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Reconstruction from war in Africa: Communities, entrepreneurs, and states

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Reconstruction from War in Africa: Communities, Entrepreneurs, and States

Tony Addison *

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Abstract

Africa has become synonymous with conflict. There were armed conflicts in 16 of Africa's 54 countries in 1999. For Africa to recover, communities must reconstruct, private sectors must revitalize, and states must transform themselves. Aid donors, NGOs, and international business can do much to help (or hinder). However, the movement from conflict to reconstruction and then onto sustained development largely depends on the three *national* actors. Thus, unless communities rebuild and strengthen their livelihoods, neither reconstruction nor growth will be poverty reducing. But communities cannot prosper unless private investment recreates markets and generates more employment. And neither communities nor entrepreneurs can realize their potential without a development state—one that is democratically accountable and dedicated to poverty-reducing development. The international community can do much to assist—through more aid, debt relief, and peacekeeping—but ultimately the future lies in the hands of Africans themselves.

Keywords: aid, conflict, Sub-Saharan Africa

JEL classification: O10, O55

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1 Introduction¹

‘Post-conflict’ countries need to reconstruct in ways that rapidly reduce poverty as well, a process we label ‘broad-based’ reconstruction as opposed to ‘narrow’ reconstruction that benefits a small elite.² However, the realization of broad-based reconstruction often requires economic reform as well. Unfortunately, governments frequently compartmentalize issues of reform and reconstruction into separate strategies and separate ministries (also the fate of poverty reduction). Donors do likewise, for each has its own responsibilities; the IMF focuses on reform, the UN concentrates on conflict resolution and reconstruction, and the World Bank—whose operations span both agendas—has yet to integrate reform and conflict issues. However, reform and reconstruction cannot be kept separate if conflict is to be halted and poverty reduced. Biases in public spending, predatory taxation, and bad policy encourage conflict by reducing the incomes, both absolutely and relative to others, of social groups that suffer such discrimination—thereby inflaming ethnic and regional tensions, and helping demagogues recruit their followers (Nafziger et al. 2000).

Therefore conflict resolution and prevention require economic reform—independently of the need for reform to raise growth, reduce poverty, and safeguard the environment. And infrastructure reconstruction (in rural areas for example) is ineffective if policies that depress its value to livelihoods are retained; discrimination against smallholder agriculture is one example, the burdensome regulation of micro-enterprises is another. However, this does leave open for debate the crucial issues of what *types* of reform are necessary, their *timing*, and their *sequencing*.

Since countries face a vast range of tasks—everything from demobilization to public expenditure reform—the research strategy of the UNU/WIDER project has been to focus on a selection of key issues in a small, but carefully-chosen, sample of countries: Angola, Eritrea, Ethiopia, Guinea-Bissau, and Mozambique (Addison 2000a). Their experiences throw light on reconstructing communities, revitalizing private sectors, and transforming states for Africa as a whole (and indeed for conflict societies elsewhere in the world).

¹ This paper was presented at seminars organized by the Conflict and Humanitarian Department of DFID, Queen Elizabeth House (University of Oxford), and at the Centre for the Study of African Economies (University of Oxford) conference on ‘Development Policy in Africa: Public and Private Perspectives’ (March 2001). I am grateful to participants at those meetings for their comments including Nick Amin, Jennifer Barugh, Deryke Belshaw, Valpy FitzGerald, Lucia Hanmer, Robert Kirk, Karl Livingstone, Philippe Le Billon, Janine Rodgers, Malcolm Smart, Frances Stewart, John Toye, and Tony Zachariades. An earlier version was presented at the 18th World Congress of the International Political Science Association in Quebec, August 2000. I am grateful to James Hentz, Philip Nel, Tim Shaw, Ian Taylor, and William Zartman for comments at that meeting. Interactions with Peter Burnell and Léonce Ndikumana have also been very useful in setting out these ideas. Robert Osei provided excellent research assistance. Extensions on the themes of this paper, plus further discussion of the international and peacekeeping dimensions, can be found in Addison (2000a and 2000c).

² See Crisp (1998) and Macrae (1999) on the deficiencies of the label ‘post-conflict’.

Our selected countries also share common histories: Portuguese decolonization in Angola, Guinea-Bissau, and Mozambique; Eritrea's secession from Ethiopia; and the influence of Marxism-Leninism on independence movements and post-independence governments—and the resulting interaction with the geo-politics of the cold war. Subsequent challenges have included political and economic transition, as well as conflict resolution. However, peace has been elusive; Angola is still at war, Guinea-Bissau is politically fragile, and Eritrea and Ethiopia were at war from 1998 to 2000. Only Mozambique has sustained peace. Their present dilemmas and their future prospects are therefore important to understanding the prospects for peace and sustained development across Africa.

Any recommendations must be realistic. However, realism does not mean taking the easy decisions now, and leaving the difficult choices for later. It means facing those hard choices today, because many decisions that are made during wartime, or in the early years of peace, have irrevocable long-term effects. They alter the distribution of productive assets (and thus growth's benefits) and set up expectations among national actors (regarding public policy, the likelihood of assistance, and state honesty) that affect investment decisions. Thus new forms of path dependence are created during war-to-peace transition.

Producing long wish lists—for example 100 pro-poor interventions—is not helpful if only 10 can be funded. Realism means selecting the best 10—those that have the highest social returns—using the results of social research, household surveys, and participatory-data collection (while simultaneously mobilizing more public revenue, aid, and debt relief to reduce the trade-offs). But given the demands on governments, it is all too easy to try and do a little of everything, thereby achieving nothing. This is why public expenditure reform is crucial to reconstruction since it creates mechanisms to improve resource use. Donors must also avoid diverting country efforts and scarce resources away from core priorities and into good-looking, but second-best, projects.

Accordingly, section 2 of this paper focuses on rebuilding communities, emphasizing the importance of resettlement and access to natural capital. Section 3, argues that although a revitalized private-sector is essential for growth, it can have a problematic relationship to the state in new democracies. Section 4 turns to the state itself, notes some important differences between historical reconstructions and those in contemporary Africa, and discusses the lessons for Africa from the transitions in the former Soviet Union and Eastern Europe. Section 5 concludes that a development state is unlikely to arise without investment in democracy—contrary to the view of some of Africa's leaderships.

2 Rebuilding communities

War displaces populations and weakens family and community bonds. Over 1 million Mozambicans took refuge in Malawi and other neighbouring countries, and over 3 million were internally displaced during the country's 16-year civil war. More recently, the 1998-2000 Eritrea-Ethiopia war displaced 1.5 million Eritreans, with over 100,000 entering Sudan in a repeat of the earlier exodus during the 30-year independence war (Kibreab 2000). Rural people are disproportionately affected, but wars can also hit urban populations both directly—250,000 people fled the fighting in Guinea-Bissau's

capital in 1998—and indirectly as people seek refuge in urban enclaves. At least half of Angola's population is now urban (Adauta et al. 2000).

Market-disruption and the loss of infrastructure further impoverish communities. As a result, many come to rely on humanitarian assistance; food aid accounted for nearly half of per capita calorie availability in the final years of Mozambique's civil war (Tschirley and Weber 1996). Angola has experienced the largest fall in food production of any war-affected economy (Messer et al. 1998: 19). Some 3.5 million Angolans (one third of the population) now depend on humanitarian assistance, and many people subsist on worm larvae and grass.³ War also exacerbates drought's effects, most recently in the Horn of Africa (White and Cliffe 2000).

Unless the state disintegrates (as in Somalia), some potential exists for managing the wartime economy to mitigate the inevitable rise in poverty (FitzGerald 1997 and Wuyts 2000). Mozambique's government provided nutrition assistance through its urban-based GAPVU programme, and donors supported livelihood projects in rural safe-areas during the war.⁴ Preparation of strategies for post-war poverty reduction and food-security also began (Addison and Ginja 2000). In contrast, despite having far more resources than Mozambique, the Government of Angola has largely failed to address poverty. Much of the burden of coping has fallen on Angola's civil society assisted by donors (Adauta et al. 2000).

If peace can be achieved then governments and donors face many immediate and complex priorities. Demobilization and decommissioning weapons is a first priority, given the security risks and the danger of war returning—as in Angola in 1992 (Colletta et al. 1996). Ethiopia demobilized and reintegrated 500,000 ex-combatants after the end of the war in 1991. Rural returnees were provided with land, basic agricultural inputs, and sometimes cattle, and urban returnees received vocational training and soft loans (Daniel Ayalew et al. 2000). Demining is also an immediate priority. In Angola—Africa's most affected country—there are 9-15 million land mines in a country of 10 million people. Extensive demining took place over 1994-98, but new land mines have now been laid (also the case along the Eritrea-Ethiopia border). There are still over 2 million land mines in Mozambique (a hazard compounded by the 2000 floods which washed many downstream out of marked mine fields). Aside from the direct human cost, land mines hinder farming in Angola and Mozambique and kill livestock (an asset with important insurance and savings properties, especially in semi-arid Eritrea). Yet, while demobilization and demining are urgent they also absorb resources that are needed for rebuilding social and economic infrastructure. Hard choices in resource allocation are therefore inevitable.

The term 'community' is useful shorthand for discussing problems and policy issues that are common to all households. Nevertheless, significant stratification (and conflict) exists within and between communities. This is often accentuated by war. In Mozambique, households with access to the wartime parallel economy, state-farm

³ The phasing out of wartime food aid after peace must be carefully managed. The need to increase price incentives for domestic production (which can be depressed by poorly-designed food aid) must be balanced against the continued food demand of displaced people who have not yet resumed their pre-war livelihoods (see Stewart 1998 and Tschirley 1998).

⁴ GAPVU stands for Gabinete de Apoio à População Vulneravel.

employment, and connections to local elites gained a stronghold in agricultural production, trade, and transport—and accumulated assets (livestock in particular). But the asset-base of food-deficit households contracted, they desperately sought out wage work, and the gap with better-off households increased when the poorest fell outside the scope of donor-funded projects (Wuyts 2000). Households therefore varied in their ability to respond to the opportunities of reform and privatization (and thus raise their incomes to offset the cost-of-living increases associated with war and reform). They also had very different possibilities for post-war reconstruction. Households that retain their assets during the war years, and those that receive education, health-care and training in addition to food aid (either in situ or as IDPs or refugees) are able to rebuild more easily once peace comes. De Sousa (2000) finds that post-war poverty varies significantly across communities in Manica province in Mozambique, depending on the assistance they received as IDPs or refugees during the war. Faster recovery amongst better-off households generates more employment for poorer households and a more buoyant rural economy for the micro-enterprises of the poor. But the poorest will be the slowest to recover unless assistance is rapidly targeted to them (see de Sousa 2000 on ways to achieve this).

Important gender effects are also evident in the ability of households to reconstruct and in their responses to policy reform. Women comprised one third of Eritrea's liberation army, but those trained as skilled craftsmen in the army face open discrimination in the job market and formal legal equality in access to land did not prevent discrimination against women, including returning refugees (Kibreab 2000). In Manica (Mozambique) 47.1 per cent of female-headed households are poor in contrast to 38.9 per cent of male heads, reflecting their lack of oxen, smaller land-holdings, and limited education—90 per cent of women never went to school compared with 60 per cent of men (de Sousa 2000). Similarly, in Luanda (Angola) 71 per cent of females are illiterate in comparison with 44 per cent of males (Adauta et al. 2000). Lack of education limits the entry of women into the most profitable informal enterprises that expanded after liberalization, and consequently the profits of female micro-enterprises are less than half those of men.

The access of returning refugees and demobilized soldiers to natural capital—such as arable and grazing land, water, forests, fisheries, and game—is critical to both poverty reduction and social peace. However, socialist-era nationalization of natural capital (put in place over discriminatory colonial tenure laws) together with the uncertainties created by wartime population displacement generate the potential for severe community conflict. Since the land issue is very sensitive in Angola, Ethiopia, Guinea-Bissau and Mozambique, fundamental tenure reform has been avoided. For example, Ethiopia's 1994 constitution reasserts the principle of state land ownership (private sales remain illegal) but policy now permits land leasing (also the case in Angola). However, the land issue needs much greater attention, since problems are accumulating.

Daniel Ayalew et al. (2000) find that state land-ownership helped the reintegration of ex-soldiers over 1991-92, most of whom obtained land through their peasant associations or via traditional arrangements. But they also argue that the tenure system is storing up trouble for the future, since it creates the expectation that land is a right for all, but only marginal land (or none at all) is available for newly formed households. A generation of landless young adults is being created, whose plight is also exacerbated by the slow growth of non-farm employment. Similarly, Kibreab (2000) concludes that Eritrea's 1994 Land Proclamation—which vests ownership of all land in the state and provides for usufruct rights—facilitated the resettlement of refugees. Moreover,

Eritrea's strong social capital (developed during the war years) reduced the tensions that inevitably arise between returnees and settled populations over natural capital—which is in high demand in Eritrea's mostly semi-arid environment. But Kibreab also predicts that Eritrea's state land-ownership will reduce sustainability since the state's capacity to manage natural capital is limited. Therefore, natural capital becomes de facto an open access resource that can be grabbed by powerful community members and outsiders—the experience elsewhere in SSA. In summary, state land-ownership helped to fix the immediate post-war problems of demobilization and resettlement in both Eritrea and Ethiopia, but if left unreformed it will exacerbate local-level competition over natural capital and threaten social stability.

In Mozambique, peace and economic reform raised the value of prime natural capital for agriculture, mining, timber and tourism, and communities have clashed with commercial interests (often in alliance with state actors) over its control. Commercial development does provide much-needed wage-employment (essential to the process of reducing rural poverty: see Cramer and Pontara 1998 and Wuyts 2000). But the state's capacity in project appraisal and environmental assessment is inadequate to screen out commercial projects that cause environmental damage and reduce community access—particularly to the valuable natural capital in the area bordering South Africa, which is subject to many dubious proposals from foreign investors.

Moreover, anything between 6 million and 20 million hectares of land in Mozambique has been granted in concessions (the exact figure is disputed: see Pitcher 1999, West and Myers 1996: 29). Much of this prime land is on privatized state farms that are made up of former colonial plantations, settler farms, and contiguous smallholder lands (which were not returned to households during divestiture). Instead, state farms have been transferred into joint ventures with old colonial companies, which have also obtained monopolistic and monopsonistic privileges in a repeat of colonial patterns of development (Addison 2000b and Wuyts 2000). Insiders, including state actors, have run divestiture for their own benefit. The poor have been unable to make their way through the bureaucracy (and corruption) to obtain this land; female-headed households have the least success (O'Laughlin 1996). Poverty reduction was therefore missing in the way divestiture was designed and managed in Mozambique. Resolving private and community interests will be a major post-war policy issue in Angola, given the country's capacity for commercial agriculture, and thus the potential value of prime land for insiders and foreign investors.

The final issue that we have only briefly touched upon is war's devastating effect on the social infrastructure (education, health, sanitation and water) necessary for human development—as well as the neglect of basic social services in development strategies. Our countries have some of the world's worst social indicators (see Table 1). But since these are mainly public goods whose provision is dependent upon fiscal (and aid) choices, this issue is considered separately in Addison and Ndikumana (2001).

3 Revitalizing private sectors

As in the case of communities, the private sector consists of a wide range of actors—from large commercial firms downward in scale. Indeed, at the smallest end, households

Table 1
Human Development Indicators

| | Life expectancy at birth (years, 1998) | Adult literacy (% 15 and above, 1998) | Combined first, second, and third year level gross enrolment ratio (% , 1998) | HDI index |
|--|--|---------------------------------------|---|-----------|
| Angola | 47.0 | 42.0 | 25 | 0.405 |
| Eritrea | 51.1 | 51.7 | 27 | 0.408 |
| Ethiopia | 43.4 | 36.3 | 26 | 0.309 |
| Guinea-Bissau | 44.9 | 36.7 | 34 | 0.331 |
| Mozambique | 43.8 | 42.3 | 25 | 0.341 |
| Average for Low Income Countries | 63.4 | 68.9 | 56 | 0.602 |
| Average for UNDP Low Human Development Group | 50.9 | 48.8 | 37 | 0.421 |
| <i>Comparison Countries</i> | | | | |
| Senegal | 52.7 | 35.5 | 36 | 0.416 |
| Tanzania | 47.9 | 73.6 | 33 | 0.415 |
| Uganda | 40.7 | 65.0 | 41 | 0.409 |

Source: UNDP (2000).

Note: Data are for 1998 or latest available year.

operating micro-enterprises have interests as both private-sector actors and community members. Nevertheless, like the term ‘communities’, the term ‘private sector’ is convenient shorthand for addressing a bundle of common policy issues (such as business taxation and regulation) and interests (relative to other national actors). Therefore our discussion inevitably brings forward some issues regarding the role of the state vis-à-vis the private sector (the state itself is discussed in section 4).

Communities cannot develop new livelihoods without broad recovery in national economies, and thus substantial private investment. The latter creates more off-farm employment, new markets for micro-enterprises, and reduces transactions costs (especially between remoter regions and urban centres) by expanding retail and wholesale trade. Raising domestic and foreign investment requires extensive regulatory reform in areas such as business licensing and commercial law (largely a redundant mix of colonial-era regulation, and socialist-era prohibition on private activity), together with the reform of land tenure (Aron 1999).

Agricultural marketing demonstrates the importance of private investment to recovery. In Angola, Guinea-Bissau, and Mozambique, private marketing declined with the exodus of Portuguese traders at independence, and the introduction of controls and state marketing by new governments (Jones 1999). But state-marketing institutions degraded as a result of war and the escalating fiscal costs of their inefficiency. Parallel markets, at first illegal and then tolerated, grew. By 1990, the Angolan government bought only 4 per cent of national maize output, mostly from its own state farms (Sogge 1992: 100), and Mozambique's army bought much of its food supply from private traders (Wuyts 2000).⁵ Agricultural liberalization legalized a *de facto* free market, and by eliminating the costs of illegal trade it stimulated more investment in trade—to the benefit of many consumers and producers.

Mozambique, the earliest liberalizer and the country at peace for the longest time, best illustrates the issues. Following decontrol and the peace agreement in 1992, informal traders and small-scale millers expanded their operations, with informal wholesalers transporting grain to the main consumption centres. Formal large-scale wholesalers expanded following the relaxation of export controls on food and the resulting increase in the profitability of cross-border trade (Tschirley and Santos 1999). Margins fell and significant inter-regional price arbitrage occurred—to the benefit of most producers and consumers (also the case in post-war Ethiopia: see Dercon 1995).

But the easy gains have been made, and considerable private investment is still needed to broaden the market, eliminate local monopsonies, and increase the availability of agricultural inputs—especially in remoter areas (see de Sousa 2000 for recommendations). And high transport costs reduce prices for producers and raise them for consumers, reducing the welfare of both (Tschirley 1998: 7). Substantial public investment is therefore necessary to improve road infrastructure. This will increase private rates of return to investments in trade, a good illustration of the complementarity between public and private investment in raising growth and reducing poverty.

Private investment in the sectors of most importance for broad-based reconstruction cannot take place without a supporting macroeconomic framework, since macroeconomic policy strongly affects private incentives. Mozambique's liberalization of trade and exchange rate policy was mostly positive in shifting private production incentives towards tradables, especially in agriculture and tourism. This raised returns to private (and public) investment in their reconstruction—although the removal of protection from cashew nut processing remains controversial (Castel-Branco et al. 2000, Hanlon 2000, and Mole and Weber 1999). Similarly, liberalization in Ethiopia benefited many poor households, although the scale of the benefits depends, as always, on their access to productive assets (Dercon 2000).

In contrast, badly designed macroeconomic policy impedes poverty reduction. Angola's hyperinflation, combined with the currency overvaluation associated with the dual exchange-rate system, stunted diversification into non-oil tradables (Aguilar 2000). Insiders had access to foreign exchange at the official rate that could then be resold in the parallel market for a handsome profit. This encouraged investment in rent-seeking commerce, rather than in production, further reducing the already narrow benefits of

⁵ Substantial rents were earned from selling food aid on the parallel market after it had leaked from Mozambique's official channels (Sahn and Desai 1995).

Angola's oil-based growth. More generally, economic stagnation contributes to the occurrence of conflict in low-income countries, and therefore good macroeconomic policy is important to social stability (Morrisson 2000).

3.1 Business-state relationships

In summary, a revitalized private sector is essential to recovery. But its relationship to the state raises some fundamental issues of political economy to which we now turn.

State intervention to influence market structures (by restricting entry for example) can have developmental merit if it arises from a well-designed strategy to overcome market (or institutional) imperfections that hold back investment, or if it improves macroeconomic stability. Hence, Addison and Alemayehu Geda (2000) make the case for restricting entry into Ethiopia's financial system until the central bank's capacity for prudential regulation improves. Given the damage caused by bank crises (as well as the fiscal costs of their resolution), the efficiency costs incurred in limiting entry can be justified (see Stiglitz 1998). Over-zealous bank regulation can impede the recovery of private investment. But over-liberal bank regulation can facilitate the creation of unsound banks whose accumulation of bad debts—typically through speculative investment in the post-war rehabilitation of property—can spread distress right across the financial system, thereby stalling recovery (Addison et al. 2000). Thus, there is a balance to be struck.

However, caution must be exercised in state intervention given policy histories in which the technical case for infant-industry protection becomes a cover for rent seeking—eventually sidelining developmental goals. Some interventions result from 'straddling' whereby state actors make private investments, and then tilt regulation (and business taxation) in their favour—thus limiting private-sector growth and reducing public revenues (Bigsten and Moene 1996: 191). Ethiopian businessmen, for example, cite such discrimination as a barrier to investment (Hansson 1998: 23). Although the present restrictions on entry into Ethiopia's banking system do have developmental merit, they also indirectly favour a domestic bank that has close links to the ruling party. Angola, is the clearest case of straddling; a 'few trusted enterprises' retain a tight grip on the country's wholesale trade thereby raising the costs of smaller enterprises, and limiting the growth of broader-based private-sector growth (Aguilar 2000).

Addison (2000b) argued that the nascent business interests of state actors contributed to the decision to liberalize economies in the 1980s. Privatization also facilitated straddling. The non-transparent privatization of Angolan state assets and widespread irregularities in Mozambique's privatization programme led to large and inequalitarian shifts in the ownership of productive assets that will affect the pattern of growth and the distribution of its benefits for years to come (see Castel-Branco et al. 2000).

Furthermore, many state actors develop extensive business interests during war, as do rebels (UNITA is a case in point). Preferential rationing systems, theft of humanitarian supplies, banditry, illegal mining in conflict zones, and predation on civilians, all provide capital for post-war investment (including the purchase of privatized state assets) as well as a means to expand political power (Keen 2000, Duffield 1994, and Le Billon 1999). Private investment of this kind might convert 'roving' bandits—who are motivated more by loot than capturing state-power—into 'stationary' bandits who have

a material interest in preserving and building state institutions (using the terminology of Olson 1996). Hence, the proposal at one point to privatize Angola's state diamond mining company, ENDIAMA, in favour of UNITA buyers. Although the creation of such 'encompassing interests' is one route to peace, it is nevertheless a weak base for longer-term development and poverty reduction (as Liberia demonstrates).

The influence of business on politics (and thereby on the policy agenda) has increased with the transition to multi-party politics, and the need for private finance (single party systems were state financed). Prior to the 1999 elections, Frelimo received donations of up to US\$ 1 million from foreign private investors (who also hedged their bets by donating to Renamo). It could be argued that Mozambique is simply following the path of mature democracies such as the United States in which private funding oils a vigorous competitive politics, and restrains damaging anti-business policies (see, however, Birnbaum 2000 on the distortions caused by US-style campaign finance).

Removing party finance from the public purse is desirable: poverty reduction should have first claim. Nevertheless there are two problems. First, big business can use party donations to negotiate favours that are not in the public interest: tax breaks, concessions, monopolies over the media, and the dilution of prudential bank regulation. Mature democracies have built institutions such as judiciaries, central banks, and regulatory authorities that act (mostly) in the public interest. These have a measure of independence from political actors and their private backers, thus reducing regulatory capture (Armstrong et al. 1994: 91). But such institutional formation is only beginning in Mozambique as elsewhere in democratizing Africa. And although Mozambique's civil society is growing, it does not yet mobilize the funding necessary to be an effective countervailing power to big business—in a way that is evident in Western Europe's political processes, party finances, and media. Indeed, as a result of redundancies under the reform programme, Mozambique's trade union movement has lost members, and the voice of labour has weakened over the last decade.

In summary, recovery depends on private investment which in turn benefits communities by recreating market networks, expanding job opportunities, and increasing the markets for smallholder agriculture and micro-enterprises. Privatization also reduces the fiscal burden of SOE losses, thus releasing resources for basic infrastructure and services, and newly-reformed banking systems will not be viable if they have to provide SOEs with the easy credits of the old state-banking days. However, interconnecting with the 'technical' agendas of private-sector development and privatization are the political agendas of straddling, war-to-peace transition, and multi-party politics. The latter agendas ultimately affect the transparency of privatization (and thus its social benefits) and the freedom of regulatory authorities (when they exist) to act in the public interest. Donors have been extraordinarily naive in their approach to privatization; in particular they have neglected the issue of post-privatization regulation, despite the evidence from donors' own countries that regulation is crucial to maximizing consumer welfare (Armstrong et al. 1994). This brings us to the final national actor, the state itself.

4 Transforming states

War and economic reform continue to reshape the state and its institutions in Africa. Some of this change arises from purposeful strategies designed by state actors. But some comes from forces that are partially (or entirely) outside their control, including the fiscal impact of fluctuations in international commodity prices, the ebb and flow of regional conflicts, and the decisions of aid donors. The balance of power—between state actors and relative to civil society, opposition parties, and rebels—is also constantly shifting. Thus, at present the military is once again in the ascendant in Angola, Guinea-Bissau, Eritrea, and Ethiopia (see Kovsted and Tarp 2000 on Guinea-Bissau).

Our selected case-study countries are undertaking trade and exchange rate liberalization, market decontrol, fiscal reform, privatization, and financial reform (summarized in Box 1). The pace and sequencing of reform is certainly not uniform. Mozambique's reforms are the most comprehensive and most sustained and, along with Eritrea and Ethiopia, the most coherently planned. Guinea-Bissau was sustaining reform prior to the 1998 conflict, and joined the CFA Franc Zone in 1997 (Kovsted and Tarp 2000, and Zejan and Kokko 1998). Angola's reforms are the least advanced, reversal is frequent, and policy shifts are sudden with little attention to their social effects; the increase in fuel prices by 1,400 per cent in 2000 being the most recent example (Aguilar 2000). The main country differences are in the areas of privatization, financial reform, and fiscal reform. In privatization, Mozambique is at the forefront, while the pace is slower in Angola (due to opposition from rent-seekers) and Ethiopia, where the government is wary of privatization, which has largely been confined to smaller SOEs. The 1998-2000 war stalled privatization in Eritrea, although the government still hopes to restart divestiture to attract foreign investment (Hansson 2000).

The reform agenda is, as elsewhere in SSA, highly ambitious. Economic reform is necessary to halt, and reverse, the slide in living standards—GDP per capita is barely above its 1980 level in our selected countries, and in Angola it is far below (Figure 1). But there remain important areas of reform design and implementation—especially in fiscal policy, privatization, and financial reform—that remain controversial. These all bear on the role of the state vis-à-vis the private sector in the development process, and are discussed in parts III and IV of Addison (2000a).

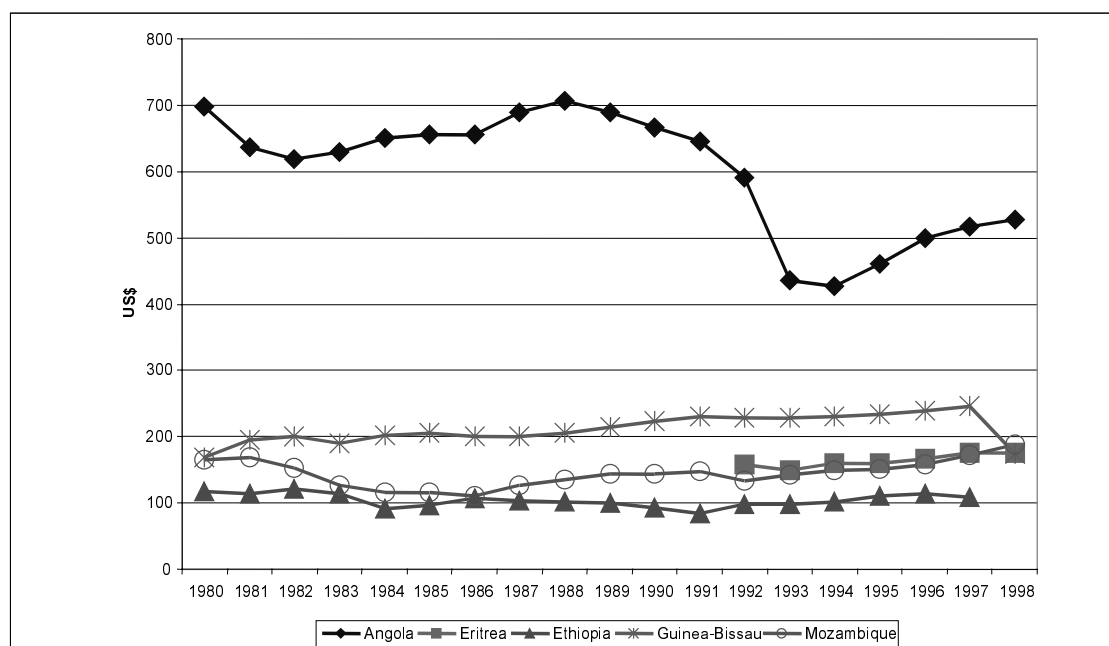
Private agents can restore day-to-day market activity and some private infrastructure—even when the state is too weak to provide most public goods. Indeed, Somalia is an example of how private agents (including warlords) construct informal institutions to replace a formal state that has collapsed, thereby reducing some of the very high transactions costs that otherwise limit market exchange when the formal enforcement of property rights is largely absent (Mubarak 1997).⁶ But, there are limits to private-sector ingenuity; an effective state is necessary for fast private-sector growth. South Korea's recovery from war together with the recovery of Japan and Western Europe from World War II are clear examples.

⁶ A new state has been created in Somaliland.

Box 1: Old and new policy agendas

| Old Agenda | New Agenda |
|---|--|
| <p>Development strategy</p> <ul style="list-style-type: none"> • state-led development: state-owned enterprises in agriculture, industry, utilities, finance and commerce • inward-orientated development: excessive protection of domestic markets through quantitative restrictions (QRs) on imports. Large export taxes on agricultural tradables • poverty reduction through consumer subsidies and price controls. Poverty reduction and human development disconnected from the macro-economic framework • property rights vested in the state, insecurity in property rights, weak and politicised legal systems • ownership of common property resources (land, forests, fisheries) vested in the state leading to over-exploitation <p>Macroeconomic policy</p> <ul style="list-style-type: none"> • public spending with low-social returns, low tax effort, large unfunded fiscal deficits, passive monetary financing of fiscal deficits • interest rate ceilings on loans and savings: negative real interest rates, directed credit • exchange controls • currency overvaluation to subsidize capital-intensive production (leading to reduced incentives to produce tradables) <p>Sector Policies</p> <ul style="list-style-type: none"> • state agricultural marketing organizations: inefficient and rent-seeking • controlled producer prices: real producer price declines • inefficient allocation of public money to state farms • mandatory and coercive peasants associations • focus on large-scale manufacturing and capital subsidies for large industries. Small- and medium sized enterprises neglected. • retail trade nationalized or severely restricted, intense regulation of enterprise | <ul style="list-style-type: none"> • market led development: privatization and commercialization of SOEs, encouragement to domestic and foreign private investors • outward-orientated development: QRs replaced by tariffs, average tariff level, and dispersion of tariffs reduced; export-led development, diversification into non-traditional exports • targeted safety nets, focus on basic health services and primary education. Inclusion of poverty objective in overall macro framework • legal reform to protect individual property • private commercial land-ownership and/or traditional land tenure strengthened. Community access to natural capital secured • public expenditures focused on core priorities, increased revenue mobilization, reduction in unfunded fiscal deficit • market determined interest rates (positive real interest rates to encourage savings), market allocation of credit • reduced controls on current and capital account transactions • currency managed to maintain incentives to tradables production • removal of restrictions on private trade and inter-regional movement of crops • focus on increasing competition in trade to reduce margins, and thus raise prices for producers and lower them for consumers • focus of public money on services of most benefit to smallholders and commercial farms • voluntary smallholder associations • withdrawal of direct and indirect subsidies to large industries, reduction in disincentives to small and medium sized enterprises • liberalization of retail trade. Lifting of burdensome enterprise regulations |

Figure 1
Real GDP per capita for case study countries in US\$ (constant 1995 prices)



Source: World Bank (2000).

Indeed, planning, state intervention, capital and trade controls as well as directed credit marked the successful reconstruction cases just cited (Yergin and Stanislaw 1998). From an historical perspective, contemporary war-to-peace transitions are unusual in the scale of market-liberalization simultaneously accompanying reconstruction itself. In part this reflects the perspectives and conditionality of the dominant donors, the IMF and the World Bank. The Bank and the Fund take the United States as their paradigm of a market economy, rather than Japan or Western Europe. But the United States, unlike Japan or Western Europe, was never devastated by war. The post-war need for state intervention to mobilize and direct resources to reconstruction led to a greater role for the state in the market economies of Japan and Western Europe (see Dornbusch et al. 1993, Milward 1984).

In so far as Africa's conflict countries are able to strengthen state effectiveness, their menu of policy options widens—and they may be able to draw upon interventions that proved useful in the post-war recoveries of Japan, South Korea, and Western Europe. Certainly, as Castel-Branco et al. (2000) argue, these countries need a strategic vision of economic development. But for the present, limited state effectiveness—the main reason why contemporary reconstructions are associated with considerable liberalization—implies that states must focus on a narrower (but still very large) range of tasks. These include the sustainable management of natural capital (and the protection of community access to it), the prudential regulation of the financial system, and the transparent management of the remaining privatization process, together with the regulation of post-privatization utilities in the public interest. And, most of all, the state must deliver basic services and infrastructure to poor communities. This is a priority that is still to be met in all of our case-study countries (Addison and Ndikumana 2001, Bigsten 2000).

4.1 Economic transition

Africa's state socialist countries were far from being the planned economies seen in the Soviet Union or pre-1976 China, irrespective of their early aspirations. State socialism lasted for only a short period, and it was interrupted by war which led to considerable de facto market liberalization. State capacity in Africa was not in any case up to the task of imposing central planning on predominantly rural economies (Addison 2000b).

But this does not mean that the transition experiences in Asia (China and Vietnam) and Eastern Europe and the former Soviet Union (EE-FSU) are irrelevant to understanding the reform process in our selected countries, or in Africa more generally. Far from it. It is now widely recognized, for Africa and elsewhere, that institutional investment is critical to the creation of a market economy that spreads its benefits across society—and not just to a narrow elite (van der Geest and van der Hoeven 1999, McGillivray and Morrissey 1999).⁷ In EE-FSU, the absence of well-defined property rights and insider privatization shifted large amounts of state assets into private hands on very favourable terms (Stiglitz 1999). This was facilitated by straddling between private and state actors, the former using newly formed private banks to leverage their asset windfalls further, finance political parties (thereby ensuring regulatory capture), and create a compliant private media (Kolodko 2000).

Much the same process is occurring in Angola, there is evidence for it in Mozambique—the grabbing of state farms and property at local level is akin to the 'wild' or 'spontaneous' local privatizations of the FSU—and Ethiopia has seen the formation of strong alliances between the ruling party and private business. In Mozambique's case, there are countervailing democratic pressures (see section 3), but in Angola and Ethiopia these are weak. Unless Africa invests in the institutions of democracy and law and order then reform will deliver a sharp rise in income and wealth inequality—as in the economic transitions of EE-FSU. In turn, high inequality lowers the benefits of economic growth for the poor in comparison to a situation in which inequality is initially lower (Addison and Cornia 2000). Moreover, high and rising inequality is one of the factors associated with the onset of conflict (Nafziger et al. 2000).

Given these parallels between SSA and EE-FSU, it would be better to dispense with the terminology of structural adjustment—which is in any case a devalued concept—and describe the reform process in SSA as one of economic transition, since this does at least imply that institutional investment is as important as liberalization in the creation of a market economy. Accordingly, a number of our case studies do adopt this terminology (including Aguilar 2000 on Angola and Bevan 2000 on Ethiopia).

State capacity has affected the nature of the economic transition from state socialism in our selected countries. But this transition has also been affected by, and interacted with, the process of democratization. In this regard, Africa's trajectory more closely resembles that of EE-FSU in which democratization ran alongside economic transition

⁷ The often disappointing private investment and growth response to the first round of liberalization in SSA in the 1980s was in part due to a lack of complementary institutional investment (Mosley et al. 1991, Weeks 1998).

from state socialism, rather than the transition experiences in China and Vietnam, in which the state implemented reform while retaining single-party rule.

4.2 Democratization

In the early years of African independence it was believed that limiting political competition—single party systems rather than multi-party politics—was necessary for nation building and development (Addison 2000b). But the politics of patronage and the resulting over-taxation of the populace undermined growth and deepened poverty across Africa (Collier and Gunning 1999). Policy-making became inflexible, thereby magnifying Africa's vulnerability to commodity-price shocks which intensified in the 1980s (Cornia and Helleiner 1994). By the end of the 1980s, many of Africa's ruling elites possessed neither the mandate provided by competitive elections nor the popular mandate accompanying economic success (which provided a large measure of support for East Asia's 'miracle' states despite their authoritarianism). Many faced armed rebellion, civil societies pushed for democratization, and political conditionality was increasingly attached to aid (Bates 1999, Bratton and van de Walle 1997).

By the end of the 1990s, 45 countries had multi-party constitutions (compared with only 9 in 1988) including Angola, Ethiopia, Guinea-Bissau, and Mozambique, and only one country, Eritrea, had a one-party system (compared with 29 countries in 1988) (Thomson 2000: 216).⁸ Nobody in the late 1980s predicted a political shift on this scale.

After their initial hesitancy, a surprising number of incumbent leaders turned multi-party politics to their advantage; most can rely on the support of state media, continued access to the public purse, and private campaign finance. These advantages have given them the edge over oppositions which are, in many cases, inexperienced and hopelessly divided (Baker 1998). With the exception of Ethiopia's Mengistu and Somalia's Barre, Africa's Marxist-Leninist leaders, including those in Angola and Mozambique, have been adept at retaining power (after dumping their previous ideological affiliations)—perhaps more so than in the EE-FSU itself.⁹ For the more astute political elites, internationally recognized elections offered the prospect of retaining power and rehabilitating a tarnished reputation. Therefore in many cases international pressures for political change have proved to be incentive-compatible with the interests of incumbents (Addison and Ndikumana 2000).

Elections are 'incomplete contracts'; electorates can vote out bad leaders, but between elections leaders can break promises and abuse power. Democracy is therefore strengthened by other institutional investments, including supreme courts, the separation of powers between the executive and legislative branches, and legislative oversight of the public accounts (Persson et al. 1997). And well-functioning democracies are characterized by a strong distrust of the powerful (Warren 1999). Hence, the development of an independent media is essential (Ellis 2000, Sen 1999: 183).

⁸ In addition to 45 countries with multi-party constitutions in 1999, and 1 one party system, there are 3 military oligarchies, 2 monarchies, 1 no central-government, and 1 'no party' government in Thompson's (2000: 216) classification.

⁹ In Benin and Madagascar Marxist leaders were defeated in their country's first multi-party elections but subsequently returned to power.

Mozambique's very active independent media offers an alternative view to the state media. But much of Eritrea and Ethiopia's press is self-censored, and Angola's government calls for journalists to 'show patriotism' during wartime and intimidates independent voices. And 'media corruption'—journalists in the pay of ruling parties and commercial interests—is evident in Africa just as in EE-FSU (Kolodko 2000). Therefore civil society networks—including the church and trade union press—are important, but still fragile, counterweights to the ruling media consensus.

Sceptics worry that nascent democratic transitions will succumb to the 'winner takes all' philosophy that bedevils Africa's political culture—political leaders have very high rates of time preference (the result of uncertainty) leading them to discount future benefits in favour of immediate gains. Little is therefore left for the losers, who may fear that the first elections are the end of political transition, not its start. Hence, UNITA's reaction to losing the first round of Angola's 1992 presidential elections, and its decision to return to war. Only three African countries—none of them in our country group—have passed the Huntington (1991: 267) test that democracy only becomes institutionalized after two, not one, turnovers of government (thereby signalling that political contenders are willing to yield ground through the political process).

However, these are early days. Cynicism is understandable but ultimately unhelpful, and Africa yields constant surprises. When Mozambique held its first elections in 1994, few observers would have predicted that Renamo and Frelimo would still be engaged in peaceful political competition today (recent events, involving the deaths of Frelimo supporters, notwithstanding).

5 Conclusions: breaking away from the conflict-underdevelopment path

To draw together the themes of this paper, we turn to the chronic uncertainty that besets conflict countries. This affects all national actors. As uncertainty rises, communities over-exploit the natural capital that underpins livelihoods. Social capital, including the trust that creates informal safety nets, degrades. And investment in education falls since its expected (long-term) return declines. Poverty not only rises in the short-term, but prospects for longer-term poverty reduction are also undermined. In the private sector, entrepreneurs favour commerce which has more immediate returns than production and requires less physical capital; this makes it easier to exit if instability increases. Distrust impedes the formation of business networks that can otherwise substitute for imperfect (or non-existent) credit and insurance markets. These effects combine to reduce the rate of private investment. Uncertainty also undermines the state; long-term planning in the national interest is replaced by a culture of corruption, which is a greater disincentive to community and private investment than equivalent taxation (see Wei 1997).

In summary, the distrust that accompanies chronic uncertainty undermines the construction of developmental institutions, since these are '... a set of humanly devised behavioural rules that govern and shape, the interactions of human beings, in part by helping them to form *expectations* of what other people will do' (Lin and Nugent 1995: 2,306, emphasis added). Uncertainty reduces incentives to invest in institutions that

have long-term benefits, and instead opportunistic behaviour flourishes in communities, the private sector, and the state.¹⁰

The result is a generalized distortion in the use of resources and the pattern of investment (towards activity with short-term returns), in addition to the contraction of aggregate output (see Addison 1998 for a formal model). Angola is tragic example of these results, at all levels of society (see Adauta et al. 2000 and Aguilar 2000).

Countries that experience total war or lengthy periods of low-intensity conflict enter into an underdevelopment-conflict cycle, the effects of which are sketched in Figure 2. Path-dependence becomes critical; informal and formal institutions can eventually degrade to a point at which it becomes exceedingly difficult to resurrect them (the cases of Sierra Leone and Somalia). Although our case study countries are not yet at this stage, it is evident that their institutions are, with the exception of Mozambique, under great strain.

Our discussion of uncertainty and its institutional effects returns us to the larger issue of democratization. Some scholars question the benefits for growth of democratic institutions. Barro (1996: 11), for instance, concludes from his multivariate cross-country research that:

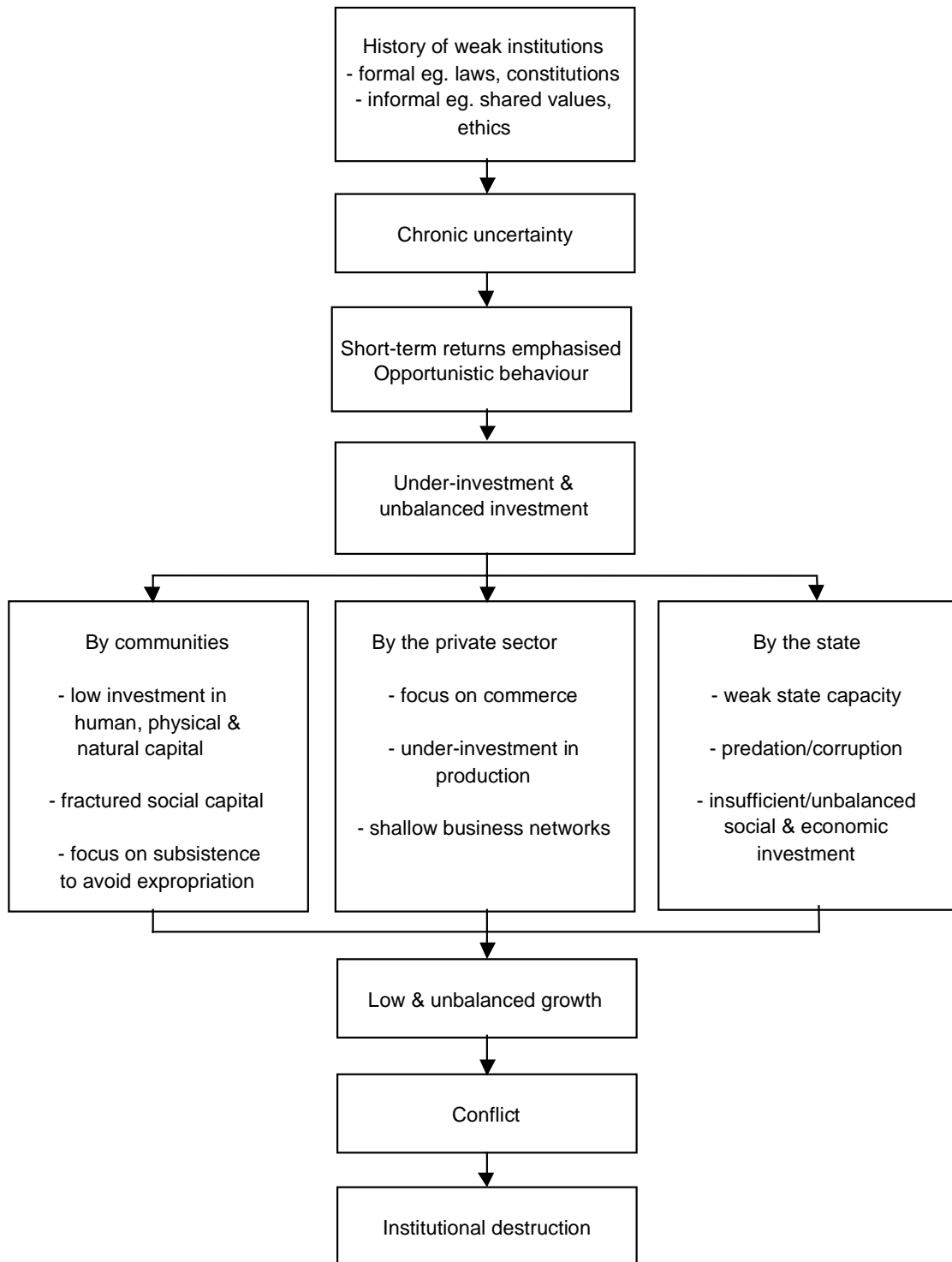
‘... more democracy is not the key to economic growth, although it may have a small beneficial effect for countries that start with few political rights ... the advanced Western countries would contribute more to the welfare of poor nations by exporting their economic systems, notably property rights and free markets, rather than their political systems, which typically developed after reasonable standards of living had been attained’.

This view—that the creation of democratic institutions can be separated from the creation of other desirable institutions (specifically clearer property rights)—is echoed by the leaderships of Eritrea, Ethiopia, Rwanda, and Uganda, which only a few short years ago were heralded as in the vanguard of Africa’s ‘new renaissance’. Thus, Ottaway (1999: 14) notes that:

‘All have come to power by winning a civil war and, consequently, they believe in the importance of force, strong organization, and good strategy In so far as they have a model of economic and political development, it is neither the ‘African socialism’ of the early days of African independence nor the Marxism-Leninism that guided them when they started their own wars. It is not even the democracy-and-free market model that multilateral and bilateral donors preach. This new generation believes in a mixture of strong political control, limited popular participation, and economic liberalization that allows for a strong state role in regulating the market’

¹⁰ In formal terms, the discount rates of all three national actors increase, so that their expected returns on longer term investments fall.

Figure 2
Underdevelopment-conflict cycle



Can institutional investment in property rights be separated from the creation of democratic institutions? Can countries escape the underdevelopment-conflict cycle by focusing on the first type of institutional investment, while leaving the second (democratization) for later when incomes are higher? The experience of East Asia's 'miracle' states (which the new renaissance leaders wish to emulate) shows that it is possible; but this is a high-risk strategy given the failure of so much state-directed development in Africa. And it is difficult to see how the state can regulate the market in the public interest without investing in democratic institutions. Africa is unlikely to develop effective systems of prudential financial regulation or public expenditure management, without democratic checks and balances to protect the independence of central bank regulators, auditor generals, or the public accounts committees of legislatures. Similarly, it is difficult to see property rights strengthening without a free and competitive media to expose fraud and other misdemeanours. And the evidence is accumulating that that aid has more positive effects on growth in countries that have institutional constraints on government power (Svensson 1999). The recent and persuasive research of Rodrik (2000) suggests that democracy is a meta-institution without which other institutional investments cannot thrive.

Therefore, countries such as Mozambique that have competitive political systems may be much better placed to succeed in the long-run than Eritrea with its single party system (no matter how well-intentioned Eritrea's present leaders).¹¹ Certainly, Mozambique's democratic transition has not impeded its recovery since 1992, nor has it limited the country's economic growth rate (averaging 9 per cent per annum in recent years)—contrary the conclusion of Barro (1996). But ultimately democracy is an end in itself, since freedom to choose one's government, freedom of expression, and freedom from fear are basic human rights that must be protected—irrespective of democratization's benefits for development.

¹¹ National elections had still not been held in Eritrea when war broke out with Ethiopia in 1998, some 5 years after Eritrea's independence.

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