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**Foreword** by Olu Ajakaiye, *AERC Research Director*

## Governance and Pro-Poor Growth in Africa

The African Economic Research Consortium (AERC) seeks to build capacity for independent policy-oriented economic research in Africa through its research, training and outreach/communications programmes. This is based on the premise that development is more likely to occur where there is sound economic management, which in turn, is more likely where there is an active, world class and well-informed group of locally based economists to conduct policy-relevant research.

The Senior Policy Seminar (SPS) Series is a flagship outreach and communications activity of AERC designed to provide a forum for interactions among African policy makers and researchers and to discuss topical policy issues drawing extensively on findings of senior AERC researchers. In addition to establishing a permanent link between researchers and policy makers, the SPS series is held annually to also provide an opportunity for African policy makers to intimate the researchers with burning policy issues requiring rigorous inquiry and evidence-based policy advice.

The eighth SPS was the fourth to focus on pro-poor growth in Africa. It follows earlier seminars (Dar es Salaam, 2003; Kampala, 2004; and Cape Town, 2005) which, respectively, examined appropriate macroeconomic policy measures for pro-poor growth in Africa; mobilising financing for pro-poor growth in Africa; and, institutional issues in securing pro-poor growth in Africa. In Cape Town, policymakers identified poor governance as a major obstacle to pro-poor growth in Africa hence the adoption of Governance and Pro-Poor Growth in Africa as the theme of the SPS VIII held in Dakar, Senegal on March 7–9, 2006.

This SPS was attended by 70 participants from 18 countries comprising ministers, parliamentarians, central bank governors, advisers and researchers. This Policy Brief, the first of its kind, presents a synopsis of main conclusions and policy recommendations emanating from the deliberations during the seminar.

We thank the Government of Senegal for the hospitality bestowed on us during the Seminar, the leadership of Consortium pour la Recherche Economique et Sociale (CRES) for the support provided, and the participants for their time and active participation in the deliberations from which this policy brief emanated. We also thank Matthew Martin and John Mbaku for their very valuable input in the preparation of this policy brief and other outputs of the seminar. Importantly, we thank AERC Funders and Board members for their continuing support as well as the Programme Committee members for their guidance.

We sincerely hope that the policy makers and other stakeholders, including the development partners, will find the Policy Brief handy and useful as they confront the challenges of securing high and sustained pro-poor growth necessary for meeting the Millennium Development Goals in Africa.

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## Introduction

In keeping with the recommendations by participants at the seventh SPS held in Cape Town in 2005, the eighth SPS was convened to deliberate on how improved governance can contribute to pro-poor growth. It was attended by 70 policy makers and researchers from 18 countries, and held in Dakar, Senegal, on 7–9 March, 2006. After an opening session setting the objectives of the seminar, discussions were organised around the following eight themes:

- Pro-poor growth: the role of governance
- Public sector investment and pro-poor growth,
- Governance and social service delivery
- Economic reforms and pro-poor growth
- Regulatory frameworks and pro-poor growth
- Governance, public policy and poverty reduction
- Corporate governance and pro-poor growth
- Corruption and pro-poor growth outcomes

In the official opening address, Minister of State from the Presidency, Serigne Diop, stressed that the number of people in absolute poverty is on the rise in Africa. Economic reforms and democracy have promoted growth in the last few years in many African countries, but growth is insufficient to eliminate poverty, especially given Africa's vulnerability to external shocks.

In this regard, the example was given of the host country, Senegal, which has made major efforts to invest up to 50% of its budget in health and education, to allow the poor to benefit more from growth, and to design an Accelerated Growth Framework. Strengthening governance in Senegal and Africa as a whole will be crucial to attaining the Millennium Development Goals and sustained growth. Good governance is essential to promoting national and international investment, which is why Senegal has launched a National Programme for Good Governance, based on transparency, accountability, participation and protection of civic rights. This programme will help instil in the mind of every citizen that access to resources should be equitable and transparent. However, it is also vital that foreign approaches to good governance be adapted to the context and realities of each country in Africa, and this is where inputs from African researchers to policy makers can be very helpful. This SPS should, therefore, be very instrumental in promoting the efficacy of governance in accelerating pro-poor growth in Africa.

## Pro-poor growth in Africa: The Role of Governance

The presentation makes a case for why good governance is the most important factor in poverty alleviation efforts in Africa. It emphasizes that Africans must, through democratic constitution-making processes, select rules that allow state custodians to perform their functions effectively and efficiently; make them accountable to the people; prevent them from engaging in political opportunism; and allow civil society to participate in policy design, wealth creation and promotion of equitable distribution of benefits. Key features of good governance should be its ability to provide rules and institutions which support markets and promote economic freedom. In addition, Africa needs institutions that promote equal opportunity, and empower the poor to participate in economic growth.

The following conclusions and recommendations emanated from the ensuing deliberations:

- Efforts to develop localised governance structures have been undermined by poverty. The African Peer Review Mechanism (APRM) of NEPAD is, therefore, a major step in the right direction. It is imperative that all stakeholders be fully committed to the effective implementation of the APRM.
- In order to turn the poor from subjects to citizens, their capacities to organise and express their views as well as to sanction bad leaders should be built.

Good governance means transparency, accountability, participation and protecting civic rights. We must instil in the mind of every citizen that access to resources will be equitable and transparent.

In spite of 5% growth, Senegal has not reduced poverty fast enough: promoting human capital and human rights through good governance are essential to reach the MDGs

The most important constraint to wealth creation in sub-Saharan Africa is bad governance

Democracy and decentralisation are often slogans. Why do the poor re-elect bad national and local leaders? Because they are subjects, relying on the patronage of leaders, and not citizens

- Economic freedom is not enough for the poor people. Accordingly, policies to empower the poor to secure remunerative employment, food production as well as establishing and managing successful agro-processing and rural development projects should be designed and vigorously implemented.
- There is a strong need for social safety nets and redistributive policies.

## Governance, Public Sector Investment Patterns and Pro-poor Growth in Africa

The key theme is how good governance could improve public investment and reduce poverty in Africa. Public investment is a key catalyst for a weak private sector to invest more: for increasing employment among the poor and moving labour away from subsistence agriculture; for transforming agricultural productivity; for providing greater access to education, skills and health care by the poor; and for improving rural transport, communications and electricity infrastructure.

In order to facilitate efficient public investment, it is essential for the poor to have a strong say in its allocation. Governance reforms which foster this include stronger judicial independence, stronger employment and training rights, land reform, enhanced agro-processing activities, public works, micro-credit, and decentralisation of decisions on spending. Evidence from Asia and Latin America highlights the effectiveness of spending on agricultural research, education, health and infrastructure and technology in enhancing growth and diversifying the economic base so as to reduce poverty. These strategies should also be appropriate in Africa, where the poor are largely rural, uneducated and in poor health.

There is general agreement on the need to spend more on agriculture and rural development. However, it was noted that successful agricultural production programmes can result in increased output and lower prices, especially during the harvest seasons. Therefore, there is a need for suitable policy space to undertake mitigating policies such as price support and/or buffer stock programmes.

Critical areas of pro-poor investment include:

- peace-building and crime prevention in order to secure personal safety;
- preventing environmental degradation in order to promote sustainable development and reduce vulnerability to weather and commodity shocks;
- regional infrastructure development to encourage intra-African cooperation and trade, for example in tapping neighbouring countries' food, electricity and water reserves;
- information and communications technology; and
- employment generation activities.

African governments should increase the efficiency and effectiveness of public investment spending, especially by making sure that what is called "investment" in the budgets is not diverted to consumption activities and that they should articulate and implement long-term investment strategies rather than short-term programmes.

## Governance and Social Service Delivery

The problems of insufficient quantity and poor quality of public education and health services in Africa were undermining progress towards the achievement of the MDGs. These were largely due to bad governance, notably the high level of corruption in the public service. Improving governance (together with access to greater resources) would allow huge progress in access to, and quality of, these services, especially for the poorest and most marginalised. In turn, progress towards universal access to high-quality basic education and health services would create an environment conducive to better governance.

One powerful tool for improving the quality of services is decentralisation. However, an analysis of Africa's experiences in decentralising education and health

Governments should devote at least 25% of their budgets to agricultural and rural development programmes

It is easier to get maize from the US to Tanzania than from neighbouring countries. If we could spend the US maize subsidy on regional infrastructure we could save a fortune by buying regionally

spending systems shows that they had not always been successful. Much more analysis of decentralisation and other efforts to improve quality of social services is needed. It is possible to expect improved governance in the education and health sectors if efforts are made to build the execution capacity of decentralised agencies and the monitoring capacity of poor people. The most vital measures to take are to increase input from the poor on their own assessment of their access to (and the quality of) services through regular participatory surveys of the poor.

Conclusions reached included the following:

- In addition to health and education, adequate attention should also be paid to other social services sectors, notably water, sanitation and rural infrastructure.
- Greater attention should be paid to the role of NGOs and the private sector in providing social services in a way which complements state efforts without leading to a two-tier educational system or excessive dependence on user fees.
- Governments and communities should jointly assess the relative quality and value for money of different providers.
- Analysis of the efficiency of educational services should also look at their effects on child labour and infant mortality, as well as their long-term impact on national capacity, taking into account such factors as the international brain drain of education and health staff.
- There should be regular exchange of information among African countries on best practices in parliamentary and citizen evaluation of social service delivery.

Governments must regularly undertake "social audits" of their education and health services, to gather the opinions of their citizens on access to and quality of services.

African citizens need to develop a culture of evaluating the quality of services they receive

## Economic Reforms and Pro-Poor Growth

The presentation emphasized that there has been too little growth in Africa and most growth episodes (even if associated with poverty reduction) have not been pro-poor because they have not focussed sufficiently on the role of the state.

Pro-poor growth is likely to occur if it, inter alia, :

- is based, at least in part, on low-skill, labour-intensive activities undertaken by the poor;
- promotes improvement in the functioning of markets for goods and services produced and consumed by the poor;
- promotes integrating of markets for goods and services produced and consumed by the poor into the wider economy;
- builds capacity of the poor to participate in new, more lucrative activities;
- enhances food security and protection against shocks; and
- supports accumulation of assets and power for the poor.

A key conclusion is that there is a need for greater emphasis on the role of the state because pro-poor growth is likely to result if there is a complementarity between the roles of the state and markets.

Closer attention should be paid to the following issues in the design of economic reforms if they are to be pro-poor:

- The types of sectoral interventions most likely to enhance pro-poor growth are those relating to improving the functioning of markets for agricultural inputs, especially markets for land, finance and labour, as well as markets for agricultural produce.
- There should be regular impact assessment of reforms with a view to ascertaining their continued efficacy in promoting and improving pro-poor outcomes.
- There should be careful evaluation of the impact of employment and wage reforms, especially those relating to privatisation and/or civil service reforms, in order to prevent unintended effects on the poor.
- The incidence of tax policies on the poor should be regularly assessed and strategies to make them more progressive adopted.

Market reforms supplemented by state interventions are good for growth and pro-poor

Badly-designed pro-market reforms can increase corruption

- Public sector reforms and privatisation programmes likely to discourage good governance and encourage corruption should be avoided.
- Capacity of African governments to analyse impact of alternative reform programmes on the poor should be developed and reinforced.
- Development partners (especially the Bretton Woods Institutions) should be encouraged to take greater account of the characteristics of the poor and the specificities of the national economy in proposing reforms, i.e., they should avoid the “one-size-fits all” syndrome.

## Regulatory Frameworks and Pro-Poor Growth

Social and economic regulations are the key to making sure that markets work in favour of the poor. Such regulations should assist the poor to overcome the problems of negative externalities and information asymmetry, as well as promote competition in ways which benefit the poorest. Regulation must also be designed to improve the quality of labour, the efficiency of capital and the level of technological innovation. An efficient and effective regulation must be supported by well-resourced regulatory institutions with strong legal powers and high staff capacity to guarantee enforcement.

Ways in which regulatory frameworks can help to make growth more pro-poor include:

- More rigorous analysis of the relative roles of state and market, with a view to identifying the types of regulation likely to be beneficial to the poor in each sector.
- Careful comparison of pro-poor outcomes of regulations across space (rural/urban) and activity sectors.
- Regulation of privatised enterprises especially in energy, water and telecommunications, as well as regulation of public-private partnerships to ensure that they are pro-poor.
- Design of institutional frameworks necessary to keep regulation independent of political interference and corruption.
- Targeting regulation on the institutions and markets which involve the poor such as micro-finance and land.

We need a pro-poor regulation framework which especially targets institutions serving the poor

## Governance, Public Policy and Poverty Reduction

Good governance is a prerequisite for sustainable development in Africa. Growth cannot be pro-poor unless it concentrates on sectors which benefit the poor, includes an enabling environment for their employment and asset creation, and promotes their access to basic services. Decentralisation cannot work without major reinforcement of the capacity of the decentralised agencies to plan and manage finances and administration, especially through enhanced taxing powers, and of their accountability to the poor for spending decisions. Participatory budgeting can be very successful if citizens have prior capacity to participate in budgetary processes and audits as well as inalienable rights to information about government decisions.

African governments must focus on transparency and effective management of public sector resources. This requires strengthening the capacity of civil services, strengthening parliamentary and judicial oversight, promoting participatory decision-making, adopting effective measures to combat corruption and embezzlement, and, mainstreaming gender concerns into all government programmes.

Actions and initiatives likely to secure desirable relationships among governance, public policy and poverty reduction in Africa:

- The African Peer Review Mechanism of NEPAD should be supported by all stakeholders.
- International institutions and donors should pay more attention to the details of governance rather than assuming that simple solutions such as

democratisation, decentralisation or an independent judiciary would solve essentially political issues.

- Policies and programmes for mitigating impact of climatic shocks, natural disasters, commodity price shocks and regional instability should take account of the likely disruptive impact on the social and economic activities in neighbouring countries.
- Studies should be conducted to illuminate why and how some countries had developed successfully without improving governance, and whether economic growth and poverty reduction generally preceded or followed improvements in governance.

## Corporate Governance and Pro-Poor Growth

By examining experiences in Asia and Latin America, it was concluded that good corporate governance is also vital for pro-poor growth. Corporate governance can be either behavioural or normative, and its pillars are accountability, fairness, responsibility and transparency. Governments need a credible legal and regulatory structure to enforce corporate governance norms.

Evidence from all continents shows a causal link between corporate governance and economic development. Africa has put in place some laudable initiatives to enhance corporate governance but hitherto ignored how this could accelerate pro-poor growth. However, there has been little attempt to ensure that the plight of the poor is considered in corporate governance in Africa, whether as employees or consumers. Africa needs to establish legislative, policy and institutional processes to improve links between corporate governance and pro-poor growth.

Main suggestions for securing desirable links between corporate governance and pro-poor growth in Africa include:

- More careful analysis of the motivations of enterprises and why they would to promote poverty reduction, so as to provide a basis for the design of appropriate incentives.
- Incentives to promote good corporate governance should also encompass small and medium enterprises (SMEs), rural enterprises, as well as micro-finance institutions, as these are closest to the poor and they employ the poor directly or as suppliers of raw materials.
- Promote corporate social responsibility initiatives that devote part of the earnings on the social sectors where doing so is more cost-effective than government interventions using tax revenue.
- African governments should work with the home governments of transnational investors (especially those in the extractive industries) and with international organisations to improve corporate governance in Africa.

Why was governance not crucial for China, Malaysia or Vietnam? We need to know more about their experiences

## Corruption and Pro-Poor Growth Outcomes

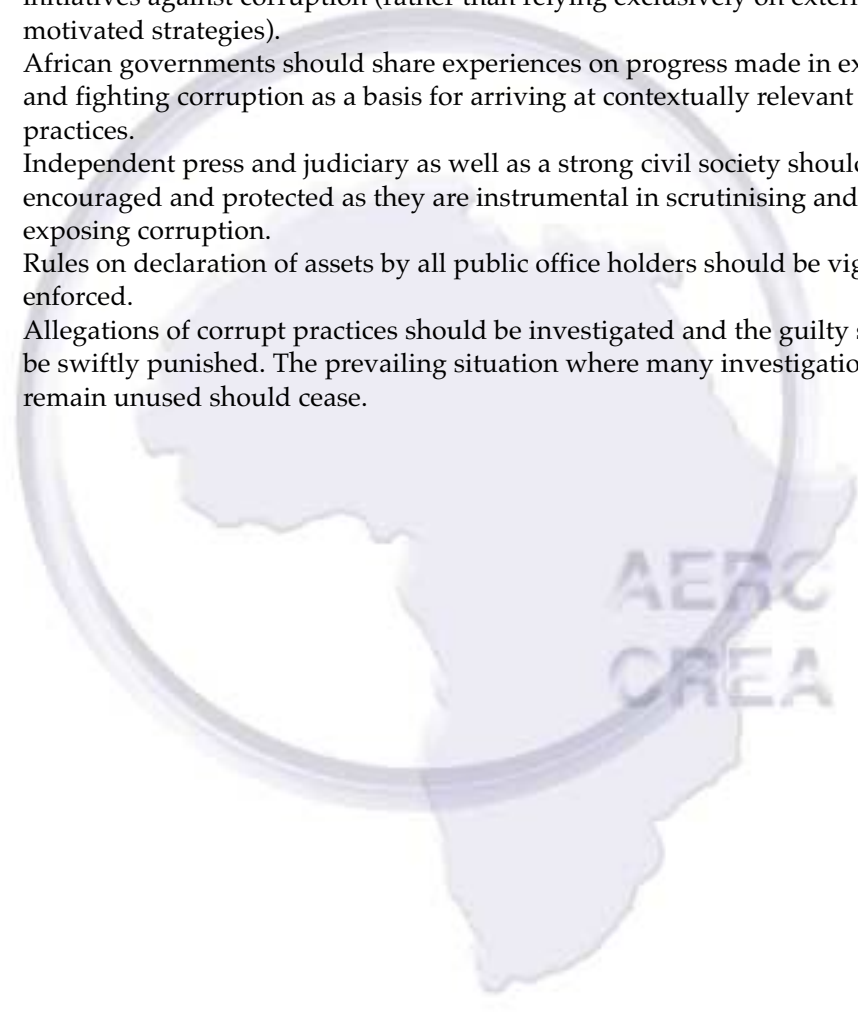
Efforts to mobilise development finance must be complemented by equally vigorous efforts to fight corruption. The first step is to understand the scope, causes and vehicles of corruption. These include discretion in public spending, the structure of the tax system, low wages in the public sector, the ease of embezzlement of external aid, and lack of transparency in natural resource extraction contracts. Overall, corruption is a manifestation of the weakness of institutions allowing bureaucrats and private entities to collaborate in extracting rent from clients, especially the poor ones. Corruption is inevitably anti-poor because it reduces pro-poor expenditures, creates artificial shortages of public services, and causes a policy bias in favour of imported capital goods rather than use of local labour.

Eradicating corruption requires: checks and balances to limit discretion in managing public funds and prevent public servants from being influenced by politicians or interest groups, improved civil service compensation packages, mechanisms to curb and reverse capital flight, stability of regulations to minimise

rent-seeking opportunities due to asymmetric information, and concerted efforts to increase the transparency of transnational corporations. Public and private parties to corruption must be penalised equally, necessitating cooperation between African and Western governments to accelerate pro-poor growth in Africa.

In order to effectively curb corruption and promote pro-poor growth in Africa, the following are advocated:

- A careful and detailed analysis of the relationship between democracy and corruption at the national and sub-national levels should be carried out to provide useful guides to the design and implementation of remedial measures.
- African governments should encourage sustainable internally generated initiatives against corruption (rather than relying exclusively on externally motivated strategies).
- African governments should share experiences on progress made in exposing and fighting corruption as a basis for arriving at contextually relevant best practices.
- Independent press and judiciary as well as a strong civil society should be encouraged and protected as they are instrumental in scrutinising and exposing corruption.
- Rules on declaration of assets by all public office holders should be vigorously enforced.
- Allegations of corrupt practices should be investigated and the guilty should be swiftly punished. The prevailing situation where many investigation reports remain unused should cease.



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The African Economic Research Consortium (AERC), established in 1988, is a public not-for-profit organization devoted to advanced policy research and training. The principal objective is to strengthen local capacity for conducting independent, rigorous inquiry into problems pertinent to the management of economies in sub-Saharan Africa. In response to special needs of the region, the AERC Research Programme has adopted a flexible approach to improve the technical skills of local researchers, allow for regional determination of research priorities, strengthen national institutions concerned with economic policy research, and facilitate closer ties between researchers and policy makers. The Training Programme augments the pool of economic researchers in sub-Saharan Africa by supporting graduate studies in economics, as well as improving the capacities of departments of economics in local public universities. AERC is supported by donor governments, private foundations and international organizations. Further information concerning AERC and its programmes can be obtained from:

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