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Economic and institutional reforms in French-speaking West Africa: Impact on efficiency and growth

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Economic and Institutional Reforms in French-speaking West Africa

Impact on Efficiency and Growth

Anders Danielson*

July 2001

Abstract

This essay examines some outcomes of two decades of market oriented reforms in the West African Economic and Monetary Union (WAEMU). In general, economic performance, measured by growth of per capita incomes, has not been encouraging, despite far reaching reforms, including privatization, liberalization, and deep regional integration.

Social indicators suggest that poverty reduction has not been achieved through reforms. Several indicators on access to primary health care, and inputs and outcomes in primary education show deteriorating trends in the majority of countries. However, social indicators in the WAEMU are better than those in other countries in sub-Saharan Africa.

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Keywords: economic reforms, West Africa, institutions, privatization

JEL classification: O10, O19, O23, O55

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Finally, the paper attempts to test the extent to which institutional quality in WAEMU differs from that in other parts of the world. The general results from this exercise are that (i) indicators of institutional quality in sub-Saharan Africa is significantly lower than in non-African parts of the world; (ii) this explains much of the growth difference; and (iii) institutional quality in WAEMU does not differ from that in other parts of Africa, despite more centralized institutions.

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Anders Danielson
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1. Introduction

It is something of an irony that while bureaucratic inadequacy is usually cited as a major cause of the dismal result of Africa's economic performance, these same governments are usually entrusted with implementing profound and difficult reforms in order to improve economic performance.¹ In several African countries, governments have been made responsible for the implementation of profound and comprehensive reform packages the counterparts of which have scarcely been found in the industrialized world. Yet African governments are often characterized by questionable legitimacy, poor implementation capacity and a behavior characterized by centralization and discretion. The reform of African governments and bureaucracies is, therefore, often seen not only an objective in itself but also a precondition for successful reform of the economy.

In addition, the quality of governance is inextricably linked to the result of reform exercises, most notably, perhaps, to poverty alleviation. Failure by the government to implement and maintain property rights hurts the poor, as do discriminatory practices in labour, land and credit markets. A government lacking political authority and which is rife with corruption and patronage may find it impossible to stimulate the collective action activities necessary to bring the fruits of growth directly to the poor. A government devoid of political legitimacy fails to reflect in its activities the preferences of poor citizens and consequently legislative action or allocation of expenditures may not be in favor of the poor. A country, in which the government is unable to formulate and maintain clear, credible and transparent rules of the game will not be able to generate the growth needed for sustainable poverty reduction.

This paper deals with the experience of reforms of government in the West African Economic and Monetary Union (WAEMU). The potential for successful reform in this union differs somewhat from that in other parts of Africa, notably because of the common central bank and the membership of the countries in the CFA-zone. The common monetary policy has provided the WAEMU countries with relatively low inflation and a set of common institutions, which could facilitate smooth reforms.

The paper focuses on reform objectives and outcomes with particular attention paid to what is sometimes known as 'second generation', reforms, i.e., reforms implemented in order to focus government affairs on core activities, notably increasing the efficiency and volume of social sector services. The paper is organized in the following manner. Section 2 outlines the broad characteristics of reforms. Section 3 and 4 discusses two aspects of rationalization of government affairs, viz., privatization and civil service reform. Section 5 looks into social sectors and attempts to assess, data permitting, how the scope and efficiency of delivery of such services have changed with reforms. Section 6 uses some recent data to discuss issues of governance in relation to non-WAEMU countries. Section 7, finally, offers some concluding remarks.

¹ Throughout this paper, I use the term 'economic reforms', to refer to the policy packages on which ESAF and IDA credits are conditioned. While details differ from country to country, the essentials are usually the same: macro-economic stabilization; liberalization of goods and factor markets; deregulation; and rationalization and reduction of government activities.

2. Reforms in the West African economic and monetary union

The West African Economic and Monetary Union was formed in January 1994 in conjunction with the devaluation of the CFA franc. The original members were Benin, Burkina Faso, Côte d'Ivoire, Mali, Niger, Senegal and Togo. In 1997, Guinea-Bissau became a member. The main purpose of the WAEMU was to strengthen economic collaboration between members by, for instance, the adoption of a common external tariff, to harmonize economic policies, to speed up domestic reforms through peer pressure, and to pave the way for integration into the economic community of West African states (ECOWAS).

As shown in Table 1, the countries display wide differences in terms of economic performance, but some generalizations are possible. First, in all countries, except Guinea-Bissau and Togo, recent per capita growth is higher than that for the period 1965-98. This is in contrast to the sub-Saharan average, which shows roughly the same (negative) growth rate in the late 1990s as in the period from 1965. In some cases, the improvement is spectacular: Senegal, with a 1965-98 average of -0.4 percent per annum had in the late 1990s achieved a per capita growth rate of almost 4 percent per annum. Similarly, Côte d'Ivoire has increased its rate of per capita growth from -0.8 percent per annum to 3.9 percent. In addition, while per capita incomes are somewhat higher in the WAEMU than in sub-Saharan Africa, the WAEMU region masks wide disparities; from Guinea-Bissau's US\$160 in 1998 to Côte d'Ivoire's US\$700.

Second, while all countries, except Guinea-Bissau, have been members of a monetary union for a long time, inflation has been significant for several members under the 1990s. However, the recent data suggest the attainment of price stability: five of the eight economies show *falling* consumer prices in the late 1990s. Moreover, even though the existence of a monetary union has not harmonized the development of prices in the union, the fact that the WAEMU average inflation is substantially below that of sub-Saharan Africa suggests that the option of monetizing the fiscal deficit has been absent in WAEMU.

Third, revenue collection is low in the union; lower, in fact than in the rest of sub-Saharan Africa. As will be argued later on in this paper, this is likely to have a bearing on the government's ability to deliver adequate services to the population—notwithstanding the fact that several WAEMU members belong to the group of countries that receive most foreign aid per capita in the world.²

Fourth, the fact that WAEMU members do not have the option of financing fiscal deficit through the printing press has not ensured fiscal stability. Leaving the special case of Guinea-Bissau at the side, several countries record fiscal deficits (before grants) of over 7 percent of GDP, and deficits after grants around 3 percent of GDP. There are no apparent differences between WAEMU and SSA in this respect. However, while many SSA countries financed the deficit through monetization, that option has not been open to

² Note, however, that the correlation between aid per capita and income per capita is less than perfect; the poorest members of the union do not receive more aid per capita than the relatively richer members.

WAEMU countries, which have resorted to borrowing from the domestic banking system and non-fulfillment of obligations towards domestic suppliers.³

In all countries, however, reforms were initiated prior to the creation of WAEMU. One issue, which has a strong bearing on the government's legitimacy and its commitment to reform, of course, is to what extent the initiative to and design of the reform package was home-grown or imposed by donors; the history of reforms in low-income countries suggest that home-grown reforms have a better chance of success (White, 2000; Devarajan, *et al.*, 2000; World Bank, 1998). While reforms have differed substantially between countries—both with respect to commencement and content—reforms in the WAEMU countries are characterized by two common themes.

First, reforms are triggered by (economic or political) crisis. National protests against perceived corruption followed by social unrest forced the Beninese government to resign and the new government stated to dismantle large parts of the bureaucracy. In Côte d'Ivoire, a mounting debt crisis forced the government to seek extraordinary means; in Mali, a deteriorating economic situation created a political crisis and the transition government widened and deepened the reforms originally implemented as a remedy to the structural imbalances of the mid 1980s. In most cases, a rapidly deteriorating economic situation, or political turmoil, or growing social rest forced the political authorities to radically change the course of the economy. This, of course also helps to explain why most WAEMU countries started reforms in the mid 1980s: following commodity price bonanzas, oil shocks and recessions in the most important export markets, deficits began to grow at alarming rates.

Second, IMF agreements are seen as a last resort or, alternatively, attempts to reform the economy usually start prior to a formal IMF agreement. In Burkina Faso, Niger, Senegal and Togo, domestic reform programmes were tried prior to agreements with the BWIs. The extent to which these packages were modified depended on their content and the success with which they had been implemented. In Burkina Faso, for instance, where the policy of *rectification*⁴ has been going on since 1987, the 1991 IMF agreement broadly endorsed that policy. In contrast, Senegal's performance under the homegrown reform programme was weak and the 1985 IMF agreement went much further and introduced new components, including amendment of the labour code, dismantling of public monopolies, and reorganization of the system of revenue collection. In several cases, relations to the

³ See Dore and Nachege (2000) for a fuller analysis. The available data makes it difficult to disentangle in detail the sources of domestic debt accumulation. However, it does seem that arrears in salary payment has not been a frequent method for closing a fiscal gap.

⁴ In the Burkinese context, the policy of rectification means the gradual dismantling of state controls built up from the late 1960s.

TABLE 1: BASIC INDICATORS

	Per capita growth 1965-98 ^a	Per capita growth, MRE ^a	Per capital income, MRE ^b	Inflation (%) 19 93-98	Inflation (%) MRE	Revenue (% of GDP) MRE ^c	Fiscal balance (% of GDP) MRE ^c	External balance (% of GDP) MRE ^d
Benin	0.1	1.9	380	9.7	0.32	15.5	2.0	-4.9
Burkina Faso	0.9	3.8	240	6.5	-1.07	13.1	-2.9	-9.8
Cote d'Ivoire	-0.8	3.9	700	7.8	0.79	22.2	-1.8	-5.0
Guinea-Bissau	-0.1	-28.9	160	30.6	-0.70	5.5	-16.2	-15.9
Mali	-0.1	1.3	250	6.5	-1.20	16.1	-2.3	-7.9
Niger	-2.5	4.8	200	8.0	-2.30	9.0	-1.9	-10.0
Senegal	-0.4	3.8	520	6.6	0.82	16.1	0.0	-6.9
Togo	-0.6	-3.5	330	9.8	-0.07	14.3	-5.1	-5.9
SSA average	-0.3	-0.4	340	52.9	11.5	20.0	-3.8	-10.5

Sources: World Development Indicators, 2000; African Development Indicators, 2000; International Financial Statistics, December 2000.

Notes: ^aAnnual average growth of real GDP per capita. ^bMost recent estimate of GDP per capita in current US\$, South Africa is excluded from the SSA average. ^cAs percentage of GDP. Including grants. ^dAs percentage of GDP.

TABLE 2: INDICATORS OF REFORM PROGRESS

	Non-Tariff Barriers ^a		Export Controls ^b		Producer Pricing ^c		Change in policy stance ^d
	Before reform	Late 1992	Before reform	Late 1992	Before reform	Late 1992	1981-91
Benin	All	0	1	1	1	2	-0.2
Burkina Faso	Hundreds	19	1	1	1	1	1.0
Côte d'Ivoire	37 percent	Little change	3	3	1	3	-1.3
Guinea-Bissau	n.a.	n.a.	1	3	1	4	n.a.
Mali	58	0	1	1	1	2	0.5
Niger	Hundreds	9	1	3	1	4	0.3
Senegal	Hundreds	About 15	1	1	1	1	0.5
Togo	20	2	1	1	1	1	-0.2

Source: Compiled from World Bank (1993).

Notes: ^aNumber of commodities subjected to nontariff barriers. ^bIndicator of price control on export sales: 1 = Public sector monopoly; 2 = Parastatals and private sector in competition; 3 = Exporters licensed by government or parastatal; 4 = Private sector competition. Figure in table is unweighted average for the commodities for which the information is available. ^cIndicator of price controls of producer pricing: 1 = Price set at government's discretion; 2 = Price set but linked to world market price; 3 = Indicative producer price recommended; 4 = No prices set. Figure in table is unweighted average for the commodities for which the information is available. ^dChange in index of policy stance, including fiscal, monetary and exchange rate policies. A increase > 1.0 is large improvement; an increase < 1.0 is small improvement. A decrease is a deterioration. See World Bank (1993: 261) for details.

IMF have been uneasy and sometimes characterized by policy reversals. As reforms are triggered by a rapidly deteriorating situation, the implication is that the financial and technical assistance offered by the BWIs often are made available late in the crisis, so reforms are usually associated to harsh and stringent measures being implemented early in the reform process (cf. also Botchwey *et al.*, 1998 for a similar point).

Moreover, the short descriptions above suggest that reforms have been rather slow and sometimes characterized by reversals. Table 2 shows how World Bank staff ranked certain reforms in WAEMU countries in 1980 and 1990-1, i.e., before and after reforms had begun. While the number of non-tariff barriers had diminished markedly in most countries (save for Côte d'Ivoire), deregulation in most of the economies were less heartening: in six out of eight countries the government did little to bringing prices closer to world market prices; and while the situation was a little better for producer prices in general, it deserves to be noted that three countries retained the government's control over prices as late as in 1992. In addition, the indicator of changes in the macroeconomic policy stance reinforces the impression that reforms were slow and reluctantly implemented. Only one country, Burkina Faso, recorded large improvements (and that was from an initial situation characterized by large deficits and an unsustainable situation), while the macroeconomic situation in two countries deteriorated, despite financial and technical assistance and a nominal commitment to reform.

While the later part of the 1990s has seen progress on the macroeconomic front in most countries (Guinea-Bissau excepted, due to the 1998-9 conflict), three weaknesses in the reform programmes are apparent. First, the economies display structural fragility; revenue collection is low, the fiscal situation is unstable and exports are concentrated in one or a few (often primary) commodities. Second, some reforms are being implemented only slowly. Thus for instance, privatization of parastatals is almost never on par with the reform schedule; financial liberalization often appear superficial, focusing more on numbers of existing banks than credit availability; and integration, and in particular the harmonization of the WAEMU policies with those in ECOWAS, is painfully slow. Third, even though growth has resumed in most countries, the impact on poverty levels is still largely absent. To some extent this is likely to be a consequence of fiscal restraint and the inability to significantly raise revenue levels, but it may also be a consequence of pattern of growth. In addition, most countries in the region appear to be only at the beginning of implementing innovative systems for delivery of social services. If the impact on poverty does not show up, there is a risk that public support for reform programmes falter.

3. Civil service reform

Several countries in WAEMU have taken important and significant steps towards reforming the civil service. Staffing has been reviewed and often reduced and the wage bill has been cut. However, the pay structure is still compressed (and even more so following the 1994 CFAF devaluation), promotion policies are in some countries outdated, and there is a definitive need in most countries to create performance-based remuneration systems. In many Francophone countries, however, the civil service has traditionally acted as a sponge for absorbing graduates (and sometimes connected people in general) and changing

these systems is likely to require strong political will.⁵ Reduction of the civil service has been made both through reduction of overstaffing and elimination of ghost workers, by voluntary retirement, and by retrenchment. In several countries this has contributed to serious imbalances particularly understaffing in social sectors.

With regard to the issue of remuneration, there are at least three issues that need to be distinguished. First, the *public-private salary differential*. To retain competent staff in the public administration, it is vital that the public sector is able to offer competitive remuneration. To be able to afford that, without increasing the total wage bill, a rationalization of staffing is often considered necessary. Second, the *salary structure* within the public sector. The 1980s and 1990s saw a compression of the salary structure in the public sector; for many higher-ranking officials real wages fell sharply. To compensate for that, alternative systems of remuneration expanded, including allowances, fringe benefits and non-monetary compensation. With demands for increased budget transparency, there is a need to remove or transform such benefits while increasing the nominal pay differential to be able to compete with the private sector. Third, the creation of a *performance-based* system of promotion. The incentives to perform well are not obvious in many public sectors. Years of service, rather than performance, determine the pace up the ladder. To increase efficiency in the bureaucracy and to create incentives for good and efficient performance, a benefit system based on clear, transparent and objective criteria is warranted.

The state of civil service reforms in the WAEMU countries differs substantially. While some countries, e.g., Senegal, have managed to launch a reform of civil service promotions based both on seniority and merit and to link this to quality indicators of social service delivery, other countries, e.g., Niger have repeatedly tried to come to terms with a growing and relatively inefficient bureaucracy, including four freezes on hiring since 1987, two new pay scales and two instances of reducing nominal wages in the public sector (Lienert and Modi, 1997), and new staffing reforms are planned for 2001/2 (Niger PFP).

Turning to some evidence of civil service reform, Table 3A shows the share of the wage bill in total recurrent expenditure for selected years. It is clear that while some countries, e.g., Burkina Faso and Mali, have succeeded in containing labour costs in the civil service, the trend is by no means unambiguous for the majority of countries. In fact, in some countries the wage bill's share of recurrent expenditures had increased (Senegal) or remained virtually constant (Côte d'Ivoire, Togo). Thus, the available data on the wage share provide no indication of a consistent slimming of the public sector in the 1990s.

The pattern with respect to public sector employment provides similar indications (Table 3B), although data is only available up to 1997. For some countries (Benin, Côte d'Ivoire, Mali) public sector employment as share of population has declined consistently and significantly while in other countries the share has remained virtually constant (Burkina Faso, Guinea-Bissau, Togo). It should be noted that the high rate of population growth in West Africa implies a relatively rapid growth of the number of employees in the civil service (Table 3C).

⁵ The fact that the public sector has often acted as a sponge in Anglophone countries as well, does not diminish the problem in Francophone countries.

TABLE 3: WAGE BILL AND EMPLOYMENT IN CIVIL SERVICE

	1985	1990	1994	1995	1996	1998
A. wage bill as % of recurrent expenditure						
Benin	n.a.	49.6	41.4	38.3	39.3	43.4
Burkina Faso	64.8	53.7	44.3	46.0	48.0	45.6
Cote d'Ivoire	29.2	37.4	34.3	33.2	36.0	37.7
Guinea-Bissau	55.6	25.6	18.3	18.2	20.1	24.9
Mali	63.0	57.4	33.7	35.6	36.8	36.2
Niger	35.5	40.7	43.8	48.7	38.8	36.5
Senegal	48.6	45.3	45.9	48.2	50.7	48.9
Togo	33.7	38.5	39.6	42.2	39.2	38.9
B. public sector employment as % of population						
Benin	1.1	0.9	0.6	0.6	0.6	n.a.
Burkina Faso	0.4	0.4	0.4	0.4	0.4	n.a.
Cote d'Ivoire	n.a.	1.0	0.8	0.7	0.7	n.a.
Guinea-Bissau	1.8	1.7	1.8	1.8	1.7	n.a.
Mali	0.5	0.5	0.3	0.3	0.3	n.a.
Niger	0.5	0.5	0.4	0.4	0.4	n.a.
Senegal	1.0	0.9	0.8	0.8	0.8	n.a.
Togo	0.6	0.6	0.6	0.5	0.5	n.a.
C. public sector employment ('000)						
Benin	46.3	41.3	32.7	32.3	32.0	n.a.
Burkina Faso	28.7	33.5	37.1	39.8	40.0	n.a.
Cote d'Ivoire	n.a.	118.0	108.3	105.2	102.6	n.a.
Guinea-Bissau	16.6	15.9	18.6	19.3	18.5	n.a.
Mali	35.0	39.4	29.1	29.1	29.1	n.a.
Niger	32.7	35.6	39.8	n.a.	40.0	n.a.
Senegal	68.1	65.6	66.7	67.0	67.0	n.a.
Togo	20.1	20.5	21.7	21.8	21.8	n.a.

Sources: *African Development Indicators*: 2000, World Bank: Washington DC; Lienert and Modi (1997).

The difficulty of restraining the number of employees in the civil service is linked partly to the increased demands put on services from the public sector under economic reform programmes, and partly to the traditional role of the public sector in Francophone Africa. To address the latter issue countries have used more or less imaginative methods, including removal of employment guarantees to new graduates (Benin, Côte d'Ivoire, Niger); compulsory retirement at legal age (Burkina Faso, Senegal), or reduction of the statutory retirement age (Togo);⁶ these measures are usually preceded by politically easy reforms such as censuses of public employees in order to remove ghosts, elimination of vacant posts and limits on hiring. In addition, some countries have tried to use 'one-to-one',

⁶ Note that while reduction of the statutory retirement age may have an impact on the size of the civil service work force, it does not necessarily improve government finances, both because of higher pensions and of smaller employee contributions.

recruitment policies (Côte d'Ivoire, Senegal); others (Benin) have used 'three-out-one-in', as the basis of limiting employment in the civil service.

To the extent that the countries have not succeeded in reducing the public workforce, part of the explanation may be that it is politically difficult. Easy reforms, such as the removal of ghosts or elimination of vacant posts, can only contribute so much and in addition the latter method may affect service delivery negatively. Other means, such as forced retirement or outright retrenchment may be politically costly, in particular as long as the private sector's capacity for absorbing additional labour is limited. In addition, as noted above, the civil service has traditionally been the sponge absorbing new graduates or people with connections. The obvious means for screening applicants in order to select only the most capable would be competitive entrance examinations; the information available for this report suggest, however, that only two WAEMU countries (Niger and Côte d'Ivoire) regularly use this device.

One argument in favor of retrenchment is that the savings made allow for both a general increase of the salary level and a decompression of the salary structure. This would improve the public sector's position vis-à-vis the private sector. Ideally, retrenchment should be focused on those employees that have ceased to be productive and which are reluctant to be retrained. However, efficient mechanisms for identifying and targeting such employees are absent in WAEMU countries. Instead, retrenchment is often centered on labour in the lower echelons—drivers, messengers, and labour contracted on a daily basis. Consequently savings made from retrenchment is often insufficient for substantial salary reforms. However, the fiscal argument for retrenchment in WAEMU countries would seem to have become a bit weaker in the second half of the 1990s. There are two reasons. First, the 1994 devaluation led as Table 4 shows, to declining real wages in several countries. However, as this also implies increased salary compression, the need for salary restructuring has probably increased.

TABLE 4: REAL WAGE PER CIVIL SERVANT: INDEX, 1990 = 100

	1986	1988	1993	1994	1996
Benin	n.a.	100 ^c	120	108	120
Burkina Faso	76	97	85	73	66
Guinea-Bissau	91 ^a	104	81	70	65
Mali	121 ^b	121	140	133	126
Niger	68	87	116	97	59
Senegal	81	96	105	89	87
Togo	80	97	94	82	79
Non-CFA, average ^d	n.a.	n.a.	93	88	85

Source: Lienert and Modi (1997), Table 8.

Note: Data for Côte d'Ivoire unavailable. ^a1987; ^b1988; ^c1989. ^dunweighted average for Burundi, Ethiopia, the Gambia, Ghana, Kenya, Lesotho, Madagascar, Malawi, Mauretania, Rwanda, Sierra Leone, Tanzania, Uganda, Zambia and Zimbabwe.

Second, in the 1990s donors have become more willing to help finance severance packages. While these used to be a substantial burden on the budget, the World Bank's decision to provide soft loans, the IMF's endorsement of treating severance packages as investment rather than recurrent expenditures, and the acknowledgement by several

bilateral donors that aid to assist retrenched workers may speed up civil service reforms substantially eased the situation and made it possible for governments to cut public sector employment at a faster pace.

And external assistance to finance severance pay is much needed. Lienert and Modi (1997) note that the average package—in addition to an average of three months' pay in lieu of notice—was 12 monthly salaries in Guinea-Bissau, 48 in Mali and up to 60 monthly salaries in Senegal. Haltiwanger and Singh (1999) calculate that the retrenchment cost (including severance pay) per worker in Benin's civil service amounted to almost US\$6,500 and in Senegal over US\$13,000. The latter figure amounts to over 20 times Senegal's GDP per capita.

However, the experience of retrenchment in WAEMU has run into two problems (Haltiwanger and Singh, 1999). First, while it is desirable to retrench labour that has ceased to be productive, it is often difficult in practice to measure individual productivity in the administration. Rama (1997) considers a simple model in which the private sector can measure individual productivity while the public sector cannot. If both sectors demand the same effort from workers and the public sector offers severance pay to retrenched workers, Rama argues that the productive workers will leave the public sector while the unproductive workers remain. The reason is that productive workers continue to deliver the same effort in the private sector while those that shirk in the public sector cannot continue to do so in the private sector. Such perverse selection (Agénor, 2000) harms the public sector.

The second problem is the revolving door syndrome; that retrenched workers are rehired and thus defeating the government's reform effort. Rehiring may occur in the absence of a working targeting mechanism. In that case, the same organization and unit may rehire the retrenched worker. In other cases, other parts of the civil service hire the retrenched worker. Haltiwanger and Singh (1999) survey the experience of retrenchment in a large number of countries and find that almost 60 percent of all retrenchment exercises that did not use targeting used rehiring and that over 60 percent of the programmes that used skill targeting did not use rehiring. In addition, the probability of rehiring was higher in programmes without a social safety net component. The inference, of course, is that the pressure to rehire is greater if the retrenchment strategy offers no assistance to workers in the transition to the private sector.

In sum, all countries in WAEMU started civil service reform programmes in the 1980s, but progress differs considerably. Most countries have conducted censuses of the civil service and removed ghosts. Salary reforms have been difficult, particularly because the compression effect of the devaluation. This, in turn, has rendered it more difficult to monetize, tax and rationalize the various benefits associated with employment in the higher echelons. On the other hand, most countries have a rather small private sector, so the alternatives for able civil servants are limited.

Finally, while a reduction of the public workforce may be warranted in many countries in WAEMU—for fiscal as well as efficiency reasons—it is important to ensure that a sufficient, motivated and competent workforce is available for social sectors. While it is difficult in much administrative work to distinguish individual productivity, it is usually less difficult to identify the contribution of different units to total output (e.g., the number

of vaccinations per week). The identification of unit (or individual) productivity appears central, both for efficient retrenchment exercises and for designing salary systems that favor initiative and merit. As long as governments lack the administrative capacity to carry out such reviews themselves, a natural starting point would be expenditure tracking studies in the Public Expenditure Reviews.

4. Privatization and divestiture

There are few things that better illustrate the importance of ownership than the record of privatization in Africa. The idea that efficiency may be enhanced and fiscal balance improved through the selling out or liquidation of parastatals came to Africa with the World Bank's structural adjustment lending, and thus had little initial support in the countries concerned. 'The fact that privatization has come to be so widely viewed as imposed by the Bank and the Fund, and not truly homegrown', writes Elliot Berg (1999: 246), 'has diluted political will and support'. Consequently, the pace of privatization in Africa has been slow, both in relation to progress on other continents and in relation to targets. In several cases, policy reversals have occurred. Thus for instance, of the 21 enterprises listed as privatized in Ghana in 1991, eleven were listed as state-owned in 1992 (Berg, 1999: 234). Moreover, privatization progress is extremely biased to a handful of countries. Of the roughly 2,000 divestitures completed up to 1996 in Africa, three-quarters occurred in ten countries and half in four countries. In terms of value, three quarters of the US\$2.1 billion total were generated in four countries, and half in South Africa and Ghana alone. Data concerning the number of transactions and their value for the WAEMU countries are in Table 5.

TABLE 5: PRIVATIZATION TRANSACTIONS. INCLUDING LIQUIDATIONS

	No. of trans- actions 1988-98	Sale amount ^a	Median value ^a	Planned trans- actions (1998)	Foreign buyers ^c
Benin	14	52.5	1.2	7	3
Burkina Faso	3	6.3	0.8	11	1
Côte d'Ivoire	47	570.6	2.3	40	20
Guinea-Bissau	3	0.7	0.2	5	0
Mali	5	21.9	0.9	7	0
Niger	10 ^b	3.47	0.35	9	n.a.
Senegal	3	150.3	65.3	17	1
Togo	11	38.7	2.3	2	6

Sources: IPN data base (Washington DC: MIGA); current Policy Framework Papers for Benin, Burkina Faso, Côte d'Ivoire, Mali, Niger and Senegal; Government of Guinea-Bissau: 'Letter of Intent', August 13, 1999; Public Information Notice 99/57: 'IMF concludes Article IV Consultation with Togo', IMF, 7th July, 1999

Notes: ^aMillions of US dollars. ^bExcluding liquidated entities. ^cNumber of transactions involving foreign investors

There are a few points to make from that table (even though data are likely to be unreliable and should serve as indicators only; on this point see Berg, 1999). First, the number of firms being listed for privatization and liquidation in the current three-year time span is often almost as high as the number of firms being brought away from government ownership in the previous decade. Second, the fiscal effect is small. Third, foreign

involvement is limited in terms of number of transactions, although not necessarily in terms of value: foreign investors typically are involved in the bigger deals.

The big question is of course why reform of state-owned enterprises is so slow in Africa. I have already pointed to the problem of ownership—privatization is usually imposed from donors, and few domestic groups support it—but even when resistance from ‘workers worried about losing jobs; officials, who see loss of influence and rents; and students, university professors and other intellectuals who see dirty deals everywhere’, (Berg, 1999: 244) can be overcome, there are several factors explaining the slow pace, and which may also suggest that donors should be less emphatic about rapid privatization.

Adam (1999) suggests three conventional types of explanations. First, that influential interest groups resist privatization because it would mean a loss of an instrument of patronage. Second, privatization is simply not efficient in many African economies, due to their small markets, high transport costs, and regulated environments. Third, the relatively slow pace of reform in other areas makes it less profitable to take over parastatals: there is a lack of efficient financial markets; there is uncertainty as to what the government will do; there is often overvaluation on the part of the seller; and deals often come in packages. The last point is nicely illustrated by a representative for the Cargill Co-operation:

If we were to become involved in processing groundnuts [in Gambia], we would not necessarily want to run up-country stores. We would not necessarily want to run research stations. We would not necessarily want to run the Gambia River Transport Company. But ... there seems to be a reluctance to set aside what should be available to the private sector and what should be the responsibility of government or parastatals’. (Maynard, 1992; quoted in Berg, 1999: 282)

But the overwhelming problem is likely to be a lack of ownership: it is difficult to convince various groups of the necessity of privatization.⁷ Indeed, if the selling out of state-owned enterprises comes as a condition in IMF or World Bank agreements, the Ministers or their advisers may be less than zealous about the idea. Consequently, the failure of informing the public of the benefits of privatization may be a reflection of the lack of ownership in the government itself.

There are, however, alternatives to outright privatization—what Berg (1999) denotes ‘indirect privatization’. These include leasing, concessions, and out-sourcing, and may be viable alternatives to privatization in the sense that they are less harmful to national pride and thus less politically costly. However, such arrangements demand relatively liberalized

⁷ And the necessity of privatization is probably one of the issues in which academics stand divided. The usual standpoint is that ownership does not matter, competition does. Berg (1999: 243ff) presents a number of arguments in favor of privatization.

TABLE 6: INDICATORS OF PROGRESS IN PRIMARY EDUCATION

	Exp/student. primary (% GNP cap)		GER ^a primary		Illiteracy +15		Primary PTR	
	1980	MRE	1980	MRE	1980	MRE	1980	MRE
Benin	20.2 ^b	11.8	66.9	77.6	82.1	66.1	47.5	52.0
Burkina Faso	23.0	16.9	17.5	39.6	89.2	79.3	54.4	50.1
Cote d'Ivoire	22.7	20.7	75.0	71.3	76.9	57.4	38.7	41.0
Guinea-Bissau	32.1	24.4	67.9	61.8	81.2	66.5	22.9	24.1
Mali	31.7	15.5	26.3	45.1	86.4	64.6	42.4	69.7
Niger	26.2 ^c	18.1	25.3	29.4	92	85.7	41.5	40.8
Senegal	24.6	10.5	46.3	68.2	78.8	65.4	45.8	57.6
Togo	8.2	7.8	118.4	119.6	67.4	46.8	55.1	50.8
SSA average	n.a.	n.a.	80.7	78.0	61.7	40.5	43.5	40.9

Sources: African Development Indicators, 2000; World Development Indicators, 2000; Policy Framework Papers (various); Poverty Reduction Strategy papers (various); HIPC Decision Point documents (various).

Notes: ^aGross enrollment ratio. ^b1975; ^c1981.

TABLE 7: INDICATORS OF HEALTH STATUS

	Adult mortality rate ^a		Under 5 mortality rate		Public expenditure on public health per capita (US\$)	
	1980	1998	1980	MRE	1990	MRE
Benin	418	402	214	140	1.8	4.9
Burkina Faso	426	426	242 ^b	210	3.7	11.0
Cote d'Ivoire	431	426	170	143	14.3	10.3
Guinea-Bissau	450	422	290	205	2.7	2.5
Mali	444	420	315 ^c	218	4.5	3.9
Niger	464	433	317	250	4.3	3.3
Senegal	477	444	195 ^c	121	21.8	6.7
Togo	471	454	188	144	6.2	5.1
SSA average	479	453	188	151	n.a.	n.a.

Sources: African Development Indicators, 2000; World Development Indicators, 2000; Poverty Reduction Strategy papers (various).

Notes: ^a Simple average of mortality rates for males and females. ^b1982. ^c1979.

markets, for output and factors, and thus cannot be expected to work properly until first generation reforms have been consolidated and second generation reforms are well under way.

5. Education and health sectors

Sustainable poverty reduction requires economic growth. However, the road from increased growth to reduced poverty is usually long and often winding. Poor people benefit from increased growth rates because higher growth increase the demand for poor people's labour and output, and the time-lag from cause to effect is often measured in years (Thomas, *et al.*, 2000). To speed up poverty alleviation, an increased focus on social sector spending is often warranted. In addition, several consultations with the poor show that improved access to education and health care are among the things the poor themselves put high on the priority list.⁸

A development strategy focused on poverty reduction, consequently, should aim at increasing the amount of resources allocated to social sectors and the efficiency with which these resources are put to use. Table 6 and 7 provide some indications (from limited and generally not very reliable data) on progress with respect to education and health.

Gross enrollment in primary school is up in six out of eight countries. These countries go against the stream in sub-Saharan Africa where gross enrollment has declined slightly since 1980. Moreover, in some countries the increase is significant. Thus for instance the GER has increased in Burkina Faso from less than twenty percent in 1980 to almost 40 percent in 1998 and in Senegal from less than 50 percent to almost 70 percent. Adult illiteracy is down in all WAEMU countries, although the decline seems relatively small compared to the average decline of illiteracy in sub-Saharan Africa. As for pupil-teacher ratios, a common indicator of the state of education, it should be noted that it varies a lot. Moreover, the PTR is difficult to interpret as an indicator of the quality of education as no consensus as to the optimal level exists.

However, expenditure per primary student as a percentage of per capita GNP is down in all countries. Taken by itself, this indicator does not imply shrinking allocations to primary education—it is possible, under circumstances of rapid economic growth, that student allocations increase despite a deteriorating indicator. In the WAEMU the period since 1980 has not been one of high growth, however. Three countries experienced positive per capita income growth, and in only one, Burkina Faso, did that growth exceed one percent per annum. So the data in the first two columns of Table 6 seem to suggest that allocations to primary education have declined since 1980 (and I shall return to this point below), which by itself is noticeable as the period coincides with increasing involvement in Africa by the BWIs with the explicit objective, particularly in the 1990s, of improving the quality of social sector output.

⁸ These were made as background to the *World Development Report 2000/01*. Reports from African countries include Rahmato and Kidanu (1999), Kunfaa (1999), Khalila, *et al.* (1999), Ayoola (1999) and World Bank (1999a,b). See also the participatory poverty assessment in Tanzania (Naraya, 1997).

Table 7 presents rather mixed results for health indicators. While the adult mortality rate has declined since 1980 in all countries (except Burkina Faso, where it has remained constant), and while under-five mortality has also declined, the pattern with respect to monetary allocations to the health sector displays large variations. Monetary allocations per capita have increased in two countries only, but what is noticeable is the substantial swings shown for some countries. Thus, for instance, while Senegal allocated almost US\$22 per capita to the health sector in 1980, the most recent estimate (from 1997) is less than US\$7. Similarly, Côte d'Ivoire cut its per capita allocations from US\$14 to US\$10 during the same period. Yet, fundamental health indicators such as mortality rates have improved (and the prevalence of HIV/AIDS has constituted a powerful factor against lower mortality). One possibility to explain why these two countries have seen improved mortality indicators in the face of falling monetary allocations to the health sector is that they to an increasing degree rely on the private sector to supply health services. Although I have not been able to find comprehensive data on this, the available information (from WDI, 2000) suggest that Senegal allocates from the government budget about 2.6 percent of GDP to the health sector. Expenditures on private health care contribute another 2.21 percent of GDP. In Côte d'Ivoire, private expenditures on health are almost twice as large as public expenditures (2.6 and 1.4 percent of GDP, respectively). Against this hypothesis stands the case of Burkina Faso. Here, private contributions to the health sector are more than twice as large as public contributions (2.7 and 1.2 percent of GDP, respectively). Allocations from the public budget to the health sector increased from less than US\$4 in 1980 to US\$11 in 1998; yet, Burkina is the only country in the WAEMU where adult mortality did not decline.

Allocations to social sectors declined significantly in several African countries, particularly in the 1990s. As noted, this is quite remarkable, given donors', (and, sometimes, governments') increasing emphasis on expanded social services as a vehicle for poverty alleviation. To some extent, this may be explained by tighter fiscal constraints and renewed efforts in many countries to get inflation down to manageable levels (Buckley, 1999). For several countries, this explanation makes sense. Throughout Africa, cash budgets, i.e., the idea that public spending in a given month (or quarter) cannot exceed revenue plus donor funds in the previous month (or quarter), have increasingly come into operation. The idea, of course, is that by closing the fiscal gap, the need for central bank financing declines and so inflation, fuelled by rapid monetary expansion, also declines. In several countries, the impact has been significant on inflation, but also on spending levels in social sectors. In that perspective, Table 8 presents rather disturbing figures. For the four countries with data, all spend less per student in real terms in the second half of the 1990s than in the previous period where data were available. However, while the implementation of cash budgets may have an impact in countries where previously the central bank effectively was in the decision domain of the Treasury, this is not the case in the WAEMU. The common central bank implies that alternative sources for closing fiscal gaps had to be found; no WAEMU governments were ever able to consistently run fiscal deficits and finance them through monetary expansion. Consequently, we should expect WAEMU countries to be less affected by increasing emphasis on inflation control, both because WAEMU countries have always had lower inflation than other sub-Saharan countries (cf. Table 1), and because fiscal imbalances could not be dealt with using monetary expansion.

For some countries, the fall is significant. In Senegal, the per student allocations have fallen by almost 50 percent between 1991 and 1996, and in Côte d'Ivoire per student

spending has fallen consistently since the early 1980s. It is difficult to reconcile these figures with the objectives of governments (as reflected in Policy Framework Papers and, more recently, in Poverty Reduction Strategy Papers) and donors (as reflected in the general thrust for increased emphasis on social sectors among DAC donors; cf. DAC 1996).

TABLE 8: PRIMARY EDUCATION SPENDING, CFAF PER STUDENT (1995 PRICES)

	1980-3	1984-7	1988-91	1992-4	MRE (year)
Burkina Faso	22,747	17,856	22,754	25,353	n.a.
Cote d'Ivoire	146,258	127,392	115,119	87,494	65,772 (1996)
Mali	NA	N.A.	N.A.	20,443	19,611 (1995)
Niger	35,472	N.A.	36,273	N.A.	N.A.
Senegal	58,751	49,249	54,692	N.A.	29,830 ((1996)
Togo	15,739	18,086	18,396	N.A.	12,425 (1995)

Source: Calculated from data in *World Development Indicators, 2000*, World Bank: Washington DC.

Notes: For each column, data are for the most recent year available. Sufficient data for Benin and Guinea-Bissau were not found.

Moreover, the falling allocations to primary education are reflected in the dismal performance of the school system in some countries. In Burkina Faso and Niger, the share of pupils reaching Grade 5 has not increased between 1980 and 1996; in Côte d'Ivoire the share has declined by 8 percentage points. In Benin and Côte d'Ivoire, the share of a given cohort that repeats a grade has increased between 1980 and 1997, and in some countries, such as Benin, Côte d'Ivoire and Togo, one out of every four students fails to graduate to the next grade.

TABLE 9: EDUCATION EFFICIENCY

	% reaching grade 5		Repeaters. primary school (% of enrolment)	
	1980	1996	1980	1997
Benin	60	61	19.6	25.1
Burkina Faso	75	75	17.1	16.0
Cote d'Ivoire	82	74	19.6	24.2
Guinea-Bissau	n.a.	n.a.	28.9	n.a.
Mali	45	81	29.6	16.2
Niger	73	73	14.3	13.0
Senegal	85	87	15.6	13.3
Togo	52	69	35.5	24.2

Source: *World Development Indicators 2000*, World Bank: Washington DC.

However, a major obstacle in assessing performance in the education sector is that we usually can only observe a rough measure of inputs (i.e., funds), usually aggregated over sectors and final use, and a rough indicator of output (e.g., survival rates, changes in illiteracy), again aggregated. The problems are compounded when we seek, as in this paper, to compare several countries for a relatively long period of time. The basic issues are two. First, a host of other factors, apart from the volume of funds, affect educational outcome; moreover, even if the volume of fund available can address other constraints (e.g., availability of qualified teachers), there is usually a substantial time lag. Second, the

standard output indicators are highly aggregated and may not adequately reflect, particularly not in a comparative framework, changes in the way the education system uses resources; and again, the time lag involved may be substantial and make it difficult to trace changes in output from changes in inputs.

However, to assess the extent to which economic reforms have been successful in addressing problems of the education sector, the available data have been compiled for four different aspects of performance of the primary education system:

- apparent intake (that is, gross enrolment in the first grade) which reflects, inter alia, the ability of the education system to absorb those without education;
- gross enrolment, averaged for all grades in primary school, which reflects a similar ability for the entire primary school system;
- net enrolment, averaged for all grades in primary school, which is indicative of the ability of the system to provide proper training (so it may reflect the availability of textbooks, school houses, or properly trained and motivated teachers);
- and the coefficient of efficiency, which measures the difference between the ideal number of pupil-years (in the absence of repetition and drop-outs) and the actual number required).

The year when BWI-sponsored reform was identified and the data series were averaged before and after that cut-off year in order to see whether indicators were significantly different, i.e., whether reforms apparently made a difference.⁹ Results are in Table 10. To interpret the data in the table, standard caveats have to be applied. In particular, data are from different sources, so commensurability may be questioned; indicators only imperfectly reflect what I really wish to measure; and the indicators (or, for that matter, the available data) can capture which constraints that are binding, and to what extent extra funding, or a different allocation of existing resources would be able to address that.

With this in mind, there are several things to observe from the table. First, in half of the cases, the difference between pre- and post reform indicators is not significantly different. Moreover, in three cases—intake in Guinea-Bissau, net enrolment and efficiency in Côte d’Ivoire—the post-reform indicator is significantly worse than the pre-reform indicator. Second, there is an enormous variation in country performance. In Togo, the apparent intake is virtually 100 percent in the post reform period; in Burkina Faso, Mali and Niger it is less than 40 percent. Net enrolment varies from almost three-quarters in Togo to less than one-quarter in Mali and Niger. Third, the test level used here—95 percent significance—is arbitrary and dictated by statistical custom. In 24 out of 32 comparisons, indicators improve after reform, and in two of the eight ‘bad’, cases, gross enrolment decreases, which is not necessarily a bad thing as it may be an indication that repetition rates have declined. Consequently, reforms are associated with improvements in education indicators (although often marginal improvements). However, whether these are due to improvements in funding, use of funds or institutional quality we cannot say as reliable data is absent.

⁹ In the case of insignificant differences, experiments were made by moving the cut-off year forward in time to allow for the time lag discussed above. In no case did this make the difference significant.

TABLE 10: IMPACT OF REFORMS ON PRIMARY EDUCATION

	Intake ^a		GER ^b		NER ^c		Efficiency ^d	
	Before	After	Before	After	Before	After	Before	After
Benin	70.3	75.3 ^e	63.6	67.6	53.2	56.0	47.7	51.0
Burkina Faso	25.7	39.1 ^e	24.1	37.1 ^e	20.1	29.5 ^e	64.7	63.0
Côte d'Ivoire	61.4	61.8	70.3	68.8	55.1	50.5 ^e	66.1	61.2 ^e
Guinea-Bissau	81.6	64.9 ^e	62.0	57.0	52.4	52.0	21.4	21.8
Mali	24.7	33.0 ^e	25.3	32.8 ^e	18.1	23.8 ^e	42.5	54.7 ^e
Niger	23.0	28.5	22.0	27.9 ^e	21.1	24.1	69.6	67.7
Senegal	48.1	62.7 ^e	47.3	61.0 ^e	40.6	51.9 ^e	74.3	75.0
Togo	88.3	98.8	101.1	106.0	67.7	73.5 ^e	38.7	45.6

Source: Calculated from World Bank data.

Notes: 'Before', and 'after', refer to year of reform start. These are Benin: 1989; Burkina Faso, 1991; Côte d'Ivoire, 1984; Guinea-Bissau, 1987; Mali, 1985; Niger, 1984; Senegal, 1985; and Togo, 1984. The reform year has been excluded from all calculations. In most cases data run from 1970 to 1997; for Côte d'Ivoire and Guinea-Bissau, data series commence in 1975, and for Burkina Faso, Guinea-Bissau, Niger and Togo, data series end in 1996.

^aTotal number of new entrants in the first grade of primary education, regardless of age, expressed as a percentage of the official primary-school entrance age. ^bGross enrolment in primary school. ^cNet enrolment in primary school. ^dThe ideal number of pupil-years required to produce one primary school graduate as percentage of the actual number of pupil-years required to produce one primary school graduate. ^eDifference between 'before', and 'after', significant at the 95 percent test level.

6. Governance and the quality of institutions

An assumption behind most reform programmes is that the quality of policies matter for the result. This is true for pure economic policies (as in the first generation reforms), but also for a broader class of policies (including policies related to institutional reform), usually referred to as issues of governance. These are in focus in second generation reforms and focus on factors that are often relatively difficult to quantify, such as aspects of political rights, civil liberties, the quality of the bureaucracy, and perceptions of corruption. A rapidly growing literature is documenting the relations between various indices of governance and economic performance. Much of this literature shares two basic points.

First, since data for some of the indicators have only recently begun to be systematically collected, most econometric studies are cross-sectional, typically with one observation per country. In addition, since institutional quality is likely to change only slowly, it is not obvious that—even if the data did exist—variations in institutional quality over time would add much to our understanding of what explains fluctuations in growth over time.

Second, history matters. The legacy of a country, for instance its colonial history, is likely to be a major determinant of institutional quality. Thus, typical econometric studies in this area use dummy variables to capture various aspects of country-specific history (such as ethnic fractionalization or colonial heritage).

Prominent studies in the area include Knack and Keefer (1995), Mauro (1995), Knack (1996) and Keefer and Knack (1997). A common result is that cross-country variations in

institutional quality are an important explanatory variable for cross-country variations in economic growth:¹⁰

...if Bangladesh were to improve the integrity and efficiency of its bureaucracy to the level of that of Uruguay (corresponding to a one-standard-deviation in the bureaucratic efficiency index), its investment rate would rise by almost five percentage points, and its yearly GDP growth rate by over half a percentage point. (Mauro, 1995: 704)

Typically, these are compilations by objective data, such as the rate of inflation, the fiscal deficit and other macro economic variables, and subjective assessments of various factors, often constructed by letting 'country experts', produce rankings, or by surveys of the attitudes of e.g., investors. The most common are the Business International (BI), the International Country Risk Guide (ICRG) and the Business Environmental Risk Intelligence (BERI) data sets.

Knack and Keefer (1995, 1997) and Keefer (1996) use ICRG ratings to construct an index thought to reflect important aspects of property rights and contract enforceability.¹¹ Adding that index to a Barro (1991) type cross-country regression, Knack and Keefer (1995) found that a one-standard deviation increase in the index (about 12 points on a 50-point scale) increased growth by an average of 1.2 percentage points. Similarly, Knack (1996) and Keefer and Knack (1997) show that the rate at which low income countries catch up, i.e., grow faster than rich countries, increases with the index of institutional quality. Since the association is also relatively strong between the index and rates of private investments, the Knack-Keefer analyses suggest that high-quality institutions stimulate private investments, which in turn has an impact on growth.

Using instead the BERI index (which is available for a longer period of time than either the ICRG or the BI indices), Chong and Calderón (1997) also find that better institutions tend to be associated to economic growth. Using causality analyses, they also find that an increase in the BERI index causes economic growth to increase, but also that higher growth tends to cause institutions to improve. Consequently, a virtuous circle is possible.

But why does institutional quality differ so much between countries? One possibility is the historical legacy, such as religious or colonial heritage, or ethnic diversity (Barro, 1996a,b). I have been able to find surprisingly little quantitative and comparative work on the subject. However, Chong and Zanforlin (2000) suggest that the law tradition affects the quality of institutions. In particular, they find that countries with a French Civil Code tradition have less efficient bureaucracies, more corruption and lower credibility of

¹⁰ The possibility of reverse causation, i.e. that rapid growth causes improved institutions is tested for and almost always rejected. Again, the stability of institutions as compared to rates of growth makes a causal link running from growth to institutions less plausible (Knack, 2000). However, Aron (2000: 128), in a careful survey of the evidence, cautions that 'a definitive positive conclusion on the links between growth and institutions is difficult to pin down, suggesting that the claims for causality should be treated with caution'.

¹¹ They use the following five items from the ICRG data: 'Corruption in Government', 'Rule of Law', 'Expropriation Risk', 'Repudiation of Contract by Government', and 'Quality of the Bureaucracy'. See Knack (1999) for a brief description and a comparison with other specifications.

government policies than do countries with a Common Law tradition. Linking this result (although it is not robust to econometric specifications) to those specifying a relation between institutional quality to economic growth suggests that countries with a French Civil Code tradition would grow slower than other countries.

Another link through which institutional quality may affect growth is suggested by Knack (2000). Here, the quality of institutions is positively associated to economic growth, but higher levels of aid tend to erode institutional quality as measured by indices of bureaucratic quality, corruption and the rule of law. A possible explanation for this surprisingly robust finding¹² is that aid may siphon off talent from the bureaucracy, alleviate pressure to reform inefficient institutions, and encourage rent seeking. Again, the countries in the WAEMU have generally high levels of aid dependence,¹³ and thus may be expected to grow slower than other countries. However, most of data sets used in the literature have not been available to me so further tests singling out WAEMU countries have not been possible.¹⁴ The one open database that I have found is a result from the World Bank Institute's Programme on Governance, Regulation and Welfare.¹⁵ It draws on several sources of information—polls as well as surveys—and contains over 300 indicators of various aspects of governance. Kaufman *et al.* (1999a) aggregate the indicators under six headings: 'Voice and Accountability', 'Political Stability/Lack of Violence', 'Government Effectiveness', 'Regulatory Framework', 'Rule of Law', and 'Corruption and Graft'. The data set covers up to 173 countries, with one entry per country. Data is generally from 1997 or 1998.

The six indicators are used in Kaufman *et al.* (1999b) to examine the relations between institutional quality (or governance) on the one hand and growth on the other. They use a parsimonious specification *à la* Hall and Jones (1999), writing (the log of) per capita income as a function of the governance indicators. The results

...indicate that a one standard deviation improvement in governance leads to between a 2.5-fold (in the case of voice and accountability) and a 4-fold (in the case of political instability and violence) increase in per capita income. These results clearly indicate that there is a large payoff in terms of per capita income to improvements in governance. In other words, governance does matter. (Kaufman *et al.*, 1999b: 15-16)

¹² Knack uses instruments for foreign aid to correct for reverse causality, and conducts several sensitivity tests in the form of sample changes and estimation forms. The negative association between levels of aid and institutional quality is not fundamentally affected.

¹³ Measured as aid per capita, aid as share of GDP, or aid as share of gross domestic investment.

¹⁴ In addition to the BI, ICRG and BERI indices which are commercially available, a potentially useful data base would be the World Bank's Country Policy and Institutional Assessment (CPIA), formerly known as the country policy ranking. This is an annual or semi-annual assessment by Bank staff regarding a number of quantitative and qualitative factors. However, the data is classified and released only at the Bank country director's discretion.

¹⁵ The data base is documented in Kaufman *et al.* (1999a) and the data base is publicly available at <http://www.worldbank.org/wbi/governance/wp.htm#governance> (March, 2001).

However, including a dummy for sub-Saharan Africa indicates that the quality of governance does not capture the entire growth difference between SSA countries and others: the dummy is significant. A dummy for WAEMU countries, however, is not.¹⁶ Table 11 shows the indicators for WAMU countries and the average for SSA and low-income countries.

The indicators reveal significant differences in governance indicators between countries in the WAEMU. Note first that sub-Saharan Africa on average has lower score for all indicators; this may be a consequence of sub-Saharan Africa having a lower per capita income than the group of countries labeled LDC in the table. In relation to the SSA average, however, WAEMU countries score highest on the government effectiveness and corruption and graft indices (here, 7 and 6 WAEMU countries, respectively, have higher scores than the SSA average), and lowest on the political stability/lack of violence index (only 3 WAEMU countries score above the SSA average).

TABLE 11: GOVERNANCE INDICATORS

	VOICE	POLSTAB	GOVEFF	REGFRAM	RULELAW	GRAFT
Benin	0.695	-0.937	-0.066	-0.082	-0.422	-0.781
Burkina	-0.213	-0.517	-0.059	-0.038	-0.350	-0.368
Côte d'Ivoire	-0.569	-0.138	-0.180	0.148	-0.335	-0.079
Guinea-Bissau	-0.454	-1.203	-0.334	-1.350	-1.615	-0.176
Mali	0.415	-0.287	-0.052	0.290	-0.465	-0.476
Niger	-0.744	-0.763	-1.387	-0.523	-1.144	-1.567
Senegal	-0.292	-0.871	0.047	-0.338	-0.097	-0.235
Togo	-1.051	-0.906	-0.374	-0.853	-0.799	-0.242
SSA ^a	-0.508	-0.732	-0.566	-0.419	-0.634	-0.526
LDC^b	-0.298	-0.471	-0.461	-0.242	-0.477	-0.501

Source: Compiled from data base described in Kaufman *et al.* (1999b) and available at <http://www.worldbank.org/wbi/governance/datasets.htm#dataset>

Notes: Indices as constructed so that estimates of governance (in the global data base) has a mean of zero, a standard deviation of one and a range from approximately -2.5 to 2.5. A higher number signifies a better score.

VOICE = Voice and Accountability; POLSTAB = Political Stability/ Lack of Violence; GOVEFF = Government Effectiveness; REGFRAM = Regulatory Framework; RULELAW = Rule of Law; GRAFT = Corruption and Graft.

^a Simple average for all sub-Saharan African countries, including WAEMU. ^bSimple average for all countries with a 1998 per capita income of less than PPP\$8,500.

Looking at the individual WAEMU countries also reveals large differences. Thus, for instance while Burkina Faso and Mali score higher than the SSA average on all 6 indicators, and Côte d'Ivoire scores higher than the SSA average on 5 indicators (the exception being Voice and Accountability), Niger has a lower score on all indicators, and Togo has a lower score on 4 indicators. Can country dummies explain the governance indices? To investigate that, I identified three groups of countries—WAEMU, sub-Saharan Africa, and non-OECD countries—and regressed the dummies against the governance indices. However, since WAEMU is a subgroup of SSA and SSA a subgroup of non-

¹⁶ And a dummy for CFA-zone countries does also not turn out significantly different from zero.

OECD, one can either treat WAEMU as being included in or excluded from the SSA group and similarly for the relation between SSA and non-OECD.

I did both. The first set of regressions included WAEMU in the SSA group and SSA in the non-OECD group; the second did not. This means that the (WAEMU, SSA, non-OECD) dummy-triple for Benin in the first set of regressions Model 1 was (1,1,1), and in the second Model 2 (1,0,0). For Zimbabwe, for instance, the triples were (0,1,1) and (0,1,0), respectively. This means that the WAEMU coefficient in Model 1 can be interpreted as a marginal effect as being part of the WAEMU as opposed to being an Africa economy which is not a member of WAEMU. In Model 2, on the other hand, the WAEMU coefficient captures the entire difference between WAEMU members and members of the reference group—in this case OECD members.

Estimated coefficients are in Table 12. In Model 1, the dummies for SSA and non-OECD are significant for all indicators of governance, and they also enter with a negative sign suggesting that countries in SSA and non-OECD on average score lower on these indicators than do OECD countries: as expected, governance, as reflected in these indices, is less good in the two former groups. The WAEMU dummy, on the other hand, is insignificantly different from zero in all instances. Since the proper interpretation of the Model 1 coefficients is the marginal impact, we conclude that governance in WAEMU countries is not significantly different from that in other SSA countries.

In Model 1, however, there is a significant difference between African and non-African economies and the former have on average less good governance than the latter. Recall that the indices are constructed with an average of zero and a standard deviation of one. Now, non-OECD countries show an average score of -1.33 for variable ALL, and SSA-countries an average score of -1.72 for the same variable, the difference between OECD-countries and the rest is quite large, much larger than the difference between SSA and other non-OECD countries.¹⁷ This is a pattern common for all estimations in Model 1: the OECD coefficient is between 0.9 and 1.4 and the difference between OECD and other countries is larger than that between non-OECD and SSA.

Turning to Model 2, it is important to keep in mind that since dummy definitions are mutually exclusive, the coefficient now captures the difference between OECD and the group in question. This is the basic reason why the WAEMU coefficient now is negative and significantly different from zero for all regressions; while WAEMU countries may not be different from other SSA countries, they are different from OECD countries. Note, however, that in Model 2 the absolute value of the WAEMU coefficient is smaller than the SSA coefficient for all regressions suggesting that governance indices are slightly better in WAEMU than in the rest of SSA.¹⁸

¹⁷ The coefficient for OECD countries for variable ALL in Model 1 is 1.22 with a t -value of 9.6.

¹⁸ However, the results from Model 1 shows that this difference is not significantly different from zero at conventional test levels.

TABLE 12: QUALITY OF GOVERNANCE BY REGION: REGRESSION COEFFICIENTS

	Model 1				Model 2				<i>n</i>
	WAEMU	SSA	non-OECD	\bar{R}^2	WAEMU	SSA	non-OECD	\bar{R}^2	
VOICE	0.21	-0.37*	-1.48**	0.36	-0.89*	-1.64**	-1.35**	0.31	173
POLSTAB	-0.03	-0.62*	-1.08**	0.31	-1.06*	-1.48**	-0.96*	0.27	155
GOVEFF	0.29	-0.43*	-1.48**	0.45	-0.87*	-1.71**	-1.37**	0.41	156
REGFRAME	0.07	-0.37*	-0.90**	0.21	-0.69*	-1.10**	-0.79*	0.18	166
RULELAW	-0.10	-0.47*	-1.38**	0.39	-1.21*	-1.63**	-1.25**	0.34	166
GRAFT	-0.01	-0.28*	-1.63**	0.49	-1.18*	-1.73**	-1.53**	0.46	155
ALL	0.05	-0.39*	-1.33**	0.42	-0.98*	-1.55**	-1.22**	0.37	174

Source: Data from Kaufman *et al.* (1999b). Dummies as described in text.

Note: Indices are abbreviated as explained in the note to Table 11. ALL is the simple average of the six variables. *Significant at the 5 percent test level; ** Significant at the 1 percent test level.

It is difficult, however, to infer definitive conclusions from this. Data are for one year only and we do not know how much temporary shocks have influenced the individual country indices. In addition, dummy variables capture, in this case, regional variation, but do not provide explanations. One cautious conclusion might be that it is difficult to find significant differences between WAEMU and other African countries, which may be taken to mean that the Union so far has failed to generate stable, better institutions.¹⁹ Even though the work by Chong and Zanforlin (2000) on the legislative tradition find significant differences between countries having a French civil code and others, their result is not robust to specification changes, and should perhaps be taken with a grain of salt. The one conclusion from the Kaufman *et al.* (1999a) database, which is firm and robust, is the positive relation between governance and growth. It confirms results from earlier studies and provides indications for the practical issue of how institutions should be changed in order to better facilitate growth and poverty reduction.

7. Concluding remarks

The principal conclusions of the preceding discussion are the following. First, reform results have been mixed in WAEMU. While growth has resumed in several countries, this is not a general feature of WAEMU. As in most other African economies, reforms were triggered by economic or political crisis and in most cases, domestic attempts to deal with this usually preceded agreements with the BWIs. The major exception to this generalization seems to be Burkina Faso where the rectification policy was formulated and implemented prior to the first IMF agreement. However, common theme in WAEMU with regard to reform result is that it is difficult to see any substantial impact on poverty; this, however, is nothing specific for WAEMU: a similar observation can be made with respect to the vast majority of reforming countries in Africa and Central America.

Second, civil service reform has been a central element in all reform exercises, but results are usually limited. While many countries have managed to slim the size of the workforce, incentive systems and pay structures still leave a lot to be desired. While the 1994

¹⁹ It should be recalled that the Union was established in 1994 and data for the indices come from 1997 and 1998.

devaluation of the CFA franc helped reduce the cost burden of the civil service, it also compressed the salary structure. In addition there are some indicators that a growing problem in the civil services in WEAMU is understaffing of social sectors.

Third, privatization has been a painfully slow process that has been met with much domestic resistance. However, the speed of privatization has been picking up in recent years, although large foreign involvement may increase domestic resistance in the future, particularly when privatization reaches sensitive areas such as public utilities. In addition, the fiscal impact has been limited.

Fourth, the evidence on social sectors is limited and mixed. While conventional indicators on the quality of education and health have deteriorated in several countries, it seems that the majority of WAEMU countries perform better than the SSA average. In particular, enrolment in primary education is significantly higher after reforms, although the impact on education efficiency is less visible. One reason for this is of course the fiscal restraint introduced early in reforms (real spending per student has gone down in the 1990s in several countries), but the gradual introduction of private education may help alleviate that constraint.

Fifth, there are no indications that the quality of institutions in WAEMU is significantly different from that in the rest of sub-Saharan Africa. However, the quality of institutions appear very different between individual WAEMU countries with the best—Burkina Faso and Mali—being far ahead of the worst—Niger and Togo. There is, however, no clear relation between institutional quality and economic performance, i.e., the countries with the best institutions do not grow faster than the others.

Finally, it is noticeable that WAEMU countries are very similar—in reform implementation and economic performance—to other SSA countries. As a more coherent institutional set-up characterizes WAEMU, one would perhaps expect this to be reflected in performance, but evidence for this has not been found.

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