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World Institute for Development Economics Research

Discussion Paper No. 2001/141

## **Do Donors Matter for Institutional Reform in Africa?**

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December 2001

### **Abstract**

The last twenty years has seen an extensive and exhausting debate on how to improve the institutions of African states. But progress has been patchy at best. Many of the problems arise from a 'partial-reform equilibrium'; initial reforms are undertaken, but then strong resistance is encountered, and reform is not completed. Consequently, although donors may be heartened to find governments speaking the rhetoric of private-sector development, governments may not in fact buy into many second-generation reforms. Public management and public expenditure reform, security-sector reform, and revenue reform are all unfinished agendas. Donor assistance to countries that are stuck in a partial-reform equilibrium is most effective when internal political dynamics succeed in changing national leaderships, as in Ghana.

Keywords: aid, democracy, sub-Saharan Africa

JEL classification: O10; O55

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This study has been prepared within the UNU/WIDER project on Institutional Capabilities, Reform Ownership and Development in SSA, which is directed by Steve Kayizzi-Mugerwa. UNU/WIDER gratefully acknowledges the financial contribution to the project by the Government of Italy (Directorate General for Development Co-operation)

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Camera-ready typescript prepared by Lorraine Telfer-Taivainen at UNU/WIDER  
Printed at UNU/WIDER, Helsinki

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ISSN 1609-5774  
ISBN 92-9190-106-7 (printed publication)  
ISBN 92-9190-107-5 (internet publication)

‘Reform will only occur if it promises to offer the rulers a bundle of resources and policies that improve on the status quo’ (Jean-Laurent Rosenthal discussing the failure of the monarchy to reform in eighteenth century France).<sup>1</sup>

‘Until the issue of the presidential succession is resolved, nothing fundamental will change in Kenya. There will be some progress with the IMF and the World Bank, and then after three months we’ll be back to square one’ (Gitobu Imanyara, Kenyan opposition politician and lawyer, 4 April 2001).<sup>2</sup>

## 1. Introduction<sup>3</sup>

The last twenty years has seen an extensive and exhausting debate on how to improve the institutions of African states. There is now a welcome emphasis on service delivery and accountability in the use of public money. But progress has been patchy at best. More than ever, sustained reform depends on the establishment of a domestic consensus, and an internalisation, of the need for change. ‘Blaming donors and multilateral agencies for domestic policy failures, while a popular approach among some African regimes, cannot be a viable strategy in the long run’ (Kayizzi-Mugerwa 2000). Ownership is therefore crucial.

This paper is entitled ‘Do Donors Matter for Institutional Reform in Africa?’. The reader can probably guess the answer: if reform is fully owned by African governments and societies, then they will devise the agenda and lead the process. Aid would still be important in reducing the financial and human resource constraints, but donors would otherwise take the back seat. But since many countries find it difficult to move the process forward, donors will remain important in devising the agenda. It is therefore crucial that donors have a clear and effective strategy. This paper suggests that many of the problems arise from a ‘partial-reform equilibrium’; initial reforms have in many cases been undertaken, but then strong resistance is encountered, and reform is not completed. In thinking through this issue the paper has been influenced by the literature on transition economies, which is more relevant to sub-Saharan Africa (SSA) than often supposed. In particular, the term ‘partial-reform equilibrium’ which is used by Hellman (1998) is helpful in understanding why reform may stall.

We do not attempt an evaluation of donor projects in institutional reform: to do that properly would require a comprehensive inventory of what has happened and, more fundamentally, an agreed definition of what constitutes success and failure. Rather, the paper focuses on issues of strategy for donors in assisting institutional reform in SSA. The examples that are given are mainly drawn from the experiences of the UK’s Department for International Development (DFID)—probably the most innovative of the bilateral donors presently supporting institutional reform in Africa.

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<sup>1</sup> Rosenthal (1998).

<sup>2</sup> Source: Turner (2001:8).

<sup>3</sup> I thank Steve Kayizzi-Mugerwa, Jeremy Clark, Sandra Pepera and participants at the 5-6 May 2001 UNU/WIDER project meeting on ‘Institutional Capabilities, Reform Ownership and Development in Sub-Saharan Africa’, for helpful discussions. Errors and omissions remain my own.

The paper begins, in section 2, by discussing the crisis in Africa's state institutions that came to a head in the 1980s. This destroyed the old contract between incumbent rulers and the populace, which rested on the expansion of public employment and public services. In its place, a new social contract is being written. This has both a democratic clause, but also a clause relating to the relationship between the state and business. If this social contract is successful it will drive a process in which voters and businesses provide resources (through taxes) in return for better institutions. However, section 2 also argues that progress down this path to institutional improvement is in many countries impeded by winners from the first generation of reform who wish to preserve their rents. A partial-reform equilibrium is the result. Consequently, while donors may be heartened to find governments speaking the rhetoric of private-sector development, state actors may not in fact buy into many second-generation reforms (such as regulation in the public interest).

Section 3 of the paper considers the specifics of the partial-reform equilibrium as they affect the state itself, in particular; public management and public expenditure reform; security sector reform; and revenue reform. Each is an unfinished agenda. Public management reform has been driven by fiscal crisis, but this has resulted in a focus on cost cutting at the expense of improvement in the public-sector's effectiveness. And distressingly little progress has been achieved in measuring the impact of public spending, particularly on the poor. This failure impedes not only poverty reduction but the process of democratization as well. In the security sector, donors are beginning to grapple realistically with the problem of conflict in Africa and therefore with the problem that military spending poses for budgetary transparency. But donors are still at an early stage and their efforts will not be effective unless collective action is taken. Lastly, revenue reform is an important foundation of the new social contract, but progress appears to have stagnated and it is difficult to justify donor support to mobilise more revenue when not enough of it is being transferred into effective development (and pro-poor) spending. Section 4, concludes the paper by arguing that donors can influence countries that are stuck in a partial-reform equilibrium, but generally only when internal political dynamics succeed in changing national leaderships, as is recently the case in Ghana.

## **2. Writing a new social contract**

After independence, public employment expanded rapidly as new governments Africanised state administrations, and nationalised key enterprises. New governments offered the populace more state jobs and better public services in exchange for acquiescence to single-party political systems. This social contract was not so different from that offered elsewhere in the developing world in the 1960s.

While public employment and wages expanded, new rulers gained legitimacy—although not necessarily among all ethnic groups. Commodity windfalls in the 1970s bolstered this *modus operandi*; most governments (Botswana being a notable exception) viewed the windfalls as permanent, rather than temporary, and spent accordingly. Public employment growth accelerated, often reaching 10 percent or more per year (Lienert 1998). Natural resource rents, general taxation, and 'prerogative' income (from the granting of licenses etc.) provided rulers with considerable powers of patronage, including the distribution of

public jobs.<sup>4</sup> Urban populations benefited the most, but remittances carried some of the fruit to rural Africa as well.

By 1980, this social contract was in deep trouble. Excessive indirect taxation of agriculture led to economic contraction, thereby reducing the direct tax base as well. Rent seeking siphoned talent and resources out of the productive economy. Falling revenues and weak expenditure management led inexorably to macro-economic disequilibrium. The post-independence social contract was finally killed off by the terms of trade shocks that buffeted Africa from 1980-82 onwards. Hiring stalled, and real wages in the public sector collapsed; by 1985, the average Tanzanian civil servant's salary was one-fourth of its level a decade earlier (Lienert 1998). Civil servants moonlighted to recover lost income. A sharp decline in service standards, corruption, and institutional paralysis were the results (Table 1).

## **2.1 The two clauses of the new social contract**

The 1980s crisis weakened the rule of incumbents. With the exception of Botswana and Mauritius, leaderships had neither the legitimacy provided by free and fair elections, nor the populist support provided by fast growth (such as enjoyed by East Asia's authoritarian rulers). Donor acceptance of the post-independence contract withered as the doctrine of market liberalism took hold and as Africa's strategic importance declined with the winding down of the Cold War. Accordingly, political mobilisation within civil society and political conditionality on aid initiated a transition to multiparty politics from the second half of the 1980s onwards (Crawford 2001). By 1999, 45 countries had multiparty constitutions compared with only 8 in 1988 (Thomson 2000:216). The first part of the new social contract is therefore a democratic one. The state promises higher living standards, better services, and respect for human rights in exchange for votes (and taxes) from the populace. A second clause relates to the relationship between business and the state. The state provides public goods and protects property rights, and the private-sector provides revenues in return. The literature refers to this as a 'resources for institutions' exchange (Mahon 2000).

Both of these clauses represent ideals, of course. But both are ways of describing processes that, if they work well, yield better institutions. Simply put: the people and business demand better institutions, voting out politicians that fail to deliver, and withholding resources (taxes) from states that fail to keep their side of the bargain. But as with any contract, much of the final outcome depends on how well Organized the parties are (in particular how they resolve their collective action problems) and how much information they have about each other's intentions. In particular, elections are themselves 'incomplete contracts'; electorates can vote out bad leaders, but leaders can break promises and abuse power between elections. Institutional investments such as judicial reform, independent auditor generals, and legislative oversight of the public sector and its spending therefore strengthen democracy. And to function well, democracies must be served by an active and competitive media. All of this takes considerable time and resources to build. Consequently, opinion is sharply divided over whether SSA can sustain democratisation (Herbst 2000).

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<sup>4</sup> The term 'prerogative' income is taken from Rosenthal (1998).

## 2.2 The state's relationship with business

The ideal for transforming the state-business relationship is to foster private investment, innovation and competition, while simultaneously protecting the public interest—constraining the abuse of market power, protecting consumers and workers, and safeguarding the environment (Albouy 1999). First-generation reforms often deviated markedly from this ideal; privatization was largely driven by fiscal pressures, efficiency (and equity) considerations taking second place despite their equal weight in donor rhetoric (Kayizzi-Mugerwa 2001). Insider privatization was rife (Bayliss and Fine 1998, DFID 2000a:8), sometimes directly at the expense of the poor (Addison 2001b, Wuyts 2000). About 75 percent of privatizations over 1980-95 were in sectors such as manufacturing—which accounted for 52 percent of all SOEs sold (data are from Bennell 1997). These require lighter regulation than financial services (5.3 percent of SOEs sold over 1980-95) and utilities (0.8 percent), whose characteristics demand tight regulation to satisfy the public interest.<sup>5</sup>

But second generation privatization is now increasingly focused on infrastructure and utilities—telecommunications, transport, water supply and sanitation, electricity, oil and gas—the characteristics of which (natural monopoly etc.) require well-designed regulation, especially to meet the needs of poor communities (Ugaz 2001). However, little if any regulatory capacity was built up during the first-generation of reforms in preparation for the more demanding second generation. A recent review for DFID summarizes the imbalance in priorities:

‘New forms of market-friendly regulation and support have rarely been properly instituted. The result has been that only one side of the liberal equation has been implemented, ... and government is left with few effective instruments to assert the public interest... The best performing cases are those where direct providers are accountable to users or local voters, that is where the need for regulation is reduced by effective mechanisms of (market or participatory) accountability’ (Batley 2000).

Accordingly, issues of business regulation are becoming more prominent in donor assistance, to help countries converge towards the ideal state-business relationship by overhauling competition policy, reforming business licensing, and introducing post-privatization regulation that balances commercial incentives with public interests.<sup>6</sup> Transparency and ‘a level playing field’ are the donor watchwords. There is, however, a serious problem. First-generation reforms benefited the nascent business interests of senior state-actors who have, over the last decade, increasingly ‘straddled’ the private and public sectors (Bigsten and Moene 1996). Many have replaced the economic rents that they

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<sup>5</sup> Over 1980-95, roughly three-quarters of SSA privatizations were in manufacturing (52 percent of SOEs sold), agriculture (10.7 percent), hotels and tourism (6.4 percent) and trade (5.3 percent) (Bennell 1997:1,790).

<sup>6</sup> For example, in World Bank Country Assistance Strategies (see for instance World Bank 2000 for Mozambique) and project lending (e.g. the Bank's Utilities Sector Reform project in Lesotho). In offering technical assistance in these areas, bilaterals can sometimes draw on considerable national expertise, reflecting either early privatization and thus longstanding experimentation in post-privatization regulation in the donor country itself (the UK's DFID and Crown Agents) and/or particular sector expertise (NORAD utilises Norway's national expertise in oil and gas sector management—see Norwegian Ministry of Foreign Affairs (2000).

enjoyed in SOEs and from import licensing with business profits—often derived from SOE assets that they bought cheaply. In conflict countries (e.g. Angola and Liberia), state actors and rebels also capitalised their businesses using wartime profits. And political parties have developed extensive business interests (the case in Ethiopia for example) giving them more finance, and hence an advantage in the new era of multiparty politics.

Consequently, while donors may be heartened to find governments speaking the rhetoric of private-sector development, governments may not fully buy into second-generation reform. There are parallels here with transition in the former Soviet Union (FSU) (Addison 2001a). Several FSU countries are stuck in a ‘partial-reform equilibrium’ (Hellman 1998:233):

‘In each case the winners from an earlier stage of reform have incentives to block further advances in reform that would correct the very distortions on which their initial gains were based. In effect they seek to prolong the period of partial reforms to preserve their initial flow of rents, though at considerable social cost’.

Early winners can influence the evolution of nascent regulatory frameworks to their advantage, and their opportunity is greatest when democratic institutions are new born, and thus constraints are at their weakest. If this is so, it will have four undesirable consequences:

- (1) Regulatory frameworks will be unbalanced, tilted too much to commercial incentives and insufficiently to public interests. For example, land use regulation may favour commercial interests over community interests in access to valuable natural capital—already a problem in both Kenya and Mozambique—thereby undermining the donor agenda of poverty reduction (Addison 2001b).
- (2) Incumbent parties and their leaders may use the regulatory framework to limit the entry of competitors to their own enterprises. In Ethiopia, businessmen complain that the regulatory framework discriminates in favour of businesses linked to the ruling party. Likewise, the ban on entry of foreign banks favours Ethiopia’s domestic banks including one linked to the ruling party.
- (3) ‘Big capital has big money’ and can therefore influence the regulatory agenda (via party political donations, lobbying, and corruption) in ways not open to smaller capital, and micro-entrepreneurs (which, given their number and dispersion, find it more difficult to take collective action than big capital). This could constrain the kind of desirable broad-based employment growth envisaged in such donor strategies as DFID’s ‘Making Markets Work for the Poor’ (DFID 2000b).
- (4) Technical assistance may help in constructing regulatory frameworks and institutions—for post privatized utilities, for banking systems, and for environmental protection—but state actors that benefit from a partial-reform equilibrium can encourage regulatory forbearance, thus undermining institutional effectiveness. Examples include Kenya, Uganda, and (especially) Zambia. Regulatory forbearance in the financial sector is especially serious since financial crisis endangers macro-economic stability; the recent insolvency of Mozambique’s two largest privatized banks is a case in point (Addison et al. 2001).

Table 1  
Sub-Saharan Africa and other developing country groups: quality of governance, institutions and public services

(0-10, higher = better quality)<sup>1</sup>

	Quality of Bureaucracy 1984-98	Extent of Corruption 1984-98	Government Stability 1984-98	Ethnic Tensions 1984-98	Political Violence 1984-98	Law and Order 1984-98	Risk of Expropriation 1984-97	Risk of Contract Repudiation 1984-97
Asian NIEs <sup>2</sup>	7.3	6.9	6.5	7.5	9.0	7.4	8.3	9.1
Asia	4.6	4.3	5.0	4.5	6.0	5.0	6.3	6.0
Advanced economies	8.7	8.3	6.5	8.2	8.7	8.7	7.9	9.2
Western Hemisphere	4.2	4.6	4.9	7.1	5.8	4.8	5.7	6.0
Middle East and Europe	4.8	4.7	5.7	5.9	5.7	5.4	6.2	5.9
Sub-Saharan Africa	4.1	4.6	4.8	4.9	5.5	4.4	5.3	4.8
World	5.4	5.5	5.4	6.4	6.6	5.8	6.3	6.4
<b>SSA countries: unweighted</b>								
<b>grouping by yearly per capita</b>								
<b>GDP growth rate in 1970-98</b>								
High growth (top quintile)	4.3	5.9	5.5	5.7	6.4	5.1	5.6	5.3
Medium group	4.6	4.7	5.0	5.1	5.7	4.6	5.7	5.2
Low growth (bottom quintile)	3.0	3.5	3.8	3.9	4.5	3.6	4.3	3.4
<i>Memorandum</i>								
CFA: unweighted average <sup>3</sup>	4.5	4.3	4.9	5.4	6.0	4.4	5.7	5.3

Source: Reproduced from IMF (1999) *World Economic Outlook*, Washington DC: IMF (October). Original data from International Country Risk Guide (published by Political Risk Services).

Notes: <sup>1</sup>For regional groupings: unweighted averages of countries in the dataset. <sup>2</sup>Hong Kong SAR, Korea, Singapore, and Taiwan Province of China. <sup>3</sup>Communauté Financière Africaine and Coopération Financière en Afrique.

In summary, the African state's relationship with business is evolving in ways that differ from the ideal model promoted by donors. In this sense it is more 'owned' than the ideal model and is therefore more likely to be implemented.

### **2.3 Democracy and the state-business relationship**

Democracy is unlikely to sustain itself without a satisfactory state-business relationship; a faster rate of private investment is necessary to raise economic growth, and with it the increased revenues necessary for politicians to meet voters' expectations. However, the prospects for democracy are not good while Africa remains poor; Przeworski and Limogi (1997: 165) find that democracies with per capita income of less than US\$1,000 do not last more than 8 years on average. Indeed, Herbst (2000) argues that it takes a per capita income of at least US\$6,000 to secure democratization.

But is a democracy necessary for a satisfactory state-business relationship? A number of leaderships, while not repudiating democracy outright, certainly see it as less important than the deal they do with business. Thus Ottaway (1999: 14) notes that the leaderships of Eritrea, Ethiopia, Rwanda, and Uganda ('Africa's New Leaders' as they were called back in 1997): '... came to power by winning a civil war, and consequently, they believe in the importance of force, strong organization, and good strategy'. She concludes:

'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 in regulating the market—South Korea, Taiwan, and even Singapore are viewed as models to be emulated.'

If this model yields growth and rising living standards, then these African states will build a large measure of popular support, independently of democratisation—with the new social contract resting on private, rather than public, employment growth—thereby replicating the thirty-year East Asian miracle that was constructed on a strong state-business relationship. In 'owning' this development trajectory, government would have an interest in ensuring that the relevant institutional investments occur, including the completion of first-generation reform—in particular the creation of a meritocratic bureaucracy—together with some (but not all) of the second-generation regulatory reforms favoured by donors. And as the stock of private fixed capital rose, so business would have the incentive to demand better institutions. A successful resources-for-institutions exchange would thereby ensue.

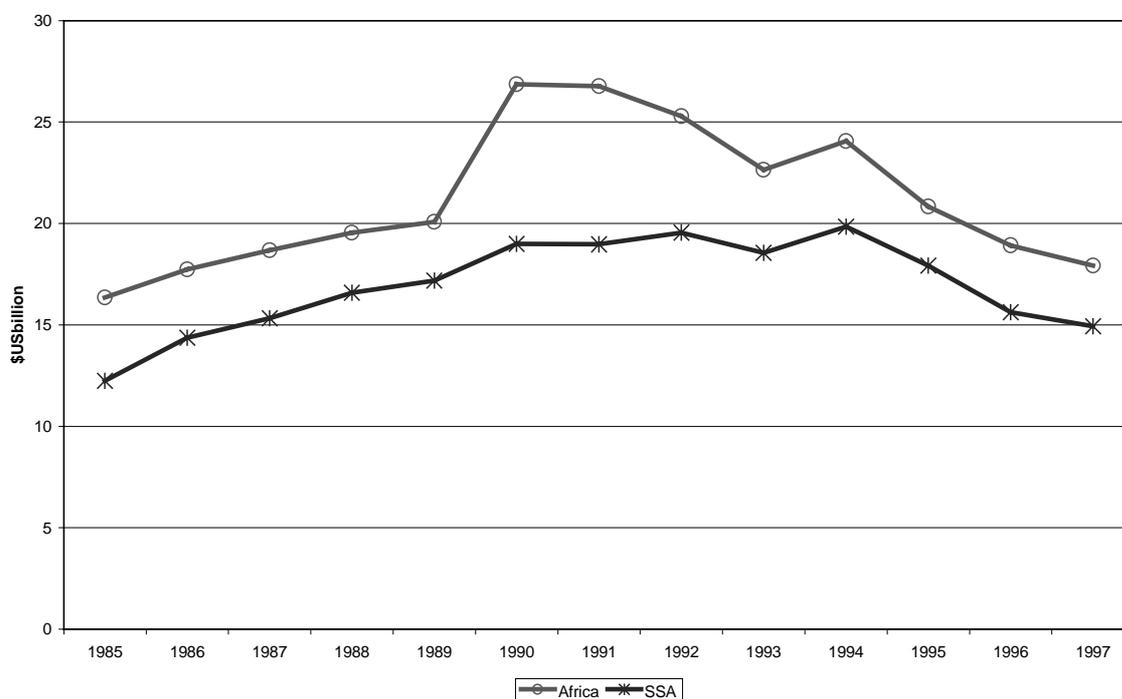
This process of successful institutional investment is least likely to occur in countries that are rich in mineral resources, at least those that now have histories of conflict. For in these countries, private investment has been mostly in enclaves that lead an existence that is virtually independent from the rest of the economy: West African offshore oil is the classic example. Provided that their property rights remain secure—and governments largely respect them since they are the source of immense personal wealth for rulers—company operations are unhindered. And since there is little incentive for the governments concerned to set up a resources-for-institutions exchange that would embrace private

investment outside the mineral sector, state institutions wither. This perhaps explains the ‘paradox’ of why the Angolan government allowed the real wages of its civil servants to collapse in the 1990s, despite rising oil wealth. In summary, institutional reform could occur without an advance in democratization, and might even withstand its reversal. But the business-state relationship that succeeded in East Asia is a difficult trick to pull off for, as Haggard (2000:15), argues:

‘In the past, it was believed that the nature of business-government relations in Asia contributed to *good* policy, at least by developing country standards; even the World Bank, came around to this view in its *East Asian Miracle* report ... But quite strict political requirements are required for such a “good equilibrium” to occur, including political counterweights to private economic power, meritocratic bureaucracies, independent regulatory agencies, and transparency in business-government relations.’

These requirements were never fully met in East Asia, but they existed to an extent sufficient to ensure 30 years of fast growth before cronyism finally overwhelmed the system. For African states to enter this path, they would have to move beyond the partial-reform equilibrium in which many find themselves. Accordingly, we now turn to the specifics of that equilibrium as it affects state institutions.

Figure 1  
Net ODA disbursements for Africa region and sub-Saharan Africa at constant prices



Source: World Bank (2000b)

### 3. Reforming the state

Rewriting Africa's social contract requires the reform of the state. This means completing an unfinished agenda that has now existed for well over twenty years—better public management and better expenditure management—as well as a 'new' agenda of security-sector reform. And for all three of these to work out, more domestic revenue must be mobilised since aid is unlikely to recover its previous levels (Figure 1).

#### 3.1 Public management reform and public expenditure reform

Public management reform includes '... restructuring to allow for greater decentralisation of management within public services, including breaking up of large and traditional bureaucracies into autonomous and semi-autonomous agencies, and emphasis on explicit standards of measurement and performance' (Labri 2000). This is combined with changes in service delivering and funding, including contracting out to private and other non-government providers. These measures and others emanate from the 'New Public Management Model' (NPM), which is in vogue—but has not in fact been systematically applied—in the OECD countries (Fozzard and Foster 2001). In turn, this agenda is now supposed to drive another:

'Changes in public expenditure management practice have followed and accommodated these broader public sector reforms, driven by a change in the perceived purpose of public expenditure management systems. Traditional administrative approaches emphasised expenditure control, assessed in terms of compliance with procedures and legislatively mandated expenditure policies, as expressed in the annual budget. Public expenditure management now emphasises performance, assessed in relation to the goals of macro-economic stabilisation and economy, efficiency and effectiveness in the use of public funds...' (Foster and Fozzard 2001:2).

These reforms continue on their unsteady path. Civil service reform, which is central to both better management and better expenditure control, has shown only modest progress (Nunberg and Nellis 1995, Lienert and Modi 1997:42). The main exception is Uganda, which cut civilian government employment from 320,000 in 1989 to 148,000 in 1995 (Schiavo-Campo 1995), and decompressed wage-differentials to restore incentives to key employees; by 1996 Uganda's real wage per civil servant was over 9 times its 1990 level (Lienert and Modi 1997: 42).<sup>7</sup> Donor support therefore contributed to better management and better expenditure control. Ghana, Mozambique, and Tanzania are also moving forward, albeit hesitantly at times (Sulemane and Kayizzi-Mugerwa 2001, Tsikata 2001).

But elsewhere most governments contained their wage bills by allowing real wages to continue their decline. By 1996 the real wage per civil servant was 88 percent of its 1990 level across SSA (and the 1990 level was often well below the 1980 level), and in some countries (e.g. Cameroon) it was less than half (Lienert and Modi 1997:42). This subverted efforts to improve management and service delivery, and in frustration donors created

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<sup>7</sup> Donors and the Government of Uganda spent US\$31 million on civil service reform over 1989-95 (Brown 1996 for DFID (ODA) and DANIDA).

separate and well paid project management units within the civil service, thereby often disabling the concept of local ownership.

Reviews of the first generation (1981-91) of civil service reforms (of which there were at least 90 donor-supported programmes) repeatedly conclude that expenditure control was often at the cost of improved management and service delivery: ‘Civil service reforms have primarily been concerned with cost-cutting and containment. The issue of productivity and the need for appropriate human capital for it have largely been secondary’ (Haque and Aziz: 1998:33). Organizing the state around the ambitious New Public Management principles, worthy as they may be, therefore remains a distant mirage for much of SSA.

Accountability in service delivery is an important aspect of the democratization; people need to know how their money is being spent. Donors have moved a long way on this, from the mid-80s when ‘beneficiary assessment’ was new to the World Bank (Salmen 1987) to today, when civil society—and its assessment of service delivery—is recognised as an important participant in the Comprehensive Development Framework (CDF).<sup>8</sup>

Yet, the reality is disappointing. Little progress has been made in establishing systems to measure the impact of public spending, and basic data on school and clinic attendance is collected only infrequently or not at all (see Durevall 2001 on Malawi for instance). Uganda’s expenditure-tracking surveys are an exception, and donors are promoting these as best practice (Reinikka 1999). In response to the survey finding that only 30 percent of non-salary funds actually reached Uganda’s primary schools, and similar leakage in the health sector: ‘Monthly transfers of government funds to districts are now reported in the press and on radio. Fund transfers to schools are now displayed on public notice boards in schools and district government centers, and the government monitors compliance with this public spending’ (Mackay and Gariba 2000:7). Uganda’s public accounting systems for education has improved with donor support, but there is as yet no improvement in the health sector (Mackay and Gariba 2000:7).

In summary, there certainly exists a partial-reform equilibrium in the areas of public management and public expenditure reform. There is no shortage of ideas as to how improve matters, but the political process appears to be generating insufficient momentum. Donors will therefore have to continue to act as catalysts for faster progress.

### **3.2 Security sector reform**

Twenty years ago, when SSA embarked upon first-generation reform, the Cold War was still at its height. The superpowers acted as agencies of restraint on client dictators; vicious internal conflict was less likely to spill across borders than is the case today. War is now a fact of life across the region—29 African countries have recently gone through major conflict—and civil wars increasingly have regional dimensions (DFID 2001a).

In aggregate, military spending in SSA fell by about 25 percent in real terms over 1990-96 (Omitoogun 2000:291). This reflected the worsening fiscal situation, and demilitarization

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<sup>8</sup> See for instance discussion of Ghana’s approach to the CDF in Mackay and Gariba (2000).

in South Africa. But military spending has been rising since 1997, and reached US\$6.6 billion in 1999.<sup>9</sup>

Development economists traditionally view military and security spending as an ‘unproductive’ expenditure that, given enough political commitment, can be cut and the resources transferred into development spending. Certainly, on an accounting basis, education and health spending could be doubled in some countries if the military was simply closed down (Table 2). But given the extent of regional insecurity, donors have now come round to the view that: ‘... there is a fundamental need and right for nations to provide for security’ (DFID 2000c:6), which must be taken into account in assessing military expenditures:<sup>10</sup> Thus DFID states that:

‘Focusing solely on the level and composition of military spending and the degree to which defence budgets ‘crowd out’ development expenditures has not enabled the bilateral and multilateral actors to achieve their objectives of lower defence spending and higher outlays on development. Governments may be forced to reduce the amount of resources allocated to defence forces in their budgets, but that does not mean that fewer resources are actually being spent in the defence sector. Rather than learning to appreciate the value of good governance in the security sector, bad practices are being reinforced. Non-defence budgetary lines are used as pass-throughs to camouflage defence expenditure. Off-budget expenditure is frequently a problem of significant proportions. Profits from the sale of primary resources are skimmed to supplement defence budgets. Enterprises owned by the armed forces are used to fund defence spending’ (DFID 2000c:67).

Uganda illustrates the issue. Uganda’s forces are presently engaged in the DRC (leading to clashes with Rwanda) as well as in fighting the Lord’s Resistance Army (LRA) in the north. Military spending has risen accordingly (Figure 3), straining donor-government relations; the IMF suspended lending in 1999 because of overspending in the defence budget for 1998/99. In 1998 the Ugandan government commissioned DFID to undertake a study of the defence budget; this recommended improved auditing and the reform of procurement in order to improve transparency (DFID 2000c:53). Nevertheless, the issue rumbles on, most lately in a public commission into irregularities in the procurement of helicopters by the Ugandan military.<sup>11</sup>

The Rwandan government has also attempted to hide military spending (Figure 2). ‘The IMF disputed the official figure, reported by the Rwandan government in 1998, of military expenditure accounting for 4.3 percent of GDP. It is estimated that the share of GDP taken by defence in 1998 is about 8 percent, taking into account extra resources derived from incomes from semi-public companies and illegal trading in diamonds from the DRC’ (Omitoogun 2000:297). In July 2000, the Zimbabwe government told the IMF that it was

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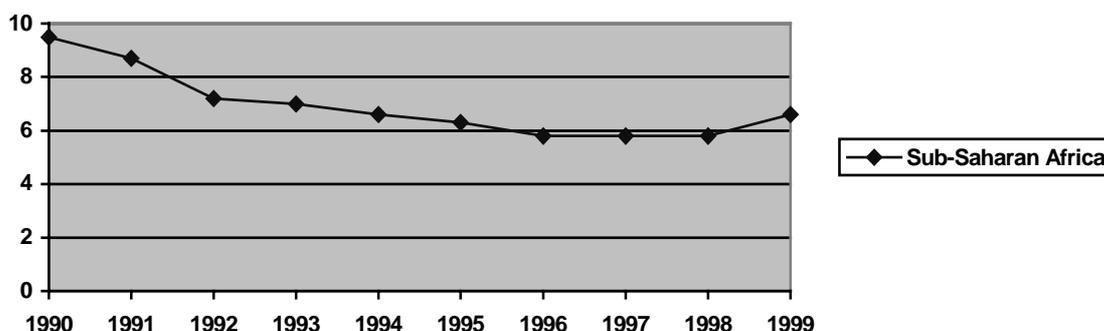
<sup>9</sup> In fact, the actual figure for military spending in SSA may be double the US\$6.6 billion figure since Angola is not included in the aggregate and some estimates put Angola’s military spending at US\$5-6 billion since the resumption of war in 1998 (Omitoogun 2000:291). About 40 percent of the Angolan government’s expenditure is off budget (IMF 1999).

<sup>10</sup> See also World Bank (1999) on assessing military spending.

<sup>11</sup> See the archive of *The New Vision* ([www.newvision.co.ug](http://www.newvision.co.ug)).

spending US\$3 million per month on the DRC war. But a leaked government memo put the cost at US\$166 million between January and June 2000; this led to the suspension of IMF loan disbursement. In August 2000, the Zimbabwean Finance Minister admitted that the government had spent US\$200 million since entering the DRC war in 1998 (Addison and Laakso 2000).

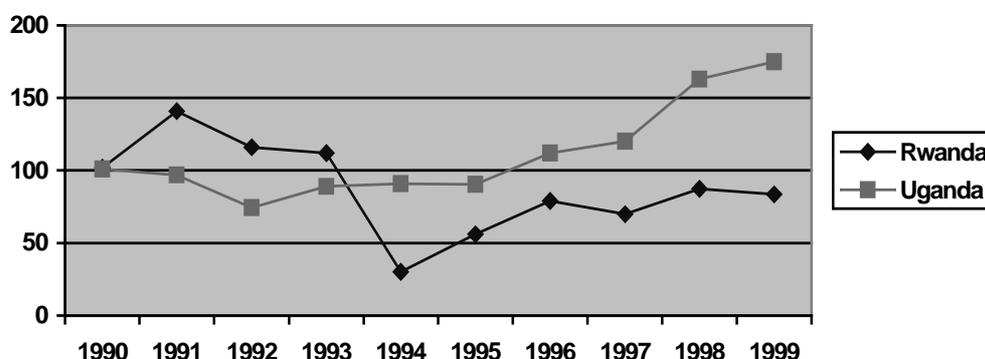
Figure 2  
Sub-Saharan Africa Military Expenditure, 1990-9



Source: SIPRI data reported in Omitoogun (2000)

Note: Figures are in US\$bn at constant 1995 prices and exchange rates. Angola is excluded from this data

Figure 3  
Rwanda and Uganda: military expenditure in constant US dollars, 1990-9



Source: SIPRI data reported in Sköns et al. (2000)

Note: Figures are in US\$million, at constant 1995 prices and exchange rates

Again, a partial-reform equilibrium exists. Can donors move the process forward? The IMF and the World Bank can collect data to assess the scale of military spending within a country's overall resource envelope, but they have no mandate—and neither should they—to determine whether the level of spending is appropriate relative to a country's security objectives, or indeed whether those objectives are legitimate or not. Bilateral donors have more leeway, and DFID is one of the few bilaterals actively advancing 'security sector reform', including its programme in Sierra Leone. However, initiatives by bilateral donor countries will only work if they pursue a consistent line, including joint action on arms sales. But some donor countries are compromised by a history of partial interests; the Angolan arms-for-oil scandal involving senior French politicians is a recent example

(Africa Confidential 2001). Donor countries certainly do matter for security-sector reform, but they have not yet taken effective collective action.

Table 2  
Public expenditure on health, education, and the military as percentages of GNP in sub-Saharan Africa

	Public Expenditure on Health (% GNP)	Public Expenditure on Education (% GNP)	Military Expenditure (% GNP)
	1990-98	1997	1997
Angola	3.9	--	20.5
Benin	1.6	3.2	1.5
Botswana	2.7	8.6	5.1
Burkina Faso	1.2	1.5	2.8
Burundi	0.6	4.0	6.1
Cameroon	1.0	--	3.0
Central African Republic	1.9	--	3.9
Chad	2.4	1.7	2.7
Congo, Democratic Rep.	1.2	--	5.0
Congo, Rep.	1.8	6.1	4.1
Côte d'Ivoire	1.4	5.0	1.1
Eritrea	2.9	1.8	7.8
Ethiopia	1.7	4.0	1.9
Ghana	1.8	4.2	0.7
Guinea	1.2	1.9	1.5
Kenya	2.2	6.5	2.1
Lesotho	3.7	8.4	2.5
Madagascar	1.1	1.9	1.5
Malawi	2.8	5.4	1
Mali	2	2.2	1.7
Mauritania	1.8	5.1	2.3
Mozambique	2.1	--	2.8
Namibia	3.8	9.1	2.7
Niger	1.3	2.3	1.1
Nigeria	0.2	0.7	1.4
Rwanda	2.1	--	4.4
Senegal	2.6	3.7	1.6
Sierra Leone	1.7	--	5.9
South Africa	3.2	7.9	1.8
Tanzania	1.3	--	1.3
Togo	1.1	4.5	2.0
Uganda	1.8	2.6	4.2
Zambia	2.3	2.2	1.1
Zimbabwe	3.1	--	3.8

Source: DFID (2001a:24-5)

### 3.3 Revenue reform as a foundation of the new social contract

Without more revenue (and less instability in revenues), the ambitious reform agendas in management, expenditure, and security cannot be met.<sup>12</sup> Donors have supported revenue reforms since the first adjustment programmes of the 1980s, and there was no let up in the 1990s: DFID alone has supported over 40 projects to strengthen revenue administration and collection in Africa and elsewhere since 1992. Reforms often include the creation of a single revenue authority as an executive agency, with a high level of autonomy (Delay et al 1999).

Some success has been achieved, notably in Uganda, where the ratio of revenue to GDP rose from a low of 5 percent in the mid 1980s to 11.3 percent by 1996, with strong donor support (mainly DFID) to the semi-autonomous Uganda Revenue Authority (URA). Chen et al. (2001) find that the reform was generally pro-poor: the replacement of the sales tax by VAT did not make the poor worse off, and the reduction of export taxation was positive for rural incomes. Mozambique also raised its tariff revenues by radical institutional innovation. The UK's Crown Agents won the first three-year contract (starting in 1997 and subsequently extended) to reorganize the customs service, cut delays in customs clearance, and meet higher revenue targets. Customs revenue rose to US\$198 million in 1999 up from US\$86 million in 1996, despite a reduction in the average tariff rate under the trade-liberalization programme (Crown Agents 2000).

Table 3  
Trends and Structure of Government Revenues in Ghana (1970-99)

	Total <sup>1</sup> Revenue (% of GDP)	Grants (% of GDP)	Tax Rev (% of GDP)	Direct tax (% of total)	Indirect tax (% of total)	G&S Tax (% of total)	Trade tax (% of total)	Petroleum taxes (% of total)
1970 – 1983	10.9	0.05*	6.5	20.7	---	27.3	40.4	---
1984 – 1991	12.7	2.3	11.3	21.5	66.9	29.5	37.4	12.02
1992	11.9	3.3	10.8	18.6	71.8	49.2	22.6	19.2
1993 – 1995	18.0	3.8	14.7	18.0	64.1	40.1	24.0	20.1
1996	17.6	2.6	15.1	21.7	63.9	36.7	27.3	17.0
1997	17.3	1.9	14.7	24.8	59.8	34.1	25.8	15.2
1998	18.7	2.7	16.2	22.9	63.6	35.3	28.4	14.1
1999								13.3

\* The average does not span the entire period  
Source: Addison and Osei (2001) using World Bank data

However, revenue mobilization has been tougher than expected. Governance problems in the URA led DFID to reduce its support, and the rise in Uganda's tax/GDP ratio tailed off

<sup>12</sup> Revenue instability is nearly three times higher in SSA than in developed market economies, and twice as high in SSA as in Asia (Bleaney et al. 1995:887).

to 12.1 percent in FY 1998/99. Similarly taxation reform got off to a good start in Ghana, with the tax to GDP ratio rising to 16.2 percent in 1998, up from 11.3 percent over 1984-91, and 6.5 percent over 1970-83 (Table 3). But tax mobilization then stagnated despite further DFID project assistance.

Early bilateral and multilateral projects paid much attention to improving management in revenue institutions and upgrading their human resources. But numerous project evaluations conclude that donors need to give more attention to the governance framework within which revenue authorities operate, specifically accountability and anti-corruption (see DFID 2001b and Barbone et al., 1999, on the World Bank experience).

How is this governance framework to be created? The populace has traditionally borne a heavy tax burden—through trade taxation and the indirect taxation of agriculture—without compensating services, and is rightly sceptical about government promises of better services in return for compliance with new forms of taxation. Public resistance to the introduction of VAT in Ghana is one example (Addison and Osei 2001). DFID's evaluation of its support to revenue mobilization concludes that:

‘Revenue collection is justified by the expenditure it permits... Under present conditions it is difficult to justify revenue raising efforts on the basis of their contribution to incremental pro-poor service provision, though this is becoming possible in countries closest to best practice (e.g. Uganda)’ (DFID 2001b:18).

Informal businesses are also resistant to the extension of taxation to them believing, often rightly, that well-connected formal companies will be granted tax exemptions (either de jure or de facto). Formal companies without such connections have deregistered in Zambia to evade taxation. In Ghana and Uganda, informal companies resisted VAT fearing that they would be driven out of business while bigger operators circumvented the system. Again, partial-reform equilibrium exacerbates the problem; the perceived unfairness in the concentration of the benefits of first-generation reforms encourages businesses to evade tax laws. And again there are parallels with the creation of the underground economy in FSU, and the associated difficulties in mobilizing tax revenues (Roland and Verdier 1999).

Success in public expenditure reform will therefore help to convince a sceptical populace and business sector of the merits of tax reform. Accordingly, donor assistance to revenue institutions is unlikely to be fully effective until governments also resolve the partial-reform equilibrium in public expenditures.

#### **4. Conclusions**

African governments and the region's donors have expended much sweat (and not a little money) on reforming the state. Reform 'ownership' has been the rallying cry for at least a decade or more. But 'ownership' has become a devalued coin. And many state actors—and not a few personnel in the aid agencies themselves—regard it with cynicism. Still, the concept of ownership does reflect a genuine desire to create a specifically African vision of the developmental state; our difficulty is to move beyond platitudes and to articulate a vision of change that is appropriate and realistic to the region's talents and resources.

This paper has reviewed some (but far from all) of the key issues. We have seen that the start of economic recession in the 1980s undermined the post-independence social contract, one in which governments promised more public employment and rising living standards in return for acquiescence to one-party rule. Since then we have seen reforms in the areas of civil service management, revenue collection, and public regulation. Some have worked, some have failed.

What can we conclude from all this? In many countries the new, and more desirable social contract is, at best, in the early stages of construction. In the worst cases it is not moving forward at all. For the region as a whole, democratization has advanced—far faster than anyone would have dared to predict a decade ago—but democratic institutions are not yet sufficiently strong vis-à-vis leaderships to achieve a satisfactory resources-for-institutions exchange.

For their part, many leaderships—often long-standing incumbents who have adapted remarkably well to multiparty politics—are yet to be convinced that the *initiation* or *completion* of reform offers them a bundle of resources that improves on the status quo. This is either because they still benefit from the non-reform situation (largely the case in Angola and DRC) or because they positioned themselves via straddling to do well out of the first reforms and now wish to preserve the distortions that protect their initial gains (Kenya and Zambia).

The mineral-resource abundance of many of the non-reformers provides their rulers enough finance to evade donor pressure for change, and to defend themselves against usurpers. Angola, Equatorial Guinea, and the DRC are in this category. In these countries, we can at best expect slow progress, if pressure from below can be successfully articulated through civil society's democratic forces. Donors can be more influential with the partial-reform group, but generally only when internal political dynamics succeed in changing national leaderships. Thus, the change in government in Ghana offers a chance to move ahead, after the Rawlings government stalled with its reform programme in the 1990s. Similar opportunities will hopefully arise in Kenya and Zambia in the near future.

We do not possess all the answers to institutional reform in SSA. Still, African societies and their donor partners should not despair. It is all too easy to become overwhelmed. We should remember instead the Ugandan proverb: *Linda kigweyo afumita mukira* ('a hunter that waits for the full body of the animal to reveal itself is bound to get only the tail').<sup>13</sup>

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<sup>13</sup> I thank Steve Kayizzi-Mugerwa for this apt quotation.

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