Summer 2012

Development And Aid In Sub-Saharan Africa

Stephen A. O'Connell
Swarthmore College, soconne1@swarthmore.edu

Lindsay Renée Dolan , '12

Development and Aid in Sub-Saharan Africa

Stephen A. O'Connell and Lindsay Dolan[1]

Revised July 8, 2011

1. Introduction

The aim of foreign assistance, according to Catholic social thought, is *integral human development*. The phrase comes from *Populorum Progressio (1967)*, recently described by Pope Benedict XVI as "the *Rerum Novarum* of the present age."[2] In *Populorum Progressio*, Pope Paul VI placed the condition of poor-country populations at the center of the church's social concern, much as *Rerum Novarum* (1891) had done for industrial-country workers.

We focus on economic growth in this paper because of its powerful links to poverty. Our premise is that freedom from destitution, not just in a material sense but also in terms of meaningful work and social inclusion, is a necessary condition for achieving integral human development. Economic growth follows as a means to the same end, because robust economic growth is virtually a necessary condition for alleviating poverty on a sustainable basis.[3]

What matters for economic growth is accumulation of human and physical assets – literacy, health, factories, and capital equipment – and the implementation of new ideas and technologies. Economists use the term "investment environment" to describe the incentives households, farms, and firms face to educate their children, improve their land, and try out new business ideas. A strong investment environment is one in which a broad spectrum of individuals can access favorable investment opportunities and finance them at reasonable cost. At bottom, our paper is about the evolving investment environment in Africa.

Two dimensions of the investment environment are critical, in our view, to thinking about development and aid in Africa. The first is an institutional setup that secures the rights to market participation and property for a large spectrum of society. Households will not undertake investments if they are legally excluded from markets, as in an apartheid system or a collectivized agriculture, or if their investments face a serious risk of expropriation by private or public actors. Sustaining a strong investment environment therefore requires an expectation of what the economist Paul Collier calls enforced

[1] Stephen A. O'Connell is Eugene M. Lang Research Professor of Economics, Swarthmore College. Lindsay Dolan is a senior undergraduate majoring in Economics and Political Science at Swarthmore College. We thank Barbara Wall, Christopher Kilby, and participants in the Villanova University Conference on Catholic Social Teaching and World Poverty for helpful comments. Any errors of fact or interpretation are our own.

[2] *Caritas in Veritate* (2009).

[3] Ndulu, Benno J. with Lopa Chakraborti, Libohang Lijane, Vijaya Ramachandran and Jerome Wolgin (2007), *Challenges of African Growth: Opportunities, Constraints and Strategic Directions* Washington, DC: The World Bank.

justice.[4] In the absence of such an expectation, investment activity will shrink and such investment as may occur will go to socially unproductive ends – capital flight, protection or extortion, or armed conflict.

Enforced justice implies an absence of overbearing government controls on private economic transactions. This requirement accommodates a variety of approaches to market regulation but excludes what the economist Mancur Olson calls 'market contrary' regimes, in which governments systematically penalize or displace private activity.[5] By itself, however, enforced justice is not enough. A stable, secure, and reasonably market-oriented environment may be an economically stagnant one if a few other collective goods are absent. Our second dimension is therefore the provision of core public infrastructure and services, including roads, ports, schools, health systems, and agricultural extension. The favorable impact of these inputs on the return to private investment provides an enticing rationale for foreign aid: if donors can bring in the know-how, the infrastructure, and the public services for a temporary period, perhaps the private sector can do the rest.[6] But well-functioning public institutions are just as critical to securing this dimension of the investment environment as they are to securing the provision of enforced justice. Governments must develop the domestic capacity to set public investment priorities, maintain public assets, and deliver services.

Poverty alleviation, then, is critical to the project of integral human development; economic growth is critical to poverty alleviation; growth requires private investment in human and physical assets; and the investment environment, at bottom, is a matter of public institutions. Against this background we develop two main points about development and aid in Africa. The first is that the investment environment in Africa is stronger today than it has been at any time since independence. This is largely because of internal political and economic reforms, which were mainly driven by crisis and the end of the Cold War, but for which donors can also take some credit. Africa's populations remain poor and vulnerable, and country experiences are heterogeneous. But an epoch-making transition has taken place in the investment environment, and we think it will be sustained.

Second, the nature of external assistance is changing, in ways that are positive but also uncertain for what lies ahead. Key drivers of change include the end of the Cold War, which created the space for a revitalization of aid based on the Millennium Development Goals, and the increasing involvement of new private and public actors in the development assistance arena, each with somewhat distinct agendas and capabilities from those of the traditional donors.

We close the paper by arguing that although the scope for integral human development is wider now in Africa than it has ever been, some of the challenges facing faith-based aid organizations may become more rather than less acute over the coming decade.

---

[4] Collier, Paul (2008) "International Political Economy: Some African Applications" *Journal of African Economies* 17 (AERC Supplement 1): i110-i139.

[5] See Olson, Mancur, *Power and Prosperity*. New York: Basic Books, 2000.

[6] Jeffrey Sachs's *The End of Poverty* (New York: The Penguin Press, 2005) is the most recent statement of this view.

2. A framework for classifying governance regimes

Our first argument is that Africa's post-independence economic history took a fundamental turn for the better in the mid-1990s. To establish this, we start in the late colonial period. We focus on the evolution of *governance regimes*, defined as the institutional arrangements that govern the prioritization, financing, and delivery of the collective goods that shape an economy's investment environment.

Table 1 proposes a framework for tracking the evolution of governance regimes over time. We distinguish alternative regimes on two basic dimensions: who carries out the prioritization and delivery of collective goods, and who finances them. Along the rows, we track the role of the domestic public sector in prioritizing and delivering public goods and services. This runs on a continuous and multi-dimensional scale in practice, but for simplicity we compress the alternatives into low and high. The colonial regimes in Africa clearly belong in the bottom row; even under indirect rule, key governance functions in the colonial territories were carried out by the colonial foreign office or its local proxies. Politically independent middle-income countries, by contrast, belong in the upper row because only under extraordinary conditions would conquest or financial collapse make them the wards of external interests.

Table 1 *Governance regimes and the provision of collective goods in Sub-Saharan Africa*

Governance regimes		***Role of the non-mineral domestic economy in financing collective goods***	
		Low	High
Role of the domestic government in prioritizing and delivering collective goods	High	**Emerging Africa**	**Middle-Income Countries**
	Low	**Development Dependencies** **Failed States**	**Colonial Regimes**

The columns track financing. National collective goods can be financed in three basic ways: foreign grants, rents on exports of primary commodities, especially minerals (in Africa: oil, gold, copper, coltan, diamonds[7]), or the domestic taxation of non-mineral production and trade.[8]

[7] A rent is the difference between a good's market value and its production or extraction cost. Rents are small for most manufactured and agricultural exports, because large rents provoke the entry of new suppliers. It can be very large for minerals, however, and in such cases it typically accrues directly to government, providing 'windfall' revenues that do not require the construction of an administrative apparatus for revenue-generation.

The columns of Table 1 distinguish economies in which domestic tax revenues are the main source of public spending from those in which aid or mineral rents are the main source. We are of course generalizing, but our aim is to confer a special status on domestically-generated revenues. The sociologist Max Weber famously defined the state as that entity with a monopoly of force over a given territory. What we are emphasizing in Table 1 is that the nature of that monopoly – and particularly its political legitimacy – may depend in fundamental ways on whether the government's coercive power relies on external resources or on a political and institutional bargain that supports taxation of the governed.[9]

Before independence, most territories in SSA were in the southeast box of Table 1, self-supporting in the economic sense but not self-determining. The *sine qua non* of colonialism was external control, so infrastructure and enforced justice were supplied by the colonial office or its local agents, on behalf of expatriate or settler interests and mainly in support of external trade. But the domestic economy bore the brunt of providing collective goods: the European powers insisted that their colonies be largely self-sustaining economically, at least until quite late in the colonial period. In contrast, politically independent middle-income countries like Argentina or Brazil were self-supporting and self-determining. They occupied the northeast box, financing collective goods through domestic resources as in the African colonies, but in control of prioritization and delivery in a way that African populations were not.

In their own domains, of course, the European colonial powers were firmly in the northeast corner. At home, they maintained the security of property claims through internal and institutionalized mechanisms that included independent judiciaries, multi-party elections, a capable civil service, active local governments, and a high degree of civil liberties. They financed collective goods via domestic taxation, a process legitimized not just by competitive executive elections but by a range of complementary checks and balances on the public purse. In these respects their behavior abroad was in fundamental contrast to their behavior at home.[10] In the colonies, they imposed non-contestable and authority-based regimes that vested security in themselves and provided justice and public services on a selective basis, in order to favor their own economic interests.

3. Governance and growth to 1994

As political independence became inevitable in Africa following World War II, the declining imperial powers sought to engineer a transition that would secure their political and economic interests. Where

---

[8] Loans are a fourth option, but we subsume them in the other three because they ultimately have to be repaid via some combination of grants (including debt cancellation), commodity rents, and domestic taxes.

[9] On the role of revenue mobilization in state creation, see Levi, Margaret, *Of Rule and Revenue*, Berkeley, CA: University of California Press, 1988; Olson, *Power and Prosperity*; and Bates, Robert H. *Prosperity and Violence: The Political Economy of Development*, 2nd edition, New York: W.W. Norton, 2010.

[10] With one important exception: their agreement at the Berlin Conference not to interfere with each others' territorial claims. See Herbst, Jeffrey, *States and Power in Africa*. Princeton, NJ: Princeton University Press, 2000.

transition was peaceful – and in some cases even where it was not – new governments came to power under Western-style constitutions and with promises of both aid and trade.

Kwame Nkrumah, Ghana's first President, famously said "Seek ye first the political kingdom, and all the rest shall be added unto ye." To Nkrumah and his contemporaries, self-determination ensured a vertical transition from the bottom row of Table 1 to the top row (we denote this transition by a clear arrow). Political sovereignty would allow a re-direction of public spending priorities away from colonial interests and in favor of the overall population. This would unleash modernization and growth. Independence-era leaders embraced the work and promise of economic transformation: "We must run" said Tanzania's Julius Nyerere "while others walk."

Between Sudan's independence in 1956 and the publication of *Populorum Progressio* in 1967, nearly three-quarters of the population of SSA – 31 countries – came to political independence.[11] Global economic growth was robust in the 1960s, providing some temporary comfort to the view that sovereignty meant prosperity. In hindsight, however, this narrative barely outlasted the mid-1970s. From the viewpoint of Table 1, only a few countries in Africa found institutional pathways to a strong private investment environment during the three decades that followed Sudan's independence in 1956. A handful of authoritarian regimes – like Kenyatta's in Kenya and Felix Houghouet-Boigny's in Cote d'Ivoire – created temporary umbrellas of protection for business interests, but these protections did not survive political succession. The majority of regimes regarded private economic success with suspicion.[12] By the mid-1970s most countries had made a transition to one-party states or military dictatorships in which the state controlled, or attempted to control, large parts of the economy.[13]

Figure 1 summarizes Africa's growth performance between 1974 and 1994 on a country-by-country basis. Each country in SSA is represented by a dot, the height of which indicates the average growth rate of per-capita income in that country over the full period. We have arranged the countries from left to right in declining order of growth. One of the fastest-growing countries in the world during this period, Botswana, is the left-most dot. On the far right is Liberia, where incomes contracted at the extraordinary rate of 10 percent per year. We forego labels in favor of circles that surround each dot and indicate the size of the country's population. Larger circles correspond to larger countries; Nigeria, the largest by far with a population of well over 110 million during this period, appears roughly in the middle of the diagram, with an annual growth rate of -0.5 percent.

Two pieces of context may help bring these dots alive. First, we are looking at a 20-year period, so small differences matter. A country growing at the modest rate of 2 percent per year, for example, will have nearly twice the per-capita income, after 20 years, than if it had contracted at 1 percent per year; a country growing at 6 percent will have twice again. Second, a per-capita growth rate of zero means that

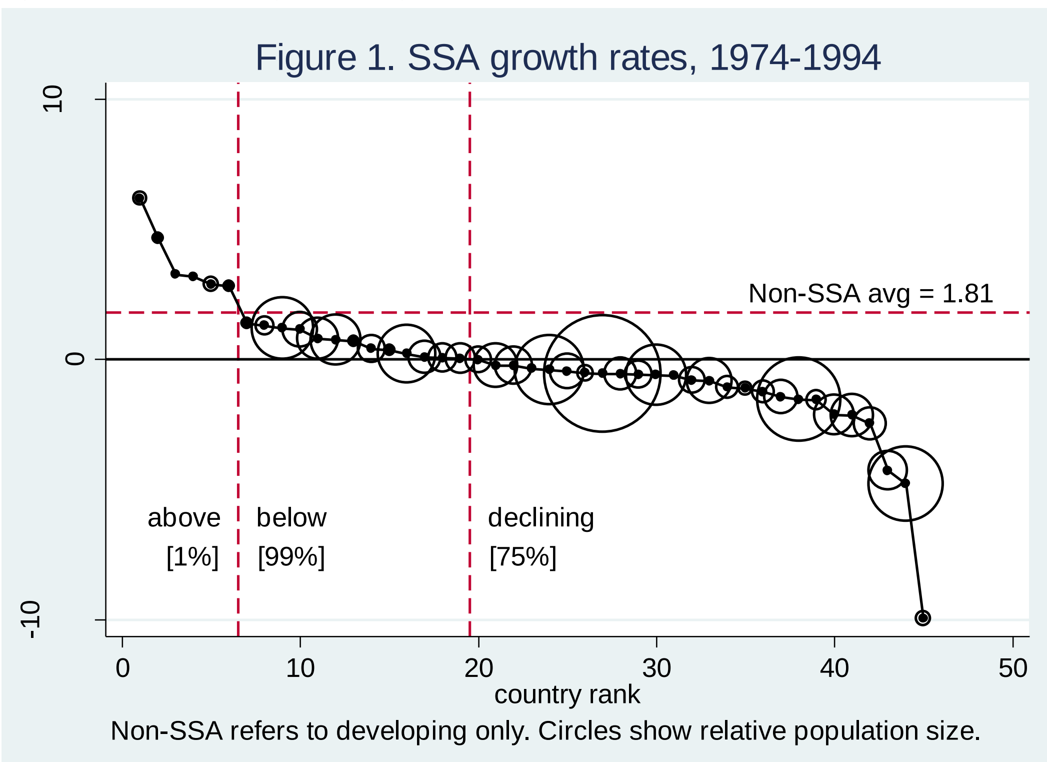
---

[11] See Griffiths, Ieuan LL. *The Atlas of African Affairs, Second edition*. New York: Routledge, 1994.
[12] See Mkandawire, Thandika and Charles C. Soludo, *Our Continent, Our Future: African Perspectives on Structural Adjustment*, Trenton, NJ: Africa World Press, 1999: 108-110.
[13] See Ndulu, Benno J. *et al.*, *The Political Economy of Economic Growth in Africa, 1960-2000*. Cambridge: Cambridge University Press, 2008.

the overall economy is growing as rapidly as the population. This is no mean feat in Africa, where population growth has been around 3 percent per year for most of the post-independence period. But a growth rate of zero is far too pessimistic a benchmark from the perspective of conventional economic growth theory. Economists have long emphasized that low-income countries can benefit from two forms of 'catch-up' growth relative to more advanced economies. The first occurs via the movement of financial and even physical capital from where it is plentiful to where it is scarce. The second, and quantitatively more important, occurs through the local implementation of globally available ideas and technologies. For these reasons, economists expect the poorer of any two countries with similar institutions to grow faster over time than its richer neighbor, until the two economies have converged to the same growth path.[14]

We show three dashed lines in the diagram. The rightmost vertical line separates countries in SSA that grew at all in per-capita terms, to the left, from those that declined outright over the period. The horizontal dashed line allows a direct comparison with the global experience during this period; it shows the average growth rate of developing countries outside of Sub-Saharan Africa. The leftmost vertical line separates countries in SSA that beat this global average, to the left, from those that that fell short, to the right.

Figure 1 *Country-level growth performance in SSA, 1974-94*



Source: World Bank, *World Development Indicators*.

Notes: Figures in square brackets refer to percentages of SSA population.

---

[14] See Jones, Charles, *An Introduction to Economic Growth, 2nd edition* New York: W. W. Norton, 2001.

The disaster depicted in Figure 1 is striking, and interpreting it has been a major intellectual challenge for growth economists. Between 1974 and 1994 fully seventy-five percent of the region's population lived in countries where per-capita incomes were declining. Part of this was due to a global slowdown in economic growth; at 1.81 percent, developing countries outside of SSA were growing more slowly than their long-run average (since 1961) of roughly 2.5 percent. But Africa's decline was even more striking in comparative terms. Only six tiny countries in SSA, collectively accounting for only 1 percent of the region's population, were able to out-perform the average growth rate in non-SSA developing countries.[15] These 20 years transformed a continent that had shaken off the fetters of colonialism into what Paul Collier recently called *The Bottom Billion*.[16]

In Table 1, we view this period of decline through the lens of governance regimes. Our argument is that for the bulk of African populations, the first generation of independence resulted in a leftward move in the table, rather than the anticipated move upwards. On the financing side, fiscal crisis became widespread in the region by the late 1970s. Aid donors financed an increasing share of government spending, accounting for the shift to the left column. For much of the period between independence and 1994, African governments were more directly responsible to external donors, in setting public sector priorities and delivering public services, than they were to their own populations. For practical purposes, the prioritization and delivery of collective goods was either absent or in external hands.

Table 1 tries to do minimal justice to the heterogeneity of African experience during this period, by distinguishing development dependencies like Tanzania from failed states like the Democratic Republic of Congo. We are nonetheless simplifying tremendously, and some countries, like Uganda, spent time in both conditions. But the exceptions to the overall pattern prove the rule that public responsibility for collective goods matters. Botswana made a successful transition to the upper left-hand box. A responsive and democratically-elected government managed mineral wealth (mainly diamonds) responsibly, distributed its benefits widely, and subjected public spending projects to serious cost-benefit analysis.[17] Mauritius moved towards middle-income status through careful management of sugar export preferences and the establishment of an export platform in textiles, relying partly on aid but largely on domestic revenue mobilization.[18] In both countries, governments intervened judiciously in markets, not seeking to displace private activity but to strengthen the private investment environment.

---

[15] In declining order of growth: Botswana, Mauritius, Seychelles, Cape Verde, Lesotho, and Swaziland.

[16] Collier, Paul, *The Bottom Billion: Why the Poorest Countries are Failing and What Can Be Done About It*, Oxford: Oxford University Press, 2007.

[17] See Leith, J. Clark, *Why Botswana Prospered*. Montreal: McGill-Queens University Press, 2005.

[18] See Subramanian, Arvind and Devesh Roy, "Who Can Explain the Mauritian Miracle? Meade, Romer, Sachs, or Rodrik?" in Dani Rodrik, ed, *In Search of Prosperity: Analytic Narratives of Economic Growth*. Princeton: Princeton University Press, 2003: 205-243.

4. Governance and Growth Since 1994

The African development narrative that emerged from the 1974-94 period was one of tragedy. The period ended with fully 1/3 of the region in civil war, life expectancies falling due to HIV/AIDS, and foreign aid levels declining sharply. The narrative survives to this day in newspaper coverage of Africa and in popular movies like *Blood Diamonds* and *The Last King of Scotland*. Our central message in this section, however, is that over the course of these lost decades, large parts of Africa began to make a transition from the bottom row of Table 1 to the top row. This was fundamentally an institutional transition rather than an economic one, but it created a platform for sustained economic success and the consolidation of reforms.

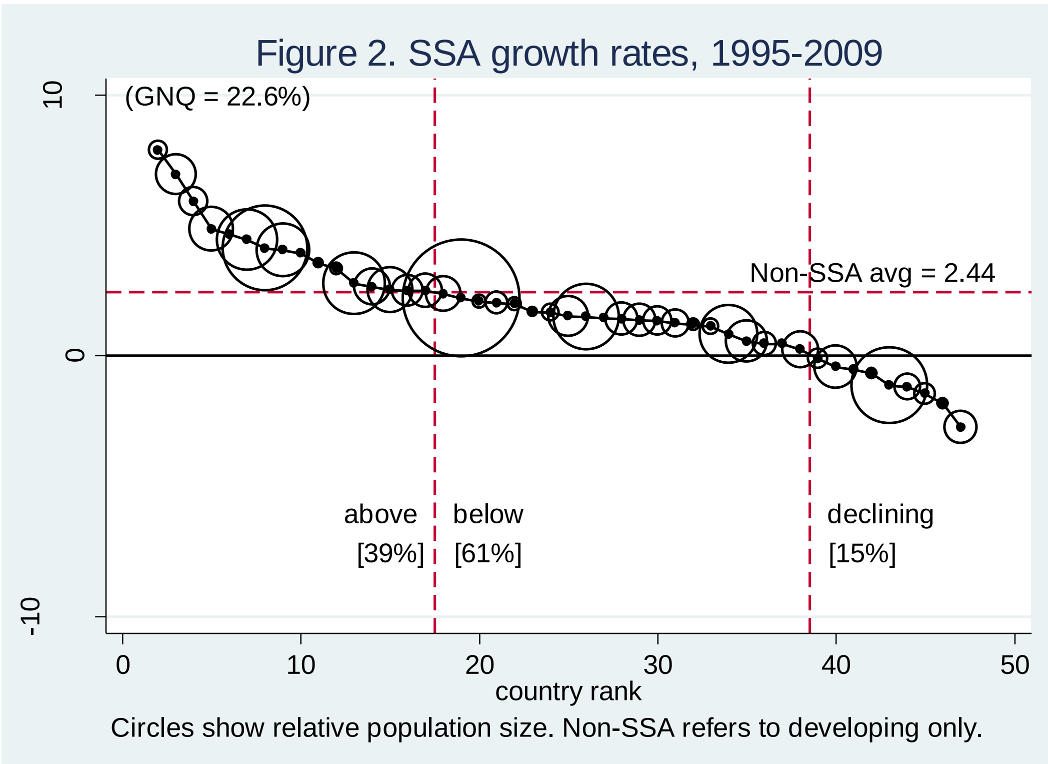
Figure 2 shows how dramatically different the growth picture has been over the past 15 years. Economic decline was rare after 1995 and was mainly limited to cases of acute conflict or political instability. The few sizeable countries that declined over this period – Democratic Republic of Congo, Somalia, and Zimbabwe – attracted much of the press. But fully 85 percent of the region's population has been living in countries with rising per-capita incomes. Nearly 40 percent have been living in countries whose growth rates exceeded the global average for other developing countries – thereby displaying, finally, the convergence pattern predicted by conventional growth theory.

What accounts for this success, and is it sustainable? In our view, the growth transition in Africa reflects a much deeper transition in the quality of the investment environment. We indicate this in Table 1 with an upwards arrow – from development dependencies and failed states to 'Emerging Africa'. The phrase comes from an important new book by Stephen Radelet, the chief economist of USAID.[19] Radelet argues that 17 non-oil countries in SSA have embarked on paths of sustained economic growth since the mid-1990s. He cites a set of interlocking causes, but primary among these are market-based economic reforms that began in the mid-1980s and have increased the rewards for productive economic activity; and democratic reforms that began in the late 1980s and have widened civil liberties and imposed meaningful constraints on executive power. In what follows, we highlight some of the most important trends, and ask what role donors have played, and are likely to play, in Africa's new departure.

We have intentionally depicted a purely vertical transition in Table 1, from the southwest corner to the northwest rather than the northeast corner. Two categories inhabit the northwest cell. The first comprises former development dependencies and/or failed states that remain heavily dependent on external assistance but are now driving the development process internally rather than simply responding to donors. Examples include Tanzania and Mali in the first category, and Rwanda and Mozambique in the second. The second comprises resource-rich countries like Botswana, where collective goods are financed mainly through mineral rents rather than aid. Neither group has made the

[19] Radelet, Steven, *Emerging Africa: How 17 Countries are Leading the Way*. Washington, DC: Center for Global Development, 2010. The term 'Emerging Africa' actually comes from Berthelemy, Jean-Claude and Ludvig Soderling with Jean-Michel Salmon and Henri-Bernard Solignac Lecompte, *Emerging Africa*. Development Centre Case Studies. Paris: Organization for Economic Cooperation and Development, 2001. See also Maathai, Wangari, *The Challenge for Africa*. London: Arrow Books, 2010.

ultimate transition to an economy in which domestic revenue mobilization sustains the public provision of collective goods. Both groups, however, are to be distinguished from countries like Sudan or Somalia, where neither domestic nor foreign actors are providing core collective goods like security, or Burundi, where foreign donors continue to play a dominant role not just in financing but also in prioritization and delivery.



Source: World Bank, *World Development Indicators* online.

Note: GNQ refers to Equatorial Guinea, growing at 22.6% per year due to offshore oil.

Economic forecasting is of course treacherous, but in making the case for a growth turnaround we are no longer taking a minority position. In sharp contrast to its experience during the global recession of the early 1980s, Sub-Saharan Africa maintained robust growth through the global financial crisis of 2008-09. The International Monetary Fund, in its latest medium-term growth projections, has Sub-Saharan Africa growing more rapidly than any other region worldwide, with the exception of Asia, where China's extraordinary growth dominates the picture. These projections refer to total GDP rather than per-capita growth (and so reflect Africa's fast population growth), but the per-capita projections also suggest that the achievements depicted in Figure 2 will continue.

We argued above that growth is a necessary condition for sustainable poverty reduction, and poverty rates have indeed been falling on the continent for roughly a decade, albeit slowly. The World Bank predicts that SSA will not achieve the first Millennium Development Goal of halving its 1990 poverty headcount by the year 2015, but that it will come reasonably close, with the countries of Emerging

Africa leading the way.[20] In those that have grown steadily over the full period, like Ghana, the goal will be achieved.

5. Overcoming isolation

Sub-Saharan Africa is the most sparsely populated region on the globe, the region with its population furthest from coastlines and ocean-navigable rivers, and the region with the highest proportion of its population living in landlocked countries. This isolation lowers incomes, and because economic growth depends on access to markets, ideas, and public infrastructure capital, it also makes growth more expensive. Economists Jeffrey Sachs and Paul Collier have argued that geographical isolation may give rise to a poverty trap in Africa: a situation in which countries are too poor to grow.[21]

The growth record since 1995 suggests that while the costs of isolation may be high, some may be policy-related and therefore amenable to reform, while others may be eroded via external developments in technology. Drawing on two of Radelet's leading trends, we briefly examine the impact of reforms on regional integration and peer pressure, and the striking diffusion of mobile phone technology on the continent.

One of the most powerful impacts of market-based economic reforms has been to narrow cross-country differences in the regulation of trade and the conduct of macroeconomic policy. Many policy changes have been institutionalized since the mid-1990s, via the adoption of new central bank charters, Article VIII status in the IMF, membership of the World Trade Organization, and encompassing and forward-looking budget processes.[22] On the political side, differences in civil liberties and executive accountability have been narrowed through constitutional commitments to multi-party elections and freedom of the press. These reforms are a work in progress; international commitments can be implemented fitfully or reneged upon, and constitutions can be renegotiated. But their institutionalization makes them harder to reverse, both procedurally and via the creation of beneficiary interest groups that will oppose reversal. Constitutional term limits, for example, have routinely (and sometimes successfully) been contested by incumbents like President Museveni of Uganda, but in many cases, popular opposition has prevented a softening of limits and has forced a peaceful electoral transition.

Economic and political reforms reduce isolation on a country-by-country basis by opening populations to external trade, promoting freer exchange of ideas, and securing the gains of foreign investors from public predation. But they are also beginning to dismantle the practical and ideological barriers to regional integration on the continent. The East African Community is a leading example of this

---

[20] World Bank, *Global Monitoring Report 2009*, Washington, DC: The World Bank, 2009.
[21] Sachs, *Overcoming Poverty*; Collier, *The Bottom Billion*.
[22] Article VIII status involves a commitment not to impose foreign exchange rationing or other forms of exchange control on international trade (it allows exchange controls on financial transactions). Before the mid-1990s such controls were common outside of the CFA Franc Zone, and gave rise to extensive foreign exchange black markets and strong incentives for corruption.

phenomenon. A legacy of the colonial period, the EAC was a dead letter by the late 1960s, as Presidents Kenyatta (Kenya), Obote (Uganda), and Nyerere (Tanzania) chose divergent approaches to the local realities of nation-building. The three countries abandoned integration altogether in 1977, two years before Nyerere's army invaded Uganda to unseat the dictator Idi Amin. Nearly 25 years later, in 2001, the democratically elected heads of state reconstituted the EAC, committing the three countries to a process of economic integration now underpinned by a convergence of economic and political institutions. The special economic value of integration for landlocked countries was not lost on Burundi and Rwanda, who each joined the community in 2007. South Sudan may well be next, and from the perspectives of security and economic management the logic of South Sudan's participation is strong.

Policy convergence also provides a platform for peer pressure. The New Partnership for African Development (NEPAD), for example, relies on the voluntary participation by countries in a set of oversight protocols, with signatories to each protocol consenting to regular publicized external reviews of their performance in domains like corporate governance. In the political and security arenas, African governments have shown increasing resolve in condemning non-democratic leadership transitions.[23] These peer pressure mechanisms are in tension with a long-standing legacy of mutual non-interference on the continent, which makes them all the more powerful as expressions not just of mutually understood interests but also of expanded capacity for collective action.

A second and fundamentally fortuitous channel through which isolation is being overcome in Africa is through the spread of mobile phone technology. Earlier we emphasized the advantages of catch-up growth in the technological realm: the idea that a low-income country can import new ideas and technologies at fractions of what it cost for them to be developed. The catch-up principle has been powerfully illustrated in the public health arena, where diffusion of basic medicines and principles of sanitation have allowed low-income developing countries to narrow health gaps vis-à-vis richer countries. But industrial and communication technologies usually come with demanding infrastructure and maintenance requirements. Major technological developments can therefore widen income gaps as easily as narrowing them. Until recently, for example, internet access required a reliable land line, a continuous power supply, a working desktop computer and modem, and the relevant proprietary software. In African countries, the power and telecoms sectors operated as natural monopolies and were often subject to high costs and gross inefficiencies. Low incomes and hostile regulatory environments imposed further barriers by hampering the growth of the requisite hardware, software, and service markets. The internet was therefore available to overcome isolation in North America, but not in Africa.

As Radelet and others emphasize, mobile phones have leapfrogged land lines in Africa. Sub-Saharan Africa is the fastest-growing mobile phone market in the world; more than a third of the population has a mobile phone subscription, a greater proportion than in India, the home of the outsourcing

[23] See for example Bassett, Thomas J. and Scott Straus, "Defending Democracy in Côte d'Ivoire" *Foreign Affairs*, July/August, 2011: 130-41.

revolution.[24] New uses are being developed daily, in agriculture, finance, health, journalism, and many other arenas; the common denominator is a shrinking of distance, a function that passes a cost/benefit test in Africa more fundamentally, perhaps, than anywhere. As smartphones and related technologies become economically viable on the continent, the barriers to internet access may rapidly erode.

6. Foreign Aid: the Adjustment Era and the Development Window

What role has foreign aid played in the transformation we are describing? The region's growth performance since 1995 suggests that sweeping indictments of foreign aid are oversold.[25] Our interest, however, is less in the aid effectiveness debate than in how the nature of the aid relationship has evolved over time. We emphasize two major transitions in the post-independence period. The first occurred with the end of the Cold War, which ushered in what we call the 'development window' – a decade-long period during which the parties to African aid broke free of the conflicts of interest inherent in superpower rivalries and contending development paradigms. The development window saw donors embrace a norms-based approach to aid – first around the goal of poverty reduction, and then increasingly around ownership and accountability as guiding principles in the aid relationship. These norms survived the closure of the development window, which we date to the September 11, 2001 attacks in the United States, and (less definitively) to the emergence of China as a geo-strategic counterweight to the West.

Table 2 juxtaposes developments in the aid regime with the evolution of governance regimes in Africa. Late colonial governments tended to adopt a paternalist approach, devolving responsibility and resources to local elites in the hope of maintaining strong political ties and safeguarding the positions of expatriate interests. In the early post-independence period, this was supplanted by project-based aid across a wide range of public infrastructure and services. By the late 1970s, however, the structural adjustment era was underway.

Policy conditionality was the central principle of Western development aid to Africa from the late 1970s to the late 1990s. Short-term (and non-concessional) IMF adjustment lending had always come with policy conditions designed to prevent a country's balance of payments crisis from recurring or spreading to other countries, and to ensure that the Fund was quickly repaid. Starting in the late 1970s, however, conditionality was taken up by Africa's traditional development partners – the World Bank and the bilateral donors. These donors shifted from project support towards quick-disbursing funds for imports and government spending – partly in response to macroeconomic collapse, but from an early stage, mainly in pursuit of a fundamental realignment of the economic role of African governments. Structural adjustment conditionality centered initially on exchange rate unification, trade liberalization, and

[24] See Jenny Aker and Isaac Mbiti, "Mobile Phones and Economic Development in Africa" *Journal of Economic Perspectives* 24(3), 2010:207-232.

[25] Jeffrey Sachs and Bono attribute failure of aid to a lack of generosity and ambition among donors. William Easterly says that aid fails because nobody's job in a donor agency ever depends on its succeeding. Dambisa Moyo argues that foreign grants sustain corrupt governments and derail development of the private sector. These authors are worth reading; their views are readily accessible on the internet.

financial liberalization, in each case seeking to reduce the direct role of governments in allocating resources. By the early 1990s it had moved on to deeper institutional reforms including the privatization of state-owned enterprises.

Table 2 *Central principles of the aid relationship in Africa*

<table>
<tr><td colspan="2" rowspan="2">Principles of the Aid Relationship</td><td colspan="2">Role of the non-mineral domestic economy in financing collective goods</td></tr>
<tr><td>Low</td><td>High</td></tr>
<tr><td rowspan="2">Role of the domestic government in prioritizing and delivering collective goods</td><td>High</td><td>Emerging Africa
Ownership & Accountability</td><td>Middle-Income Countries
Graduation</td></tr>
<tr><td>Low</td><td>Development Dependencies
Conditionality
Failed States
Protection & Containment</td><td>Late Colonial Regimes
Paternalism</td></tr>
</table>

By the mid-1990s, conditionality was widely regarded as a failure. Growth had not (yet) responded, and poverty rates were still increasing. Critics pointed to lack of resolve on the part of reforming governments and lack of credibility on the part of donors, noting as evidence the fitful and partial implementation of reforms and the tendency of donors to pay for the same reform multiple times.[26] At a deeper level, and in a critique that gradually reshaped how aid was delivered, they faulted external donors for undermining the capabilities of African governments to direct the development process.

The efficacy of conditionality received a fundamental boost with the fall of the Berlin Wall and the collapse of the Soviet Union. These events abruptly eliminated market-contrary socialism from serious consideration as a development strategy in Africa.[27] At the same time they removed the strategic overlay from development assistance policies in the United States – already the dominant shareholder in the IMF and World Bank, and now world's sole superpower. The result was to narrow the conflicts of interest that had bedeviled conditionality – conflicts between market-oriented donors and African governments, and between donors backing divergent views of the appropriate role of government. In the end, therefore, conditionality departed on a high note – arguably more effective than ever before, doomed not by its failings as much as by the new ambitions appropriate to a post-reform, post Cold-War era.

[26] An early and insightful statement is Collier, Paul (1991), "Africa's External Relations, 1961-91" *African Affairs*.
[27] The phrase 'market-contrary' is from Mancur Olson, in *Power and Prosperity*.

The decade of the 1990s – or more accurately, the period from 11/9 to 9/11[28] – was a coherent and even transformative interlude in development assistance. Aid to Africa declined sharply in the first half of the 1990s. Donors turned their attentions to the transition economies and, within Africa, applied greater selectivity across country programs by shutting down assistance to unsavory governments, particularly those dragging their feet on democratic reforms. Deeper changes in the aid regime then got underway in the second half of the 1990s, as the World Bank and the United Nations sought to revive rich-country constituencies for development assistance. Two concerns had to be balanced: one, that large aid programs could undermine the institutional maturation that was necessary for achieving middle-income status: in World Bank parlance, countries had to 'own' their development programs, even if donors paid for them. Second, ownership in the abstract was a non-starter: the programs chosen by African governments had to be attractive enough to be bankrolled by Western governments and taxpayers.

In the two major aid initiatives of the decade, donors addressed these concerns through an appeal to shared norms. Poverty reduction – recalling what Catholic teaching had earlier called "a preferential option for the poor"[29] – became the centerpiece of the aid relationship. Countries were obliged to develop formal poverty reduction strategies to qualify for debt relief under the Highly Indebted Poor Countries (HIPC) multilateral debt relief initiative of the World Bank and IMF; in the UN's Millennium Development Goals initiative (formalized in 2000), donors and recipient governments alike committed themselves to cutting 1990 poverty headcounts in half by 2015. The focus on poverty reduction served, in our view, not just as an effective rallying point among donors, but also as an instrument for progress both on the ownership front, as the poverty reduction strategy process fostered (and was effectively displaced by) a return to long-range development planning at the country level, and on the accountability front, as the adoption of quantitative targets fostered a focus on results by both donors and recipients.

7. New Players and New Priorities

The aid regime of the 2000s diverged in some striking ways from that of the 1990s. In the international relations realm, the war against terror and the economic emergence of China placed the norms-based approach of the 1990s under pressure. The entry of new private actors like the Gates Foundation raised the performance bar for traditional donors and fostered substantial progress in specialized areas including health. Finally, the countries of emerging Africa re-engaged the development planning processes that had been marginalized by a generation of crisis and reform, and took the initiative in placing economic growth squarely back on the development agenda.

The attacks of September 11, 2001 reoriented US foreign policy around the war on terror. Africa became a target of heightened security interest for the US, given the region's historical ties to Islam,

[28] The Berlin Wall fell on 11/9/1989.
[29] See Pope John Paul II's encyclical *Centesimus Annus* (1991), written on the hundredth anniversary of *Rerum Novarum*. The 'option for the poor' dates from Gutiérrez, Gustavo, *A Theology of Liberation: History, Politics and Salvation*. Maryknoll, NY: Orbis Books, 1973.

proximity to the Middle East, and role as staging ground for Islamist attacks on US embassies in Kenya and Tanzania. The development window therefore ended on 9/11, in the sense that US aid policy in Africa would now have to be consonant with pressing geo-strategic objectives. At least to date, however, the net impact of the new strategic context has probably been to increase both the quantity and the quality of US aid to Africa.

The causal lines are not fully clear, but the Bush Administration showed a sharply increased interest in aid to Africa. By presidential directive, the US took the lead in the fight against HIV/AIDS and malaria. Faith-based non-governmental organizations found increasing support, becoming important conduits of US bilateral assistance. In a final innovation, the Millennium Challenge Account (MCA) became the main channel for US bilateral assistance to the poorest countries. The MCA was designed to institutionalize a high-ownership, high-accountability approach to aid. Countries that score well on a set of indicators of governance and policy become eligible to submit proposals for large, multi-year packages that are free of conditionality but build in rigorous impact assessment. Eligibility and allocation decisions for this portion of the aid budget have been shifted out of the State Department, to the Millennium Challenge Corporation, a quasi-independent body.

China's entry into the World Trade Organization in 2001 marked that country's emergence as a major player in the international arena. Chinese aid to Africa continues to grow rapidly, and comes as part of a much larger package including trade and foreign investment. Our framework suggests two observations regarding the likely development impact in Africa. The first follows from China's own political economy, which combines authoritarian government with an aggressive pursuit of business interests and a self-protective commitment to non-interference. China presents African governments with a sharp alternative to the institutions and norms of Western aid. This is likely to widen the articulation we have already emphasized in Tables 1 and 2. Where economic and political reforms are substantially consolidated, as in emerging Africa, countries will benefit from a widening of ideas and financial options – and, it should be acknowledged, from an erosion of the monolithic bargaining power of Western donors. Where the investment environment is weaker, the same channels are likely to slow institutional progress by entrenching the power of authoritarian leaders, as in Sudan and Zimbabwe.

The second line of influence operates along the columns, via the structure of African trade. China is simultaneously a competitor to Africa in world manufacturing markets and a source of demand and foreign direct investment in natural resources. Its increasing weight in the world economy therefore tends to deepen Africa's comparative advantage in natural resources. This in turn slows the emergence of manufacturing in Africa and increases the reliance of African governments on commodity rents. Within our framework, these rents may slow institutional progress by reducing the pressure for domestic revenue mobilization. On the reverse side, of course, where institutions are already strong, commodity rents can be leveraged into public investments that improve the investment environment.

Particularly in the health arena, private-sector actors in the industrial countries now play a more prominent role in Africa than they have in the past, both as providers of their own funds and as delivery mechanisms for assistance from sovereign donors (e.g., running aid-financed health clinics). The major foundations subscribe to the norms-based approach of Table 2 and often work more directly with civil society than the multilateral institutions or bilateral donors can do. The Global Fund for HIV/AIDS, Tuberculosis and Malaria, instituted by the G8 countries in 2002, has served as a highly effective coordinating mechanism, channeling funds from both public and private sources to recipient governments and non-governmental service providers (foreign and domestic NGOs) and ensuring that priorities and coordination are driven by the host government.

A striking feature of the 2000s is the return of African governments to long-range development planning. In a fundamental display of ownership, these plans depart in some striking ways from the MDG framework – emphasizing participatory long-run growth rather than human development *per se*, and stressing macroeconomic stability, infrastructure, financial development and export competitiveness.

8. Conclusions

Our aim in this paper has been to do justice to an epochal change in development prospects in Africa. A large portion of the continent has gone through far-reaching economic and political reforms and has reaped substantial benefits in terms of sustained economic growth. While few stakeholders are satisfied with the impact of growth on the poorest, the terrain of this debate is fundamentally changed: before growth, there was nothing to distribute, and before democratic reforms, there was nothing to discuss. Under pressure from their own populations, the governments of emerging Africa are struggling to accelerate the growth process, to improve its employment content, and to make markets work for the poor. We believe that progress to date will be sustained, and that the narrative of emerging Africa will become the narrative of the continent.

We close by considering some implications of our analysis for faith-based NGOs in Africa. Official development assistance became a major source of funding for NGOs during the 2000s, reflecting their focus on human development and comparative advantage in delivering services at the local level. For Catholic NGOs in particular, the evolution of donor priorities and policies was surely striking: poverty reduction, ownership, and accountability are central themes of *Populorum Progressio*. These NGOs became natural conduits for donor funds in Africa.

Two challenges seem critical as faith-based NGOs seek to deepen their development contribution in Africa. The first is that the funding process puts Western NGOs into competition for service delivery with African NGOs and African governments. Our framework suggests that Western NGOs will have to remain vigilant in building local capacities – an area in which they arguably have a strong comparative advantage over official donors – to avoid being at odds with the advances in ownership and institutional development that are critical to Africa's progress.

The second challenge brings us back to the investment environment. Each development partnership between a donor or service provider and an African population is to some degree a struggle for hearts and minds. Africa is of immense practical importance for the Catholic Church in terms of participation and vocations; and since 9/11 the Western donors have viewed Islam with strategic concern. The changing aid terrain therefore suggests that religion may become a more important locus of struggle in the coming years. Looking ahead, one of the fundamental challenges facing faith-based NGOs and bilateral donors is that of embracing Africa's interest in an inclusive and tolerant politics.