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African Growth: Why a 'Big Push'?

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Over the past 40 years Africa has stagnated while other developing countries have grasped growth opportunities. This process of divergence has turned Africa into the poorest region. Africa needs a big push to escape from four development traps: the conflict trap, the corruption trap, the primary commodity trap and the fractionalized society trap. Since these low level equilibria have been sustained over some time a marginal effort is unlikely to be successful. However, the traps weaken the effectiveness of aid, making increased aid unlikely to be a successful instrument to push Africa's development. This paper suggests four non-traditional policy instruments donors can use in addition to increased aid: a security guarantee, templates of good governance, temporary trade preferences and the conditioning aid on processes of governance rather than on policies.

1. Introduction

To my mind, the real challenge of development is not poverty reduction but international convergence. In a socially integrating world in which aspirations inevitably converge, massive income differences between countries will become increasingly problematic. This is why I see the challenge posed by African development as an order of magnitude more important than any other development problem. On average, the developing world is now converging on the rich world. Africa is the only region to have been characterised by long-term divergence. Since 1960, Africa has stagnated: the population-weighted per capita growth rate of the region is virtually zero. Already, this process of divergence has turned Africa into the poorest region. But with much of the

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rest of the low-income world now growing rapidly, Africa risks becoming adrift, so far behind that it cannot relate to other economies other than through resource extraction.

The Africa Commission provides the G8 with an opportunity for collective action to respond to this challenge. A reasonable position would be that action is all that is needed—G8 governments are already doing the right thing, they are simply not doing enough of it. Within this framework of thought, what is needed is simply to scale up present effort. Because present assistance to Africa is overwhelmingly through aid programmes, the inference from this line of reasoning is that aid should be greatly increased. In effect, the problem to be overcome is a G8 coordination problem—the benefits of greater aid would be a public good and so no individual G8 government wants to pay for it. There is clearly some truth in this viewpoint.

However, the Africa Commission provides the G8 with an opportunity not just for collective action, but for collective thought. I will argue that rethinking is both necessary and useful. It is necessary because despite Africa's need for more resources, I doubt that scaled-up aid on its own will deliver very much. I think that it is useful because at present the G8 are missing major policy opportunities for helping Africa. Taking these non-aid policy opportunities would be directly beneficial and would also enable a scaled-up aid programme to be more effective.

In Section 2, I set out why Africa's growth problems are unlikely to be solved incrementally—why a big push approach is needed. The argument is that Africa is caught in a series of interlocking development traps—a 'low-level equilibrium' that is locally stable. In Section 3, I set out the limitations of a money-only approach: constraints on absorptive capacity, themselves arising from the development traps, inhibit the scope for additional finance substantially to raise growth rates. In Section 4, I propose three non-aid actions open to the OECD that would between them help to break the development traps.

2. A Big Push is Needed to Escape Development Traps

Africa diverged from the world economy in part because its opportunities were intrinsically inferior to those of other

regions. An important indicator of these differences in opportunities is that Africa has atypically large parts of its population living in countries with economic characteristics that globally have been disadvantageous. A third of its population lives in landlocked, resource-poor countries. Another third lives in countries with large natural resource rents. Globally, 80% of the developing world's population lives in countries with neither of these characteristics—coastal countries not dominated by resource rents. These are the countries that have achieved rapid and indeed accelerating growth. Only a third of Africa's population lives in such countries.

Yet, divergence is not fully accounted for by differences in opportunities. Even Africa's coastal economies have performed much worse than other low-income coastal economies. Choices matter, as well as opportunities, and Africa's leaders too often made the wrong choices at key times. During the critical decade of the 1980s, when other coastal economies were starting to break into world markets, almost all of Africa's coastal economies were beset by one or other of four policy 'syndromes' that made diversification impossible. These syndromes were excessive economic regulation, intertemporal errors such as boom-bust cycles, interethnic redistribution and violent conflict. Although by no means unique to Africa, the syndromes were significantly more common than in other regions. The only African coastal economy that escaped all of these syndromes during the 1980s was Mauritius, and it indeed succeeded in diversifying and achieving a rapid transition to middle-income status.

During the 1990s, these syndromes became less common in Africa. Unfortunately, the solutions to a problem need not be related to its causes: falling off a cliff and breaking your neck cannot be remedied by climbing back up. The policy syndromes may well have caused African divergence, yet their reversal need not be sufficient to end it. Cumulatively, the experience of the syndromes led Africa into a series of development traps. That is, problems were generated, which, once started, have a persistence of their own, even after their initial causes have been removed. Reversing the policy choices that characterised the syndromes was necessary, but was unfortunately insufficient: the traps need to be tackled by additional remedies. I will set out four traps that, I think, currently beset Africa.

2.1. Conflict Trap

The trap on which I have worked most extensively is the conflict trap (Collier *et al.*, 2003). Underlying proneness to rebellion, and hence to civil war, is strongly related to economic conditions. Essentially, there are three big risk factors, all of which are economic: a low level of income, a low rate of growth and dependence upon natural resources. Over the past 40 years, these characteristics have come to describe Africa and so the region has become prone to violent conflict. For the present argument, however, the key point about violent conflict is that it is a trap: once in it, it is difficult to escape. Violent conflict is a trap because of three such features.

First, once a civil war has started, it is very difficult to stop. Africa has indeed had some extremely long civil wars—Sudan and Angola being the most salient examples. There are good economic reasons why civil war should be persistent. Partly, the rebel organisation learns to be viable during conflict and its leaders may need conflict in order to retain power. For example, the Lord's Resistance Army in Uganda recruits by a process of kidnap: it is not well designed to survive as a peacetime political organisation. Partly, even when a peace settlement can be found that is mutually advantageous, there is little reason for rebels to trust it: governments lack means of credible lock-in to their agreements and have strong incentive to renege once rebels disarm. This is a standard problem of 'time inconsistency'. As a result of such problems, civil wars last more than 10 times as long as international wars, where treaties can be made binding.

Second, the economic legacy of a long conflict is a substantial decline in income. The typical conflict lowers GDP by about 15–20% relative to counterfactual (Collier and Hoeffler, 2004). This in turn feeds back onto the risk of conflict.

Third, the legacy of civil war includes a direct increase in the risk of repeat conflict, as well as any indirect effect via an impoverished economy. During the first post-conflict decade, there is an approximately 50% risk of going back into conflict. There are various reasons for this, but one is that during conflict, the violent thrive, whereas peacetime interests are weakened. Post-conflict, there are thus strong interests, including an accumulation of capital only suited for violence, that favour a return to conditions of violence.

Hence, once a rebellion starts, the likely future is of a prolonged conflict, followed by a decade or more of high risk of

further conflict. This, for example, must be the current fear for Cote d'Ivoire.

In our current work, Hoeffler and I are researching proneness to coups d'etat. These are disturbingly common in Africa and contribute to the climate of instability and risk. We have investigated all the coups d'etat in Africa over the period 1960–2003. We find that the factors that make a country prone to a successful coup are the same as those that make it prone to rebellion—low income, low growth and high natural resource rents. Once there has been a coup, further coups become much more likely, just as the legacy of rebellion is an enhanced risk of rebellion. Unfortunately, the risk of a successful coup is not significantly diminished if a country is democratic, so that legitimate governments facing difficult economic circumstances run a significant risk of being toppled by a coup d'etat. The conflict trap may thus need to be conceptualised more widely as a phenomenon of illegitimate change of regime.

2.2. Corruption Trap

Africa was not always characterised by a high level of corruption, but survey evidence suggests that now corruption is a major problem.

The most obvious cause of the switch into corruption in Africa was the phase of excessive economic regulation which was widespread during the 1970s and 1980s—the socialist and Marxist 'control regimes'. These control regimes are now largely a thing of the past, so that the initial cause of the rise in corruption has been removed. However, corruption, like conflict, has trap-like features—once the behaviour pattern becomes widespread, it is highly persistent.

Tirole (1996) has provided a convincing theoretical account of why corruption is persistent. New entrants to the labour force inherit the expectations of the society of which they are members. If the society is honest, they inherit a reputation for honesty; if it is corrupt, they inherit a reputation for corruption. A reputation for honesty is a useful asset—for example, it facilitates access to credit. Such an inherited asset is therefore worth preserving—dishonest behaviour will destroy the asset. Thus, new entrants to an honest society have an incentive to behave honestly, whereas new entrants to a corrupt society have no such incentive. Hence, once a society has become corrupt, it tends to remain corrupt

even when the original cause has been rectified. In turn, as I discuss in what follows, this makes an infrastructure-led strategy of renewal much more problematic.

2.3. Primary Commodity Trap

On average, developing countries have diversified out of primary commodity dependence over the past 25 years. Africa has not done so. The fact that other countries have diversified might appear to imply that any trap-like features of primary commodity dependence cannot be very important. Yet the wage differential between primary producing countries and industrial countries had to widen to about 40-to-1 before the first primary commodity producers were able to diversify. A high level of primary commodity dependence generates multiple problems that tend to reinforce continued dependence.

First, a primary-commodity-dependent economy is prone to shocks and thus is riskier than other economies. This volatility discourages investment in other export activities because the risk being periodically unprofitable during spells of exchange rate appreciation, and it discourages inward-focused investment because the economy will be prone to bouts of recession.

Second, the real exchange rate is appreciated, making other exports less profitable. This Dutch disease effect has been well understood for 20 years (Corden, 1984).

Third, resource rents tend to worsen economic policy. A useful summary quantitative measure of this is the World Bank's rating, the Country Policy and Institutional Assessment, (CPIA). Hoeffler and I (Collier and Hoeffler, 2004) find that this rating is worsened by natural resource rents, the association being robust to fixed effects and to a test for Granger causality. In turn, a worse CPIA reduces the pace of export diversification (Collier and Hoeffler, 2002). A worse CPIA implies that the non-traditional exports are likely to be less profitable. By their nature, such exports do not depend upon location-specific rents. They tend to have low value-added relative to total costs and so are sensitive to the level of transactions costs.

The final trap-like feature from natural resource dependence is due to the export diversification of other labour-abundant economies. In a sense, Africa has 'missed the boat' on export diversification

because the niche is now occupied by other countries. As indicated by the Krugman–Venables model, manufacturing is characterised by localised external economies, so that industry agglomerates. Until about 1980, no labour-abundant country had significant industrial agglomerations suitable for exporting, and this enabled the OECD to be competitive despite massively higher labour costs. Once, however, labour costs became sufficiently high for industry to relocate, agglomeration economies rapidly built up in the first labour-abundant region which managed to enter the market, namely Asia. Having missed this window due to temporarily poor policies, Africa now faces the daunting task of overcoming Asia's agglomeration advantage, although not itself offering significantly lower labour costs than Asia.

2.4. Low-scrutiny, Fractionalised Society Trap

African countries combine an unusually high degree of ethnic diversity with an unusually low degree of political accountability to citizens. Globally, this combination is bad for growth. Empirically, a highly diverse society without political rights grows substantially less rapidly than either an ethnically unified society without rights or an ethnically diverse society with strong rights (Collier, 2000).

Which political rights are most important for economic performance? I suspect that the key right is that to equal treatment—in effect, the defence of minorities. In an environment of low rights, the government can retain power by private patronage to favoured ethnic groups and favoured investors rather than by supplying the public goods that are general across society. This encourages a strategy of redistribution over growth. In turn, this affects the political contest and discourse. The government is not held to account by its supporters for the delivery of public goods, but rather for its ability to divert resources from other groups. Short-term considerations of intergroup transfers crowd out the consideration of a longer-term vision. This is strikingly apparent in African elections, during which economic policy is simply not a subject of debate. Without such a vision of an economic strategy shared across the electorate, economic policy is unlikely to be stable and this in turn makes the investment climate more risky.

2.5. Interrelations between the Traps

These four traps are mutually reinforcing. Here I give some salient examples.

The conflict trap is evidently an impediment to economic diversification: the only investments that are warranted in such a high-risk context are for natural resource extraction. In turn, large rents from natural resources feed back onto the political process. A useful and widely-used quantitative measure of political rights is the Polity IV index. Hoeffler and I (Collier and Hoeffler, 2004) have regressed this measure upon lagged values of natural resource rents. Large rents significantly and substantially erode political rights. This is not surprising: a common political economy argument is that governments only become truly accountable once they have to tax their citizens. In turn, the combination of weak political rights and large natural resource rents is likely to sustain corruption.

3. Consequences of the Traps

The key point about a trap is that it is locally stable. To escape from the four development traps discussed in Section 2, a country needs a major effort—a 'big push'. In the absence of a big push, marginal, incremental efforts get overwhelmed by the locally stabilising forces of the trap. Africa has stagnated for 40 years, and without a big push, I see little reason to doubt that it will stagnate for another 40.

One component of a big push will be a large increase in external resources. Such an increase serves multiple purposes: it finances public capital accumulation, it directly raises living standards and it provides a coordinating signal to private investors that the future is not going to be the same as the past. Unfortunately, the very traps that make a big push necessary, also limit the efficacy of a large increase in external finance. In this section, I set out the evidence for these limitations. In Section 4, I suggest how other dimensions of a big push might counter them.

3.1. Limits to Aid Absorption

The first indication of a constraint is at the rather general level of the evidence on aid absorption in Africa. The effect of aid on growth is a heavily contested field. However, both theory and evidence suggest that beyond some point, aid becomes subject to diminishing

returns. The latest econometric estimate (Clemens *et al.*, 2004) finds that diminishing returns would become a problem for Africa around, or a little beyond, Africa's present level of aid. On this analysis, current levels of aid to Africa are effective in substantially raising the growth rate, but there is relatively little scope for additional aid to raise the growth rate further.

3.2. Limits to the Absorption of Natural Resource Rents

This apparent limit to absorptive capacity is perhaps better illustrated by the evidence from the growth effects of Africa's natural resource rents. These are collectively considerably larger than Africa's aid receipts, and they are concentrated in a relatively few countries, such as Nigeria and Angola. Although the African record from the use of such rents is not significantly worse than the global pattern, it is evident that usually these flows have not accelerated development. Yet, they are analytically equivalent to vast flows of unconditional budget support or, more pertinently, to debt relief. In a sense, the record on the consequences of natural resource rents provides a 'natural experiment' for the effect of a debt write-off.

Aid, as it has been provided in the past, has a much better record of promoting growth than does government revenue from natural resource rents. Aid differs from natural resource rents in only two respects: conditionality and project expertise, and the differential performance suggests that at least one of them has been useful. Because the evidence suggests that conditionality has not had a big impact, the key contribution has probably come from the expertise and disciple associated with projects. To give an example, Nigeria has had such large resource rents and such small donor aid programmes that aid has been completely peripheral to project finance. Over the years, the project commissioning practices of the Nigerian government diverged from donor practices. Competitive tendering—a standard part of donor projects—was abandoned. When this practice was recently reinstated, project costs fell by an average of about 40%.

An unfortunate implication is that if aid projects actually raise the efficiency of government spending, it may be better to provide an enhanced resource transfer through increased aid than through debt relief.

3.3. Limits to the Absorption of Private Capital

Further evidence on the limited absorptive capacity for capital relates to Africa's own flows of its private capital. Africa is the region with the highest proportionate capital flight—a higher proportion of its private wealth is outside the region (Collier *et al.*, 2001). This behaviour does not look consistent with capital shortage. In one sense, Africa is indeed desperately short of private capital—far shorter of it than of public capital. The African capital stock is predominantly—two-thirds—public, whereas for the rest of the world, the capital stock is predominantly private. Yet this shortage does not translate into sufficiently high returns to attract Africa's own capital to stay in the region.

3.4. Limits to the Absorption of Infrastructure

However, the most severe constraint upon absorptive capacity may be due to the high level of corruption in Africa and its effect upon infrastructure. The most likely focus for a 'big push' is donor finance for infrastructure. As the effect of corruption on infrastructure investment has received little attention, I go into it in some detail.

Globally, high corruption is particularly a problem for public infrastructure: it is consistently ranked as the most corrupt sector. Two features make infrastructure unusually prone to corruption. It is intensive in 'idiosyncratic' capital—its capital has to be designed specifically for installation—and it is a 'network' activity, requiring government regulation. Corruption both increases the cost of infrastructure and reduces the rate of return upon it and I consider these effects in turn. How much does Africa's high-corruption environment undermine the efficacy of infrastructure? Is it merely a nuisance factor, or is it debilitating? To answer this question, I review some new quantitative literature.

Corruption and the Cost of Capital

Because capital is, to an extent, different each time, it is difficult to standardise and so benchmark the cost of installation. For example, new buildings are more difficult to price than new trucks. The direct effect of such corruption is to drive up the cost

of building infrastructure—that is, the capital cost. This direct effect can have various secondary effects that alter the allocation of budgets. If roads are more capital intensive than primary education, the budget may be skewed towards roads and away from education. If there is more opportunity for corruption in road construction than in road maintenance, then roads may be built, allowed to fall apart, and then rebuilt: a common scenario in Africa. Even if decision-makers are indifferent or oblivious to corruption, the raised cost of capital for infrastructure will induce a 'substitution' effect whereby less of it is purchased than if its price were not inflated. So, corruption is likely to lead to more being spent but less being delivered.

I start with a study of Italy. Del Monte and Papagni (2001) examined regional-level public investment, which they regard as a good approximation for investment in infrastructure. They use an objective regional measure of corruption, namely the official number of crimes committed against the regional administration. Their measure of performance is the rate of economic growth, region by region. Unsurprisingly, they find that infrastructure investment raises the growth rate and that corruption lowers it. Their key finding, however, is that—controlling for these effects—a high level of corruption reduces the contribution that a given level of infrastructure investment makes to growth. The effect is highly significant in the statistical sense, and it is also substantial in the economic sense. Specifically, an increase of one standard deviation in the level of corruption reduces the contribution of infrastructure investment to the growth rate by 0.29 percentage points. Instead of the region growing by 1.4%—Italy's average growth rate during the 1990s—a region one standard deviation below the average would have grown only 1.11%. Over the course of a decade, that region would become 3% poorer relative to the regional average.

In a global study, Henisz (2002) presents a picture of investment in telephone networks and electricity generation over the course of a century, using data on more than 100 countries. The study uses two distinct measures of performance. The first is the length of the lag between the world's first installations of a telephone network and an electricity grid (in the USA) and their installations in each country under review. The second is the level of subsequent investment in telephone networks and electricity generation. Henisz investigates whether a high level of corruption lengthens

the lag in initial adoption and whether it lowers the level of subsequent investment. He measures the level of corruption by the ability of the political environment to impose effective checks and balances on the abuse of power. He begins by counting the number of nominally independent checks and balances in the system of political decision-making. Then he introduces the extent to which each of these nominally independent centres of power is likely to be independent in practice. To do so, he looks at the political heterogeneity of power centres; for example, if all power centers are controlled by the same political party, they are less independent than if they are controlled by different parties. Finally, Henisz allows for the degree of political heterogeneity within each power centre. A low-corruption environment involves many checks and balances, each politically independent and each subject to the discipline of internal political contest. At the other extreme, corruption thrives where checks and balances are few in number and ineffective because of a concentration of political power. Henisz finds that corruption, so defined, has significant and substantial effects. He considers the benefits if political constraints are one standard deviation better than the average. In Africa, such an improvement would have raised the likelihood that a telephone network would be installed within 50 years of the first global installation from 15 to 38%. The same improvement of one standard deviation would also have raised the subsequent rate of infrastructure investment—in the telephone network by 0.8 percentage points, and in electricity generation by 0.5 percentage points. Over the decades, such effects amount to major differences in infrastructure provision.

Both of these studies have the same message: corruption has large and adverse effects on infrastructure investment. The global study finds that, controlling for other features of the environment, a high level of corruption will substantially delay the introduction of new types of infrastructure and will substantially reduce the pace at which it is subsequently accumulated. The Italian study shows that even this substantially understates the damage done by corruption. It finds that a given level of expenditure on infrastructure investment is much less productive in corrupt environments. Hence, the distinct effects found in the two studies are cumulative: corruption lowers expenditure on infrastructure and reduces the productivity of that expenditure.

Corruption and Recurrent costs

Corruption also raises the cost of running infrastructure. Infrastructure is not fundamentally a heap of structures; it is a flow of services. Roads are an input into transport services, power stations are an input into electricity provision and phone lines are an input into telephone services. Governments usually regulate infrastructure services, as their distribution systems often include points of monopoly power, which operators could otherwise exploit. Regulation is extremely difficult in a corrupt society. Because of incomplete information, effective regulation requires an element of regulator discretion. But discretion is not possible in a corrupt society because its exercise will be challenged as corrupt even if it is an appropriate decision.

A supplier may spread monopoly profits around the organisation in the form of reduced effort, inflated payrolls and other forms of managerial slack. Employees may exploit the monopoly in their dealings with customers; for example, they may extract bribes for what should be standard performance. These forms of corruption raise the recurrent cost of providing services. Further, as with the capital cost, excess recurrent costs have both direct and indirect effects. The direct effect is simply the waste involved in the services actually provided. The indirect cost is that customers will substitute for the service. For example, across Africa, the failure of monopoly provision of electricity induced self-provision. If this behaviour renders manufacturing uncompetitive in global markets, the true costs of corruption in electricity provision in terms of jobs forgone are enormous.

Estache and Koussi (2002) study the effects of corruption by comparing productivity among 21 African water utilities. Benchmarking on the most efficient company, they measure the extent to which the other companies fall short of this standard and attempt to explain why they are less efficient. The level of corruption prevailing in the country is one among many possible explanatory variables that are investigated. Controlling for all other variables, the authors find that the level of corruption is highly significant in the statistical sense and is substantial in the economic sense. The level of corruption is measured on a 16-point rising scale, with the average level being 10.2. Estache and Koussi find that a one-point reduction in corruption raises the level of

operating efficiency by 6.3%. If these water utilities were operating in uncorrupt environments (1 on the scale), they would have an average increase in efficiency of 64%. The prices the firms' charge could thus be 64% lower. In other words, nearly two-thirds of the operating costs were due to corruption. Even a reduction of corruption by one point from the 10.2 average to 9.2 (which is entirely within the range of the data) reduces costs by 6.3%, which is a large effect. Indeed, the authors point out that it exceeds the total gain achieved from privatisation.

A similar study of 80 electricity utilities in 13 Latin American countries by Bo and Rossi (2004) uses two measures of national variations in corruption, ICRG and TI's corruption perceptions index. It finds both to be significant. This study controls for other effects on the efficiency of electricity generation. It uses two measures of performance, the number of workers employed—and hence labour productivity—and total operational and maintenance costs. With two measures of corruption and two measures of performance, the authors are able to check the robustness of their results. They find that both measures of corruption significantly and substantially affect both measures of performance. Bo and Rossi consider what would happen if the median country in their sample (Brazil) had the corruption level of the least corrupt country in their sample (Costa Rica). This is approximately equivalent to asking what would happen if all countries reduced their corruption to the Costa Rican level. The effects on efficiency would be substantial. The labour force needed to produce the same amount of electricity would be reduced by 12%.[1] Electricity would certainly be cheaper; the authors find that operational and maintenance costs would fall by 23%.

Summary

Initial research on the consequences of corruption encountered the technical problem of 'endogeneity'—corruption was clearly correlated with a lot of adverse outcomes but may not be their cause. Recent research has gone a long way to overcome these problems of interpretation. Between them, the studies reviewed earlier have

[1] This does not imply that in a low-corruption environment 12% of electricity workers would lose their jobs. Because electricity would be cheaper, more of it would be produced.

found four distinct, yet coexisting, costs of corruption to be significant and substantial for infrastructure:

1. Corruption delays and reduces expenditure on infrastructure investment: e.g., globally, a modest reduction in corruption would increase investment in telecoms by 0.8 percentage points.
2. Corruption reduces the growth generated by a given expenditure on infrastructure investment: e.g., in Italy, the same modest reduction in corruption would increase growth by 0.3 percentage points even with unchanged investment.
3. Corruption raises the operating cost of providing a given level of infrastructure services: e.g., in Latin America, reducing corruption to the level of Costa Rica would reduce operating costs in electricity by 23 percentage points.
4. Corruption reduces the quality of infrastructure services and limits access, especially for the poor.

Thus, a big push on infrastructure in isolation from efforts to address the corruption problem risks failing to have a satisfactory economic return. In the process, it might even reinforce the corruption problem because infrastructure is its epicentre.

4. Making a Big Push Effective

If African economies are in a trap—or, as I have suggested, as series of traps—then marginal efforts will not be successful. Stagnation is a locally stable equilibrium. Only a large effort can get the society out of the range of this equilibrium. However, the 'big push' approach is complicated, because the traps also weaken the effectiveness of the traditional donor instrument—aid, especially aid for infrastructure. What is needed is a complementary set of measures, alongside expanded resources, which between them address the traps. I consider four non-traditional instruments that the OECD might be able to deploy to weaken the traps and, in the process, open up the possibility of effective expansion of the traditional instrument of aid.

4.1. The Provision of Security

This strategy addresses the conflict trap, and more broadly, the trap of illegitimate challenge to regimes that generates the risk of instability. Because this risk is highest in the poorest countries that are in economic decline, the strategy is most pertinent for those African countries at the bottom of the economic system.

Governments are responsible for their own security, but there are circumstances in which external security assistance is necessary. For 50 years, Europe needed and accepted a security guarantee from the USA. This did not make Europe a colony of the USA: rather, it protected European sovereignty from a more sinister menace. I believe that Europe could now usefully provide military guarantees to Africa covering two risks: coups and post-conflict situations. American financial assistance to Europe through the Marshall Plan is quite properly invoked as the ethical precedent for European financial assistance to Africa, but American military guarantees constitute an equivalent ethical precedent.

The threat of a coup d'etat comes from a government's own security forces and so cannot be guarded against by expansion of those forces. The high frequency of African coups d'etat, as well as the continuing risk even in democracies, suggests that there is a role for external military guarantees. Sometimes such a security guarantee can come from within the region: for example, the recent coup d'etat in Sao Tome Principe was put down by the threat of military intervention from Nigeria and Angola, under the auspices of the African Union. However, in many circumstances, governments are understandably wary of military intervention by their neighbours, or the neighbours lack the military capability to be of assistance. Thus, just prior to the Sao Tome coup, a coup in the Central African Republic was not reversed, despite protests from the African Union. Note that in both these cases, the governments that were overthrown had come to power through democratic elections. There may, therefore, be a role for military guarantees that are truly external, to reinforce decisions of the African Union. The recently formed European 'Rapid Reaction Force' for Africa could be used in this capacity, putting down coups against governments that had come to power through elections certified as 'free and fair', and thus empowering the African Union. Such a guarantee would consolidate

democracies twice over: by reducing the threat of overthrow and by increasing the incentive to abide by due democratic processes.

The second circumstance in which an external military role is useful is post-conflict. Globally, post-conflict situations carry a high risk of conflict reversion. In response, post-conflict governments usually choose to have very high levels of military spending: military spending during the post-conflict decade is virtually at the same level as during the conflict, so that little or no peace dividend is taken. A recent instance of this would be the build-up of military spending by the government of Cote d'Ivoire since the signing of the peace settlement with rebel forces in 2003. Although such high levels of spending are understandable in view of the risks, they are actually counterproductive. Hoeffler and I (Collier and Hoeffler, 2006a) instrument for military spending, to control for its endogeneity to risk, and find that in post-conflict situations, high spending significantly increases the risk of further conflict. This effect is unique to post-conflict situations. The time-consistency problem discussed earlier is also unique to post-conflict situations, and so there are good theoretical grounds for expecting such a distinctive effect. High military spending inadvertently signals that the government intends to rule by force rather than inclusion and this signal makes the society more dangerous.

Hence, at present, the main instrument that post-conflict governments use to reduce risk is having perverse effects. Yet, post-conflict governments are right to be concerned that risks of conflict reversion are high enough to require some military stabiliser. External military force to keep the post-conflict peace provides such a stabiliser without sending an inadvertent signal of malign government intentions. Such a force should, of course, be under the auspices of both the African Union and the UN and is likely to include forces drawn from the region, but its logistical backbone probably needs to come from Europe. Because post-conflict risks probably fall only gradually, such a military presence needs to persist for around a decade rather than being a 'quick fix'. The present British military presence in Sierra Leone is a model for such a role. Hoeffler and I (Collier and Hoeffler, 2004) have estimated that the cost of the operation has been hugely exceeded by the benefits: this is external assistance at its most effectiveness.

Reducing the risk of coups and stabilising societies after conflict are both highly pertinent to Africa's present circumstances. The

bogeyman of colonialism should not close off an important avenue by which Europe could assist Africa.

4.2. Templates of Economic Governance

This strategy addresses the traps of corruption and of low-scrutiny, fractionalised societies. It is particularly pertinent to those African countries that have large rents from natural resources—around a third of Africa's population.

Over the past 50 years, OECD countries have designed and promulgated economic standards and norms. Many of these have been for use within the EU, and new entrants are required to adopt them. Others are global voluntary standards, such as the Basel norms in banking. Naturally enough, such standards have been designed primarily around issues that are important for OECD countries and to criteria which meet their needs. An example of such specificity is the 'stability pact' rule for the Eurozone on fiscal deficits. This was designed to be appropriate for countries within the range of European growth rates and debt capacity. As such it would be inapplicable to low-income conditions.

Because OECD countries have prioritised their own needs, there is a dearth of economic rules, standards and norms appropriate for the conditions of low-income countries in general, especially for those that are resource-dependent. As noted in Section 2, a third of Africa's population lives in countries whose economies are defined by natural resource rents, and globally, such economies have performed badly. The poor global record suggests that there is a need for international templates for the management of the problems that are generated—problems that are not specifically African, although Africa would benefit disproportionately from the adoption of effective models.

The multiple difficulties generated by natural resource rents probably require multiple templates of economic governance. One such template concerns the distinctive nature of the revenues to government. In the past, the norm in Africa is for such revenues to have been surrounded by secrecy. Both the initial awarding of contracts and subsequent payments of revenue should be public information. The Extractive Industries Transparency Initiative is a beginning in the direction of establishing an international norm. Most probably, the major beneficiaries of secrecy have been the international companies.

A second template would reflect the fact that large revenues imply large expenditures. The effective management and scrutiny of public expenditure is evidently much more important in a country such as Nigeria, where government revenue is 40% of GDP, than in a country such as Uganda, where it is 10%. The basic components of an expenditure template would be the integrity of the budget process and the procurement process, combined with some procedures for evaluating the effectiveness of public expenditures.

A third template would address the problem of Dutch disease. Some natural resource economies, such as Indonesia, succeeded in diversifying their exports, countering Dutch disease by a combination of 'exchange rate protection', trade liberalisation and expenditures on infrastructure which assisted the export sector (Bevan *et al.*, 1999). Such a strategy needs to be codified, not as an iron law, but as an indicative model of good practice for a resource-rich country wishing to diversify its exports. A fourth template would address the problem of volatility. The boom-bust cycle has been the norm for resource-rich economies: typically half of all the increase in output initially generated by resource rents is lost some four years later (Collier and Hoeffler, 2006b). The components of such a template would include a structure of contracts with extraction companies that shifted risks away from the country, a fiscal strategy for smoothing expenditures over the medium term and a donor strategy for providing a degree of revenue insurance through automatic and rapid compensating changes in aid flows.

To give a practical example of why such templates are needed, recently, the new government of East Timor realised that it lacked expertise in negotiating and managing the large oil and gas revenues that it was likely to receive. In effect, it needed a suite of international templates. In the absence of such templates, it sought advice from two resource-rich governments—Angola and Norway. The association with Angola was influenced by language, although in other respects, the choice was hardly ideal. The association with Norway was influenced by the Norwegian oil fund. Because the core idea of this fund is to accumulate international financial assets for future generations, it is evidently radically inappropriate for a low-income country such as East Timor. Several small west African countries have recently made oil discoveries—notably Sao Tome Principe and Gambia—and they are in as urgent need of international templates as was East Timor.

The problem of corruption could also be assisted by international templates, although here the primary focus of templates would be the behaviour of the OECD banks. Probably the most effective measure to tackle corruption is to make it both difficult and risky for the proceeds of corruption to be deposited in the international banking system. This would require a level of scrutiny by the banks, and powers of confiscation and repatriation, equivalent to those currently being implemented in connection with terrorism. The effective financial response to the threat of terrorism, as well as the failure to make a corresponding response to corruption, illustrates the past failure of the OECD societies to attend to the problems of low-income countries.

Just as the bogeyman of colonialism has discouraged the development of much-needed security assistance, the bogeyman of IFI conditionality may have discouraged the development of templates pertinent for Africa. Yet, there is a crucial difference between the *ad hoc* policy interventions of donor conditionality and the voluntary adoption of processes of economic governance and policy rules. Were IFI policy conditionality imposed on OECD countries, it would be resisted as unacceptably intrusive, whereas guiding templates have been the normal business of international economic relations for half a century. Africa has simply been marginalised from this process and has paid a high price.

4.3. Temporary Trade Preferences

This strategy addresses the primary commodity trap. It is particularly pertinent for those coastal economies whose primary commodity exports do not generate large rents. Countries that are not coastal face severe impediments to diversify exports away from primary commodities because of transport costs. Similarly, countries with valuable natural resource rents face impediments to diversification because of Dutch disease. About a third of Africa's population lives in countries that are coastal but do not have valuable natural resources—examples are Kenya and Ghana. Such countries might potentially follow the Asian path of diversification through manufactured exports.

Even for such countries, the diversification of exports away from primary commodities is not going to be easy. China, India, Vietnam and Bangladesh now occupy the cheap-labour niche in the global economy and Africa has no advantage over these economies with which to counter the advantage which they have accumulated

through industrial agglomeration. To date, the market access issue for Africa has been defined as a matter of trade 'justice'—the removal of OECD barriers on Africa's existing exports. Although such barriers are evidently an example of the OECD giving with one hand and taking away with the other—'policy incoherence', I think that they are not the vital African trade issue. Rather, the key market access issue for Africa is to try to recreate the opportunity which last existed in the early 1980s—before other low-income countries had built up their present cost advantage—and which Africa missed owing a range of policy mistakes which have now largely been reversed.

To recreate that opportunity requires that Africa receive temporary protection from Asian competition in OECD markets. Radical as this proposition might appear, it has in fact already been conceded by both the USA and the EU. American trade policy towards Africa includes the Africa Growth and Opportunity Act (AGOA), and EU policy includes the Everything but Arms initiative. The core of both of these policies is protection of Africa from Asia. The problems of these policies is that, having conceded the principle, they then fail in their operation. AGOA provides protection only in the USA, a relatively minor market for Africa. It has highly restrictive rules of origin and an excessively short horizon of only three years. Everything but Arms initiative is too complex, does not cover the whole of Africa, again has restrictive rules of origin, and has no time limit—and so no sense of urgency. What is needed is a pan-OECD approach, that would, for example, include the Japanese market. The arrangement should have generous and uncomplicated rules of origin, and it should apply for a sensible time period—longer than three years but shorter than eternity. A credible end-date might be 2015, coincident with the horizon of the MDGs.

Temporary trade preferences would not, in themselves, be enough to enable countries like Kenya and Ghana to be competitive in manufactures. However, they would narrow the competitiveness gap. This in turn would provide the governments of such countries with an opportunity to create economic zones subject to governance and regulatory regimes and equip with infrastructure, which in conjunction with the trade preferences could create islands of competitiveness. One advantage of creating islands is that it is a much less daunting task than attempting to put everything right across the whole economy. A second is that the costs of equipping such zones would be obvious candidates for donor funding. A third is that the strategy

swiftly works or fails according to whether it passes a threshold and so it is easy to monitor. The global market for labour-intensive manufactures is so large that once such a zone is competitive, it has the potential to generate several million jobs: there is a threshold of cost reduction. Until this is reached, little happens, and beyond it, there is virtually infinite scope for replication of jobs. For example, in Madagascar, once the economic zone became competitive, it generated 300,000 jobs within two years. Although jobs in economic zones are at low wages, and often mostly for young women, they can transform economic security for poorer households.

4.4. Conditioning Aid on Processes Instead of Policies

My final proposal is for a change in the practice of aid conditionality. In both academic and policy circles, there is broad consensus that policy conditionality is ineffective and interferes with ownership: governments, not the donors, should be setting policies. It is not so much that a government has a divine right to set policies, but rather that policies have to be accountable to the electorate: the government can be held accountable to the electorate, whereas donors cannot.

Although there have been some changes in donor practices, at present, practice still lags a long way behind ideas. Part of the reluctance on the part of donors is that they can see that often a government effectively evades accountability to its own citizens. I think that the right way to deal with this is to require process conditionality, rather than policy conditionality. That is, donors should legitimately require that governments in receipt of aid adopt processes of governance that make them realistically accountable to their own citizens. Donors cannot substitute for citizens, as they are the agents to whom governments are accountable, but they can empower citizens. Some governments will object to process conditionality, yet the brute fact is that most African governments still face a greater threat of being ousted by their armies than by their electorates.

5. Conclusion

The Africa Commission is the OECD's opportunity to do something helpful for Africa. In part, it is an opportunity for the OECD to overcome its collective action problem in financing a resource transfer.

Although this is appropriate, I believe that it is too limited. Indeed, I think that it is questionable whether with an unchanged environment Africa can productively absorb substantial increases in resource flows. I have suggested that that the OECD has important opportunities for action beyond resource transfers. These opportunities take OECD governments beyond the traditional domain of their aid ministries and so are in danger of falling between the cracks of government organisation. To get policy coherence across the full range of security strategy, banking law, governance templates and trade policy require coordinating action at the very top of OECD governments. This is why the Africa Commission is such an important opportunity. Not only does the British prime minister Tony Blair chair the Africa Commission, he will also chair the meeting of G8 heads of government to which it will report and coincidently hold the presidency of the Council of Europe, the meeting of EU heads of government. This is a unique opportunity to move development policy beyond the aid silo, launching a set of policy changes which cohere into a big push.

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