (1987-1997) to 5.2% (1997-2007) (World Bank, 2008b).

Similarly, *socio-economic indicators*, too, reflect the positive trend of the post-war period. Even though Mozambique remains one of the poorest countries in the world, the percentage of the population living below the poverty line decreased from 69.4% in 1996/1997 to 54.1% in 2002/2003 (Arndt, Jones and Tarp, 2007, p. 252). Further evidence is provided by health and education indicators: infant and child mortality rates have rapidly dropped, malnutrition indicators and vaccine coverage have generally improved, and enrolment rates and access to education have also shown good progress (SDC, 2007; Arndt, Jones and Tarp, 2007, pp. 252-254). But, notwithstanding the substantial improvements, Mozambique continues to be plagued by acute poverty. The most worrying signs are the high levels of malnutrition, a relatively low life expectancy, the high prevalence of HIV/AIDS, geographical disparities, impaired access to water and sanitation services, and concerns about the quality of education (SDC, 2007).

4. 3. Public Finances

With regard to the *revenue* side, it is necessary to begin with the observation that over much of the period of civil strife, that is, "[b]etween 1975, when Mozambique gained its independence, and late 1980s, the economy declined, the informal sector grew rapidly, and tax administration disintegrated" (IMF, 2005b, p. 21). In 1987, Mozambique introduced basic tax policies as part of its transition from socialist central planning to market-based economy. The tax system established in 1987, however, was "highly complex, distortionary, and inefficient and had a low revenue-generating capability" (IMF, 2005b, p. 21). As a result, the Government of Mozambique (GoM) introduced a tax reform in 1996. The primary objectives were to "increase the tax revenue ratio to GDP gradually, enhance the system's administrative efficiency, obtain greater tax equity by broadening the tax base and applying moderate rates, and promote economic activity in general and investment in particular" (IMF, 2005b, p. 23). The main achievement of the reforms was an increase in overall revenue. Indeed, "[t]ax revenues as a percentage of GDP have grown by 1.4% since 1996. ... The largest revenue gain came from the introduction in 1999 of the VAT [value-added tax], to replace an inefficient and ineffective sales tax. ... Income tax revenue also increased by ¾ of 1% of GDP over this time frame" (IMF, 2005b, p. 33). However, in spite of Mozambique's success in developing a comprehensive tax system, the latter still has considerable weaknesses. In particular, the current tax "system has to date generated relatively low revenues [with a tax ratio below the average of Southern African Development Community (SADC) countries]. This seems to be mainly the

result of the narrow tax base, which has been eroded by generous tax exemptions and incentives, and poor tax enforcement" (IMF, 2005b, p. 35).

As regards the expenditures side, the GoM faced the daunting challenge of reforming the allocation and management of public resources. In fact, "[b]efore 2000 Mozambique's public financial management was characterized by poor practices across every dimension. Accounting used antiquated systems. Budget coverage was poor. Expenditures outcomes were almost impossible to track. Cash management was fragmented and weak, and auditing ineffective. There was little transparency and accountability for the use of resources" (World Bank, 2008, p. 80). Batley (2002) even points to a "[l]ack of government control of, or even information on, a high proportion of public spending" (p. 8). It follows that the "[d]ata on expenditures by sector before 1999 are unavailable, and data since then have severe deficiencies" (World Bank, 2008, p. 81). In addition, "[e]xtrabudgetary activities are significant in Mozambique relative to the size of the budget, despite the fact that legislation requires universal coverage by the state budget ... [More importantly], such extrabudgetary spending is not subject to systematic monitoring, control, and evaluation" (IMF, 2001, p. 2). One major reason for this state of disarray was the government's weak capacity in a country that had only recently emerged from a protracted civil war. Another reason was "the inadequate legal basis for financial management, corrected with a new financial management law in 2001 and the phased introduction in 2004 of a new integrated financial management system, SISTAFE [Sistema de Administração de Fundos do Estado]" (World Bank, 2008a, p. 81).

Total expenditures as a percentage of GDP have increased considerably. Indeed, "[g]overnment spending has increased at least as fast as GDP since 1999, implying positive real growth. National accounts show government consumption per capita (current expenditures) growing 12% a year during 1997-2003. Although some of this increase included a large increase in government salaries, it also reflects a large increase in inputs devoted to providing publicly supplied goods and services" (World Bank, 2008a, p. 81). Furthermore, government spending in education, health, infrastructure (e.g. roads, water and sanitation) has been increasing as a share of total government expenditures. The increased resources for these publicly provided services reflect the new anti-poverty focus of Mozambican authorities. In fact, the new "expenditure policy underlay the first national poverty reduction strategy (PARPA I), which identified four priority areas for public expenditure: education, health, basic infrastructure, and agricultural and rural development. The 2006 revised strategy (PARPA II) increased the scope of targeted expenditure to add HIV/AIDS, governance and judicial systems, and other such priorities as social action and labor and employment" (World Bank, 2008, p. 79). However, despite the whole-hearted reform efforts of the government, serious impediments stand in the way. In particular, "there have been problems of weak capacity and poor infrastructure. And results have differed across sectors, with education showing outstanding achievements, water fairly good progress, and health and [agricultural] extension the least" (World Bank, 2008a, p. 79).

4. 4. Foreign Aid

Mozambique is heavily dependent on high levels of foreign assistance. First of all, it should be noted that it is one of the largest aid recipient countries in Africa (IMF, 2005). Moreover, the pattern of heavy aid dependence is not new. In the early 1990s, aid dependence accounted for more than 100% of GDP (Batley, 2002). It had then fallen to below 30% of GDP by the late 1990s (Harvey, 2002). As Batley (2002) points out, "[d]onor support accounts for more than half of total public spending and currently about two-thirds of public investment" (p. 7). Between 1998 and 2004, "foreign grants and loans receipts accounted for 15% of GDP, on average, 70% of which was in the form of grants – that is program, project, and in-kind grants [...] During 1998-2004, total grants and loans averaged US$641 million dollars and were allocated mainly to the priority sectors defined in Mozambique's poverty reduction strategy paper" (IMF, 2005, p. 12). It follows that foreign development assistance plays a crucial role in the country's fight against poverty.[3]

In view of the heavy aid dependency, two facts are of particular concern. The first fact is Mozambique's high vulnerability to donor pressures. For donor countries, as Batley (2002) warns, "there is a danger of misusing power by dominating the policy discussion and reducing [Mozambican] government accountability to its own constituency" (p. 7). The danger is not only potential but also real. In fact, "[m]ost political, economical and social reforms started as responses 'suggested' by international institutions and countries ... and not as a result of initiatives based on Mozambique's own technical, political and social maturity" (ADB, 2005, p. v). The second fact refers to the problem that, as Batley (2002) points out, "much aid is unrecorded and unknown to government" (p. 7).[4]

4. 5. Governance Indicators

The following section discusses the evolution of Mozambique in terms of governance indicators. Over the years of civil war, the system of governance was modelled on "a combination of Portuguese administrative law and government structure together with policies of socialist ownership and planning" (Batley, 2002, p. 8). The post-war period, instead, was characterized by the transition to democracy and the adoption of liberal political institutions. An analysis of the current governance structures in Mozambique should therefore take into account the fact that the latter are relatively new and, to say the least, not yet deep-rooted. Figure 4.1 provides a broad overview of how the governance dimensions have developed in the period 1996-2007.

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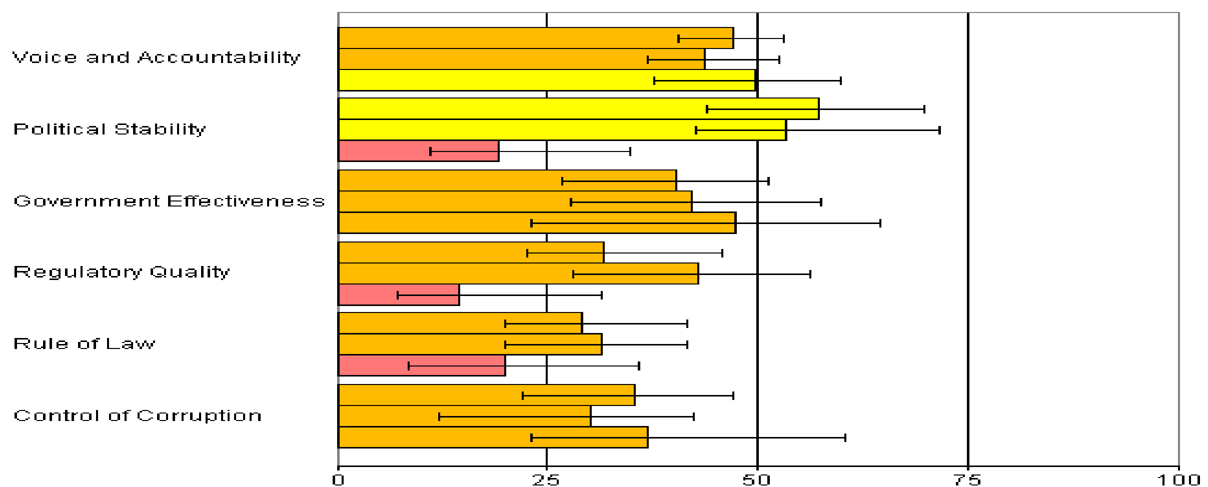
[3] On an analysis of the impact, changing role and composition of foreign aid in Mozambique, see Arndt, Jones and Tarp (2007). On macroeconomic management of foreign aid, see IMF (2007).

[4] The main reason for this lack of information is that a "large proportion of donor funding is 'off-budget', meaning that it is not applied through the Treasury but allocated direct to ministries, provinces, districts, or to donor projects that completely by-pass government" (Batley, 2002, p. 9). The by-passing seriously impairs the government's capacity to allocate and manage resources in an efficient way.

Figure 4.1: Six governance dimensions between 2007, 2002 and 1996 (top-bottom order)



Source: World Bank (2008b)

4. 5. 1. Voice and Accountability

The dimension of voice and accountability in Mozambique is, as shown in Figure 4.1, ranked high compared to other governance indicators. Since 1992, the country has indeed made great strides in liberalizing its political institutions. The progressive trend, however, should be put into perspective. In fact, "accountability of governmental institutions, the justice system and Parliament remains inadequate" (ADB, 2005, p. v). The Parliament, for instance, is confronted with several financial and operative constraints that hamper its ability to duly monitor government activity. Moreover, civil society organizations and the media lack the ability to force the GoM to carry out effectively and efficiently its obligations towards the citizens (ADB, 2005, p. 26). Illiteracy, poverty and gender discrimination only compound the problem of insufficient accountability. Not surprisingly, the country ranks slightly below the regional average on government accountability (ADB, 2005, p. 2). Mozambique thus has still a long way to go to consolidate its accountability system. And any reform efforts should take into account the fact that the reality of insufficient accountability has deep roots. Indeed, the "legacy of colonialism, decades of protracted conflict, and centralized rule damaged trust, downward accountability, and state-society relations in Mozambique. And the checks and balances developed during the postwar period have frequently been unable to safeguard the needs and interests of citizens, particularly poor ones, leading to resentment, frustration, marginalization, and exclusion from the public sphere" (World Bank, 2008a, p. 120).

4. 5. 2. Political Stability

Another governance dimension that fares comparatively well is political stability. In the postwar era, Mozambique adopted "a democratic multiparty political system based on universal suffrage, an independent judiciary, and freedoms of assembly, religion, and speech" (Lloyd, 2007, p. 3). The transformation process was facilitated by the fact that the former rebel group RENAMO agreed to lay down arms and operate as a political party (Lalá, 2003). The first multiparty elections were held in 1994, with FRELIMO – led by the charismatic Joaquim

Chissano – emerging victorious and becoming the ruling party. After 18 years at the helm, President Chissano stepped down in 2005 in the aftermath of the December 2004 elections, and was succeeded by Armando Guebuza, a wealthy businessman and an influential FRELIMO member. According to Llyod (2007), "Guebuza's election cemented the control of ... FRELIMO over the country. The opposition RENAMO ... saw its political influence slump. ... The continued electoral losses of RENAMO suggest that Mozambique increasingly displays a 'predominant party' system, with FRELIMO being seen as the 'natural' party of government" (p. 2). The enduring dominance of FRELIMO threatens the fledgling democratic foundations.[5] In addition, the winner-takes-all electoral system has left parliament weak and FRELIMO dominating all three branches of government (World Bank, 2008, p. 120). More worryingly, "[t]ensions from the civil war still exist; the two main parties frequently accuse one other of physically harassing supporters in their respective political strongholds" (Llyod, 2007, p. 4).

4. 5. 3. Government Effectiveness

The effectiveness of government authorities is, as Figure 4.1 suggests, perceived to have decreased during the period 1996-2007. The main explanation for the deteriorating trend is arguably that the "state is overextended and, in comparison with other African countries, faces difficulties in delivering services and enforcing legislation at the district level" (ADB, 2005, p. v-vi). Government effectiveness is hampered by deficiencies at several dimensions. The major flaws are found in the size of the state apparatus, the quality of public services and the quality of policy formulation and implementation. The African Development Bank points to this sobering state of affairs in unambiguous terms: "The capacity of the Mozambican public sector to deliver quality public services remains limited. The sector is beset by: (i) poorly qualified and unmotivated civil servants; (ii) a high level of centralization; (iii) inefficient public services and an inadequate system of financial management; and (iv) widespread corruption" (p. 3). As Llyod (2007) notes, the civil servants are generally selected on the basis of merit and open competition, but their efficiency and professionalism are undermined by relatively low pay, inadequate resources, and lack of training. The authorities recognized the flaws in the prevailing system. Consequently, the GoM introduced a Public Sector Reform (PSR) program in 2001, "covering legislative, financial and judicial areas, including decentralisation, the progressive of state employees and anticorruption measures. The program has produced significant technical results but lacks practical implementation" (World Bank, 2005, p. vi).

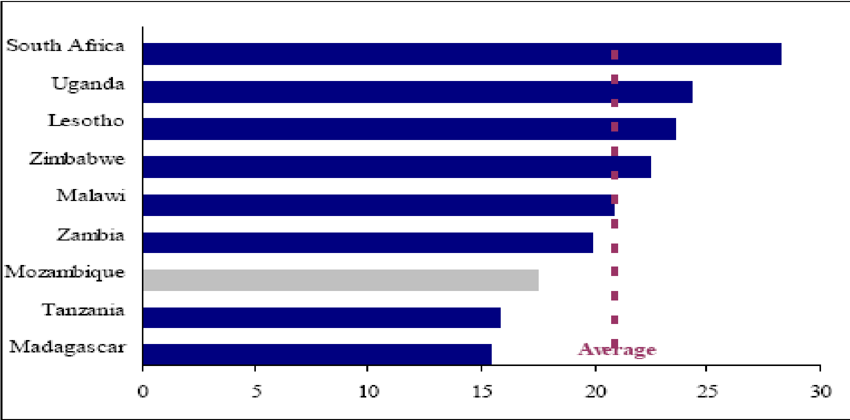
4. 5. 4. Regulatory Quality and Rule of Law

The GoM generally promotes the private sector, encourages foreign investment and guarantees the right to ownership of property (Llyod, 2007, p. 15). Laws and policies that regulate business activity are therefore formulated and implemented with a view to support private sector development. It should be noted that the Mozambican "economy is characterized by, at

[5] As Llyod (2007) notes, "[d]espite equal campaigning opportunities and government campaign funding for all parties, FRELIMO nevertheless enjoys a decided electoral advantage as it has been in power for three decades, is better able to tap into state resources for political campaigning, and has built a national presence" (p. 3).

best, an incipient private business sector" (Arndt, Jones and Tarp, 2007, p. 278). The predominantly favourable business climate is also reflected by the substantial increase in foreign investment during the past few years (Llyod, 2005, p. 15). The commitment to liberal business regulation, however, fails to conceal several deficiencies in the regulatory regime. In particular, excessive administrative rules and procedures – "red tape" – remain a major concern. Indeed, as the United States Agency for International Development (USAID) (2002a) points out, "[r]ed tape is a serious problem in Mozambique" (p. 3). Another major constraint is the lack of judicial capacity (Llyod, 2007, p. 15). It follows that the inefficient nature of the judicial system makes protection of property rights often problematic. In general terms, as shown in Figure 4.2, Mozambique ranks poorly and is even below the regional average in the ease of doing business index.

Figure 4.2: Ease of doing business index



Source: World Bank (2008a)

Excessive administrative constraints adversely affect private investment and business activity, with negative consequences for economic growth and employment. For instance, compared with a regional average of 63 days, it takes between 132 and 153 days to start a company in Mozambique. As a result, only few entrepreneurs are willing to bear this long and costly process and many give up or prefer to remain unregistered (ADB, 2005, p. 9).

As Figure 4.1 illustrates, the rule of law is the governance indicator with the lowest levels in the Mozambican case. As the African Development Bank (2005) notes, "Mozambique scores poorly in international indexes on the rule of law" (p. 18). Indeed, the efficient and effective functioning of the legal and justice system is severely impaired. The following depiction emphasizes the major structural flaws in the prevailing system: "(i) complex judicial procedures; (ii) insufficient human resources; (iii) poorly trained staff; and (iv) an excessive number of judicial processes per judge ... In view of these difficulties, many citizens have lost faith in the legal and judicial systems. A high percentage of processes are not concluded due to corruption. The judicial fee system is highly complex and costs are excessively high for the average citizen" (ADB, 2005, p. vi). In recent years, the GoM has introduced a range of legislative reforms with a view to make the formal judicial system more accessible to the poor (World Bank, 2008a, p. 131).

4. 5. 5. Control of Corruption

The extent of corruption represents perhaps the most serious concern in regard to the governance system in Mozambique. Not surprisingly, the governance dimension of the control of corruption in Figure 4.1 displays comparatively low levels. Corruption is also a politically hot issue in the country. In 2004, the President Chissano had to step down amid complaints of government corruption, and the FRELIMO candidate Guebuza won the presidential elections by running on an anticorruption (and anticrime) platform (Llyod, 2007, p. 3). Figure 4.3 emphasizes the great extent to which public function is used for private benefit in Mozambique.

Figure 4.3: Corruption in Mozambique

Corruption Snapshot

Dimension		Actors & Promoters	
…widespread but involving relatively small amounts		…mostly in the public sector	
– Victim of corruption in the last 6 months	45%	– Believes Police is highly corrupt	70%
– Victim of crime in the last 6 months	41%	– Believes Tribunals are highly corrupt	58%
– Paid between 20-100% of GDP per capita	21%	– Victim of bribery by doctors, teachers and policemen	25-35%
Causes		**Consequences**	
…corruption habits within the public sector, unawareness and distortions of the law and fear		…at social and political stability and economic growth	
– Public servants recruited through open competition	13%	– Supports death penalty and other violent penalties for corrupt people	71%
– Public servants with legal training on their professional activity	12%	– Believes Government is willing to change situation	20%
– Survey participants willing to reveal identity	5%	– Reduction in foreign investment [a)]	> 50%

Source: ADB (2005)

Several indicators confirm that the phenomenon of corruption is deep-seated. Transparency International's 2008 Corruption Perceptions Index (CPI) ranked Mozambique – with a CPI score of 2.6 – 126 out of 180 countries surveyed.[6] USAID (2002a) too paints a sobering picture: "Corruption in Mozambique is widespread, if not endemic, and presents a serious, as-yet-unaddressed threat to all sectors in the country. Mozambique has, in fact, developed an unenviable worldwide reputation for corruption" (p. 3). Nonetheless, national authorities have demonstrated the willingness to firmly tackle the issue. In particular, the GoM introduced the Anti-Corruption Strategy (2006-2010), which is "an integral part of the overall Public Sector Reform Strategy, with the objective of improving the provision of public services to citizens, and developing a favourable environment for the growth of the private sector" (CIRESP, 2006).

[6] See Corruption Perceptions Index, www.transparency.org

5. UGANDA

5.1. Historical Context

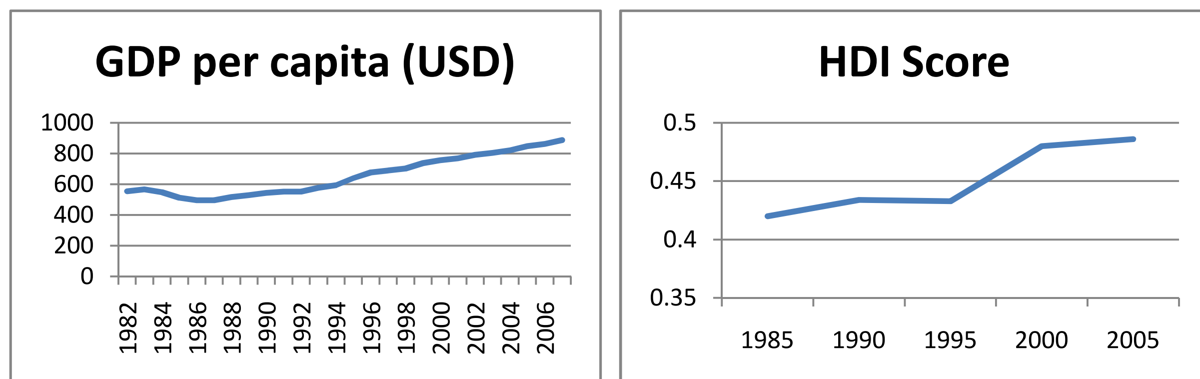
Figure 5.1: Uganda and its major ethnicities

Uganda's boundaries were drawn up by the British colonizers and contain a large number of different ethnic groups with very distinctive sets of traditions and long histories of their own. This made co-operation between them particularly cumbersome after Uganda gained independence from its former colonial power in 1962. The country soon fell under the sway of the ruthless dictator Idi Amin, who ruled the country during the years 1971-1979. More than 300,000 people were killed over that period (Central Intelligence Agency [CIA], 2009). After Amin invaded the neighboring state of Tanzania, his government was overthrown and replaced by a civilian government under Milton Obote, who had already served as Uganda's first president after the country's independence. Allegations that the elections that brought Obote to power were rigged helped provoke a civil war that left around 100,000 people dead. After Obote promoted a clan relative to army chief, he was overthrown by two high-ranking army officers in 1985. Their rule ended after a few months as Yoweri Museveni's Uganda Resistance Army took the country's capital Kampala by force in 1986 (Pirouet, 2009). Museveni has been Uganda's president ever since. Shortly after coming to power, Museveni banned all political parties other than his National Resistance Movement. In 1995, a new constitution that proscribed one-party rule was enacted (Marblestone, 2005). In 2005, the ban on other parties was lifted and they were allowed to participate in elections in 2006 (Perkins, 2009). The elections were won by Museveni, who is expected to stay in power until at least 2011. Also, Uganda is plagued by an insurgency in the North which is led by the Lord's Resistance Army, a guerilla movement (Hofer, 2009). As of today, 1.27 million internally displaced persons live in the country (CIA, 2009).

5. 2. Social and Economic Environment

Uganda is blessed with vast fertile grounds and significant mineral deposits of copper, cobalt and gold. Nevertheless, Uganda is among the least-developed countries (LDC) in the world. In 2008, the values of GDP (at purchasing power parity, PPP) and GDP per capita were US$ 35bn and US$ 1,100 respectively. Only 67% of the country's population is literate. Life expectancy at birth is 52.7 years (CIA, 2009) and Uganda is ranked 156 out of 179 states in the HDI (United Nations Development Programme [UNDP], 2008b).

Figure 5.2: GDP per capita and HDI score



Source: World Bank (2007)

Macroeconomic conditions in the country are relatively stable. When President Museveni came to power in 1986, inflation was running at 240% per year. The soaring rate was subsequently reduced to 42% in 1992 and 5.3% in 2003. Inflation was likely to be over 10% in 2008 but is still considered to be at a reasonable level by international experts (United States Department of State, 2009; CIA, 2009). The GDP increased by over 5% every single year between 1988 and 2007, except for 1992 when it increased by only 4% (World Bank, 2007). This, in turn, has helped reduce poverty: the percentage of the population under the national poverty level decreased from 56% (1992) to 31% (2006) (World Bank, 2009b). In the fiscal year 2007/2008, economic growth exceeded expectations with a growth rate of 8.9%. This compares well with the figure for Sub-Saharan Africa as a whole, which is 6.5% according to Price Waterhouse Coopers ([PWC], 2008, p. 1). However, most of the increase in GDP has been eaten away by population growth, which has averaged around 3% per year between 1960 and 2005, that is, at a rate at which the population doubles every 20 years. After independence, there were about 7 million people living in Uganda, whereas today there are over 32 million Ugandans. It follows that economic growth must be at least 7% per year in order to sustainably reduce poverty (Euromonitor, 2008c).

Agriculture contributed 24% of GDP in 2007 and currently provides employment for over 80% of Uganda's workforce. Two-thirds of Ugandans depend on subsistence farming. The service sector accounts for 50% of GDP and manufacturing for 26% respectively (World Bank, 2009c; CIA, 2009). Main exports include coffee, fish, tea, cotton, flowers and gold (CIA, 2009). In 2007, net FDI amounted to US$ 484 million. Between 2000 and 2007, FDI accounted for around US$ 2.3bn (IMF, 2009, p. 16). The only industries in the countryside – where 87% of Ugandans live – that could benefit from the significant increase in FDI were tourism and tea production (Euromonitor, 2008c). Government officials claim that the economy will grow by 9% in 2009, but pundits put the number closer to 4% ("A country adrift, a president amiss", 2009). Economic growth lags behind its potential, since infrastructure is inadequate and business suffers from blackouts that last for 12 hours per day more often than not. Furthermore, Ugandan educational institutions fail to provide graduates with skills relevant to the labour market (Euromonitor, 2008c). Labour productivity is therefore low and

"[i]nvestors often complain that Ugandans are not skilled or hard-working enough" ("A country adrift, a president amiss", 2009).

5. 3. Role of the State

5. 3. 1. Size of the Public Sector

Uganda's budget forecasts an increase of total government expenditure to US$ 3.66bn in fiscal year 2008/2009. 70% of government revenues were projected to come from domestic sources and 30% from donors, down from 38.7% in fiscal year 2007/2008 (PWC, 2008, p. 4). This means that the government budget is approximately 25% of GDP in 2008.[7] Income tax collection has increased by 41% between the fiscal years 2005/2006 and 2007/2008. This is due, on the one hand, to an expansion of economic activity, and, on the other hand, to a more effective enforcement of tax laws and efficiency gains within the tax authority (PWC, 2008, p. 6). Priorities within the 2008/9 government budget are health care (accounting for 10.8% of projected government expenditure), education (15.4%), defense and security spending (8.2%) and works and transport (18.6%) (Uganda Ministry of Finance, Planning and Economic Development, 2008, p. 75). Compensation of government employees in all sectors accounted for 23.6% of government expenditure in fiscal year 2007/8 and grew by 13% over the previous fiscal period (Ibid., p. 43). In its review of the government budget for 2008/2009, PWC (2008, p. 1) praises the government's efforts to ensure a stable macro-economic environment, but it points out that there remain "pockets of inefficient public expenditure" and criticizes government agencies for slow implementation of programmes that would likely have a stimulating effect on the economy (PWC, 2008, p. 5).

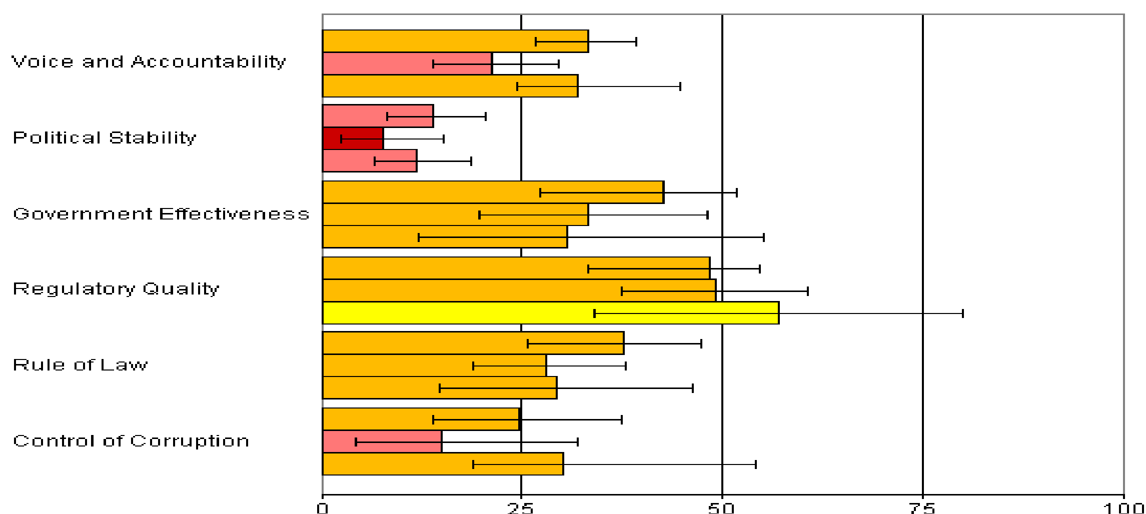
In the World Bank's Ease of Doing Business report, Uganda is ranked 111th out of 181 countries. The country was ranked 106th in the previous report. Starting a business in Uganda is particularly troublesome, since 18 different procedures are required by the authorities. The average for the region is only 10.2 procedures and for OECD countries it is a mere 5.8 procedures. Registering property also is an administrative nightmare, with 13 different required procedures (almost double the regional average) and a wait time of 227 days, more than double the regional average and more than seven times the OECD average (World Bank, 2009d). More worrying still is the fact that since the last report by the World Bank Uganda has not undertaken a single reform aimed at improving the business friendliness of its administration (World Bank, 2008c, p. 48).

5. 3. 2. Governance Quality

Kaufmann, Kraay and Mastruzzi's survey (2008, pp. 79-96) on governance indicators worldwide shows a mixed picture for Uganda. Due to the violent insurgency in the north of the country, Uganda is ranked in the bottom quarter for political stability.

[7] Own calculation based on an estimate of the GDP by Euromonitor (2008) and the official budget for fiscal year 2008/2009.

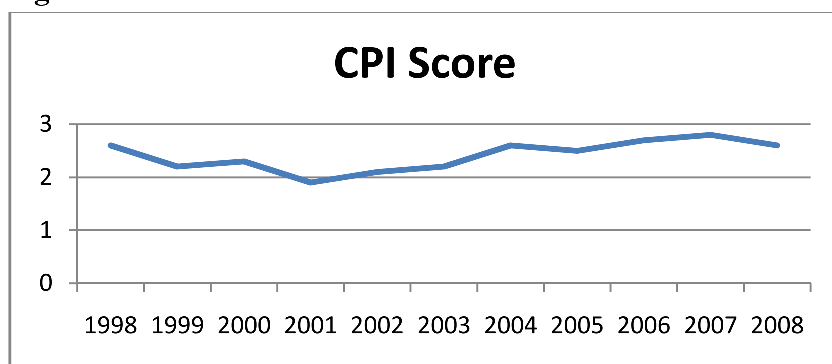
Figure 5.3: Six governance dimensions between 2007, 2002 and 1996 (top-bottom order)



Source: World Bank (2008b)

Corruption is a permanent problem that was so far not effectively tackled. However, in other areas some progress was made: Regulatory quality is stable (if slightly decreasing) on a relatively high level. Uganda's ranking for voice and accountability, the rule of law and government effectiveness all improved between 1998 and 2007. These rankings draw our attention to one field of particular concern: corruption. Uganda's performance in anti-corruption measures has been disappointing at best, which is also reflected in Transparency International (TI)'s Corruption Perception Index (CPI). The last CPI survey ranked Uganda 126th and gave it a rating of 2.6, which is the same as in 1998. In the meantime, the problem of corruption worsened until 2001, when it hit a bottom. Since then, the overall trend has been slightly positive, but results remain still unsatisfactory (TI, 2008).

Figure 5.4: CPI score



Source: TI (2009)

One area where Uganda's government has won plaudits in recent years was the implementation of the principles outlined in the Paris declaration. A 2006 survey found that the Ugandan government has a long-term vision for its country which is described in its Poverty Eradication Action Plan (PEAP). It also has various medium-term strategies in a range of sectors – such as agriculture, strategic exports and education – in order to make that vision come true.

With sound financial mechanisms in place, the Ministry of Finance, Planning and Economic Development's Aid Liaison Department is in charge of aligning incoming foreign aid with national strategies. Both alignment and ownership of development projects can therefore be described as high. Uganda's public financial management (PFM) is rated 4.0 by the OECD (the average rating for developing countries worldwide is 3.2) (OECD, 2007, p. 3). The OECD (2007, p. 1) concludes that due to such responsible handling of aid money, Uganda was able to increase development aid from US$ 712 million in 2002 to US$ 1159 in 2004.

It is hard to assess the overall quality of governance in Uganda. On the one hand, the poverty level was reduced from 56% in 1992 to 31% in 2006. Prevalence of HIV was 5.4% in 2007 (World Bank, 2007), down from double digits figures in the early 1990s, due to responsible government action with President Museveni at the forefront of anti-AIDS campaigns. On the other hand, Uganda is still one of the poorest countries in the world in terms of GDP per capita. Furthermore, its ranking in the HDI is very low despite the country's fertile grounds and vast inflows of ODA. Infant mortality was still a staggering 0.134 in 2006, even if down from 0.224 in 1960. In view of all these trends, is the state adequately responding to the tasks at hand and does the government's performance merit all the Western governments' praise[8] and their taxpayers' money?

5. 3. 3. Qualitative Analysis – The Problem of Vested Interests

When President Yoweri Museveni took office in 1986, he stated in his first speech as new leader of his country that "The problems of Africa, and Uganda in particular, are caused by leaders who overstay in power, which breeds impunity, corruption and promotes patronage" (Perkins, 2009). 23 years on, Museveni is still president of Uganda and some critics claim that the country is plagued by the very problems that the president described in his inaugural address. Between 1986 and 2005, Uganda's one-party system was justified by Ugandan officials with the idea that election to parliament and promotion should be based on "personal merit" rather than party affiliation (Marblestone, 2005). President Museveni, a former military commander, is from the south-west of Uganda. He has filled the most important posts in the military with people from his homeland (Jones, 2009). A survey found that 74% of the 23 highest-ranking officers in the Ugandan armed forces are from the president's western region ("Family rule in Uganda", 2009, p. 2). Also, that region benefits the most from development initiatives undertaken by the central government in all fields, e. g. infrastructure and poverty reduction. The north and east of the country remain poor and excluded from the political stage (Jones, 2009).

When appointing high-ranking government figures, President Museveni developed a taste for choosing members of his own family. For example, he made his wife a state minister, his brother senior presidential adviser on defense, his brother-in-law foreign minister and his semi-literate sister administrator at State House. He also found posts for his children and their spouses as well as for a large number of other relatives and people somehow linked to his family ("Family rule in Uganda", 2009, p. 1). However, nepotism is not restricted to the realm

[8] Former US President George W. Bush said on a visit to Uganda: "You have shown the world what is possible in terms of reducing infection rates" ("Bush praises Uganda Aids fight", 2003).

of politics but stretches to other domains such as the military, business and the church ("Museveni govt's 'Family Tree'", 2009). The Ugandan weekly *The Independent* states that the government still reflects the diversity of society and different regions but decision-making is increasingly shifted to an "informal but highly powerful" network of members of the Museveni clan ("Family rule in Uganda", 2009, p. 1).

The Museveni clan's machinations have so far sparked little resistance from donors and the international community. Only the president's decision to replace his previous presidential aircraft – which he bought in the year 2000 (Nalugo, 2007) – with a US$ 48.2 million Gulfstream V private jet is said to have angered some representatives of the IMF. The purchase came shortly after the IMF approved a debt-relief package for Uganda ("A country adrift, a president amiss", 2009). The outcry has so far been bigger at home. Uganda has a vibrant media landscape, with straight-talking radio stations and quality newspapers that "uncover corruption, excoriate incompetence [and] poke fun at pomposity", as Perkins (2009) puts it in an article for the British newspaper *The Guardian*. A prominent opposition journalist, Andrew Mwenda, urged the international community to refrain from giving foreign aid and granting debt cancellation to the Museveni Government. Mwenda argues that such programs hamper the government's accountability to its own people and provide a disincentive to undertake much-needed economic and political reform. He recounts the government's reaction to the Group of Eight (G8)'s promise to forgive Uganda 80% of its foreign debt: "Upon hearing the news, the government increased the number of administrative districts in the country, which serve as the main instrument of political patronage, from 56 to 80" (Mwenda, 2006, pp. 7-8). This 'reform' alone led to an increase in public administration cost of US$ 120 million (Ibid.).

Undeterred by domestic criticism, Museveni seems to be determined to run in the next presidential elections in 2011. The 1995 constitution set a limit of two consecutive terms for Uganda's president, but that restriction was removed along with the ban on political parties in the constitutional reform of 2005. There have been efforts within the international community to offer Museveni a job in an international organization in order to prevent him from becoming "the new Mugabe" (Ross, 2005; Perkins, 2009). So far, there is no successor singled out in his National Resistance Movement, leading to speculations that Museveni might plan to install his wife or son as new leader of Uganda ("A country adrift, a president amiss", 2009). That smacks of the evils Mr. Museveni so eloquently criticized in his inaugural address 23 years ago.

6. Conclusion

The main research question of this paper was whether the state acts as a catalyst or as an obstacle to development in low-income countries. Our hypothesis was that while the mere size of the state is not per se an impediment, the state may hamper the development process if practices of "bad governance" are ingrained in its institutions and policies. In order to test this hypothesis, the focus was placed on indicators related to the *"size"* of the state (e.g. public expenditures, number of employees in the public sector and "ease of doing business" indicators measuring the quality of the regulatory environment) as well as on indicators measuring the *"quality"* of state governance (e.g. "Governance Matters" indicators of the World Bank). Socio-economic indicators were also taken into account, for they provide a good indication of the development stage. This set of multiple indicators was then applied on four Sub-Saharan African countries: Botswana, Kenya, Mozambique and Uganda.

Our findings show a complex and multilayered picture. On the one hand, it can be firmly argued that the state is an actor that can promote development. Indeed, state institutions often play a key role in providing several important public goods and services that are a necessary precondition for long-term economic growth and development. It is important, however, to begin with the observation that there is a great variety in the form and functions in the four countries under consideration.

The tasks and functions of a state are daunting. First of all, the state guarantees security. This task – viewed as the precondition of all further state activities – can be divided in two sub-groups: maintaining internal order (internal security) and protecting independence from external threats (external security). The crucial importance of security is evident in the case of Mozambique. The country succeeded in achieving higher growth rates only after the devastating civil war and the conflictual relations with the Apartheid regimes in the region ended. Obviously, people are willing to make long-term investments only in relatively secure and stable environments.

A second fundamental responsibility of the state is to provide rule making and political authority. Traditionally, the state is divided into three branches, each with separate and independent powers and areas of responsibility: legislative, executive and judicial. The legislature provides for the formulation and establishment of collectively binding decisions; the executive is charged with the implementation of the collectively binding decisions; and the judiciary interprets and applies the law. It goes without saying that these three branches are key actors in each of the four countries under consideration. Although there are important differences in practice, the three branches are assigned more or less the same tasks and responsibilities in each country. In particular, the state is expected to act on the rule of law, whose essential function is to safeguard against arbitrary governance and to create secure and stable expectations about state activities. Also, the state institutions contribute to establishing political stability, which in turn is a necessary precondition for economic advancement of a country. This finding can be derived from the strong growth rates that both Mozambique and Uganda achieved after a certain degree of political stability was established in the two countries that had long been plagued by wars and authoritarian regimes. The case of Botswana corroborates the hypothesis that political stability fosters economic prosperity. The country

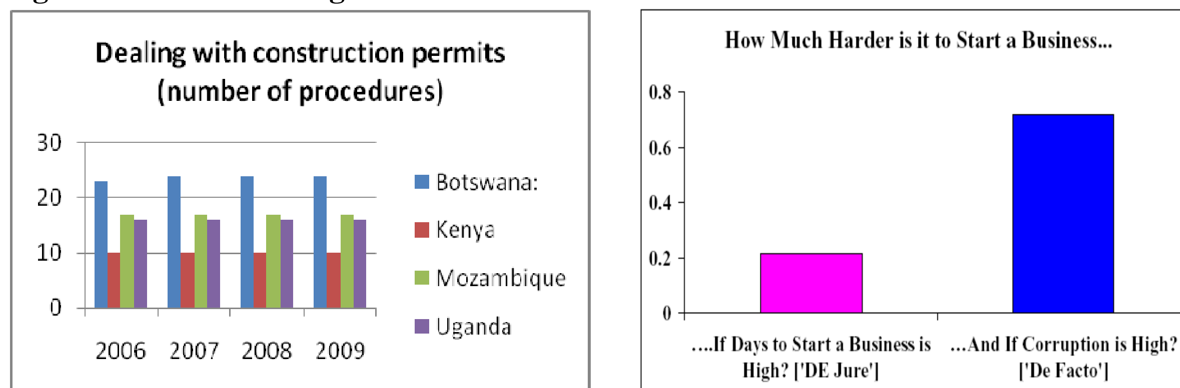
largely owes its economic success to the presence of institutions that have generated market-oriented incentives, protected the property rights of investors and deterred political instability.

A third task of the state is to promote welfare. The object and the extent of state involvement in this governance area vary greatly in the four countries under consideration. But, in general terms, it can be noted that the state institutions play a key role in the following areas: economic stability, physical infrastructure, public health, education and social insurance. The four countries aim at fostering economic stability through different degrees of regulation and economic reforms. Mozambique, for example, has succeeded in achieving a stable macroeconomic environment, which is reflected in the improvements in debt sustainability, control over inflation, reduction of the exchange rate, and growth of international reserves. Another common area of state involvement is infrastructure, which includes aspects such as communication (e.g. telephone or postal service), transport (road and rail networks, ports and airports), and utilities (e.g. water and sanitation services, gas and electricity). Mozambique is also active in areas such as health and education. In Uganda, for instance, priorities within the 2008/2009 government budget are, among others, health care (accounting for 10.8% of projected government expenditure) and education (15.4%). An example of basic social insurance is provided by Botswana, where the government has introduced a number of social safety nets in order to ensure that all citizens benefit from the rapidly growing economy.

On the other hand, the paper brings to light that ***the state can also act as an obstacle to development***. The following paragraphs attempt to illustrate the extent to which the state tends to hamper the development process in the four countries.

First, state institutions are often weak and ineffective. The deficiencies are especially evident in the case of Kenya, Mozambique and Uganda, whereas Botswana appears to fare much better. In general, the main constraints are found at the following dimensions: technical, personnel, administrative and financial. Mozambique is a case in point. The state apparatus is overextended and faces huge difficulties in delivering services and enforcing legislation. The public sector is also plagued by problems such as high centralization, insufficient technical and administrative capacity, inadequate management of financial resources, and lack of qualified human resources. Kenya, too, is confronted with similar difficulties. For instance, the size of the state is of great concern: the government still employs one third of the Kenyan labour force and compensation of employees represented *59%* of government expenses in 2005
Second, corruption and "red tape" appear to be ingrained in the state institutions of several countries under consideration. In particular, Kenya, Uganda and Mozambique are plagued by widespread corruption in the public sector. The extent of corruption in the three countries is exemplified by the fact that President Kibaki (Kenya) and President Guebuza (Mozambique) came to power by running on an anti-corruption platform. President Museveni of Uganda also stressed his opposition to corrupt government practices in the early years of his presidency. Corruption is one of the biggest impediments that a country faces on its development path. Excessive administrative regulation – "red tape" – is another area of concern. As the following figures suggest, all four countries are confronted with massive constraints and flaws in the system**.**

Figure 6.1: Ease of doing business indicators



Source: World Bank (2009) *Source: Kaufmann (2008, p. 24)*

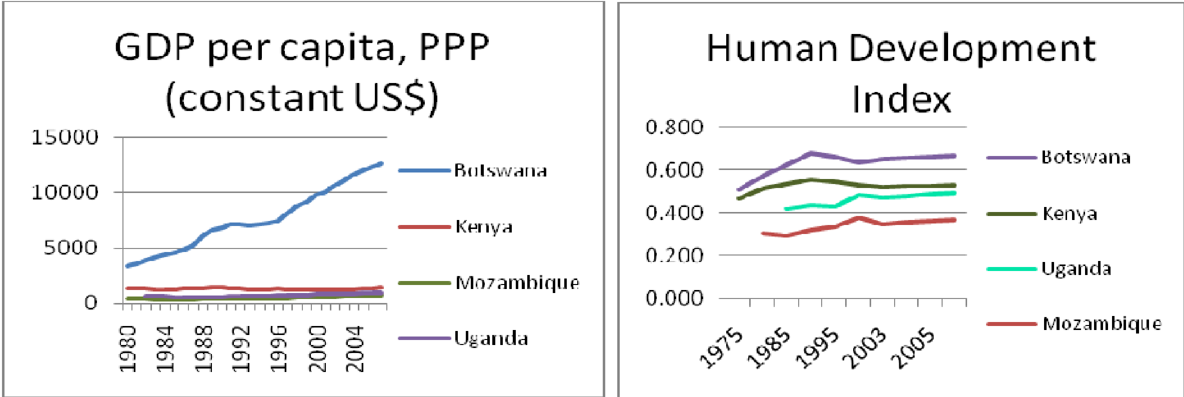
The third factor that should be taken into consideration is how the state is dealing with the different groups in the society. Kenya and Uganda, for instance, were able to lift some social strata out of dire poverty, even though they failed to bring prosperity to the majority of the population. As this example suggests, the attitudes of governmental and societal elites towards the state might be of utmost relevance for every development strategy in a country. The most fundamental concern is that certain social groups might capture the state institutions and exploit them to their advantage. In theory, the state is expected to be neutral, that is, it must not become a source of income for specific ethnic groups and large family clans. But the case of the Museveni administration in Uganda illustrates the fact that certain sections of society can gain access to public office, and use the power of public authority to build and consolidate an impregnable social position. In such societies, once a social group gets the chance to put its hand on state coffers, it is likely to undertake every attempt to weaken the position of competing social groups.

Fourth, the macroeconomic data and socio-economic indicators point to the fact that the four countries are at very different stages of development (Figure 6.2). Botswana is the only country which displays high economic growth and a relatively high standard of living. Instead, the economies of the other three countries – Kenya, Uganda and Mozambique – are stagnant and still remain at a very low level. Improvements in the standard of living are also very limited, once the catch-up effects that were discussed in the respective sections are accounted for. This is even more astonishing if one takes into consideration that those three countries are affected by HIV/AIDS to a much lesser degree than Botswana. The disease has a highly negative impact on the latter's HDI score. Were it not for HIV/AIDS, the divide between Botswana and the rest of the countries would probably be even more glaring.

This paper has stressed on several occasions that Botswana represents an exceptional case in Sub-Saharan Africa. The concluding remarks are thus made by taking Botswana as a benchmark against which to make some suggestions about the other African countries. Botswana is blessed with vast natural resources and has somehow succeeded in channeling the revenues from the use of those riches towards fostering socio-economic development. But it would be wrong to draw the conclusion that the endowment with natural resources is the only reason for Botswana's rapid economic growth and higher-than-average HDI score. Africa's broad economic experience shows that the abundance of land and natural resources alone does

not guarantee economic success. If the Sub-Saharan African countries aim at achieving progress in long-term economic growth and development, they are well-advised to follow some of the policies that Botswana implemented with great success. In particular, the eradication of corruption, cronyism and patronage seems to be of great importance. Not surprisingly, Botswana outperforms all other three countries in the governance quality indicators. Without much external aid, but through proper planning and management of its natural resource wealth, Botswana yielded tangible benefits for the country. This, in turn, has been conducive to business and investment. The outstanding case of Botswana clearly indicates an existing correlation between governance and prosperity. The case of Botswana also provides the evidence that even without large amounts of foreign aid the African countries could still achieve higher levels of economic development and prosperity. Furthermore, although Botswana has a heavy bureaucracy, the latter has not hindered the country to develop faster than its neighbours. This somewhat surprising finding seems to corroborate the view that it is much harder to start a business in a country with few administrative procedures but a high level of corruption and other improper behavior by state officials, than in one with a cumbersome and slow but lawful bureaucracy. Its heavy bureaucracy burdens business with a high number of different steps to obtain construction permits and long wait times for the registration of new enterprises. Nevertheless, Botswana is ranked much higher than the other three countries in the World Bank's Ease of Doing Business Index. As this example suggests, the size and the workings of the state alone are not the only decisive factors. In other words, *Governance matters*!

Figure 6.2: GDP per capita and HDI



Source: World Bank (2009)

7. Implications for the Swiss Agency for Development and Co-operation

The newly favourable view on the role of the state in the development process has far-reaching implications for practice. This paper takes the liberty of pointing out some implications for the workings of the SDC and making a few suggestions about the way forward.

First of all, the SDC – in particular the *Sektion Analyse und Politik* – is well-advised to put greater emphasis on adopting a humble, open-minded and adaptive approach. The sobering reality is that nobody has a definitive answer to what determines long-term economic growth and development. History is replete with stories of pundits that boasted of having discovered "the truth" about economic phenomena, only to find out to their dismay that their theories and models had miserably failed in explaining real facts. People ignore the downside of an apparently omniscient mindset at their own peril. With regard to the factors that promote economic growth and development, economists would perhaps face some difficulties in agreeing on a commonly accepted catalogue. A present-day classification would probably take the form of a peculiar mix of factors such as capital accumulation, technological change, appropriate institutions, sound economic policies, geography and culture. A functioning and effective state is a relatively new entry to this already daunting set of determinants. If past developments are an indicator, it is reasonable to expect that new factors will be included in the list, while some other factors might be discarded. Just as importantly, the current discussion on the role of the state is likely to evolve over time. The main challenge for the SDC will lie in gaining relevant insights from theory and practice on this issue-area and incorporate them into its development policies in accordance with its overall goals and capabilities.

Second, states in developing countries have different forms and functions. This key insight warns against formulating and implementing "one-size-fits-all" solutions. In addition, it is of great importance to not overestimate the capacity and capabilities of state institutions. The SDC should take into account the fact that low-income countries are often confronted with massive challenges related to technical, administrative, financial and political constraints. A conclusion that the inability of states to tackle development problems is due to a lack of commitment and effort would be wrong. Instead, the SDC should set realistic expectations and achievable goals. In particular, its primary focus should be to provide the priority countries ("Schwerpunktländer") with a form of assistance that meets their different development needs and suits the implementation of their own development strategies.

Third, the SDC is well-advised against adopting an uncritical view of the state. On the one side, it should avoid an ideologically based rejection of the state. But, on the other side, an assumption that state institutions are always benign and act only in the interest of the people would be wrong-headed, counterproductive and outright naive. This is, of course, not to disparage the work of the majority of public servants that are sincerely committed to delivering better public services and often display a commendable public service ethos. But, unfortunately, cases in which the public office is used for private gains are not a rarity in developing countries. Public servants do not act only on values and norms, but also on interests and incentives. Similarly, state institutions aim not only at formulating and implementing collec-

tively binding decisions, but also at preserving the privileges and safeguarding the interests of their own organizations. The recommendation for the SDC is to be aware of these pitfalls and to closely and constantly monitor the activities of state institutions.

The last observation is that the state is deeply embedded in society. This crucial insight has important implications for the workings of the SDC. Indeed, an exclusive focus on the state apparatus would prevent the SDC from recognising the importance of the state's relations to its surrounding society. The historical path and political environment tend to have a long-lasting effect on the shape of state institutions. Moreover, the effectiveness of the state depends on factors such as the culture, stage of nation and state building, and social context. Hence, a more holistic approach is required. It is of fundamental relevance to recognize that the efforts of the SDC to strengthen the state's capacity will have powerful effects on the state-society relations in a given country. It follows that the SDC faces a paradoxical task. On the one hand, it should help poor countries to develop and maintain state institutions that are strong and capable enough to carry out successful development policies; on the other hand, the state should not be provided with so much power that enables it to dominate society. Furthermore, the SDC should refrain from supporting state capacity building if state institutions are likely to be captured by powerful social groups, because it would only weaken the position of the very target of development assistance – poor people – and subject them to more exploitation. In view of this daunting array of challenges, a guiding principle for the SDC might be to promote the establishment of a system of "checks and balances" in which the state, the private sector and the civil society in a given country do not prevail over each other. A stable relationship of this kind, in turn, would prevent certain social groups from accumulating too much power and exercising it against other groups. It is the SDC's moral obligation to facilitate the creation of such neutral state apparatuses in Switzerland's partner countries.

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