AFRICA: NEW OPPORTUNITIES, OLD IMPEDIMENTS

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Introduction

Africa's potential is at last being taken seriously by international investors. This is primarily due to solid improvements in Africa, though it is being reinforced by the alarming deterioration in most other regions. The thrust of this lecture will be to discuss some remaining impediments to African development, and suggest ways in which they could be overcome. But it is important to set these negatives in the context of what has been achieved.

In respect of economic performance, the past decade has been Africa's best ever. On the West Coast, Nigeria has emerged as a substantial, fast-growing economy with a sound banking sector: a recent McKinsey Report details its progress. On the East Coast, the reduction of internal trade barriers by the East African Community has created an equivalently sized integrated market, also growing rapidly and diversifying. Most remarkably, in Africa's landlocked core the rapid and broad-based growth of Ethiopia and Rwanda has put to rest fears that geographic disadvantage would doom much of the region to continued poverty. Although the trigger for the region's growth was the commodity price 'super-cycle' which has now ended, there are good reasons to expect growth to continue. Even in respect of commodities, the price boom generated investment in prospecting. Most countries have newly discovered resource endowments which will come on stream during the coming decade. Further, improvements in economic policy, though not dramatic, have cumulated to enable other sectors to develop. All this contrasts to the deteriorating outlook elsewhere, which Madame Lagarde has aptly described as 'the new mediocre'.

In respect of politics, the past decade has seen the maturing of several democracies. A conventional indicator is whether a society has experienced a peaceful change of regime as a result of an election: Ghana, Senegal, Kenya and Zambia all meet this criterion. As contested elections have taken root, military coups have receded. When Egypt had the coup that dared not speak its name, the African Union acted decisively and declared the military regime ineligible. Again, the contrast with other regions is striking. That with the Middle East needs no elaboration: nowhere in sub-Saharan Africa faces its existential threats. But I am also reminded that three years ago I described Russia to an investor audience as 'Africa plus risk'. My remarks were met with a degree of consternation, but they have been richly vindicated. Russian business leaders have recently been described by a former presidential advisor as 'Putin's serfs': the equivalent remark would be tenable in no significant African polity.

A measure of Africa's progress over the past decade is to recall that in 2004 Tony Blair felt it appropriate to announce a 'Commission for Africa'. Today, no matter how advantageous it would be to distract an electorate from problems facing the government, no Western leader would think of doing such a thing. Africa is no longer synonymous with 'international problem'.

Why Africa needs states that are more effective

But all is not well: the typical African state remains ineffective. This has become more important because economic growth is increasing the need for actions that only the state can perform. I will group these new needs into two roles: managing the future, and delivering services.

Africa's biggest economic opportunity remains the exploitation of its natural resources. Indeed, as I noted above, the new discoveries make this a far bigger opportunity than it has ever been. Yet, harnessing resource exploitation for future economic development requires a more active role for government than other development paths such as industrialization or the commercialization of agriculture. The reason is straightforward: natural resources are special both because they generate economic rents and because they are depleting. As to rents, it costs around $10 to cover all the costs of getting a barrel of oil out of the ground, at which point it is currently worth around $90. The surplus $80 is the rent: this belongs to the country, but is initially under the control of the company that extracts it. Usually, the transfer from company to country is achieved through taxation, as in Norway. A few resource-rich OECD countries, notably the USA and Australia, have largely left the rents with companies, but there is key difference that makes this strategy inappropriate for Africa. In the USA and Australia the rents accruing to companies and then distributed to shareholders who are predominantly citizens, or are captured by skilled workers who are also citizens. In Africa, both the shareholders and the skilled workers are overwhelmingly foreign. If Africa is to benefit from resource extraction the rents have to be taxed. These revenues provide the opportunity to invest in the future. High investment is also imperative because extraction obviously depletes natural assets. Responsible economic management seizes this opportunity to convert unproductive natural assets into productive invested assets such as infrastructure. Yet to date many African states have used the revenues to boost current consumption. This was the case with the commodity booms of 1974-85, and it is still happening. For example, since the onset of Ghana's oil revenues in 2011 the share of public investment in GDP has fallen, while public sector wages have risen by around 50 percent. States are not seizing the opportunity to build the future.

While well-managed, natural resource exploitation can build the future, as it has done in Botswana, it also has a dangerous downside. If ownership becomes contested, as it was in Sierra Leone, Nigeria and Katanga, it can tear a society apart. Indeed, we do not need to look to Africa for examples. Britain has just come close to being torn apart by the mischievous narrative of the Scottish Nationalist Party that 'its Scotland's oil'. Until oil discovered the SNP had not got a single MP; now it is Scotland's largest party.

A second key aspect of managing the future is urbanization. Africa is the least urbanized region: between now and 2050 the urban population will approximately triple. This is a huge opportunity for economic progress. Urbanization is vital to prosperity: no country has developed without it.. When well-managed, cities offer big improvements in living conditions over dispersed rural settlement, matched by big increases in productivity. Further, being a late-comer offers the potential advantage of building cities with the high density appropriate for the distinctive energy conditions of the 21st Century. But, good urbanization requires active public policy. Infrastructure must be planned and built in advance of settlement, and density must be enforced by appropriate regulations. Yet to date, Africa's urbanization has been typified by sprawling slums. They offer neither decent places to live, nor productive places to work. Again, most states are not seizing the opportunity to build the future.

A third new opportunity for managing the future is that Africa's growth, coupled with massive debt relief, has sufficiently enhanced investor ratings to open up access to the international bond market. Potentially, in present conditions of low international interest rates, African governments can borrow for productive public investment. But sovereign bonds are also a potential time bomb. Irresponsible governments can borrow to finance unsustainable current consumption knowing that paying it back will be the burden of some other government in the future. During the past decade Africa has accumulated commercial debt at unsustainably rapid rates. Even where this was used for public investment it was probably ill-advised, because few states have yet built the capacity to manage a rapid scale-up in public investment efficiently. They first need to go through a period of what I have termed 'investing-in-investing'. But often, although the borrowing was nominally 'used' for investment, other revenues were diverted from investment to consumption, so that the true use of the borrowing was for consumption.

In summary, few African states have seized these new opportunities to build the future. I now turn to the other essential role of the state: the provision of essential public services. The most essential public service is security. It is also the easiest public service to provide because the role of defending the country from threats is usually highly motivating for the young men on which security services depend. But African security forces are still not working effectively. When terrorists took over a Kenyan shopping mall, the soldiers called in to fight them used the opportunity to loot the shops. When 800 of Gaddafi's mercenaries invaded Mali the national army disintegrated, yet security was rapidly restored once French troops arrived. In Northern Nigeria a large and well-funded national army has proved unable to defeat Boko Harem. Evidently, many African states have not been able to motivate soldiers to do their job.

A second essential role of the state, much emphasized in modern academic economics, is the capacity to tax. Once the state raises a substantial share of GDP in revenues it has a powerful incentive to grow the economy. Yet African states still typically capture less than 20 percent of GDP. Often this is because tax collection is ineffective: here is an illustrative recent story from the DRC. The IMF recommended to the Congolese government that it should introduce a Value Added Tax: this is indeed conventional IMF advice. The Congolese government duly did so, but to date it has not worked as intended. VAT is a complex tax: each stage of production initially pays a sales tax, but as a result tax is levied on tax, and these double tax levies are then rebated to firms. In DRC while payments of VAT have been modest, payments of VAT rebates have been so considerable that the tax has been a revenue loser! In effect, the complexity of VAT has introduced new opportunities for corruption in tax administration. In DRC and I think elsewhere, African states have not been able to motivate tax collectors to do their job.

A third key role for the state is educating children. Africa has a young population and this is a potential advantage: young workers are better able to adapt. African states have indeed made education a priority, so that enrolments have increased substantially. But education depends upon what happens in the classroom and on standard international scoring measures, African children are not learning enough. Almost as much as being a soldier, being a teacher should offer an attractive sense of purpose. Yet in government schools teachers have a remarkably poor record of doing their job. Many teachers are simply missing in action: a recent survey of Ugandan schools found that whereas teachers are paid for a seven-hour day they actually work in the classroom for only around two of them. There is similar evidence for other African states: governments have not motivated teachers to do their job.

So why has the African state failed and what can be done about it?

The points I made in the previous section, while upsetting, are not particularly controversial. They are simply matters of fact. I now turn from the realm of fact to that of speculation: why are states not more effective? Academic economics has belatedly discovered political science: its answer is that effective states depend upon political institutions that ensure individual property rights, underpinned by the accountability of government to citizen. This is now sufficiently accepted to be described as the 'New Conventional'. While I accept that institutions matter, I have come to doubt their fundamental role. The fashionable emphasis upon accountability and scrutiny treats the African state as a dangerous lion to be tamed, whereas I suspect it is more like a mouse to be strengthened. Nor do I think that political science provides the fundamental insights: I think that a more fertile interaction with economics is with social psychology.

Institutions rest upon the beliefs that are prevalent in a society. I am going to decompose beliefs into the *identities* that people affirm, the *narratives* by which they interpret how their world works, and the *norms* by which they judge themselves and those around them. These beliefs derive from the social networks in which people participate, but leaders have the power to influence them. Indeed, while most leaders think that their role is to take decisions, a more important role is to communicate with citizens. It is certainly a role for which leaders are better qualified.

Some of the beliefs that have taken root in Africa are highly detrimental to effective government. I will begin with the identities that people hold. As Amartya Sen has emphasized, people hold multiple identities depending upon the context. Everyone holds both a local and a national identity. However, the relative potency of these two identities is distinctive in Africa: sub-national identities are strong relative to national. With a few notable exceptions, Africa never went through a phase in which national identities were built. From Independence until around 1990 most states were ethnic autocracies, run by and for particular groups. From 1990 onwards, most states have been multi-party democracies, in which the parties are organized on tribal lines, disseminating divisive narratives of vilification on opposing parties. Meanwhile, the virtual absence of inter-state warfare happily precluded the grim means by which European nations had built identity.

This matters because government is better able to be effective when the structure of identities matches the structure of political power. Power is more likely to turn into authority, winning the acquiescence of citizens, if people see themselves as sharing a common identity with their leaders. Public employees are more likely to internalize their work as a mission if they see their employer and their users as having a common identity with themselves.

In Africa, there is a radical mismatch between power and identity. Power is unusually concentrated at the level of the nation state: both local and supra-national government has very limited authority. In contrast, identity is unusually concentrated at the other levels. Sub-national identities are strong because tribes are far older than nations. But pan-regional identity is also unusually strong: for example, every American campus has an Africa Society, whereas barely any have a European Society. Africa is not unique in facing this problem. The travails of the European Union have arisen because power has shifted to a higher level than identity.

What can be done about this? Logically, there are two approaches: power can be shifted to identity, or identity can be shifted to power. The two approaches need not be alternatives: they can be pursued together. Since identities are slow-changing, it is evidently faster to shift power to identity by means of decentralization. This is the approach that has been taken in Ethiopia and Nigeria and is now underway in Kenya. In the Nigerian state of Anambra, Governor Obi further decentralized control of schools from the State to local churches, recognizing that historically church schools had been better managed.

Shifting identity up to power has also been done successfully in Africa. President Nyerere, the first great leader of Tanzania, consciously built national identity through a series of policies such as a national language and the relocation of civil servants away from their home region. Field research forty years later established that Tanzanians were much better able to cooperate across ethnic lines than Kenyans from the same mix of tribes. In building national identity, Nyerere decided to avoid multi-party politics, recognizing that it would inevitably be organized along tribal lines and so be divisive. Instead he built an inclusive national party. More recently, both Meles in Ethiopia and Mandela in South Africa promoted inclusive nationalism through a dominant political party as a means to overcome deep ethnic divisions.

The narratives that people believe determine how they understand the causal relationships which they face in their everyday lives. Economists conventionally believe that people learn either from analytic understanding (they ‘know the model’), or from experience (‘Bayesian updating’). But the evidence from psychology questions these comforting assumptions: people often believe commonly circulated stories in preference to both analytic explanation and the evidence of their own eyes. A widespread African belief is that the state is being plundered by its leaders. Such hyper-suspicion is incapacitating. I suspect that it explains the failure of VAT in the DRC: a tax inspector with who believes it would be foolish to collect revenue and pass it on up the hierarchy. But its most serious implication is that the state cannot be trusted to invest in the future. When Nigeria's Finance Minister, Ngozi Nkonko-Iweala, removed the fuel subsidy she was closing one of the greatest scams by which crooks had looted the state so that money could be diverted to investment. But people misinterpreted her act as being itself an act of looting: the state was grabbing even more. This may be why there is such pressure to spend natural resource revenues on immediate visible consumption such as wage increases. When Tanzania recently discovered gas, the popular narrative went around that 'we're rich; we don't need to work anymore.' People started rioting for jam today.

What can be done about such a narrative? When Botswana discovered diamonds, President Khama used social network of his national party to spread a counter-narrative: 'we're poor and so we must carry a heavy load'. In other words, 'climbing out of poverty will require patience'. Prime Minister Meles of Ethiopia and President Kagame of Rwanda both used their national parties to spread analogous messages. Meles adopted a 'big push' investment program, through which substantial investments in infrastructure such as power generation were financed through forced domestic savings. Kagame established a voluntary Savings Fund into which ordinary people could put small amounts of money to be invested by the state on their behalf. It rapidly raised over $10m. In each case national parties were used to promote a narrative of investing in the future: in effect, alongside inclusive nationalism, it became integral to party ideology.

Finally, I turn to norms. As Michaela Wrong has ably documented, a dysfunctional but widely prevalent norm is 'it's our turn to eat'. This justifies the looting of the public purse by the leaders of whichever group currently holds power. How did Khama, Meles and Kagame overcome the presumption, evidently on display in Nigeria, that money ostensibly 'saved' would in fact be looted by leaders? How, that is, was the narrative of generational sacrifice made credible? It was made credible by a norm: the leadership had to make personal sacrifices and they had to be visible. All three leaders lived modestly and were seen to do so. Khama made the greatest sacrifice. With great perspicacity he saw the dangers to national unity posed by the search for diamonds. In Scotland, the mantra 'its Scotland's oil' made Scottish and British identities incompatible for many people. While both could be held if the dominant narrative was a struggle against a common enemy, or building the National Health Service, if the salient aspect of Scotland was oil, if it was Scottish it could not be British. The only time to have addressed this would have been at the time of prospecting. Behind the geological veil of ignorance people would readily have agreed that wherever it might be discovered it should belong to everyone. Khama realized this and acted on it. He toured the clan leaders with the message 'we are dirt poor: can we agree that anything we find belongs to all of us?' Faced with the scary prospect of a neighbouring clan becoming rich, all the clan leaders agreed. Had the British prime minister at the time of prospecting, Harold Wilson, had the same foresight, Britain would have been spared its recent agony. But Khama's greatness went beyond his perspicacity. He had prior knowledge that diamonds had been found in his own area: as a clan leader his narrow self-interest would have been to assign diamonds to whichever clans were fortunate. He sacrificed tribe for nation.

A mass national party provides a controlled social network through which new beliefs can be communicated by a leadership team. Because all members know that they are exposed to the same messages they become 'common knowledge'. This increases the chances of a collective rethinking of beliefs since people know that they would not be the only one to rethink. This may be the most realistic route by which effective African states can be built. A mass national party, in practical terms a 'Government of National Unity', adopts an ideology that supports national development. It promotes inclusive nationalism, building a sense of shared identity. Within the ruling party authority is diffused and decentralized. Diffusion of leadership and decentralization to the local, address fears that the ethnic group of the leader will be the only one to 'eat'. A narrative of generational sacrifice underpins a policy of high investment, financed by restraints on consumption. Finally, a norm of personal sacrifice among the national leadership helps to reset the norms of society, raising the public interest relative to the private. Further, by reducing distrust in government, it makes it credible that patience in mass consumption will finance investment in the future rather than the enrichment of the political elite.

This ideology of inclusive nationalism, diffused power, generational sacrifice, and frugal leadership is a long way from much current African politics. For example, the son of the President of Equatorial Guinea has just been fined $30m in the USA for grand corruption evidenced by conspicuous consumption. However, it is not without African precedents. As I have suggested, it broadly describes the current politics of Ethiopia. The leadership has adopted an inclusive nationalism, expanding the ruling party from half-a-million members in 2005 to five million currently. Authority is diffused and decentralized. Meles was not an absolute ruler: had he tried to breach fundamental party ideology he would have been ousted. When he died the premiership and party leadership passed from Tigray, the region of the liberation movement, to Southern Ethiopia. Much public spending is decentralized to the regions. Indeed, when international donors wanted to punish Meles for infringements of multi-party democracy, they were able simply to shift their aid budgets directly to the regions. The party has clearly adopted a narrative of investment and generational sacrifice. Most strikingly, Meles and his ministers lived modestly and public corruption is negligible.

This was also the ideology of President Nyerere and his party, CCM. As I discussed above, inclusive nationalism was central to public policy. Nyerere also distributed political power across the Christian-Moslem social divide by ensuring that the presidency would alternate between them, as it now has for over half-a-century. He implemented generational sacrifice through a big push investment program and severe restraints on private consumption. Trust in government was built through personal modesty and frugality on the part of the leadership. Tragically, this political strategy failed to deliver economic development and hence become unviable. The detail of his economic strategy was seriously mistaken and became disastrous once the economy was hit by a massive deterioration in the terms of trade. Even sound political strategies cannot overcome seriously mistaken economics. Nyerere resigned, the big push was abandoned, multi-party politics was introduced, and much of the ideology unravelled. However, prior to the economic unravelling, Nyerere demonstrated that a mass national party could be used to reset beliefs.

This was also the approach taken in Botswana by President Khama and his successors. Combined with a better economic strategy - and better luck – it has succeeded spectacularly. Most remarkably, it has been the political ideology of President Kagame in post-genocide Rwanda. To date, it has succeeded in reducing poverty more rapidly than ever achieved in Africa.

International norms

Ever since the fall of the Berlin Wall, the West has promoted its own model of political design as the template for Africa. The core of this model is democratic accountability of government to citizen through periodic multi-party elections. Western aid has been made conditional upon the adoption of this model.

I have come to doubt the efficacy of this model in the African context. As Nyerere feared, in societies where the primary identities are ethnic, parties have organized on ethnic lines, promote bitter narratives against other groups, and thereby impede the inclusive nationalism that he showed was possible. The result has been high-stakes, winner-take-all, divisive ethnic contests as disastrously exemplified by Kenya in 2008. The West's mistake has been to focus on how power is acquired, rather than on how it is used.

The emphasis upon multi-party elections has been accompanied by international focus on public corruption and the importance of scrutiny to counter it. As with the insistence on multi-party elections, this seems above criticism. Yet inadvertently it conveys a relentlessly negative image of government: it is the rapacious lion to be restrained. It may be more effective to start from a positive agenda of why effective government is essential to build the future. Where such a positive role for government has been internalized by the leadership, checks and balances follow. They may not look like those familiar to the West. Had Meles decided to live like the President of Equatorial Guinea, it would not have been courts or a free press that restrained him: it would have been his colleagues in the ruling party. But they would probably have been more effective than the tick-box institutional isomorphic mimicry that Western pressure has created.

I am not suggesting that we abandon the Western agenda. But I think we need to acknowledge the limitations revealed by experience. We should recognize that less orthodox political approaches may be viable as routes to the effective states that Africa needs in order to harness its new opportunities.