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HIV/AIDS and Strengthening Public Sector Capacities -- A Business Imperative

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Started: July 17, 2003
Revised: August 25, 2003

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Abstract

To generate the resources needed to counteract the effects of HIV/AIDS, African countries need to grow rapidly. That will require marked increases in investment and significant improvements in productivity. The spread of HIV/AIDS, however, is systematically reducing the resources available for investment and undermining the capacities (financial, human, and organizational) necessary to raise productivity. The public sector and foreign donors – the conventional sources of additional resources – are beyond their limits. Most African governments are severely over-stretched with chronic budget deficits and debt they cannot service. Donor agencies are already providing large amounts of resources. Given widespread problems of using aid effectively, more donor resources will not add to growth. Local private investors have few incentives to expand while Africa's growth prospects remain poor. And, except for strategic brand name or market share considerations, foreign investors are hesitant to commit their resources while local private investors are holding back. Some improvements in productivity will be achieved through reorganization, reduced corruption, less waste, and private sector support to mitigate the impacts of HIV/AIDS, but sustained improvements in efficiency will require further investment. This brings us the full circle.

Breaking this cycle of low growth/low investment/low productivity requires new approaches. This paper argues that African countries have to look beyond the conventional government/donor programs typical of development efforts over recent decades. Local businesses need to actively engage with African governments to stimulate growth. This will require that businesses cooperate to strengthen public sector capacities. In addition to the evolving activities designed to counteract the effects of HIV/AIDS, the private sector will need to work with the public sector to rationalize the development agenda, improve macroeconomic management, raise the quality of public administration at the sector level, provide specialized training for public sector officials (e.g., in financial control and inventory management), and help African governments deal constructively with the international community. These activities go well beyond traditional perceptions of private/public responsibility. The payoff to this investment of business time and resources will be considerable: improved governance, higher rates of growth, expanded opportunities for enterprise and entrepreneurship, and the increased availability of resources enabling the country to move beyond the HIV/AIDS epidemic.

In the absence of business engagement to strengthen public sector capacities, economic growth will not revive. Business firms and investors will continue seeking opportunities for their energies and talents outside Africa. That trend, already well established because of weak economic performance and poor governance, will further postpone the prospect African countries growing and effectively dealing with their HIV/AIDS and other development problems.

Africa is beyond bemoaning the past for its problems. The task of undoing that past is ours, with the support of those willing to join us in a continental renewal. We have a new generation of leaders who know that we must take responsibility for our own destiny, that we will uplift ourselves only by our own efforts in partnership with those who wish us well.

...Nelson Mandela

INTRODUCTION

Why would any firm or business that does not need to protect a brand name, exploit a captive market, or extract primary resources for export, keep its resources in Africa? More important, why would any business operating in Africa make plans to expand its activities in the face of future growth prospects that, at best, are unattractive (and in many cases being made worse by the spread of HIV/AIDS)?

Africa's future growth performance hinges on how these questions are answered. If businesses decide that their resources would be more profitably employed elsewhere, private capital will continue flowing out of African countries. And, if businesses in Africa decide that their existing facilities will adequately handle expected future demand, low rates of investment will continue.

Based on recent experience and current performance, future rates of economic growth in Africa will not rise significantly. Investment rates will remain low and growth will be slow. For many countries, the negative feedback from slow growth to low investment is accentuated by the spread of HIV/AIDS. The epidemic reduces the resources available for investment (by raising consumption and reducing productivity). Moreover, even where resources are available, HIV/AIDS decreases the incentive for investment by sharply truncating decision makers' time horizons. By disrupting work routines, debilitating and killing workers, HIV/AIDS reduces productivity. Low investment and low productivity block economic growth.

This essay argues that in order to counteract the ravages of HIV/AIDS, African governments have to promote and sustain, rapid rates of economic growth. That will require a significant increase in investment and marked improvements in productivity. Currently, however, investment is low and productivity weak, in part, because of the adverse effects of HIV/AIDS.

Breaking out of this downward cycle requires a major shift in economic policies and how they are implemented. African governments will have to become far more growth-oriented than in the past.[1] The private sector has to be induced to expand investment and raise productivity.

This essay discusses what African-based businesses need to do to reverse the vicious cycle of low investment, low productivity, and low growth. In my view, businesses at all levels need to become actively engaged in boosting public sector capacities. This will require the consolidation of existing private/public partnerships for mitigating the impacts of HIV/AIDS and further public/private cooperation to focus African governments and public sector agencies on policies and programs that promote and sustain economic growth.

The paper has the following format. Section 2 sets the context with a discussion of Africa's growth performance, ongoing efforts to improve that performance, and future growth prospects. Section 3 describes how HIV/AIDS has been eroding public sector capacities (and thereby undercutting Africa's growth potential) and why businesses in Africa need to become directly engaged in programs that enhance public sector capacities. Section 4 identifies some of the core capacities that need to be supported, and what African businesses can do to have the greatest impact on economic growth. It also discusses mechanisms and procedures through which that support can be offered. Concrete examples highlight the key points. Section 5 indicates how the donor community can supplement the efforts of African businesses to strengthen public sector capacities. Section 6 has concluding comments.

BACKGROUND – Economic Growth across Africa

The oil and food shocks of the 1970s and the debt shocks of the 1980s were blows from which most African countries have not recovered. Despite literally hundreds of attempts to promote economic reform and billions of dollars of foreign assistance throughout the 1980s and 1990s, sustained economic growth has not been achieved. The most recent *World Development Indicators* from the World Bank show that average real income per capita of Sub-Saharan Africa declined over the period 1980 to 2001.[2] This performance is a weak foundation for future growth. It is precarious basis for counteracting the adverse effects of HIV/AIDS.

Recent trends suggest that African growth rates have risen. The International Monetary Fund (IMF) made special note of SSA's growth of 3 percent during 2001 and 2002 but warned that the situation remains fragile.[3] Three percent growth is better than the decline of recent decades but is inadequate given that population growth is expected to exceed 2 percent p.a. for the foreseeable future. More important, three percent will not convince private investors that Africa's growth prospects have improved markedly. Without that, the answers to the questions raised in the Introduction will not change. Many businesses will seek more profitable outlets abroad.[4] Among those that decide to stay, expansion plans will be muted.[5] The implication is that as investors continue to "vote with their feet," the present trend of low growth/low investment/low productivity will continue. This will undermine efforts by African governments and the donor community to jump-start economic growth.[6] It will also undercut efforts to generate the resources needed to move beyond the HIV/AIDS epidemic.

The challenge for African countries is to break out of this self-reinforcing cycle of low/no growth. That challenge was already formidable when African governments were struggling (mostly unsuccessfully) to promote economic reform. It has become even more daunting as HIV/AIDS has spread. HIV/AIDS undercuts investment and growth. It depletes the resources available for investment and erodes the incentives individuals and firms have for investing. Illness and death undermine productivity further postponing the prospect of achieving rapid economic growth.

This is unfortunate. Rapid economic growth has been central to the efforts of African governments and their international supporters to move Africa forward. Starting with the Organisation of African Unity's (OAU) Lagos Plan of Action[7] and the World Bank's action agenda to accelerate development[8] these efforts have been supported by many agencies, including the United Nations General Assembly.[9] Achieving rapid growth is a major objective of the New Partnership for African Development (NEPAD). NEPAD was launched in 2001 with strong endorsed form African governments and donors.[10] Stripped of its frills, NEPAD seeks to sharply accelerate growth across Africa. For the Partnership to meet its various goals for 2015 (halve the level of poverty, reduce the prevalence of HIV/AIDS, expand female education and so on), average annual growth has to be 7 percent.[11] To achieve this, the investment/GDP ratio is projected to rise from 0.2 in 2001 to 0.35. Productivity is expected to increase as well. The value of additional capital required to generate a unit of income (i.e., the incremental capital-output ratio) is projected to fall to 5.[12]

NEPAD scores high marks for boldness and optimism.[13] Nevertheless, under current conditions, Africa's growth rate is unlikely to rise in the short term and possibly not for the remainder of the decade. The main reason is that the SSA's largest economies, South Africa and Nigeria that account for 50 percent of the region's GDP,[14] are not growing rapidly. With their present policies and the deepening effects of HIV/AIDS, rapid growth is out of the question for the foreseeable future.[15]

Consider South Africa's performance. From 1980 to 1990, GDP growth was 1 percent per annum, and from 1990 to 2001, 2.1 percent per annum. Since population increased by 2.1 percent per annum, average real per capita incomes fell over the whole period.[16] A recent IMF report projected South Africa's growth will be 3 percent p.a. for the rest of the decade.[17] That projection was derived assuming an investment rate of 15 percent of GDP and an incremental capital-output ratio of 5.

There are several reasons for South Africa's low growth rate. The government has run a budget deficit every year since at least 1960, and perhaps even before that.[18] This contravenes a key principle of prudent fiscal management, namely, to balance the budget over the (business) cycle.[19] As a result of this fiscal excess, the money supply increased between 1960 and 2000 by a factor of 322.9, i.e., 32,290 percent. Over the same period, nominal GDP increased by a factor of 163.7, i.e., 16,370 percent and the consumer price index rose by a factor of 32, i.e., 3,200 percent. In an open economy, excess money creation and rising prices worsen the balance of payments (BoP) and add to foreign debt. For much of the four decades under review, South Africa "controlled" the BoP and prevented the build up of external debt using highly distortionary tariffs, quotas, and exchange controls. These enabled the government to keep the exchange rate of the Rand within a relatively narrow band, at least up until the mid 1990s. Even with major upheavals in world trade and exchange rate arrangements, the Rand fell from R.714 = US $1 in 1960 to R.775 = $1 in 1980. This represented a nominal depreciation of 8.5 percent and a real appreciation of 15.3 percent. By 1990, the Rand's nominal value had increased to 2.58 to the dollar. This represented a real depreciation of 28 percent relative to the 1980 exchange rate but only an 8 percent real depreciation relative to the 1960 exchange rate. These minimal movements were unfortunate because mining (South Africa's main export industry) experienced a sharp reduction in output and productivity. Mining output peaked in 1970, but had fallen 23 percent by 1980. The appropriate policy response would have been to devalue the currency so as to offset the economy's loss of international competitiveness. Restrictions on trade and the exchange rate prevented that.

The recent rapid spread of HIV/AIDS represents an equivalent shock to productivity. Again, the appropriate response would be to devalue. Over the last two years, however, the government and the Reserve Bank have been searching for ways to allow the Rand to strengthen.[20]

With a persistent budget deficit, high inflation, an overvalued real exchange rate, and the encroaching effects of HIV/AIDS, the economy adjusted in the only way that policy would permit: output stagnated. Measured in 2000 dollar values, South Africa's per capita income increased from $2525 in 1960 to $2880 in 2000, a total of 14 percent. (It should be noted that China's real dollar income per capita increased by more than this amount between 1997 and 1999.)[21]

There are several reasons for highlighting South Africa's economic performance. First, it is widely perceived to be among the better managed economies in Africa. Second, rapid growth across Africa will not occur unless South Africa's growth rate increases (to at least 5-6 percent p.a.). Third, President Mbeki has forcefully promoted the idea that Africa is undergoing a renaissance (reflected in NEPAD). Unless he leads by example, such a revival is impossible.[22] And fourth, the rapid spread of HIV/AIDS has compounded South Africa's problems by reducing savings, deferring investment, lowering productivity, and absorbing an increasing share of government resources.[23]

What needs to be done and by whom to accelerate growth across Africa? To answer this question we need to identify potential sources of increased investment and determine how conditions conducive to higher investment and improved productivity can be created.

Potential sources of increased investment are the public sector and its agencies, the international community (donors), the local private sector, and foreign private investors. The finances of most African governments and their agencies are grossly overextended. This is reflected in chronic budget deficits and the annual parade of ministers of finance and other officials to Paris, Brussels, and Washington seeking debt relief.

What about the donors? Development specialists used to believe that the lack of local investment in Africa could be offset by increased inflows of foreign assistance.[24] NEPAD has the same premise. During the 1990s, the average domestic savings rate in SSA was around 7 percent of GDP and the annual net flow of foreign aid was roughly 10-12 percent of GDP. This gave the average investment rate in SSA of around 20 percent of GDP.[25] Under NEPAD, donors are expected to increase the aid flow by a further 10 percent of GDP. Private investors (local and foreign) are expected to contribute an additional 3 to 5 percent of GDP p.a. These amounts roughly make up the 35 percent investment rate assumed by NEPAD.[26]

There are serious problems with this reasoning. Despite having endorsed NEPAD's goals, donors are unlikely to double their net assistance to Africa.[27] Moreover, it is doubtful whether African governments could use efficiently such an increase in foreign assistance. Extensive evidence shows that much of the aid to Africa has been ineffective.[28] That may be changing as donors focus increasingly on improved governance (see below). Nevertheless, the scale and scope of the aid industry and its ponderous procedures (for disbursement and monitoring), suggest that fundamental improvements will take many years.

If governments cannot provide additional resources and donors do not, will foreign private investors fill the gap? Under present circumstances, it is unrealistic to expect they will. Most investments attractive to foreigners – petroleum, minerals, and tourist facilities – are already being financed. Recent flows of foreign direct investment (FDI) to SSA of around 4 percent of GDP.[29] There is nothing on the horizon that would cause these flows to double or even treble (the amount needed under NEPAD). Significant increases in FDI will not occur until local private investors commit more of their own resources. That is not happening. Many locals – individuals and firms – continue to move their resources abroad or to wait.[30] For most foreign investors, it does not make to risk their resources while locals are holding back.[31]

The conclusions are clear: governments cannot mobilize additional resources. The donors are not providing them and, even if they were, there are serious doubts whether the resources would be invested efficiently. Finally, the few foreigners interested in investing in Africa have already made their commitments. If economic growth is to accelerate, the necessary resources will have to come from the local private sector.

For that to happen, the prospects for rapid, sustained growth need to improve dramatically. This will require African governments to modify what they do and how they do it. What is required? The last three decades have shown what initiatives do not work – massive donor support, donor-driven economic reform programs, donor/government games with conditionality, incremental debt relief, deficit finance, poverty reduction initiatives, scaled-up pilot programs, and many more. Though all of these activities were intended to boost economic growth, none of them did.[32] A basic reason was that their design and implementation was seriously flawed. With the notable exception of Mauritius, African governments were unwilling to engage the private sector in promoting and sustaining economic reform.[33]

Governments and donors alike assumed that the private sector would respond to the policy reforms that they had chosen. The reforms were rarely, if ever, viewed through a business lens, especially with respect to the incentives and expectations that were being created. Furthermore, governments and donors provided no convincing evidence that the reforms would be sustained. As experience showed, the reforms were regularly abandoned, deflected or modified. To insulate themselves, most African businesses hedged their bets by devoting their energies to lobbying for special incentives, favored access to markets or contracts, or cutting one-off deals with ministries and/or public agencies. Much effort and ingenuity was (and still is) devoted to determining how regulations or restrictions could be dodged, or ignored. In most African countries, this created a zero/negative sum game between the government/donors and the private sector. The outcome of the game has been evident in the dismal growth performance. In their determined, uncoordinated ways, the actions of government, donors, and businesses collectively undercut growth and destroyed value.[34] That will only change when governments, donors, and businesses change their behavior. A start has been made in this regard with the expansion of public/private partnerships to address HIV/AIDS. That cooperation needs to be further expanded to enable public sector capacity more generally to be improved.

BOOSTING PUBLIC SECTOR CAPACITIES

The list of factors that have contributed to Africa's economic demise is extensive.[35] Many, if not all, of them can be traced to the lack of state capacity and weak governance. These issues gained prominence following the publication of the World Bank's report *Sub-Saharan Africa: From Crisis to Sustainable Growth.*[36] A prominent theme was that improved governance and state capacity were essential for long-term sustainable growth.[37] Subsequent research has shown that ineffective, inefficient, and corrupt government, weak institutions, and dysfunctional organizations obstruct growth.[38]

In response, international agencies have promoted reforms designed to induce African governments to govern in open, prudent, transparent, accountable, and non-arbitrary ways. African governments have taken up this challenge. NEPAD, for example, includes an oversight mechanism designed to ensure that African governments abide by accepted principles of good governance.[39] Yet, these approaches remain lop-sided. They do not directly engage African businesses in helping their governments improve the way they govern.

In principle, this deficiency could be easily remedied.[40] Government actions influence businesses through many channels. Perhaps the most obvious is the "enabling environment." This environment, which all reforming governments insist they are creating, is determined by government policy. Among other things, it reflects the quality of macroeconomic management, the efficiency with which governments allocate their expenditure, the distortions that arise when taxes are collected (or remain uncollected); the incentives and disincentives associated with subsidies and transfers; the equity and welfare effects when market access is provided or denied; and the financial and organizational benefits and costs of complying with laws, regulations, restrictions, and prohibitions that accompany government operations.[41]

An important lesson of economic development – confirmed by the experience of rich and rapidly growing less-developed countries alike – is that the adverse effects of these activities and interventions can be overcome, but not simultaneously or immediately. Most African reform programs founder because governments tackle too much, too quickly.[42] They stretch their agendas well beyond their (financial, technical, administrative, and organizational) capacities. By doing so, they effectively pre-program their efforts to fail.

This is where African businesses can make a major contribution. They are the entities most directly affected by government operations. Barring gamesmanship, they are also the entities that can provide governments (and donors) with the most up-to-date assessment of the activities required to accelerate growth. More important, by raising and investing resources and improving productivity, they enable the government/donor-designed reforms to succeed.

With HIV/AIDS undercutting most dimensions of public sector capacity across Africa, what governments attempt needs to be sharply scaled back.[43] Because of their attention to profitability (and surplus generation), businesses readily understand the need to match their agenda to their available resources. The history of chronic deficit financing over the last several decades illustrates (all too boldly) that few African governments are bound by this principle. Thus, it will be a major contribution (and an appropriate place to start) if African businesses assist their respective governments to selectively and efficiently scale back their development agendas.

A further area that needs support is macroeconomic management. Most public sectors across Africa are funded in a manner that generates inflation and adds to debt. Moreover, the financial and monetary systems are manipulated in ways that discourage savings, reduce investment, and block enterprise. The overextended agendas prevent African governments balancing their budgets and keeping debt within manageable limits. As are result, chronic inflation, no/slow growth, debt that cannot be serviced without extraordinary support, and an overvalued exchange rate that undercuts international competitiveness have been the norm.

ENGAGING THE PUBLIC SECTOR?

The path ahead may appear to be well laid out. Nonetheless, it will be challenging for businesses to engage governments in ways that promote growth. There is limited (positive) experience in Africa with "revolving door" business/government personnel exchanges that are a regular feature in developed countries. Such exchanges smooth out government/business relations and foster common commitments to broad objectives such as rapid economic growth. With businesses only just beginning to determine how they can work with the public sector to mitigate the impact of HIV/AIDS,[44] many businesses will be reluctant to take on more responsibility.

A further problem is that African businesses have developed few mechanisms for cooperating. Businesses that have "done well" generally understand how to survive in a relatively hostile economic setting. Indeed, the activities (publicized and otherwise) of

Tiny Rowland, Andrew Sardanis, Nicholas Biwott, and Sheik Mohamed Hussein Al-Amoudi among others, illustrate that the skills needed for business survival in Africa are not those that promote growth and prosperity. It will take a major effort by African businessmen and women to break away from well-established patterns of behavior – backdoor meetings with selected (pliable) officials to cut a deal; special interest lobbying for tax abatements, subsidies, or regulatory indulgence; strategic meetings abroad (facilitated by side payments) with public sector managers to nail down contracts; favored treatment by companies of the relatives and other hangers-on of senior government official; and a host of other arrangements that contradict the principles of open, accountable, arms-length, governance.

There is unlikely to be much help from the general population. Despite being bone-weary of economic collapse, the majority of the African population is too busy coping to press their governments to pursue growth-oriented programs.[45] Representative government remains fragile limiting the channels through which such pressure can be exerted.

These problems are not insurmountable. They can be readily overcome if large numbers of businesses come to believe that engagement with the public sector promises to be mutually beneficial. This belief will be driven, in large part, by the idea that by engaging the public sector, the business community can create the conditions to sharply accelerate economic growth. This will raise the profitability of most (if not all) businesses and dramatically improve the climate for investment, enterprise, and entrepreneurship.

With a growing number of businesses beginning to engage with the public sector to help overcome the impact of HIV/AIDS a solid foundation for broader engagement is being established. That engagement will need to be on two levels – macro and sector. At the macro level, African businesses will need to work directly with their governments to scale-back the development agenda and ensure that macroeconomic policies are growth-oriented. At the sector level, the critical tasks are to overcome (or remove) regulations, restrictions, and organizational inefficiencies that raise transactions and operating costs, dampen enterprise and choke entrepreneurship.

Macro Level Engagement

Helping the government rationalize its development agenda and improve its macroeconomic policies will require high-level interaction with senior policy makers and selected assistance in policy analysis and formulation. Many different arrangements could work. For example, in Mauritius, the Chamber of Commerce and Industry meets regularly with senior government officials to discuss pressing national policy issues. These exchanges enable both government and business to deal with issues before they adversely affect growth.[46]

In countries where such contacts are not well established, a group of senior business leaders representing a broad spectrum of business interests could propose to the head of state and other government leaders the establishment of a public sector/business economic growth forum. (Initially, this group may consist of businesses that have supported HIV/AIDS programs.) The forum would sponsor a national conference on accelerating economic growth with the express purpose of soliciting the broadest range of views possible. The conference would produce a set of guidelines for government/business task forces to begin work rationalizing (i.e., cutting) the development agenda and improving macroeconomic policy.

There is experience promoting national debate on economic issues. In the mid-1980s, Nigeria faced the prospect of adopting an IMF program. The Babangida government sponsored a national debate to determine if that should be done and, if not, what should occur. The debate concluded that Nigeria should design and implement its own reform program. A program was developed and adopted. Although the program was abandoned when the Babangida government unraveled, the exercise was not in vain. It demonstrated that progress could be made on national policy issues if they were widely debated.

Others have adopted the model. For example, the IMF devised a broad-based consultative mechanism for countries seeking its assistance under the Poverty Reduction and Growth Facility. After a number of interim stages, the country develops a poverty reduction and growth strategy making it eligible, among other things, for support under the Highly Indebted Poor Country (HIPC) initiative.

To improve macroeconomic management, a business/government task force would be appointed to draft measures to cut government expenditure, rationalize revenue collection (including the introduction of new taxes if needed), normalize the stock of internal and external debt, and move to an exchange rate consistent with the economy's long term competitive advantage. For most African countries, this program will involve significant reductions in government expenditure starting with the overall wage bill, marked improvements in revenue collection through the suppression of fraud; the elimination of the deficit; strict control over the creation of contingent liabilities; and a substantial devaluation of the nominal exchange rate. The goals will be to eliminate the budget deficit and (hopefully) run a small surplus. This will contribute to national savings, reduce the stock of debt relative to GDP, lower inflation to a rate in line with international norms, and support an exchange rate that maintains approximate balance in the external accounts.

All of these measures are well worn. They have been common to the economic reform programs supported by the IMF, World Bank, and others donors since structural adjustment began in earnest in the late 1970s. The difference in the approach advocated here is that, from the start, African businesses have a stake in ensuring that the reforms succeed.

For them to succeed, however, the necessary data for monitoring progress and modifying the policies where needed need to be available. Since most data systems across Africa are weak at best and often in disarray, one of the first tasks for businesses will be to help governments establish and maintain a system that generates the data needed to monitor and manage the economy.[47] These data will need to be regularly and openly reported so that all participants (business, government, public agencies, the general population) can monitor the progress being made in raising the rate of growth.[48] This will prevent recidivism in key areas (such as the budget deficit) or the inappropriate re-expansion of the development agenda. It will also help monitor and evaluate the progress being made in public/private cooperation to mitigate the impact of HIV/AIDS.

Many governments may see these requirements as too demanding or intrusive and attempt to fudge them. This is where the business activism is crucial. Government officials (including the head of state) who are intent on backsliding need to be openly reminded that three decades of fudging produced stagnation and decline. More fudging is unacceptable.

Enhancing Sector Capacities

The work on rationalizing the development agenda and improving macroeconomic policies, will reveal technical, administrative, and organizational weakness that undermine productivity and the incentive to invest. These weaknesses can be identified and measures designed to address them. It is not intended that businesses deal with all these problems. Businesses should offer support only in the areas for which they have the relevant skills. Matching tasks and capabilities will take time. There will be no shortage of opportunities. Among many others tasks, government departments need help with personnel management, recruitment, inventory control, reorganization of work flows, upgrading computer skills, budgeting, auditing, and training.

There are few "cookie cutter" examples to illustrate the successes and pitfalls of such support. A number of examples provide the flavor of what is required. In the mid-1990s, Zambia used a business/government/public agency task force to successfully revise its mining sector legislation. The contribution of the private sector companies (among them the biggest mining houses in the world) was critical in assessing current trends in international taxation and the types of "better practices" that encouraged mining exploration and investment.[49] One could easily imagine similar task forces and working groups devoted to removing impediments to trade and exchange, normalizing labor relations and employment policies (including health and retirement benefits), and reducing inefficiency in government material use and tendering procedures.[50]

A mundane but critical area where most African governments need support is in the area of auditing. National audit offices are often several years in arrears reviewing the accounts of government department and public sector agencies. By the time fraud is uncovered, the trail has gone cold, the officials involved have been reassigned, and relevant files have often disappeared. Helping auditors get up to date would enable them to focus on current practices and procedures and provide the oversight for which they were established. Most audit offices lack well-trained staff. Private firms regularly poach competent auditors. African businesses can help by providing on-the-job and training for junior auditors through short courses.[51] To allow government auditors to catch up, a group of businesses might jointly share the cost of hiring experienced auditors from other developing countries if necessary.

Particular attention should be devoted to business/government cooperation designed to reduce transactions costs. This could be achieved by having African businesses work with sector ministries and relevant agencies (revenue department, transport authorities, immigration department) to identify and remove the impediments (fees, charges, restrictions, quotas, prohibitions) that needlessly raise costs, lower productivity, and obstruct enterprise. The exercise would not remove fees and charges and restrictions that have some productive social purpose. The object would be to remove the barriers, blockages, hurdles, and other constraints that undercut activities that contribute to growth. For the government, the goal of such an exercise would be to lighten the regulatory burden by imposing only those restrictions (e.g., the prohibition on the importation of fissile material or the sale of sub-standard drugs) that enhance public welfare. For the business community the goal would be to lower compliance costs and enhance competitiveness.[52]

Some success has been achieved in sector cooperation. The Cabinda Gulf Oil Company in Angola in 1992 began to work with the local government to screen blood collected at the blood transfusion center. The assistance involved the training of staff and provision of blood screening equipment. The outcome has been to minimize the risk (once exceedingly high) of passing on HIV, hepatitis B, and syphilis in transfusions.[53] A similar partnership between ChevronTexaco and the Cabinda authorities has been addressing the spread of TB through the staffing of DOTS clinics.[54] A further example is the extent to which the Kahama Mining Corporation in Tanzania has engaged the local government, NGOs, and community leaders to improve local infrastructure – housing, schools, health facilities, and water supply – as part of the mine development program. Started in 2000, this program is already seeing significant involvement across a broad range of the local population.[55]

Some businesses may accept that action is needed to boost public sector capacity but be unwilling or unable to participate directly with government.[56] There are other ways to support the effort. In Kenya, many businesses support sporting clubs. Sports training and competition are provided to children and youths. The activities offer an alternative for participants to hanging out and potentially running foul of the law. Many of these activities now include programs directed to improving personal health, preventing the spread of HIV, and fostering pride in the local community. Other businesses could cooperate in activities along the lines of the "adopt a highway" campaign in the United States. Businesses sponsor the cost of removing litter from designated stretches of major highways. Translated from highways to neighborhoods streets or buildings, for example, the program could be used to begin to help clean up rubbish, improve local sanitation, and raise the overall quality of life.

There are many other examples of activities that businesses could support. The declining quality of public education in many countries (noted earlier) offers many possibilities. A scholarship fund for girls has several advantages. It keeps girls in school for extra time helping improve the ability as parents. The payments directly boost the revenue of the schools allowing programs to be maintained and even expanded. Furthermore, keeping girls in school gives them an option of not going the 'sugar daddy' route, helping them to postpone and perhaps even avoid the type of risky behavior that spreads HIV.[57] Many schools lack basic texts, colleges and universities lack up to date journals and reference books, and many cannot afford the temporary teachers to provide program continuity in the face of losses to AIDS. Additional funds provided by local businesses for these purposes would have significant effects on the quality of education.[58] Some businesses will perceive no benefit from any of these activities. Others, such as booksellers, the providers of internet services, and suppliers of educational material will. The basic point during the initial stages is not necessarily the scale of the involvement. The principal challenge initially will be to make the case to businesses that economic growth is in their interest (an easy sell) and that they can contribute to the process if they become engaged (a much tougher sell).

If businesses cannot provide financial or material support, they could become advocates for economic growth or HIV/AIDS mitigation. Advocacy is an important dimension of governance adding to the transparency and accountability that are essential to move economies forward. Advocates can be especially useful in mobilizing public support for actions needed to support economic growth.[59] As some United States Senators discovered recently in South Africa, there may even need to be an expanded debate on the effects of HIV/AIDS on the economy.[60]

Some businesses will object to providing this type of support because they have already paid taxes and these areas are supposed to be part of the government's responsibilities. This is true. The reality is that without business engagement of the nature outlined here, sustained economic growth will not materialize. Though it stretches accepted boundaries of the private/public division of responsibilities, business engagement with government is an investment in moving the country forward.

WHAT ROLE FOR DONORS?

The international donor community has a broad footprint in SSA. The details of most economic programs adopted by African governments are often determined in Brussels, Paris, London, and Washington. Even as they implement the programs, most African governments find their activities overseen, influenced, and regularly modified by a roving troop of international civil servants. None of this has been conducive for sustained economic growth. Change in this area is overdue.

One element that would foster change is local ownership. Long discussed and advocated by governments and donors alike, local ownership was a feature of 2002 Monterrey conference on financing development. It is fully consistent with the public/private cooperation suggested here.[61] Accordingly, donors should fully support any initiative African businesses take to induce their respective governments to accelerate growth.

Donors have many opportunities to reinforce the process. First, they could re-examine their procedures to ensure they minimize the demands being made on the limited capacities of African governments. The 2400 (some mention 2800) reports that the government of Tanzania produces each month for donors has now come to symbolize the over-reach created by too many uncoordinated, and largely unsuccessful, donor initiatives.[62] Second, donor agencies could narrow their scatter-shot approach to African development by more forcefully emphasizing economic growth.[63] Poverty reduction initiatives work if a country grows, but too much emphasis on poverty reduction undercuts growth.[64] Again, history is a useful guide. None of the currently rich countries had major poverty reduction initiatives when they were at levels of income common to today's poor countries. Third, donors should cooperate more extensively to rationalize their support. In this regard, donors could usefully heed the conclusion of the 1997 World Development Report noted earlier that capable states cut their agendas to match their capacities. Capable donors do the same. With HIV/AIDS so widespread in some African countries the need for additional cuts in the agenda is critical.

Fourth, donor agencies could actively support the efforts by governments and businesses to strengthen public sector capacity. They could sponsor working groups, provide funds for short-term training, redirect their own (often extensive) training programs in ways that support the public/private efforts, and provide information from their own countries of examples of constructive public/private activities. Fifth, during the initial stages, donor support could be critical to establishing the trust needed for expanded public/private cooperation. As already noted, years of disengagement (or limited engagement) and mutual distrust may not be easy to overcome. Selective donor support (convening meetings, acting as honest brokers) could encourage those involved to overcome collective action problems, provide useful international contacts (if needed), and make available the results of international experience. Sixth, donors could rationalize their conditionality thereby reducing compliance costs and minimizing the deadweight loss of these conditions. The trend towards having donor consultative meetings in the relevant country rather than in Paris or Washington saves travel costs, per diems, and official work time.

Seventh, the donor community could collectively work out mechanisms that reduce the administrative burdens on African governments. Just as the banking industry uses specialist organizations (such as State Street Corporation) to handle their accounting and the U.S. medical profession has its back-office work done in Bangalore (India), the donors could establish a development performance clearing house. This would regularly report on each country's progress or regress in a standard format, sparing its officials the need to prepare multitudes of monthly reports. Finally, the donor agencies could begin to integrate the concerns of the business community into their actions and activities. Most donor agencies would argue that the private sector perspective is central to their programs. The reality is that business concerns are too often mediated through quasi-private NGOs, consulting firms, academic organizations, and others. The hard-core business viewpoint wedded to the bottom line rarely makes it on the agenda.[65]

Obviously, much more could be done but since capacity is constrained, selectivity is required.[66] The record clearly supports the need for changes that make aid effective and efficient. If the business community is to be engaged in promoting growth across Africa, more of the same – overloaded agendas, ineffective conditions, gamesmanship – cannot be an option.

CONCLUDING COMMENTS

After so many years of being progressively marginalized in world trade and exchange, African countries need to focus on policies that will promote and sustain rapid economic growth. But rapid growth will only materialize if investment rises sharply and productivity improves. These would be major challenges under normal circumstances. The spread of HIV/AIDS, especially in Eastern and Southern Africa, compounds the difficulties.

The private sector is the only significant source of additional investment and the only sector capable of achieving rapid improvements in productivity. Yet, there are few reasons for private businesses in Africa to make the necessary investments. Present projections of future growth suggest that the slow (and often no) growth of the last three decades will continue.

Yet, the cycle of low investment/low productivity/low growth can be broken. It will require active measures by African businesses to help their governments improve the way they govern.[67] In addition to the activities they have underway to mitigate the impact of HIV/AIDS, African businesses need to engage their governments – at the macro and sector levels – to promote and sustain rapid rates of growth. Businesses and governments will need to cooperate to scale back the country's development agenda (to match the government's capacities) and to improve macroeconomic management. At the sector level, African businesses will need to work with governments to remove or minimize the distortions created by regulations, taxes, and fees; improve organizational and operational procedures so as to reduce transactions costs; and remove/modify barriers that impede enterprise and stifle entrepreneurship. These changes will help revive growth thereby increasing the resources that African countries have to address their pressing development problems including the effects of the HIV/AIDS epidemic.

Effectively breaking this cycle will require major improvements in public/private cooperation. Apart from Mauritius, there is little experience in Africa as a guide or the experience that exists (as in Cabinda or Kahama District) is location specific. Is this approach feasible? Or, am I just another wooly-headed economist blowing smoke? The whole program hinges on the expectation that African businesses in their collective interest will engage their respective governments to develop the programs and policies needed to accelerate economic growth. There are many reasons why that may not happen. The most compelling is that, despite three decades of economic decline, it has not happened. Having sat (or been kept) on the sidelines for this long, what inducements do businesses have for now being activists for growth? African businesses and governments have good reasons for not cooperating. There are many risks. Businesses and governments do not trust each other. Such cooperation would be an open admission by governments that their programs cannot revive economic growth. Opposition politicians would have a field day criticizing the government. Special interests could highjack the effort for their partisan purposes. A lot of oxen will be gored when the development agenda is cut and macroeconomic management is improved. African governments, so far, have maintained themselves through combinations of paternalism, nepotism, clientelism, graft, influence peddling, vote-rigging, and pork barrel politics.[68] Breaking out of this pattern will take extraordinary acts of courage and conviction by everyone involved.[69]

Nonetheless, for African economies to progress so they can move beyond HIV/AIDS to an expansive future, these patterns have to be broken. The initial steps to build trust have to be taken. The general view that business/government cooperation to promote economic growth is mutually beneficial has to take hold. In effect, government and business behavior has to shift from subtracting value (or sharing a fixed pie) to adding value. The point of this paper is that without public-private cooperation of the sort sketched here, African economies cannot grow. Without growth, NEPAD's goals and those set at the Millenium Summit will not be achieved and African countries will not have the capacities necessary to deal with HIV/AIDS.

As a final point, the approach suggested in this paper cannot be seen as one-off. The need for broad-based public-private cooperation to promote growth will not disappear once Africa's immediate difficulties begin to wane. The challenge of sustaining high rates of economic growth will be just as compelling for subsequent generations, even when African countries have moved beyond the HIV/AIDS epidemic. Some public sector capacities will always need enhancing and some private sector engagement will always prove useful. Over time, the need for direct business engagement on the scale presently envisaged will decline as African governments develop the skills needed to manage more effectively their economies. For most African countries, that situation lies well into the future. In the meantime, it is imperative that African businesses actively help boost public sector capacities. Continuing to stand aside is not a viable option. Every one loses.

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Endnotes

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[1] Scholars now broadly agree that African countries have been marginalized in world trade and exchange because they have failed to grow rather than failed to trade (Collier 1995; World Bank 1995; Yeats *et al.* 1997; Rodrik 1998; McPherson and Rakovski 2000; *Economist* 2001, September 29). Africa's marginalization has been apparent for the last three decades. It was especially noticeable during the 1990s. In 1990, Sub Saharan Africa's GDP was $297 billion. World GDP was $21.8 trillion. Corresponding data for 2001 were $316 billion and $31.1 trillion. That is, SSA GDP increased a total of 4.7 percent over the 11 years; by contrast, world GDP grew by 47 percent (*World Development Indicators 2003*, Table 4.2).
[2] From 1980 to 1990, real output across SSA increased by 1.6 percent per annum; from 1990 to 2001, it was 2.6 percent. Between 1980 and 2001, population grew by an average of 2.7 percent p.a. implying that average real per capita income fell (*WDI* 2003, Tables 4.1, 2.1).
[3] IMF 2003, July, pp.1-2
[4] One dimension of capital flight used to regularly reported by the IMF when it published the value of bank accounts held abroad by Africans. These data were discontinued several years ago. The pressure of continued transfers has added to the chronic current account balance of payments deficits most countries have experienced. Those deficits are sustained only by extraordinary flows of official finance (aid and borrowing). Tanzania's performance illustrates the point. The IMF (2003a) reported that for the period 2000-2004, Tanzania's real GDP is expected to grow by 5.7 percent p.a. and its BoP current account deficit is estimated to be $0.9 billion. This exceeds 10 percent of GDP and can only be sustained because of foreign aid.
[5] This is clear from the low rates of private investment in most Africa countries. Special factors aside (as in Equatorial Guinea) the bulk of investment across Africa over recent decades has been due to government capital formation and foreign aid. In 1990, net foreign aid to SSA was $17.2 billions while FDI was $1 billion. Corresponding data for 2001 were $13.9 and $12.8 billions (*African Development* Indicators 2002, Table 12.1; *WDI* 2003, Tables 6.7, 6.10). 2001 was an outlier. Over the period 1995 to 2003, FDI averaged $7.4 billion p.a. (Harsch 2003, pp.12-13).
[6] International agencies have made extraordinary attempts to move African economies to higher growth paths through a variety of adjustment programs and financing mechanisms – standbys, SAPs, ESAFs, CFFs, PRSPs, and HIPC arrangements. With the exception of Mauritius, no African country has promoted and sustained economic reform during the last three decades. All other countries have either abandoned or deflected or slipped in their implementation. The few that have grown over recent years (Mozambique, Uganda, Tanzania) have yet to show that they can sustain growth without large annual inflows of foreign aid.
[7] OAU 1980
[8] World Bank 1981 (the Berg Report)
[9] World Bank 1984, 1986, 1989, 1990, 1994, 2000; OAU 1989; United Nations 1986.
[10] NEPAD 2001
[11] UNECA 2001
[12] If 5 additional units of capital produce a unit of income, a growth rate of 7 percent per annum requires a rate of investment of 35 percent of GDP.
[13] Harsch 2002; Hope 2002
[14] In 2001, South Africa's GDP was 36 percent of the SSA total; Nigeria's was 13.1 percent (*WDI* 2003, Table 4.2).
[15] There is a large literature on the economic impacts of HIV/AIDS on South Africa. McPherson (2002b, 2003) provides a review. Nigeria is considered to be a "next wave" country where HIV prevalence could accelerate sharply (CSIS 2002; NIC 2002).
[16] The situation in Nigeria was worse. The *WDI* 2003, Tables 4.1 and 2.1 reports that Nigeria's income grew from 1980 to 1990 at 1.6 percent p.a. and from 1990 to 2001 at 2.5 percent p.a. Over the whole period, population grew by 2.9 percent. Therefore, real income per capita fell more sharply in Nigeria than in South Africa. Additional comparisons may be found in *International Financial Statistics Yearbook 2002*, pp.794-795 (Nigeria); 930-931 (South Africa).
[17] IMF 2002, Appendix IV, p.48
[18] The data come from *IFS Yearbook* 1990, pp.646-649 and 2001, pp.916-921.

[19] Reisen 1989; Anand and van Wijnbergen 1989; Premchand 1993; Lewis and McPherson 1994; Schmidt-Hebbel 1996

[20] The Rand ended 2001 at 12.2 to the dollar; ended 2002 at 9 to the dollar; while in mid-July it was 7.6 to the dollar (data from different issues of *The Economist*).

[21] *IFS Yearbook* 2001, pp.355-357

[22] South Africa's anemic growth is projected to continue. Over the period 1998-2002, the budget deficit averaged 1.6 percent of GDP (IMF 2003, Table 4). It is programmed to persist for the rest of the decade (*ibid.*, Appendix IV). Trevor Manuel, currently minister of finance of South Africa, would not agree with this assessment. Writing in the recent *Finance & Development*, Manuel presents an upbeat assessment of Africa's growth prospects (Manuel 2003). He comes down on both sides of the issue, however, by arguing that aid to Africa has not been effective but more aid is needed to raise the rate of growth. He does note that more private capital is needed to underpin growth, the basic point of this paper.

[23] Recall that adult HIV prevalence in South Africa in 1990 was less than 1 percent.

[24] This view was derived from the standard two (and three) gap models. An imbalance in savings and investment can in principle be offset by capital inflow in the form of foreign aid. The originators of these models assumed that governments would be well administered and the aid would be used efficiently (Chenery 1958, 1963; Chenery and Strout 1966).

[25] The *WDI* 2003, Table 4.9 reported that in 1990 gross domestic investment for SSA was 15 percent of GDP; for 2001, it was 18 percent.

[26] UNECA 2001

[27] President Bush's announcement at the Monterrey Conference on Financing for Development (March 2002) that aid from the US would increase in phases by $5 billion p.a., is only a small part of the mega billions ($64 billion to finance NEPAD) that proponents of NEPAD and the MDGs argue is needed (Devarajan, Millar, and Swanson 2001; Harsch 2002; WDI 2003, p.309). Powell (2003) suggests that the US contribution will leverage other resources including those of the private sector.

[28] Whether aid to Africa has been "money down a rathole" as Senator Jesse Helms put it (Economist 1994, November 1994, p.28) depends on the point of view taken. What has been clear, however, is that much of the aid provided to support Cold War politics was wasted. Over recent years, the mainstream aid community (particularly the World Bank) has returned to a lesson from the Marshall Plan era that was subsequently forgotten or ignored – aid is not effective unless it is used within a conducive setting (Orme 1995; Burnside and Dollar 1997; World Bank 1998; Lancaster 1999; McPherson and Gray 2000; Devarajan, Dollar and Holmgren 2001).

[29] In 2001, FDI to Africa was $12.8 billion, of which $7.1 billion was to South Africa, $1.1 billion to Nigeria, $1.1 billion to Angola, and $0.5 billion to Mozambique (*WDI* 2003, Table 6.7). It is unclear whether high HIV prevalence deters FDI (McPherson, Hoover and Snodgrass 2000). For most investors (local and foreign) HIV/AIDS is one of several risk factors. If locals do not invest, foreigners are unlikely to (see note 31 below).

[30] Since all investment involves some irreversible commitment of resources, there is value in holding back (the option of waiting) when conditions are too uncertain (Pindyck 1991; Hubbard 1994). This option makes sense for individual investors; it is disastrous for countries trying to promote growth and development.

[31] This paraphrases a comment by the former head of Citibank, Walter Wriston, regarding investment in Latin America during the 1980s.

[32] The growth performance of Uganda, Mozambique, and currently Angola, do not contradict this statement. These countries have been growing rapidly as a result of reconstruction. What has not occurred in Africa is for reforms to produce rapid growth in countries like Kenya, Senegal, Zambia, Côte d'Ivoire, Malawi, Gabon, Cameroon, among others, whose collapse has been policy-driven rather than from civil disruption.

[33] With few exceptions, African governments have been reluctant to reform and deflect or abandon the effort readily (Ravenhill 1990; Krueger 1993; van de Walle 1994; OXFAM 1995; Sahn 1996; Collier and Gunning 1999; McPherson 2002, 2002a). This pattern quickly became evident to private sector operators, many of whom were burned when they initially believed that reforms could work. Much has been written about the difficulties of reform and the costs of adjustment and the potential winners and losers (Brautigam 1997; Hill and McPherson 2003, Chs. 1, 10, 17). Evidence from outside Africa shows that, without reform, growth collapses. Sweden underwent draconian adjustment after its budget deficit ballooned to 16 percent

of GDP in 1993. Within five years, the budget was in surplus. South Korea has faced two major crises – one in the early 1980s and another in the 1998. On both occasions, the government (the first run by a dictator, the second by a democratically elected president) took drastic steps to bring the economy back on track. Growth quickly resumed both times.

[34] Worse, they have reinforced Africa's regression making it much harder for economies to recover. There are several factors involves. One is the loss of learning through the per capita decline in output. There is loss of learning-by-doing (which is linked to the growth of output) and the loss of learning-by-trading (linked, obviously, to the sluggish growth of trade). There are also losses of learning opportunities by not reforming. A second element is the failure to generate the conditions needed to spur productivity (Hall and Jones 1996; Barro 1999; Easterly and Levine 2000; Salinger 2000; Ruttan 2001; Acemoglu and Zibilotti 2001). A third element is the loss of agglomeration effects that have been increasingly shown to drive the expansion of connections and associations that stimulate the generation of information and new knowledge (Kremer 1993; Acemoglu 1996; Arrow 2000; Johnson 2000; Fulmer 2000).

[35] Surveys can be found in McPherson (2002, 2002a). Easterly and Levine (1995) studied the roots of o Africa's "growth tragedy", Sachs and Warner (1997) examined sources of "stagnation in Africa". More recently, Artadi and Sala-i-Martin (2003) identified the lack of growth in Africa as the economic tragedy of the 20th Century.

[36] World Bank 1989, Ch.2.

[37] The terms 'governance' and 'state capacity' have been made to carry a lot of water (Williamson 1996; Grindle 1997). In the World Bank's 1989 report governance meant "...the exercise of political power to manage a nation's affairs" (World Bank 1989, p.60). Over time, its meaning has been expanded (Obosanjo 1987; Landell-Mills and Serageldin 1991; Brautigam 1996, 1999; de Waal 2003). Recent studies define "good governance" to include rule of law, citizen participation, advocacy, transparency, accountability, and freedom of information (Pact AIDS Corp 2001, p.9; Tandon and Naidoo 1999). State capacity is "...the ability to undertake and promote collective actions efficiently..." (World Bank 1997, p.3). This report concluded that the hallmark of a "capable state" is one that cuts its agenda to match its resources (*ibid.*,p.3 and Part 2).

[38] This point can be substantiated in a number of ways. For example, Collier (1991) and Collier and Patillo (2000) focused on how growth was undermined when "agencies of restraint" broke down. Many scholars have built on the emphasis given by North (1990, 1992, 1997) to institutions to highlight the growth detracting effects of institutional dysfunction (Bardhan 2000; Williamson 2000; Rodrik and Subramanian 2003). Sachs and Warner (1997) and Radelet, Sachs and Lee (1998) showed that countries with distorted policy settings and high trade barriers did not grow. This point was confirmed by Pissarides (1997) and the OECD (1998) study. They argued that failing to trade undermined learning, knowledge transfer, and the ability to innovate and adapt. In addition to the voluminous literature on conflict, refugees, and failed states, many studies point to the growth-inhibiting effects of corruption (Klitgaard 1988, 1990; Frimpong-Ansah 1991; McPherson and Zinnes 1992; Harsch 1993; IRIS 1996; Ayittey 1998; Reinikka and Collier 2001); AIDS (Thea *et al.* 1999; World Bank 1999, 2000; Brown 2000; Piot 2002; McPherson 2002b; FAO 2002, 2003; Barnett and Whiteside 2002, Ch.11); poor leadership (McPherson and Goldsmith 1998; Gray and McPherson 1999; *Economist* 2001, June 30; Lessing 2003); agricultural decline (Eicher and Baker 1992; Binswanger and Townsend 2000; McPherson 2002c); food insecurity (Eicher 1982; von Braun 1991; Bush 1996; Winfield 2002; Piot and Pinstrup-Andersen 2002; Somerville 2002; de Waal and Whiteside 2003); aid dependence (Bauer 1993; van de Walle 1996; Berg 1996; HIID 1997; McPherson 1999; Lancaster 1999); poor quality education (Kelley 1991; Saint 1992; World Bank 1995a; Atteh 1996; UNAIDS/IATT 2002); bureaucratic dysfunction (Abernathy 1989; Moors 1984; Brautigam 1996; Husain and Badcock-Walters 2002); mismanagement (Hyden 1983; Leonard 1993), and the cumulative effects of loss of human capital and institutional decline (Hoover and McPherson 2000; McPherson 2003).

[39] "African 'peer review' is taking shape" *Africa Recovery* vol.16, no.4, February, 2003, pp.10-11

[40] All intended improvements could be wrecked by gamesmanship – by governments (or factions within them), the donors, or by business. The problems are well understood, even if the solutions are difficult (Sandbrook 1986, 1987, 1993; Lal 1987; Ravenhill 1990; Ayittey 1992; Brautigam 1997).

[41] Although not commonly cited as a critical to good governance, the quality of macroeconomic management should be added to the list (McPherson 2000). No country in any region, over any period in modern history has sustained high rates of economic growth by running persistent budget deficits and failing to keep public debt within prudent bounds. The emphasis on bringing deficits under control is not

something that can be postponed. With the notable exception of Botswana, public sector deficits have been exceedingly high for many years (*African Development Indicators* 2002, Table 7.1).

[42] The most compelling evidence is the history of the currently rich countries. None of them took on what most African governments have attempted (e.g., broad-based poverty relief or universal primary education) until they were relatively rich. For those who reject comparisons between Africa and the developed countries, the experience of the newly industrialized countries in Asia (including China) is instructive. My Harvard colleague Professor Dwight Perkins has argued that an important reason why Asian countries have grown rapidly is that their governments did not try to do everything at once. They usually moved in a limited number of directions – appropriate macroeconomic policies, removal of some trade restrictions, and promotion of limited domestic competition – made some gains, and built from there (Perkins 1992, 1994).

[43] McPherson, Hoover and Snodgrass 2000; McPherson 2001, 2002c

[44] These efforts are summarized in UNAIDS (2001), GBC (2002) and IFC (2002). Simon *et al.* (2000) and Rosen *et al.* (2003) provide a rationale for business engagement in dealing with HIV/AIDS.

[45] There are two threads here. When large segments of the population are forced to cope their survival strategies are so heavily geared to avoiding downside risk that they will rarely force political change. As Galbraith (1979) argued, the very poor "accommodate" to their (often terrible) conditions and avoid struggling against what they see as insurmountable obstacles. A more practical issue was captured by the artist Willem de Koonig who lamented "the worst thing about poverty is that it takes all your time."

[46] Details can be found on the Chamber's website www.mcci.org. Under the "functions" of the Chamber are nine points, the first three of which relate to representing members views to the government, maintaining dialogue with the authorities, and participating in the elaboration of strategies and policies to enhance growth and development. The annual speech of the Chamber's president (reported on the website) pulls no punches in offering advice to the government.

[47] Experience in The Gambia illustrates that this task can be performed relatively rapidly and effectively (McPherson and Radelet 1995, Chs. 2, 5). Zambia in the early 1990s provides another example (Hill and McPherson 2003, Chs. 3, 9). Many of the data needed for management purposes are already being collected. They are often not available in a timely manner or in a form that can be readily evaluated.

[48] When Bolivia adopted a cash budget in the mid-1980s to deal with hyperinflation, the government's accounts (revenues and expenditures) were published daily in the local press. This information flow enabled the public to better understand and monitor the government's activities.

[49] Hill and McPherson (2003, Ch.5). Further examples of successful private/public cooperation was the maize marketing committee (*ibid.*, ch.10) and the debt-buyback task force (*ibid.*ch.9).

[50] Methods to improve security on government stores would be a major contribution. In The Gambia, the World Bank-funded Agricultural Development Project experienced losses of stores (petrol, spare parts), fertilizer, and construction material and equipment. Project vehicles were regularly misused (many becoming local taxis), and the payroll was padded with ghost workers. A World Bank review of its activities in Zambia revealed similar waste and inefficiency (World Bank 1996).

[51] In Zambia, the Swedish/Dutch/German/Norwegian-funded Macroeconomic Technical Assistance Project supported curriculum development at the Zambia Institute for Accountancy Studies and paid for regular short-term training for government audit staff. (There were no qualified auditors in the government at the time.) To further boost the capacity of the Auditor General's staff, the project paid for the longer-term training of auditors so they could achieve the relevant ACCA standards (Hoover and McPherson 1999; Hill and McPherson 2003, Ch.10).

[52] Many departments and agencies established by governments (often with donor support) have proven to be less useful than anticipated and frequently subtract rather than add value. The list includes trade promotion boards, investment centers, revenue authorities, and development banks. Rationalizing these (including shutting a lot of them down) would be a major contribution.

[53] See Cabinda Gulf Oil Company Limited case study (access August 25, 2003) at www.ipieca.org/downloads/health/hiv/ChevronTexaco_Cabinda_CaseStudy.pdf

[54] GHI 2002

[55] R. Sullivan and M. Warner "Case Study 8: Development in Kahama District, Tanzania" Business Partners for Development, London, 2002.

[56] For example, due to conflict of interest, established audit firms (KPMW, Coopers etc.) could not directly work with the public audit office. They could, however, provide staff time to train auditors at a local college or training center, support the training of auditors through scholarships, or work with government

departments to improve management and information systems. For reasons of policy or principle, other firms may not even be able to work with public agencies. They could provide funding for training, make their facilities available for training, support community projects (such as removing trash and improving drainage and sanitation), and so on.

57 These choices are often stark – sex and an education or no education (Lacey 2003).

58 Malaney (2000) has shown that the provision of additional textbooks helps maintain and even boost the quality of education, even when teachers are absent. Bangladesh undertook a large scale program to keep girls in school as a means of helping them avoid early marriage, prepare for careers other than housework, and to raise the quality of education of their children when they eventually married and had children. This program has been a major success drawing widespread donor support. The budgets of many higher education facilities have become so overburdened with salaries that there are few resources for purchasing research materials (books, internet access, research papers) have been difficult to obtain. The major medical journals are now available on-line at no charge to selected African institutions (Brown 2001). Local businesses could set up a fund to provide material in their area of specialization that could be provided to colleges and universities.

59 A predominant perception in Africa is that, despite three decades of decline, the costs of adjustment are too high. An important contribution to the debate could be made by business leaders engaging national leaders in debate about the costs of not adjustment, the principal one of which is economic collapse. The issue is discussed at length in McPherson (2002, Ch.3).

60 For example, it was reported in the Pioneer Press (www.twincities.com/mld/pioneerpress) that a delegation of U.S. Senator visiting South Africa had been informed by Alex Irwin, the minister of trade, that "...AIDS was not hurting the country's economy or lowering life expectancy...". Given the data produced in Barnett and Whiteside (2002) and a host of other studies, the minister and his advisors needed to be brought up to date (Frommer 2003).

61 For those interested in history, the idea of local ownership (at the time called "self-help") was a core principle of the Marshall Plan (Orme 1995). It used to be fundamental to all U.S. development assistance. An unambiguous statement of what is involved can be found in President Kennedy's message to Congress that accompanied the 1961 Foreign Assistance Act (Gardner 1962; Goldwin 1963, p.7). Ownership and self-help were jettisoned as competition among donors increased and development agendas degenerated into over-extended wish lists.

62 This datum is now quoted widely. One source is Easterly (2002).

63 Just to illustrate the point, the IMF's poverty reduction and growth facility has it backwards. Growth has to be the focus if poverty is to decline.

64 Gallup, Radelet and Warner (1999); Dollar and Kraay (2000). Cuba and Sri Lanka used to be cited as examples where the problems of poverty, inequality, and growth had been reconciled. But, history has been unkind. Unable to grow, neither country has been able to fully address its poverty problem. The recent study by Artadi and Sala-i-Martin (2003) demonstrates that the lack of growth reinforces both poverty and inequality.

65 For a start, businesses do not plan and implement in the 3 or 5-year cycles common to donor agencies. Moreover, businesses, unlike donors, are ready to cut their losses if they have to. Donor agencies regularly rationalize their losses by designing and funding follow-on programs.

66 In this respect it is useful to contrast the approach taken by Stern (2002) currently vice president of the World Bank and Summers (2003), a former VP of the Bank. Stern argued that the challenge posed by Monterrey was to scale up the development effort. Summers argued that the challenge posed by current circumstances (Monterrey commitments, HIV/AIDS, and so on) is to be highly selective in what is attempted and be hard-nosed about achieving results. Stern does not answer the question of how the development effort can be scaled up while HIV/AIDS is undermined the capacity needed to scale up.

67 During the election campaign in Zambia in 1991, the opposition used the slogan: "the government has no business in business." For our purposes, an appropriate slogan would be: "getting good government is the business of business". A recent *Challenge* interview with Lynne Sharp Paine (2003) explored the issue of whether "ethics is good business". The parallel message of this paper is that engaging governments to promote economic growth is good business as well.

68 If the process is effective, it will end special favors and the crony capitalism that well-placed public officials and selected businessmen and women have negotiated. It will also cut into many prerogatives that government and business leaders take for granted – inflated numbers of Cabinet positions and overseas

legations providing jobs for supporters and loyalists; regular and lavish travel abroad; calculated opaqueness in the security budget designed to disguise smuggling, gun- and drug-running, poaching, money laundering and similar activities; sinecures on the boards of public agencies (that pay extravagant perks and "sitting allowances"); tax-free privileges for politicians and other prominent officials; lack of accountability in the use of public property (houses, vehicles, scholarship support); and numerous other activities that drain the public coffers for private gain.

[69] Where and whether there is a tipping point (Gladwell 2000) is difficult to predict. The basic argument in this paper is that more of the same is not a viable strategy for progress. The performance of the last three decades shows that countries have already tipped in the direction of regress. The challenge is to reverse those processes. As McPherson (2003) shows, the longer that challenge remains unmet the harder (in terms of finance, effort, skills, and time) the task becomes to restore growth and development.