DIRECTIONS IN DEVELOPMENT

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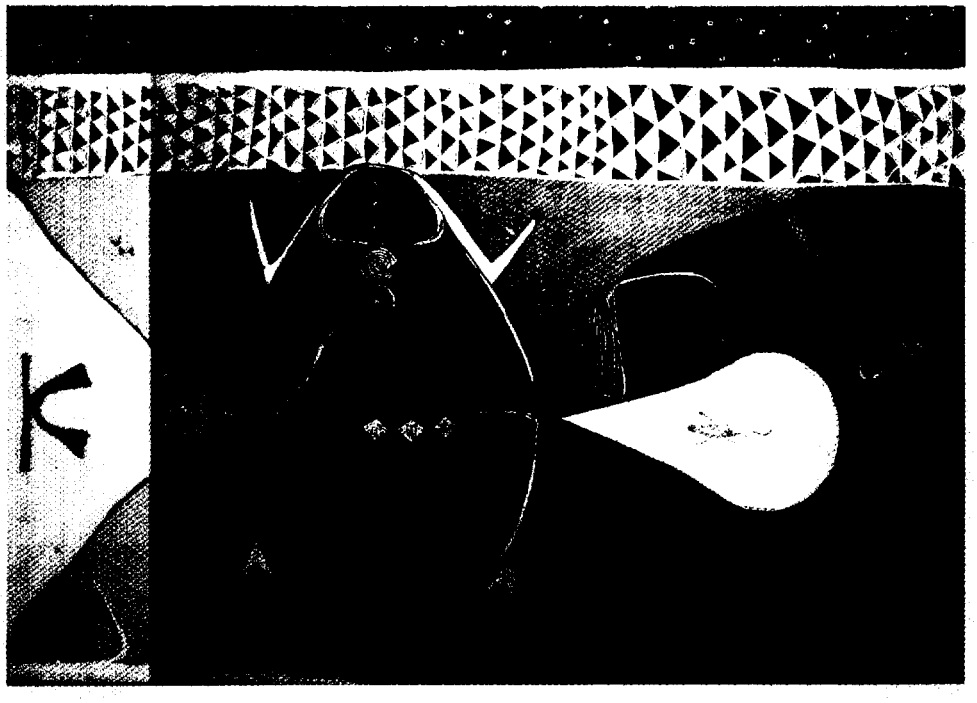
Reconciling Indigenous and Transplanted Institutions

MAMADOU DIA



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Africa's Management in the 1990s and Beyond

Reconciling Indigenous and Transplanted Institutions

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The findings, interpretations, and conclusions expressed in this study are entirely those of the authors and should not be attributed in any manner to the World Bank, to its affiliated organizations, or to the members of its Board of Executive Directors or the countries they represent.

The cover photograph by Margaret Courtney-Clarke shows schematic representations of daily life among the Igbo people of Nigeria. At the center is a yam beetle with *Uli* motifs—symbols named after objects, animals, or plants—on its back. The narrow horizontal panels at the top bear abstract patterns derived from ritual cloths.

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Foreword

Contrary to traditional Afro-pessimism, the Africa's Management in the 1990s (AM90s) research program illustrates that Africa possesses a substantial reservoir of capacity endowments and best practices on which to build in order to improve the institutional and economic performance of the continent. While not denying the existence and extent of the economic crisis, the AM90s research illustrates that institutional reconciliation will be a key to the institutional and economic development of Africa. More important, the proposed solutions are mostly homegrown and are therefore likely to strengthen self-sufficiency and reduce dependency on foreign assistance.

The overarching theme of the research is that the institutional crisis affecting economic management in Africa is a crisis of structural disconnect between formal institutions transplanted from outside and indigenous institutions born of traditional African culture. Building on the findings and recommendations of the new school of institutional economics, the AM90s research posits that both formal and informal institutions are here to stay and are needed in Africa, but in a more flexible form: Formal institutions need to be adapted to the local context in order to build the legitimacy needed for enforceability; informal institutions, although rooted in local culture, also need to adapt to the changing outside world to maintain their relevance in a more challenging and competitive global arena. It is through adaptation that formal and informal institutions can converge and build on each other's strength and that transaction costs can be reduced and institutional performance maximized. This process for building convergence is at the heart of the institutional reconciliation paradigm proposed in this report.

The high-impact, low-cost examples of institutional convergence identified in the AM90s research confirm that institutional reconciliation is not only possible but necessary to improving the performance of the civil service, developing the indigenous private sector,

and making African enterprises more productive. The resulting operational implication is that the way to improve public sector management and private sector development is by replicating or adapting these best practices for institutional reconciliation, rather than by transplanting new systems, organizations, and methods with a heavy dose of expatriate technical assistance. Where successful, cost-effective practices do not exist, prototypes of new approaches would have to be developed and tested through pilot operations.

The above results and operational implications clearly show that, contrary to general belief, it is possible to achieve quick results in the field while building sustainable institutional capacity. Furthermore, the variety of high-impact, low-cost options for providing social services and infrastructure make the replication of these initiatives a powerful instrument for poverty alleviation. By building on homegrown best practices, local capacity, and institutions and by emphasizing a participatory process that puts the government and local stakeholders in charge, the proposed approach would help maximize the local ownership, commitment, and legitimacy needed for building enforceable, sustainable institutional capacity.

Edward V. K. Jaycox
Vice President, Africa Region

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Abbreviations and Data Note

ABCERQUE	Association Burkinabe pour les Cercles de Qualité et le Management Participatif
AGETIP	Agence d'Exécution des Travaux d'Intérêt Public
AIDS	Acquired immunodeficiency syndrome
AM90s	African Management in the 1990s (World Bank research program)
BIAO	Banque Internationale de l'Afrique de l'Ouest
BOA	Bank of Africa (Mali)
CFA franc	Currency known in West Africa as the "franc de la Communauté Financière d'Afrique" and in Central Africa as the "franc de la Coopération financière en Afrique centrale"
CIE	Compagnie Ivoirienne d'Electricité (Côte d'Ivoire)
CLG	Commercial lending group
EPLF	Eritrean People's Liberation Front
GDP	Gross domestic product
GDT	Genco Development Trust (South Africa)
GIE	*Groupe d'intérêt économique* (Mali)
HIV	Human immunodeficiency virus
HPAE	High-performing Asian economy
IEA	Institutional environment assessment
IEP	Integrated education program
K-MAP	Kenya Management Assistance Programme
MASA	Management audit and self-assessment
NBFI	Nonbank financial intermediary
NGO	Nongovernmental organization
PTA	Parent-teacher association
QCC	Quality control circle
RNET	Régies Nationales des Eaux (Togo)
SAL	Structural adjustment loan
SECAL	Sector adjustment loan
SIP	Sector investment program
SME	Small- to medium-scale enterprise

SSE	Small-scale enterprise
TASO	The AIDS Support Organization (Uganda)
TPLF	Tigrai People's Liberation Front
VDC	Village-level development committee
WIT	Work improvement team

Note: All dollar amounts ($) are U.S. dollars. One billion equals 1,000 million.

Executive Summary

In 1992 the World Bank launched the Africa's Management in 1990s (AM90s) research program, a comprehensive study of institutional capacity building in Sub-Saharan Africa and its effects on economic and social development. The central themes permeating the Africa's Management in the 1990s (AM90s) research program are (a) that the widely lamented crisis of capacity building in Africa is more a crisis of institutional capacity (capacity utilization) than a crisis of technical capacity (availability of skills, methods, systems, and technology); (b) that this institutional crisis is essentially due to a structural and functional disconnect between informal, indigenous institutions rooted in the region's history and culture and formal institutions mostly transplanted from outside; and (c) that institutional reconciliation is the key to resolving the crisis.

Formal institutions, not being rooted in local culture, generally fail to command society's loyalty or to trigger local ownership, both of which are important catalysts for sustainability and enforceability. These formal institutions are at odds with societal behavior, expectations, and incentive systems and therefore face a crisis of legitimacy and enforcement. Their ineffectiveness is compounded by the absence of the rule of law as a third-party enforcement mechanism, engendering a climate in which enforcing formal contracts and procedures becomes costly, often prohibitively so, and sanctions for deviant behavior are devoid of credibility.

By contrast, indigenous institutions anchored in local culture and values can count on the sound pillars of legitimacy, accountability, and self-enforcement. They have a strong hold on people's commitment, dedication, and sense of identity. But despite these clear advantages, informal institutions also have drawbacks. They often harbor dysfunctional practices (such as discrimination on the basis of gender and age) and do not always evolve in response to changes brought in from the rest of the world. And if they do not renovate by shedding dysfunctional traditional practices and

hearkening to new challenges and changes in the global environment, they will cease to be viable and dynamic. Without internally initiated renovation, informal institutions will find their possibilities of growth frustrated and their capacity to deal with increasingly complex and competitive choices stunted.

Thus neither a totally transplanted institutional structure nor traditional fundamentalism suggests a viable option. What is essential is a convergent synergy of both: not formalizing (or getting rid of) informal institutions nor informalizing formal institutions, but reconciling and encouraging convergence between adaptive formal institutions and renovated indigenous institutions. This is what is meant by "the reconciliation paradigm" in the AM90s research program. Only when informal and formal institutions build on each other and converge toward the same goal will positive institutional performance and sustainability be possible.

The crux of the message of the AM90s study program is that a paradigm shift built on institutional reconciliation and convergence is of the essence. The image evoked long ago by Leopold Sedar Senghor, former president of Senegal, when he spoke of *"enracinement et ouverture,"* captures the essence of the task being suggested. To perform effectively, institutions have to be both rooted (*enracinées*) in the local context and culture and open (*ouvertes*) to outside challenges and influences. The AM90s study program aims to show why this is necessary and how it can be done.

This AM90s report has four parts. Part I (Introduction and Chapter 1) analyzes the importance of institutional aspects of capacity building in Africa, as well as the crisis of institutional disconnect and its impact on economic management and performance in both the public and private sectors. Part II (Chapters 2 to 4) reviews lessons of experience and best practices in building a more accountable and service-oriented public administration through reconciliation of the state and civil society. Part III (Chapters 5 to 8) presents preconditions for indigenous private sector development and enterprise productivity. Part IV (Chapters 9 and 10) analyzes the institutional prerequisites and conceptual framework for successfully implementing the proposed new reconciliation paradigm in the domains of civil service reform, private sector development, and enterprise management.

Institutional Capacity and Economic Performance in Africa

Part I focuses on the justification and conceptual framework of the AM90s research and analyzes the origin and impact of the crisis of

institutional capacity. It begins by identifying the source of the problems.

At independence, most African countries found themselves saddled with a hybrid and disconnected institutional system in which formal, modern institutions transplanted from outside, mostly as a result of the colonial heritage, had been superimposed upon indigenous, informal institutions characterizing the civil society and reflecting its culture and tradition. The result was institutional disconnect with more far-reaching ramifications than in Latin America and Asia, which also underwent the colonial experience. African countries experienced a disconnect between the state and civil society, between the formal and informal private sectors, and between the corporate and the societal culture.

DISCONNECT BETWEEN THE STATE AND CIVIL SOCIETY. The strong centralized government inherited from the colonial period—a government without accountability to civil society, lacking transparency, and unregulated by legislative checks and balances—lacked moral legitimacy and bred institutional instability, privatization of the state, and patrimonial incentives and management. Clientelism has usurped moral and political legitimacy, and political and personal loyalty are rewarded more than merit.

The resulting impact on economic management and quality of public services is thoroughly documented in a World Bank technical paper, *A Governance Approach to Civil Service Reform in Sub-Saharan Africa* (Dia 1993). Taking, for example, the important area of domestic resource mobilization in one African country, forgone revenues from customs evasion and tax avoidance by the elite amounted to about 5 percent of gross domestic product (GDP) and almost four times the total expenditures for health. Losses from income tax evasion totaled about 70 percent of revenues due. Stricter enforcement of existing tax laws would have yielded an additional 3 to 4 percent of GDP. The development impact of improved resource mobilization and tax administration through improved enforcement and collection would have yielded 8 to 9 percent of GDP. This would be far greater than benefits expected from the traditional retrenchment program included in the sector adjustment loans—at a substantially lower social cost. The situation with customs and tax administration in many other Sub-Saharan African countries bears a striking similarity to the above experience.

DISCONNECT BETWEEN THE FORMAL AND INFORMAL PRIVATE INSTITUTIONS. The operational and financial disconnect between the micro-

enterprise-informal sector (mostly indigenous) and the formal-modern sector (mostly foreign-dominated) has greatly impeded the development of the indigenous private sector. A review of seven indigenous microenterprises that have successfully graduated to large, modern enterprises (Chapter 5) showed that most of them faced financial difficulties arising from the dearth of intermediate and adapted financial systems serving as a bridge between the formal banks and financial institutions and traditional rotating savings on the one hand and lending institutions on the other. This has created a "missing middle" in the financial intermediation system that does not facilitate the growth and development of the local private sector from microenterprises to large, modern ones. The formal banks and financial institutions command the necessary resources but lack a method of operation adapted to microenterprises and small- and medium-scale enterprises (SMEs); the traditional financial institutions have the right method of operation but not enough resources to support the growth and graduation process of the microenterprises and the SMEs.

Finally, the absence of operational linkages between the activities of the informal and formal sectors creates a missing link for capacity building that limits the possibility of technology transfer for graduation to the more capital-intensive production process needed for the transition from microenterprises to small- and medium-scale enterprises, and to formal-modern enterprises. The disabling regulatory environment that is an upshot of the disconnect between the state and civil society imposes additional burdens on the development of the local private sector.

DISCONNECT BETWEEN CORPORATE AND SOCIETAL CULTURES. Distorted corporate governance and a disconnected incentives system greatly hinder the performance of public utilities and other large, modern enterprises. Regarding corporate governance in public enterprises, undue political interference by states with a patrimonial bent has destroyed the balance between accountability and autonomy needed for an efficient principal-agent model. Pertaining to incentives, the lack of congruence between corporate and societal cultures in Africa erodes the commitment and productivity of Africans working in modern enterprises.

Building on the results of empirical research by Geert Hofstede (1991) and Jacques Binet (1970), and a field survey in Kenya (Engelmann, Mwai, and Waisfisz 1994), Chapter 1 makes the point that human incentives cannot be disassociated from people's history and culture. Therefore, increasing the efficiency and productivity of Africa's public and private sectors in a sustainable manner requires

understanding and accommodating African economic psychology. Building on the above, the AM90s program shows that institutional reconciliation and empowerment of beneficiaries and local communities are critical to solving the problems of institutional capacity.

Reconciling the State and Civil Society

Part II (Chapters 2 to 4) of this report provides a rich menu of best practices illustrating how the performance of public administration—especially in the delivery of public services—can be improved through reconciliation of formal and informal, indigenous institutions of the state and civil society. These cases of best practices empirically corroborate one of the central hypotheses of the overall research: that convergence is possible in Africa and can improve institutional and economic performance and social development.

SYSTEMATIC CLIENT CONSULTATION. In building a service-oriented public administration, the starting point is consultation with and listening to the clients and stakeholders. This is the focus of Chapter 2. The leading illustration of good practice for assessing the views and needs of clients for reform of public agencies is a survey research project conducted by Monte Palmer in Zambia before the change of government. This study, carried out with a trained staff of survey researchers at the National Institute of Public Administration, demonstrates the feasibility and relevance of such client consultation exercises. The results vividly demonstrate a lack of client orientation in the civil service. The revealed level of client dissatisfaction with public services points up the importance of determining the clients' views and service preferences at the outset of any reform effort and building the relevant findings into the subsequent reform program and related performance indicators. The other cases in client consultation examined in Chapter 2 relate to a customized institutional assessment of the education sector in Zambia and to surveys in a recently launched civil service reform program in Ghana.

The importance of these surveys is that they provide the baseline for the extensive reform program to be launched while increasing awareness of client needs among public managers on the front lines of service delivery. The Ghanaian case illustrates how client satisfaction and stakeholder views—including views on organizational restructuring and reengineering of authority allocation—can become the guiding element of a comprehensive civil service reform intended to shift from a control-oriented bureaucracy to client-oriented service delivery. The results of the institutional

assessments in Zambia are becoming crucial inputs in the design and preparation of sector investment programs (SIPs).

IMPROVING ECONOMIC MANAGEMENT. As indicated in the Introduction and Chapter 1, the capacity-building problems and related poor performance of economic management have more to do with institutional environment and governance-related impediments than with lack of technical capacity. Patronage and rent-seeking behavior are major impediments to improved resource mobilization and allocation. Chapter 3 focuses therefore on illustrating best practices in using the reconciliation paradigm to improve economic management.

The chapter starts with a discussion of the successful creation of local institutional enclaves (as opposed to donor-driven, project-related enclaves) as a quick fix for improving resource mobilization in Ghana. The creation and successful operation of an independent national revenue secretariat to manage the tax and customs administration in Ghana and similar initiatives in other countries constitute a best practice for this enclave approach. In these cases, insulation from political interference and adapted incentive mechanisms resulted in significant increases in the productivity of civil servants. In Ghana between 1984 and 1988, tax and customs revenues increased from 6.6 percent of GDP to 12.3 percent, primarily because of improved collection.

Nevertheless, although Ghana's enclave approach improved tax and customs management while building on local institutions and skills, it raises the issues of mainstreaming and sustainability. Even though hiving off strategic parts of the public administration and giving them full autonomy and special privileges produces results, it does not resolve the systemic institutional problems identified in Chapter 1. It also does not address the issue of accountability—to ensure, for instance, that the drive to meet or exceed revenue targets and related reward systems will not lead to increased inequity in enforcement and to loss of morale among other civil servants who lack privileges and opportunities for increased pay. So although the enclave might be a convenient transitory mechanism, it needs to be accompanied by, or better yet included in, the sequencing of a more systematic reform program to tackle the institutional and governance impediments to mobilizing and allocating resources and performing the economic management functions outlined in Chapter 1.

The Gambian experience with implementing the governance approach to civil service reform with a focus on resource mobilization; the Ugandan program for enhancing ethics, transparency, and accountability; and the Asian model for insulating bureaucracy

from political interference, with its adaptation to Botswana, provide good examples of these broader long-term reform programs to complement the short-term (but necessary) quick fix—using enclaves. The ultimate goal is to move away from a bureaucratic and control-oriented economic management, where the emphasis is on the exercise of power as an instrument of exchange, to one where the emphasis is on accountability in civil society and both rewards and sanctions reflect performance and merit. Expanding the incentives framework to include the indigenous cultural dimension will help strengthen the legitimacy, enforceability, and motivating values of the rewards and sanctions system to improve economic management. The aim is to identify (as part of the institutional assessment exercise) specific indigenous incentives and sanctions that can be used as connectors between central government institutions and the civil society to legitimize accountability and enforcement systems.

STRENGTHENING THE RULE OF LAW AND IMPROVING OTHER CORE GOVERNMENT FUNCTIONS. As shown in Chapter 3, it is mostly in the rule of law, including land administration and service deliveries to local communities, that institutional reconciliation of the state and civil society becomes crucial. In these areas, indigenous informal institutions operate side by side with formal institutions, and reconciliation leading to convergence is necessary to achieve legitimacy, enforceability, and sustainability. The reconciliation of community-based customary and formal justice in Botswana is a good illustration of how institutional reconciliation can strengthen the rule of law. It requires ensuring convergence of the goals of formal and informal institutions by giving them the equal legitimacy needed and allowing citizens to choose one or a combination of both to fit their needs. The demand exercised by citizens will act as a catalyst for renovation and adaptation. In The Gambia, village-level indigenous groups are now deliberating national policy options and communicating their preferences in a formalized manner. In all these situations, the impact of the reconciliation between formal and informal institutions in terms of institutional legitimacy, enforceability, and performance has been evident.

IMPROVING PUBLIC SERVICE DELIVERY. Chapter 4 focuses on best practices for improving the delivery of public services. It documents and explores innovative African experiences that build on the local private sector, empower the local community, or involve a compact between these two and the government. One model for establishing partnership between the state and the local private

sector is the Agence d'Exécution des Travaux d'Intérêt Public (AGETIP), applied by West African governments to contract out construction work to private indigenous firms. The other examples of building on community-based institutions are the Groupements NAAM community development movement in Burkina Faso and The AIDS Support Organization (TASO) launched by women in Uganda. These examples highlight how essentially indigenous social organizations have been renovated. The Bamako Initiative and the experiences of The Gambia and Zimbabwe in providing health care are also presented as illustrations of very successful convergence between the traditional solidarity of indigenous groups and the resources of modern medicine and public health—demonstrating that institutional reconciliation is both desirable and possible for the delivery of basic public services.

The chapter concludes with a detailed review of South Africa's recent experience building tripartite compacts that bring together the state, civil society (with its indigenous institutions), and the private sector to jointly address community-level public service delivery and social problems. South Africa's approach to improving the delivery of public services through institutional convergence and successful reconciliation of all key stakeholders is a best practice that can be replicated elsewhere in Africa. It demonstrates that communities of different ethnic backgrounds as well as indigenous and formal institutions of the private sector and the state can coexist and engage in very productive endeavors while safeguarding both their diversity and their right to disagree. It also provides a good illustration of how dependency on the state can be minimized, and efficiency and sustainability maximized, by building a partnership with the private sector and the beneficiaries in the local community.

Reconciling the Formal and Informal Private Sectors and Improving Management Practices

A recent World Bank study, *The East Asian Miracle* (1993a), clearly shows that the development and growth of microenterprises and SMEs have been crucial to the economic growth and development of East Asian countries. In the case of Africa, the remarkable vibrancy of the informal sector in the midst of the general economic and institutional crisis has been hailed as one of the rare bright spots (see World Bank 1989, for example). The microenterprises in this sector absorb large numbers of workers, thus reducing unemployment and providing a time-tested social safety net in a period of dwindling resources and political insecurity. The development

and growth of these microenterprises and SMEs is therefore coming to be recognized as an important pillar in the development of the local private sector in Africa and elsewhere. In fact, an increasing number of African governments are making the development of the local private sector not only an important objective in fostering equitable and shared growth but also a precondition to privatization. The goal is to ensure wider participation of local investors in privatization in order to increase shared wealth and growth and avoid recolonization of national economies and assets.

Reconciling the Formal and Informal Private Sectors

Chapter 5, documenting best practices and lessons of experience for the graduation process from microenterprises to formal, modern enterprises, confirms that despite severe odds, indigenous African entrepreneurs can indeed graduate from the informal to the formal sector. The future therefore may not be all that bleak for the African private sector. Moreover, those entrepreneurs who have made the quantum leap suggest that a reconciliation process was key to their success. The most successful ones generally followed the path of graduation into institutions that remain fundamentally African while sharing basic features of formal enterprises in general. These entrepreneurs have thus succeeded in reconciling primary traditional values with the time-tested imperatives of economic efficiency and capital accumulation. This chapter affords insights into how this was achieved and draws useful lessons for both donors and governments.

A number of common strands emerged from the seven case studies discussed in this chapter. The most successful graduating enterprises are generally those spearheaded by entrepreneurs who demonstrate the virtues of *enracinement* and *ouverture* and combine leadership traits that are grounded in both traditional cultural values and some basic universal tenets of management, as indicated in Chapter 1. Effective African enterprise leaders—given the prevalence in African society of power distance, collectivism, and nurturing values—should be able to play the role of a kind but strict parent, create trust and harmony within their organizations, establish effective communication links to all employees, and offer staff incentives and rewards that mirror cultural values and expectations.

The case studies also illustrate the importance of building and maintaining social capital (high regard and status within the group) by virtue of transfers and other altruistic acts to benefit the community at large. Chapter 6 analyzes in detail the importance and role of these redistributive transfers in Africa using the exam-

ple of Senegal. The findings are very consistent with the results of Binet's (1970) research on African economic psychology in fifty-six ethnic groups throughout Sub-Saharan Africa and are therefore generally relevant to most countries in the region. Social transfers are both monetary and in kind (work on family farms and expenditures for ceremonies, for example) and are provided to extended family members, specific individuals in the community (such as religious leaders), and fraternal and religious organizations. They are an integral and accepted part of local culture, even among the educated and the rich.

In addition to their redistributive and prestige-enhancing functions, transfers also provide a potent, efficient, finely tuned, and need-based social insurance system. The insurance provided by the extended family transfer system responds to both the customary and the unusual needs of the lineage, providing old-age and catastrophic insurance. It also substitutes for a state welfare system, increases the sense of security of individuals and society, and encourages more egalitarian distribution of access to schooling and health services. The reconciliation between these transfer obligations and the need to save is done through the traditional savings mechanisms generally referred to as tontines, susus, and so forth. By tying up individuals' funds in a culturally congruent manner, these traditional financial institutions provide a cushion against excessive demands of the transfer system.

The extent to which entrepreneurs conform to the above principles is a fairly robust predictor of their success in graduation. Failure to develop social capital, as in the case of the Nana Benz (women entrepreneurs) of Togo, for instance, is likely to undermine long-run sustainability. It should be recognized that some of these traits can also prove to be mixed blessings, highlighting the importance of preserving the right balance. For example, reliance on kith and kin and on ethnic and communal ties may not always be a winning ticket (see the case of Mamadou Aliou Bah in Chapter 5).

Another lesson relating to successful graduation is the importance of experiential learning for capacity building and technology transfer. It appears to make a difference whether an entrepreneur has had the opportunity of imbibing learning and management skills through difficult and often bitter learning experiences. Such experiences usually lead to thrift, financial circumspection, business savvy, and true grit and staying power—all of which are vital ingredients in successful enterprise management. The cases studied provide ample evidence of the need for capacity building. Indigenous African entrepreneurs wedded to expansion and graduation

recognize the merits of the sound management principles that mark formal sector enterprises. They need to be open to modern influences and adaptable in their responses to the ever-shifting frontiers of technology. The higher premium placed on hands-on experience as opposed to book learning is also symptomatic of an overriding attachment to a pragmatic approach to learning. Such openness and adaptability were achieved in the cases studied through the use of foreign technical expatriates, yet recourse to foreign assistance is strictly need-based.

Capacity building efforts should also seek to establish the operational linkage with large, modern enterprises. The Kenya Management Assistance Program (K-MAP) illustrates possibilities in this sphere. K-MAP was created to facilitate linkages between large- and small-scale enterprises through the provision of counseling and workshop training utilizing the expertise of skilled local managers. To date, it has provided counseling to more than 700 small enterprises, and its workshops have benefited more than 2,500 small businesses. As a complement to this twinning program, the Kenya Subcontracting and Partnership Exchange was established with the assistance of the United Nations Development Programme and the United Nations Industrial Development Organization, with K-MAP as the local counterpart. The exchange serves as a focal point that enables small and large enterprises to make connections through subcontracting.

In Mali, AGETIP, whose main role is to provide and coordinate the execution of urban infrastructure contracts, has also had a great impact on the development of the private sector through subcontracting. In addition to these kinds of initiatives, partnerships and cooperative ventures should be fostered between local small enterprises and foreign and immigrant entrepreneurs (Asians in East Africa and Lebanese in West Africa). The immigrants can help build up local entrepreneurship, both by providing training and experience to employees who can later strike out on their own and by creating demand for services and other collateral activities.

Chapter 7, addressing the financial impediments to graduation, discusses lessons of experience from institutional attempts to fill the missing financial middle. It builds on an AM90s study of informal and formal finance in Mali (Duggleby 1993) that focused largely on the experience of *groupes d'intérêt economique* (GIEs), a scheme set up (with financing from the European Development Fund) to provide financial assistance to Malian private entrepreneurs. For purposes of comparison, the study also examined the experiences of several other financial institutions operating in Mali: a bank-run contractual savings program (the Plan d'Epargne)

seeking to attract small depositors and to enable them to gain access to credit based upon monthly savings requirements; a wholly African-owned bank (the Bank of Africa) providing another alternative consisting of broadening services to African business through linking share ownership with commercial banking services; and a semiformal system of rural savings and credit associations providing savings and credit services to smallholder farmers.

The results of the above attempts to adapt financial intermediation were mixed at best:

- GIE operated a group-based lending scheme, under which a first borrower obtained credit when the group he or she belonged to had made an initial savings contribution of 10 percent of the combined group income, and a second borrower qualified once the first borrower had paid off at least 30 percent of the first loan extended. Although some GIEs proved successful, the loan guarantee scheme of most of them proved to be ill adapted. The projects financed mostly failed to generate long-term commitment to keep up the savings and repayments requirements, thus weakening the sustainability of the scheme. Most GIEs also failed to (a) deliver to participants the expected financial benefit of ready access to term credit for a business project, (b) promote a regular savings habit among members, or (c) create a viable means of guaranteeing or securing credits to group members via group savings contributions. The shortcomings of the GIEs in these respects presented a stark contrast to the success of informal tontines, which achieved stable savings patterns guaranteeing ready and flexible individual access to funds (albeit relatively small funds) and sustained members' sense of mutual benefit and shared financial stakes. The few GIEs that were relatively successful were able to mirror this and to foster and sustain a strong sense of common economic interest among group members, which spurred regular savings behavior and made it possible to extend direct financial benefits to members within a relatively short time span.
- The Plan d'Epargne of the Banque Internationale de l'Afrique de l'Ouest (BIAO) to provide loans secured with collateral also failed—because it did not factor in user capacity to meet financial requirements and because it failed to adapt to cultural expectations and enforcement mechanisms. Inability to make consistent deposits over an extended period of time before realizing a financial benefit (credit access), a high monthly

savings requirement, and supplementary collateral requirements all contributed to the drop-off in savings participation over time. The BIAO's procedural guidelines, being dependent on regular savings and deposits, were unsustainable in the context of high inflation, low salaries, and a high cost of living.

- By making access to services hinge on investment shares, the Bank of Africa in Mali also generally failed. It skewed lending toward larger commercial customers, who were also shareholders. Most fell behind on their repayment obligations—partly because of ineffective sanctions and insufficient peer pressure resulting from their leverage on management.
- The Kafo Jiginew Rural Savings Association fared better than the other schemes because it brought together savers with two economic interests in common: securing funds for small, seasonal agricultural exploitation and for meeting between-harvest family expenses.

Building on the lessons learned from the successful GIEs and the Kafo Jiginew Association, and the more positive experiences of non-African institutions such as the privately run Grameen Bank in Bangladesh and the Bank Rakyat in Indonesia, the AM90s study identified the requirements that a prototypical adapted financial institution should meet to provide the services needed to help a microenterprise grow into an SME and eventually a large enterprise.

In order to reconcile individual and group interests and meet cultural expectations and institutional requirements, the semi-formal system of GIEs could be adapted by restructuring into a member-owned formal credit institution. GIE members could then be regrouped into larger savings and credit associations based on common interest in a given sector. These associations (commercial lending groups) could be integrated into a mutual savings and loan association (Banque Mutuelliste), which would design savings and credit packages to capitalize on member associations' capacity to save as well as meet their needs for financing.

To secure access to more resources from formal sector financing for entrepreneurs making the informal-to-formal transition, a finance company could also be organized and capitalized by assembling a core investor group made up of local entrepreneurs and other private individuals who would all be required to make equal monthly contributions to a common investment fund. Upon reaching a certain minimum level of capital, the company would be incorporated and its funds would be used to leverage outside

resources. The company would then extend term loans and equity participation to viable private enterprises presented by members. The incentive structure would include offering institutional shares and financing for viable projects presented by shareholders, thereby building the "equal stakes" condition that seems to be a prerequisite for the success of these intermediate financial institutions.

Reconciling Corporate and Societal Cultures to Improve the Productivity of Large Enterprises

Chapter 8 focuses on the performance of large enterprises and on how reconciling corporate and societal cultures can help to boost efficiency and productivity. Given that traditional values drive legitimacy, social commitment, expectations, and behavior, and that individual workers are molded by their sociocultural heritage, cultural sensitivity and congruence between management and traditional values are the hallmarks of effective human resource management. This realization has, with positive results, infused management approaches in Côte d'Ivoire's electric company (CIE) and Togo's water supply company (RNET), as well as the successful use of group dynamics in adapting the concept of quality control circles in Burkina Faso.

The case of CIE exhibits several cultural adaptations, such as using power distance so as to bring out its strengths and mitigate its potential adverse effects; using decentralization in a way apt to minimize the bureaucratic burden and multiple layerings in a context of high power distance; putting in place social controls deriving from trust, pride, and integrity; and adopting an incentive system that emphasizes performance bonuses and solidarity funds—thereby generating a feeling among employees that the workplace is an extension of the home. Statutory worker guidelines and procedures in RNET served to neutralize negative fallout from the myth of the all-powerful and omniscient chief and also enhanced transparency and predictability in the company's activities.

In the quality control circles, increased productivity, improvements in worker and management attitudes, and a better working environment were the rewards harvested from giving groups a more pronounced role in production and problem solving, thus tapping the vast potential for synergy. Such examples suggest best practices that could directly inspire public enterprise reform programs being undertaken by African governments, which could be supported by donors through policy reform programs or technical assistance operations.

Requirements and Operational Implications for Reconciliation

Process and Institutional Requirements

Chapter 9 outlines the process and institutional requirements that would have to be satisfied to make institutional reconciliation work. Formal and informal institutions need to achieve institutional convergence in order to build solid foundations for legitimization and enforceability, which are absolutely crucial to institutional relevance, sustainability, and performance. For reconciliation to be possible, indigenous institutions should be prepared to renovate themselves to face new situations, and formal organizations should be ready to adapt themselves to better mirror and validate indigenous value systems. Thereafter, both types of institutions should be ready to engage in sustained interaction to achieve convergence. Reconciliation and convergence should pave the way for a synergy between formal and informal institutions that will improve the performance of both.

The needed reconciliation process itself imposes a number of requirements. First, it presupposes a truly participatory approach that builds on existing indigenous institutions and capacity, empowers clients and beneficiaries, puts local institutions first, listens to stakeholders, and makes a committed attempt to achieve synergy and convergence (permitting win-win outcomes). The reconciliation process developed in the context of South Africa embodies this new participatory approach. It begins with a comprehensive definition of a given situation and the identification of stakeholders, development paradigms, and all available resources, then follows a lobbying phase to provide general orientation and spur interest in dialogue. This is followed by a caucus formation and capacity-building phase, during which stakeholder groups try to buttress their individual positions and identify optimal strategies. The dialogue phase that comes next seeks to generate a common focus, establish common ground among the different stakeholder groups, prioritize needs and objectives, and formulate specific action plans. Joint implementation then gets under way, followed by joint monitoring and feedback, which seal the entire process.

The second important requirement for reconciliation is a new or renovated communications system guaranteeing access and voice to beneficiaries and stakeholders, who are typically only semiliterate in English, French, or Portuguese. Providing such guarantees would boost empowerment, transparency, and legitimacy. Ideally,

the new communications strategy should build on indigenous channels of information understood by the entire community while borrowing from modern media systems elements that would further reconciliation. The experiences of the liberation movements in Ethiopia and Eritrea (discussed in Chapter 9) show how this could be done.

Finally, reconciliation calls for institutional and political stability, smooth succession, and peaceful continuity—without which sustained economic development is impossible. In the African context, where exclusion from the group is the ultimate sanction, institutional stability requires an inclusive political formula behind which the entire nation can rally. The recent South African experience with constitutional engineering provides a very interesting example of how to balance institutional and ethnic pluralism and reconciliation. Although in the final analysis it will be up to each country to find the formula most appropriate to its specific context, the South African model in political, social, and institutional reconciliation seems well adapted to societies that are ethnically divided, as is true of most African countries.

Operational Implications

Chapter 10 analyzes the operational implications of the AM90s program findings for donors and governments attempting to design and implement reform programs to improve the performance of the civil service, develop the indigenous private sector, and increase enterprise productivity.

REPLICATING BEST PRACTICES. The experiences and best practices documented in Parts II and III clearly illustrate that, contrary to traditional opinion, Africa possesses a substantial reservoir of capacity and institutional endowments as well as best practices on which to build to improve the performance of its civil service, develop its indigenous private sector, and increase the productivity of its enterprises.

Moreover, most of the successful cases identified in the AM90s research program were high-impact, low-cost operations built on indigenous institutions and capacity. These successful examples and best practices confirm that institutional adaptation and reconciliation are both possible and necessary if Africa is to achieve quick and sustainable institutional performance. The main focus of operations to improve public sector management and develop the local private sector should be on using existing capacity by adapting or replicating these cases of institutional reconciliation. Where no

successful best practices (with proven records of high impact and low cost) exist, reform programs should include the design and implementation of pilots to test prototypes and new approaches.

LINKAGE WITH THE BROAD SECTOR APPROACH TO LENDING. The World Bank's (1995) draft framework on the broad sector approach to lending identifies four factors as critical for loan eligibility and for the design and preparation of related sector investment programs (SIPs). These are (a) a participatory process to ensure that local stakeholders are in charge; (b) reliance on local capacity to minimize long-term foreign technical assistance; (c) definition of the respective roles of the public and private sectors and nongovernmental organizations (NGOs); and (d) government capacity to play a strong and central role both at the level of the ministry concerned and, more generally, in the coordination and linkage with finance and planning. In addition, the framework identifies the need to carry out a sector institutional assessment as one of the most critical steps in designing the SIPs.

The methodology, process, and conceptual framework for carrying out these SIP-related sector institutional assessments were in fact developed on the basis of feedback from the client survey and the customized assessment for Zambian education described in Chapter 2. The relevance to the SIPs of the framework and the best practices for improving public service delivery described in Part II is therefore obvious.

Chapter 4 also provides several examples of successful practices that could be replicated or adapted to help improve the performance of relevant sectors through the SIPs. The sector-wide coverage that is a major feature of the SIPs also requires close coordination between the different local institutions and key actors involved in the preparation and implementation of the SIPs. The compact developed in South Africa to build consensus and better balance the role of the state, the private sector, and local communities and NGOs in the delivery of social services therefore is particularly relevant to both the substance of and the process for achieving this institutional coordination. It connotes a commonality of vision and purpose as well as an agreed implementation agenda, which are eminently suited to bring out the synergy needed for the success of this broad sector approach. Being goal-driven, such a compact generates momentum for implementation and suggests benchmarks for monitoring and evaluating civil service performance from the perspective of the clients and stakeholders. Furthermore, it presupposes a dialogue leading to reconciliation—thereby creating an

ideal climate for enforcement as well as ownership of whatever product it delivers.

Chapter 4 illustrates the beneficial impact of these compacts among the state, the community, and the private sector in improving the delivery of education and water supply in South Africa. The formula could be easily extended and adapted to other public service delivery, especially in the social sectors in which SIPs can be considered. While the concept of the compact as tried in South Africa involves a triad (government, private sector, and local government and NGOs), a compact need not always involve all three partners. The cases of AGETIP (for urban infrastructure), TASO (for the fight against AIDS), and the Gambian and Zimbabwean experiences with primary health care delivery provide other examples of successful bilateral partnerships. However, the broader partnership of the government, the community, and the business sector offers brighter prospects in social investments. Foremost among these are the reduction of dependence on the government and the strengthening of beneficiaries' ownership and commitment. This provides the possibility of, at one stroke, winning legitimacy and enforceability for the government; building bridges between the formal business sector and informal small enterprises, enhancing the capacities of both but particularly the latter; and building institutional capacity and higher levels of empowerment and ownership in the community.

THE ROLE OF DONORS. The framework outlined above provides an operational instrument for mainstream lenders to support the replication of best practices for civil service reform, private sector development, and enterprise reform either as freestanding institutional development and capacity-building projects or as components of investment operations. Given that Africa needs quick results and that most of the best practices documented in Parts II and III build on local institutions with proven performance records and require relatively little funding to adapt, a fast-track processing procedure could be used to facilitate their replication. This could involve not only reduced and simplified documentation but also less-centralized approval procedures.

The concept of independent funds to channel money for social activities in Africa has also been proposed to complement traditional lending in countries where no appropriate mainstream lending operations are available but a broad macroeconomic and sector strategy and strong commitment exist. Where no proven best practice could be identified, part of the resources from the World Bank's research and regional studies programs, complemented

(where necessary) by financing from other donors, could be used to test new approaches (new financial intermediaries, new incentive systems, and so on) using the framework outlined in Parts II and III of the report. The successful adaptation of quality control circles in Burkina Faso, financed in part with Japanese trust funds, provides a good example of this pilot approach to test innovation. The African Capacity Building Foundation could contribute to the funding of high-impact, low-cost programs and prototypes to improve economic management and policy capacity.

NETWORKING. Although the menu of best practices identified in Parts II and III is a relatively rich one, it is far from an exhaustive list of all best practices in the areas covered—improving the service orientation of civil service, developing the indigenous private sector, and improving enterprise productivity. The very stimulating exchange of operational experience at the Dakar workshop and follow-up discussions with participants clearly suggest that although many more interesting initiatives and successful best practices may be happening in Africa, especially at the grassroots level, they are not always widely disseminated and known. At a workshop in Dakar in September 1994, where African policymakers, donors, and NGOs gathered to discuss the AM90s research, several participants recommended the creation of a data base and network for sharing experiences and ideas for replicating existing best practices and piloting programs to build institutional capacity in Africa. The funding of such a data base and network is clearly an activity that could be supported by the World Bank Grants Program in coordination with other donors.

Conclusion

Focusing mainstream donor lending on support for best practices and prototypes for institutional reconciliation is particularly fitting given current donor fatigue and pressures from both the African population and donors to show quick results in the field. Furthermore, the high impact and low cost of the best practices identified in Chapter 4 for delivering social services (local community development, primary health care, AIDS-related services, urban infrastructure, education, and water supply) make the replication of these practices an important aspect of poverty alleviation. The voluntary sector—local communities and NGOs responsible for initiating and carrying out some of these best practices—should be allowed to broaden their efforts inside their countries and provide technical assistance to help other African countries replicate their

successes. In this way, mainstream lenders and NGOs would enjoy closer cooperation in the design and implementation of high-impact, low-cost activities as major components of mainstream operations to reform the civil service, develop the local private sector, and improve the productivity of enterprises in Africa. Finally, by building on homegrown best practices, local capacity, and institutions, and by strengthening the participatory process (that is, putting the government and local stakeholders and beneficiaries in charge), the proposed approach would help maximize local ownership, commitment, and the legitimacy needed for enforceability and sustainability.

The operational implications of the AM90s study and the recommendations reported in the book can be summarized as follows.

Operational Framework

- The main focus of institutional reform and capacity building for poverty alleviation should be on developing existing institutions, using existing capacity, and replicating best practices at the grassroots level.
- The starting point should be listening to clients and stakeholders and assessing existing capacity and institutional endowment. This principle has been put into practice in Zambia (in a survey of the civil service and an institutional assessment of the education sector), in Ghana (in a survey of civil service clients and beneficiaries), and in Mali (in a survey of public satisfaction with service delivery).
- There is a need to build on indigenous, grassroots institutions. Examples include the NAAM approach to community development in Burkina Faso, the TASO model for dealing with the AIDS crisis in Uganda, the Bamako Initiative, and programs in The Gambia and Zimbabwe to reconcile traditional and modern methods of primary health care.
- Support for the delivery of social services and the alleviation of poverty should be linked to broader sector lending. Sector institutional assessments are a key element of sector investment programs. A participatory process is essential. There is also a need to build a partnership between the state, the private sector, and the voluntary sector (the local community and NGOs), and to define the role of each, as South Africa, for example, has done in providing education and supplying water.
- Networking is needed to share lessons of experience and best practices.

- Replication of best practices (some undertaken by NGOs) will facilitate cooperation with NGOs in both process and substance.
- Strengthening the nexus between good policies, good leadership, and good institutions is necessary to achieve sustainable development.
- There is a need to complement the decentralization of government services (delegation of power to municipalities) with the empowerment of local communities and beneficiaries (for example, AGETIPs and tribal chiefs in Ghana and Botswana).
- The emphasis on building on indigenous institutions may require getting donors out of the way when their procedures become stumbling blocks to the local empowerment process.
- A balance must be struck between the need to empower local communities and respect ethnic diversity and the need to maintain national unity. South Africa stands as a model of institutional and political reconciliation.

Implementing Projects

- The focus on replication of high-impact, low-cost best practices shows that achieving quick results in the field and building sustainable institutional capacity can go hand in hand.
- Sector institutional assessments, as a diagnostic and consensus-building process, provide the participatory framework to build momentum for the needed institutional reconciliation. Carrying out such assessments as part of the preparation of sector investment programs, especially in the areas of education, health, and urban infrastructure, and assessing community-level institutions to help the poor are important prerequisites for efficient delivery of public service and poverty alleviation.
- Donors could use a variety of lending instruments to support institutional reconciliation. They could take a broader sector approach to lending, by developing sector investment programs. They could also take a decentralized approach to lending to local communities for poverty alleviation—an approach the World Bank is following with a project for public works and village workers in Indonesia. Donors could also use a social fund project, as the Bank has done in Madagascar.

Part I

Institutional Capacity and Economic Performance in Africa

Introduction: Unbundling Capacity Building

Three central themes permeate the analysis carried out by the World Bank as part of the Africa's Management in the 1990s (AM90s) research program. First, the much-lamented crisis of capacity building in Africa is not so much a crisis of technical capacity (a lack of skills, methods, systems, and technology) as it is a crisis of institutional capacity (underutilization of existing institutions).[1] Second, this institutional crisis is essentially due to a structural and functional disconnect between informal, indigenous institutions rooted in the region's history and culture and formal institutions mostly transplanted from outside. Third, institutional reconciliation is the key to resolving the crisis.

The Importance of Capacity Building

That capacity building is a major component of economic management and performance is no longer a point of controversy. The World Bank's long-term perspective study of Sub-Saharan Africa underscored the crucial importance of institutional development and governance in Africa's development (see World Bank 1989 and 1990). The creation in 1991 of the African Capacity Building Foundation reflects this preoccupation with capacity building (see World Bank 1991a). In addition, a World Bank task force chaired by Willi Wapenhans emphasized that weak institutional capacity is a major contributing factor in poor portfolio performance, especially in Africa (see World Bank 1992a: 5–6). This thesis was also argued by Edward Jaycox, vice president of the World Bank's Africa Region, in his presentation in May 1993 at the African-American Institute conference on African Capacity Building: Effective and Enduring Partnership. Referring to capacity building as the "missing link" in Africa, Jaycox highlighted the impact of weak capacity on macroeconomic management, on portfolio performance (sizable commitment but low disbursement and little impact

Box 1. Defining the Concept of Capacity Building

(The following is excerpted from Moore 1995: 93.)

A 1992 UNDP [United Nations Development Programme] study illustrates the analytical confusion that typifies current use of the concept. Specifically, after distinguishing three components of capacity (education and training, organizations, and development culture), the study proceeds to specify six diverse types of capacity building:

(1) macroeconomic policy management (a specific managerial or professional skill);
(2) professional education (a training task);
(3) public services reform (a structural and legal change);
(4) private sector (sectorwide focus);
(5) popular participation in choice of national goals and means (a political objective); and
(6) national development culture (a social systemwide focus).

in the field), and on the ability of African countries to respond and adapt to a changing economic environment. Capacity building is also the focus of a recent United Nations Development Programme book, *Rethinking Technical Cooperation* (Berg 1993).

But this consensus starts breaking down when it comes to the definition of capacity building. Box 1 describes the difficulties in reaching agreement on the meaning of the concept. As a result of this confusion, capacity building has been equated with some or all of the following:

- Technical assistance and cooperation to transfer skills or train Africans
- Reform of the public sector and civil service to reduce costs and rationalize the role of the state
- Increasing the role and capacity of the private sector to take over some functions of the state
- Fostering broader popular participation in choice of policy and other development goals
- Creating or strengthening training and management institutions.

In other words, the term "capacity building" means different things to different people. The following quotation from *Rethinking Technical Cooperation* illustrates the multiple dimensions of capacity building:

> Capacity building is characterized by three main activities: skill upgrading, both general and job-specific; procedural improvements; and organizational strengthening.
>
> The skills enhancement component includes general education, on-the-job training, and professional deepening in crosscutting skills such as accounting, policy analysis, and information technology. Organizational strengthening covers what some have defined as institutional development: reinforcing the capacity of an organization to use available money and staff more effectively. The procedural improvement dimension refers to functional changes or system reforms, such as introduction of new budgeting arrangements or replacement of ex ante controls over public enterprises by greater autonomy and ex post supervision.
>
> Capacity building by this definition is therefore broader than organizational development in that it includes all types of skill enhancement and also procedural reforms that extend beyond the boundaries of a single organization. Capacity building is less comprehensive than institution building as broadly defined, because capacity building excludes the specific goals of changing social norms and creating societal supports for capacity-raising changes. (Berg 1993: 62–63)

To make the concept easier to grasp, the AM90s research program distinguishes two complementary but distinct approaches to capacity building: a technical, or supply, side and an institutional, or demand, side. Technical capacity building focuses on increasing the supply of skills and transferring new technology, methods, and systems. In this context, capacity building is essentially equated with training, education, and technical assistance that complements local supply. The major issue to be addressed is the adequacy of local resources: does the country (or department or other organizational unit) have enough qualified and experienced staff, building equipment, and knowledge to do the job? This supply side of capacity building will determine the transformation and production costs.

Institutional capacity focuses on the ability of the country to make optimal use of the existing technical capacity and resources in a sustainable fashion. The focus here is on capacity utilization and absorptive capacity. The major issues are:

- Commitment of leadership and enforceability of rules
- Local ownership and the legitimacy of institutions used as a medium for the job

- Accountability to clients and the autonomy of organizations and institutions used to carry out the job
- The extent to which incentives encourage service to clients and improve performance.

Although the dearth of skills and technical capacity was a major issue in most African countries in the early years of independence, this is no longer generally the case. Through education, training, and greater access to information and technology from the industrial nations, most African countries have accumulated a substantial supply of technical skills and capacity. As Berg (1993: v) observes, "In Sub-Saharan Africa, massive efforts have been made to expand education since independence some 30 years ago. The stock and flow of educated manpower have now reached substantial levels."

The institutional, or demand, side (to make effective use of capacity) is generally the weakest link in Africa's capacity building efforts and the focus of the AM90s research program.

The Weakness of the Institutional Side of Capacity Building

Although Sub-Saharan Africa has had a good supply of well-educated personnel and reasonable access to new technology, systems, and methods, as well as a reasonable share of good policies, the region has been unable to use these resources effectively because it has generally lacked an institutional base with the required legitimacy, accountability, stability, enforceability, and incentives. As a result, economic and political achievements are generally not fully institutionalized (with the needed enforcement and incentive mechanisms) or internalized by the broad civil society to make them sustainable. They are therefore prone to reversal with changes of regime and leadership.

An earlier Bank publication, *A Governance Approach to Civil Service Reform in Sub-Saharan Africa* (Dia 1993), concluded that the poor performance of African governments in the management of core government functions (resource mobilization and allocation, policy capability, and regulatory framework) and in the delivery of public services (health, education, transport, and so forth) is largely due to patrimonial distortions in the management of the state. The linkage between institutional and economic performance was also emphasized earlier by Nobel Prize winner Douglass North in *Institutions, Institutional Change and Economic Performance* (1990).

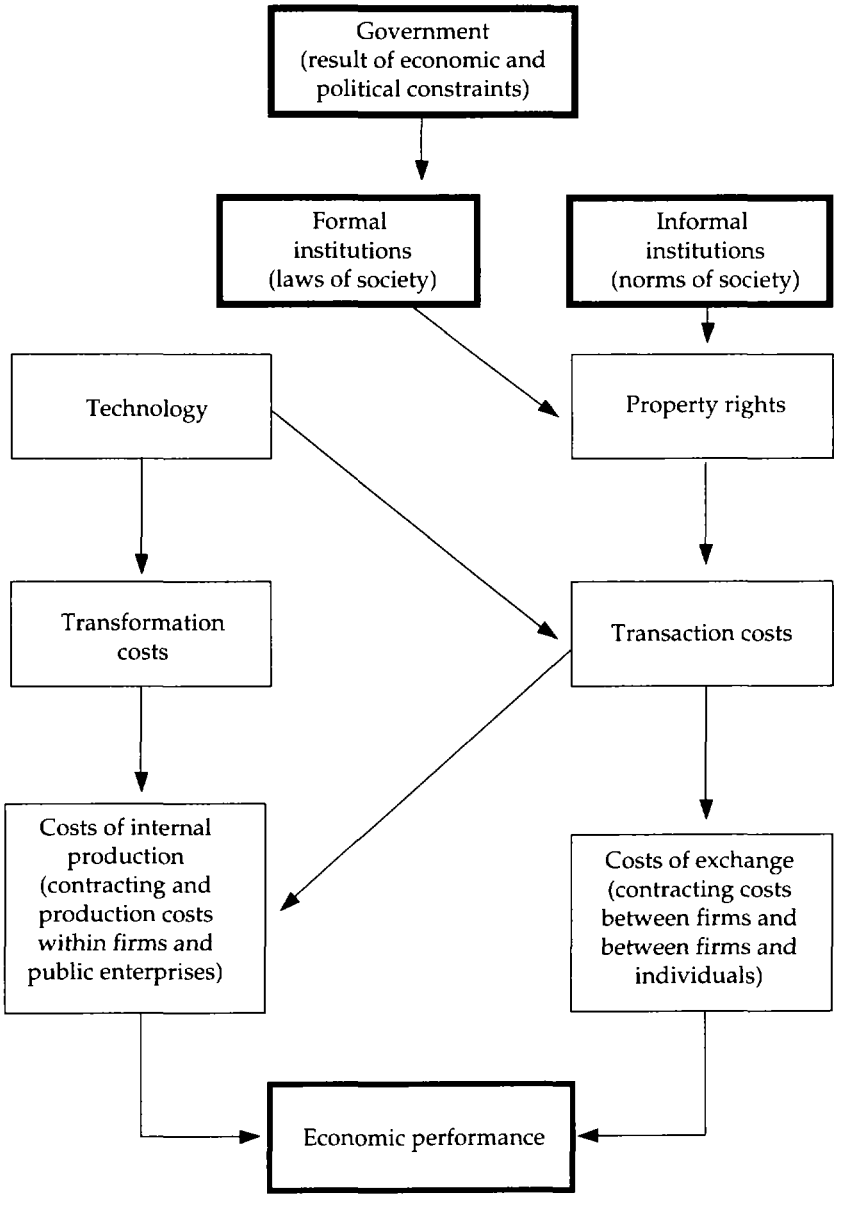
A recent World Bank study, *The East Asian Miracle* (1993a), as well as the discussions at the meeting of the Asia-Africa Forum in Bandung in December 1994, confirm the crucial role played by the triad of good policy, good institutions, and good leadership in the strong performance of East Asian countries. Good leadership is generally the starting point (as in East Asia, for example), with good institutions providing the necessary link between leadership and policies.

In Africa, institutions tend to be weak. Thus the major theme resonating throughout the AM90s research program is that the problems of capacity building and the related lack of social, political, and economic development in postindependence Sub-Saharan Africa are largely attributable to a crisis of institutions. The AM90s study shows that this crisis is mainly due to a structural and functional disconnect, or lack of convergence, between formal institutions that are mostly transplanted from outside and informal institutions that are rooted in African history, tradition, and culture and that generally characterize the governance of civil society.

On this point, the AM90s research program builds on a lead provided by the school of New Institutional Economics (North 1990: 45), pointing out that "the tension between altered formal rules and the persisting informal constraints produces outcomes that have important implications for the way economies change." Figure 1, drawn from Alston 1994, illustrates how both informal and formal institutions affect economic performance. The AM90s research program expands on North's and Alston's work, examining how the tension between formal and informal institutions affects economic performance. The program results suggest that when informal institutions are open to modern technology and challenges (renovation) and formal institutions integrate local cultural values and practices (adaptation), then transformation and transaction costs can be minimized and the performance of the public and private sectors can be improved. In these circumstances, enforceability will be maximized, costs will be reduced, and sustainability will increase. Figure 2 illustrates this process.

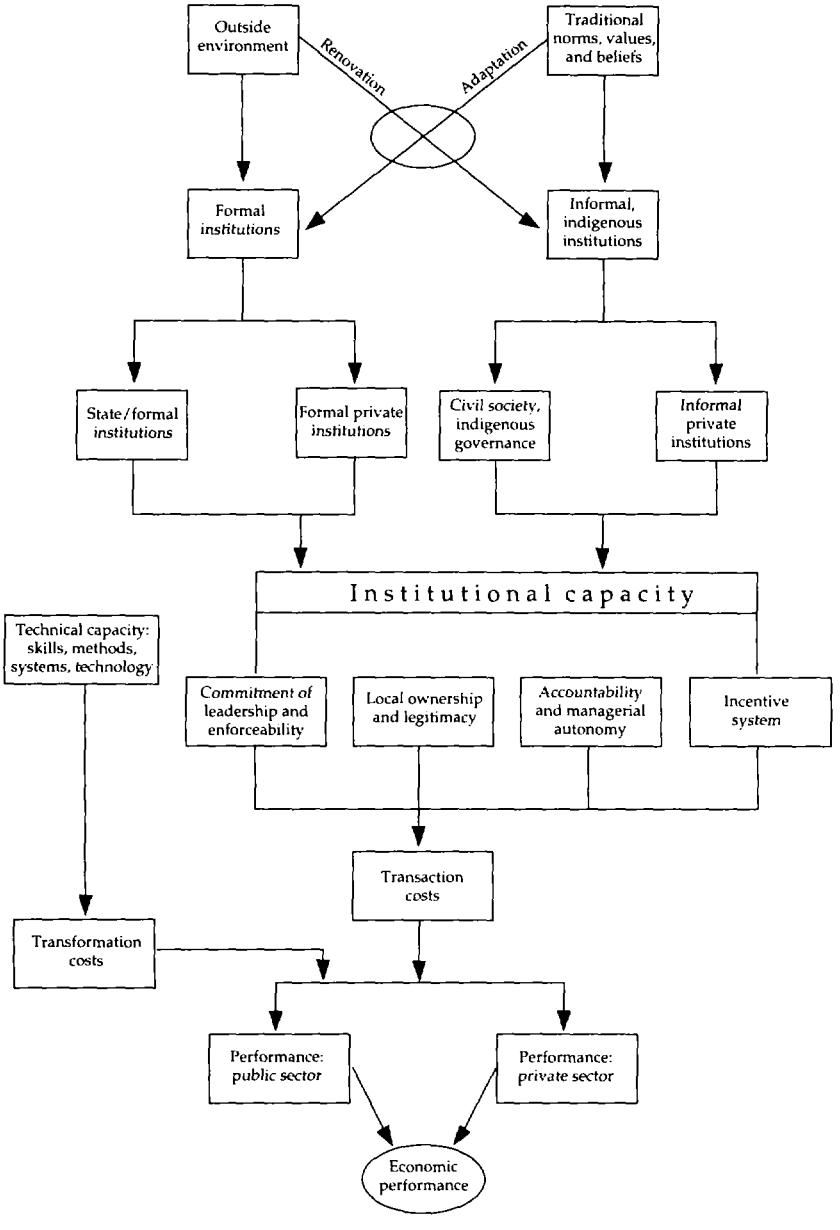
The AM90s study emphasizes that it is the degree of disconnect between formal and informal institutions that largely explains problems in capacity building and institutional performance in both the public and the private sectors in Africa. On the one hand, formal institutions in Africa, being mostly inherited from the colonial period, do not generally reflect actual societal behavior and incentives and thus suffer a crisis of legitimacy and enforcement. Unrooted in local culture, they lack the local "ownership" needed for voluntary self-enforcement. The absence of the rule of law as a

Figure 1. The Link between Economic Performance and Institutions



Source: Alston (1994).

Figure 2. Institutional Reconciliation and Economic Performance



Source: Author's analysis.

third-party referral and enforcement mechanism further impedes the effectiveness of these institutions (see Box 2). The cost of enforcing contracts and other formal rules needed for improved economic performance becomes extremely high, and the threat of sanctions for deviant behavior becomes less credible—indeed, the exception becomes the rule. Beating the formal institutional systems becomes the favorite game. Lawlessness, rent-seeking behavior, and free-riding become generalized.

On the other hand, in our increasingly global world, informal institutions, too, have distinct weaknesses. If they are not renovated to overcome certain traditional shortcomings, such as discriminatory and exclusionary practices against women and youth, and if they do not adapt to technological changes and other new challenges, they will gradually cease to be viable and dynamic. Their ability to grow and to cope with increasingly complex and competitive choices will be stunted. Without renovation, these informal institutions will lack the technical capacity needed to reduce their transformation costs, and they will gradually become irrelevant. Not offering viable alternatives (especially to the grow-

Box 2. The Rule of Law

(The following is excerpted from Dia 1993: 15.)

One of the key requirements of an effective rule of law is that law and government faithfully reflect actual social behavior and serve as an effective means of societal control. This will assure the needed congruence between the formal legal framework and effective conduct/behavior. Sharp deviation between the two (formal law and practice) will create a limbo resulting in lawlessness and empty formalism. The intent of laws will then remain obscure and their goals, unrealistic. As a result, the public will generally resist implementation, and enforcement will become more difficult. Laws designed to restrict "deviant" behavior may simply force the public to intensify efforts to find creative ways of avoiding enforcement; the exception becomes the rule. Consequently, the laws are subverted, the administration corrupted, and "deviant" behavior continues unabated. Even with independent legal and judicial bodies, therefore, the makers of laws and rules must not simply copy or continue alien colonial laws, but endeavor to frame more adapted policies, rules and regulations which command substantial support in the population; are mutually compatible and technically sound; and for which the necessary resources are available for effective implementation.

ing number of young Africans), they will be increasingly perceived as constraints, except in times of crisis, when they often provide the only available social safety net. If these institutions continue to live in the past, they will be discarded as anachronistic relics or be used opportunistically by those who have lost faith in African tradition and culture but cannot succeed in the formal world.

Thus neither total institutional transplant (external enclaves) nor traditional fundamentalism (conservationism) is a viable alternative for Africa's development. The institutional crisis in Africa cannot be resolved by relying exclusively either on purely traditional institutions or on transplanted institutions operated by expatriate technical assistants and specialists. What does hold promise, however, is an adapted, renovated, and convergent mix of both to reduce both transformation and transaction costs. As Douglass North (1990: 53) noted:

> Although explicit rules provide us with a basic source of empirical materials by which to test the performance of economies under varying conditions, the degree to which these rules have unique relationships to performance is limited. That is, a mixture of informal norms, rules, and enforcement characteristics together defines the choice set and results in outcomes. Looking only at the formal rules themselves, therefore, gives us an inadequate and frequently misleading notion about the relationship between formal constraints and performance.

The solution is neither in formalizing (or getting rid of) informal institutions nor in informalizing formal institutions, but in reconciling and encouraging convergence between adapted formal institutions and renovated informal, indigenous institutions. In Africa mutual legitimation, reconciliation, and harmonious convergence between formal and informal institutions are essential to institutional relevance, enforceability, sustainability, and performance. This new paradigm of institutional reconciliation is best captured by the French expression *"enracinement et ouverture"* coined by Leopold Sedar Senghor, former head of state of Senegal. It implies that to perform effectively, institutions have to be both rooted (*enracinées*) and open (*ouvertes*) to outside challenges and influences. Why and how to achieve this are the main concerns of the AM90s research program and are addressed in the remaining part of this report.

The need for rectifying the institutional disconnect in Africa through reconciliation is supported by economic theory. It has

been almost two decades since the theories underlying implementation mechanisms were introduced in the literature of economics. Because of their complexity, they have since gone out of fashion. But the basic idea underlying these theories is rather simple. If one wishes to implement a policy, one must structure rules so that they are consistent with the preferences of individuals whose welfare will be affected by the policy. This is exactly the thesis underlying the AM90s program. In order to get people, whether bureaucrats or citizens, to support economic policies and programs, institutional arrangements (rules) have to incorporate people's preferences and the incentives and means of societal control that shape their behavior. And, contrary to what neoclassical economics assumes, these incentives and enforcement systems are influenced by culture.

During 1992–94, the AM90s program completed fifteen research initiatives and six working papers to establish a base for this analysis. The field research was followed by a workshop in Dakar in September 1994 attended by seventy participants (African policymakers, donors, and nongovernmental organizations). The participants met to discuss the initial findings of these field studies and to identify operational opportunities. Selection of the topics was based on the need to understand the linkage between capacity building and (a) the performance of public sector management, (b) the promotion of a local private sector supply response, and (c) the productivity of African enterprise. In the search for cases on which to focus, there was no assumption that all salient issues of the economic crisis in Africa could be addressed or that the AM90s team would present a comprehensive argument to justify a new development paradigm that would satisfy everyone. Rather, the objective was to seek illustrative cases and best practices that would shed new light on the long-standing problems of linking and sequencing institutional and economic development in Sub-Saharan Africa. On the basis of the research results and subsequent discussions at the Dakar workshop, pragmatic operational initiatives to replicate and expand the best practices would be identified.

The research shows that the disconnect between formal and informal institutions is at the root of Africa's crisis of institutional capacity. It also illustrates that contrary to traditional Afro-pessimism, the region possesses a substantial reservoir of capacity endowment and best practices on which to build. Institutional reconciliation between formal and informal institutions and the empowerment of beneficiaries and local communities will be key to the needed capacity utilization.

The balance of Part I (Chapter 1) analyzes the origin and extent of the crisis of institutional disconnect, its impact on the perfor-

mance of the public and private sectors in Africa, and the need for institutional reconciliation to solve it. Part II (Chapters 2–4) reviews lessons of experience and best practices for reconciling the state and civil society and building a more accountable and service-oriented public administration. Part III (Chapters 5–8) presents preconditions for indigenous private sector development and enterprise productivity. A concluding part (Chapters 9–10) proposes a new reconciliation paradigm, analyzes the process and institutional prerequisites for making it work, and assesses the implications for donors trying to encourage capacity building, private sector development, and financial and public enterprise reform.

Note

1. We use the term "institutions" in the broad, comprehensive sense of the new institutional economics: a set of structured, lasting patterns of behaviors and relationships (roles) that are guided and supported by broad societal values, regulated by certain norms of conduct (rules), and operationalized by organizations.

1. Institutional Disconnect and Economic Performance

Introduction

The World Bank study *Adjustment in Africa* concludes that adjustment-supported policy reforms in African countries "have generally been more successful in improving their macroeconomics (reduced inflation, very low budget deficits, and competitive exchange rates) and their trade and agriculture policies than their public and financial sectors" (World Bank 1994a: 1). This statement clearly shows that traditional donor support for policy reforms has mainly succeeded in solving technical macroeconomic issues (inflation, fiscal deficit, and exchange rate adjustment) that are amenable to universal neoclassical solutions. The other areas (civil service reform, financial sector reform, privatization, and public enterprise reform), in which the programs have largely failed, are exactly those affected by the issues of institutional capacity and disconnect described in the Introduction.

As indicated in the Introduction, the social, economic, and political crisis of postindependence Sub-Saharan Africa can be largely attributed to a crisis of institutions, resulting essentially from a structural disconnect between the indigenous (informal) institutions and management practices characterizing civil society and formal/modern institutions and governance. This disconnect has created a crisis of legitimacy and accountability that affects governance and the performance of public administration, as well as the development of an indigenous private sector and African entrepreneurship.

Governance and Public Administration

The strong centralized government inherited from the colonial period served well the original purpose of preserving law and order

and enforcing taxation; it was not particularly well suited to the development needs of postindependence Africa. Thus, the postindependence governmental bureaucracy in most Sub-Saharan African countries lacks accountability to the civil society, legislative and judicial checks and balances, and transparency. This has resulted in institutional instability, the privatization of the state, and patrimonial economic management and incentives, whereby clientelism replaces moral and political legitimacy, and political and personal loyalty and obedience are rewarded more than merit. The combination of political/social instability and the patrimonial state has proved to be the most debilitating ill infecting postindependence Africa's institutional and economic health. This combination is the most important factor underlying the doomsday scenario for Africa set out by Robert Kaplan (1994: 48), who perceives West Africa's future as a symbol of a coming age of international anarchy characterized by "the withering away of central governments, the rise of tribal and regional domains . . . and the growing pervasiveness of war."

The Development of an Indigenous Private Sector

An operational and financial disconnect between the microenterprise-informal sector (mostly indigenous) and the formal-modern sector (mostly foreign-dominated) has impeded the development of the local private sector. First, the absence of *operational* linkages between the activities of the formal and informal sectors limits the possibilities for microenterprises and small- and medium-scale enterprises (SMEs) to grow and graduate into the formal modern sector. Second, the lack of intermediate and adapted *financial* systems between formal banks and financial institutions and the traditional rotating savings and lending institutions leaves a "missing middle"—that is, a void in the financial intermediation system needed to support the growth and development of the local private sector. The formal institutions have the resources but not the method of operation adapted to microenterprises and SMEs; the traditional institutions have the right methods but not the resources to support the growth and graduation process of micro- enterprises and SMEs. This operational and financial disconnect—added to the burden imposed by the predatory regulatory system resulting from patrimonial macrogovernance—limits private sector expansion and growth at the local level.

Enterprise Management and Entrepreneurship

The performance of public utilities and other strategic public enterprises that remain in the government portfolio is impeded by distorted corporate governance and a disconnected incentive system. Regarding corporate governance, undue interference by patrimonial states destroys the balance between autonomy and accountability needed for an efficient principal-agent model. On the incentive side, the lack of congruence between corporate and societal culture in Africa limits the commitment and productivity of workers in modern enterprises. The incentives used are not adapted to African cultures and therefore have limited motivating value.

Thus, while the crisis of institutional disconnect is present at three distinct levels—public administration, private sector, and enterprise management—the disconnects at these levels are also interrelated and mutually reinforcing. Furthermore, while the crisis of institutional disconnect is only now emerging as a recognized problem, it is a continental situation long in the making that results from a complex combination of culture and history—especially from the political and social ruptures occasioned by the colonial period (Davidson 1969: 314). This chapter analyzes the origin, nature, and extent of the three levels of institutional disconnect, as well as their interrelations and impact on the performance of public administration, the promotion of an indigenous private sector, and the productivity of African enterprise.

The Disconnect between Central Government and Civil Society

The crisis of African states is unique insofar as it postulates readjustments that go far beyond improving economic and financial management processes. While Africa, Latin America, and Asia all experienced colonial rule, Africa's experience had some distinctive features.

In Latin America, independence followed several centuries of colonial rule. During this period, precolonial formations and attachments lost their potency as a result of extermination, cultural assimilation, and massive immigration from Europe and Africa. Latin America's present boundaries were legitimated by the settlers who proclaimed themselves independent in the nineteenth century and did not hesitate to fight for these boundaries.

In contrast to the situation in Latin America, colonial control in Africa and East Asia did not involve the marginalization of

precolonial attachments. These remained strong as independence came. Direct colonial control in Africa was briefer than in Latin America (lasting only eight decades) and was only episodically associated with settler colonialism (in Algeria, Kenya, South Africa, and Zimbabwe). And unlike Asia, Africa had very few centralized political formations that could resist militarily, and those that could, with the exception of the Ethiopian Empire, were too centralized to build upon (the Buganda Kingdoms, Lesotho, Morocco, and Swaziland). To better understand how this crisis of disconnect came about, we therefore have to follow the history of African governance back to the precolonial period.

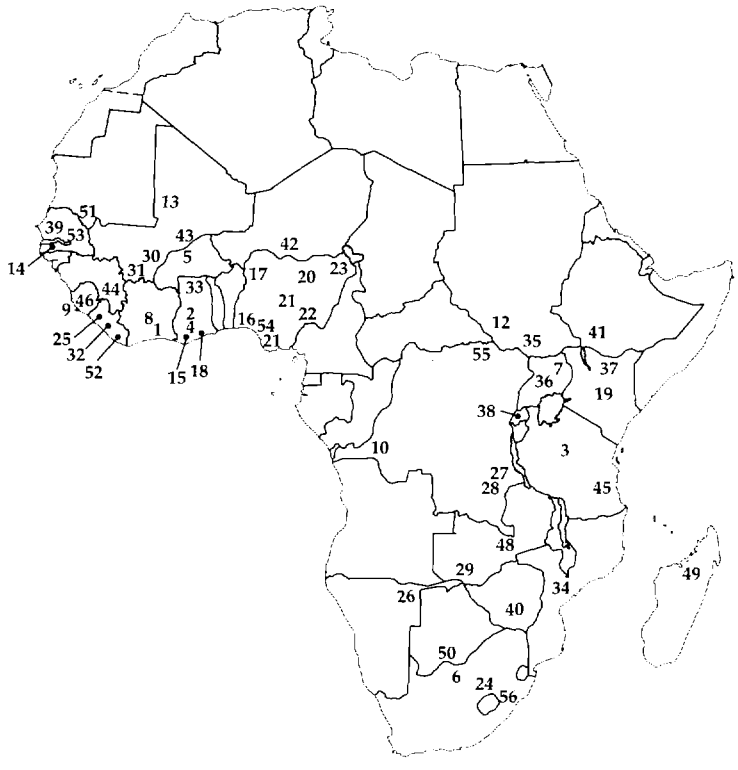
The Genesis of the Crisis: Before Africa's Colonization

In precolonial times Africa generally comprised either large empires (West, Center, and South) binding different ethnic groups under one hegemony or smaller states identifying with a single ethnic group (the Igbo and the Yoruba in eastern and western Nigeria). The location of the different ethnic groups described in this section is shown in Figure 1-1. Despite the hierarchical system of traditional governments, most of these entities were generally governed by consensus and broad participation—through group representation at the central level and village councils at the local level (Whitaker 1988: 35). The rulers had authority but shared power.

A major characteristic of this governance system was manifested in the way rulers were elected and removed from office. Rulers were not self-appointed but selected by specific bodies whose choices then had to be approved—usually by a council of elders or a similar body. Failure on the part of a ruler to discharge his functions satisfactorily brought retribution, usually in the shape of his deposition (as in Jolloff and Saloum in Senegal) or destoolment (for example, among the Asante). In the Kingdom of Oyo, the Oyo Mesi (council) dispatched parrots' eggs to the ruler, symbolizing that he was to commit suicide because he had been rejected by his people and ancestors. The Oyo Mesi needed the approval of a secret society called the Ogboni to set this process in motion. Among the Temne, Mende, and Dyola, secret societies played the important role of both upholding the authority of rulers and checking their abuse of power (Ayittey 1991: 171). Popular uprisings (*kirikiri* among the Yoruba and *itwika* among the Gikuyu) were also an institutionalized and expedient way of getting rid of unpopular rulers.

Further checks on potential power abuse were provided by rotating the kingship among lineages (as practiced by the Dyola),

Figure 1-1. Principal Peoples of Africa



1. Anyi	15. Fanti	29. Luvale	43. Soninke
2. Akan	16. Fon	30. Mande	44. Susu
3. Arusha	17. Fulani	31. Mandingo	45. Swahili
4. Asante	18. Ga	32. Mende	46. Temne
5. Bambara	19. Gikuyu	33. Mossi	47. Tiv
6. Bantu	20. Hausa	34. Mutapa	48. Tonga
7. Basoga	21. Igbo	35. Nuer	49. Tsimiherty
8. Baule	22. Junkun	36. Nyoro	50. Tswana
9. Bulom	23. Kanuri	37. Pakot	51. Tukulor
10. Bushong	24. Khosa	38. Rwanda	52. Vai
11. Copts	25. Kru	39. Serer	53. Wolof
12. Dinka	26. Ikung	40. Shona	54. Yoruba
13. Dogon	27. Luba	41. Sidamo	55. Zande
14. Dyola	28. Lunda	42. Songhai	56. Zulu

Source: Ayittey (1991: 517).

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imposing fixed terms for rulers, and, most important, creating political positions for individuals who would serve as foils to rulers and not be susceptible to removal by them. Councilors played this role among the Temne and Mende. Sometimes an advisory position was created and filled by someone related to the ruler—for example, his sister or his mother (as among the Serer). Appointees were deposed if they did not execute their functions properly.

Most historical monarchies in Africa were characterized by this process of ritual and political legitimacy and checks and balances. Even when kings reigned at the top of strongly centralized systems, they could not do as they wished. Rituals and politics went hand in hand (Davidson 1969).

This framework was expressed in moral concepts or axioms "rooted in the direct experience of the inevitability of interdependence" (Davidson 1969: 70). The moral order was robustly collective. When important decisions had to be made, chiefs tended to consult village councils (composed mainly of elder lineage heads) and to seek unanimity, even if doing so required very lengthy discussion. Majority rule, winner-take-all, or other forms of zero sum games were not acceptable alternatives to consensus decisionmaking. Group interests were preserved, and they permeated and guided local government and politics, decisionmaking, and even religion. Everyone participated, was heard, and accepted his or her responsibilities to the group and to one another (see Davidson 1969: 67–80). Thus, no group was excluded.

In fact, in traditional Africa, exclusion from the group's governance was the ultimate sanction. This came out very clearly in Kiggundu and Dasah's study of the chieftaincy institutions in Ghana, which noted that "ostracism, public shame or ridicule, and the power of the ancestors' spirits to punish and reward, constitute the most powerful form of rule compliance" (Kiggundu and Dasah 1993: 19).

On the economic front, a key performance criterion of the traditional kings (one that generally distinguished them from postindependence rulers) was their obligation to assist their followers in need and to guarantee the welfare of the group. In this context, the leader could be blamed even for natural disasters. While the leaders might accumulate wealth, they were invariably expected to share it. Redistribution was the most common instrument for ensuring the sharing of wealth. Even in a kingdom as centrally organized as eighteenth-century Dahomey—where the king controlled most economic sectors and monopolized all trade with Europeans on the coast—it was mandatory for the king to share his revenues at "annual customs" (Davidson 1969: 225).

The Colonial Period

The colonial governors—although aware of the existence of these traditional local governments—created new states, institutions, and management systems as if none had existed before (Whitaker 1988: 36). The recasting exercise was launched at the Berlin Conference of 1884–85, where the colonial powers drew new frontiers for separating African states (Hargreaves 1963). These new borders reflected the comparative power balance of the colonial powers and respective alliances in Europe rather than the already existing traditional entities and ethnic bonds. Some ethnic groups were split apart: the Hausa between Niger and Nigeria, for example, and the Soninke and the Mandingo among The Gambia, Guinea, Mali, Mauritania, and Senegal. As a result, most newly imposed national boundaries were considered only artificial lines on a map and were generally ignored by Africans. Divided ethnic groups continued to cross the new borders and maintain their traditional social and economic ties. This was facilitated by the existence of regional groupings: the Afrique Occidentale Française, grouping the eight territories of French West Africa and Togo, and the Afrique Equatoriale Française, grouping four territories of Equatorial Africa and Cameroon. It was only after independence that most governments tried (and still continue to try)—often without success—to make these borders significant and compelling.

The lack of an indigenous foundation and related political and moral legitimacy also permeated the public administrations that were set up during the colonial period. The emphasis was more on extracting compliance and resources to meet the needs of the colonizing countries than on providing development-oriented services. Thus, for most of the period of colonial rule, no provisions were made for legislative and judicial checks and balances to limit the discretionary power of the colonial governor relative to the local population. On the contrary, all executive, legislative, and judicial powers were entrusted to the executive administrator. Administration served the metropolitan government and not the indigenous population, resulting in highly centralized public administration. While there were great differences among the various administrative heritages (Belgian, British, French, and so on), most emphasized law and order and taxation rather than service of local development needs. Defense of the colonizing country's interests and institutions was the major incentive and motivating factor.

After Independence

At independence, most of the African countries inherited a hybrid and disconnected system in which modern governance and public administration systems were superimposed on the traditional institutions and the indigenous management system of civil society. The inherited public administration—which had little or no tradition of legislative or judicial checks and balances (the colonial administration had had no need for it)—continued to be powerful, isolated, repressive, and locally alienating. The administration's position of absolute power encouraged a lack of responsibility and accountability to the people to be served. Its isolation bred a lack of responsiveness and legitimacy toward civil society. A related colonial legacy was neglect of local self-government. Even where provincial or local government was in place, genuine and autonomous local self-government was not permitted to develop. Through the power of the purse, the central government maintained strong economic leverage on local government. Public administration essentially consisted of layers at the top that never came to grips with the political, economic, and social realities and problems of the local community. The distance between the citizens and the administration—and the personal politics that permeated the latter—bred distrust, further alienation, and lack of indigenous legitimacy.

At the level of civil society, however, six to eight decades of colonization were not long enough to subvert and replace preexisting traditional systems of governance and local administration. At this level, discomfort with the institutional disconnect was overlooked and tacitly accepted as a necessary evil because of the revolution of rising expectations that accompanied the euphoria of independence. Most Africans considered independence to mean not only transfer of authority and power to new national governments, but also transfer to the population of wealth accumulated during the colonial period. The new regimes and central governments therefore were seen not only as inheritors of political power but also as facilitators of wealth redistribution. Africans dreamed of a "life more abundant" (Obasanjo 1987: 5). Therefore, the major rallying theme during independence was to create a strong, centralized government capable of ensuring ample wealth distribution to raise everyone's consumption and living standard closer to European levels. All the while, however, the people's sense of dedication, identity, and accountability remained with their traditional institutions.

The above-described combination of centralized government and lack of countervailing legislative and judicial checks and balances bred the patrimonial privatization of the state and its resources and the lack of service orientation in some African countries. Figure 2-1 in Chapter 2 confirms this disconnect between the state and the civil society in Zambia and between the civil service and its clients.

Negative Effects of the Disconnect on the Management of the Economy

The following four sections (based on a fuller presentation in Dia 1993) summarize four major adverse effects of patrimonialism on economic management, service delivery, and civil servants' incentives and productivity.

Distorted Patrimonial Pay and Incentive System

In the patrimonial state, political and personal loyalty are rewarded more than merit. Politicians and bureaucrats use the state to reward themselves and their supporters. Thus there is no positive correlation (indeed, there is sometimes a negative one) between the level of compensation and the performance of civil servants. Public bureaucracy thus becomes a very attractive form of employment and a source of bureaucratic rents—hence the resistance to retrenchment programs. The resulting pay and employment systems and the whole patrimonial system of bureaucracy also encourage and reward administrative functions more than technical ones.

In most African countries, technically trained specialists (in agriculture, education, health, and so forth) generally prefer administrative posts in the cities to serving in the villages. High-level appointments in public administration (that is, those with the greatest power and exchange values) tend to be reserved for general administrators with training in law and order (for example, graduates from national schools of administration and law, Ecoles Nationales d'Administration et de Magistrature in francophone Africa). This has encouraged the formation of administrative elites that are neither development- nor action-oriented. The incentive system is therefore generally stacked against sector and field specialists.

Disabling Regulatory Burden on Private Sector Development

The combination of the patrimonial state and the absence of the rule of law puts the average entrepreneur at the mercy of the

political elite and bureaucracy. Property rights are not legally protected, and wealth can be confiscated or reduced through selective manipulation of the formal rules and regulations. As Rigo and Gruss (1991: 28) have stated, "it is obvious that confidence in the enforceability of agreements and commitments is instrumental in the proper functioning of an economy and the conduct of economic activities. If there are unreasonable delays and high costs in enforcing laws and agreements between private parties, efficient economic activities are hampered." Because of these bureaucratic risks, most African entrepreneurs can never seek wealth just for themselves. They must also share a good deal of their wealth with the elite—either to buy their way into elite status (thus becoming active accomplices) or to buy protection for their remaining wealth. Thus more of an entrepreneur's wealth is used for buying political protection and privileges (access to rent situations) than for investments (to increase productivity and the wealth of the owners). It is a social and political investment to maximize the influence or the power position of the owners.

The dominant institutional forms of spending are therefore reciprocity and redistribution—but with a strategic twist. The spending is calculated to enhance entrepreneurs' political leverage and influence in order either to facilitate their access to coveted rent positions and other privileges or to buy protection against strict enforcement of disabling laws and regulations. This type of strategic spending contributes more to the loss of productivity than to savings and capital accumulation and intensiveness. Entrepreneurs who lack influence can survive only by working very hard and making large enough profits to be able to pay well for access to power and security. This means that they must concentrate on activities that bring quick and sizable returns and expose them least to penalization—that is, tertiary activities with rapid turnover and high short-term returns (a good example being the women traders in Togo commonly known as Nana Benz). They cannot indulge in long-term investments such as industrial activities, given their greater risk of political and administrative harassment. This explains, in part, the reluctance of potential local investors to invest in industrial enterprises that will be privatized. Such a system impedes the growth and development of the indigenous private sector.

Distorted Resource Mobilization

The patrimonial system leads to tribute paying and a regressive tax and customs system that spares the rich and powerful (permitting

exemptions, evasion, and so forth) and drains the poor. The Gambia (before the 1994 change in regime) provides a good illustration of this patrimonial and regressive tax and custom system and its negative impact on resource mobilization even in a country with a reputedly successful economic recovery program (see Box 1-1). Forgone revenues from customs evasion amounted to about 5 percent of gross domestic product (GDP) and almost four times the total expenditures for health. Losses from income tax evasion totaled about 70 percent of revenues due. Stricter enforcement of existing tax laws would also yield an additional 3 to 4 percent of GDP. The developmental impact of improved resource mobilization and tax administration (8 to 9 percent of GDP) is far greater than that of the traditional retrenchment program included in the World Bank's sector adjustment loans, and it is achievable at a substantially lower social cost. The burden is shifted to the political elite instead of the lower-end civil servants and workers. The

Box 1-1. Customs and Tax Administration in The Gambia

Customs. Against a background of several internal reports demonstrating a substantial undercollection of customs dues, the Gambian government asked the Internal Audit Unit of U.K. Customs and Excise to review the operations and management of the Directorate of Customs. In its January 1992 report, the audit team found a number of problems: (a) the main controls on the importation of goods were not operating effectively, so there was no assurance that all duty was being collected; (b) dishonored checks totaling $1 million and dating as far back as 1988 were uncollected as of June 1991; (c) the direct delivery duty deferment system was being operated without published regulations and in an inconsistent manner at the personal discretion of the director general of customs; (d) the duties were being deferred for more than twice as long as the enabling legislation envisaged; (e) arrears under the direct delivery program stood at $1.4 million as of June 20, 1991; and (f) duty waivers were granted at the discretion of the minister of finance under insufficiently detailed guidelines, ineffective monitoring, and little evidence of post-importation control over the use of goods imported under waiver, which, for the twelve months to October 1991, amounted to $4.5 million for fuel alone and an unknown large sum for all goods.

The audit team also found the system of control over transit goods, and the system of control over goods imported at a border post for entry at the Custom House, to be inadequate. It found need for improvements in the quality of record keeping, deployment of staff, and discipline. The lack of a readily available, published tariff, the lack of detailed guidelines

situation with customs and tax administration in many other Sub-Saharan African countries bears a striking similarity to The Gambia's experience.

Substitution of Bureaucratic and Political Objectives for Economic Goals in Budget Management

Despite the existence of economic and financial allocation criteria, the budget appropriations sanctioned by cabinets and legislatures generally reflect the powers of the bureaucratic and political elites more than economic priorities. Serving the military and vocal interest groups takes precedence over supporting important economic projects. Moreover, investment and expenditure decisions are often made with an eye to political visibility and an ear for the latest outcry of politically powerful interest groups. Funding lavish inauguration ceremonies that enhance a ruler's prestige may be

for the administration of direct delivery and customs waivers, the direct involvement and personal discretion of the director general of customs in many decisions and the corresponding lack of delegation, and poor record keeping all contributed to reducing the transparency of the revenue collection process.

Tax administration. A February 1992 study for the Ministry of Finance and Economic Affairs prepared by the Harvard Institute for International Development found evidence of substantial and widespread evasion of income taxes, with recent losses due to government in the range of 70 percent of revenue. For example, 1,162 companies were registered with the Ministry of Justice in 1990, and 331 renewed their registration in 1991. But only about 200 companies filed income tax returns. Of the 10,000 small- and medium-scale enterprises owned by proprietors, only 40 percent filed income tax returns. Likewise, the study found that only 50 to 60 percent of public sector employees filed individual income tax returns. Only some 8,000 employees' salaries were withheld for taxes under the pay-as-you-earn system. Enforcement of the revenue code was judged weak; even where cases brought by the commissioner of income tax were sustained by courts, "taxpayers have been able to ignore the judgment. The instances are well known and they undermine any value in the Commissioner's threat to take a defaulting taxpayer to court." The study asserts that "no personal or professional stigma is attached to not paying taxes."

Source: Dia (1993).

preferred to investing in maintenance. Military expenditures and wage bills crowd out expenditures for health and human resources and counterpart funds for ongoing sectoral investment projects. Access to, and recovery of costs of, public services favor the political elites and their relatives and clienteles, mostly in the urban centers.

In addition to the above-described crisis of governance, African states also suffer a crisis of geographic identity. The concept of sovereign and separate nation-states inherited from the colonial period is increasingly facing two serious challenges: first, it cannot accommodate diverse ethnic groups within the national borders inherited from colonial times; and second, most African states seem too small and interdependent to be viable in isolation (Davidson 1969: 316). Regional integration and cooperation therefore become essential for postindependence Africa.

Finally, the end of the cold war and growing donor fatigue have closed the door to economic free-riding by poorly performing and nonaccountable governments. The central challenge for African states, civil societies, and donors is to build the good governance and legitimacy needed for self-enforcement and shared growth—that is, to reconcile the central administration with an ethnically divided civil society. For the time being, but not indefinitely, the effects of the institutional void and economic crisis are being attenuated in several countries, thanks mainly to the buoyancy of informal institutions and, on the formal side, to the expediency of remote-control management by multilateral and bilateral donors and nongovernmental organizations (NGOs).

The Disconnect between the Formal and the Informal Private Sectors: The Crisis of the Institutional "Missing Middle"

The East Asian Miracle (World Bank 1993a), as well as other studies, clearly shows that the development and growth of micro- as well as small- and medium-scale enterprises has been crucial to the economic growth and development of East Asian countries (Box 1-2). In the case of Africa, the remarkable vibrancy of the informal sector has been hailed as one of the rare bright spots in the midst of the general economic and institutional crisis (World Bank 1989). The microenterprises in this sector absorb large numbers of workers, thus reducing unemployment and providing a time-tested social safety net in a period of dwindling resources and political insecurity. The development and growth of these microenterprises and SMEs is therefore coming to be recognized as an important pillar in

Box 1-2. East Asia: The Contribution of Small Enterprises to Growth and Development

(The following is excerpted from World Bank 1993a: 161–63.)

Just as numerous small land holdings improved equity and efficiency, the HPAEs [high-performing Asian economies] benefited from a profusion of small and medium-size enterprises (SMEs). . . . Rapid growth of labor-intensive manufacturing in these firms absorbed large numbers of workers, reducing unemployment and attracting rural labor. As firms shifted to more sophisticated production, efficiency rose and workers' real incomes increased.

Support for SMEs has been most explicit and successful in Taiwan, China. . . . SMEs [constitute] at least 90 percent of enterprises in each sector. Not surprisingly, the SMEs also dominate the export sector, producing about 60 percent of the total value of exports. . . . Although there are mixed evaluations of the success of these programs, one thing is clear. The SME sector has become an important cornerstone of Japan's economy. In 1989, SMEs accounted for about 52 percent of both manufacturing value added and sales, and their share of employment in various manufacturing subsectors ranged from a low of 41 percent in transport machinery to a high of 100 percent in silverware.

Korean development has been largely driven by the expansion of conglomerates, the so-called chaebols. But beginning in the early 1980s, the SME sector began to grow rapidly. SMEs' share in total manufacturing employment rose from 37.6 percent in 1976 to 51.2 percent in 1988; while at the same time, the SME share in manufacturing value added rose from 23.7 percent to 34.9 percent. Korea established an extensive support system for SMEs.

the development of the local private sector in Africa and elsewhere. In fact, more African governments are making the development of the local private sector not only an important objective in fostering equitable and shared growth but also a precondition to privatization. The goal is to ensure wider participation of local investors in privatization—in order to ensure growth and the sharing of wealth and avoid a "recolonization" of national economies and assets. In this connection, it should be noted that achieving legitimacy through shared growth was crucial to the economic success of East Asian countries (World Bank 1993a: 215).

For all of the above reasons, the World Bank has devoted a good deal of its lending to the promotion and development of SMEs. Between July 1978 and June 1989 alone, the Bank (not including the

International Finance Corporation) disbursed $4.3 billion worldwide specifically to support SMEs (World Bank 1991c: 9). More than $400 million of this amount went to Africa. Most structural adjustment lending in Sub-Saharan Africa includes components dealing with privatization and the promotion of the private sector. The results so far have been less than expected, mainly because of two aspects of the disconnect between the formal and informal private sectors.

The first of these aspects of disconnect is the missing middle in financial institutions. As World Bank 1991c points out, "the Bank's modus operandi—channeling relatively large amounts of capital through existing (formal) financial institutions able to accommodate such flows efficiently . . . leaves few opportunities to support microenterprises [where most indigenous local entrepreneurs and investors operate], which are seldom reached effectively by public or formal institutions" (p. 9). Several studies show that traditional savings and lending institutions, conversely, have the right method of operation to assist microenterprises. Loans obtained by simple verbal agreement, or by pawning or pledging an object, are fully repaid on a timely basis. But here the symbolic force of the verbal agreement carries a strong pressure for self-enforcement. Even when pledges are required, they carry a more symbolic than mercantile value. Among the Boulou and the Fang tribes in Central Africa, for example, loans are granted in exchange for the pawning or pledging of an object of so little value that it could not possibly serve as security. A ballpoint pen, for example, might be pledged for a loan of 10,000 CFA francs. In such cases, the pledged object becomes a token, offered by the debtor as a guarantee that he will not go back on his word. One has only to look at the high rate of loan repayment in the traditional and informal financial system—compared with the unduly high percentage of loan defaults in most of the formal banking sector in Sub-Saharan Africa—to appreciate the importance of traditional ritualistic and social guarantees.

Unfortunately, these traditional financial institutions lack the resources needed to support the graduation and growth process of microenterprises. This is the financial "missing middle" impeding the development of the local private sector. A void separates the formal financial institutions, which have the resources but not the appropriate method of operation, and the informal institutions, which have the right method of operation but not enough resources. The challenge, therefore, is to design solutions to fill this institutional gap. The Grameen Bank in Bangladesh provides one good example of such adapted financial institutions in another context (see Box 7-1 in Chapter 7).

The second aspect of the formal-informal disconnect is the operational missing link. Despite the remarkable vibrancy of the informal sector, microenterprises rarely make the shift to a more concentrated and capital-intensive production function that would enable them to graduate from micro- to small- and medium-scale enterprises and to large formal, modern enterprises. Because of the absence of such a graduation process and limited linkage with the formal private sector, microenterprises remain confined to traditional market niches. Instead of developing in terms of structure, scale, the product itself, and the market, they tend to just modestly enlarge and replicate themselves in the same form. The tailor who becomes a manufacturer of ready-made clothes does not employ more than ten or so friends or relatives; despite the development of his business, his sales system will remain unchanged, and his volume of business will not rise above a certain ceiling. Once he has accumulated enough excess funds, either he will use these in conspicuous consumption (luxury houses, the latest car model, polygamy, and so forth) or he will invest in unrelated activities such as setting up other microenterprises (for example, a fishery, a transportation enterprise, a new shop, and so on). The tendency is toward multiple rather than more-intensive investments.

The combination of these operational and financial disconnects with a predatory regulatory system largely explains the lack of growth and development of the local private sector. Despite their important role and large number, microenterprises have so far contributed very little to the growth of capital formation and increased "value added" in Africa. The second challenge for the development of the private sector therefore is to find ways of developing the linkage between the informal sector and formal financial institutions and enterprises so as to facilitate the growth and graduation of microenterprises and SMEs into a truly indigenous private sector.

The Disconnect between Corporate and Societal Cultures: Performance Accountability and Incentives

Despite the strong push for privatization, it is still unrealistic, and even unwise, to expect that all productive activities in Africa will be totally transferred to private ownership in the near future or even over the medium term. Public utilities and other natural or de facto strategic monopolies are likely to remain in the government portfolio until African governments have developed greater and more effective regulatory and supervisory capacity (World Bank 1994e: 37). In the meantime, the needed improvement in the

performance and productivity of public utilities requires addressing two management-related challenges.

Corporate Governance and Performance of the Public Enterprise Sector

The first challenge is the urgent need to improve corporate governance by rationalizing government-enterprise (principal-agent) relations through a better balancing of managerial autonomy and accountability with more effective, adapted managerial incentives. Unfortunately, patrimonial state governance distortions discourage the development of efficient corporate governance. The performance of public enterprises is hampered by political interference, blurred and conflicting objectives, and the issue of accountability. Appointments of general managers for public enterprises are generally based on subjective criteria (such as political loyalty or ethnic affiliation) rather than on competence. Members of boards are generally civil servants appointed because of their positions, who are preoccupied with pushing the agendas of their respective supervising ministers. In some countries (for example, Senegal), the chairs of the boards of directors of major public enterprises are generally reserved for former politicians in "honorable" disgrace, to enable them to maintain their previous level of compensation and lifestyle. Financial objectives (generating a surplus) are generally undermined by social objectives (maximizing employment, subsidizing prices of public services for targeted groups, and so on), political objectives (such as balancing regional development), and other noncommercial objectives imposed by the government. Monopolies and other rent situations are used as a convenient means of income redistribution and in response to pressures from influential groups or regions (Dia 1993).

As a result, even when pressed to accept the principles of market liberalization and competition, some governments have managed to make subtle use of red tape and other bureaucratic obstacles to limit the entry of new competitors. The markets become competitive only in principle. Political and social considerations preempt economic and financial justifications. As a result, the public sector continues to be involved in the production and management of activities in which the private or voluntary (NGO) sectors have a comparative advantage. The undeclared purpose is to maintain the government's political leverage. This generally explains the slow pace of privatization, especially of the public utilities and public enterprises that are natural or de facto monopolies.

The Cultural Dimension of Enterprise Management

The second challenge relates to human incentives to improve enterprise performance. The need to understand—and take into account—African economic psychology and incentives is of paramount importance if the efficiency and productivity of Africa's public and private sectors is to increase in a sustainable manner. Together with the financing and technology employed, human incentives play a major role in increasing enterprise productivity and efficiency—in Africa as anywhere else. It is also well documented that human incentives cannot be dissociated from a people's history and culture.

At this point let us clarify that by emphasizing the cultural relativism of management, the AM90s research does not intend to deny the relevance and importance of the universal basic principles of good management. The generic managerial competencies regarding effectiveness in people's management, strategic leadership, resource management, client orientation, professional leadership, communication, and interpersonal skills are just as valid in Africa as they are elsewhere. Where culture matters is in effectively translating those competencies into realities. To be effective, the leadership profile and incentive system required to successfully operationalize these generic rules need to reflect and adapt to the different countries' institutional and cultural contexts. The point made earlier about the rule of law—that it can be effective and enforceable only if it reflects actual societal values and behavior—can also be made for enterprise management. This point was well illustrated and empirically proven by Geert Hofstede (1991) in his pioneering research on culture and organizations. The result of his survey of the management of IBM companies and branches in fifty countries on three continents showed a strong correlation between the following four cultural dimensions and managerial leadership and employee incentives.

- *Power distance.* This dimension is defined as the extent to which the less powerful members of institutions and organizations within a country expect and accept that power is distributed unequally. In a country with a large power distance, the ideal boss is a benevolent parent, and subordinates expect to be told what to do.
- *Individualism/collectivism.* "Individualism" refers to societies in which the ties between individuals are loose; everybody is expected to look after himself or herself and his or her imme-

diate family. Collectivism, by contrast, refers to societies in which people from birth onward are integrated into strong, cohesive in-groups that throughout people's lives continue to protect them in exchange for unquestioning loyalty. In collectivist societies, relationship prevails over tasks, and management of groups is more important than management of individuals.

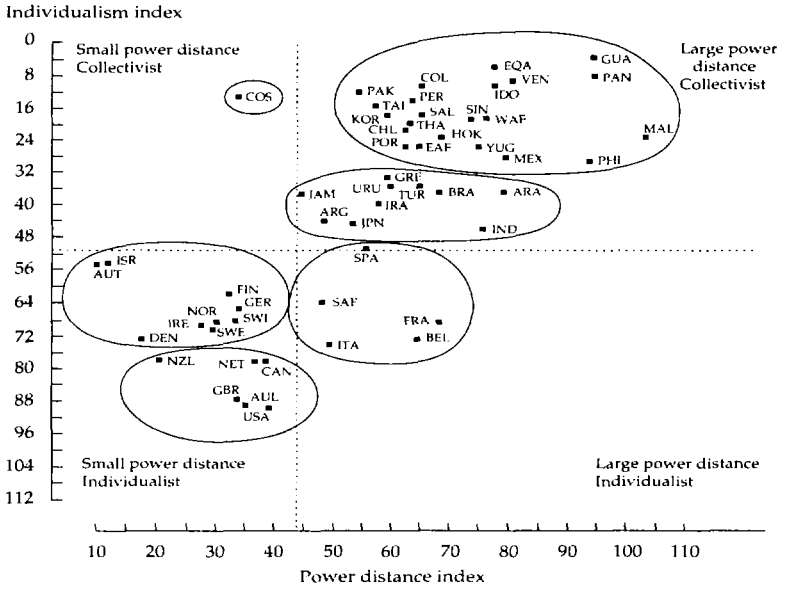
- *Uncertainty avoidance.* Uncertainty is a general fact of life. The dimension is defined as the extent to which the members of a society feel threatened by uncertain or unknown situations. There are no more rules than absolutely necessary in countries with weak uncertainty avoidance. People are more relaxed, and work is not a virtue in and of itself. In countries with strong uncertainty avoidance, people have created institutions that provide certainty, such as religion, science, or elaborate laws. People are allowed to show their emotions and are motivated by structure and predictability in the workplace.
- *Masculinity/femininity.* This dimension describes the extent to which the aggressive values of earnings, recognition, advancement, challenge, and competition are emphasized over the nurturing values of caring for others, security, good cooperation, and concern for the needy.

The correlation and cultural relativity were particularly impressive regarding power distance and collectivism/individualism. Figure 1-2 shows how the fifty countries in the sample performed in terms of these two dimensions.

AFRICAN ECONOMIC PSYCHOLOGY. The importance of power distance and collectivism in Africa is also well documented in Binet's (1970) research on economic psychology in Africa. Binet's work established sociocultural values and behavioral traits that, in view of their prevalence in a sample of fifty-six ethnic groups in different parts of Africa, appear to distinguish African economic psychology.

Binet's findings show that African economic psychology is generally characterized by powerful connections between objects, human beings, and the supernatural, with the dominant guiding principle being the quest for equilibrium with both the supernatural and other human beings. Collective preferences are separated from individual ones by only a thin divide. Self-reliance and self-interest tend to take a back seat to group loyalty and the need to participate and belong. The dominant concern is to maintain social balance and equity within the group, thereby maintaining or build-

Figure 1–2. Power Distance and Collectivism as Cultural Values in Fifty Countries



Abbreviation	Country or region	Abbreviation	Country or region
ARA	Arabic-speaking countries (Egypt, Iraq, Kuwait, Lebanon, Libya, Saudi Arabia, United Arab Emirates)	ISR	Israel
		ITA	Italy
		JAM	Jamaica
		JPN	Japan
		KOR	Rep. of Korea
ARG	Argentina	MAL	Malaysia
AUL	Australia	MEX	Mexico
AUT	Austria	NET	Netherlands
BEL	Belgium	NOR	Norway
BRA	Brazil	NZL	New Zealand
CAN	Canada	PAK	Pakistan
CHL	Chile	PAN	Panama
COL	Colombia	PER	Peru
COS	Costa Rica	PHI	Philippines
DEN	Denmark	POR	Portugal
EAF	East Africa (Ethiopia, Kenya, Tanzania, Zambia)	SAF	South Africa
		SAL	El Salvador
		SIN	Singapore
EQA	Ecuador	SPA	Spain
FIN	Finland	SWE	Sweden
FRA	France	SWI	Switzerland
GBR	Great Britain	TAI	Taiwan (China)
GER	Germany	THA	Thailand
GRE	Greece	TUR	Turkey
GUA	Guatemala	URU	Uruguay
HOK	Hong Kong	USA	United States
IDO	Indonesia	VEN	Venezuela
IND	India	WAF	West Africa (Ghana, Nigeria, Sierra Leone)
IRA	Iran		
IRE	Ireland	YUG	Yugoslavia

Note: Countries with similar characteristics are circled.
Source: Hofstede (1991: 55).

ing social capital (Putnam 1992) rather than supporting single-minded pursuit of individual goals. Accordingly, a higher premium is set on interpersonal relations, which are in fact a prerequisite for effective professional and business interaction.

The key cultural traits Binet identifies are sharing, deference to rank, sanctity of commitment, regard for compromise and consensus, and good social and personal relations as a precondition for forming business ties. *Sharing* is justified by a need for security—those who share their wealth can expect to be repaid in kind should the need ever arise. Indeed, upward social mobility in African societies is not merely a function of economic success. Affluence not shared with the group can result in social ostracism or even attract charges of witchcraft. *Deference to rank* (power distance), particularly between employer and employees, is very important in African societies, which tend to be very paternalistic and hierarchical. Intragroup relations tend to be egalitarian, but group-to-group relations are usually determined by hierarchy, with marked subordination of younger members. Africans used to rank may feel out of place in an environment in which hierarchical status is deemphasized. Concomitantly, the chief or boss has to earn the deference of subordinates not only by demonstrating superior skills but also by exhibiting the social, human virtues of a benevolent parent of mature age and experience.

Regarding *commitment*, a promise is no simple thing in Africa, particularly when given in the presence of witnesses who serve to legitimize it. The strength of commitments and contractual obligations in Africa resides in the group pressure that springs from the associated formalism and rituals. Pertaining to *compromise and consensus*, in Africa the traditional judge is more intent on reaching a consensus than in litigating "by the book." In legal as well as in political matters, Africans tend to seek unanimity (win-win), even at the cost of seemingly interminable discussion. In some communities, the successful resolution of a dispute is signaled by song and dance. The necessity for business and professional interaction to be built on prior trust and *congenial social and personal relations* follows from the high value placed on group solidarity and socializing. The violent tensions that rack management-labor relations in formal enterprises can be largely attributed to the lack of a human dimension and to the adversarial spirit that characterized labor relations during the colonial period.

PROFILE OF ENTERPRISE LEADERSHIP (KENYA). AM90s research (Engelmann, Mwai, and Waisfisz 1994) that focused on developing a profile of successful enterprise leadership in Kenya came up with

findings that reinforce the case for taking account of African economic psychology in enterprise management. The study focused on three basic aspects: the personality of the leader, employee characteristics, and the relationship between the leader and the employees. It involved administering questionnaires to 323 students of economics, business, and commerce, and conducting interviews of employees and general managers or owners of twenty-seven manufacturing enterprises. As is typical of the Kenyan economy, most (twenty-four) of the targeted companies were small (employing fewer than fifty people). The three large-scale companies had substantial foreign shareholding but were managed by Kenyans.

The study established four touchstones of effective management and leadership in Kenyan enterprises, offering potentially useful lessons for managers in other African countries with similar collectivist and power-distance tendencies. A good manager should be able to (a) create trust and harmony in the company, (b) effectively play the role of a kind and strict parent, (c) establish effective communication, and (d) offer culturally sensitive motivation.

All four requirements are interlinked and therefore able to weaken or reinforce one another. A good and harmonious relationship is the basis of effective communication, motivation, and decisionmaking. Leaders should therefore try to create situations that encourage employees to get to know one another and develop emotional closeness. Building trust is a must for effective management; in its absence, harmonious relationships would be unattainable. Trust has to be a two-way street, and managers have to be able to take on the role of a partner in the trust-enhancement process. Being a kind and benevolent parent involves demonstrating responsibility for staff welfare by seeking to find out about staff problems and venturing assistance, as well as ascertaining that rules for correct behavior are observed. However, managers must steer clear of favoritism or exclusionism, and they must balance benevolence with hierarchical distance, since situations will surface that call for managerial firmness and control. Overdoing the benevolent dimension can jeopardize credibility and independence of judgment.

Effective communication is all the more important where a marked power distance between management and staff is liable to encourage information gaps. The leader therefore has to proactively seek out information by making himself accessible to one and all. A limited open-door policy or style of "management by wandering around" can serve this purpose. Finally, the provision of culturally sensitive motivation can hardly be overemphasized, given that financial incentives alone often fail to improve

productivity. Employees in African societies in which prestige and social capital are salient are likely to be very responsive to outward signs of the boss's recognition and appreciation. Performance-oriented remuneration systems could also hold promise, but they will need to be designed so as not to feed negative group dynamics or jealousies, which would be inimical to productivity.

NEED FOR RECONCILIATION. The reconciliation of the corporate culture and modern institutions with indigenous institutions and values is crucial to the development and productivity of African entrepreneurship. Other societies have successfully effected such a reconciliation with their local customs, culture, or traditional values. Japan, the Republic of Korea, and Taiwan (China) are examples of economies that have achieved high levels of modern production and advanced technology while maintaining their unique social and cultural traits. Their experience proves that acculturation is not necessary to development. On the contrary, it proves that whatever direction the development process may take, its success and sustainability will depend on how well it takes account of the needs and culture of the beneficiaries. In the institutional basis that characterizes the high-performing East Asian economies, the concepts of shared growth and building on existing institutions and incentives were paramount. This experience provides an illustration of how to reconcile growth with traditional redistributional values and practices that continue to be perceived as important within indigenous cultures. Chapters 7 and 8 show how such reconciliation was successfully carried out to facilitate the graduation of microenterprises to large enterprises and to improve the productivity and efficiency of enterprise management in Burkina Faso, Côte d'Ivoire, Ghana, Senegal, and Togo.

The Need for a Paradigm Shift

Recognizing Africa's crisis as one of institutions demands changes on all fronts. On the donor side, the minimum required is a substantive adaptation of the traditional approaches emphasizing institutional transplant and commitment culture. Perhaps one of the worst outcomes of these transplant approaches is that they have exacerbated both dependency on donors and a shirking of responsibility by African leaders. Some African governments have now become accustomed to looking outward not only for financial assistance but also for national strategic visions.

Indigenous institutions also must be willing to initiate change. First, they will need to move away from a conservationist orientation and toward renovation. As confirmed by the experience of several high-performing Asian economies, the capacity to create the needed national vision as a compact between civil society and government—and then to undertake strategic analyses that essentially make critical decisions about priorities and methods of implementation—does not require renouncing one's cultural base and shared perspectives for decisionmaking. It does, however, call for effective interaction on all sides, resulting in mutual learning and the adaptation of best practices from outside. In *The African Genius*, Basil Davidson has aptly summed up the institutional challenge confronting African management and development in the 1990s and beyond:

> In the end, it will be a matter of knowing how the civilisation of the past can be remade by a new and bold vision. The Africans sorely need their modern revolution: profound and far-reaching in creative stimulus, unleashing fresh energies, opening new freedoms. The world's experience may help. But the structures that are needed will have to stand on their own soil. Perhaps this is only another way of saying that these new structures, as and when they emerge, will be nourished by the vigour and resilience of native genius, by all the inheritance of self-respect and innovating confidence that has carried these peoples through past centuries of change and cultural expansion. (Davidson 1969: 317)

The aim of this report is to make a modest contribution toward erecting these new structures and filling the theoretical and conceptual void of the postindependence era. Building on the results of the field research and the conclusions of its September 1994 workshop in Dakar, the AM90s program illustrates how the operationalization of the proposed reconciliation paradigm can help achieve the following goals:

- Improving performance of core government functions
- Improving the quality of service delivery
- Improving incentives for domestic savings and filling the financial missing middle to support the promotion of the indigenous private sector
- Reconciling corporate and societal cultures to facilitate the growth of both the indigenous private sector and enterprise productivity.

As indicated in the Introduction, the goal of the AM90s program is not to come up with a fully fleshed-out, comprehensive conceptual and theoretical construct to justify a new development paradigm. Rather, the objective of the chapters that follow is simply to identify lessons of experience and best practices for illustrating how institutional reconciliation can overcome the three levels of institutional disconnect analyzed in this chapter so as to achieve the four goals identified above.

Part II

Reconciling the State and Civil Society

2. Client-Stakeholder Assessment of the Quality of the Civil Service

Analysis of the adverse impacts of administrative disconnect on civil service performance illustrates the need for shifting the civil service from control and exercise of bureaucratic power to a service orientation if public administration is to be changed into development administration. The resulting reforms must address client expectations as manifested through systematic client consultation. Indeed, assessment of the degree of client-stakeholder satisfaction with the civil service should be a first step in designing reform programs intended to make the civil service more service-oriented.

The major illustrative and best-practice case reviewed in this chapter is the AM90s survey of Zambia's civil service carried out by Monte Palmer before the change of government in 1992. The chapter also includes a brief analysis of two other client-stakeholder assessments undertaken as part of the World Bank's economic and sector work: the management audit and self-assessment in the education sector in Zambia, and the user and beneficiary survey of public services in Ghana.

Survey of the Zambian Civil Service

In Zambia, as in other African countries, effective development administration requires the active cooperation of clients or users. Client participation is also central to the Zambian government's desire to enhance the transparency and accountability of its administrative units.

In this context, the public survey carried out in 1993 for the AM90s research program had four objectives. The first was to assess client satisfaction with the services provided by a broad range of government agencies. The agencies examined were the Ministry of Health, the Ministry of Education, the Ministry of Local Government and Housing, the Ministry of Home Affairs (police), and the

Post Office. Since the Post Office is a parastatal agency, the survey provided an opportunity to see if public satisfaction with autonomous agencies was greater than public satisfaction with the mainline bureaucracy. The client satisfaction data were to provide the government of Zambia with an empirical benchmark for evaluating the effectiveness of its reform efforts to restore public faith in government agencies.

The second objective of the public survey was to assess the demands that clients place on the bureaucracy, as well as client willingness to cooperate with bureaucratic endeavors. Past government policies had created a culture of dependence among broad sectors of the Zambian public. Dependence, unfortunately, was seldom matched by cooperation. The government of Zambia is now attempting to replace this culture of dependence with a culture of self-reliance. The client survey provides data that can assist the government in designing strategies for accomplishing this end. It also provides the government with a benchmark for evaluating the success of those strategies.

The third objective of the public survey was to assess public attitudes concerning the openness and accountability of the Zambian civil service. These data were to assist the government in designing and evaluating reform strategies addressing the transparency and accountability of the civil service and related concerns of the Zambian public.

The fourth objective of the public survey was to examine the extent to which traditional values influence attitudes toward bureaucracy and the management culture.

To achieve the above objectives, the survey focused on assessing client-stakeholder satisfaction with four major items: the quality and responsiveness of the Zambian civil service; its accountability; incentives and drive; and management style and culture.

The Quality and Responsiveness of the Civil Service

The data relate to three items: legitimacy, public demand for services, and public trust of the bureaucracy.

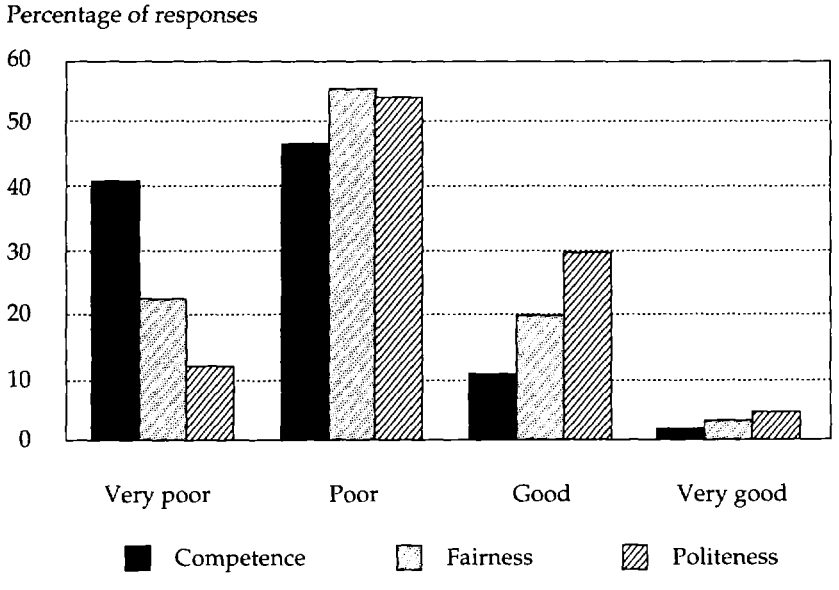
LEGITIMACY AND QUALITY OF SERVICE DELIVERY. Support for any government or public administration is necessarily influenced by public satisfaction with the services that it receives. The new leaders of Zambia now face the challenge of improving government services during a time of economic adversity. To assess the magnitude of the challenge faced, respondents in the Greater Lusaka area were asked to evaluate government health, educational, police,

postal, and council services. (Council services include a variety of local utilities.) Each service was evaluated in terms of its overall quality, the fairness or impartiality of its employees, and the politeness of its employees. Postal services were not included in the summary tables, as the postal service is an independent government agency; interestingly, however, the postal service was the only agency to receive a satisfactory evaluation. The results regarding the other public services are shown in Figure 2-1.

The data provided by the survey indicate that some 65 percent of the Greater Lusaka residents found civil servants to be nonresponsive. An additional 77 percent found them to be unfair. General dissatisfaction with government services was 86 percent. It should be noted that the respondents surveyed were residents of Greater Lusaka, which gets the best of what the government has to offer.

Evaluations of public services were especially negative among the poorer respondents. Older respondents and women also tended to be more critical than men. Evaluations of postal services provided the main exception to this pattern. In this case, the more educated and wealthy Zambians were the most critical element of the sample.

Figure 2-1. Survey Respondents' Perceptions of the Competence, Fairness, and Politeness of Zambian Civil Servants



Source: Palmer, Kondowe, and Palmer (1993).

PUBLIC DEMAND FOR SERVICES. Improving bureaucratic services is not merely a matter of civil service reform. Much also depends on the quantity and intensity of the demands being placed on the civil service by the citizens of a state. It also depends on citizen willingness to cooperate with the civil service in the execution of its functions. The intensity of public demands being placed on the Zambian civil service was assessed by three items: assistance for funeral duties, cost of medical services, and payment of education fees. The results show very high expectations.

Almost 60 percent of the respondents supported a continuation of subsidized medicine. More than 75 percent supported continuation of policies permitting the free use of government vehicles for transportation to funerals. In the Zambian (and indeed, African) context, this is not a negligible commitment. On the positive side, the vast majority of respondents indicated a willingness to pay at least limited fees for improved education service. Analysis of T-correlations indicated that demand for government services was particularly intense among the poorer and less educated segments of Zambian society.

Although such findings are hardly surprising, they pose a dual problem for the government of Zambia. First, because most Zambians have low incomes, the level of demand being placed on the government is staggering. Second, the very fact of poverty precludes most of Zambia's citizens from paying for services. In reality, the demand for government services is far higher than the above discussion suggests. Sampling procedures were stratified to ensure that all income levels of Zambian society received adequate representation. Although this procedure was necessary for purposes of analysis, it resulted in wealthier Zambians being overrepresented and poorer Zambians being severely underrepresented. The full magnitude of these differences can be ascertained by weighting the various strata of the sample in proportion to their percentage of the Zambian population. This procedure exceeded the scope of the project but should be addressed in any replication of the survey in other countries.

PUBLIC TRUST OF THE BUREAUCRACY. Demands for government services unfortunately were not matched by citizen willingness to cooperate with government agencies. Seventy percent of the respondents said that they attempted to bypass the chain of command by going directly to the top. Senior officials are overwhelmed. Their subordinates are generally underutilized.

Public cooperation with the bureaucracy is also undermined by a distrust of government officials, as indicated by the following

figures. Some 63 percent of the respondents found civil servants to be secretive. Fifty-five percent of the respondents found it difficult to locate the officials needed to solve their problems; the same percentage felt that there was little they could do to improve bureaucratic services. All of these tendencies were stronger among poorer respondents.

The above assessment clearly indicates a general dissatisfaction with the quality and responsiveness of the civil service as a provider of public services. Table 2-1 summarizes overall client satisfaction with delivery of key services in the Zambian economy. To assess the reasons for this overall dissatisfaction with the civil service, the remaining part of the survey focused on accountability, incentives, and management culture.

Accountability of Civil Servants

The assessment of accountability drew upon surveys of both clients and civil servants, including more than 1,200 citizens of Lusaka urban and periurban areas. Lusaka Province, it should be noted, receives a far larger share of state resources than the outlying provinces. It is safe to assume, accordingly, that the discontent of Lusaka residents before the change of regime was shared by the Zambian population as a whole. The administrative surveys addressed three dimensions of accountability: the accessibility of public servants, their attitudes toward the public, and their predispositions toward accountability. All are integral to effective governance and essential to the Zambian government's goal of establishing strong rapport between the state and civil society.

Table 2-1. Perceptions of the Quality of Zambian Government Services

	Quality (percentage of responses)				*Number surveyed*	
Service	*Very poor*	*Poor*	*Good*	*Very good*	*Respondents*	*Non-respondents*
Education	23.8	39.1	32.1	5.1	1,200	18
Health	27.0	38.4	31.7	2.9	1,212	6
Council services	59.8	24.1	14.4	1.7	1,202	16
Postal services	8.0	18.7	55.4	17.9	1,162	56
Police	29.6	28.0	35.3	7.2	1,187	31

Source: Palmer, Kondowe, and Palmer (1993).

ACCESSIBILITY. The accessibility of public servants was addressed by a single question asking civil servants how often their schedules allowed them to see people without an appointment. The question was put only to higher-level civil servants, because those at lower levels can be approached without an appointment.

The responses (see Figure 2-2) indicate a mixed record at best. Although the glass may be seen as half full, there is a clear need to improve the accessibility of civil servants—especially of those who deal with the public regularly. There was a positive correlation between accessibility and positive attitudes toward service delivery. The more-accessible officials were more positive in their attitudes toward the public than their less-accessible counterparts. Older officials were slightly more accessible than their juniors. Accessibility did not vary by job level, education, information exposure, or any other factor that might suggest strategies for strengthening the accessibility of the Zambian civil service to its clients.

ATTITUDES TOWARD THE PUBLIC. The relatively positive record on accessibility of Zambian civil servants, unfortunately, was not matched by a corresponding concern for the public. Between 80

Figure 2-2. Self-Assessment of Accessibility among 719 Higher-Level Zambian Civil Servants

Source: Palmer, Kondowe, and Palmer (1993).

and 90 percent of the respondents felt that the public expected too much and "didn't understand" the constraints under which civil servants work. Some 61 percent of the respondents were "too busy" to explain procedures to the population. This and related attitudes created distrust between the government and its citizens.

The correlation analysis indicated that positive attitudes toward clients were largely a function of the dynamic within the work group. Officials with positive attitudes toward their clients also had positive attitudes toward their peers. Officials with negative attitudes toward their clients saw their colleagues as "frustrated" by public complaints and "distrustful" of one another. These results suggest that negativism toward the public is unlikely to be remedied without concerted efforts to improve the group spirit of government units dealing with the public on a regular basis.

PREDISPOSITIONS TOWARD ACCOUNTABILITY. Civil servants' acceptance of accountability was measured by two items: feelings about public complaints and type of follow-up. The good news was that Zambian civil servants were more than willing to admit that public complaints were justified. The bad news was that almost 90 percent of the respondents found making excuses an acceptable strategy for addressing those complaints. A propensity toward making excuses was particularly strong among civil servants who were poorly educated. The excuse makers (understandably) also opposed administrative downsizing. Excuse-making varied considerably with rank. Upper-level officials were less inclined to make excuses than their lower-level counterparts. More-educated civil servants also ranked high in frankness.

These results indicate that excuse-making should decrease with improvements in the educational level of the Zambian civil service. The data also suggest that the accountability of the Zambian bureaucracy will be well served by a leaner civil service.

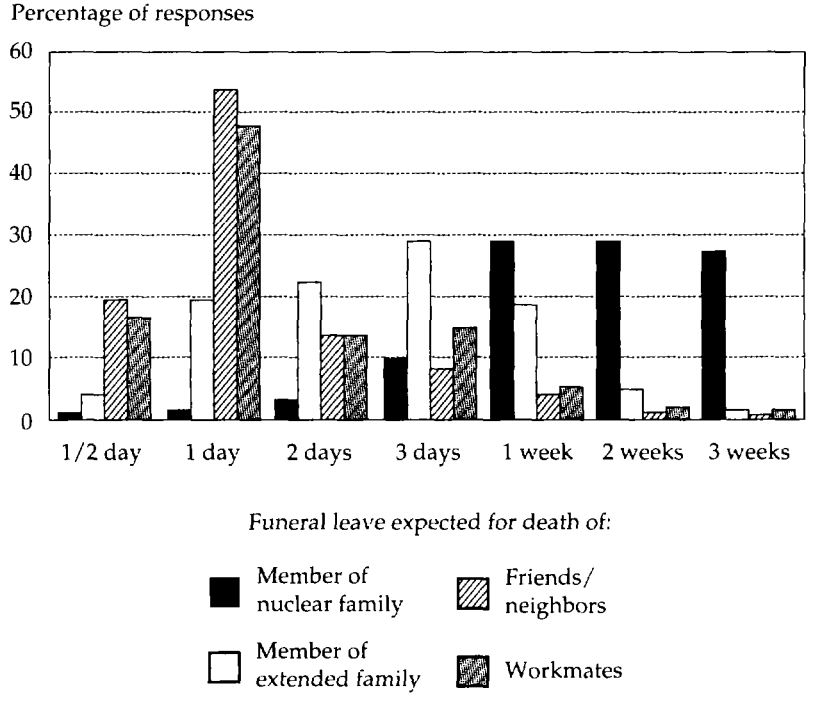
Incentives

The survey of civil servants focused on two major incentives: personal drive, and pay and employment.

DRIVE. The concept of drive was approached from five diverse perspectives: putting work before social obligations, willingness to put in extra hours in order to get things done, concern for self-development, aggressive pursuit of advancement, and search for additional income. Respondents were also requested to evaluate the work ethic of their peers and subordinates.

The survey team felt the best indicator of drive in the Zambian context to be the willingness of respondents to put work before social obligations. Social obligations are taken very seriously in Zambian culture and are widely viewed as an acceptable excuse for absenteeism. Attendance at funerals constitutes the single largest source of absenteeism in the Zambian civil service. Accordingly, the survey team decided to ask respondents what they considered to be the appropriate length of compassionate leave to be allowed for various types of funerals. Funerals, it should be noted, are rarely charged as leave time. Individuals merely inform their supervisors that they are grieving and return to work when the grief has subsided. Transportation problems in Zambia often require compassionate leave of up to three weeks. The topic of funerals had the added advantage of being both nonthreatening and of intense interest to the respondents. As Figure 2-3 illustrates, Zambian officials expected generous funeral leave—far in excess of that granted to the civil servants of most other nations.

Figure 2-3. Zambian Civil Servants' Attitudes toward Funeral Leave



Source: Palmer, Kondowe, and Palmer (1993).

The second indicator of drive in the study focused on the willingness of employees to put in extra hours for the sake of completing their assigned tasks. This dimension of drive was measured by a single, straightforward item that asked respondents to indicate how often they should be expected to work extra hours without compensation. Thirty percent of the respondents were never willing to put in extra hours, while an additional 53 percent indicated a marked reluctance to do so. These figures, although not out of line with those for other countries, did not portray a very energized bureaucracy.

The third indicator of drive focused on achievement motivation and was measured by a question asking respondents which factor they would consider most important in transferring to a new position within the bureaucracy. The respondents listing training-related factors were judged to be high achievers. Some 15 percent of the respondents fell into this category.

The fourth indicator of drive consisted of a single questionnaire item asking civil servants to indicate their opinion of individuals who aggressively pursue career advancement. The responses suggested considerable resentment of individuals who show a strong interest in moving up the career ladder rapidly at the expense of the group. This attitude was also manifested by the large number of respondents who indicated resentment against the unfairness of promotion procedures, as well as the large number who indicated that civil servants harbor resentment toward their more successful peers. The aggression item suggested that some 40 percent of the respondents were likely to be aggressive in their pursuit of promotion. Of these, some 9 percent could be considered "hard drivers."

The final direct indicator of drive focused on the desire of civil servants to either engage in secondary income-generating activities or shift to the private sector. Responses to these items were judged to be particularly important, inasmuch as they measured energy that is not being captured by the civil service. They also indicated the extent to which inadequate salaries were forcing government employees to leave work early, to come to work fatigued from the strain of a second job, or to engage in unofficial income-generating activities while on the job. Whatever the case, the government loses.

Even though supplemental employment is proscribed by law, more than 65 percent of the civil servants indicated that they were at least partially engaged in such employment. A recent memorandum by the secretary to the cabinet suggested that much of the extra employment involved the selling of snacks and other items to colleagues during working hours. Such activities waste the time of the sellers and disrupt the concentration of their workmates.

A question about "making ends meet" suggested that some 62 percent of the mid- and lower-level employees felt justified in using work time to engage in secondary income-generating activities. The private sector item suggested that some 35 percent of Zambia's civil servants were poised to move to the private sector at the first opportunity. It is probable that the "jumpers" represented the most ambitious segment of the bureaucracy. Should these trends continue, the civil service could well become a repository for the least motivated persons.

The above analysis utilized unobtrusive indicators of drive. The decision to use unobtrusive measures was based on the results of pretests indicating that civil servants were unlikely to admit to being lazy during a period of retrenchment. However, the pretests also indicated that civil servants would be more than willing to assess the performance of their peers and subordinates. Accordingly, the unobtrusive measures of drive were supplemented by three explicit questions asking respondents to evaluate the drive of colleagues. The data indicate that approximately 50 percent of the supervisors considered their employees to be extreme underachievers. Peer assessments sustained the 50 percent figure.

PAY AND EMPLOYMENT. Regarding the second major incentive for civil servants, pay and employment, some 80 percent or more of those surveyed viewed the salary and promotion system as unfair and not reflective of merit or performance.

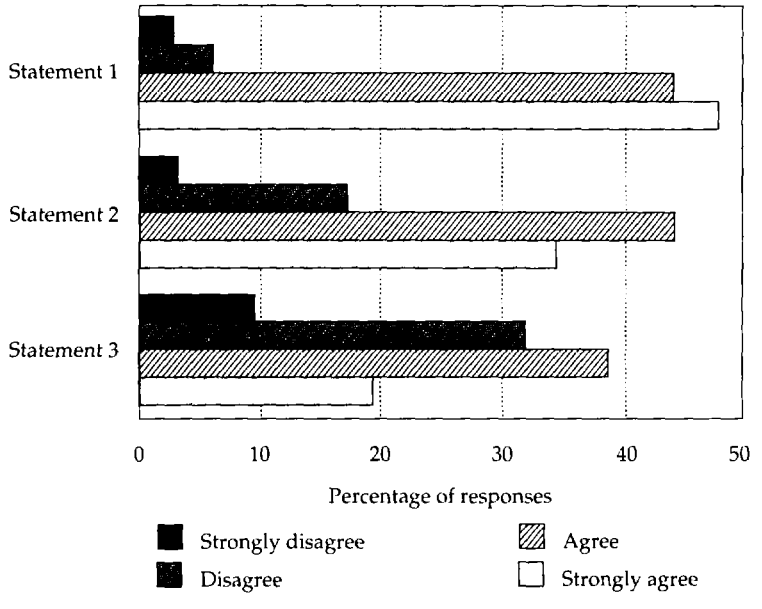
Management Style and Culture

Management styles influence bureaucratic efficiency in at least three ways. First, management styles determine the flexibility and innovativeness of the civil service; if the managers are flexible and innovative, the same will hold for the bureaucracy. Second, management styles have a profound impact on the productivity of subordinates. In most instances, remote and impersonal management styles depress morale and block the free flow of information between subordinates and supervisors. Productivity suffers accordingly. Third, management styles determine the allocation of responsibilities within the work unit. The more reluctant supervisors are to delegate authority, the more likely it is that bottlenecks will occur in the administrative process. However, the delegation of authority is a two-way street: Subordinates must also be willing to assume the authority delegated. In assessing the quality of management style and culture, the survey focused on four items: innovation, flexibility, concern for harmony, and delegation.

DECISIONMAKING INNOVATION. Economic and social development are processes of change that confront civil servants with an endless array of new and unprecedented challenges. The ability of the Zambian bureaucracy to meet these challenges will depend largely on its willingness to break with dysfunctional behaviors of the past and to adopt an innovative approach to decisionmaking. The survey assessed decisionmaking innovation by the items shown in Figure 2-4. The data indicate that the Zambian civil service before the change of regime was unlikely to play a dynamic and creative role in the development process. Decisionmaking was rigid. Few respondents could reasonably be classified as innovators.

FLEXIBLE RULE APPLICATION. The same rigidity that characterized decisionmaking also applied to the interpretation of rules. The data indicate that Zambian civil servants were wedded to an inflexible interpretation of the rules. They were also likely to resist supervi-

Figure 2-4. Decisionmaking in the Zambian Civil Service



Responses to:
Statement 1: In making decisions, it is probably best to check what was done in the past.
Statement 2: It is better to check with superiors before making a decision.
Statement 3: It is better to delay decisions than risk making mistakes.

Source: Palmer, Kondowe, and Palmer (1993).

sory suggestions that they adapt rules for the sake of getting things done. A generalized peer assessment placed the number of reasonably flexible officials in the 20-percent category. Flexibility in the interpretation of rules must increase if the Zambian bureaucracy is to meet its clients' needs and the developmental needs of its society.

HARMONY IN DECISIONMAKING. Societies that stress harmonious decisionmaking—as most African cultures do—tend to be hierarchical and to rank high in power distance (see Chapter 1). The applicable model is that of a parental figure or wise elder who, while firmly in control, feels a strong psychological need to have his decisions validated by the group.

Harmony in decisionmaking was addressed in the survey by two questionnaire items. The first suggested that it was important for administrative decisionmaking to stress group harmony. The second approached the issue of harmony from a negative perspective by suggesting that employees had to be closely supervised in order to get things done.

Ninety-three percent of the respondents felt that decisions should stress group harmony. Approximately 70 percent of the respondents rejected the proposition that subordinates had to be closely supervised in order to get things done, indicating that Zambian civil servants placed a great premium on harmony. There is also some suggestion that Zambian supervisors, having given a command, were reluctant to supervise its execution too closely. Avoidance of confrontation was further abetted by the vagueness of many rules—those relating to funeral and compassionate leave being a case in point. Other rules seemed to be set aside by the mutual consent of all concerned, thereby reducing the pressure to comply with the rules; abuse of funeral leave was a prime example of this phenomenon.

The fact that Zambians value both power distance and harmony should not necessarily be viewed as an impediment to civil service reform. After all, the Japanese have utilized those cultural values to create one of the most productive societies in the world (Bingman 1989; Koh 1989). Japanese civil servants are also among the most efficient in the world.

DELEGATION AND ACCEPTANCE OF AUTHORITY. Shared decisionmaking involves the willingness of supervisors to delegate authority. It also involves the willingness of subordinates to accept authority and to use the authority delegated in a responsible and constructive manner. Beyond the delegation and acceptance of

authority, however, shared decisionmaking also involves the willingness of supervisors to consider the suggestions of their subordinates—as well as the willingness of the subordinates themselves to make suggestions. This is the basis for Burkina Faso's successful adaptation of the concept of quality control circles (see Chapter 8).

Self-assessment questions indicated that roughly half of the Zambian supervisors were willing to delegate authority to their subordinates on a frequent basis, but almost half of the supervisors (44 percent) expressed a fear that the authority delegated would be misused. Forty percent of the top-level administrators also seemed reluctant to receive suggestions from their subordinates. Despite these reservations, Zambian administrators appeared relatively willing to delegate authority.

Subordinates' assessments of their supervisors indicated that well over half of the respondents felt that they received enough authority to execute their assignments—a figure much in line with supervisors' responses. Unfortunately, some 70 percent of the respondents indicated that they lacked the information required for the proper execution of their tasks. A similar percentage indicated that they had little understanding of what their supervisors had in mind for their department. The data thus indicated that supervisors were better at delegating authority than at explaining the rationale for their orders.

CONCLUSION. The civil service survey research in Zambia provided a wealth of information on popular attitudes toward the bureaucracy as well as on the forces that have shaped those attitudes. These data could clearly play a major role in shaping the proposed reforms of the Zambian civil service. They could also play a major role in defining a framework and indicator for evaluating the level of clients' and stakeholders' satisfaction with the quality of the civil service in Zambia and elsewhere in Africa.

In the final analysis, the results of the Zambia survey confirmed the need to link civil service reform and governance. Also, the reform program should try to simplify the civil service's procedures and to otherwise make the bureaucracy user-friendly. The bureaucracy might also consider an outreach program designed to gain access to a broader cross-section of the population. Finally, the accomplishment of the civil service reform should be widely publicized. To counter the current skepticism, the Zambian population must be convinced that a serious effort is being made to improve government performance.

A Management Audit and Self-Assessment of Education in Zambia

Management audit and self-assessment (MASA) is a customized institutional assessment of the education sector in Zambia as part of the World Bank's sector work in the country. It not only illustrates but also provides a best practice for adapting institutional and client assessment to sector needs—an essential step in designing the institutional base needed to improve service delivery and proposed sector investment programs.

The program fits the Bank's shift toward a broad sectoral approach to lending. The related sector investment programs (SIPs) have the following main features: (a) the operation should be sectorwide in scope, covering all relevant policies, programs, and projects; (b) the local stakeholders must be in charge of the sector program in order to ensure local ownership, with donors supporting and assisting; (c) all donors should sign on and participate in the same program in order to avoid parallel, often contradictory donor-driven designs; (d) common implementation arrangements are needed among donors for accounting, budgeting, procurement, progress reporting, and so forth; and (e) the operation should ensure minimal long-term foreign technical assistance.

Given the need for local ownership and coordinated program design by sector agencies, a participatory upstream diagnostic assessment of sector institutions constitutes the critical first step in the SIP preparation process. The sector institutional assessment—a sector-customized institutional environment assessment—is designed to enable sector participants to undertake institutional diagnosis and to initiate action plans that comprise two components: a SIP outline for the sector and the institutional development/capacity building measures that are necessary preconditions for the SIP to move forward in a sustainable manner. The MASA addresses the stakeholder-client consultation aspect of the SIP.

As part of the MASA exercise, sixty-four stakeholders in the education sector were surveyed, some of whom participated in the MASA workshop. Of them, fifty-four self-administered the survey instrument, and the rest were interviewed in structured sessions. The survey was targeted to twenty-six stakeholder groups, including Ministry of Education staff, their clients, and other parties who have critical interests in education delivery. Key stakeholders interviewed included Zambia's Teaching Service Commission, churches, NGOs, the Chamber of Commerce and Industry, the Teachers' Union, the Parent-Teacher Association, the Federation of Employers, local authorities,

traditional institutions (chiefs), members of Parliament, the Private Schools Association, key sector and core ministries, the Preschool Association, and the YWCA. The findings were aggregated and analyzed and then presented at the MASA workshop. The following issues emerged from the survey; some of them raise important governance concerns similar to those discovered by the overall service survey.

Transparency

The hallmark of transparency is information that is available on demand through regularized and known information channels. This assumes the government's establishment of a formal process to inform both its staff and the public. An inadequate information framework is one of the factors that undermine accountability, and lack of accountability, coupled with an uninformed (and apathetic) general public, is virtually certain to preclude or erode the professional ethics and positive work attitudes that are critical for the performance of public service. Thus, improved access to information, as well as better-quality information, is crucial for holding public officials responsible for their actions (see Dia 1993: 13–14).

With respect to the transparency of education delivery, the survey respondents had mixed perceptions. More than a third of all respondents reacted negatively to the statements that education is delivered without administrative secrecy and that rules are openly applied and everything is communicated to Ministry of Education staff, local governments, schools, and parents. Even those who reacted positively, albeit with reservations (40.7 percent), commented on the lack of proper and adequate communication channels. The responses were attributed to a lack of confidence among Ministry of Education staff that kept them from taking responsibility for their performance, to a weak public relations office, and to the absence of mechanisms for debating education management and making such discussions public on a regular basis. For example, for cost recovery reasons the Ministry of Education determined that parents would be required to pay for teacher education in 1995; yet as late as October 1994, the decision had not been communicated to the public. More than a third of the respondents strongly agreed and 46.3 percent agreed with reservations that Ministry of Education staff deliberately place personal interest above public service. Some 40 percent of the respondents acknowledged the existence of bribery during enrollment.

Thus the need to improve the flow and availability of information in the education sector clearly emerged from the survey. Given the growing democratic environment, the Ministry of Educa-

tion could seize the opportunity and involve the burgeoning media in generating and disseminating information. Such improvements would facilitate interactive involvement of the general public, enhance accountability, and ultimately ensure that Ministry of Education staff respond properly to the requirements associated with effective delivery of education.

Participation

Respondents had mixed perceptions regarding the participation of communities, parent-teacher associations (PTAs), local authorities, and NGOs. It was clear from their responses, however, that the potential for the participation of the public in education delivery has not been fully mobilized. Although it was observed that hard times and poverty undermine cost-sharing ability, most respondents agreed (27.8 percent strongly and 53.7 percent with reservations) that education is highly valued. Despite economic hardships, the high value attached to education should motivate communities to contribute to the cost of education. Respondents were very positive (48.1 percent agreed strongly and 42.6 percent with reservations) about the eagerness of the private sector to augment government resources in providing education. Respondents from the Federation of Employers and the Zambia Chamber of Commerce requested a meeting with the survey team. They offered a number of ideas, including the establishment of a trust fund and a scholarship system, both under independent boards, to ensure access to the best education for bright poor children.

The main stumbling block seems to be the absence of institutionalized processes that would facilitate participation. When reacting to the statement that "communities are politically organized and disposed to undertake activities such as participation in school affairs and provision of advice and feedback on education," 31.5 percent responded "not true" and 24.1 percent responded "mostly untrue." Thus more than half of the respondents did not perceive communities as adequately empowered and predisposed to participate in service delivery. For example, ad hoc comments were given regarding vandalism of school property. It was observed that security guards employed by the Ministry of Education are notorious for absenteeism, while those employed by PTAs (through self-help programs) are punctual and disciplined—despite the fact that PTA pay is lower than that of the Ministry of Education. Recently, community neighborhood watch units have been formed by citizens to combat the increasing wave of crime; this suggests that with

proper mobilization, people can contribute actively to the delivery of public services.

It is ironic that while the public is eager to contribute, the government is unable to tap communities and the private sector effectively. The standard explanation is that institutions at the local level (especially in the rural areas) are stifled by technical deficiency, but survey results suggest that lack of empowerment is a major disabling factor. Some respondents commented that even the decision to set up local councils was precipitated by the need to satisfy demands for democracy rather than sharing of operational responsibilities between central and local governments. If democracy is to serve the lives of the communities, watchdog mechanisms should evolve that enable people to demand accountability and hence better services for public resources.

Nevertheless, where communities have been allowed and encouraged to mobilize their resources—for instance, through the formation of PTAs—they have had remarkable positive input into school management. Although the overcentralization of the Ministry of Education has been pointed out as a significant impediment to community participation, the absence of a deliberate and well-defined strategy for participation is also to blame. For example, it was learned during the survey that the Ministry of Education had begun forming district education management boards without the involvement of district councils and local authorities.

The significance of strategy was also raised by respondents with reference to the role of the private sector in education. Although most respondents perceived that national education policy somehow defines that role, they observed that a new type of mobilization was needed to secure the constructive involvement of businesspeople without making education delivery profit-motivated.

Institutional Coordination

Survey results indicate that there is little if any coordination between institutions at different levels. First, there is a problem of coordination among the five ministries that deliver various elements of education. Almost 60 percent of the respondents did not believe that having more than one ministry would improve the management of education delivery. Second, there is a problem of coordination between the Ministry of Education and the Ministry of Finance. Almost 80 percent of the respondents said it was untrue that there was "effective government coordination to ensure excellent budgetary allocation for national education, consistent with

the mission of the Ministry of Education." Third, there is a problem of coordination among line ministries, which have to function in tandem with the Ministry of Education in providing the vital support and infrastructure services for education delivery. Managers in line ministries are rarely held accountable for failure to execute their roles, especially in the provinces and districts. Some of the survey responses were qualified with comments that lack of accountability was a government-wide problem; civil servants are also rarely held accountable for their performance.

At another level, survey results showed inadequate institutional coordination between the managers of education delivery and the beneficiaries—including the economic sector. For example, 40.7 percent of the respondents said it was not true that the education system is driven by the demand of the labor market. In additional comments, respondents from the Zambia Federation of Employers said that they could hardly employ school graduates without training them in basic skills, such as bookkeeping. They also pointed out that despite official declarations about diversifying the economy to rely more on agriculture (and less on mining), Zambia did not have a single secondary school with a focus on agriculture. However, other factors hampered the ability of the sector to adapt to the education needs of the economy. The demand for child labor, for instance—traditionally a rural phenomenon (children helping parents with farm work during certain seasons)—has spread into urban areas. As families struggle to make ends meet, more and more juveniles leave school to go into petty trading.

Zambia is facing increasing demand for education in the context of a dwindling resource base. This hard challenge demands better institutional coordination that would facilitate prudent management of resources. The survey results highlight inadequate coordination of government activity, ranging from policy formulation, planning, resource allocation, and implementation to the harmonization of activities with donors, NGOs, local authorities, and communities. Sectoral reform and more financial accountability might improve the cost-effectiveness of education delivery, but there is a need to maximize available resources across sectors. Intuitively, there would be better chances of this happening if the perceptions generated by the MASA process could be shared with other sectoral ministries. Pursuing behavioral change in one sectoral ministry is akin to fencing it off like an enclave. As is evident from the survey, without proper and adequate inputs from other sectors and institutions, one ministry can hardly perform its services effectively, let alone sustain sectoral reform.

Sociocultural and Ethical Aspects

The survey results strongly indicate that negative ethical values affect education delivery. Most of the respondents agreed (50 percent strongly and 29.6 percent with reservations) that the allocation of resources in the education sector is driven by power plays among bureaucrats and politicians rather than by policy priorities. It was also noted that the decline in education was part of the general decline in public sector management: 53.7 percent of those interviewed responded "true" and 42.6 percent responded "mostly true"to the statement that the decline in education is a sectoral manifestation of grave distortions that affect the public sector generally. By implication, this means that arresting the decline and revamping the education sector would require a comprehensive effort aimed at improving the performance of the government as a whole. It is important to note, however, that the trend in sectoral reform can provide lessons for comprehensive reform. Almost all of the respondents observed that no appropriate system has evolved for bringing problems out into the open.

Most respondents indicated that they thought appropriate measures were being instituted by the government to ultimately arrest the decline in the education sector. Nevertheless, a strong majority responded that the scope of government involvement in education delivery should be recast, with the Ministry of Education preferably assuming a policy management role. Additional comments showed overwhelming support for decentralizing education delivery. Decentralization was based on the argument that it was a requisite mechanism for enhancing participation, transparency, accountability, and the responsiveness of civil servants to client needs. These traits, in turn, would arrest the decline in ethics, the upsurge of personal interests over the public interest, and various cultural impediments that negatively affect education delivery. In relation to educating women, most respondents perceived girls as culturally disadvantaged relative to boys because of girls' role in helping their mothers with household chores after school. Almost all respondents appreciated the importance of educating women, given their critical role in Zambia's socioeconomic activities.

Most respondents perceived that Zambians place high value on education as a key to advancement and development. Some, however, mentioned low and unrealistic wages, along with rising unemployment, as factors contributing to mounting frustration about the role of education in development.

Operational Implications and Follow-up

The MASA for the Ministry of Education concluded with the submission of an action plan by the Ministry of Education and the MASA follow-up committee. The action plan includes the specific measures needed to improve the delivery of education services analyzed during the workshop and the related organizational structure. The submissions were reviewed and utilized by the cabinet office to prepare a strategic plan and a restructuring report. By mid-1995 the two documents were ready for further discussion with Ministry of Education staff, and a two-day restructuring session was held to implement the realignment and downsizing entailed by the new organizational structure and strategic orientation.

As the Ministry of Education was concluding the submissions based on the MASA exercise, the World Bank intensified discussions with the Zambian government to launch an integrated education program (IEP) that was likely to affect policy and investments in the education sector. The findings of the MASA exercise were used as inputs to the sector institutional assessment phase needed to prepare the IEP.

User and Beneficiary Survey of Public Services in Ghana

As follow-up to the Bank-supported capacity building workshop in Akosombo, Ghana, on April 19–21, 1994, a pilot public sector reform activity was launched. It incorporates a participatory process, starting with the implementation of a program of client-beneficiary surveys, the results of which will contribute directly to (a) building up capacity at all levels to enable public sector organizations to perform in a more accountable and responsible manner and (b) introducing fundamental changes in the criteria for resource allocation and in the process of budget formulation. The results of the surveys would ultimately lead to proposals for the structural reorganization of ministries and their respective departments and agencies, and to the introduction of management, organizational, and behavioral changes to strengthen and support service delivery and client-beneficiary responsiveness.

Successful completion of the surveys would enable the head of the Civil Service Office to test and validate current outputs of key services at the sector levels. This process is an essential initial step in raising awareness among chief directors of the need to improve service delivery, and in defining realistic targets for an affordable

level of public service. In parallel with this activity, other initiatives will be undertaken to enhance the development and utilization of national capacity.

Goals and Objectives

The overall purpose of this program is to develop more efficiency in the civil service and all its constituent institutions—the Office of the Head of the Civil Service (OHCS) itself and ministries, departments, and agencies over which ministers and chief directors have direct supervisory control. "Efficiency" in this case means a results orientation, cost-effectiveness, an adaptive approach, market and customer sensitivity, transparency, and accountability. Specifically, the program seeks to:

- Encourage the whole range of civil service institutions to discharge their functions effectively in a transparent, competent, accountable, and cost-effective manner
- Ensure that the civil service institutions take better care of their assets and resources and utilize them more effectively and judiciously
- Improve responsiveness to the needs of the private sector and contribute toward supporting high national growth efforts
- Evolve an efficient, compact, and well-managed civil service and enhance the organization's capacity to deliver cost-effective services
- Strengthen the capacity of the various sectoral ministries to produce policy objectives, programs, and targets in line with government and sector-specific objectives
- Assist the OHCS to work within the evolving budget framework with realistic expenditure planning totals, so that there is an appropriate balance between the personal emoluments vote and other recurrent expenditures
- Ensure that the OHCS develops strategic plans that specify output and service delivery targets against which performance can be measured
- Assist with the identification of specific skill shortages in key areas of operations and develop strategies to overcome these shortages
- Motivate civil servants toward results-oriented performance and buttress this effort with appropriate pay and incentive schemes.

Methodology

To sustain an effective capacity-building initiative, it is essential that individual institutions take responsibility for their own capacity diagnosis and capacity development activities. The following steps (all consistent with generally accepted capacity-building methodology) are intended to achieve the desired results.

CAPACITY DIAGNOSIS STAGE. Workshops and seminars, possibly facilitated by local consultants provided by the OHCS, are to be the means for carrying out the diagnostic process. The first step is *institutional self-appraisal*. The top management personnel in each organization undertake a candid and open review of the performance of their organization. The self-appraisal should focus on key issues, such as comparing outputs with inputs and reviewing modes of service delivery. The second step in assessing institutional capacity is to conduct *beneficiary and user surveys*. Since institutions provide services to the general public or to other organizations, they are expected to survey their clients to obtain feedback on the quality and quantity of their output, services, and performance. The third step is *identification of issues and problems*. In the process of institutional self-appraisal and user surveys, each institution should identify issues and problems that may hinder performance and then propose actions to help solve problems and improve institutional capacity.

CAPACITY DEVELOPMENT STAGE. Following from the diagnostic stage, and in particular from the identification of issues and problems, each institution should develop a *strategic plan* outlining clear objectives, well-documented work programs, and expected outputs over the next year or other agreed period. Each institution should then begin the *implementation* of its strategic plan. Each institution should also undertake *periodic reviews* to monitor implementation and provide progress reports.

OTHER FEATURES OF THE METHODOLOGY. The methodology is based on participation, consensus building, enhancing commitment, and creating a sense of ownership. There should also be joint identification of constraints throughout the civil service that may hinder the performance of individual institutions and that need to be addressed by the government.

Conclusion

The proposed assessment has two basic objectives. The first is to provide baseline data on the extent to which civil service performance meets or falls short of meeting its clients' and stakeholders' expectations and needs. Shifting the civil service from an orientation that emphasizes control and the bureaucratic exercise of power to an orientation that emphasizes service requires listening to beneficiaries and stakeholders and empowering them to be the ultimate judge of the quality of service delivered.

The second objective is to examine several hypothesized determinants of positive bureaucratic behavior and gather baseline data on the attitudes and behaviors broadly associated with superior or poor administrative performance. Such data will identify behavior patterns, incentives, and management cultures that need adjustment or reinforcement. It will also provide a benchmark by which the government can evaluate the success of efforts to modify dysfunctional attitudes and behavior patterns. It is equally critical to the reinforcement of many positive attitudes where these do exist. Units that manifest superior administrative attitudes should be identified and held up as examples. The more this is done, the easier it will be to replicate programs that are successful in the local context and culture and can be used as demonstration models. It is far easier to transfer bureaucratic technology internally than it is to borrow it from abroad. The information gathered can also facilitate understanding of what works and determining why. Central to the objective is an assessment of the influence of traditional values on bureaucratic behavior. It is quite possible that traditional values can be used to strengthen bureaucratic performance. They certainly cannot be ignored.

3. Improving Governance and Macroeconomic Management

This chapter reviews some lessons of experience and some best practices from Africa and elsewhere (East Asia, for instance) for mitigating the negative impact of patrimonial distortions on economic management (for example, in resource mobilization and allocation). These lessons can also help strengthen the legitimacy and enforceability of the rule of law, property rights, and other core public service functions.

Improving Macroeconomic Management

The lessons analyzed in this section are gleaned from four related and mutually reinforcing cases:

- A performance-based enclave approach to manage tax and customs in Ghana
- Uganda's program for enhancing ethics, transparency, and accountability
- The Gambia's institutional environment assessment and sector adjustment loan to improve resource mobilization and allocation
- The East Asian model for insulating the bureaucracy working on economic policy from political interference.

A Performance-Based Enclave for Tax and Customs Management in Ghana

The Ghanaian approach to the management of tax and customs is the first use of the "enclave" approach to resource mobilization in Sub-Saharan Africa. This option for civil service reform hives off as separate enclaves some functions of government, managing them

as autonomous institutions. The purpose is to better balance the need for insulation from patrimonial, political interference with the need for accountability (rewards and sanctions linked to performance). Uganda and Zaire have since applied the same approach, and other Sub-Saharan countries look poised to follow suit.

BACKGROUND. The enclave approach to tax and customs administration was first applied in Sub-Saharan Africa in 1984, with Ghana's establishment of its National Revenue Secretariat. Prior to the adoption of an enclave approach, tax revenue collection in Ghana had fallen to about 4.5 percent of GDP. The country faced a growing budget deficit, which was fueling inflation, and important public expenditure programs were in jeopardy. There was thus an urgent need to step up revenue collection, both to reduce budgetary deficits and to provide the resources needed for important ongoing rehabilitation programs. As the experience of East Asia shows, high domestic savings and resource mobilization are critical to self-sufficiency and sustainable development. There was a problem, however: corruption, moonlighting, and a host of inefficiencies had so pervaded the tax and customs administration systems that they were in no position to inject the required dynamism into revenue mobilization.

Improving tax and customs administration in Ghana was therefore a high priority and required addressing a number of problems that were more institutional and organizational than they were issues of systems and technical capacity. Revenue collection used to be the responsibility of the Ministry of Finance and Economic Planning, which had a special division charged with collection. Typically, actual collection fell short of estimates. This could be ascribed to diverse factors. The progressive depression of salaries over the years had greatly drained out high-caliber staff. Those in employment lacked motivation and performed their tasks in a perfunctory manner. Incentive systems were poor, corruption and absenteeism were common, logistics were poor, and the total control of the Public Service Commission over recruitment and dismissal often constrained management.

The system was also characterized by a singular lack of accountability for funds collected. These were often not properly accounted for, and funds purportedly deposited in the banking system often could not be traced. An enclave approach that would balance autonomy and accountability provided a transitory solution to these problems before a comprehensive civil service reform

program could be put in place. In Ghana this approach has taken the form of a National Revenue Secretariat (NRS) that is independent of the civil service and has its own conditions of service and pay policies.

THE NATIONAL REVENUE SECRETARIAT. The NRS is headed by a secretary of state, who is assisted by a chief director. The two formulate and review policy on taxes, rates, duties, charges, levies, fees, and fines, and advise the government on revenue generation and collection. The day-to-day administration of the secretariat is handled by the chief director.

The first step in reforming tax and customs administration involved the creation of two new services: the Internal Revenue Service (IRS), which would mainly be responsible for direct taxes, and the Customs, Excise, and Preventive Service (CEPS), with responsibility for most indirect taxes. Two other departments are in charge of nontax revenue (such as lottery proceeds, fines, levies, dividends, and grants) and administration and information processing, respectively. The functions of the secretariat revolve around the following tasks: collecting, collating, and analyzing returns from revenue agencies; analyzing returns by sector and region; overseeing the investigative sections of revenue offices; and reviewing and formulating policy in respect of taxes, rates, duties, charges, levies, fees, and fines. The administrative section oversees the secretariat staff and handles matters pertaining to transport, personnel, and accounts. A computing division provides essential backup and information-processing services.

Both the CEPS and the IRS, which are headed by commissioners appointed by the cabinet, have governing boards consisting of a chairman and six cabinet appointees. The controller and accountant general sit on both boards alongside the pertinent commissioner. The boards have full responsibility for the effective collection of all taxes or duties and penalties due to the state; policy-related management of the respective service; and all matters of appointment, promotion, and discipline. They draw up service schemes that prescribe the terms and conditions of service and guidelines for remuneration; ensure that all revenues collected are paid into a consolidated fund; and make recommendations as necessary to the secretary of the NRS regarding various issues germane to taxation policy or customs administration. The CEPS board is also responsible for delimiting customs surveillance zones, approving routes for customs purposes, and building and managing government warehouses.

A number of measures calculated to sustain a performance-based culture were adopted. Most important, the revenue services were henceforth to set targets (agreed with the Ministry of Finance), attainment or nonattainment of which would govern incentive packages. In line with the general belief that low pay feeds corruption and undercollection, the basic salary levels of all staff of the revenue institutions were raised so as to be comparable to levels in the private and banking sectors. The professional staff at the Ministry of Finance—alone in the civil service—now gets an additional inducement allowance of 12 percent. Revenue officers under the NRS get an additional 10 percent over and above the entitlement of Ministry of Finance officers. A complement to this is the 15 percent bonus on basic salaries that is contingent on achieving agreed targets by the end of the year.

The NRS has also been able to provide its staff better working conditions—better office supplies, equipment, and incentives—than are available elsewhere. Though it gets its funding from the national budget, the NRS is allowed to meet its operational expenses by taking percentages of all revenue collected—3.5 percent for the IRS and 2.5 percent for the CEPS. The NRS has also developed information- and tax-processing systems covering most operational areas, and it organizes staff training for exemplary performers, both locally and overseas.

Ensuring that the NRS work force would be able to rise to the new challenges necessitated a number of critical steps. First, key resource persons were identified and attracted into the new revenue institutions. Recruits included accountants and other professionals in the fields of law, computerization, valuation, estate management, and engineering. Staff who had reached the retirement age of sixty were made to retire, and those who had reached the voluntary retirement age were given the option of retiring. All those found to have been very corrupt were dismissed, and those considered somewhat less corrupt—including many who had thrived on giving unauthorized credit, aiding and abetting smugglers, and accepting postdated checks that were subsequently dishonored, as well as known heavy drinkers—were retired. This cluster of measures affected 89 (8 dismissals and 81 retirements) of the 1,200 staff members of the IRS, and 169 (20 dismissals and 149 retirements) of the 1,450 staff members of the CEPS. A new grading structure was adopted next, and the old civil service grading structure was discarded. Accounting manuals for the two services were produced very early and were to be followed later by other service manuals.

RESULTS. The enclave approach to tax and customs administration appears to have paid off. Between 1984 and 1988, tax and customs revenues increased from 6.6 to 12.3 percent of GDP, primarily because of improved collection. Excluding taxes on international trade, revenue from taxes on income, profits, and capital gains rose from 1.5 percent of GDP to 3.9 percent, while revenue from taxes on domestic goods and services increased from 2.1 percent of GDP to 3.7 percent. There are thus compelling reasons for replicating the enclave approach in other Sub-Saharan countries facing problems akin to those that previously confronted Ghana.

A note of caution should be sounded, however. Reforming tax and customs administration is not an easy task. The initial aversion of the Ministry of Finance to the loss of its supervisory role had to be contended with. The rest of the civil service chafed at the preferential treatment—special salaries, additional allowances, cars, and housing facilities—reserved for NRS staff. Moreover, the accountant general harbored misgivings about the accounting responsibility divested to the newly created IRS and CEPS. The accountant general's disquiet was partly alleviated by his membership on both boards, and the successes being posted by the NRS on the revenue collection front have now won it general acceptance. The key to the success of this experience is that in Ghana the political leadership gave its full backing to the new venture, and the head of the NRS had the right blend of personal leadership characteristics: charisma, a flair for innovation, ability to motivate, and organizational acumen. Moreover, performance was enhanced not merely by raising salaries but also by tying incentives to output benchmarks. To make a success of the enclave approach, countries have to adopt this kind of mix.

Although it is an efficient short-term expedient for improving tax and custom collection, the enclave approach still leaves unresolved the distorted patrimonial environment and related adverse impact on the performance of core government functions and service delivery. Reform programs in Uganda and The Gambia, described below, provide examples and best practices for addressing these systemic issues in a more direct and sustainable way.

Enhancing Ethics, Transparency, and Accountability in Uganda

In Uganda, as in other countries, improving the institutional governance environment will be essential to increasing state accountability to the civil society and improving economic management. Thus the Ugandan experience is relevant to most African countries,

where governance issues are impeding the performance of civil service and economic management. The key components of Uganda's program to enhance ethics, transparency, and accountability are the following institutional changes: (a) strengthening accountability and ethics through the establishment of leadership and civil service codes of conduct; (b) greater transparency through stricter disclosure requirements; and (c) more autonomy and power for enforcement institutions.

THE LEADERSHIP CODE. Leaders covered by the Leadership Code are prohibited from engaging in certain kinds of conduct, which the code lists in detail. Included are activities that are probably not explicitly outlawed otherwise, such as seeking or accepting gifts or benefits for exercising official duties, permitting a conflict of interest between official duties and personal interests, failing to seek approval from the Leadership Code Committee before dealing with some kinds of foreign businesses, abusing government property, and misusing official information not available to the public. In addition, leaders are specifically prohibited from certain conduct that may also be covered by existing laws. One result is that leaders who commit such acts could be subject both to proceedings for breach of the code and to criminal and other proceedings. The conduct in question includes misappropriating public funds, improperly using one's official position to obtain property, using official time for private business to the detriment of official duties, acting in a manner prejudicial to official status, evading taxes or other financial obligations, furthering a foreign government contract that is harmful to Uganda's interests, practicing favoritism or nepotism, committing sectarian acts prohibited by the penal code, neglecting duty so as to impede the efficiency of government, committing acts prejudicial to people's rights (including sexual harassment), and engaging in activity designed to undermine the integrity of government.

THE CODE OF CONDUCT FOR CIVIL SERVANTS. A code of conduct, based on the principle of selfless service, is also to be instituted in the civil service, to set a moral tone for society. The code will ensure that civil servants conduct their public and private lives in accordance with the law and with the provisions of the Leadership Code in particular; that they disclose their interests in contracts with government, government bodies, or enterprises; and that they declare their assets, incomes, and liabilities and those of their spouses at least once every two years while in the civil service and for another two years after leaving.

DISCLOSURE REQUIREMENTS. Under the Leadership Code statute, an annual disclosure of the income, assets, and liabilities of a leader must be made to the inspector general as specified in the third schedule to the statute. Serving leaders must do so within three months after commencement of the Leadership Code, and new leaders within the same period after assuming office. Subsequent statements are required to be submitted annually during the month of December. A person who ceases to be a leader must submit a statement within six months after leaving office. The disclosure must cover both the leader and his or her nominees. A nominee is defined as anyone who controls or manages business or affairs of which the leader is the principal beneficiary, or whose business decisions or acts are such that they are in essence made or done by the leader.

The disclosure statement is treated as secret and can be disclosed only to the Leadership Code Committee, the inspector general of government (IGG), the auditor general, senior police officers investigating an offense, or a person authorized by order of the High Court. Failure to submit a disclosure statement or submission of an inaccurate statement is a breach of the code.

GREATER AUTONOMY AND POWER OF ENFORCEMENT. The responsibility for supervising and enforcing the above codes of conduct rests with the Inspectorate of Government or such other authority as may be determined by the government, and that authority should also receive annual disclosure statements. Strengthening the power and autonomy of these institutions was therefore a key component of the program to enhance ethics, transparency, and accountability.

Although Uganda gained independence in 1962, the office of the IGG is a recent development, established in 1986 with the advent of the National Resistance Movement. Many successive governments in Uganda, like others before independence, did not appreciate the establishment of an independent, impartial, and efficient public office like that of the IGG, which, among other functions, was to mediate for civil servants who had been unfairly treated or found corrupt. Against the background of malfeasance, especially in the public sector, the IGG's office was established to help eliminate corruption and the abuse of public office, to protect and promote human rights in Uganda, to protect and promote the rule of law, and to propose to the legislature regulatory and administrative reforms in the public interest.

The ongoing constituent assembly, which is making a new constitution for Uganda, has already finished its deliberations on the IGG's office, and a number of changes have been made. The major

change is that the function of protecting and promoting human rights has been transferred to a new Human Rights Commission, to be established. In a sort of exchange, the supervision and enforcement of the Leadership Code, which had not yet found an institutional home, has been added to the IGG's office. The IGG will thus be able to concentrate mainly on anticorruption activities without being distracted by any other issues such as human rights.

In addition, some power has been added to the office. A new clause allows the IGG to effect arrest and prosecution in cases involving corruption or the abuse of authority. The IGG has also been given the power to issue injunctions or orders whenever necessary, whether during an investigation or after its completion. This enhancement of powers should enable the office of the IGG to further promote and enforce transparency and accountability.

Other measures have been taken to revive or strengthen some of the other existing institutions that play investigative, supervisory, enforcement, or teaching roles. The office of the auditor general, which has existed since independence, had been declared redundant by the current administration. Nonetheless, it has reactivated its activities vigorously. Accounting officers appear before the auditor general to answer questions about their management of public funds. The auditor general's office has been able to deal with the backlog of reports that were ten or more years overdue, and currently all reports are almost up to date.

The Public Accounts Committee, a standing committee of Parliament like the auditor general's office (which is supposed to submit reports to it), had also been inactive. This is now very active again, and accounting officers are occasionally called to appear before it to render accountability for public funds entrusted to them to manage. Many public officials have been punished or censured for failure to do so.

The IGG's greatest achievement so far is in increasing public awareness of the dangers of corruption. There is no doubt that more citizens are coming to grips with the problems of misuse of public office. This in itself is a major step toward good and generally acceptable governance. For instance, taxi drivers in Kampala recently went on strike, alleging that the police were asking them for *chai*, or bribes. Kampala was paralyzed for two days.

The IGG's other major achievement is that many of those who have misused their offices or been found corrupt have been dealt with. For example, in 1989, 121 public employees, including many in the Customs Department, were sacked for corrupt practices. Recently, 200 employees were laid off in the Uganda Revenue Authority, again largely because of corruption. Disciplinary action,

including dismissal, has also been taken against many top officials, and many face court charges.

Institutional Environment Assessment for Improving Resource Mobilization in The Gambia

The Gambian experience is a hybrid building on the strengths and lessons of both the Ghanaian enclave approach to tax and customs management and the Ugandan institutional reform program to remove institutional and governance impediments and strengthen accountability of economic management. By linking the reform program to a World Bank sector adjustment loan (SECAL), it also shows how mainstream lending could be used to help replicate or adapt the Ghanaian and Ugandan best practices and lessons of experience.

BACKGROUND. In The Gambia, as in Ghana and many other African countries, substantial losses from income tax evasion and forgone revenues from customs undercollection and exemptions are seriously undermining resource mobilization and domestic savings, as well as the success of reform programs aimed at improving resource allocation and fiscal stabilization. Forgone revenues from customs and tax exemptions and nonsanctioned elite avoidance or evasion totaled 8 to 9 percent of The Gambia's GDP in 1992—that is, about ten times the total public expenditure on health. The objective of the institutional environment assessment (IEA) in The Gambia was to identify the root causes of the leakage (most of which happened to be governance- or patronage-related) and design a reform program to be supported by a World Bank SECAL.

INSTITUTIONAL IMPEDIMENTS. The centerpiece of The Gambia's IEA exercise was the governance survey to assess the institutional impediments to efficient tax and customs administration. The results of the survey were then presented at a workshop in The Gambia attended by all major clients and stakeholders. The results clearly confirm that institutional impediments were critical in explaining The Gambia's poor resource mobilization and allocation.

The survey made clear that resource mobilization is affected by patrimonial distortions and the unenforceability of the related legal framework (rule of law). Most of the respondents affirmed that revenue collection is below resource potential because of improprieties in tax administration. These include failure on the part of the government to prosecute tax delinquents, connivance between government tax officials and the business community, use of the

tax code for personal gain, unfair treatment of customers, and systemwide supervision failure. Most respondents agreed that revenue collection would improve if accountability and enforceability were enhanced. As discussions at the workshop showed, political patronage to some well-connected business leaders has paralyzed both the prosecution of tax delinquents and the collection of government revenue (Box 3-1).

Most respondents also felt there was no link between resource allocation and policy priorities. One of the perceived causes was power play among groups within the bureaucracy. Almost all respondents thought that poor resource allocation resulted from diversion of resources to achieve private gain and from an unaccountable managerial framework. This in turn led to low levels of expenditure in key sectors and low productivity in public investment. Such unaccountable management may have prompted donors to get more involved in project-related management, with the potential pitfall that their own views and priorities took precedence over those of the assisted country. Moreover, the lack of managerial accountability tended to exacerbate the downward economic spiral: a dwindling resource base leads to thinner dispersal of resources, arbitrary changes in the budget, delayed payments to suppliers, overcentralization of the accounting systems, and outright fraud.

Most respondents disagreed with the statement that "there was adequate cooperation between ministries, departments, agencies, and civil groups in conducting consultations aimed at optimal resource allocation." Most also disagreed with the statement that "when allocating resources, the government takes into account the opinion of the civil society, including subnational (local) authorities, traditional institutions, nongovernmental organizations, the media, and the private sector." Moreover, nearly half of the respondents disagreed with the statement that "parliamentary debates on the budget are genuine and allow the public interest to be reflected." Nearly all objected to the statement that "the parliamentary committee on public accounts is effective in ensuring timely consolidation of expenditure data." Finally, nearly all respondents agreed that personal interests override institutional ones, even though civil servants are aware that such behavior is harmful to the overall economic welfare of The Gambia.

The reasons cited by most respondents to explain poor performance were institutional and governance factors related to poor incentives, accountability, and leadership. Regarding incentives, most respondents in The Gambia (as in Zambia) felt that senior civil servants were preoccupied more with ways to supplement

Box 3-1. Regressive Tax Administration in The Gambia

During interviews and the AM90s workshop in The Gambia presenting survey results, The Gambia's tax commissioner recounted how his efforts were frustrated by the then solicitor general and the minister of finance and economic affairs. When the commissioner was appointed, he wanted to prosecute an influential tax evader ("to fry the big fish") in the belief that doing so would send a strong deterrent message. The solicitor general arbitrarily and without consulting the tax commissioner changed the law code under which the offender was charged, so that what had been a criminal proceeding became a civil suit. After a long and intermittent judicial wrangle, the tax commissioner won. However, it was only after extra efforts to recover the payments awarded by the court that he was finally handed a check, which the tax evader wrote after securing a government-guaranteed loan. Furthermore, the minister of finance instructed the tax commissioner to "leave the businessman alone" and see the minister if there were further problems.

The tax commissioner was demoralized by the episode and decided not to send another case to court. Two years later he got a letter from the president's office urging him to prosecute tax evaders. Again he picked another "big fish," but this time the solicitor general never instituted judicial proceedings against the offender (the president's brother-in-law). The tax commissioner maintained that he had stopped prosecuting tax delinquents on the principle that if you bend the law for A, you can hardly not do the same for B.

The tax commissioner's remarks underline a serious problem of patrimonialism: Patronage provided by the political leadership to big tax evaders degenerates into a systemic debacle—as tax collectors and taxpayers in the business community seize the opportunity to corrupt the tax administration. The Gambian tax story is reminiscent of the "O-ring" theory of economic analysis, modeled on the *Challenger* space shuttle disaster that was caused by the failure of a single rubber ring. Likewise, protecting a single, well-connected tax offender defeats the entire purpose of law and order. Unless the "big-timers" are prosecuted (as in Hong Kong and Singapore), tax evasion will remain a thriving industry in The Gambia. This is a central challenge for the success of the sector adjustment loan and any other future lending operations. Therefore, whereas the technical assistance component may be used to support the commercialization or decentralization of government functions, the institutional environment assessment identified the need for further studies to identify such functions. One area singled out as a possible candidate for autonomous management was tax administration, with a suggestion to set up in The Gambia a system similar to Ghana's tax board.

Source: Pinto and Mrope (1994).

their eroded wages than with their official duties. The IEA confirms that pay and employment incentives, which are generally considered a technical problem, have governance implications in The Gambia. Even though all civil servants are underpaid, some have privileges and use the leverage of being in positions of power to compensate for their low pay.

Furthermore, there is no linkage between salary level and performance. In related statements, most respondents believed that social connections, rather than training and professional qualifications, determine career development. As in Zambia, a considerable majority perceived unfairness in awarding promotions and scholarships and agreed that it was hard to get things done by the civil service without the "right connections." When asked why, despite all these distortions, they had decided to join (and were still in) the civil service, the majority responded that the civil service was the only viable employer and trainer.

Regarding accountability, the survey responses indicate that despite The Gambia's democratic tradition, the institutional environment cannot provide adequate checks and balances against abuse of official authority and power, or ensure transparency. Almost all respondents indicated a strong belief that the people of The Gambia have the right to know and criticize the government, and they strongly agreed that the people need to be better informed about how they can make their wishes known to their members of Parliament. In additional comments and during workshop discussions, it was explained that, for most members of Parliament, effective participation in debates was hampered by low proficiency in English, which is the only working language used by that body. In response to a question on the culture of secrecy, most respondents strongly agreed that more information should be given to the public about government activity, while nearly all strongly agreed that the press should have the right to report all court cases and parliamentary debates.

Regarding leadership, nearly all respondents agreed that senior and middle-level leadership in the public service was weak and tended to focus more on micromanaging administrative details than on deciding on broad macroeconomic strategy and policy options. Responding to a statement on delegation within ministries and departments, most respondents commented that the personalization of official duties precluded delegation to the extent that important ministerial operations could hardly proceed when the minister was away from office. The practice of identifying government activity with an individual may even explain the overcentralization of the country's accounting and auditing functions in the persons of the accountant general and the auditor general.

Nearly all respondents further agreed that "the lack of optimal use of human resource capacity even in government institutions charged with managing public funds, such as the accountant general's office and the auditor general's office, underlines the seriousness of the governance distortions in the accountability of public resource management." The fact that a sizable majority strongly agreed that the civil service is too large implies that human and financial resource deployment in The Gambia reflects patrimonial ascriptive criteria rather than performance, productivity, and key missions of the state.

REFORM MEASURES. The aggregate results of the governance survey in The Gambia, combined with the analysis of management and institutional problems conducted during the workshop, suggest that the reform program needs to address both institutional governance changes and institutional capacity building. A hybrid type of public administration adjustment operation (a mixture of the Ghanaian and the Gambian approaches) would therefore be the appropriate lending instrument to address the above changes—hybrid in the sense that it would include policy and institutional reforms (a sector adjustment component) and the strengthening of institutional capacity and enforcement systems (a technical assistance component).

The policy component would focus on policy changes to remove those interrelated governance and institutional distortions and issues that impeded resource mobilization and allocation. This would include improving the performance of the accountant general's office and the auditor general's office. For instance, the auditor general's office is ten years behind in submitting its annual audits to Parliament—mostly because the accountant general's office has, by any objective standard, performed poorly.

The failure of the accountant general's office to submit consolidated government expenditure data in time for the auditor general to express his opinion to Parliament, as well as inadequate staff and logistical capacity, has also crippled the audit system. Overall financial accountability has crumbled, as evidenced by the consensus that wholesale graft, corruption, and theft of government property have gone unchecked, and by the presence, noted during the survey, of vast internal problems and inefficiencies, ranging from a complete absence of training to archaic and poorly designed preauditing procedures and general failure to keep an accurate and updated inventory of government property. Even knowledgeable government officials and expatriate advisers freely acknowledge

that the entire accounting-auditing system is poorly set up and badly managed.

Other policy changes to be included in the reform program would include decentralization of the public accounting function and enhanced accountability of the chief accounting officers in the ministries. This decentralization, with appropriate shifts in authority over public expenditures—from the accountant general to permanent secretaries in ministries—would allow the auditing function to be severed from the accountant general's accounting function. It would also permit more accountability of the executive branch to Parliament through the autonomous functioning of the auditor general's office. These policy changes would be likely to affect the role of the state and the performance of state institutions, as well as to cause changes in key systemwide administrative functions.

Appendix B provides an example of the menu of institutional changes for strengthening accountability in Chile. Most of these measures seem relevant to the case of The Gambia and could be adopted in most African countries.

The capacity building–technical assistance component of the Bank's SECAL to The Gambia would focus on strengthening those units of government that support such functions as budgeting, tax policy and administration, and the enforcement of sanctions. The centerpiece of this component would be the creation of an autonomous authority for tax and customs management similar to the Ghana enclave discussed earlier.

LESSONS FROM THE IEA EXERCISE. Although the IEA exercise fell short of producing the proposed SECAL (the government was toppled by a military coup), there are several lessons to be learned. On the process side, the exercise provided a forum for participation with upward and downward communication, enhancing awareness of environmental impediments to civil service performance. The workshop format created a climate for frank discussion of the central problems affecting the functioning of the civil service, as well as their root causes. The postworkshop feedback indicates that roughly four out of five participants were satisfied with the process. The assessment was very successful in building consensus regarding the priority problem areas in terms of economic management and civil service reform to be addressed by the SECAL or other donor assistance. More important, the exercise created a network of key players who actively participated in the diagnostics and the prioritization of reform action.

On the substance side, the IEA exercise has accelerated several reforms by the government on its own without the leverage of conditionalities through the SECAL. The measures taken included establishment of a genuinely autonomous auditor general's office with appropriate staff, creation of an autonomous revenue board, establishment of a complaints committee with the functions of an ombudsman, revision of the court system to make it more efficient and accessible to citizens, and adoption of a code of ethics for civil servants (similar to the Ugandan model) to discourage corrupt practices. Most of these initiatives were approved by the presidential cabinet.

Insulating Economic Bureaucracies from Political Interference

EAST ASIA'S EXPERIENCE. The experience of the high-performing Asian economies (HPAEs) in insulating economic bureaucracies from political turmoil and interference provides useful lessons and best practices for minimizing the impact of patronage and clientelism on economic management in Africa. This is a broader version of the enclaves recommended in the governance approach to civil service reform in Sub-Saharan Africa. Safeguarding the ability of economic technocrats to formulate and implement policies in line with politically formulated national goals, through the political insulation of the bureaucracy from undue interference by politicians and special interest groups, has been the gateway to sustainable rational economic policies in the HPAEs and the key to effective and enduring growth and wealth-sharing mechanisms. Hong Kong, Japan, and the Republic of Korea all boast vigorous traditions of insulation—particularly of the bureaucracy. Political insulation calls for supportive mechanisms and institutions. Although qualified and dedicated political leaders (such as Park Hung Hee in Korea and Field Marshal Sarit Thanarat in Thailand) are essential to initiating the process, they are not sufficient to make it sustainable. Indeed, insulation is likely to fall by the wayside if it is not institutionalized.

In Japan, insulation characterizes nearly the entire bureaucracy, not just the economic technocracy. By shifting the accountability and dependence of the bureaucracy from the political leadership to a supraministerial and independent institution—the National Personnel Authority—the bureaucracy was assured of a total independence that enables it to fend off pressure from politicians and individuals in the private sector. Headed by a powerful triumvirate of three commissioners who, once appointed, cannot be

removed by the executive branch, the National Personnel Authority sets the bureaucracy's pay scales and promotion policies, administers civil service exams, and makes most appointments. This political insulation has elevated the bureaucracy into an independent countervailing power capable of withstanding the vagaries of political change as well as successfully resolving pressures from interest groups and politicians. For example, the prime minister has the power to appoint only a few individuals to the ministries. In addition to naming all ministers, he can appoint only one of the two vice ministers in each ministry (that is, the parliamentary vice minister); the powerful second vice minister (in charge of administration) always rises through the bureaucratic ranks.

In Korea the bureaucracy also enjoys a long tradition of independent policymaking, boosted in 1961 by the creation of a powerful economic planning board that has broad budgetary authority. Administrative control over the banking system confers strong bureaucratic leverage over big business, which relies on government-backed financing for rapid expansion. Although their bureaucracies are not as thoroughly insulated, most of the other high-performing Asian economies have in common small, ideologically consistent technocratic bodies (mostly for economic management) that enjoy virtual freedom from political interference and from the patronage of political leaders and other sources of political pressure.

Technocratic and bureaucratic insulation can also be attained through more indirect means. Hard budget constraints (as in Thailand) and wealth-sharing mechanisms reduce incentives for lobbying because of the virtual certainty of securing a share of the economic pie as well as because the reduced share of individual allocations raises the marginal cost of lobbying. The reorganization of labor from industrywide unions into company unions, together with labor-federation provision of goods and services, also limits lobbying by reducing the marginal benefit and increasing the marginal cost of collective action.

Bureaucratic insulation can be a double-edged sword. Hence the crucial need for control mechanisms to nurture accountability, competence, and honesty and to prevent bureaucrats from becoming a law unto themselves. Such outcomes demand changes in the civil service itself and attempts to forge an alliance (or reconciliation) between such changes and prevailing cultural norms. Three principles underlie the measures introduced in the civil services in the HPAEs. First, recruitment and promotion must be merit-based and highly competitive. Second, total compensation, including pay, fringe benefits, and prestige, must be competitive with the private

sector and performance-based. Third, those who make it to the top should be amply rewarded and guaranteed security.

In Japan, recruitment centers on highly competitive civil service examinations in which the rate of success has been less than 8 percent (only 2.7 percent in 1980). Promotion rests on a combination of seniority and an array of performance indicators that differ among ministries. Competition for promotion is intense, since the number of personnel in the bureaucracy is fixed by law. Korea also relies on examinations and performance, recruiting heavily among academics with advanced degrees. There is also a palpable effort to match private sector wages. Taiwan (China) and China also recruit heavily from academia, chiefly to offset weaknesses in the examination system. In the premier league of high-performing countries, Singapore, which is widely reputed to have the region's most competent and upright bureaucracy, pays its bureaucrats best. In Japan, to keep up with the private sector, the National Personnel Authority annually surveys thousands of companies to determine job pay rates. In Indonesia, where private-sector pay far outstrips that in the public sector, the bureaucracy is perhaps the least well regarded among the HPAEs. A well-defined, competitive career path with a substantial prize for those who make it to the top exists in Japan, Korea, Malaysia, Singapore, and Taiwan (China), in differing degrees. In Japan substantial rewards await a successful bureaucrat; these extend beyond pay, perks, and prestige to include a golden parachute in the private sector for those whose success in the civil service was not sustained.

Performance-based incentives and very selective examinations for recruitment thrive in these Asian countries. They blend into cultures that set high store by prestige and competence and venerate scholastic achievement as evidenced by success in written tests. Mechanisms that tap competence also enhance honesty; stooping to corruption means outright disqualification. Strictly enforced dismissal procedures play a key role. In Singapore large- or small-scale corruption is penalized by expulsion from the civil service and the withdrawal of one's pension. A civil service that guarantees job security, nearly matches the private sector in terms of pay, and is staffed with high achievers who have survived the crucible of rigorous examinations has a vast fund of prestige, and employees will be loath to jeopardize a career in it. A strong correlation appears to exist between adherence to the above principles and bureaucratic performance in the Southeast Asian economies. Indeed, the pecking order in terms of bureaucratic and economic performance closely mirrors the extent of the application of the above guidelines.

INSULATING THE BUREAUCRACY IN AFRICA. The adaptation of the above system to Sub-Saharan Africa could include guaranteeing the autonomy of public service commissions by investing their politically independent and neutral referral and enforcement authorities with responsibility for all personnel management issues concerning the bureaucracy. The proposed political insulation should be combined with a highly competitive and merit-based recruitment, pay, and career development system (see Dia 1993) and should also build on culturally congruent incentives. Through a twinning arrangement with Singapore, Botswana is presently adapting the Asian model to its civil service.

Building on country experience both inside Africa (Ghana's National Revenue Secretariat) and outside Africa (East Asia, New Zealand, the United Kingdom), and using the framework outlined in the governance approach to civil service reform (Dia 1993) and the guidelines on salary supplements agreed upon by the donors in the Special Program of Assistance for Africa, linkage to performance could be achieved by following three steps. The first would be to create a pay and employment system for civil servants allowing them to choose from three options:

- The status quo: guaranteeing security and not linking pay and career development to performance. Those choosing this option would be entitled only to the statutory nominal salary and not to other benefits.
- The performance-based option: no guaranteed security of tenure, but a compensation package (nominal salaries and additional benefits, bonuses, and so forth) could increase to a multiple of the nominal statutory salary, depending on performance.
- The exit option: resigning from the civil service and, for those who elect to work in public enterprises or donor-driven enclave institutions, moving to the private sector contractual system.

The second step in linking pay to performance would be to simplify performance measurements. Instead of devising complex indicators, periodic client surveys could be used to assess client satisfaction with the quality of services provided by civil servants. The client survey of civil service performance conducted by Monte Palmer in Zambia provides an excellent model for such surveys (see Palmer, Kondowe, and Palmer 1993).

The third step would be ensure sustainable funding of salary enhancements. To minimize donor dependency and ensure sustain-

ability, all current allowances and non-family-related benefits should be monetized and allocated to supporting the performance-based option. In addition to local funding, donor-supported funds (similar to the salary fund in Mozambique or the proposed trust fund in Uganda to be sponsored by the United Nations Development Programme) could be used to facilitate the transition and jump-start the program.

The choice among the options and the system for the related evaluation of performance would be made by departments or units instead of by individual civil servants. The aim is to capitalize on the group dynamics prevalent in Africa and to simplify the process for monitoring and evaluating accountability and institutional performance.

As highlighted in Chapter 1, the preservation and strengthening of status within the group and of social capital are crucial incentives in the African context. It has been shown, for example, that fear of ostracism and loss of social status is the major deterrent to defaulting on loans from traditional rotating savings associations. Incentives linked to upward or downward social mobility would make good performance almost a matter of social survival. For instance, the mere threat of making public the names of tax and customs evaders and other culprits guilty of corrupt practices would be a strong deterrent in African societies, where losing face and social status has an impact not only on the individual but also on the family.

On the positive side, the rewards that could increase social capital would be highly valued. Such rewards could, for instance, take the form of establishing a specific honorific medal or other distinction to be awarded by the head of the state to the best-performing civil servants in a highly publicized yearly event. Such an approach would be similar to that followed in Korea, where the head of state annually honors those business leaders who have done the most to expand export activities. Similar social incentives were also successfully used by the Bamileke tribe in Cameroon ten or twenty years ago. A group of Bamileke chiefs rewarded dynamic individuals who had succeeded in business with an opportunity to move up in the traditional social hierarchy by buying a title of nobility or gaining admittance to secret societies. Social sanctions (positive or negative) seem to be most credible and effective in the generally collectivist context in Africa.

Through a twinning arrangement with Singapore, Botswana is presently adapting the Asian model of linking pay to performance to improve the productivity of its civil service. In 1993 the Botswana Institute of Administration and Commerce (BIAC) and Singapore's

Civil Service Training Institute agreed on such an arrangement with a view to introducing work improvement teams (WITs) in Botswana. WITs are well established in Singapore as a mechanism for improving the performance of the work force in the public sector and have been credited with the successful implementation of 22,000 improvements in public sector organizations. The program involves visits of selected civil servants from Botswana to Singapore to train as WIT leaders, as well as visits of experienced WIT trainers from Singapore to BIAC to assist in the local training of WIT leaders. On average, a Botswana WIT has twelve members, and WITs are reported to be functioning in four pilot ministries.

Improving the Rule of Law and Other Functions

As emphasized in the Introduction, enforceability of the rule of law and institutions (as rules of the game) can be strengthened only if the institutional and legal framework reflects societal norms and behavior, as enshrined in indigenous and informal institutions. Such reconciliation between formal and informal or customary institutions has been achieved in Botswana and Ghana in the rule of law and land allocation, as well as in the interface between state and local governments. And in The Gambia reconciliation was used to strengthen popular participation and improve the responsiveness and relevance of policy. In Ghana and Botswana such reconciliation was made possible mainly through the maintenance or legitimization of chieftaincies in partnership with formal governance systems. In The Gambia reconciliation was achieved by involving village-level development communities in the policy area. This chapter will present these country experiences not only as illustrative cases but as best practices in reconciling indigenous and formal governance institutions for the improvement of rule of law and other governance functions.

Reconciling Central Government and Indigenous Chieftaincy in Botswana and Ghana

Studying the lessons of experience with the customary institution of chieftaincy in both Botswana and Ghana is important for several reasons.[1] First, as elsewhere in Africa, chieftaincy in both countries is the oldest institution. For example, among the Ashanti, chieftaincy dates as far back as 1701. Second, the institution is still culturally entrenched in the social fabric of these countries. It is generally closer to the people than any other institution and operates at all levels of the society. Third, unlike other African

countries in which chieftaincy has been officially abolished, customary authorities in Botswana and Ghana remain resilient. Enshrined in the national constitutions (1966 and 1992, respectively), they perform many functions: symbolic, administrative, and judicial. Finally, the importance of chieftaincies is also illustrated by their ability to attract some of the best-educated persons and professionals. Especially in Ghana, some are spending large sums of money and giving up lucrative positions in government or private practice to become chiefs. Others are combining their careers with chieftaincy duties on a part-time basis as absentee chiefs. Examples include the Omanhene of Juaben, a qualified electrical engineer, and the Konongohene, a retired accountant who had considerable experience in commerce before being enstooled.

Not only are chiefs important as an additional governance institution, but understanding their roles and functions is crucial to improving the provision of public services to local communities. This is central to the present debate in several African countries (such as South Africa and Uganda) on the most effective way of balancing greater empowerment for local communities (which is of necessity a force for stability in ethnically divided societies) and the need to preserve national unity.

We review below how this reconciliation between the central government and the indigenous governance of chieftaincy has helped improve the legitimacy and enforceability of the rule of law and property rights (land allocation) as well as the delivery of other administrative and symbolic services to the local community.

RECONCILING CUSTOMARY AND STATUTORY LAWS IN BOTSWANA AND GHANA. The judicial reconciliation of the customary and formal legal systems is a key successful feature of the rule of law in Botswana. At the AM90s Dakar workshop in September 1994, Chief Linchwe described how the Botswana dual judiciary system works:

> We have two systems in Botswana—the common law system and the customary courts. If a citizen wishes to instigate legal proceedings, he or she can choose whether to go to common law courts or to go to the customary law court. If the case starts in the common law courts, there are lawyers; if it goes to the customary courts, there are no lawyers employed. So in Botswana, every main center in the rural areas has got a magistrate, and there is a magistrate court. From the magistrate court, the case then goes to the high court of Botswana on appeal. But if the citizen starts proceedings in the customary courts, the case will start first of all from the

> home—from the family—and then go to a village headman. From the village headman, it goes to the paramount chief's court, and from there to the customary court of appeal, the headquarters of which is in Gabarone, the capital—and that is where I am myself. From the court of appeal, the case goes to the high court of Botswana. It is then that the citizen can employ the services of a lawyer.
>
> But the important thing about this procedure is that, even if a citizen appeals to the high court, the rules of procedure laid down for the customary court are going to be applied by the high court. There is absolutely no departure from the rules of procedure. So that even if the person employs a lawyer, what the lawyer will do is ascertain whether the rules of procedure have been properly followed. He cannot apply common law rules of procedure dealing with a case appealed from the customary courts.

The reliance on customary courts for the adjudication of disputes in Botswana is high: about 78 percent of all litigation. Moreover, the percentage of criminal cases, relative to civil suits, in litigation in customary courts is increasing because of the increase in juvenile delinquency and a changing social order in villages, particularly in large villages. Chiefs point out that the number of reported cases is misleading in terms of actual dispute settlement, since they themselves often mediate family disputes and find the culprits—the wife-battering husbands, the fathers-to-be of pregnant young women, and so forth. Civil suits are moving to the magistrates' courts as cases go beyond local family law into the larger tort arena and as litigants are increasingly urban.

The court clerk is the most important administrative position in tribal administration after the tribal secretary. He or she schedules cases, records proceedings and judgments at the customary court (chief or subchief presiding), and reports outcomes to the Ministry of Local Government, Lands and Housing. In Botswana fines are collected and arrest warrants are executed by local police (as distinct from the national constabulary). However, the tribal administration must secure the warrant, and often the means of transportation, from the district administration (which represents the central government).

The rural model of customary courts is being replicated in the suburbs of the capital city and larger towns in Botswana. The presiding officer, a court president, has no hereditary connection, but he conducts proceedings and makes judgments according to customary law—a code that is in part recorded and in part peculiar to

a chief's use or claims about what it says. The popularity of the customary court that has now been operating in periurban Gabarone for three years relates to its low cost (no attorneys' fees) and timeliness of decision.

In Botswana customary court judgments are appealed in a customary appeals court that is parallel to the magistrate system and ends at the Ministry of Local Government, Lands and Housing—not at the Ministry of Justice. In Ghana the regional and national houses of chiefs are the appellate institutions. In Botswana one innovative response to the increasingly labor-intensive role of chiefs and subchiefs in village dispute resolution (owing to disruptive juvenile behavior) is that a paramount chief has reinstated previously abandoned initiation schools in an attempt to use a traditional training mode to socialize youth into more civil community behavior.

In Ghana the chief and his council constitute the law courts in the community. The paramount chief acts as the chief justice of the traditional court. Depending on the gravity of the issue, the case may be tried at a lower or higher court. Appeals may be made to a higher court. Theoretically, any case may be taken directly to the chief's court irrespective of its nature or gravity. In practice, however, chiefs deal with civil cases, especially those involving family disputes and land ownership and minor criminal cases. Nevertheless, chiefs have no policing powers to force defendants to come to court. In fact, over half (56 percent) of the people interviewed in the Volta region indicated that the chief's policing powers were breaking down. Moreover, there is jurisdictional overlap, since it is not always clear which cases should go to the lower or higher traditional or government courts.

The acephalous Konkombas have a more grassroots procedure for resolving conflicts, starting at the family level. The head of each unit is an arbiter, and cases may be presented at any point. Most minor cases are settled at the family level, but lineage and clan heads have appellant roles. It is rare for cases to be appealed to higher levels because the Konkomba legal system places more emphasis on reconciliation of the parties than on punishment of the guilty.

Conflict is seen not only as a problem for the individuals at odds but as a threat to the cohesion and harmony of the whole community. It is therefore important to find mutually acceptable, prompt, and lasting resolution so as to maintain group harmony. This is one reason why cases are often heard by a group of elders rather than a single individual, so as to give the ruling a broader base of community support and sanction.

Among the Ashanti, although the number and complexity of cases handled by the traditional courts have declined, the courts are still kept busy. There is specialization in that the female court system, represented by the queen mother's courts, concentrates on resolving intra- and interfamily disputes, while the male courts deal with conflicts regarding land acquisition and utilization.

It is common practice for parties involved in a conflict to ask traditional rulers to withdraw a case from the government court for redress in a traditional court. If the parties are not satisfied, the traditional court is obligated to refer the case to the government court. It has been estimated that in 90 percent of the cases, people accept the decisions of the traditional courts.

LAND ADMINISTRATION. In Ghana the chief also administers stool lands by allocating land for farming, building, government, and NGO projects and by granting concessions.[2] In the two traditional areas studied, all migrant farmers receive their land allocations either directly from the chiefs or indirectly through clan heads, with final approval from the chief.

In Botswana chiefs have ceded this role to land boards—units of the local government with technical staff and independence from both tribal authorities and elected district councils. At the same time, chiefs maintain a "no objection" sign-off prerogative for land board allocations in their tribal areas, as well as an overseer role regarding land use. Land disputes are heard by the land board, not the customary courts, but a chief may give evidence.

With population growth and increasing claims on stool or tribal land, land becomes dearer, and conflicts over the quality of the chief's stewardship increase. In Ghana the practice of chiefs actually selling off stool land for community gain is not uncommon. The Botswana approach certainly represents some erosion of a traditional institutional function, but the environment of scarcity has put a premium on qualitative recordkeeping, husbandry, and fairness. The Botswana case shows that traditional institutions can adapt to the requirements of modern management without losing their credibility or their standing in the eyes of citizens.

SYMBOLIC, CULTURAL, AND RELIGIOUS FUNCTIONS OF CHIEFTAINCY. In Ghana the chief is the symbol of unity among his people, the spiritual and secular head of the clan, the sovereign ruler, the commander in chief, and the highest judicial authority. The clan is made up of the dead, the living, and the unborn, and the chief acts as the intergenerational linchpin. It is his job to preserve peace and harmony among his people and to protect and preserve stool

property and interests, be they material, cultural, spiritual, or symbolic. Working with the council, the chief, as spiritual head, organizes ceremonies and prayers for community well-being and for special occasions such as funerals, births, and marriages. These traditional ceremonies may include offerings to ancestors, sacrifices to the gods, pacificatory rites, purification of the land, or prayers for rain or food. In the Volta region, about 69 percent of those interviewed mentioned the 1983 severe drought and hunger period in Ghana as an instance when the chiefs poured libations to solicit the help of gods to intervene and save the people.

Among the Ashanti, the best-preserved function of the chief is that of the observance and performance of traditional rituals. These are related to various festivities, such as remembrance of the dead (Akawasidae) or the beginning of the crop harvest season (Odwira). These functions have not been interfered with by the central government. In both traditional areas studied—Offinso and Juaben—despite the advent of Christianity, many indigenous Christians actually believe in and participate in the rituals. This is more so in rural Offinso than in the more cosmopolitan Juaben.

OTHER FUNCTIONS. Chiefs or their assistants perform other functions, the nature and importance of which vary by territory and clan. Here we mention only a few with potential policy and operational implications. First, the institution performs functions that contribute to environmental protection: fighting bush fires, controlling hunting, and, in the north, looking after the welfare of the individual trees—the responsibility of special tree chiefs. Although the Dagombas believe that if you plant a tree you will die before the tree dies, arrangements can be made for outsiders to plant the trees and assign them to particular chiefs. Since the chief is the traditional custodian of the land and since the land is culturally, spiritually, and economically important to the clan, enlisting the prestige of the chief helps protect the land. In most regions, the expression "the land belongs to the chief" is quite powerful.

Second, the institution is responsible for the mobilization of resources such as communal labor, and in the north it provides specialized services for community butcheries, thus contributing to consumer protection. A variety of social and economic development tasks are also performed, including construction of wells, roads, and pit toilets with improved ventilation. Chiefs also participate in providing land for development projects conceived by the government, NGOs, or the community itself.

Table 3-1 summarizes customer and constituent feedback on chieftaincy performance in Ghana's Volta region. The ratings are

clearly more favorable than the ones for the Zambian central government described in Chapter 2.

SUMMARY. Both of the AM90s chieftaincy studies illustrate measurable, even if sometimes sporadic, levels of renovation and reconciliation, as indicated by the institution's overall ability to learn, change, and provide new services while maintaining acceptable levels of cultural congruence. Conversely, in Ghana there are still definitive pockets of "conservationism" that can impede the efficiency of the institution, particularly in isolated areas where illiterate junior chiefs have circumscribed their areas of power to the point that they do not interact with any other development or formal governance institutions. The National House of Chiefs could also be regarded as conservationist in its dealings both with junior chiefs of acephalous groups and with women, who desire representation throughout the institution. Overall, however, the institution's high legitimacy ratings and the consistency and growing nature of its services in maintaining and reconnecting local and central government justify its definition as a very important renovating institution. This continuing and important role and the contributions of the chieftaincy institution need to be recognized by both donors and national governments interested in promoting sustainable local community development.

Table 3-1. Citizen Performance Ratings of Chieftaincy Functions: Volta Region, Ghana

	Rating (percentage of responses)		
Function	*Positive*	*Negative*	*Reasons given*
Judicial	73.3	26.7	Nonbureaucratic, familiar, accessible nature of traditional courts
Religious/cultural	80.0	20.0	Sacred nature of the institution
Legislative	33.4	66.6	Centralization of function to the government of Ghana
Symbolic	64.4	35.6	People turn to chief if there is a problem in the village
Military/security	91.1	8.9	Institutional nostalgia; alienation from modern security agencies

Source: Kiggundu and Dasah (1993).

Strengthening Village-Level Participation in the Policy Framework

In The Gambia, reconciliation between formal and indigenous, customary institutions has emerged in respect to policy. As described by Saihou Sanyang during the AM90s Dakar workshop, The Gambia has established a village-state partnership in the area of policy design and implementation through the use of village-level development committees (VDCs).

The Gambian system of local government is significantly geared toward facilitating grassroots participation in community development and ensuring that projects being undertaken at the central level reflect the concerns of local communities and involve their participation. Structures have been put in place to ensure that the development effort involves the entire community, down to the smallest village, and that channels exist whereby the community's or villagers' essential development concerns are transmitted to policymakers at the national level.

VDCs constitute the lowest tier of the Gambian system of community development. They have two basic functions: formulating, at the village level, policies calculated to enhance local participation in community development projects; and coordinating all village-level development activities. All of the various ethnic, social, and other segments of the area are represented on these committees. Superordinate to the VDCs are district development committees, which coordinate the diverse development-related schemes articulated by the village-level committees under state projects such as the National Population Programme, The Gambia Environmental Action Plan, and the Strategy for Poverty Alleviation and which determine their districtwide policy ramifications. They are usually chaired by a traditional chief, who is required, in the course of project implementation, to maintain a balance between policy and certain legal, social, and even tribal considerations. Next in the hierarchy of structures of community development is the divisional development committee, which supervises implementation of ongoing projects in the various districts that fall under the divisional commissioner's jurisdiction. Since the establishment of the VDCs, the divisional commissioner's role, which used to be essentially judicial, has undergone a progressive mutation and is now tilted toward the provision of development services to local communities.

The priorities of the district development committees have to reflect the recommendations of the VDCs. In a way, the commissioner's annual report to the Ministry for Local Government serves as a bridge linking local communities and the public service; it is a

useful conduit whereby villagers' concerns can have an impact on the national development agenda. Thus, public policy—instead of being the fief of the bureaucracy—is generated from the grassroots. Those chiefs who represent chieftaincy in Parliament can also give voice to the concerns of local communities, further increasing the prospect of more community-sensitive public policy.

These institutional changes suggest that in The Gambia the knell has sounded for the top-down approach to community development. The preparatory stages of the current major flagship national projects—the National Population Programme, The Gambia Environmental Action Plan, and the Strategy for Poverty Alleviation—were all characterized by heavy grassroots participation. National dialogues were conducted, and permanent secretaries, commissioners, and all of the key implementation agents visited the villages to identify local priorities and to achieve the best match between those local needs and the projects in the pipeline. In so doing, they not only elicited the villagers' views but also laid the groundwork for subsequent empowerment, accountability, and transparency.

Conclusion

The cases discussed above indicate the value of recognizing formal and informal institutions in attempting to strengthen accountability, enforceability, and incentives. Regarding economic management, Ghana's enclave experience with balancing accountability and autonomy from political interference to improve tax and customs management provides a good example. However, although successful and built around local institutions and skills, Ghana's experience raises the issue of mainstreaming and sustainability. While hiving off strategic parts of the public administration and giving them full autonomy and special privileges produces results, it does not resolve the systemic institutional problems identified in Chapter 1. It also does not address the issue of strengthening accountability to ensure, for instance, that the drive to meet revenue targets and related reward systems will not lead to increased inequity in enforcement and to loss of morale elsewhere in the public service for those who lack access privileges and increased pay. Thus, while the enclave might be a convenient transitory mechanism, it needs to be accompanied by or, better yet, included in the sequencing of a more systematic reform program to tackle the institutional impediments to the mobilization and allocation of core resources and to the performance of the economic management functions outlined in Chapter 1.

The Gambian experience with the governance-IEA approach to civil service reform; the Ugandan program for enhancing ethics, transparency, and accountability; and the Asian model for insulating bureaucracy from political interference provide good examples of the application of these broader long-term reform programs to complement the short-term (but necessary) quick-fix enclaves. The ultimate goal is to move away from a bureaucratic and control-oriented economic management where the emphasis is on the exercise of power as an instrument of exchange to one where the emphasis is on accountability in the civil society and where rewards and sanctions reflect performance and merit.

Expanding the incentives framework to include the indigenous cultural dimension will help strengthen the legitimacy, enforceability, and motivating values of the rewards and sanctions system to improve economic management. The aim is to identify (as part of the institutional assessment exercise) specific indigenous incentives and sanctions that can connect central government institutions and the civil society and legitimize accountability and enforcement systems. But as shown here, it is mostly in the area of rule of law, including land administration and service delivery to local communities, that institutional reconciliation of the state and civil society becomes crucial. In these areas, indigenous informal institutions operate side by side with formal institutions, and reconciliation and convergence would be necessary to achieve legitimacy, enforceability, and sustainability. The reconciliation of community-based customary and formal justice in Botswana is a good illustration and best-practice example of how institutional reconciliation can improve the rule of law. It requires, essentially, ensuring convergence of the goals of formal and informal institutions by giving both sets of goals the necessary equal legitimacy and by giving citizens the freedom to choose one or a combination of both to fit their needs. The demand exercised by citizens will act as a catalyst for renovation and adaptation.

Notes

1. This section draws in part on AM90s research provided in Kiggundu and Dasah (1993) and in Morgan (1994).

2. Stool lands are those belonging to the chief's family, whose authority is symbolized by a golden stool.

4. Capacity Building for Poverty Reduction

That the public sector is not the best and most effective provider of all public goods and services is no longer a matter of controversy. Although earlier debate on the reform of the public sector focused on the comparative advantages of the public and private sectors, respectively, in the provision of public services, it is increasingly accepted that local communities and voluntary organizations can play a crucial role. Table 4-1 identifies areas where this third sector has a comparative advantage over both the public and the private sectors.

This chapter analyzes experience with three other innovative alternatives to government provision of public services—alternatives that rely on partnership between government and the private sector or sometimes the local NGO sector. These alternatives are:

- Government contracting out to the local private sector as the executing agent of projects—the AGETIP (Agence d'Exécution des Travaux d'Intérêt Public) model
- Community-based provision of public services—the NAAM model in Burkina Faso, the approach of women's groups to fighting AIDS in Uganda, and experience with building on indigenous institutions to improve primary health care in The Gambia and Zimbabwe
- The compact between the state, civil society or local community, and the private sector to improve the delivery of public services in South Africa.

Contracting Out Project Execution to the Local Private Sector: The AGETIPs

The AGETIP model for engaging private, nonprofit agencies to carry out public projects has been widely featured as a best practice and

Table 4-1. Reinventing the Government

Task	*Public sector*	*Private sector*	*Third sector*
Best suited to public sector			
Policy management	E	I	D
Regulation	E	I	D
Enforcement of equity	E	I	E
Prevention of discrimination	E	D	D
Prevention of exploitation	E	I	E
Promotion of social cohesion	E	I	E
Best suited to private sector			
Economic tasks	I	E	D
Investment tasks	I	E	D
Profit generation	I	E	I
Promotion of self-sufficiency	I	E	D
Best suited to third sector			
Social tasks	D	I	E
Tasks that require volunteer labor	D	I	E
Tasks that generate little profit	D	I	E
Promotion of individual responsibility	I	D	E
Promotion of community	D	I	E
Promotion of commitment to welfare of others	D	I	E

Note: E = effective, I = ineffective, D = depends on context.
Source: Osborne and Gaebler (1992).

successful case of management contracting. Its characteristics, objectives, and merit are summarized in Box 4-1.

Given the success of this experience in Senegal, it is presently being replicated in several African countries of the Sahel subregion, including Mali and Niger. Two issues that still remain unresolved relate to the future sustainability of AGETIPs without donor funding and to the ownership of the infrastructure by the local community and beneficiaries. Regarding sustainability, the question has been whether or not the heavy reliance of AGETIP on donor-funded projects creates a donor dependency that could compromise its sustainability without donor support. While this might be important for the long run, it is clearly unlikely to be a burning short-term issue. The development needs of African countries are likely to require donor support for the foreseeable future.

The second issue is the extent to which AGETIPs have been able to build strong ownership of the local community through a partici-

Box 4-1. Involving the Private Sector in Africa's Urban Infrastructure

(The following is from World Bank 1994e: Box 2.6.)

If governments do poorly in executing infrastructure projects, why not leave it to the private sector? That is precisely what is happening in ten West African countries. The Agences d'Exécution des Travaux d'Intérêt Public (AGETIPs)—nonprofit, nongovernmental agencies for executing public works—enter into contractual arrangements with governments to carry out infrastructure projects. The AGETIP in Senegal, which has twenty professional staff members, has handled 330 projects in seventy-eight municipalities. It hires consultants to prepare designs and bidding documents and to supervise works, issues calls for bids, evaluates bids and signs contracts, assesses progress, pays contractors, and represents the owner at the final handover of the works.

AGETIPs use an integrated approach to design works that promotes competition while facilitating access for small contractors. Project designs take into account local constraints, labor markets, the limited output potential of small contractors, the weak project-identification capability of local governments, the availability of consultant architects and engineers, and the economic and social rationale of subprojects under consideration. Project eligibility and selection criteria are spelled out, with particular emphasis on labor-intensive methods. Open competition bidding weeds out inefficient operators.

Contracting out promotes the development of local contracting and consulting firms by creating demand for their services. The AGETIP in Senegal now has 980 local contractors and 260 local consultants on its books. It has reduced barriers to entry and made life easier for new, weaker firms by paying contractors every ten days; public entities typically take several months.

The autonomy given to AGETIP managers enables them to run efficient, impartial, and transparent operations, and the agencies' protected legal status shelters them from political pressures. A strong management information system and institutionalized personal accountability enable AGETIP managers to account for every project, supplier, payment voucher, and outstanding bill. All consolidated project accounts are independently audited every six months. There are also bimonthly management audits and an annual technical audit.

An evaluation of AGETIP activities shows that their 'corruption-free procedures' have allowed them to complete projects largely on schedule with a cost overrun of only 1.2 percent of the portfolio (cost overruns in public procurement average 15 percent of original estimates). AGETIPs routinely obtain unit prices 5 to 40 percent lower than those obtained by the administration through official bidding.

patory and consultative process to guarantee, among other things, the long-term maintenance of the infrastructure built. As the Bank's *World Development Report 1994* pointed out, "without sufficient local commitment to the infrastructure that is supplied, investments are not maintained" (World Bank 1994e: 74). Such public infrastructure generally is welcomed by communities as a gift from the government but is not locally nurtured by them. The Senegalese experience seems to suggest that in the early stages the AGETIP focused more on the physical implementation of the infrastructure project than on the process of building local community ownership. This is now being corrected in the second generation of AGETIP projects in Senegal (where a nutrition project is under way) and in Benin.

Empowering Local Communities and NGOs to Deliver Public Services

World Development Report 1994 also points out that "provision of local, and to some extent even national, public goods can be more effective when participation provides a voice for users and stakeholders" (World Bank 1994e: 74). Such participation also strengthens local ownership. As indicated above, the lack of a local "culture of maintenance" for government-sponsored infrastructure in Africa usually results from the lack of community and user ownership and empowerment.

The recent literature on agriculture extension systems strongly advocates greater farmer participation and reliance on community-based indigenous institutions, especially farmers' groups (Cleaver 1993: 67). To be successful in Sub-Saharan Africa, agriculture extension needs to rely more on methods and approaches that take into account the incentives and constraints that are specific to the local context. The societal attitudes, organization, and leadership that characterize the production unit must also be considered. The type of aggregation (lineages, kinships) and the size of the unit (large extended family or small nuclear one) will determine how land and labor are allocated.

If there is considerable pressure within the community for strict adherence to traditional, socially acceptable behavior, individuals may be reluctant to adopt innovations that tend to alienate them from the group. For instance, working on certain days or at certain times may be forbidden in deference to bush spirits. In part of Burkina Faso, the *chef de terre* has an absolute, mystical power over all matters relating to land allocation and new farming techniques. In such a setting, it may be necessary to adopt extension methods

that make the group, rather than individual farmers, the focal contact point. This approach was successful in introducing the training-and-visit system of agricultural extension in Burkina Faso.

There is ample evidence that communities and NGOs can play an effective role in delivering public services. This section analyzes several illustrative cases: the NAAM experience in Burkina Faso, women's organized response to the AIDS crisis in Uganda, the Bamako Initiative for rebuilding health services in Mali, and The Gambia's and Zimbabwe's experiences in using indigenous institutions to provide primary health care.

Groupements NAAM Community Development in Burkina Faso

The Groupements NAAM are solidarity groups whose main objective is the provision of services to their communities.[1] These groups have significantly increased rural technical innovation, environmental sustainability, and agricultural production, leading to considerable income growth from increased and more sustainable production. While private-sector profit maximization is definitely not the primary goal of the Groupements NAAM, their efforts to provide services to their communities have resulted in a focus on efficiency and quality production that definitively increases domestic savings. Because of the proven success of these groups, the concept is presently being adapted by several other African countries.

The importance of this approach to community development is that it represents a particularly successful example of a new set of "third generation" rural development efforts. In contrast to the earlier "community development" and "integrated rural development" efforts, this most recent expression emphasizes the role of indigenous local membership groups and support organizations (Smale and Ruttan 1994: 2). Since the inception of the NAAM movement in the late 1960s, a large network of NAAM groups has developed that now consists of more than 4,000 groups in approximately 1,000 villages in nine West African countries.

The Groupements NAAM is a renovated institution building on the traditional concept of Kombi NAAM, which

> was a temporary association of young men and women from the same age groups, reestablished spontaneously in each generation when they gathered to choose leaders and designate annual group activities. They worked in common fields, provided labor in the fields of those who demanded or were in need of special assistance, and were remunerated in kind according to the nature of the labor and the means of the

> household employing them. Certain other vital community tasks were collectively and cheaply completed by the youth association. At the close of the year, to mark the dissolution of that particular realization of the Kombi NAAM, they organized a festival to which youth of other villages were invited. (Smale and Ruttan 1994: 6)

For Bernard Ouedraogo, who founded the new NAAM organization in the late 1960s, the idea of using the traditional institution grew out of frustrations that he and his trainer-colleagues experienced with the malfunctioning agricultural extension services, cooperatives, and agro-parastatal systems in which they were working in the early 1960s. He and his colleagues were convinced, he explains, that the dysfunction and failure of such modern institutions was related to their lack of "roots." According to Ouedraogo, the dominant attitude of farmers was to take advantage of the donkeys, bullocks, carts, hoes, and other material made available to them by the modern organizations. But because these modern organizations discounted the local organizational features of the society (such as hierarchy and the role of elders), passive resistance developed among farmers; they took the resources but did nothing.

It was in these circumstances that Ouedraogo and a group of trainers began to consult with local communities about how they could organize themselves for increased productivity and development. Ultimately, the NAAM structure was decided upon, with three key renovating changes from the traditional Kombi NAAM institution: NAAM was opened to women and to all age groups that were generally excluded from the new, modern institutions; NAAM became a permanent rather than a seasonal organization; and a minimum of half the savings realized by the group was placed in a revolving fund used for development projects rather than for consumption.

According to Ouedraogo, the principle of self-responsibility is the heart of the NAAM philosophy. Accordingly, the new NAAM centers itself in the nature of the peasants themselves—how they live in their culture, what they know, the level of their capacity to develop technologies, and what they aspire to. Ouedraogo observes that with each successful endeavor, "the intellectual gymnastics required for problem solving increases, while fatalism (reinforcing institutional fundamentalism) decreases" (Ouedraogo 1990: 3).

Today, a typical NAAM group is composed of fifteen to twenty people. At the most local level, the groups generally are of the same sex, but at broader levels of organization the groups usually include both men and women. Several groups are usually formed in a village and then are brought together as Groupements NAAM.

These groups are then organized into federations at the regional level; the federations, in turn, are organized into a larger organization at the national level, the Union des Fédérations des Groupements NAAM. Today the organization is key to generating the social energy and cohesion necessary for technological innovation in difficult circumstances. For example:

> In 1986, members of several villages placed the finishing touches on the Somiaga dam in the Yatenga region, Burkina Faso. Over 500 meters in length and 4 meters deep, all except parts of the concrete spillway and wings were built by the labor—largely uncompensated, men and women—over a 5 to 6 year period (Ouedraogo). During the 1970s, farmers in Yatenga put some 60,000 hectares behind earthen dikes they built to harvest water and retain soil (Sanders et al., 1990). Finding that the earthen dikes were vulnerable to heavy rainfall, they switched to porous, stone dikes. By the late 1980s, despite an estimated labor input of up to 200 person-hours per hectare, over 8,000 hectares in more than 400 Yatenga villages were again laced with the more durable stone dikes. (Smale and Ruttan 1994: 1)

According to Smale and Ruttan (1994: 4), the example of the NAAM groups "illustrates why economists who study innovations need to attempt to move cultural endowments from an invisible position behind the utility function to a more analytical position in a jointly determined system with resource endowments, technology, and institutions." The story of the NAAM federations generated three observations that relate to this issue.

First, "cultural endowments may shape the propensities of communities to build or reform institutions that can serve as vehicles for their own socio-economic development." Here the values of group consensus, self-discipline, and self-reliance are all seen to reduce the cost of arriving at social consensus. Second, "such renovated institutions may facilitate certain technical innovations because (a) they provide the incentives for collective actions and public investments without which the proposed technique would not be profitable, or (b) they compound the economic benefits of a technical innovation by lengthening the planning horizon or adding psychic premiums." Third, Smale and Ruttan observe that the examples of the water retention work by the NAAM group in Yatenga "appear to have reduced the cost of institutional development and to have facilitated technical innovation in rural communities." They further point out that "by lengthening the payback

period for an individual's investment in mutual assistance and by altering the nature of the premiums, such groups may (i) encourage productivity—increasing technical change when short-term private costs appear to be prohibitive; and (ii) enable these changes to be sustained over time." In addition, these conclusions seem to provide a missing economic justification for solidarity and mutual aid groups in the role of technical change.

The AM90s study on the Groupements NAAM is therefore very important for understanding how renovated local community and indigenous institutions can generate the reconciliation and social energy needed for institutional and economic performance. High levels of renovation are illustrated by community-based service organizations, which, through their ethos of service to the community, increase productivity and domestic savings. The key institutional renovation changes—a greater role for women and the young, organizational permanence, and savings—have also allowed some (admittedly fragile) convergence between NAAM as a renovated indigenous institution and the formal financial and governance institutions.

It is interesting to note that while the AM90s research emphasizes the positive relationship that exists between consciously adopted solidarity practices and increased productivity, outsiders and formal institutions seem to have a difficult time with this conjunction. Donors intent on satisfying their own organizational needs for accounting and accountability are presently putting enormous pressure on Ouedraogo and the NAAM organizations to hire outside experts to manage their resources independently from the community-based institutions. Doing this would shift emphasis from monitoring the impact to monitoring inputs (commitment culture). The resulting overemphasis on input delivery and resource transfer will put these organizations into unfamiliar modes of operation that may impede their performance. It may be that substantial convergence will be achieved only when these solidarity-based economic endeavors, with their substantial contributions to both national domestic savings and group prosperity, come to be regarded as an African economic innovation similar to the shared-growth concept of Southeast Asia. The emphasis could then shift to building on these institutions as assets and endowments rather than attempting to build around them.

Ugandan Women's Response to AIDS

THE AIDS CRISIS. The interaction of war and AIDS in Uganda have placed overwhelming demands on the extended family and lineage

transfer systems.[2] To give a sense of the scale of the problem, in 1991 it was estimated that Uganda had 1.2 million children under 15 years of age who had lost one or both parents, mainly because of war or AIDS. Moreover, Uganda's AIDS Commission Secretariat estimates that 20 to 30 percent of the population aged 20 to 45 in Kampala is HIV-positive. Table 4-2 illustrates the current and projected magnitude of the HIV-AIDS problem in Uganda. The disease is growing so fast that it is threatening to outstrip famine or war in the sheer number of deaths it causes and in the social costs to which it gives rise.

The AIDS epidemic broke out just after the country began to pick up the pieces after twenty years of civil strife. As a result, Uganda's medical infrastructure and social services were in a state of collapse, unable to deal adequately with the crisis. Many doctors and health care workers had fled the country, mainly because of the war. Uganda was left with one doctor for every 20,000 inhabitants. Therefore, anyone who did not live in one of the larger towns had difficulty gaining access to professional medical help. Only a wealthy few were able to afford medical care.

In Uganda, as in other parts of Africa, AIDS is generally contracted through heterosexual contact or inherited by babies whose mothers are HIV-positive. As many men as women are HIV-positive, and most are young: most of the men are between the ages of 18 and 30, while most of the women are between 17 and 27. And despite massive prevention efforts, the disease is spreading at an alarming rate. All the forecasts are that Uganda will have almost 2 million HIV-positive individuals and a quarter of a million AIDS sufferers by 1998 out of a population of 20 million (that is, one person in ten will be affected). The same pattern is being repeated in other African countries. The World Health Organization has predicted that by the end of the century, 90 percent of AIDS sufferers worldwide will be living in developing countries, and most of these will be found in Sub-Saharan Africa.

THE FORMATION OF TASO. To respond to the AIDS societal challenge, Ugandan women began to form their own indigenous organizations. The most successful of these was The AIDS Support Organization (TASO).

TASO was founded following a series of meetings that began in Kampala in October 1986, when a handful of people came together in one another's homes to exchange information about AIDS, to support one another, and to pray. All but one of them either were HIV-positive or had already developed full-blown AIDS. The members of the group included a truck driver, a veterinary surgeon, a

Table 4-2. HIV, AIDS, and Related Statistics for Uganda, 1993–98
(thousands)

	HIV-positive		*Living with AIDS*		*Maternal orphans*[a]		*Cumulative new infections, 1993–98*	*Cumulative deaths, 1993–98*
Age group	*1993*	*1998*	*1993*	*1998*	*1993*	*1998*		
0–14	116	221	37	60	300	886	294	250
15–19	132	160	6	9	—	—		
20–49								
Women	571	694	56	83	—	—	673	565
Men	529	642	52	78	—	—		
50 or older	168	204	14	21	—	—		
Total	1,516	1,920	165	251	300	886	967	815

Note: 1993 data are estimates. Projections for 1998 assume that the current level of intervention is maintained.

a. Data are for children whose mothers have died from AIDS; some may have lost their fathers as well. There is insufficient data on the number of children who have lost their fathers only.

Source: Uganda AIDS Commission Secretariat.

waiter, a bookkeeper, a nurse, a teacher, and a scientist. By November 1987, when TASO was formally established as a nongovernmental organization, it numbered seventeen members (all of whom have since died). With financial help from a number of aid organizations (mainly British), two of the founding members were able to take training courses, and the organization was able to begin its work.

From the outset, it was decided that TASO must be a nonreligious, nonpolitical organization. "We wanted TASO to be open to all," said Noerine Kaleeba, the organization's original director. "We want everyone to feel equally at home with us." TASO's relationship with the Ugandan government was also clearly defined right from the beginning as a partnership. "Although you can't simply depend on government finance, it is important to gain support from the government," maintained Kaleeba.

COMMUNAL ASSISTANCE CENTERS. Since its foundation, TASO has grown into a larger organization operating seven communal assistance centers, all of which are linked to hospitals. By 1991 TASO had 200 staff serving more than 5,500 clients. Its centers are in Entebbe, Jinja, Kampala-Mulago, Masaka, Mbale, Mbarara, and Rororo. Patients are supervised from the moment they enter the hospital, but the care provided goes beyond the medical domain.

Assistance focuses on providing psychological and social assistance to patients and their families. Whole village communities also become involved. Trainers qualified by TASO work with volunteers, who together form village committees. The village is the focal institution around which all activities are built. TASO works only with villages prepared to organize themselves. A great deal of attention is permanently focused on AIDS prevention. TASO's objective is to change the attitude of Uganda's villagers and to make people aware of AIDS prevention measures. At the same time, the organization is also working on the social objective of persuading people to adopt a more positive attitude toward AIDS sufferers and individuals who have contracted the HIV virus. Village communities also help care for sufferers and assist with the economic needs of patients and their families. The goal is to build partnership between the village communities and TASO to help people affected by the disease in all their social, psychological, and economic needs without generating dependency and welfarism. This is what is meant by "social healing."

COUNSELORS, CLIENTS, AND THE COMMUNITY. The key figure in TASO's work is the counselor. This man or woman gathers information from the local community about the medical, social, and finan-

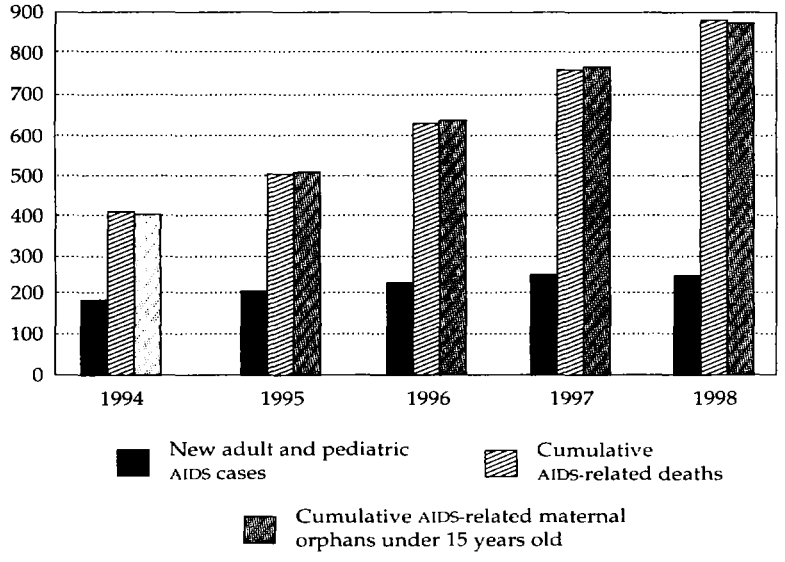
cial status of the patient and his or her family. Using this information, a dossier is then compiled on each individual, thereby enabling the provision of personalized assistance. Because of the nature of his or her work, the counselor is also ideally placed to act as a link with the local community, which can discuss all its problems. The topics discussed can cover a wide range of subjects, from emotional problems to education to moral, religious, and legal matters.

Consistent with the concept of social healing, TASO's clients are not just people who are HIV-positive or who have full-blown AIDS, but also their family members and anyone else who approaches TASO for support. TASO's clients must be prepared not just to receive help but also to help others. They will become involved in the work of prevention and can even learn to become counselors or trainers themselves. And they are given a say in the organization's most important decisions, as shown by the following examples. When the World Health Organization asked TASO to help it test a new drug, TASO asked its clients for their views. They agreed to let TASO take part in the experimental program, provided the drug would subsequently be made available to all Ugandans if it proved effective against AIDS. Similarly, when the organization was considering discontinuing the provision of free meals, which TASO's directors felt was making clients into passive recipients of assistance, the proposal was presented to the members themselves. Only after a debate that lasted several months was it unanimously decided to stop serving meals with every consultation.

Hence TASO fulfills a genuine social and economic role in the community, doing much more than giving support to people who are terminally ill or comforting them when they are dying. AIDS is the point of departure that allows all those involved to join together to think about their living conditions and how to improve them. TASO helps local communities devise their own ways of setting up appropriate activities and expects those involved to take responsibility for these activities. It is a powerful tool of community empowerment. So, from an organization whose main emphasis was on preventing AIDS—an objective that is still at the heart of its work—TASO has now grown into an organization that helps local communities to develop economic activities and generate the revenue to improve the welfare of its clients and their families.

HELP FOR ORPHANS. Naturally, people who know they are going to die of AIDS are extremely concerned about what will happen to their children. Who will take care of them? Figure 4-1 illustrates how adult AIDS cases and related deaths increase orphan status among children.

Figure 4-1. Projected New AIDS Cases, AIDS-related Deaths, and Maternal Orphanage in Uganda



Source: Uganda AIDS Commission Secretariat.

Traditionally, orphans in Uganda are taken in by the family of the deceased. However, the AIDS crisis has clearly strained this traditional social safety net. In some cases the surviving family will refuse to take in a child whose parents have died of AIDS out of fear that the child will infect them, because of ignorance about how the disease is spread. In other cases, adoption by other family members is simply not possible, since the entire social safety net system has collapsed because of the large number of people who are sick.

TASO's operative principle is that wherever possible, the best solution for a child is to be adopted by other family members instead of being placed in an orphanage. The organization's first efforts are therefore to find and persuade other family members or friends to take in the child. Potential foster parents are briefed about AIDS to remove misconceptions about the danger of catching the disease. The foster family is given as much help as possible to ensure that the child is not only fed and clothed but also given the chance to go to school.

Because there are not enough resources to help all orphans—as many as three-quarters of a million children are affected, and their numbers are growing fast—TASO has devised a selective formula to

help the most needy children first. For the most gifted children for whom no other home can be found, TASO arranges enrollment in boarding schools, to protect them from becoming caught in a vicious circle of poverty, sickness, and illiteracy. To avoid a stop-and-go process that can be detrimental to the child's development, TASO will fund the care of a child if no other solution can be found, but only if it can mobilize enough resources to guarantee the orphan's education for a period of several years.

A MODEL OF COMMUNITY-BASED ACTION. TASO has grown from a modest initiative launched by a handful of people into a model admired and imitated both within Uganda and beyond. TASO is now universally recognized as a leading reference point in the fight against AIDS. Neighboring countries send their own volunteers to be trained by TASO staff. It was in recognition of its outstanding success that TASO was awarded the 1994 King Baudouin International Development Prize.[3] Box 4-2, an extract from the presentation speech at the award ceremony, describes TASO's community-based concept of healing and its success in fostering institutional reconciliation.

The key to TASO's success is that although it conveys universal messages and actions to help the very poorest individuals in society to improve their lives, its approach is original in that it uses locally available solutions and institutions as critical endowments. The lessons it teaches go beyond the provision of help to AIDS patients. Instead, the aim is to provide more comprehensive psychological, social, and economic healing. The change in attitude that TASO is fostering in Uganda not only applies to the specific case of AIDS but also contains many other lessons that can be adapted to help resolve other development problems in Africa.

Building Primary Health Care Delivery with Local Communities

The problem of making health care available to the majority of the population continues to challenge health services in most African countries. Moreover, donor assistance in this area has been relatively ineffectual in terms of widening accessibility for the poor. A recent World Bank study, *Better Health in Africa* (World Bank 1994d), made the shocking discovery that 70 to 90 percent of donor and governmental resources being channeled to the health sector are invested in large urban and district hospitals, with very little going toward primary health care in villages in the rural areas. As only 10 to 20 percent of the population in African countries are urban dwellers, health care provision is heavily skewed in their favor.

Box 4-2. In Praise of Uganda's AIDS Support Organization

(The following remarks were made by Baron Didisheim as he presented the King Baudouin International Development Prize to the Ugandan organization TASO at the Royal Palace in Brussels on March 22, 1995.)

It is particularly significant that the Prize Selection Committee, whose dedication I salute and to whom I offer my most sincere thanks, has, after considering 180 candidates, recommended to the Board of Directors of the Foundation that the distinction forming the centerpiece of this ceremony be awarded to a truly African association—I am referring to The AIDS Support Organization, which is based in Uganda. At the heart of the idea we are honoring today, there is a personal drama shared by a small group of people, most of whom were threatened or even condemned; and who, rather than resigning themselves or waiting for outside help, had the courage to take their fate in their own hands. Their great merit is to have transformed a tragedy into a success. We are pleased to encourage a genuinely local NGO, which arose without any outside intervention. It is an example in the acceptance of responsibility and, moreover, a transferable model, which is certainly not a disadvantage in our eyes, since we make a point of supporting initiatives with a snowball effect. What we find particularly noteworthy is that, after only a few years, the system put in place to fight the specific problem of AIDS is being used for other purposes, in this case to promote community action and development work.

The message which you bring to us . . . therefore *reconciles solidarity and development* (emphasis added). It is a message of courage and it reflects the inexhaustible resources of the human spirit. For all these reasons we consider it an honor and a privilege to welcome you here with your colleagues and, with His Majesty's permission, to award you, on behalf of the Board of Directors of the King Baudouin Foundation, the 8th King Baudouin International Development Prize for 'the exemplary commitment of TASO to solidarity and community development and its prevention and support activities concerning AIDS in Uganda.'

This is a great disservice to village communities, where health and nutrition-related problems are usually most acute. Clearly, something urgently needs to be done, and community-centered primary health care increasingly suggests an effective and low-cost way of bringing about the needed improvements. Mali, The Gambia, and Zimbabwe demonstrate interesting advances in this domain.

THE BAMAKO INITIATIVE IN MALI. Launched in 1988 by the African ministers of health at a meeting sponsored by WHO and UNICEF in

Bamako, Mali, the Bamako Initiative is widely recognized as one of the most cost-effective, sustainable approaches to improving the quality of and access to essential health services.[4] Its characteristics, objectives, and achievements are summarized in Box 4-3.

The key factors behind the success of the initiative are decentralization of decisionmaking from the national to the district level, reorganization of health care delivery through the use of community-based institutions, and reliance on community financing and comanagement of basic health services, including provision of a minimum package of essential health services at the district level. The involvement of communities is clearly the most fundamental feature and key to the success of the initiative. It changes the balance of power between service providers and users and brings about a decentralized, service-oriented form of governance of

Box 4-3. Community Financing of Health Centers: The Bamako Initiative

(The following is excerpted from World Bank 1993c: 159.)

The initiative is based on two premises: that where public institutions are weak, as they are in many low-income countries, bottom-up action by communities is badly needed to complement top-down health policy reforms, and that even poor households are willing to pay for higher-quality and more reliable health services.

Under the initiative, members of local communities who use a health center or pharmacy agree to pay modest charges for outpatient care, including drugs. The revenues generated from fees are retained by health centers and managed by local elected committees. The committees reinvest in additional drugs (through a revolving fund), in incentive payments for health workers, and in other improvements. The government and donors assist health centers in purchasing inexpensive generic drugs, thus increasing the cost-effectiveness of services at the health center.

[The achievements of the initiative] are impressive. Eighteen African countries were participating as of late 1991, and nearly 1,800 health centers located in 221 districts were part of the program. In Benin the first forty-four health centers targeted by the initiative are covering 42 to 46 percent of their operating costs with user charges, and in the first seventeen centers in Guinea's program, user fees cover 38 to 49 percent of expenditures. Utilization of health centers has increased. In Benin average monthly visits to pilot health centers rose from 100 in 1987 to 250 in 1989.

public health systems. No longer mere recipients of health care, consumers become active partners whose voices count. Funds generated by community financing do not revert to the central treasury or health ministry but remain in the community and are controlled by it through a locally elected health committee. This is seen as a manifestation of a community's full partnership in the decisionmaking process and as a way of ensuring that the poor become better organized and more vocal in demanding health services.

Because this community-based approach to the delivery of health care has been so successful in Mali, it is presently being replicated even in countries outside Africa, including Cambodia, Myanmar, Peru, Viet Nam, and Yemen. Preparatory work is also under way to introduce the approach in Bangladesh, the Comoros, Mongolia, Morocco, Nepal, and Tunisia.

THE GAMBIA. Primary health care in The Gambia was given its initial impetus by the need to curb the high mortality rates—due largely to the use of unsterilized instruments—associated with traditional child delivery by birth attendants (often inexperienced midwives) in rural communities. In collaboration with the World Health Organization and other donors, the government of The Gambia initiated primary health care programs that brought together traditional birth attendants and trained them in safe home delivery, sterilization methods, weight monitoring, and other aspects of basic health care. Prenatal and postnatal care were the province of village-level health workers. From these modest beginnings, primary health care has since evolved into a comprehensive and highly structured system.

The Gambia's primary health care system encompasses a hierarchy of structures going all the way down to the grassroots. At the lowest level are village health workers who have been trained in dispensing essential drugs (such as Nivaquine and Paracetamol) to treat common but serious diseases, such as malaria. By virtue of their training, these workers have the basic diagnostic tools to identify the most common ailments and give first-level aid (that is, to prescribe the standard drugs or medication). If further treatment is warranted, the village-level health workers provide referral to the second tier of the health care system, which is represented by a resident community nurse who has received formal training under the auspices of the Ministry of Health. Such training generally goes beyond specific health skills to nutrition surveillance and follow-up as well as community mobilization skills. The resident community nurse thus commands a quite comprehensive mix of skills.

Backstopping the second tier is the regional public health nurse, who is usually more senior and has received university training. Regional health teams straddle the entire system of primary health care. They are usually headed by a medical officer and comprise subunits and additional staff, such as a nutritionist, a public health officer, and a nurse-midwife. The regional health center houses the health teams. The linkage between community-based services and the national level is crucial and comes into play in urgent cases, such as complicated obstetrical or gynecological cases. These are usually referred to the main hospital, which has facilities for cesarean section and other advanced operations.

Primary health care in The Gambia is therefore geared mainly toward heightening community awareness of health concerns and engaging the community in identifying both health problems and villagers who could potentially be trained as health workers. This marks a departure from the old system, in which the Ministry of Health dispatched to communities health inspectors armed with conventional models of health delivery and little familiarity with specific communal health needs. Community participation is pivotal in terms of both empowerment and involvement in environmental health and sanitation projects.

ZIMBABWE. Zimbabwe's achievement has been to nurture a symbiosis between the formal health sector and traditional healers in society, thereby greatly extending the frontiers of health coverage in the community at large. Uproar over claims that traditional healers were using the same instruments to treat both AIDS victims and other members of the community triggered a drive to regulate traditional medicine. The initial step was to put in place a legal instrument whereby traditional healers gained official recognition as an institution. Thenceforth, all would-be traditional healers had to register with the Zimbabwe Traditional Healers' Association. Ascertaining certification is easy, so although there are still some unregistered healers, people resort to them at their own peril. Interestingly, the current vice chancellor of the University of Zimbabwe is also the president of the Traditional Healers' Association. He can thus serve as an important bridge between the healers and policymaking bodies. Cooperation between traditional healers and the formal health sector has made important strides ever since the former established their credentials, reportedly by being able to significantly alleviate AIDS symptoms in some test cases they were presented with. Currently the University of Zimbabwe's medical school and the association are pursuing much joint research into

traditional medicines. In certain cases, these traditional medicines have actually been processed as capsules and dosages have been worked out for them.

Building a Triad among the State, Civil Society, and the Private Sector for Service Delivery in South Africa

In South Africa many communities have restructured themselves into legitimate, representative social institutions with the economic growth of their region as a prime interest. Such institutions have addressed socioeconomic needs through community-based projects in areas including education, housing, health, job creation, and recreation.[5]

These institutions vary according to the identified and prioritized needs of a community and may operate at national, regional, or local levels depending on the focus of the project. They generally take the form of volunteer forums, development trusts, nonprofit companies, or small working committees aimed at enhancing community development. These institutions facilitate participation in project delivery and therefore legitimize the development process.

The goals of these cooperative institutions are to (a) bring stakeholders together in a synergistic way; (b) ensure legitimacy and sustained participation; (c) advise on new policies, rules, and modes of operation; (d) facilitate project delivery by prioritizing needs, ensuring adequate funding, providing access to expertise and other resources, and monitoring delivery; (e) ensure capacity building and empowerment of all stakeholders; and (f) assist in dispute resolution.

One of the most interesting and remarkable institutional innovations among these cooperative arrangements in South Africa is the compact among the public sector, the private sector, and community structures to carry out social policy and deliver social services to the community. Often, the objective of such triads is the establishment of entrepreneurial development and job creation centers. This kind of initiative illustrates the reconciliation process taking place throughout South Africa and the Government of National Unity's Reconstruction and Development Program. Forums are created in which regional and local government bodies, community structures, and the private sector join forces to facilitate entrepreneurial development and job creation. Underutilized facilities, such as mining hotels in disuse, are turned into information and training centers, with space allocated for small businesses.

Through these centers, franchised businesses are customized for local use, and markets and products are identified and provided. Local government services, such as waste removal and health services, are providing business opportunities and jobs for local people. Local business, industries, and mines are encouraged to do what is called "affirmative buying" to stimulate business and industry and the circulation of capital within a specific community. Community facilitators are being trained to involve appropriate structures and members of the local communities, thereby helping connect different cultures.

These partnerships with heavy involvement of the private sector have shifted the emphasis in communities from pessimistic attitudes and controversial projects with high socioeconomic development costs to positive attitudes and projects with a high return on investment—culminating in a drive toward economic empowerment and political stability. Within communities, negative perceptions of large businesses have been replaced by a great deal of goodwill built on expected "win-win" outcomes from partnership in establishing institutions that secure economic growth and development for entire communities. Directors and shareholders of large companies involved in these initiatives are starting to realize that their corporate social investment funding is not a handout but an investment in their own future. Thus the triad has helped replace the zero-sum game prevalent in apartheid South Africa with a partnership built on convergence and synergy. Diversity is accepted as an asset rather than considered an impediment. A slogan often used for initiatives of this nature summarizes the spirit of these undertakings: "Together we will win."

The following section reviews three illustrative cases for putting into practice the proposed reconciliation paradigm for service delivery through the compact among the government, the private sector, and the local communities and NGOs. It concludes with a discussion of the key instruments that make the process work: the forums. These three cases are not intended to be representative of all South Africa. Each case illustrates the need for projects to link the search for legitimate institutions with the imperative of delivering tangible products. The three case studies were selected to cover the urban-rural continuum in South Africa and to illustrate cases in which both the private sector and state institutions launched interventions. In certain areas, the reconciliation process has relied on outside facilitators. In other cases, the process emerged virtually as a natural way of operation—demonstrating the almost organic nature of the need for participation and dialogue. In reviewing the cases, the twin aspects of substance and process are the focus.

Case 1: Building Schools in Disadvantaged Communities

During the preelection struggle in South Africa, dozens of educational structures were willfully damaged by people who perceived them as illegitimate structures put in place by an equally illegitimate Department of Education and Training. During this difficult period, the Genco Development Trust (GDT), the corporate social investment arm of one of South Africa's largest mining houses, facilitated the building of schools in underprivileged areas by establishing synergistic relationships between communities and the public and private sectors.

STAKEHOLDER CONTRIBUTIONS AND CLARIFICATION OF ROLES. Under an agreement that the GDT entered into with the Department of Education and Training, the stakeholders to be involved in the building of schools were the public sector, the private sector, the community, and the GDT. The Department of Education and Training, which was responsible for black education under the apartheid system, would contribute 75 percent of the funding for each school. The private sector would contribute 25 percent of the funding, as well as professional skills and organizational capacity. The building contractor, or "controlling contractor," was to be a private sector company. Target communities were to be involved in the specification of the type and design of school; they were also to oversee the building process, serve as labor resources, and ensure legitimacy for the process, which would be facilitated by the GDT. The role of the facilitators was to secure state support, private sector funding, and appropriate expertise, such as professional and technical advisers and outside facilitation to initiate the process at the local level.

The following professionals and technical advisers from the private sector would be required to oversee and monitor funding and to report to the GDT: an architect, a quantity surveyor, a structural and an electrical engineer, and an independent monitor. The monitor was to play the role of an honest observer and arbitrator; this requires good technical knowledge and understanding of the project process, sensitivity to the community and its ways, and familiarity with the funders so as to be able to give neutral feedback to all the stakeholders. As an independent monitor and source of information for all the schools built, this person would be well placed to disseminate lessons learned from the experience.

The controlling contractor was selected from a shortlist of candidates, on the basis of four criteria: (a) experience in working effectively with community structures; (b) willingness to follow the

process recommended by the GDT, which required considerable advance consultation and negotiation with the community, with no guarantee of payment; (c) willingness to accept a more than conventional risk and to adapt old styles in terms of the building process and contractual obligations; and (d) willingness to negotiate a profit on the basis of a 9–11 percent retainer of total project costs.

To help build local capacity, the process required the contractors to play a facilitative role rather than just to operate as building contractors. They would thus be expected, as much as possible, to draw labor from within the community instead of bringing a labor force from outside, and to train unskilled labor and satisfy the community's requirements through a process of continued contact with the community. Finally, the GDT had to appoint a panel of trained and experienced outside facilitators to help smooth community participation.

SETTING THE SCENE. The GDT started negotiations with the Department of Education and Training in June 1992. Procedures in this department (as indeed in other state departments) were characterized by a complex bureaucracy, with strict and time-consuming budgetary, tender, and other regulations. Through negotiation, the GDT obtained the department's agreement to allocate to the trust 75 percent of the funding required. The department also agreed to support the principle of significant local community contribution to the project, and to enter into a tripartite agreement with the private sector and local communities for the physical implementation of the projects. Negotiating and agreeing on the building contracts posed a tough challenge to the lawyers, business people, and contractors involved, in that the contracts had to be signed before full funding was available and all aspects of project design and implementation were worked out. In essence, contracts were built on trust through the expedient adaptation of old norms and traditions. From a priority list of new schools provided by the government, the GDT selected nine potential target communities in underprivileged areas with a dire need for education, mainly in the provinces of Transvaal (recently renamed Gauteng Province) and the Orange Free State.

IMPLEMENTATION. Three consecutive initiatives marked the start of this phase. First, the GDT had secured the 25 percent required funding from the private sector. Second, it had appointed an independent, professional team from the panel constituted earlier. Third, a trained outside facilitator had started to work within the community.

After that, the facilitator identified a local counterpart (designated as the community liaison officer) to work with him. To achieve the needed consensus (reconciliation), the facilitators identified the relevant stakeholders, lobbied for and encouraged the creation of a local education forum that would legitimize the school-building process, and appointed a project working committee to guarantee participatory implementation. This committee comprised community members who could help with technical implementation and had the requisite managerial skills, a community liaison officer and other local champions, the funders, the independent professional team, and the contractor. Some committee members (for example, the local community representatives) helped ensure legitimacy, while others (for example, the members of the professional team) were charged with overseeing successful implementation.

Once the project working committee had been established, the process of designing the school got under way. First, the community reached a decision, in consultation with parent and teacher associations, as to the kind of school needed. Then the community, assisted by the professionals, laid down design specifications for the schools (that is, a two-story brick building with one laboratory and a sports field). Thereafter, negotiations with the Department of Education and Training began in earnest, to reconcile the design specifications with the available budget. Only at this stage could funding be finalized—a fact that highlights the risk faced not only by the contractor but also by members of the professional team and others.

The project working committee also had to formally appoint the contractor. By this stage, the latter would already have spent considerable time with the community and demonstrated capacity to work in partnership with community members. Technical people from within the community chosen during the facilitation process to work with and be trained by the contractor were also now approved by the committee. In addition, community members with a "managerial flair" were selected for training in project management and other management skills. A further function of the committee was to set up a labor desk, which, among other things, determined the wages of people engaged on the project, laid down labor practices, evaluated work done, established a workers' representative forum, and formulated training and safety specifications.

Once the physical building started, the community liaison officer's responsibilities for communication, education, and providing information and support intensified. The liaison officer—in many cases also the local clergyman—was responsible for appointing

subcontractors from within the community, as sanctioned by the project working committee.

RESULTS. Of the ten schools for which the Department of Education and Training agreed to allocate funds in June 1993, nine were completed by April 1995, about one year after building actually started. In certain instances, a school was delivered in half the time it would have taken the department to do so.

The communities in which the schools were built also derived various benefits from the projects. In addition to providing educational institutions, the project also created about 300 temporary jobs over the one-year construction period. Local laborers were trained on site and received certificates upon completion of the project. Community members with management potential also received training in project management and other managerial skills. Since one of the guiding principles of the projects was to stimulate local business, most building materials were purchased locally. A further financial benefit for the community was that 26 percent of the total project cost was paid out to community laborers, who were mostly jobless and without formal skills before the start of the project.

Another important yet intangible benefit for communities was that the process put in place legitimate institutions that could then be used for other development needs. For example, one forum succeeded in generating approximately R10 million for other new projects, such as a second school, a community college, and a day nursery. Interestingly enough, this particular community enlisted facilitation skills from the GDT, but the utilization rate of the facilitator during the initial project was only about 20 percent. The public sector (that is, the Department of Education and Training) also benefited from the additional legitimacy from the process. It also benefited financially—schools having been built generally at 75 percent of budgeted costs. In addition, since the projects did not go through the usual lengthy tender procedures, schools were provided to communities in far less time than usual. The private sector, which contributed 25 percent of project costs as part of its social responsibility, benefited from funding a high-return and low-risk investment that could affect its own future, since the schools would ensure a better-educated work force.

PROBLEMS. Problems experienced during the building process, such as workers' strikes at certain sites, could be easily overcome because the triad created a legitimate community-backed structure to address them. The project working committee, for example, established productivity standards in advance of the building

process, such as determining an agreed rate per number of bricks laid. When strikes occurred, the independent monitor was called in to advise the community as to the root of the problem, with the community itself deciding on further action.

Another issue stemmed from the absence of agreed-upon wage scales accredited by the South African government. Wages were thus determined by the communities and varied greatly among communities. Some laborers were thus rewarded better than others. The GDT reports that in all the areas in which schools were built, it was relatively easy to collect at least 10 percent of the required 25 percent private sector funding. However, in those areas where there were only a few large business concerns, making up the balance presented a significant problem. The GDT therefore aims to negotiate a 90 percent contribution from the appropriate government structures for future similar school-building projects.

CONCLUSION. This case study points to the advantages of creating a new institutional culture, in this case centering on a social compact among the state, the private sector, and local communities, to achieve a common goal. The process that was followed led to successful project delivery while building institutional and technical capacity in the local community.

Case 2: Water Provision in the Durban Area

The greater Durban area, like Mexico City, is one of the fastest-growing urban regions in the world. This growth has created conditions that are relatively unusual in South Africa and that give reason for serious concern in regard to the provision of infrastructure. Umgeni Water, a statutory water utility institution, is the primary provider of water services in this area.

Umgeni Water's area of supply covers 7,000 square kilometers and a population of approximately 5 million. Only 60 percent of these people have access to safe drinking water, and fewer have adequate sanitation facilities. The terrain in the rural areas is extremely hilly, presenting water engineers with a significant challenge in designing cost-effective systems. The region includes a number of local authorities and some old-model homeland authority structures as well as Zulu tribal authorities. These tribal authorities played a crucial role in establishing legitimacy for the process and structures.

In 1994 Umgeni Water received the Best Non-Listed Company Award for its successful combination of performance as both a commercially oriented and a community-oriented organization. It

has a track record of effective community participation in water system delivery, from the initial decision phase through the construction, maintenance, and benefits-sharing phases. The key to this success, the organization believes, is the way empowerment is promoted in the communities it serves.

THE EMPOWERMENT PROCESS FOR WATER PROVISION. Empowerment is not a new concept in community development. However, Umgeni Water believes the concept should be understood both from each participant's perspective and from the standpoint of the specific problems calling for solutions. From Umgeni Water's viewpoint, empowerment denotes (a) a successful (because sustainable) scheme, (b) the possibility of communication with a community, (c) the ability to efficiently integrate smaller water schemes into larger ones, and (d) the fostering of an enterprising spirit and self- confidence within a community, leading to financial independence and self-esteem.

IMPLEMENTING A WATER SCHEME. Umgeni Water has learned from experience that it can sometimes take years for a community to sufficiently mobilize itself to request assistance in developing its water supply in the first place (that is, muster the energy and the will to act), to organize itself and go through the various requisite stages of the implementation process, and to accept responsibility for the scheme and full involvement in it. Over the years, Umgeni Water has evolved a staged approach to facilitate the process.

In the first stage, needs are recognized and defined. Umgeni Water's project initiation process relies on aggressive promotion and sensitization to trigger community requests for information and assistance. Imposition on the community is studiously avoided. The process leads naturally to the initiation of a consultation process that facilitates clear needs identification and involves lobbying and caucus formation to give the community the incentive to assume full responsibility for the project. Each stakeholder is prepared for a proper dialogue in order to maximize the chances of eventual successful project implementation. To guarantee this further, a structured facilitation process is undertaken in the field by Umgeni Water's own rural planning officers. These officers identify the energy levels latent in the local community and then seek to mobilize proactive energy in a gentle, bottom-up manner until the community reaches the point at which it wants to start organizing itself to act. To help the process along, the officers are also engaged in a number of other activities (for example, the identification of local structures and sensitive mobilization of support for the process).

In the second stage, water or development committees are established. Umgeni Water's rural planning officers work closely with a willing community to establish a proper water committee. Capitalizing on local social infrastructure and dynamics, the officers facilitate the establishment of such a committee as a separate body or a subsection of an existing development-oriented organization. The creation of the committee marks the beginning of the dialogue phase of the intervention process. The water committee is an inclusive structure that is integrated into or synergistically linked with any existing appropriate social infrastructure. This allows for the unique needs and dynamics of each community to be taken into consideration. The role played by the rural planning officer illustrates how an external facilitator can work with local champions to establish a functional water committee able to take on a project with full community ownership. This facilitation resource provides Umgeni Water with the organizational capacity to:

- Understand and mobilize the current local authority, tribal, and political structures
- Legitimize itself—thereby allaying any fears about its motives and any subsequent resistance—and position itself initially as a facilitator and later as a resource for technology, expertise, or capital
- Avert early dependency relationships and pressure for handouts, even though the capital cost of the service provided is heavily subsidized (the community is led early to understand that the supply of water depends on an ongoing commitment to maintain the scheme and to pay for service now and in the future)
- Integrate its initiative with the wider development of the community by encouraging the water committee to see its role as one that could, in time, embrace electricity supply and other functions.

The dialogue-centered stage outlined above delivers a water committee that is legitimate, militates against dependency, and is effectively integrated into the broader development and social infrastructure of the community.

The third stage in implementing a water scheme involves a normal engineering assessment by Umgeni Water's engineers. The water committee keeps the community fully informed during this stage and solicits community members' cooperation when necessary. It is important to note in passing that a "transplant" effect is avoided by situating this step well after the legitimizing, participation-enhancing, and capacity-building processes.

The fourth stage is a continuation of the dialogue phase, and its objective is to arrive at a consensus on the precise nature of all aspects of local participation in the establishment and maintenance of the water scheme. It focuses on the level and type of involvement the community wishes to undertake and covers a wide range of aspects, including the utilization of local labor, training, health education, and contractual terms. The water committee and the rural planning officer work with a broad spectrum of interest groups (for instance, local youth and women's groups, local building contractors and entrepreneurs, and health and education services). Workshops are held to help empower the water committee as a fully independent community-based organization that generates its own funding by regulating the use of water in the community.

The contributions of stakeholders are as follows. The water committee provides information, facilitation, organization, and financial administration. Umgeni Water contributes capital, expertise, and technology as well as organizational support. The community supplies information and labor and contributes financially in the form of payments.

In the fifth stage, a commitment is made to implement the scheme. Umgeni Water has found that in order to win the confidence and trust of the community, it is vital not to deviate from the agreed scheme and procedures. Any changes must be rigorously discussed in advance. In terms of the reconciliation process, this stage includes the joint implementation and joint monitoring phases. Umgeni Water has found that once actual work gets under way and people experience empowerment, matters move apace. This reflects a common phenomenon in people-centered development. Although it takes a long time to build legitimacy and local capacity, once these are in place, a relatively rapid implementation process and a higher standard of sustainability are ensured.

During the sixth stage, each community chooses its own form of management. Different communities have in fact chosen quite different management structures to suit their needs. Umgeni Water acts purely as a normal supplier in terms of after-sales service, but of necessity it supplies advice, education, and training on an ongoing basis to help the committee and the community to become truly self-supporting, thus fostering sustainability.

RESULTS. Umgeni Water achieved three main results. First, the dependency cycle was effectively broken by means of a convergence of traditional and modern institutions. Second, capacity building of civil society structures took place, enabling the community not only to benefit from the water projects, but also to poten-

tially benefit from further projects they may initiate as an empowered community. Third, legitimacy and community ownership of a delivery system addressing a crucial basic need—that of water—were guaranteed.

Case 3: Water Quality Management in the Lower Olifants River Catchment

Water remains a central government function under South Africa's new Government of National Unity, with the Department of Water Affairs and Forestry having custody of the country's water resources. In line with its responsibility to keep water resources fit for use, the department's Directorate of Water Quality Management launched a project at the beginning of 1994 to develop a water quality management plan for the lower Olifants River catchment.

The lower Olifants River catchment covers an area of approximately 15,000 square kilometers in the northeastern corner of South Africa. It stretches from Gravelotte and Phalaborwa in the north to Pilgrim's Rest in the south and includes large sections of the former homelands of Lebowa and Gazankulu in the west. The area contributes significantly to the gross domestic product of the region, largely from agriculture, mining, and tourism. However, it faces serious social and economic problems, including acute water shortages, particularly in the rural areas.

WATER QUALITY PROBLEMS IN THE CATCHMENT. The Olifants River and its tributaries suffer from a range of water quality problems that affect general water use in the catchment. Sediment wash-off due to land-use practices such as stock farming often creates major problems for downstream users. Silt-laden water used for irrigation purposes has a detrimental effect on irrigation equipment and on the efficiency of agrochemicals and may affect crop production. Silt has also substantially diminished the water-storage capacity of dams and barrages. The storage capacity of the Phalaborwa Barrage, for example, has decreased by 82 percent since it was built. The Olifants River morphology has changed under pressure from large silt loads, making it difficult for the river to support a healthy aquatic ecosystem and creating special problems for downstream conservation areas, such as the Kruger National Park. Because of intensive industrial operations, the Olifants River and some of its tributaries carry a high salt load along some reaches. Such salt concentrations are liable to adversely affect downstream users. In parts of the catchment, pollution from abandoned mining operations threatens the river, as do poor communal sanitation facilities.

Unacceptable levels of pesticide and metal-related pollution along certain reaches are also a cause for concern. Finally, encroachment into wetlands as a result of agricultural and other activities has affected the ability of wetlands to function as natural water filters.

TOWARD A PARTICIPATIVE WATER-QUALITY MANAGEMENT PLAN. To counter these problems, the Department of Water Affairs and Forestry aimed to establish, in consultation with stakeholders in the catchment, a plan for the day-to-day water management of the entire catchment. For the plan to be effective, not only would all stakeholders have to consider it legitimate, but they would also have to undertake specific responsibilities for the sound management of the water resource. This called for empowering people and building institutional capacity, because problems of water quality management in a given catchment can be successfully resolved only if they are approached holistically, with account taken of all possible water uses, and if their variable effects on water users are fully understood.

Important components of the plan are (a) establishment of permanent structures to effectively manage the water resource in the long term, (b) clear definition of water quality objectives, to be agreed to by stakeholders, (c) revised control of effluent discharges, (d) updated water monitoring, (e) compilation of a water-related data base, to be used in the routine management of water quality, (f) rationalization of numerous communication structures on water-related aspects, (g) modified operating rules for existing dams, (h) pollution prevention, and (i) more efficient use of available water as well as recycling and reuse of water.

STAKEHOLDERS IN THE CATCHMENT. The differing and often conflicting perspectives of a broad array of water users had to be taken into account during the development of the water quality management plan. More than half a million people in the catchment, in both towns and rural areas, need water for domestic purposes. Several mining and industrial operations in the area also use surface water extensively, as do irrigation farmers (farmers are actually the biggest water users in the catchment). Commercial afforestation concerns are also important water users. In conservation areas such as the Kruger National Park, both plant and animal life depend on water. Last, recreation and tourism, which are important sources of income in the region, often rely on water-based activities. Besides the above, stakeholders also included central, provincial, and local government; three irrigation boards; a water board; downstream

users in Mozambique; and researchers and scientists from around the country with study interests in the area.

PROCEDURE. The department, in its facilitative role, realized that people in the catchment would not accept a ready-made blueprint. Therefore it did no more than propose a project process and strategy, clearly conveying the message that the proposed project would have to be designed in consultation with stakeholders.

At the start of the project cycle, the department appointed a consulting engineering firm to assist in the development of the management plan, and participation consultants to create a culture and climate conducive to dialogue and joint planning. In this project, because of the size of the area, the cultural diversity of the stakeholders, and the technical nature of the project, the facilitation team consisted of several members (including personnel from the department) with a diverse mix of skills. In addition, two insider facilitators, or local champions, were engaged to assist in the identification and mobilization of rural communities.

To begin, the public participation consultants used a networking and referral system to identify and compile a data base of more than 700 stakeholders representing the different water users in the catchment. This was soon followed by a letter from the Department of Water Affairs, inviting stakeholders to participate actively in the project and raising issues of concern to them. The letter also explained that the department was adopting a new, participatory approach to water quality management. It was accompanied by a document describing preliminary proposals for a four-phase process and several inclusive structures (with stakeholder representation) that would drive the project. A project registration form was enclosed, with space for stakeholders' comments on the proposals. Concurrently, several regional newspapers carried articles on the proposed project, and radio interviews with members of the project team were broadcast on different stations. The concerted effort to sensitize and inform stakeholders ensured both local empowerment and transparency and legitimacy for the process.

Meanwhile, caucus workshops and lobbying initiatives were arranged throughout the catchment. During the workshops, facilitators assisted stakeholder groups in reviewing their positions and interests in the light of information that became available during this phase of the project. Facilitators were selected on the basis of having skills appropriate to the specific needs of the different role-player groups. At the meetings, users voiced their concerns and provided input into developing the plan. Stakeholders offered to

contribute in various ways. For example, a development forum established in the central part of the catchment offered its organizational capacity. Local people offered to spread the word. Historic and recent water-quality information was crucial to developing the management plan. Mining concerns, conservation agencies, agricultural bodies, and NGOs all provided information gathered from previous studies, while farmers volunteered to collect water samples.

Because of the size of the catchment area, it was not feasible to establish a common information center. The team therefore fell back on widespread distribution of informative documentation, including an eye-catching project newsletter pitched at the right level of difficulty for those for whom English was neither a first nor a second language. Documents were also left at public places (markets, municipal offices, and curio shops); they reported progress and outlined future plans.

The first phase of the project culminated in a full-day public meeting six months after the project's inception. It was convened in Phalaborwa and was attended by almost 200 stakeholders representing the full spectrum of water users in the catchment. Approximately half of the audience consisted of representatives of rural communities. The proposed project was presented in detail, and feedback was invited from those present. The meeting was tactfully and skillfully facilitated by a staff member of the department, who had been trained by other members of the facilitation team. Although the departmental forum had focused on water-quality management, the dire need, particularly in rural communities, was for water supply and sanitation. Spokespersons representing thousands of rural folk sketched a bleak picture of communities without water for months on end and of people having to walk many kilometers in search of it or buying it at great cost from local vendors. In some areas, lack of water had slowed down the building of clinics and precluded other types of development projects, and occasionally enterprises or community initiatives that relied on water (for example, local vegetable-growing schemes or potential canning factories) ground to a halt.

The public meeting ended with representatives of water-using sectors and other stakeholders committing themselves to the imminent project, nominating representatives to a project steering committee (with a fairly technical brief), and nominating stakeholders to be responsible for disseminating information. Some rural communities were permitted to submit their nominations several weeks after the meeting, following due consultation with their respective constituencies.

CONCLUSION. The case of the lower Olifants River catchment illustrates the possibility of creating a successful social compact between various tiers of the public sector (central, provincial, and local government) and a broad range of private-sector bodies and rural communities through a two-pronged approach based on information dissemination and facilitation. Affected communities and the private sector have been mobilized; legitimacy has been improved for a government department harking back to the old regime; synergy has been fostered among stakeholders with conflicting water requirements and viewpoints; and a new institutional culture has been forged, thanks to the two project committees that were formed.

Before those committees could be convened, changes concerning the mandate of the Department of Water Affairs and Forestry supervened. In the wake of the formation of the new Government of National Unity, the department was assigned additional responsibility for water supply and sanitation. Previously, this role had fallen to local authorities. The department's new mandate necessitated major restructuring. Feedback subsequently received from stakeholders in the lower Olifants River catchment before, during, and after the public meeting prompted a departmental rethinking of the scope of the water management project. While the department examines the possibility of integrating water supply and sanitation as well as large-scale water resource planning into existing water quality projects like the lower Olifants project, the latter is in temporary abeyance. It was tentatively scheduled to be reactivated in late 1995.

The temporary postponement of the project has two implications. On the one hand, the department will be seen by stakeholders to have adapted the initial project to their requirements by going for a more integrated approach. This will boost the department's legitimacy in their eyes. On the other hand, the department's inability to commence project implementation, albeit for a valid reason, could frustrate stakeholders and imperil their future cooperation—creating the possibility of a serious setback for the reconciliatory approach.

This case study also illustrates the importance of building synergy within a public sector body. The project will succeed only if the three separate directorates of the Department of Water Affairs and Forestry (with responsibility, respectively, for water supply and sanitation, large-scale water resource planning, and water-quality management) can internally formulate an integrated project approach and be seen by stakeholders to be committed to a joint vision. Finally, the facilitation team will have to go all out to main-

tain legitimacy for the project, and for the department, once the project has been launched.

Forums as an Instrument for Reconciliation and Synergy

The forums movement is an important institution at the heart of the above reconciliation process in South Africa. Forums have appeared at all three levels of government—national, regional, and local. National forums have tended to be sector- or issue-specific, dealing, for example, with housing, electricity, drought, and the restructuring of the national economy. At the regional level, forums have been multisectoral and have generally crystallized around either economic and development issues or the need for wide-ranging debate on political issues affecting the second tier. At the local level, forums have arisen mainly to address the crisis in black communities that led to, among other things, the rent and service-charge boycott. As a consequence of this crisis, a number of local forums became sector-specific—addressing issues such as school building, job creation, and housing delivery—and sometimes became directly concerned with facilitating delivery.

Business, labor, and the government had widely divergent views on the role and function of forums. Business in general (with the possible exception of the major conglomerates) regarded forums as useful but tended to see them as a means of obtaining union cooperation in tempering workers' demands. Organized labor regarded forums as a means of democratizing the economy, strengthening grassroots organizations (especially the unions), and promoting consensus on reconstruction and development. The government tended to be ambivalent, regarding forums as vehicles for either consultation, negotiation, policymaking, or giving advice (or as a mixture of all four). Current government thinking about institutions for the Reconstruction and Development Program is that consultative structures for civil society should be introduced at all levels. The nine new provincial governments have echoed central government in this regard. It would seem, accordingly, that forums could well continue to play such a role in the interface between state and civil society.

In addition, forums play an important role by ensuring that politics and decisionmaking focus on inclusivity, allowing the stakeholders a healthy dose of skepticism toward politicians and, generally, enhancing a new appreciation of the interface between technical and political issues. In this sense, the forum culture that South Africa has created is one vehicle potentially able to

make democracy work. It guarantees participatory development planning and avoids the dreaded exclusionary tactics implicit in a winner-take-all competitive process.

In short, during South Africa's transitional period, the forum movement clearly illustrates a process of institutional convergence characterized by:

- A strong belief in the need for inclusivity of representation
- Respect for institutional pluralism through considerable variation in membership, particularly as regards the inclusion of political parties
- A widely held perception that the role of forums is to formulate policy rather than to implement projects
- A desire to address the broader picture, linking, for example, urban to rural development and short-term initiatives to long-term restructuring.

A further striking feature of forums is that, in general, they are not state-initiated. Each has developed in its own way, not following a predetermined pattern. Facilitators such as the Consultative Business Movement and the Institute for Democratic Alternatives in South Africa have sometimes played important roles in their establishment. They accordingly see themselves as uniquely placed structures allowing key stakeholders to debate, analyze, and reach agreement on pivotal socioeconomic issues and development priorities.

The initial interest of most organized labor during the apartheid era was that forums supported extraparliamentary alternatives. Now that the political landscape has been transformed, organized labor has opted to use the forums to move its own interests, not only at central but also at provincial levels. Labor's presence in forums is a powerful vector in building credibility. The NGO sector (defined broadly as encompassing all nonprofit private organizations pursuing activities to relieve suffering, promote the interest of the poor, protect the environment, or undertake community development) represents a new actor in forum movement at both national and provincial levels and a second critical vector in the credibility equation.

In general, forums have played a valuable role in drawing people together and increasing awareness of development issues. Before the Government of National Unity, they were primarily centers of debate and consultation rather than of dialogue and action. Some have generated complex structures that could evolve

into cumbersome bureaucracies. All have a potentially important role to play—especially if present problems regarding resources and institutional capacity are to be overcome.

Most of the forums continued to exist after the elections of April 1994; they aim to provide significant input on policy to the government generally and especially to the new nine provincial governments. A key issue is whether they should in the future include political parties. This could be a double-edged sword. On the one hand it could be valuable, in that it could help draw political actors into a lobbying and interest-building process. On the other hand it could be counterproductive, should major political players use their clout to dictate the agendas of forums.

Forums also raise the issue of corporatism (where together organized labor, big business, and the state play a controlling role within the organization), and the concomitant risk of big organizations dominating decisionmaking on economic and development matters. This could work to the detriment of the unemployed, as well as NGOs, community-based groups, and other organizations of civil society. A further important issue is whether forums will benefit from state funding in the future. Before the general election, nine regional planning advisory bodies each received regular state allocations, in some cases over R500,000 per year. Will these funds in the future go to provincial forums, or to provincial administrations?

Finally, one of the key questions that remains unanswered is whether the new government and the nine provincial governments will perceive a need for the continuation of the forum movement. One of the most important reasons for establishing forums was to counter the old government's crisis of legitimacy. The current government may feel no further need for such measures and may wish to keep development firmly within its own control. The nine provincial governments, each on its own, may also interpret this need differently.

It is thus uncertain whether the forum movement in its present form will continue to be at the forefront of effective institutional convergence in South Africa. It is clear that the government's Reconstruction and Development Programme requires both public service realignment and sustained relationships between the state and civil society. For most South African stakeholders, the commitment and will to establish these relationships is evident. Whether these convergent arrangements will sustain the present forum organizations is unclear. But what is clear is that the precedents and experience gleaned from the forum movement will significantly improve the chances that effective institutional convergence will be sustained in South Africa.

The proposed process of institutional reconciliation capitalizes on humans' innate capacity and desire for dialogue and is thus not just another formal transplant. In some areas in South Africa, the reconciliation process was made possible with the help of facilitators. In other cases, however, the process emerged virtually as a natural way of operation, demonstrating the almost organic nature of the need for this reconciliation process. The importance of following the paradigm of institutional reconciliation in the development process in South Africa cannot therefore be overemphasized. It gives all members of South Africa's intricate and complex society the opportunity to have a voice in decisions about development and other policy choices that can affect their future.

Conclusion

The above review of examples of best practices in improving the delivery of public services clearly illustrates the potential benefits of using the indigenous private sector, the local community, and NGOs as alternative providers. The review also shows that although these alternatives have achieved good results at a relatively low cost, their strong performance can be maintained only if they develop genuine partnerships with the government and beneficiaries. The tripartite compact developed in South Africa constitutes the ultimate form of this partnership. The benefit of such an institutional compact is that it can help:

- Lessen dependence on government at a time when most African countries are confronted by fiscal crisis
- Empower the beneficiaries and stakeholders to foster greater ownership and commitment
- Rationalize the respective roles of the state, private sector, local community, and NGOs to ensure better utilization of existing capacity and resources
- Foster greater chances of institutional sustainability
- Achieve better quality, cost-effectiveness, and equity in the delivery of public services.

In view of the above, the lessons about substance and process derived from this chapter are highly relevant and a natural complement to the broad sectoral approach to lending proposed by the World Bank. The framework for preparing related sector investment programs (SIPs) calls for systematic consultation and empowerment of beneficiaries and stakeholders; balancing the respective roles of government, the private sector, local communities, and

NGOs; and building on local capacity institutions (for example, minimal technical assistance). Chapter 9 expands on this linkage between the institutional reconciliation paradigm and the broader sectoral approach to lending.

Notes

1. The AM90s research on the Groupements NAAM in Burkina Faso was initially designed by Vernon Ruttan and Habib Fetini in collaboration with the founder of the Groupements NAAM movement, Bernard Ouedraogo (see Fetini 1993). The analysis was further expanded in Smale and Ruttan (1994).

2. This section is based on information prepared by the Uganda AIDS Commission Secretariat.

3. Created in 1978 by the king of Belgium, this prize honors development practitioners and institutions that have achieved exemplary results in the field. As such, it is considered to be the equivalent of a Nobel Prize in development practices. TASO was the eighth laureate since the prize was created. Previous laureates include the founder of the Grameen Bank in Bangladesh.

4. This section draws on UNICEF (1995).

5. The cases described in these sections are drawn from Holscher and others (1994).

Part III

Reconciling the Formal and Informal Private Sectors

5. Developing the Indigenous Private Sector: Microenterprises to Formal Enterprises

The East Asian Miracle (Word Bank 1993a) clearly shows that the growth and development of microenterprises as well as small- and medium-scale enterprises have been crucial to the economic growth and development of East Asian countries. The Bank's long-term perspective study of Sub-Saharan Africa (World Bank 1989) emphasizes the size and importance of the indigenous private sector in Africa. It also recognizes that linkage with the formal sector and the related potential for growth of the indigenous private sector were not given sufficient weight in the development debate. We emphasized in Chapter 1 that despite the informal sector's remarkable vibrancy, its reputation as the seedbed of African entrepreneurship, and substantial attempts by donors to help it out, its growth and development have been slower than expected. As important as the African informal sector undoubtedly is in terms of providing a cushion against unemployment, political insecurity, and encroaching poverty in the context of dwindling resources, it has rarely enabled entrepreneurs to make the leap necessary to graduate from microenterprises to small- and medium-scale and large enterprises. Instead, most microenterprises and SMEs in this sector remain confined to traditional market niches and fail to grow in terms of capital, structure, scale, products, and markets.

The development of these microenterprises and SMEs is therefore coming to be recognized as an important pillar in the development of the local private sector in Africa and elsewhere. In fact, an increasing number of African governments are making the development of the local private sector not only an important objective in fostering equitable shared growth but also a precondition to privatization. The goal is to broaden the participation of local investors in

privatization in order to ensure growth and the sharing of wealth and to avoid a recolonization of national economies and assets.

Against this background, the AM90s research focused on identifying a sample of African enterprises that have successfully graduated from microenterprises to large enterprises in order to learn from their experience (Baba-Sy 1994). The seven successful indigenous African enterprises included in the sample have bucked the general trend and quickly evolved into full-fledged formal institutions. What is more, they have become formal institutions with a difference. Unlike the formal Western variety, they were born of a successful symbiosis between traditional values and the imperatives of economic efficiency (and accumulation).

In the following section, these seven cases of successful graduation will be discussed in order to highlight essential lessons for indigenous African entrepreneurship that could also be useful to both African governments and donors. To varying degrees, these cases attest to the possibility of coming of age in the formal sector while resolutely clinging to, and indeed capitalizing on, hardy traditional values that have, through the years, been the vital cement holding together indigenous society. The discussion will offer answers to a number of critical questions, such as: What are the preconditions for graduation to the level of a formal African enterprise? What is the typical leadership profile in such showcase enterprises? What are the long-term prospects and sustainability determinants of these enterprises?

Lessons to Be Learned from Successful Microenterprises

Seven entrepreneurs were included in the AM90s research sample. The number was kept small because of funding constraints, but each entrepreneur had to meet three criteria: each had to have started in the microenterprise sector, successfully graduated to the modern sector, and done so without benefiting from any rent situation or undue privilege from government.[1]

Profiles of Successful Entrepreneurs and Enterprises

El Hajji Oumarou Kanazoe was born in 1927 in Yako, a village about 170 kilometers from Ouagadougou, Burkina Faso (then Upper Volta). He started out as a weaver with thread given to him by his mother and drawing on lessons in weaving and dyeing from his late father. He sold woven cotton fabrics in Burkina Faso and in the neighboring countries of Côte d'Ivoire, Ghana, and Mali. Products he bought on the way back home for resale later allowed him

to diversify. In 1948 he started a shop in Yako. In 1955 he used his savings to purchase a passenger truck to work the routes between Burkina Faso and the neighboring countries. Between 1955 and 1957 he built a fleet of seven such vehicles. With his growing resources, he was able to acquire trucks to carry building materials, such as sand and gravel, for private individuals and construction and public works companies with which he subcontracted. The money generated and the experience gained launched him on his own subcontracting career in 1973, when he started a construction and public works company.

A high point in Kanazoe's career came in 1976, when he competed with multinational companies for a public works contract. The Burkina Faso government, through an agreement with the World Bank, subcontracted to him the construction of 50 kilometers of a 187-kilometer stretch of road contracted to a consortium of four European companies. Kanazoe's company did the job within the specified time and financial limits when the main contractors were running a year late and had exceeded costs by about two-thirds. Today the company is a technical leader in the field and sets benchmarks for both quality and timeliness. Kanazoe is now a multimillionaire and has been expanding his public works business into the neighboring countries of Benin, Mali, and Niger.

Michel Zida, a highly successful entrepreneur without formal schooling, was born in 1943 in Koumkane, a village located about 100 kilometers north of Ouagadougou. His career began in 1956, when he became a cola nut vendor. When this proved unprofitable, he went to seek his fortune in Côte d'Ivoire, where he worked first as a servant, then as a laborer in a canning factory. Returning to Ouagadougou in 1962, Zida became a laborer at the railway station, earning 210 CFA francs daily. In 1966 he was working for TRANSCAP, a French public works company, first as a laborer, then as a building operator. When the company folded in 1972, Zida decided to strike out on his own. With only a bicycle, two buckets, and two paintbrushes, he set up shop as a painter in the building industry. Thus was born SOL-CONFORT-DECOR. In 1975 Zida obtained a license for his three-man company from the Board of Trade. Public works contracts gave him the break he needed, and constant growth in revenues soon enabled him to expand across the entire construction and public works industry. In 1987 the company was honored with the International Africa Award in Paris. That year the company operated simultaneously on fifteen different sites with sixty-five permanent employees and paid total monthly wages of 25 million CFA francs. In 1993 the company's annual revenues reached 1.5 billion CFA francs.

Mamadou Aliou Bah Bobo, a very successful Senegalese entrepreneur of Guinean descent, was born in 1940. His business ventures began the day he bought 100 CFA francs' worth of bananas and started selling them on the streets. From selling bananas, he moved on to selling pancakes. By a stroke of good luck, he obtained a stand at the Sandaga market in Dakar and later obtained another one at Sandiniery Street, the largest fruit and vegetable market in Senegal. Growth of his business and increased savings motivated him in 1980 to start INTERAF, a company specializing in fresh fruit and vegetable imports. To provide backup for INTERAF and satisfy growing market needs, Bobo also created a transit company called SOTRAF.

In 1984, when opportunities beckoned in Guinea following greater openness by the new regime, Bobo returned to the land of his forebears, where he launched a number of projects. His main company is Super Bobo S.A., a limited company. He also runs the Conakry supermarket. Together with his family, Bobo also owns the limited company Bobo Implex, a major player in the trade, brokerage (bauxite), and transport sectors. Another of his enterprises is Bodicolor, a paint manufacturing company. Bobo also has a yogurt-producing plant and is working on a printing project as well as a project to distribute school supplies and office equipment.

El Hajji Amadou Diallo was born in 1918 in Diaba Lidoube, Senegal, about 650 kilometers from Dakar. His started in business when he was only 12 years old. Today, Diallo Pithie, as he is known, is Africa's foremost bird exporter (*pithie* is the Wolof word for "bird"). The resources generated from bird export encouraged Diallo Pithie to diversify into the fishing and fish-processing sectors, maritime transport, and agroindustry. His companies are Société des Pêcheries Sénégalaises de l'Atlantique (SOPESA), Société de Pêche Industrielle de Dakar (SPID), and Société des Exportateurs du Senegal (SOEX). Diallo is the first Senegalese shipowner. In 1988 SOPESA invested as much as 1,350 million CFA francs and had average annual revenues of 1,400 million CFA francs between 1972 and 1988. The company had 200 regular employees and 300 day laborers. Creating SPID to support SOPESA's export activities had called for investments to the tune of some 650 million CFA francs. SOEX's investments in 1994 (excluding land, building, and working capital) stood at 291 million CFA francs, with revenues of nearly 600 million CFA francs.

El Hajji Idrissa Gueye, the kingpin of the group Etablissements Idrissa Gueye, was born in 1933 in a village in the Jolloff region of Senegal. Poverty drove Idrissa Gueye to work for a pittance as a

delivery boy for some Lebanese when he was only nine years old. Even at that age, he began to save in order to become a trader someday. Dream became reality when he started in petty trade—buying goods such as chewing gum, pens, and underwear, and reselling them in government offices. In 1946, while on a trip to sell medicines in Mali for a French pharmacist, he became aware that the great need for salt in Mali opened up abundant possibilities in the import-export trade. Thus was born the Etablissements Idrissa Gueye, specializing in exporting salt and importing insecticide for sale on the local market.

El Hajji Idrissa Gueye's business has known significant ups and downs—among them his first joint venture in the shoe industry, with Lebanese partners, which ended in a fiasco. He had more success in 1988 with SOSEPLAST, a manufacturer of plastic housewares and containers; its technical equipment and rationalized production methods gave it an edge over the competition. In 1991 Etablissements Idrissa Gueye grew and diversified into petroleum products, with the addition of APCO. The acquisition in 1993 of SOSETRA (the former Trefilerie du Senegal), which manufactured nails and other metal supplies, proved a more auspicious entry into the industrial sector. For this investment, Gueye borrowed two-thirds of the funds needed and made up the remainder himself. In 1993 the group's revenues were an impressive 1.4 billion CFA francs.

Francis Pokou was born in 1916 in a village about 20 kilometers from Kumasi, Ghana. He attended the renowned Mfantsipim secondary school. His father's flourishing business early inspired him to become an entrepreneur. A gift of $4 from his mother started him in petty trade in the district of Kwabre. A stint working with a pharmacist attracted him to the retail drug industry, and he started a business hawking medicines from village to village. In 1941 he opened a large drugstore, O&P Pharmaceuticals. Contacts with the firms UAC and G. Bollivant enabled him to diversify his stock to include a vast range of products. Growing revenues led to the purchase of a secondhand Bedford truck, launching Pokou in the transport industry, and he also won a number of lucrative government contracts, including the delivery of mail and parcels. From 1946 to 1952 Pokou's fleet of vehicles grew. Along the way, he diversified into the sawmill sector. In 1979 he extended his operations to Abidjan, where he set up a transport and trading company. Pokou saw Côte d'Ivoire's acute housing problems as a window of opportunity to invest in real estate. He has since contributed enormously to relieving the housing difficulties of institutions, schools, and universities, as well as private individuals.

The last entrepreneurs in the AM90s study, the Nana Benz, have been a fixture of Togo's economic landscape since the 1970s. The Nana Benz are women traders involved mostly in the sale of printed fabrics in standardized lengths at the Grand Marché de Lomé. The Nana Benz likewise control the designs printed on the cloth, keeping them in line with current taste and demand. Most of the Nana Benz have received neither a formal education nor training in business, and most are from the Mina ethnic group. By culture and tradition, Mina women are predisposed toward business. The Nana Benz, who currently number about twelve, have taken Togolese selling to new heights. Most of them started as petty traders in the subsistence economy, with their businesses reaching their present complexity only after several intermediate stages. Some required financing to launch their fabric trade; others were entirely self-financing.

Lessons of Experience

The case studies portray varying degrees of successful entrepreneurial development. Some of the entrepreneurs, such as Oumarou Kanazoe and Francis Pokou, have been extraordinarily successful. Others, such as Diallo Pithie and Mamadou Bobo, have experienced success more sporadically. The prospects for the Nana Benz are at best uncertain; their current success may be a short-run phenomenon, and their procedures would need to be radically transformed to allow for their graduation into formal African enterprises. A key question is why some companies (such as the Kanazoe company), have been resilient enough to weather political upheavals and turbulent regime changes relatively unscathed, while others, notably the Nana Benz, have tended to remain vulnerable to external events. Glimmers of an answer may be found in the evidence of the case studies. The most important lessons are discussed below.

ABILITY TO RECONCILE CORPORATE AND SOCIETAL CULTURE AND LEADERSHIP. The extent to which the entrepreneurs studied exhibit traits of leadership approximating those identified in the Kenya study may account for their relative success in human resource management—including their achievements in improved productivity. The main lessons of the Kenya-based AM90s research outlined in Chapter 1 are that leaders of indigenous African enterprises should create trust and harmony in their companies, play effectively the role of a kind and strict parent, establish effective communication, and offer culturally sensitive motivation. These requirements, far from being mutually exclusive, are integrated

and mutually reinforcing. A number of caveats are, however, in order. Leaders must take care not to be excessively benevolent. Hierarchical distance should always be preserved—lest the leader's independence of judgment become vitiated, leading to the erosion of his or her credibility. At the personal level, managers must not attempt to be all things to all workers; beyond appropriate support from their managers, subordinates have to seek solutions to their problems elsewhere.

Generally, workers' expectations of benevolent but firm leadership have found satisfaction; a powerful presence commanding reverence and devotion akin to that shown toward parents is at the head of each of the successful enterprises studied. The degree to which these personalities display the nurturing values on which traditional societies thrive, yet do not abdicate authority or decisiveness, seems to be a recipe for equilibrium and enhanced productivity. Oumarou Kanazoe is generally fondly called "Papa" by his younger staff and by the religious title of "Ladji" by others; he is only rarely addressed by the more imposing title of "patron." Both owner and staff perceive the workplace as an extension of the home. Employer-employee ties are marked by simplicity and spontaneity. Kanazoe is very close to his staff, being ever solicitous about their health and the welfare of their families, and sharing their joys and sorrows. When adversity overtakes them, he is willing to extend material and financial assistance if need be. All staff, even those at the most subordinate level, have direct access to Kanazoe. The good work atmosphere presumably accounts for the fact that, to date, there has been no significant push for unionization in the organization.

Diallo Pithie and Idrissa Gueye are also entrenched in the "benevolent parent" management paradigm. Sociability and group solidarity seem to be the watchwords in Diallo Pithie's enterprises; the entrepreneur himself professes an earthy approach to business that harks back to his days as a *talib* (student in Koranic school). He radiates simplicity and is not above performing the occasional menial task on the shop floor. The El Hajji Idrissa Gueye Group, too, owes its success in no small measure to a charismatic leader who wields such pervasive influence that man and group have, in the public imagination, become one and indivisible. Idrissa Gueye has created a high level of togetherness among his staff, encouraging very positive interpersonal relations to develop through dialogue and the sharing of experience. Idrissa Gueye's own generosity is proverbial, evoking the esteem and affection of the staff—nourished by a shared belief in God and in personal sacrifice, generosity, and family responsibility.

All the entrepreneurs in the studies place great store by family connections and make them an essential element of their management approach. An entrepreneur who takes his family members into his fold can be said to be demonstrating nurturing values. Of the 108 people hired to work in Bobo's supermarket, 40 come from his ethnic group. Family members occupy high-ranking positions in Pokou's company. Kanazoe's enterprise is managed very much along family lines. His sons are on the management team; indeed, his eldest son has been the company's general manager for ten years. Idrissa Gueye's family-based management approach has been considered a key factor in the stability of Etablissements Idrissa Gueye. Diallo Pithie's human resources management credo revolves around his relatives and friends, and his house has burgeoned into a village harboring more than 100 people. The Nana Benz, too, have built their business around close family members. Kinship ties provide earnests of sustainable productivity imputable to deep devotion and loyalty to paternalistic benefactors.

Trust and harmony are largely a function of an enterprise's approach to human resource management, and are fostered by a nurturing style founded on empathy and group solidarity. Decisionmaking processes, depending on their typology, can also stimulate or frustrate trust and harmony. The entrepreneurs in the AM90s case studies espouse a diversity of decisionmaking approaches. Oumarou Kanazoe seems to have been well served by a highly centralized decisionmaking process in which he, as chairman and executive officer, has full control, makes all important decisions, and signs all the checks. Diallo Pithie has also opted for highly centralized decisionmaking processes. Diallo Pithie presides over all activities; he alone can negotiate prices and receive cash payments for direct sales. The Nana Benz similarly hold all the reins of decisionmaking. Despite having two younger generations by her side, a Nana Benz brooks no interference from either her daughters or her granddaughters (the latter's occasional business qualifications notwithstanding).

There is reason to believe that, where Diallo Pithie and the Nana Benz are concerned, centralization may not be a winning ticket. Diallo Pithie's lack of long-term financial planning betrays management shortcomings that could have been offset by more consultative decisionmaking. The distinction between company funds and Diallo Pithie's own private resources is fuzzy—often encouraging highly inopportune cross-investment. The Nana Benz's inflexible solo management style may be shutting them out from promising new prospects. Where delegated decisionmaking has been adopted, it is likely to have built considerable trust.

Michel Zida, for example, has set up an eight-member management committee that makes all major decisions. In the El Hajji Gueye group, organization structures are based on delegation and hierarchical relations. Group-integrated structures permitting the development of synergy and encouraging interdependence are basic to the group's organization, and frequent recourse to so-called negotiation models suggests a democratic decisionmaking spirit.

To what extent do the entrepreneurs in these case studies promote the effective communication vital to the production process? The limited data on the Nana Benz do not allow inferences as to their approach to communication. Indeed, given the size and nature of their business, effective communication may not yet attract a high premium. The merits of effective communication do not, however, appear to have been lost on some of the other entrepreneurs. The "direct contact" school of human resource management, to which Oumarou Kanazoe and Idrissa Gueye subscribe in deed if not in word, by definition fosters effective communication. Amid the general camaraderie and brotherhood that mark interpersonal relations at the work site in the Kanazoe company, the airing of personal views on pertinent aspects of management is likely to be at a minimum. Michel Zida's organization is built on permanent dialogue, with technical meetings held every fifteen days and regular site meetings and occasional general assemblies for the office staff. In the Etablissements Idrissa Gueye, periodic coordination meetings are held at the level of constituent, group-based structures. Such meetings provide an occasion for the various directors to voice their concerns, raise issues, and brainstorm on their own problems and those of their counterparts. As an instrument of management, effective communication can be useful in heading off errors of judgment and suggesting avenues for future development.

Since motivation (however kindled) is, by definition, what makes workers tick, effective managers need to ensure that it is built up and sustained. Motivation being largely an artifact of culture-mediated expectations, it is important for motivation-enhancement bids to be culturally sensitive. Motivating workers in collectivist societies driven by power distance and hierarchy, and subject to the relentless imperatives of balancing interpersonal relations in the name of social harmony, necessitates a multipronged approach.

Some of the entrepreneurs studied have judiciously tried to capitalize on the motivation potential latent in group-centered activities. Thus group-integrated units are the structures of choice in the Idrissa Gueye chain. Encouraging group dynamics is also prominent in the production processes presided over by Diallo

Pithie, Michel Zida, and Francis Pokou. Oumarou Kanazoe's company boasts an incentive system including productivity bonuses, overtime remuneration, and a canteen (that saves time and fosters social interaction and camaraderie). There are also efforts to tap into the reserves of motivation that abound in sharing arrangements. Idrissa Gueye has imported elements of profit sharing into his companies, thereby generating greater commitment and productivity and shoring up the companies' long-term prospects of sustainability. Employees of INTERAF (a Bobo company) own 40 percent of the company's shares, thanks to loans extended by Mamadou Bobo. Michel Zida's experience holds up the tantalizing possibility of a new-wave company in which ten of his sixty-five permanent employees would be associates. These examples drive home the point that refreshing possibilities lie beyond the pale of cash-based reward systems.

BUILDING SOCIAL CAPITAL THROUGH SHARING. Although empirical evidence is scanty, there is good reason to believe that a correlation exists between an entrepreneur's fund of social capital and the health and survival prospects of his enterprise. In his groundbreaking research in Italy and his book *Making Democracy Work: Civil Traditions in Modern Italy*, Robert Putnam (1994) has demonstrated how associative life and social capital explain the differential in performance between the south and the north in Italy. The Kanazoe company's ability to stay afloat amid the political storms that have rocked Burkina Faso over the years may seem less of a conundrum when its vast reserves of social capital are recognized as factors in the equation.

Social capital is the cumulative legacy of all of an entrepreneur's gestures of social munificence. These capture the popular imagination and win the entrepreneur society's admiration; often they also appeal to the political powers. This general goodwill could well translate into staunch public loyalty or enlightened support and goodwill from both government and the public. Building social capital accords with the sharing principle, which is an essential pillar in most traditional African societies. As Oumarou Kanazoe aptly put it in an interview, "The wealth I have acquired does not belong to me. It is a gift from God which should be shared . . . I receive because I give." Quite possibly, the beneficial fallout from social capital, from the perspective of entrepreneurial development, is triggered only in specific contexts. Further research could shed some light on this.

If one concedes an interface between social capital and an enterprise's development prospects, then capacity to accumulate the

former would rank as a worthwhile leadership attribute. The entrepreneurs in the AM90s case studies seem generally sensitive to this. Oumarou Kanazoe's social largesse seems to know no bounds. He has built some 100 mosques, high schools, colleges, primary schools, and health centers, as well as a dam valued at 2 billion CFA francs. The political authorities, among others, have warmed to his patriotism and selflessness. Diallo Pithie's benevolence has found expression in the numerous mosques and cemeteries he has constructed for his village community. Francis Pokou has constructed houses for members of his extended family as well as several close relatives. Michel Zida is a firm proponent of the ideal of community service and takes pains to extend what assistance he can to the community. He believes that helping the community as a whole has much more of a ripple effect than giving assistance on an individual basis.

Significantly, the general approach to building social capital is informed by a spirit of renovation. All of the above entrepreneurs have found a middle ground between the fulfillment of their obligations to their communities and the need to save. Moreover, by tilting assistance toward the community rather than specific individuals, Michel Zida, for example, is able to pare down cash outflow considerably. In this regard, the use of his own machines and equipment in building new social infrastructure comes in very handy. The Nana Benz present a stark contrast with most of the other entrepreneurs studied in that they place little or no store by the need to amass social capital. In times of crisis, this neglect could backfire.

EXPERIENTIAL LEARNING AND CAPACITY BUILDING. One aspect of indigenous enterprise leadership that the limited Kenya studies did not bring out relates to the importance of experiential learning as a precursor to effective leadership. Today African entrepreneurs continue to be standard-bearers of the traditional method of operation through their unremitting attachment to age-old apprentice systems. All the entrepreneurs in the AM90s case studies have acquired their practical skills the hard way, after undergoing a baptism of fire in the tough world of experiential learning. Here was born Oumarou Kanazoe's disdain of the Western education system, which he sees as a purveyor of largely bootless academic learning and bureaucratic tendencies. Here also were born thrift, financial circumspection, business savvy, true grit, and an indomitable determination to brave all odds in pursuit of an ambitious, constructive objective.

The entrepreneurs' testing experiences also nurtured religious devotion, self-sacrifice, and a spirit of community and kinship. The

view that hands-on experience is the formula for entrepreneurial success unites Kanazoe, Diallo Pithie, and Idrissa Gueye. Kanazoe sends his children to school to learn to read and write and removes them soon after to initiate them into practical hands-on training. In like vein, Diallo Pithie insists that each of his children undergo training in one of his numerous companies. A conscious effort to facilitate transfer of know-how to local understudies is the centerpiece of Idrissa Gueye's approach to foreign technical assistance. Expatriate services are thus specific and strictly timebound.

Will the scions of this first generation of African entrepreneurs—weaned on different formative experiences—prove worthy successors? Spared the tribulations of experiential learning, and never having lived under the specter of hunger, much less starvation, they are unlikely to have inherited the gritty survival instincts of their fathers or to be fired by the same passion to succeed. All this may make them less worldly-wise in a business sense and more open to ill-advised investments. Portents of such prospects are already taking shape. The daughters of the Nana Benz, for example, are becoming restive under the constraining influence of their mothers and are pining for experimentation and a dash of modernity. It is also highly probable that a sojourn in the West and exposure to its schools and values will make inroads into the traditional belief systems of the young African entrepreneurs-in-waiting.

The formal African enterprise is clearly much indebted to leadership traits nurtured on traditional values and behavior patterns. As we have seen, these traits come into their own in the domain of human resource management, where their impact is measured in terms of gains in motivation and productivity. The entrepreneurs studied are all at least relatively successful. Yet it would be difficult on available evidence to establish direct causality between adherence to traditional values and behavioral norms and enterprise success. This is partly because, although good human resource management undoubtedly contributes to success, it is but one part of the success formula.

Another aspect of capacity building is technology transfer. Today African entrepreneurs hankering after economic efficiency and competitiveness can ill afford to be complacent about the latest technological advances. Almost all the enterprises studied have a toehold on the modern sector in terms of the sophistication of their equipment. Oumarou Kanazoe's arsenal includes earthmovers and a fully equipped laboratory for testing soils, concrete, and asphalt. Diallo Pithie's fisheries concern boasts freighters and ice-processing and ice-making units, while El Hajji Idrissa Gueye won out over his competitors thanks largely to his superior

equipment. The daughters of the Nana Benz also seem set to break with the traditionalism of their mothers and to opt for computers and other modern technology.

Generally, the entrepreneurs are not only open to modern influences but also very adaptable in their responses to the ever-shifting frontiers of technology. Openness and adaptability are usually mediated by foreign technical experts. It is important to note, however, that the entrepreneurs in the case studies hardly seem given to simply imitating Western technology or doting on expatriate experts. Their approach to foreign assistance seems strictly need-based. And once needs are met, the reliance on expatriates dwindles. For instance, the Kanazoe company has seen the number of its expatriate staff plummet from thirty-two in 1973 to four at the time of the AM90s case study.

Failure to shed certain informal-sector reflexes or to surmount basic educational handicaps is also liable to hamper economic efficiency. One example is Diallo Pithie's tendency to give himself carte blanche in disposing of the profits from his different companies, leading to cross-investments at will. Although lack of education need not be an insuperable handicap, it is important that illiterate entrepreneurs make up for their shortcomings in this domain by appropriate devolution of responsibilities. Centralized decisionmaking in every domain, including that of financial management, may be ill advised under such circumstances. Diallo Pithie's unorthodox management style and his inattention to long-term financial planning reflect a failure to make needed contingent arrangements. Bobo's lack of literacy also raises serious questions about the wisdom of concentrating all financial decisionmaking in his own hands.

The differential success rates of the entrepreneurs studied may relate to the extent to which they have addressed the above requirements. The Nana Benz, unlike the others, have generally shunned diversification. This may lock them into the informal sector and preclude their graduation to the nascent formal African enterprise sector. Mamadou Bobo's diversification efforts have been a catalog of difficulties largely because they have usually not been paralleled by attempts to place the management and structures of the new companies on a sound footing. Diversification may have been sought as an end in itself rather than as a means to an end, making Bobo's sprawling business empire still very fragile. Diallo Pithie's diversification into the fishing industry has also been bedeviled by constraints. Problems spring mainly from the fact that neither a true niche nor the makings of one existed from the outset. Diversification seemed to have been driven purely by the fact that Diallo

Pithie's other businesses were awash with liquidity. Problems that soon surfaced, leading to the ultimate demise of the fishing venture, included difficulty of access both to supplies for export (the supply from local fishermen was irregular, and the industrial fishing sector could not or would not step into the breach), and to local subcontractors, preventing proper product processing and conservation.

CONSTRAINTS DUE TO THE FINANCIAL MISSING MIDDLE. Most of the entrepreneurs in the sample recognized that financial bottlenecks constituted a major problem during their growth stages. The banking system's jaundiced attitude toward the informal sector in Africa makes it reluctant to provide the necessary financial backing for investments, not to mention graduation to the formal sector. El Hajji Idrissa Gueye has enjoyed a positive relationship with the banking system (which bankrolled his major projects), but his experience is more the exception than the norm. Most of the entrepreneurs had to save long years and suffer great sacrifices to achieve a breakthrough. Diallo Pithie has been cut off from bank support through much of his career and has faced daunting constraints on account of credit unavailability. Francis Pokou's early success was entirely the fruit of determined saving and reinvestment, although his connections with banks, especially the Standard Chartered, have now entered a more positive phase. Timely doses of financial assistance in the initial stages would have made for much faster growth spurts. Even subsequently, after the success of certain entrepreneurs had induced a thaw in relations with banks, the loans obtained were hedged with such restrictions as to breed in some entrepreneurs (for example, Oumarou Kanazoe) a profound distrust of the banking system. Because of all these problems, many a fledgling African entrepreneur never had a chance.

GOVERNMENT ATTITUDE. Government attitudes toward the entrepreneurs in the case studies ran the entire range from apathy to token encouragement, to patronage in return for financial favors, to harassment. Entrepreneurs have all too often fallen afoul of bureaucracy and red tape, conditions tailor-made for corruption. Often they have also been done in by inordinate delays in government payments or by legal systems inimical to business. On the positive side, some of these entrepreneurs capitalized on stable macroeconomics and, possibly, political conditions that were ripe for business, resulting in the occasional supportive gesture from

the government (in the shape of make-or-break public contracts). In Burkina Faso (formerly Upper Volta), the "voltaisation" project was hatched in 1974 to encourage indigenous enterprise development, but it had a checkered history and later fell into government disfavor.

Conclusions from the Case Studies

In addition to the need to improve the burdensome and patrimonial regulatory framework (discussed earlier in the chapter), the following operational conclusions for both government and donors can be drawn from the above studies. The first, internal to the enterprise, pertains to the relation between culture and management. The studies show that modern enterprise development and traditional institutions and values do not have to be uneasy bedfellows. Indigenous African enterprises can borrow extensively from the collective fund of formal management know-how, particularly in the technical field and the domains of accounting and financial management. However, there is so much to gain from indigenous practices in terms of human resource management that a judicious amalgam offers the best overall option. Informal family and ethnic ties as cornerstones of recruitment and management could be a useful avenue to explore. Nevertheless, despite their potential advantages, indigenous institutions are best incorporated into indigenous enterprises in a renovated form that is more in keeping with the requirements of capital accumulation. In other words, they have to pass the acid test of compatibility with the overriding goals of enterprise development and capital accumulation in a fast-moving society.

Second, the case studies hint at fundamental roles that should fall to national governments and donors if indigenous enterprise is to blossom. On the capacity-building front, assistance is needed to make up for the educational and management deficiencies that often constitute serious straitjackets—particularly for informal sector entrepreneurs with their sights set on graduation to the formal sector. In this regard, and in view of the success of experiential learning, governments and donors could play the critical role of honest broker to facilitate mutually beneficial interactions between informal and formal sector enterprises. This could be a solution to the perennial problem of the operational missing link that now separates the two sectors. The K-MAP experience in Kenya, described in the next section of this chapter, illustrates this possibility.

In addition, fiscal and domestic resource mobilization policies should factor in the importance of both sharing and redistributing social capital. Chapter 6 explores how to balance saving and sharing.

The problem of the missing financial middle and related impediments will also have to be faced squarely. As a first cut, governments could try to alter incentives in the financial intermediation system to make lending to the informal sector less of an anathema to banks. But more will be needed in terms of developing adapted financial institutions to support and accompany the growth process. This is the theme of Chapter 7.

Twinning and Capacity Building between Informal and Formal Enterprises

The K-MAP Experience

The Kenya Management Assistance Programme (K-MAP) was established in 1986 when both the government and the private sector realized that the economy could no longer depend on formal enterprises to expand output, investments, and new job opportunities.[2] In the same year the government published a highly influential blueprint, *Sessional Paper No. 1 of 1986 on Economic Management for Renewed Growth*, which placed strong emphasis on the need to nurture small enterprises, as they were to be the beacons for future growth. Small enterprises were expected to provide the bulk of the 400,000 new jobs that the country aspired to generate annually from 1986 to the year 2000. The establishment of K-MAP was a response to this challenge.

As indicated above, the growth potential of many microenterprises and SMEs could be stunted, as opportunities to develop business skills through formal education or through contact with existing business are in short supply. K-MAP was created to facilitate linkages between large- and small-scale enterprises through the provision of counseling and workshop training, utilizing the expertise of local skilled managers. The goal was to help small enterprises improve their operations and grow by involving large and medium-size successful businesses in providing counseling and training in all manner of management and technical skills, and by establishing suitable machinery for offering these services at nominal charge.

While African governments have generally recognized the need to improve the policy environment within which microentrepreneurs and small-scale enterprises (SSEs) operate, a large share

of direct support has been provided by private voluntary organizations enthusiastically funded by donor agencies. However, although most of these private organizations provided financial support, they seldom attempted to facilitate linkages with formal enterprises.

In 1986 the founders of K-MAP recognized this gap and conceived of this unique nonprofit organization to benefit Kenyan SSEs and individual prospective entrepreneurs. K-MAP comprises a membership of volunteer large and medium companies with the common objective of helping fill the missing capacity link bedeviling SSEs. This is accomplished through the release of senior executives to provide one-on-one counseling, as well as workshop training, to small business operators. Through such arrangements, it was felt, positive linkages could be established between large and small firms to the mutual benefit of both—and of the society as a whole. The K-MAP concept has been viewed by both groups as an opportunity to foster complementary support, to jointly participate in economic development, and, most important, to increase trade for both groups. It was therefore intended to be a win-win formula for partnership between large enterprises and microenterprises.

At the founding of K-MAP, the member companies resolved to:

- Contribute cash to set up a skeleton secretariat that would organize hands-on management and technical assistance to SSEs as well as provide guidance to potential entrepreneurs
- Provide some of their top and middle management executives for one day per month to give specific one-on-one management and technical counseling to SSEs registered with K-MAP
- Appoint one of the executives as K-MAP liaison manager to coordinate counselors and to minimize conflict between K-MAP and members' interests.

Thus nonprofit voluntary support and guidance would be provided to SSEs by actively employed local senior executives.

MEMBERSHIP. K-MAP membership comprises 176 medium-size to large local and multinational companies, providing a skills bank of more than 250 counselors. Member companies include, for example, Barclays Bank, Johnson and Johnson, Philips Electronics, Price Waterhouse, and the Toyota Corporation.

The U.S. Agency for International Development provided financial support of some $500,000 to facilitate effective running of the secretariat during its first five years (1987–92). The funding agreement was subsequently extended to 1995 on a no-cost basis,

underlining the importance of K-MAP's developing self-sufficiency. It is worth noting that the no-cost extension is a reflection of K-MAP's increasing ability to generate its own income—and thus reduce reliance on donor support.

K-MAP TARGET CLIENTS. K-MAP's clients are drawn from existing small modern businesses and those aspiring to go into business. Approximately 60 percent of current clients are based in the Nairobi metropolitan area. Approximately 30 percent are women-owned or operated enterprises. Clients pay a registration fee of about $28, which entitles them to five counseling sessions. Prospective clients are screened for commitment and potential for success. Recently the organization entered into an agreement with the British Overseas Development Administration to provide $400,000 over a three-year period (1994–97) to fund a comprehensive business growth training program for retired civil servants and entrepreneurs with executive experience. A special training program targeting women entrepreneurs has also been developed.

COUNSELING AND TRAINING. K-MAP's seven years of existence have resulted in the creation of private-sector jobs, the generation of income, and the mobilization of local resources. As of mid-1995, K-MAP's counseling and training workshop had provided one-on-one counseling to more than 1,000 small enterprises, many of which have subsequently registered substantial increases in sales revenues, employment, profits, and assets. In addition, K-MAP has conducted workshops that have benefited more than 4,000 small business operators and provided prebusiness guidance counseling to more than 5,000 potential entrepreneurs. The quality of the advisory services provided is reflected in the extremely high survival rate of enterprises receiving K-MAP assistance—94 percent.

The success of the program is measured in terms of increases in client sales revenue, employment, profit, assets, and overall reduction in the rate of business failures (exit rate) within the first two years after receiving K-MAP counseling assistance. A recent impact evaluation involving a sample of 125 assisted businesses revealed that sales rose by 292 percent, employment by 106 percent, and assets by 189 percent. Their survival rate within the first two years of operation was 94 percent, compared with the national average of less than 10 percent. For example:

- The Sindo Women Fish Processing Project—a group involved in the processing, marketing, sale, and distribution of "omena" fish—received training in financial management, effective

supervision and line management, and marketing. The group was also introduced to the research activities of the International Center for Insect Physiology and Ecology.

- Centro Food Industries Limited, having recently successfully made the transition from a small to a medium-size enterprise, needed help in managing a larger work force. It began with six employees, but now has forty and holds a respectable share of the fruit juices and sauces market under the Joy label.
- Shelter Works produces fiber concrete roofing for less than the cost of clay or conventional concrete tiles. Starting in 1989 with one machine and an experimental technology, the owner realized that, as soon as the orders started coming in, he would need better financing as well as advertising to target individual developers. He now has four machines, thanks to a small business loan; operates with nine people; and has found affordable advertising through the Small Business Forum, which targets his market.

CREDIT FACILITATION. Lack of credit and collateral is as much a constraint to small enterprise development as is the lack of managerial skills. In 1991 K-MAP achieved a breakthrough when it signed a memorandum of understanding with Barclays Bank of Kenya, by which the bank agreed to extend working capital credit ranging from about $1,200 to $65,500 to K-MAP clients without the usual stringent collateral requirements. By mid-1995, twenty-four loans valued at $385,000 had been advanced under the scheme, and there have been no defaults. The scheme is now gaining momentum.

K-MAP is also at the forefront in advocating greater access to credit by microenterprises and small enterprises through its active involvement in the Small Enterprise Credit Association, whose establishment it spearheaded in 1992. The association comprises credit institutions, major commercial banks, and private and public organizations in small enterprise lending, and it is developing new approaches for extending credit to small enterprises.

SUBCONTRACTING. The Kenya Subcontracting and Partnership Exchange was established with the assistance of the United Nations Development Programme and the United Nations Industrial Development Organization, with K-MAP as the local counterpart. Also involved are the Federation of Kenya Employers, the Kenya Association of Manufacturers, and the Export Processing Zone. The exchange is an industrial information and promotion service. It collects and records detailed, computerized information on subcontracting enterprises regarding their production capacity,

technical specializations, characteristics and specifications of machinery and equipment, quality of production, and spare capacities available for subcontracting work.

Through the Exchange Data Bank, companies are provided with the necessary assistance and information to enable them to develop relationships with local companies capable of producing high-quality and price-competitive products. The establishment of the exchange provided a formal forum for small and large industries to coordinate through subcontracting. Prior to the establishment of the exchange, subcontracting was taking place, but its benefits were not fully exploited. The motor industry, through the government's intervention, has practiced subcontracting through local sourcing of components.

Once it receives a request, the exchange makes a detailed study of the technical information provided and determines the manufacturing processes involved in the job as well as the equipment required for each process. It then refers to its computerized data bank and selects subcontracting enterprises that have the necessary technical resources and capability. The main contractor is then provided with a list of enterprises that enables him to contact the subcontractors personally. The sectors selected for initial promotion are the metals, plastic and rubber, and electrical and electronics sectors. The reason for selecting these sectors was that their activities render them more suitable than others for subcontracting.

To date, the exchange has visited some 270 companies in the sectors covered. Of this number, 247 are involved with subcontracting and are thus in the exchange's data bank. This is an ongoing activity whose objective is to compile data to be used in matching subcontracting requests and offers. Second and subsequent visits have also been scheduled in order to update the data held in the exchange data bank.

AGETIP's Role in the Development of an Indigenous Private Sector

In addition to its main role, which is to provide and coordinate execution of urban infrastructure contracts, AGETIP has also greatly influenced the private sector in Mali.[3] Of the substantial amount of project funding that used AGETIP ($20 million from the World Bank, DM 10 million from Germany, and counterpart funding from other governments), 50 percent was allocated to sanitation projects, 30 percent to renovating buildings, and 20 percent to the highway sector. Highly labor-intensive works were involved, as is shown by the allocation of about 20 percent of all contracts for salaries of employees in low-technology activities. This has made possible the

creation of a federation of institutions active in the construction sector. It also has led to the development of a handbook of technical standards written in national tongues.

At the start of the project on private enterprises in Mali, 60 enterprises were active in the public works sector. On June 30 1994, there were 840 registered organizations; of this total, 450 followed standards set by AGETIP. These 450 enterprises received 325 public works contracts, which translated into 781,000 working days and 68 million CFA francs in wages—not even taking into account the direct impact of subcontracting. Thus AGETIP manifestly has had a tremendous impact on the private sector in Mali. Moreover, the growing number of AGETIP operations in Africa shows the easy replicability of the formula.

Reconciliation with Foreign and Immigrant Entrepreneurs

The attempts described above to build the missing operational link between formal and informal institutions illustrate the importance of establishing coexistence and partnership between indigenous enterprises and foreign promoters and investors—especially the immigrant entrepreneurs (Asians in East Africa and Lebanese in West Africa). An emulation pattern tends to be triggered by the entry of foreign investors into a developing country. Foreign and immigrant entrepreneurs can foster local entrepreneurship both directly, by providing training and experience to employees who later strike out on their own, and indirectly, by creating demand for services and other collateral activities. Such entrepreneurs can rarely be wholly self-sufficient and need to turn to local enterprise for various kinds of help.

Unfortunately, the role of foreign enterprises and immigrant businessmen in enlarging the scope of indigenous entrepreneurs is rarely clearly appreciated. Instead, in political discussions, attention tends to be focused almost exclusively on the fact that some foreign or immigrant business firms compete with some local enterprises and do not integrate into or adapt to local culture. The complementary nature of their activities with those of the vast majority of the local population is often overlooked.

In the past, hostility was frequently reserved for immigrant non-African entrepreneurs and even non-national African entrepreneurs—on the grounds that their past patterns of entrepreneurship in many African countries left much to be desired with respect to social responsibility and concern for the country as a whole. New partnerships with foreign and immigrant entrepreneurs should both inspire emulation and alleviate some of these antagonisms.

Partnerships may also bring to the business process the best thinking about the long-range nature of business enterprise and the need to meet the demands of a variety of interest groups. A good case can be made that new businesses being operated to maximize long-run profits are more likely to inspire emulation than the "high-profit, low-volume" antisocial business firms of old.

Notes

1. Although the Nana Benz of Togo have not completed the transition to the formal sector, as noted on pages 160 and 167, they were included in the research sample because they have graduated from petty trading to running a modern business.
2. This section draws from Pratt (1994).
3. This section draws on comments by Dominique Rossetti, of the Canadian International Development Agency, at the AM90s workshop in Dakar.

6. Developing the Indigenous Private Sector: Reconciling the Needs for Saving and Sharing Capital

Rationalizing and liberalizing interest rates and reforming the banking sector may be necessary for increasing the mobilization of indigenous savings and investment, but these actions are not sufficient. Chapters 1 and 5 emphasized the importance of culturally induced sharing and redistribution in building social capital in Africa and how these traits affect the propensity and incentives to save. The quest for a way to reconcile these traits with the need for savings and capital accumulation is at the center of the AM90s research by Adelman and Fetini (1993). Their findings and recommendations are reviewed in this chapter.

Adelman and Fetini focused on the interaction between the transfer economy that operates among the members of an extended family and lineage on the one hand, and income, savings, and work incentives on the other. (Lineage is defined here in terms of a large social group such as extended family members as well as certain unrelated individuals, traditional associations, and some other associations, such as religious brotherhoods.) Institutions that reinforce the transfer economy and institutions that enable individuals to accommodate to high transfer levels are also identified.

The sociocultural institution at the heart of this research, namely socially motivated transfers to extended family members and members of the same lineage, mirrors the traditional organization of Senegal's modern sector. The transfer institution, which offers mutual assistance and insurance to members of the extended family, operates so as to minimize risk to both society and its individual members, subject to a minimum income constraint on transferors. Transfers embody a social institution that performs the

economic functions of mutual assistance and insurance to members of an extended family, operating so as to minimize risk to both society and its individual members. In Western societies these functions are performed by specialized economic institutions far removed from the extended family and lineage. In Eastern societies such functions are performed by institutions that, while differentiated from social institutions in terms of their scope of action, are in effect connected to them by a government and private sector focus on consensus. The AM90s research by Adelman and Fetini indicates that intralineage transfers are deeply entrenched in Senegalese culture and have major economic and social significance. The transfer institution also appears to have considerable staying power. Currently, it is a glue binding together lineage members, rural and urban communities, and governmental and private institutions in an interconnected network of income equalization, risk and benefit sharing, and upward-mobility generation.

The Survey

The research was conducted in Dakar, Senegal, from September to December 1992. One hundred and ninety-three interviews were administered. Detailed data were collected on income, expenditures, transfers, savings, and work incentives, as well as on attitudes toward transfers.

The Sample

Interviewees were selected from two groups: managers and professionals, and small-scale entrepreneurs. The business component of the sample comprised informal sector microentrepreneurs owning commercial stalls in covered markets and employing one to five salespeople. Of the managers and professionals interviewed, two-thirds were in the public sector and one-third were employed in large, modern-sector private enterprises.

The general characteristics of the sample are summarized in Table 6-1. The interviewees were generally well-to-do, with an average annual income of $23,800, but their social origins were mostly middle class (61 percent) or poor (38 percent). The average transfer to extended family and lineage members was $3,000 (or 12 percent of average income above whatever taxes are imposed by the government), while the average transfer from family and extended family members was $1,648. Transfers were thus well entrenched among the households in the sample. The interviewees were quite educated: 37 percent had completed college, 14 percent

Table 6-1. Characteristics of the Survey Sample in Senegal

Variable	Sample household averages		
	All	*Traditional*	*Modern*
Annual income per capita (dollars)	23,839	23,816	23,849
Annual transfers given			
Amount (dollars)	3,001	2,154	3,416
Percentage of income	12	9	14
Annual transfers received (dollars)	1,648	2,418	1,254
Annual savings (dollars)	3,796	4,574	3,417
Number of extended families	6	6	6
Number of nuclear families	6	8	5
Percentage born in Dakar	22	15	26
Education (percentages)			
College	37	14	48
Secondary	14	3	21
Primary	14	16	10
Koranic school	19	40	8
No formal education	18	27	14
Employment (percentages)			
Managers—professional			
Public sector	33	8	44
Private sector	15	7	19
Businesspeople	52	85	37
Social status of parents (percentages)			
Rich	1	2	1
Middle class	61	46	68
Poor	38	52	31

Source: Adelman and Fetini (1993).

had completed high school, and only 18 percent had received no formal education. The sample also reflected the geographic and social mobility typical of Sub-Saharan Africa. The great majority of the interviewees had migrated into Dakar; only 22 percent had been born there.

Although this was not part of the sample design, two distinct sociocultural groups were represented in the sample: a traditional group and a modern group. As a rule, representatives of the traditional group had more than one wife, tithed to support a religious

organization (the Dahyia), and belonged to a brotherhood (or had two out of three of these characteristics). About one-third of the sample was traditional in this sense. About two-thirds of the sample members were modern, in that they had at most only one of the above characteristics: they usually had only one wife, did not belong to a brotherhood, and did not tithe.

Although the two groups were similar in terms of income levels, there were distinct differences between them. Compared with the modern-sector interviewees, the traditional group had much larger families, consisted often of small-scale business owners, were older, and had stronger ties with a village. The traditional group members were only two-thirds as likely to have been born in Dakar, and they had one or more wives and part of the nuclear family living in the village. They were also about five times as likely to have been educated in a Koranic school as the modern interviewees, twice as likely to have had no formal schooling, and only a third as likely to have completed college.

In terms of their socioeconomic behavior, the traditional sample transferred only about two-thirds as much to extended family members and received about twice as much in transfers from the extended family. The larger receipts and smaller transfers of the traditional group are, in part, due to the fact that they were mostly businessmen. About 25 percent of the business sample had suffered losses in a major fire several months before the interviews were carried out and had received substantial help from family members and others in rebuilding. The traditional sample also saved about a third more than the modern one.

Analyzing transfers by the extent of traditionalism of transferors suggests that transfers are not a transitional form of behavior on its way out with modernization and education. Rather, the data indicate that transfers are deeply embedded in Senegalese society and are a secure institution—prompting this study's exploration of how they serve both the individual and society.

Definition of Transfers

As indicated earlier, the transfers on which this research centers include those provided to extended family members and certain unrelated individuals and associations. Such transfers, which are both monetary and in kind, take several forms: provision of housing, food, clothing, schooling expenditures, and monetary gifts to extended family members and unrelated individuals residing in the transferor's household or village of origin; contributions to other individuals (such as the religious leader in the village), to

fraternal organizations, or to religious organizations (such as the Dahyia); work on family farms in the village; and expenditures for ceremonies (such as marriages, circumcisions, births, and funerals).

The transfers were computed on a net basis. Transferors were also asked about transfers they had received in the form of unremunerated work performed by extended family members (including tending their fields, minding their cattle, or constructing or repairing their housing), gifts received in kind (grain) or cash, and gifts received in connection with ceremonies (for example, sheep for a wedding).

Transfers in kind were computed at market value. For example, a survey of consumer expenditures in Dakar (by education level of the household head) was used to valuate food transfers to nonfamily members residing in the household of the transferor. The rent paid by the household head was used to valuate transfers in the form of housing provided to nonfamily members residing in the transferor's household. As to work performed for or received from others, respondents themselves were asked to put a value on it.

Hypotheses Concerning Transfers

Our work was designed to test nine hypotheses concerning transfers among extended family and lineage members in African societies. It should be noted that the hypotheses are not all mutually exclusive.

Hypothesis 1: Transfers are an integral part of traditional African cultures. If this hypothesis is correct, one would expect the majority of interviewees to express attitudes favoring transfers and to be willing to go to great lengths to maintain them even if their income drops. Religious and cultural institutions should also favor transfers.

Hypothesis 2: Transfers provide a social safety net and survival mechanism for society. If this hypothesis is correct, one would expect the "need" rationale to be confirmed and social or religious sanctions favoring transfers to exist.

Hypothesis 3: Institutional mechanisms have evolved to mediate between cultural mandates to transfer and economic pressures arising from requirements to transfer. If this hypothesis is correct, one would expect institutions that facilitate the reduction of transfers to evolve.

Hypothesis 4: Transfers are like a lineage tax on the transferors. If this hypothesis is correct, one would expect there to be a maximum lineage tax rate beyond which the total level of transfers decreases.

Hypothesis 5: Transfers reduce transferors' possibilities for saving. If this hypothesis is correct, one would expect negative correlations

between the share of income saved and the share of income transferred and between savings and transfers.

Hypothesis 6: Transfer obligations reduce transferors' incentives to work. If this hypothesis is correct, one would expect the reservation price—that is, the lowest acceptable price—for working more hours to be higher among those who transfer a higher proportion of their income to members of their extended family.

Hypothesis 7: Transfers confer prestige on transferors. If this hypothesis is correct, one would expect the majority of interviewees to rank generosity as an essential attribute of a good person. One would also expect them to increase transfers in tandem with rising income and to try to maintain transfers even when income falls.

Hypothesis 8: Transfers provide an insurance mechanism for transferors. If this hypothesis is correct, one would expect those with fluctuating income to make proportionally higher transfers than those enjoying security of income. One would also expect insurance motives to be preeminent among the justifications for transfers advanced by interviewees. If transferors experience a fall in income, one would expect them to become net recipients of transfers.

Hypothesis 9: Transfers provide an insurance mechanism for transferees. If this hypothesis is correct, one would expect the majority of transfers to be to poorer members of the extended family and based largely on need.

The Survey Results

Transfers and Culture

When asked to rank thirteen attributes that confer respect on individuals, interviewees ranked benevolence toward family third highest, and largesse and hospitality fourth. Benevolence toward family was selected by 82 percent of respondents as important for gaining respect, and largesse and hospitality were selected by 71 percent. Other qualities deemed important were being a good worker (ranked first and selected by 82 percent of respondents) and being religious (ranked second and selected by 82 percent of respondents). Fourth and fifth in rank were being rich (62 percent) and being educated (88 percent). In contrast, being an entrepreneur ranked low (eleventh, being selected by only 11 percent), as did family position (coming from a powerful family was ranked only tenth, while being a high-ranking public servant was rated twelfth).

Eighty-eight percent of those interviewed considered intralineage transfers an acceptable part of the local culture, and 65 percent indicated that they would not evade solicitations from

potential transferees even if they could. Ninety-two percent of those interviewed did not consider solicitations from relatives to be excessive, and 71 percent took the same view of solicitations from nonrelatives.

Ninety-one percent of interviewees would increase transfers if their income rose, and 89 percent would not reduce transfers in the face of falling income. In order to maintain transfers amid declining income, 91 percent of those interviewed would borrow, and 22 percent would sell some of their possessions. The primary reasons given for maintaining transfer levels even during personal adversity were: social prestige (69 percent), "not to displease God" (51 percent), family dependence (46 percent), concern for reciprocal treatment should material circumstances worsen someday (41 percent), and inability to refuse aid when solicited (35 percent).

As indicated earlier, twenty-five microenterprise owners in our sample had, several months prior to our survey, suffered losses in a fire that ravaged the covered market in which their stalls were located. Thirty percent of them nevertheless did not reduce their transfers; they borrowed rather than adjust. Seventy percent did reduce transfers, but the average reduction was only 33 percent—representing a much smaller amount than the actual loss suffered. Sixty-eight percent of this group said they felt that those to whom they reduced transfers did not hold the reduction against them, as they understood their circumstances. Nevertheless, transfers suffered more than household consumption as a consequence of the fire. Sixty percent of those who suffered losses from the fire did not reduce consumption expenditures, and the average reduction in consumption over the entire sample was only 14 percent.

Survey results amply confirm both Hypotheses 1 and 7 above: Transfers are an integral part of current culture in Senegal, even among the educated and the rich. Indeed, the more educated transfer a higher proportion of their income than the less educated, and the less wealthy transfer a larger proportion of their income than the wealthier. The data also confirm the hypothesis that transfers confer prestige on the transferor. Generosity and benevolence toward family rank quite high among individual qualities that elicit social respect. The primary reason given for maintaining transfer levels when the transferor's income declines is prestige. No linkage was made with interest rates.

Financial Institutions and Transfers

The tontine is an important institution that has evolved to shelter Senegalese households from the burden of excessive transfers. In a

tontine, the participants usually contribute equally to a fund, and the proceeds are distributed to members in rotation. The rules of the tontine require an agreed-upon schedule of deposits and withdrawals by members. The "equity" built up is therefore not available at will to tontine members. When tontine members are solicited by members of their lineage for contributions, they can legitimately claim that they cannot comply because their savings are blocked. A quarter of our sample participated in one or more tontines and, on average, thereby sheltered a quarter of their savings.

The statistical research results indicate that, on average, membership in a tontine reduces transfers by about 22 percent and increases savings by 45 percent. The increase in savings is so high because tontines not only shelter savings from would-be transferees but also obligate members to a rigid savings program. The results also confirm that sheltering savings from transfers is a major motive for tontine membership. Seventy-eight percent of those who joined tontines did so in order to shelter savings from demands for transfers. Table 6-2 indicates that tontine membership is significantly associated with antitransfer institutional adaptation. This association confirms Hypothesis 3—that institutional mechanisms have evolved to mediate between cultural mandates to transfer and economic pressures arising from requirements to transfer.

However, the adaptive institutions that operate against transfers coexist with institutions that reinforce them. Since transfers provide an important social safety net and generate social cohesion, there are several cultural and institutional mechanisms in society serving to reinforce them. Religious institutions are prominent in this respect; 51 percent of respondents felt that transfers are "God's will." Some specific transfers are also channeled through special organizations. The religious teachings of the Dahyia decree that members contribute 5 percent of their income for religious charity

Table 6-2. Tontine Membership and Sheltering of Transfers by 191 Survey Respondents in Senegal

	Those who shelter transfers		*Those who do not shelter transfers*	
Interviewees	*Number*	*Percent*	*Number*	*Percent*
Tontine members	18	78.3	33	19.6
Nonmembers	5	21.7	135	80.4

Source: Adelman and Fetini (1993).

(about a third of the sample contribute to a Dahyia). Forty seven percent of our sample also belong and contribute to traditional mutual-assistance brotherhoods.

In addition, the research found that some social institutions act as a constraint on savings that could be used for self insurance. For instance, the average expenditure on ceremonies in the sample was $1,400 per year. This sum represented 13 percent more than average savings in a tontine, 28 percent of total average savings, and 47 percent of total transfers. The data collected thus confirmed Hypothesis 2—that transfers provide a social safety net.

Transfers and the Lineage Tax

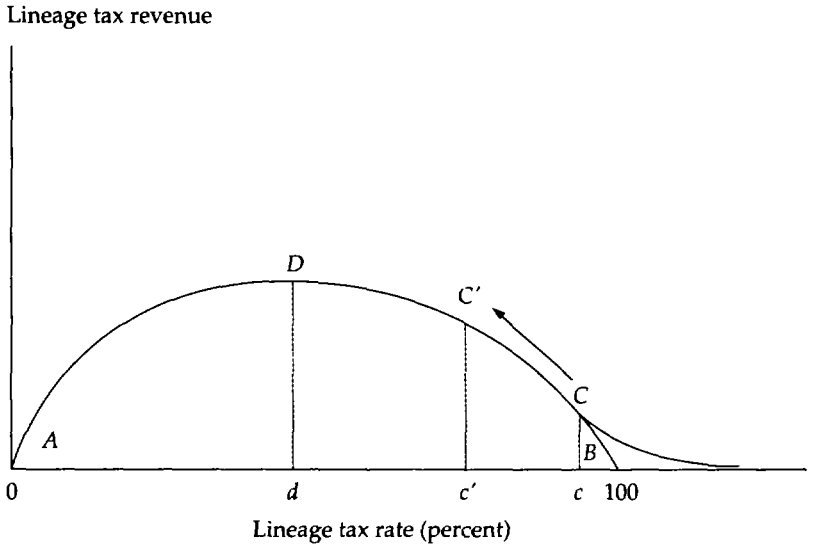
Despite general social approval, transfers can still function as a social tax on the Senegalese. One can hypothesize that the lineage tax behaves like a Laffer curve: Revenue from the lineage tax first rises with the lineage tax rate and then decreases (see Figure 6-1). In an extremely individualistic society (point *A* on the graph), the lineage tax rate and transfers are both zero. As the transfer tax rate increases to *d* percent, transfer payments rise up to point *D*. Point *D* represents the optimum level of taxation in the sense that it ensures the maximum lineage levy revenue. Beyond that point, lineage tax rate increases reduce the absolute sum transferred. A cut in the lineage tax rate from a rate of *c* percent to a rate of *c*- percent increases total transfer revenue from C to C- . At rates exceeding the optimal lineage tax rate of *d* percent, the extended family appropriates too large a share of the individual's income, and there is little incentive to work harder.

The empirical results strongly confirm the existence of such a Laffer curve. A regression of total transfers on the share of transfers in the incomes of the transferor, its square, and other variables yields the following results (see also Table A-1 in Appendix A).

The Laffer curve coefficients transferred are statistically significant at the 1 percent level. Using the estimated coefficients to calculate the highest transfer ratio yields an optimal transfer tax rate of 0.582. The plot of the estimated total transfer amount against the proportion transferred is depicted in Figure 6-2.

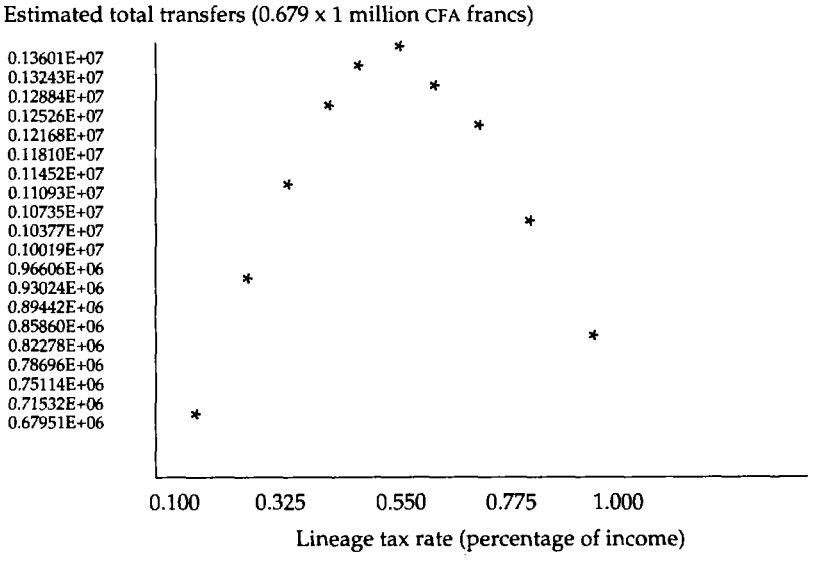
Holding all other variables constant, transfers exhibit a U shaped relationship as a function of income: They first decline with income and then rise. The minimum transfer occurs at an income level of 14,680,000 CFA francs ($58,960 before devaluation). In our sample of 191 households, only nine had incomes exceeding that amount. Thus, given the transfer proportion and all other variables, transfers decline as income rises for most of the sample households.

Figure 6-1. A Laffer Curve for the Senegalese Lineage Levy



Source: Adelman and Fetini (1993).

Figure 6-2. Total Transfers and Lineage Tax Rate in Senegal



Note: Lineage tax rate shown corresponds to regression estimates from the sample data.
Source: Adelman and Fetini (1993).

This negative relationship with income is explained by the fact that, on average, businesspeople have higher incomes and transfer less than do managers and professionals.

Education increases transfers: On average, completion of each level of schooling (holding all other variables constant) increases transfers by $420. Membership in a tontine decreases transfers by $661 (holding all other variables fixed). The regression also indicates that there is a trade-off between savings and transfers, but on the average, the elasticity of transfers with respect to savings is quite small (only 4 percent).

There are some significant differences between the behavior of those who pay a lineage tax that is higher than optimal and the behavior of those who pay less (irrespective of income). Those who pay a higher than optimal tax have many more dependents (9.36 as compared with 5.5) but transfer only about half as much per dependent. Their savings are only 30 percent of the savings of those who pay a smaller than optimal tax. They also take less evasive action to reduce transfers: They belong to a tontine only about half as often as those who pay a smaller than optimal tax. Finally, among those who pay a higher than optimal lineage tax, the reservation price for working fifteen hours more per week is 15 percent higher.

Transfers and Savings

The average savings rate in the sample is high. When averaged over the entire sample, it is 16 percent; when averaged only over those who save positive amounts, it is 21 percent. Savings per family member are more than three times transfers per extended family member, on average. Total savings are 26 percent higher than total transfers, on average.

Twenty-five percent of the sample had zero savings. Tobit regressions were therefore computed for the analysis of savings (Tables A-4 and A-5) in order to allow for zero savings rates without distorting the estimated coefficients. For comparison, Table A-5 presents the regression estimates excluding the nonsavers from the sample. The estimated relationships are all statistically significant at the 1 percent level, but the R-squares are not high.

The estimation results presented in Tables A-2 through A-4 indicate some support for Hypothesis 5, according to which savings are negatively related to transfer intensity. The estimated coefficients for the relation of savings to the transfer proportion indicate a negative relationship between savings and lineage tax rates, but the coefficients are not statistically significant. Also, the evidence is

not entirely one-sided. A strong positive association was found between the number of extended family members and savings, indicating that having a large number of dependents spurs savings—presumably to ensure against failing to assist dependents should income suddenly decline. Savings increase with income in the Tobit estimates, and they have a U-shaped relationship to income in the regression relation for nonzero savers. Minimum total savings occur at an annual income of $3,100, exceeded by 94 percent of the sample. The savings rate first declines with income and then increases; the minimum savings rate occurs at an income exceeded by only 27 percent of our households.

Savings are higher if households make their savings less liquid. There are several options for doing this: participating in a tontine or investing in assets or consumer durables (buying land, constructing houses, buying cattle and grazing them in the village, or purchasing jewelry, radios, televisions, refrigerators, cameras, and so forth). On average, 24 percent of savings are held in tontines, and 53 percent are invested in assets and consumer durables—leaving only 23 percent of savings liquid. Thirty-three percent of those surveyed participated in a tontine; 92 percent invested in assets and consumer durables; and 41 percent deposited savings in a bank.

Naturally, those businesspeople who were affected by the fire reduced their savings substantially (by about $1,000, on average). There is also some support for the impact of religion on saving patterns: Christians saved an average of $1,240 more than Muslims.

Transfers and Work Incentives

Interviewees had positive attitudes toward work, contradicting a misconception of Africans as lazy. Eighty-two percent of respondents ranked being a good worker the highest attribute that confers prestige. Seventy-eight percent ranked work as the primary reason for success. Only 37 percent of those interviewed said that transfers reduced their own work incentives; 63 percent said they did not. Only 30 percent held that transfers reduced work incentives; 70 percent maintained that they did not.

Interviewees were also asked about their reservation price for working an extra fifteen hours per week. In our sample, the average reservation price for fifteen hours of extra work per week is high: $170 per week, or $11 per hour. This is not surprising, given the high average income in our sample ($24,000 per year).

The regression results confirm Hypothesis 6 (that transfers reduce incentives to work), but they also indicate that the effect is

quantitatively quite small (see Table A-5). The coefficient of transfers per capita is statistically significant, but the elasticity of the reservation price with respect to transfers per capita is only 0.06. The effects of transfers on work incentives are overshadowed by other considerations. Higher income increases the reservation price for additional work up to an income level beyond the range of our sample. There is thus an income-leisure trade-off within the income range of the sample. Education drives up the reservation price for extra work, reflecting the higher opportunity cost for more educated labor. Individuals born in Dakar have a higher reservation price for extra work than do migrants.

Transfers and Insurance

Transfers are large both in absolute terms and as a proportion of income. Over the whole sample, the average amount transferred to nonfamily members is about $3,000 per year, and the average share of income transferred is 12 percent.

If transfers are a form of insurance for the transferor (Hypothesis 8), one would expect those with the most fluctuating income to buy the greatest amount of insurance. This is not the case. Businesspeople, whose income fluctuates most, buy the least insurance; they pay out about $1,700 in transfers, and they transfer the smallest proportion of their income (9 percent). Managers and professionals in the private sector, whose income is stable but insecure, transfer the greatest amount ($7,556) and the next-to-largest share of their income (12 percent). And public servants, whose income is the most stable and the most secure, transfer $3,140 and the largest share of their income (15 percent). Nevertheless, a substantial proportion of the sample (41 percent) rationalize their giving by saying that if they did not give when they could, others would not help them when they themselves fell on hard times.

On the whole, however, the data do not confirm the hypothesis that transfers are an ordinary form of insurance for the transferor. Rather, together with the data provided in the section on transfers and culture as well as the data on incomes by employment type, they suggest that transfers yield direct utility to the transferor. Those who can most afford transfers transfer the most.

Nevertheless, there is strong evidence that the transfer network offers effective catastrophic insurance to transferors. In our sample of business interviewees, twenty-five had in recent months experienced an utterly destructive fire but, by the time of our survey, were back in business. Of those who had experienced losses in the fire, only two had received no help at all in rebuilding their stores

and inventories. The rest had been helped by their families and friends. Twenty-two percent received transfers from members of their close family, mostly their fathers or siblings; 43 percent received transfers from friends, mostly from other businessmen, in either cash or merchandise; 30 percent received transfers from both family and friends; and 5 percent received transfers from extended family members. On average, 34 percent of the loss from the fire was covered by transfers. Only 40 percent of the victims reduced consumption as a result of loss in the fire. The average reduction in consumption (involving mostly expenditures on clothing) was 35 percent. Seventy percent of those who suffered losses in the fire reduced transfers to non-nuclear family members; the average reduction among those who reduced transfers was 52 percent.

If transfers are a form of insurance for transferees (Hypothesis 9), one would expect need motives to predominate among justifications for transfers. Seventy percent of those interviewed said they believe that those who solicit aid do so for want of other means of subsistence. And 46 percent of interviewees said that they make transfers to the extended family because the transferees depend on them. Hypothesis 6 is thus confirmed.

Summary

The results of the survey indicate that transfers are a well-entrenched, culture- and religion-based institution. Lineage transfers absorb a large percentage of income and savings. Transfers are analogous to a lineage tax and are subject to a Laffer curve: Total transfers decrease once the transfer proportion exceeds .582. Nevertheless, since transfers are a source of prestige, individuals go to great lengths to maintain them even in the face of income reductions. But they also develop behavioral strategies to reduce transfer pressures; they shelter their savings in tontines and in investments in kind, hide their incomes, and engage in lavish ceremonial expenditures.

Transfers reduce incentives to save, but the coefficient linking savings to transfers is not statistically significant. Transfers also systematically reduce incentives to work, but the study estimates indicate that, other things being equal, the quantitative impact of increased transfers on work incentives is very small.

Transfers provide a safety net for transferees and for society at large. But they provide only catastrophic insurance for the transferors. Under normal circumstances, the primary benefits transferors reap from transfers are enhanced utility and prestige levels.

There are two types of institutional adaptations to transfers. On the one hand, the tontine provides an institution to help indi-

viduals reduce transfer levels. On the other hand, since transfers provide an insurance mechanism for society at large, there are also religious, cultural, and social institutions that encourage the maintenance of transfers. The institution of transfers thus evidences African society's incipient transition from an orientation toward the provision of insurance, subject to income constraints, to an orientation toward maximizing profit, subject to a safety constraint.

Policy Implications

The survey results amply confirm that transfers are an integral part of Senegalese culture, even among the educated and the rich. The AM90s research is very consistent with the results of Binet's (1970) survey of African economic psychology throughout Africa. Thus the research findings have generalizable policy implications for the design of tax systems, insurance systems, social service networks, education and health expenditures, and civil service retrenchment, as well as for institutional intermediation and policies fostering entrepreneurship in the informal sector.

One often hears the mistaken assertion that individuals in Sub-Saharan Africa are too lightly taxed. Such a view ignores the transfer burden. In evaluating the total tax burden borne by Africans, one must add to government-imposed taxes the self-imposed taxes consisting of transfers to extended family and lineage members. Since these de facto taxes are high, the cumulative tax burden of government plus lineage taxes is very high. Raising government taxes could therefore have an unintended deleterious side effect: it could exert a downward pressure on lineage transfers, thereby reducing the safety net they provide and increasing income inequality and poverty.

Transfers are a very progressive form of taxation. They therefore contribute to a more egalitarian distribution of income. The apparent inequality of income before taxes and transfers is much greater than the true inequality after taxes and transfers. This has important implications for future poverty alleviation policies and programs.

Transfers provide a potent, efficient, finely tuned, need-based social insurance system in Sub-Saharan Africa. Operating through the extended family and lineage transfer system, this kind of insurance responds to both the customary and unusual needs of lineage members—providing old-age and catastrophic insurance, substituting for a welfare system, and enhancing the security of individuals and society. Based on intimate personal knowledge of the day-to-day circumstances of both recipients and transferors, it is

more efficient than either market-based private insurance or a governmental insurance scheme in that it achieves more safety at a lower cost. A vibrant transfer economy therefore considerably lessens the need for alternative insurance or safety-net institutions and renders much less compelling the necessity for social security and welfare legislation in Africa.

As the Senegal study shows, the transfer economy also contributes to a more egalitarian distribution of access to schooling and health services. Because transfers are used by recipients for schooling and medical expenditures, they make access to education and health services more available to the poorer members of the extended family, thus fostering larger and more equally distributed investment in human capital and increasing social mobility.

As indicated in Dia (1993: 10), because of the prevalent extended family system, the social and political costs of civil service reform extend beyond the individuals who are retrenched. Presumed costs usually ignore the ripple effects of retrenchment on transfers by civil servants. To the extent that retrenched civil servants are less able to engage in transfers, inequality and poverty are given impetus, enhancing the vulnerability of the poor to shocks, decreasing their ability to invest their way out of poverty (by reducing access to schooling and health services), and raising overall social insecurity. In the event of civil service retrenchment, governments may have to provide some of the social safety net services themselves, reducing or negating the budgetary savings effected by civil service retrenchment.

Institutionally, the society represented in our sample is in transition and undergoing renovation. Its institutions are mostly safety-oriented rather than profit-maximizing, but there are some elements of both. Cultural and religious institutions favor safety-oriented institutions, while tontines enable individuals to pursue profit maximization by insulating them to some extent from the economic pressure to transfer. Nevertheless, the AM90s research findings reviewed here give no indication that the transfer society is on the wane. The fact that the educated and modern-sector individuals in our sample transfer larger amounts and higher percentages of their income than do the less-educated, informal-sector interviewees suggests quite the contrary.

Currently, many economic and social functions (the provision of insurance, safety nets, and opportunities for income equalization) are performed by the extended family and the lineage rather than by specialized, differentiated institutions. The transition to profit-oriented institutions may lead specialized governmental or private institutions to assume many of these functions in the future. But in

the meantime, the culture- and religion-sanctioned institution of transfers provides a potent social glue that binds together economically differentiated members of the family and lineage, urban and rural segments of society, and the government and private sector. Interference with this institution is thus likely to be socially and politically divisive.

7. Developing the Indigenous Private Sector: Filling the Financial Missing Middle

Reviewing the lessons of experience in Chapter 5 and the evolution of most African markets today, one can identify three key stages of enterprise development in Africa and see how financial intermediation is aligned with this graduation process. The first stage is that of microenterprises: informal sector businesses that can gain access to and work with only informal financial institutions, which cannot address their growth needs on any significant scale. Second-stage businesses are those that are making the transition from informal to small- and medium-scale enterprises in the formal sector but cannot use formal financial institutions because of transaction costs and the risks involved. Third-stage enterprises are larger-scale formal businesses that can readily gain access to banks and sometimes own bank capital shares.

It is at the second stage—of emerging SMEs—that an effective intermediary financial institution is lacking in most African nations. One of the primary constraints involved in adapting formal or semiformal institutions to serve the financial needs of businesses graduating from informal microenterprises to formal small- to medium-scale enterprises is the fact that the lending risks and returns do not align with those achieved by banks engaged in conventional lending. In markets like West Africa, so long as banks can make a good profit extending low-risk, high-return, short-term commercial credits to formal sector traders and larger production enterprises, there is no incentive to assume the higher risks involved in extending credits to the lesser-known SMEs.

As banks are presently structured, they lack the capacity to absorb the risks involved and extend credits cost-effectively to smaller-scale operators. High average transaction costs, linked with small credits, lack of reliable borrower information, and mechanisms

for ensuring compliance with deposit and repayment requirements, combine to increase the risk of default and nonviability of such a lending operation.

To bridge this gap, new institutional mechanisms, or *structures de relais*, must be developed to do what the banks cannot—that is, absorb the additional risks in smaller-scale lending on a sustainable basis. In designing these institutions to fill the missing middle, it is very important to build upon the strength, the motivation, and the solidarity principles that derive from informal institutions and induce their users to make significant, equitable investments and repay financial obligations.

At the same time, the new institutions must be able to handle larger liquidities and emulate the financial discipline of formal banks. Over the medium term, effective missing middle institutions must work to induce formal financial institutions to share the risks, first as investors in the financing of viable smaller-scale businesses and eventually as full lenders to viable SMEs on the strength of their own bankability.

The Survey of Financial Institutions in Mali

To help find and adapt appropriate intermediate financing institutions, the AM90s studies program in October 1992 undertook a comparative study of informal and formal finance in Mali (Duggleby 1993). The field research was designed and conducted by Tamara J. Duggleby, a financial consultant at the World Bank, assisted by Mamadou Dicko, a Malian researcher. The savings schemes investigated included several institutional experiments illustrating both the problems and the promise of efforts to play the role of creative financial intermediary.

Among these experimental institutions are the *groupes d'intérêt économique* (GIEs), nonbank credit intermediaries set up in 1987 by the European Development Fund under its Projet PME/PMI, a project targeting small- and medium-scale enterprises. The purpose of the GIEs was to identify and assist the development of Malian private entrepreneurs with sound business ideas and proposals requiring financing. These institutions provide medium-term credits to finance projects of individual entrepreneurs, but they do so through groups in order to mobilize savings and thus provide securitized loans for group members. An entrepreneur with a project will bring together two or more persons who agree to participate in a GIE. They must contribute equal amounts to a monthly savings fund, which is used to guarantee loans made to group members by the credit facility. In order for the first borrower to gain access to

credit, the members of the GIE must make an initial savings contribution equal to 10 percent of their combined annual income. Once this occurs, the first borrower qualifies for consideration for a loan from the credit facility. Once the first borrower has repaid 30 percent of his loan, a second member of the group can qualify. Credit criteria include a viable project, the capacity to do project studies with program help, and a good reputation established by the "securing of a moral guarantee by a community notable." The theory is that because each member has invested savings in the guarantee of his loan, social pressure will be exercised on potential defaulters and the probability of loan delinquency will be reduced.

To facilitate comparative analysis, the study also examined the experience of several other financial institutions (ranging from informal to formal) that are functioning within Mali. These included:

- A bank-run contractual savings program (the Plan d'Epargne of the Banque Internationale de l'Afrique de l'Ouest, or BIAO) organized to attract small depositors and give them access to credit based upon monthly savings
- An alternative bank (Bank of Africa, or BOA) attempting to broaden services to African business through the linkage of share ownership with commercial banking services
- A semiformal system of rural savings and credit associations organized and animated by the French-financed Compagnie Malienne de Développement du Textile (CMDT) cotton production scheme as a network of credit unions providing savings and credit services to smallholder farmers.

To better understand culturally derived savings and credit practices and requirements, the AM90s study also involved in-depth questionnaire-based interviews with informal sector users of traditional tontines. These informal rotating savings clubs, prevalent in Mali and neighboring francophone African countries, are used by small savers to mobilize equal periodic savings contributions and to distribute the proceeds to members.

In its comparative analysis of financial institutions, the research team examined the experience of both successes and failures. Two criteria were used to determine the relative success or failure of a financial institution: the effective delivery of financial services to the target groups and delivery in a culturally sustainable way. As used here, "culturally sustainable" means (a) all parties to a savings scheme perceive that access to distributions of the resources mobilized is equitable, and (b) funds are sufficient to meet individual needs in a timely fashion. The cultural dilemma faced by the

contributor to a credit arrangement that, like the GIE, goes one step beyond the simple tontine, is illustrated by the uncertainty of access and timely eligibility for financial resources experienced under the GIE. This must be addressed if effective financial intermediation is to occur and be sustainable.

The Survey Design

The study was undertaken with three objectives. The first was to examine how adapted and renovated informal, semiformal, and formal financial institutions have (or have not) succeeded in serving the financial needs of the informal sector effectively and in a culturally adapted way. The second objective was to identify features in the organization, launching, and operations of key institutions that, like the GIE, have helped Africans move from risk minimization to wealth accumulation behavior (as recommended in the Adelman and Fetini lineage-levy study discussed in Chapter 6). The third objective was to recommend mechanisms for renovating informal institutions and adapting formal financial institutions to enable them to extend services to microenterprises and help them graduate to small, medium, and formal enterprises in a more effective, culturally congruent way.

Field interviews were held with eighty-five respondents. These included users of three types of financial institutions (semiformal credit intermediaries like the GIE, informal tontines, and semiformal rural savings and credit associations). Thirty-three interviews were held with members of sixteen GIEs in Bamako and Segou. In each GIE, an interview was held with the promoter or organizer, as well as with three to four nonborrowing members. In structuring samples, the study team requested interviews with both functioning and nonfunctioning GIEs for comparison of structure, preferences, and patterns of financial behavior. The resulting GIE sample was mixed sectorally, with participants from the services, commerce, and agropastoral sectors. Interviews with forty-two members of thirteen traditional tontines were held in Bamako and Segou. In structuring the sample, the team drew participants from various sectors, from community-level groups, and from the government. In each case, interviews were held with the leader as well as three to four members.

Experience with GIEs

The results of the GIE experiment are significant. The encouraging news is that by adapting some of the familiar practices of the tradi-

tional tontine to use group savings capacity to increase member access to funds (credit), the program succeeded in mobilizing savings for 830 GIEs, with some 500 of these actively participating in savings. Because of this, at the time of the study the project had been able to extend term credit amounting to 3.6 billion CFA francs ($1.8 million) to more than 670 commercial and service enterprises mounted by entrepreneurs. Most were making the informal-to-formal transition but in most cases would not have had access to bank financing. Some of these members of GIEs had adapted behavior postponing short-term access to funds in return for the greater payoff of an investment over the longer term.

The downside is that in many cases the GIEs had been unable to generate long-term commitment on the part of members as savings contributors. Consequently, savings contributions dropped off. This has weakened the potential influence of group pressure based upon common economic interest, regularity of savings, repayment of credits, and participation by nonborrowing members in reducing the loan defaults. The project has generated long-term investment behavior by extending a financial benefit (credit) but has done so among only a minority of participants. Moreover, the credit facility cannot reach financial sustainability unless a higher volume of credit is extended and a better record of regular savings payments and loan repayments is achieved.

Five major lessons have been drawn from the mixed experience of the GIEs: that individual members must benefit financially, that savings and credit mechanisms must be built on common economic interests, that all members must have a substantial and equal stake in the projects financed, that the savings base and number of beneficiaries must continue to grow, and that incentives for repaying loans—and sanctions for not doing so—must be clear and effective.

THE INDIVIDUAL AS THE RECIPIENT OF FINANCIAL BENEFIT. Responses from field interviews with eighty-five financial users in informal and semiformal institutions, and observed patterns of institutional and user behavior across the institutions studied, strongly suggest that the individual must be the beneficiary of the financial benefit (access to credit or other investable resources) if services are to be used and terms and conditions are to be respected. Also, the benefit must be delivered within a reasonable period of time after institutional requirements are met.

This finding is clearly consistent with African experience with rotating savings and credit associations (known as tontines in francophone Africa and as susus in anglophone Africa). The high level

of compliance with the rules of the tontine and other informal rotating savings clubs organized in local communities in West Africa is linked to the fact that they provide individual members with a secure place to save as well as ready access to more funds through group-based fund mobilization and distribution. Organized among persons who know one another well and who self-select to participate, tontines require that each member contribute an equal amount of monthly (or weekly) savings. The leader then distributes the funds to each member at his or her chosen turn in the cycle. This distribution gives the member access to money to realize a specific investment objective when the need arises (often to fulfill a family obligation or provide working capital for a small enterprise).

Tontines are more flexible than banks with regard to terms and conditions for accessing funds, in that they do not place restrictions upon the use of the collected money. Thus, the tontine delivers a financial benefit that is individualized by enabling the user to establish a savings habit and build up a source of funds for a specific purpose. This is done within an informal institution characterized by a high degree of solidarity among members. User interviews indicate that this solidarity is linked to a sense of mutual benefit from an institution in which everyone has an equal financial stake (invested savings) and upon which everyone depends for access to funds. Mutual dependence upon the tontine as a source of funds generates strong peer pressure to meet regular savings obligations and results in members consistently making their savings contributions in full and on time. Of forty-two interviewees, thirty-nine (93 percent) responded that they adhered to the same savings requirement, without significant fluctuations in amount contributed from period to period.

Interviews with thirty-three GIE members, quantifiable indicators of program performance, and field observations of user behavior indicate that the GIEs failed to give the majority of participants such timely access to term credit for a business project. Failure to deliver this benefit to the individual affected program performance in terms of generating regular savings and good repayment of credit and achieving program financial sustainability. For the majority of GIE members surveyed (58 percent, or nineteen of thirty-three), an individual financial benefit in the form of credit for a project had not been delivered at the time of the study, nor was it on the immediate horizon. Only a minority of GIE members (33 percent, or fourteen of forty-three) had received financing for a project. The vast majority of these loans were to first-time borrowers only. This was in part due to a tendency among nonborrowing

GIE members to discontinue savings participation after a first loan was received.

An example of the program's inability to adapt to individual interests is the group loan guarantee. This requires that each group member block his savings for a somewhat indefinite period of time, to be used as a guarantee for the loan accorded to another. Use of such a mechanism to block one's funds, without assurance of an individual financial benefit (credit for a project) within a reasonable period of time, is incompatible with Malian cultural practices and expectations. These are, as already noted, equitable distribution of resources to all participants within a reasonable period of time and availability of sufficient funds to meet an individual need at an opportune time.

Thus, the GIEs failed to resolve the central dilemma in extending financial services to users in the informal and small-scale economic sectors—striking a reasonable balance between individual and group interests and between culturally based expectations and institutional requirements.

BUILDING SAVINGS AND CREDIT MECHANISMS ON COMMON ECONOMIC INTERESTS. User responses to field interviews, and observations of user and institutional behavior in financial transactions studied in Mali, suggest that a common economic interest and the pressure it can bring to bear on participants in groups to enforce individual financial obligations is essential to the success of savings and credit mechanisms serving the informal and small-scale economic sectors. The importance of a common economic interest and its potential influence upon users to fulfill individual financial obligations is a major factor explaining the high rates of usage and adherence to the rules in informal tontines. The binding elements of common economic interest and dependency upon this source of funds exert effective pressure on members to consistently meet their financial obligation (regular and equal contributions to the savings pool).

Quantifiable responses from questionnaire interviews indicate, as noted earlier, that 95 percent of tontine respondents adhere to the same savings requirement without significant fluctuations in amounts contributed from period to period. Nonquantifiable responses indicate that members who fall behind on obligations are consistently pressured by others to fulfill them or face expulsion. Comparison of the questionnaire responses of members of various GIEs and field observation of their savings behavior indicate that saving is halted more often when the GIE members are unrelated individuals with no evident common economic interest than when they are drawn primarily from the same family or have a common

interest in the enterprise being financed. These findings suggested to the research team the presence of a significant statistical relationship between common economic interest in groups and their performance in meeting financial obligations.

To test this relationship, the team scored the GIEs interviewed on key performance variables and ran a series of statistical correlations by group "success" score and other behavioral variables. The results of these correlations indicate significant relationships among common group economic interest, regular savings, and successful loan reimbursement.

Three factors were used to evaluate GIEs on their performance as savings and credit mechanisms: longevity or length of participation (years) as a GIE, regularity of savings (always meeting the requirement, or sometimes having difficulty), and success in loan reimbursement (reimbursed in total and on time, or not reimbursed). Using questionnaire responses, the team scored each GIE as a success, a medium performer, or a failure. Six out of sixteen GIEs interviewed were rated as successes, indicating that they had participated for a significant period (two or more years), regularly met the savings requirement, and successfully reimbursed credit extended. Five were rated medium performers, having shown difficulty in either meeting savings or reimbursing credit, and five scored as failures, demonstrating both irregular savings and difficulty in reimbursing credit.[1]

Use of this scoring method yielded three significant associations. First, group success in meeting financial obligations is associated with the presence of a common economic interest among group members. Cross-tabulation of group score by common interest indicates that 85 percent of the groups rated successful are composed of individuals declaring a common economic interest (a common activity for which credit is needed or a clear interest in the success of projects financed by the group). All groups rated as failures or medium performers are made up of individuals who have not declared a common interest.

The chi-square is very significant at 13.25. The findings suggest that common interest is a strong factor in generating continued participation and imposing financial discipline in groups. A significant association between individual success score and presence of common interest (chi-square 24.89) suggests that individual success in regular savings and reimbursement is influenced by common economic interest among group members.

Regularity in savings is associated with a common economic interest among group members. Seventy-three percent (73 percent) of those among regular savers participate in groups with a declared

common economic interest. This chi-square is significant at 17.03. The finding suggests that a common economic interest helps impose savings discipline in a group and induces members to contribute financially to group success.

The second significant correlation that emerged in the scoring is that successful reimbursement of loans is associated with groups that have a declared common economic interest in the project financed. Cross-tabulation indicates that 60 percent of those who do not have loan reimbursement problems are associated with groups declaring a common economic interest. All of those with reimbursement problems belong to groups with no declared common interest among members. The chi-square is significant (11.56). This suggests that the presence of a common interest may encourage loan reimbursement through peer pressure on borrowing members to meet their financial obligations.

Taken together, the above findings suggest that semiformal savings groups organized around family or persons with a common economic interest in a project are associated with a high degree of adherence to savings requirements, strong cohesion within the group, and high rates of loan repayment. The findings also suggest that savings groups assembled by promoters and composed of individuals with no common economic interest in a project tend to have difficulty meeting the regular savings requirement, high rates of loan default, and difficulty repaying amounts due.

These statistical results confirm that a common economic interest and the resulting pressure on participants to enforce financial obligations are important factors in project success. Raw data from the group scoring process and field observations indicate that five out of the six GIEs that were rated as successes in terms of financial performance were organized around an enterprise engaged in a production or service and distribution activity where each member had a defined common interest. This ranged from participation in management of the enterprise to direct employment by the business. Interviews with participants in successful GIEs indicated that most savings contributors received direct financial benefits (such as a form of employment, salary, or other financial support) within an average of three to four months after a loan was accorded to a borrowing enterprise.

THE NEED FOR SIGNIFICANT AND EQUAL ECONOMIC STAKES AMONG USERS. Project experience drawn from several of the institutions studied indicates that in a successful savings and credit institution using group mechanisms, borrowing and nonborrowing members must have significant and equal economic stakes in the success of

the projects financed or the loans extended to members. Common economic interest is necessary, but alone it is not sufficient.

The majority of GIE members interviewed (52 percent) indicated that their groups had a common interest in gaining access to credit. However, other results of the survey and field observations indicate that individual and group stakes in the success of project financing were relatively low and unequal. This had a negative impact on regularity of savings, repayment of credit, and financial sustainability of the credit program.

Average individual financial contributions in the GIEs surveyed as well as program-wide savings statistics reveal that GIE participants have had relatively low financial stakes in the success of loans to other members. As a financial guarantee, the initial group savings requirement set by Projet PME/PMI is modest: 10 percent of combined annual income of a small group of members (an average of four).[2] At this level of financial participation, the savings-backed guarantee has been inadequate to cover the average anticipated loss on loans extended under the program. To generate higher levels of loan repayment and loss coverage, program management will have to increase individual stakes in the success of projects financed.

The high incidence of nonborrowing GIE members halting equal monthly savings after delivery of the first loan (occurring in 43 percent of GIEs interviewed in Bamako and 70 percent of those surveyed in Ségou) indicates that many participants in GIEs have not maintained equal stakes in the success of loans extended. As noted, this has weakened the impact of the savings-backed group loan guarantee.

Statistical results of cross-tabulations indicate the importance of significant economic stakes (regular savings and savings level) as an inducement to individuals to meet financial obligations. Regular savings participation, for example, is associated with successful loan reimbursement.

Cross-tabulation of savings regularity among GIE members by reimbursement problems indicates that 86 percent of regular savers are associated with groups without loan reimbursement problems. It also indicates that 66.5 percent of the irregular savers belong to groups that have experienced difficulty in reimbursing credits fully and on time. The chi-square is significant at 10.14. This finding suggests the importance of economic stakes (regular member savings contributions) as an inducement to individuals to meet financial obligations (credit reimbursement).

The researchers also found that the level of savings contributed is associated with success in reimbursement. Cross-tabulation of

savings level by reimbursement success indicates that 81 percent of the high-level savers are associated with the successful reimbursement of loans. Some 70 percent of the low- to medium-level savers are associated with nonreimbursement cases. The association is important at a chi-square of 14.83. It suggests that higher individual economic stakes in group success (form of savings contributed) generate more effective pressure to repay financial obligations.[3] At the same time, it must be noted that the study team did not have sufficient sample data to determine whether low savings levels were due to low propensity to save or to low absolute level of income (capacity to save).

Overall results of this research indicate that Projet PME/PMI has failed to generate significant and equal stakes in many of the projects financed by the GIE or the loans made by GIE members as savings contributors. This has weakened the synergy and potential influence of group pressure based upon common economic interest, regularity of savings, repayment of credits, and participation by nonborrowing members in the curing of loan defaults.

EXPANDING THE SAVINGS BASE AND INCREASING THE NUMBER OF BENEFICIARIES. The review of Projet PME/PMI indicates that in order to sustain high rates of participation, ensure compliance with rules, and generate good financial performance (regular savings and loan repayment), the number of savers (savings base) and the number of individuals receiving the financial benefit must be increased. Expansion of savings and lending activity is necessary to achieving sustainability of financial operations. Program experience indicates, as noted, the failure of a significant number of GIEs to meet the two primary objectives: the promotion of a regular savings habit among members and the creation of a viable means of guaranteeing or securitizing credits to group members via group savings contributions.

Survey responses and field observation of user behavior in GIEs indicate that savings expansion was constrained by the tendency of nonborrowing GIE members to halt monthly savings contributions soon after the first loan was accorded. Responses to questions regarding access to credit indicate that the majority (58 percent) of GIE members surveyed had not at the time of the survey had access to credit and that this financial benefit was not on the immediate horizon. This reduced individual stakes in and commitment to the savings-backed guarantee, which in turn reduced the number of loans that could be accorded potential recipients of the financial benefit at any one time.

The experience of the GIE program strongly suggests that to generate conformity with the rules and good program performance, as well as financial sustainability, alternative financial institutions must include mechanisms that will expand the savings base (number of savers), increase the level of individual savings participation, and increase the lending base (number of eligible borrowers at any one time). Such expansion would help to meet the cultural test of equitable distribution of financial benefits within a reasonable period and would, over time, render the financial institution sustainable on the basis of operating income.[4]

The above findings suggest that effective modeling of alternative financial institutions requires threshold economies of scale at the levels of savings mobilization and extension of financial products—that is, a sustaining volume of business must exist to permit operation of freestanding and financially sustainable savings and credit institutions.

EFFECTIVE INCENTIVES FOR LOAN REPAYMENT AND SANCTIONS FOR DEFAULT. Comparative analysis of experience from all financial institutions surveyed in the Mali study indicates that successful institutions must adopt mechanisms that not only hold the individual borrower responsible for repayment but also build on group-based enforcement systems. The fear of culturally based sanctions for failure to respect financial obligations is the major factor inducing members of informal tontines to repay their loans. Such sanctions were clearly lacking in the design and implementation of the GIEs. This has limited the impact of the savings-backed guarantee, constrained the expansion of credit to larger numbers of beneficiaries from the target sectors, and prevented the program from reaching full financial sustainability based upon good rates of loan recovery, interest, and fee income from loans extended.

Experience with Other Renovated or Adapted Financial Institutions

The experiences of other informal and formal savings institutions in Mali and elsewhere confirm the lessons learned from the GIEs.

KAFO JIGINEW RURAL SAVINGS ASSOCIATIONS. Comparative experience from a semiformal institution surveyed in Mali, the Kafo Jiginew rural savings and credit associations, also points to the importance of common economic interest in ensuring that the rules in savings and credit institutions are applied consistently and respected by informal sector users. Operating with donor funding in

southern Mali, this system of rural, semiformal, village-level credit unions serves users who are predominantly farmers with a common economic interest in producing one cash crop: cotton.

Questionnaire responses from a limited sample of users indicate that members have two common economic interests in using credit from this institution: securing funds for small seasonal agricultural exploitation (80 percent of respondents) and gaining access to funds as needed to meet family expenses during the *soudure*, or period between harvests (70 percent). In the villages visited, all households were members of the local savings and credit association. These members share a common need for credit, and their survival to a significant degree depends upon that of this institution, which extends credit using their common savings as a base.

THE BIAO PLAN D'EPARGNE. Started in 1988 by the commercial bank BIAO, the Plan d'Epargne was designed to attract larger numbers of individual small savers, using a fixed monthly savings requirement—while maintaining a fixed loans-to-deposit ratio—to extend credit for small economic activities or consumer needs. The original intent was to make tontine members bankable as savers and eventual borrowers and to tap into their considerable savings potential. However, the scheme was rerouted to target individuals as savers when a survey of Bamako-based tontines indicated reluctance among groups to leave savings on deposit, as well as individual unwillingness to use savings to cross-guarantee loans to other members.

The Plan d'Epargne was geared to delivering a financial benefit to the individual. It required that the prospective saver-borrower present a viable project and, after successful screening, make fixed monthly deposits over a set period (an average of eighteen months), at the end of which he could qualify for a loan covering 75 percent of his project cost. In a high-inflation environment characterized by a very segmented banking sector and very limited saver access to formal credit, the plan attracted significant saver interest. Over the initial two years, some 230 accounts were opened. At the height of program activity, mobilized savings amounted to about 36 million CFA francs ($163,000)—about 40 percent short of target.

Program results were disappointing to both the bank and savers. Of the 300-plus savers participating in the plan, only four qualified for and obtained credit. Loans were extended for varying purposes (such as home finance or small business). Along with the savings-based qualification criteria, each loan had to be secured with collateral as well—a requirement difficult for most Malians to meet.

Despite its focused project design and intensive marketing to reach individual savers, BIAO failed to reach its two most important objectives: inducing significant numbers of Malians to save consistently and regularly and enabling them to reach the financial goal of gaining access to bank credit. The costs of program management and marketing (which, at the height of the program, were more than 30 percent of savings mobilized) and an inadequate plan for reaching its savings target caused the bank to suspend technical collaboration with an outside agency and eventually to shut down the scheme. Saver inability to consistently deposit funds, leave them on deposit, and realize a financial benefit (credit access) caused savings participation to drop off over time, jeopardizing program sustainability.

Discussions with managers of this savings and credit project and examination of financial results indicate that the bank failed to reach its objectives for two reasons. The first was its failure to take into account user capacity to meet financial requirements and use the services. The second was its inability to adapt to cultural expectations on saving, access to funds, and investment.

Despite its reputation as a creative bank offering innovative financial products, BIAO did not align its program with the economic realities in Mali. With high inflation, low salaries, and a high cost of living, Mali is a country where most savers have a difficult time saving significant and consistent amounts and leaving them on deposit. Most people operate within a short-term time horizon and regularly need access to liquid assets to meet requirements of day-to-day living.

BIAO experienced frequent saver attempts to withdraw deposits soon after savings plans started, an indication that Malians, like other West Africans, need access to funds within a reasonable time after requirements are met. The size of the monthly savings requirement, the obligation of making and maintaining fixed monthly deposits over an extended period of time, and the imposition of supplemental collateral requirements did not adapt to individual capacity to use the financial services.

In designing and administering Plan d'Epargne, BIAO failed to adapt to two culturally based expectations of Malian users of financial institutions. As noted before, Malian savers expect (a) an individual financial benefit within a reasonable time after institutional requirements are met, and (b) access to sufficient funds to meet basic needs at any given time (reducing the risk of personal illiquidity). Savers had to wait too long (eighteen months on average) to realize the financial benefit (credit for an individual project). Terms and conditions failed to address the individuality of

the capacity to save; it also put the user at the risk of personal illiquidity while he was trying to build capital. This contrasts with informal tontines, which, as noted, meet these requirements and enable the user to realize funds for his investment while minimizing his risk in doing so.

Two key lessons regarding individualism and the delivery of the financial benefit emerge from the experience of Plan d'Epargne. These should be taken into account in future adaptation of financial institutions to serve target groups. First, to effectively mobilize savings and broaden access to credit, banking services must take into account the high degree of individualism involved in most financial transactions, tailoring services, terms, and conditions to the individual investment goal and the capacity to use services. Second, the mechanism used to extend financing for an individual project should enable the user to build capital to realize his investment, while minimizing his risk in doing so.

BIAO's experience also confirms the need for expanding the savings base and number of beneficiaries (the fourth lesson of the GIE experience). The importance of managed program expansion is borne out by the limited successes of the plan in inducing Malians to save consistently, leave money on deposit for significant periods, and attain the financial goal of gaining access to credit through savings. Failure to reach targets in these areas and to sustain project costs based on a threshold level of savings and credit activity rendered the program nonviable at the operations level and brought about its closure after three years of operation.

A more adaptive approach would have been to peg the savings requirement to saver capacity rather than to project size, reducing the latter and the waiting period, and permitting distribution of the financial benefit (credit) to more savers within a reasonable period of time. This action would have enabled the bank to maintain a larger savings base (number of savers) and enlarge the user base (number obtaining financing at any one time), rendering the program more financially sustainable on the basis of income generated.

THE BANK OF AFRICA. The Bank of Africa (BOA) in Mali illustrates an interesting lesson regarding the importance of effective incentives and sanctions in enforcing financial obligations. Incorporated in late 1982 as an "alternative bank" for African business, BOA is almost totally African-owned, tailoring its services to the users' needs and giving users a chance to become shareholders. BOA has thus loosely tied user financial investment in the institution to access to services (incentive).

In its attempt to tie ownership to financial services, BOA has tended to skew lending toward larger commercial customers (traders), who hold significant blocks of capital and have not always respected repayment obligations on their loans. BOA has at the same time failed to pair the incentives, or stakes, with one or more effective sanctions (self-policing mechanisms) to induce stakeholders to pressure one another to repay loans. This has jeopardized the quality of the portfolio and created a balancing act for managers, who must respect shareholder wishes and still run a sound operation.[5]

These experiences suggest that in order to be successful in terms of performance and sustainability, financial institutions serving the informal and small-scale economic sectors must adopt repayment mechanisms that offer all members incentives to repay and, at the same time, equally enforceable sanctions if they do not. If effective incentives and sanctions are not in place and applied, both the financial sustainability of the institution and its continuity as a source of deposit and credit services for the target groups will be compromised in the medium to long term.

EXPERIENCE FROM NON-AFRICAN INSTITUTIONS. A World Bank study of rural financial markets in Africa (Thillairajah 1994) discusses cases elsewhere where effective incentives and sanctions have ensured good performance of financial institutions (that is, a satisfactory level of savings mobilization and credit repayment). One example is the Bank Rakyat of Indonesia's Unit Desa Program. The study cites prompt approval of credit and the availability of follow-on loans based on good performance as factors behind the program's relative success in extending credit to small borrowers in rural areas, and doing so in a sustainable manner (Thillairajah 1994: 83).

Another example is the privately run Grameen Bank in Bangladesh, which extends deposit and credit services to individual borrowers within groups for small-scale economic activities (see Box 7-1). The Grameen Bank has found that group liability for repayment of loans in the event of member default, combined with the availability of further credit contingent upon repayment by all group members, has contributed significantly to the program's good rates of performance in terms of loan recovery (Thillairajah 1994: 82). The World Bank study also points to several other factors as contributing to good performance: required savings investment by members, peer monitoring of repayment, and training of group members in the importance of savings and repayment (financial discipline).

Box 7-1. The Grameen Bank in Bangladesh

(The following is excerpted from Thillairajah 1994: 84.)

The Grameen (Village) Bank in Bangladesh originated . . . in 1976 as an experiment to help poor farmers without adequate land to offer as collateral to conventional lenders. [Its] activities were expanded into five districts by 1981. It was formally incorporated as a bank in 1983. The Grameen Bank's activities are based on groups of five poor villagers and linked credit and savings. Its lending activities are managed effectively though peer monitoring and joint liability.

Group cohesiveness is ensured by keeping the group small and self-selected. The members of a group are given intensive orientation by specially trained field workers from the bank prior to the commencement of any financial activity. Contact between the group members [and] the bank worker is ensured through weekly "center meetings" at which five such groups . . . assemble. The community spirit is enhanced by the honorary (unpaid) services offered by the chairpersons and secretaries of the groups and centers, and the profile maintained by the bank workers trained to relate to and respect the group members.

Two of the five members selected by the group receive the initial loans, for productive activities selected by the prospective borrowers and endorsed by the other members of the group and approved by the bank worker. These two members . . . commence their weekly repayment of their loans (generally 50 weekly equal installments) at the center meetings. After a short period of satisfactory repayments by the initial two borrowers, the next two members of the group become entitled to receive loans, following the same rigorous procedure and [discipline]. Satisfactory repayments by ali four borrowers permit the fifth member to receive a loan. Further loans [can] of course be made after full repayment of the initial loans.

A special feature of the Grameen scheme is [participation] in mandatory savings—a requirement to have each member contribute 1 taka [about $0.025] weekly and 5 percent of loans received into a group fund at the outset, and 4 percent of loans received after full repayment of the loan to the emergency fund operated by the center. Another feature is that loans to group members carry interest at the same rate as that charged by commercial banks for administered agriculture credit—loans are no cheaper than what would be available from other formal financial institutions. The effective cost to the borrower would, however, be higher at 25 percent, which does not take into account the additional and significant transaction costs involved in the members having to attend the weekly meetings and the time spent in peer monitoring fellow members activities and obligations, as well as having to contribute to meet the joint liability of defaulting members.

It must be noted, however, that at the time of the study, the Grameen Bank had not succeeded in recovering the additional costs of increasing access to credit for the rural poor and thus becoming sustainable on the basis of income from interest and other charges. The bank continued to rely heavily on the provision of outside funds on concessionary terms to continue mobilizing savings, extending credit, and expanding.

Lessons learned from the Grameen example—where an alternative financial institution has been able to serve the informal sector user at high rates of recovery—further underscore the importance of achieving financial sustainability for alternative savings and credit institutions. As found in the AM90s Mali study, one way of reaching financial sustainability is through managed expansion of both the savings base and the lending base.

Operational Implications

Taken together, the five key findings of the GIE research in Mali suggest that successful institutions servicing target sectors must, through their design and implementation, forge an effective linkage between a group's common economic interest and the delivery of a personal financial benefit to the individual user. Study results suggest that this may be done through financial institution modeling and adaptation using the following best-practice framework as a guide:

- Financial institutions serving target beneficiary groups should be built around groups with a clearly defined and common economic interest. This should be either a direct interest in a project financed or a clear interest in the success of loans to projects with similar sectoral characteristics and financing needs, presented by individual group members.
- One or more mechanisms must be built into the project to generate equal stakes for group participants in the performance of the credit fund. Effective stakes must link common economic interest—and the group pressure that it can bring to bear—with group enforcement of program obligations, including regular savings and successful credit reimbursement.
- Successful performance should be rewarded with delivery of a personal financial benefit to individuals meeting program requirements within a group, on an equitable basis and within a reasonable period of time after they are met.

- Mechanisms must be built into the institutional structure to expand the savings base (number of savers) and correspondingly the lending base (number of borrowers) during any one period. This will shorten the average wait for access to the individual financial benefit, promote equitable access, and render the credit operation more sustainable.
- Terms and conditions for savings and lending must be well defined and clearly set out in marketing and customer service programs to generate uniform understanding of and commitment to terms among group members. After successful financing of projects in a number of groups, the financial institution should offer a program of user education and resensitization to renew confidence in the financial services and benefits offered.
- To increase loan recovery rates, the institution must adapt mechanisms that hold individual borrowers responsible for repayment of credit within an overall payment mechanism that offers all members in a lending group clear incentives to repay and provides enforceable sanctions with universal effect if they do not.

Such adaptations will be necessary to avoid the weaknesses of past institutions that have unsuccessfully tried to use group mechanisms to extend financial services to the informal and small-scale private sectors. These weaknesses include significant levels of noncompliance with the rules, the creation of bogus groups that have entered financial institutions only to attract credit, and a low number of users reached and aided in financing investments.

Profile of an Adapted Financial Institution: The Banque Mutuelliste

If the central dilemma in effectively extending financial services to borrowers in the informal and small-scale economic sectors is striking a reasonable balance both between individual and group interests and between culturally based expectations and institutional requirements, then the semiformal system of GIEs must be restructured in the form of a member-owned formal credit institution. Present GIEs would be assessed according to the extent to which a clear common economic interest can be identified—either in a group project or in individual projects with similar sector-based characteristics and needs for financing. GIE members would then be regrouped into larger savings and credit associations made up of people with a common interest in a certain sector (for example, transportation, construction, or service or distribution). These asso-

ciations (commercial lending groups, or CLGs) would be integrated as customers into a new mutually owned banking institution, the Banque Mutuelliste. This bank would then design savings and credit packages to meet capacities to save and requirements for financing among the respective CLGs.

The present savings contribution of the GIE members would be converted to individual member shares in the capital of the Banque Mutuelliste. This could build individual stakes in the success of the institution upon which CLG members would depend for continuing access to credit for their economic activities. To gain access to credit, each CLG would be required to mobilize savings among the members and place them on deposit. This would permit mobilization of higher levels of savings through pooling of the savings of twenty to thirty members—instead of the present three or four members in a GIE. The larger pool of savings would enable the institution to create a commercial lending fund to serve a CLG made up of sectorally based businesses and a larger number of entrepreneurs at any one time.

Access to credit funds for more users would directly address the primary cultural expectations of equitable distribution of financial resources mobilized to all members within a reasonable period of time. To correct evident incongruities with Malian cultural practices in investment, the present guarantee backed by GIE group savings would be removed. In its place, a lending limit would be established, regulating the volume of credit that could be outstanding to members of the commercial lending group at any one time. The lending limit would be expressed as a loans-to-deposits ratio or ratio to total savings mobilized and maintained on deposit by the members of the CLG.

Minimum deposit levels would support a proportionate volume of loans extended at any given time. If deposit levels dropped significantly, the CLG credit limits would drop proportionately. Individual borrowers would be held responsible for repayment of their loans out of enterprise cash flow and other personal resources. At the same time, mechanisms would be built in to ensure that all actual or potential borrowers within a CLG would have equal stakes in the repayment of loans by group members and in the success of the projects. Such mechanisms would include individual shareholdings in the institution and individual savings contributed through CLGs to leverage a larger commercial lending fund for financing member projects.

Assuming that required maintenance of significant savings volumes backing each fund would create a situation where users of the institution were permitting their own savings to be lent to members,

this would in turn cause CLG members to exert group pressure on borrowers to repay funds. Small-scale operators making the transition from the informal to the formal sector do not have bank credit histories. If transferred to the revised scheme, these borrowers would be largely dependent upon it as their sole source of bank credit. Such a common dependency for economic survival would exert pressure from group members on borrowers to repay obligations.

Lending experience in other developing countries in Africa and in Asia has shown that the substitution of group liability for collateral works well for very small-scale operators (microenterprises and small farmers), but it is less likely to work among small- to medium-scale enterprises, whose operators are more independent and whose financing requirements vary. In addressing the needs of this SME sector, wider accountability for use and repayment of credit can be generated by creating larger lending funds, which become self-monitoring on the basis of recovery rates. The use of larger CLGs within a mutually owned financial institution can combine the advantages of pooled savings and realistic loan-to-deposit ratios to extend financial resources to more savers as borrowers at any one time (more equitable access).

Identification of Sites for Institutional Adaptation

Taking into consideration the previously discussed best-practice framework and lessons learned, as well as practical realities of conventional banking, the AM90s financial sector research team has established two criteria for identifying countries and sites for institutional adaptation. First, there should be at least one viable formal lending institution that is interested in doing business with one or more viable subsectors in the informal sector and that has either started the process or signaled its readiness to do so. Second, one or more informal sector structures must be in place that can be used as a basis for mobilizing borrower funds (stakes) and reducing information costs and recovery risks in lending to informal sector borrowers.

In the process of working with financial institutions, it is important to identify "amenable adaptors" among formal institutions that could be modified to improve service delivery and responsiveness to small-scale economic operators. Successful intermediation projects cannot focus simply upon renovating existing informal sector institutions (such as traditional tontines or Kombi NAAM) to make them perform better. A continuum of institutions must be built or strength-

ened, ranging from informal ones founded entirely upon local cultural practices and initiatives to formal ones adapted to become effective, sustainable intermediaries in established cultures.

Using the above criteria, the financial sector research team identified a number of institutions in Africa that have adapted, or are interested in adapting, "mutualist" concepts to better serve the informal sector. These institutions include:

- A formal bank in Senegal that has assisted the development over two years of the successful Mutuelle d'Epargne et de Credit among informal borrowers in sectorally based savings and credit groups. The bank wishes to expand and incorporate this activity as a risk-absorbing intermediary, using existing multiple branches in market centers.
- A finance company in Ghana, a nonbank financial intermediary (NBFI) successfully mobilizing private savings and extending credit to informal and small-scale borrowers. The institution is seeking ways to develop instruments for serving these borrowers on the basis of common economic interests in viable subsectors.
- An NGO-run NBFI in Kenya that has extended credits to microenterprises and small-scale informal sector operators at high rates of recovery and is seeking to graduate proven borrower groups into the banks. Selective graduation of individual borrowers has been going on through a British-owned bank.

These are three of some ten African examples with the key elements of (a) interest by formal institutions in viable sectors in the informal economy and (b) the discipline of a semiformal or formal lending institution. Other potential settings for institutional adaptation include established nonbank or bank-linked financial intermediaries in Botswana, Cameroon, Côte d'Ivoire, Guinea, Mali, Tanzania, and Zimbabwe.

What remains is to carefully assess the present capacity and the level and type of lending interest within these institutions, and to test alternative structures that can achieve three objectives established here for implementing the financial sector findings of the AM90s study. These are to absorb risks that banks cannot, to generate lending operations that are profitable and sustainable, and eventually to mainstream informal sector borrowers into the banks or, alternatively, to achieve mainstreaming through formalization of risk-absorbing NBFIs.

A Framework for Institutional Adaptation

Using the principles addressed in the previously discussed best-practice framework and proposed Banque Mutuelliste as a basis for modeling, the AM90s financial sector research team proposes to test two pilot adapted structures designed to absorb risks that banks cannot and bring about the eventual mainstreaming of users from the informal and small-scale economic sectors. These structures are briefly described below.

Each of these pilots draws from practices of successful savings and credit institutions operating in the formal and informal sectors in Africa. Operational and risk management structures proposed will be flexibly adapted to serve informal sector borrowers in a culturally congruent way, while using savings and credit instruments that enable both the institution and the borrower to manage the cost and pricing of risks.

A FINANCIÈRE AS NONBANK INTERMEDIARY. One structure to be tested to absorb additional risks and demonstrate profitability of lending to informal sector operators will be a formally incorporated *financière*, or nonbank intermediary authorized by statute to mobilize and manage private deposits and extend credits to the private sector. The *financière*, or finance company, would be commercially run by private managers according to a business plan with targets for asset and liability growth and management.

This institution would serve as a *structure de relais* between one or more conventional banks (lending banks) incapable of absorbing the full credit risk and informal sector borrowers regrouped according to sector of operation and related common economic interests. The *financière* would mobilize liquid savings of informal borrowers regrouped in commercial lending groups, according to their sectoral interests and comparable needs for financial resources. It would also manage those funds as part of a deposit-backed lending scheme, at the highest return to the institution and savers. Finally, it would extend and recover loans to individual members of CLGs from a market position closer to these informal producers, the local culture, and financial practices than is possible for a bank. This would be done by:

- Borrowing and managing lines extended by a formal bank or another NBFI at an indicative market rate of interest
- Pricing credit funds according to risk, adjusted for the capacity of borrowers to reduce the institution's exposure risk by maintaining certain levels of deposits to loans outstanding

- Relending to individual CLG borrowers at rates enabling funds users to manage term and interest rate risks
- Supervising and recovering loans and remitting reflows plus interest to the lending bank.

In order to achieve commercial success, such an intermediary must be permitted to operate in a liberalized rate environment, enabling managers to price loans according to risk. An inherent risk in any liberalized environment is interest rate risk, in part assumed by the borrower operating an economic activity in markets subject to inflation, interest rate instability, and fluctuating currency values. Interest rate risk would be addressed under this structure through the use of mechanisms such as deposit-backed lending facilities to reduce the credit institution's exposure risk in case of default and to deliver a commensurately adjusted rate to the borrower.

The *financière*, structured and managed to absorb lending risks that banks cannot and leveraged through bank lines, would address both the operations-level issues of serving the financial needs of smaller-scale enterprises and the liquidity constraints that keep present nonbank institutions from effectively addressing the financing needs of this market. This institution, as direct lender to emerging SMEs, would become the missing middle credit intermediary for them.

A "CLOSED-END" MUTUAL FUND FOR AFRICAN INVESTMENT. A second model tested for risk management effectiveness will be a closed-end mutual fund, operated on a commercial basis to manage small business credit instruments and to spread risks in ways banks cannot. Incorporated under local banking or financial intermediaries legislation, the mutual fund would initially source funds from the private sector, including commercial banks, contract savings institutions, individuals with high net worth, and certain nonbank financial intermediaries, using appropriately priced instruments. It would in turn place these funds in new financial instruments adapted to meeting the needs of informal sector or small-scale operators in economically viable subsectors, at average returns acceptable to investors.

Financial risks for a mutual fund would be somewhat different from those absorbed by the *financière*. The latter, as noted above, would function as lender at risk, or direct lender, to small businesses. By contrast, the mutual fund would sell and manage instruments, proceeds from which would be used to finance such businesses. Interest rate and term risks on instruments sold by the

fund to its investors would be absorbed by the market as investors bought units in the fund. Unit purchase would in turn generate funds that the mutual fund would place in instruments financing small business expansions. Terms on these instruments would align with the financing needs of the business (or group of businesses) and with market signals. The mutual fund would thus strive to achieve, with sound pricing and risk management, the objective of mainstreaming viable small- to medium-scale businesses as customers of the formal financial market.

One of the primary functions of the mutual fund as financial intermediary would be to induce the commercial banks to make a direct investment in the financing of small-scale enterprises, whose risk structure and financial requirements banks do not presently address. The fund would provide banks with an investment in SME financing at manageable risks. At the same time, as investors in the mutual fund, banks could become directly familiar with the risks and opportunities presented by such lending—a good basis for eventually becoming direct lenders to the SME market.

Under the mutual fund as intermediary, commercial returns to the fund's management organization would have to be significant, as it would be managing higher costs—of sourcing and investing funds before they reach the end beneficiary—than would the *financière*. Additional cost would have to be passed on to the users of the mutual fund, with the likely result of higher interest rates.

By mobilizing liquid capital in the market and placing that capital in instruments serving term financing needs of small- to medium-scale businesses, the mutual fund would address the operations-level issue of delivering appropriately priced financing through an effective vehicle. It would also address the liquidity constraint for existing nonbank institutions, which cannot access sufficient funds within their own systems to meet demand for term finance among growth businesses in this market segment.

Notes

1. These mixed results, showing ten groups scoring as medium performers or failures, indicate that GIEs can be rated as either successes or failures.

2. At the time of the survey, the average monthly deposit was small— 3,500 CFA francs ($14) for the individual member and 14,500 CFA francs ($57) for the group.

3. For testing purposes, savers who contributed 5,000 CFA francs or more per month were rated high-level, those contributing 2,500 CFA francs as medium-level, and those contributing 1,500 CFA francs or less as low-level. To correct for the limited range of monthly savings amounts reported at medium and low levels and to render correlations more meaningful, medium- and low-level savers were collapsed into one category (L-M), yielding a binary variable.

4. In the conclusion of his report on rural capital markets in Sub-Saharan Africa, Thillairajah (1994: 117) observes that "rural financial systems have to be developed systematically if larger numbers of the rural population are to be provided with cost-effective and quality facilities for savings, deposits and credit."

5. BOA's quarterly financial report of September 1992 indicated that the bank was carrying a significant portion of bad and doubtful debt (20 percent of loans outstanding). These debts reportedly included a number of loans to large shareholders.

8. Enhancing African Enterprise by Reconciling Corporate and Societal Cultures

The tenor of the AM90s message is not only that it is possible for modern technology and traditionalism to prove quite compatible but also that traditional values harbor special characteristics that can be utilized to forge distinctive brands of indigenous African entrepreneurship and enterprise productivity. The achievements of the Southeast Asian "tigers"—Hong Kong, the Republic of Korea, Singapore, and Taiwan (China)—do not merely hint at this potentiality but present us with the fait accompli. That such latent possibilities reside in traditional values hardly defies logic. Because values consecrated by tradition epitomize legitimacy and drive social commitment, expectations, and behaviors, they promise tremendous effects on worker motivation and thereby on enterprise productivity. Optimal employee motivation is the holy grail of human resource management in enterprises, and its quest proceeds via incentive systems, management structures, and disciplinary approaches. Human psychology being shaped in large part by society's cultural baggage, such a quest must be suffused with sociocultural values. In indigenous societies, congruence with cultural values and expectations is in effect the litmus test for successful human resource management systems. The most effective management systems tend to be those leavened by what society judges acceptable, desirable, and worthy of pursuit.

Available analysis of the major sociocultural traits in Africa, including the AM90s research findings on leadership and management in Kenyan enterprises, provides a road map to ways of tapping African economic psychology to contribute to successful enterprise management; it also throws into sharper focus the desirable profile of the successful enterprise leader. The findings are relevant to most African countries, inasmuch as they gener-

ally exhibit traits that closely resemble those of Kenya along the dimensions of collectivism, power distance, attachment to nurturing values, and uncertainty avoidance. The research shows that, by and large, employers and employees see eye to eye on certain driving principles of enterprise management. Both groups expect leaders to don the mantle of a kind but strict parent, with employees lending much weight to successful management of interpersonal relationships with subordinates, and employers stressing the need to balance benevolent paternalism with business success.

The necessity of safeguarding self-esteem struck a deep chord among employees in general. It was felt that leaders should be understanding of workers' problems, must not be too abrasive in their management approach, and must not be overly given to fault-finding. These requirements partake mostly of the nurturing values characteristic of collectivist societies. The desired corporate culture should emphasize "saving face" more than "in your face" approaches to decisionmaking. In sum, three strands can be discerned in employee perceptions of successful leadership. In the sphere of personal relations, it was considered part of the boss's calling to lend a sympathetic ear to workers' problems, often to provide soothing balm in the face of adversity, and to sow the seeds of camaraderie and togetherness in the community of workers. Finally, though with rather less insistence, workers pointed to certain economic attributes (such as being a good entrepreneur or having a sharp eye for profit) as being part of good leadership. Employers generally echoed worker sentiments regarding the above considerations.

In terms of leadership style, both employees and owners/managers in Kenya prefer a democratic style as being the most consonant with consensus building and the most supportive of collective responsibility and a general climate of trust. Kenyan managers are also quite cognizant of the merits of maintaining effective communication lines with workers. Indeed, the extent to which this realization governs management behavior seems to be a reliable predictor of enterprise performance. Managers are also attuned to the importance of motivating workers and seem quite aware of the range of incentives (usually culturally sensitive ones) likely to deliver such an outcome. Focusing on pay alone therefore is not enough. A greater weight is attached to social status in the group—that is, to social capital (Putnam 1992). The above concept was successfully adapted to enterprise management in Burkina Faso, Côte d'Ivoire, and Togo.

Adapting Management to Culture: The Case of Electric Power in Côte d'Ivoire

Côte d'Ivoire's electricity company, the Compagnie Ivoirienne d'Electricité (CIE), was featured as a success story in *Adjustment in Africa* (World Bank 1994a: 111).[1] In the first eighteen months after privatizing and changing its management, the company "raised the collection ratio from 60 to 90 percent, increased maintenance, reduced power outages, . . . and eliminated operating subsidies." CIE's general manager, Marcel Zadi Kessy, acknowledges that the privatization of management (through lease contracting) was an important factor in insulating the company from political interference. But Zadi Kessy also attributes a good deal of his and CIE's success to the adaptation he made to reconcile corporate with societal culture.

Though focused on one large utility, the AM90s review of the management reforms of the electric power company in Côte d'Ivoire illustrates well the ways in which the various dimensions of management work together to build on the positive aspects of local culture and to mitigate the negative ones. CIE's experience shows how structures (decentralization, delegation), processes or methods (computerized information management, budgeting, training), and resources (revenues, employee incentives such as empowerment, fringe benefits, and solidarity funds) all work together to improve performance (technical, financial, and social) if they build on the local culture. These achievements allowed the firm to weather the storm of the CFA franc devaluation in early 1994; the company planned for it (examined different scenarios), prepared clients for it, prepared managers for client responses, and prepared employees through intensive communication.

The results seem to indicate that CIE made the right choice. Zadi Kessy (1994) observes that while most analyses of African culture are contrasts in either Afro-optimism or Afro-pessimism, what CIE has experienced in the daily management process is "less contrasted." He defines five cultural obstacles and five cultural assets. The hindrances are the myth around the chief's authority, the quasi veneration of age in not only social but also professional contexts, the belief in magic powers, the seasonal and ceremonial value of time, and subservience to groups and community. The favorable traits are easy communication, a team mentality, a sense of discipline, enthusiasm leading to commitment, and a great sense of loyalty and trust. These strengths—and deficits—were taken into account in the 1990 redesign of CIE management structures.

Minimizing the Impediment from Hierarchy

As described above, paternalism and hierarchy—that is, great power distance—are major cultural traits of African economic psychology. They can be an impediment as well as a positive stimulus in the management of an enterprise. On the positive side, the combination of paternalistic and hierarchical values and group feedback can be used to strengthen discipline in the workplace and mediate social conflicts. On the negative side, it can lead to subservience to, and extreme dependence on, authority. Subordinates' creativity and innovativeness will not be encouraged by the autocratic chief—or even welcomed by the employee. Without accountability and a third-party referral and arbitration system (an independent board), a hierarchical management structure may result in a stable but highly inefficient organization.

Before CIE's privatization and the subsequent change of management, the power company suffered from such an inhibiting hierarchy. The organizational structure was highly centralized and had eighteen layers between the chief executive officer and first-line employees. Prompted by the myth of the omnipotent chief, each manager or supervisor at every level micromanaged and signed off on the most routine and trivial issues. Issues and problems with customers could not be resolved without going through protracted, highly bureaucratic procedures. Furthermore, the myth of the all-powerful chief generated unreasonable expectations and pressures for favors from family and friends. To satisfy these demands, some managers were ultimately pressured to abuse the company's assets and services. Organizational changes leading to decentralization, delegation, and improvement in methods and processes were therefore the starting point of the adaptation of CIE's management.

Decentralization

The first step was to reduce the eighteen levels in the hierarchy to nine and to give regions and districts specific areas of responsibility as well as more autonomy (to develop initiative and responsibility). The first stage also carefully avoided the emergence of district managerial patronage networks by eliminating the post of district manager and having the district business co-administered by four district agents—one each for commercial, technical, administrative, and procurement matters. Thus, district management became a team of four who cross-control one another—an arrange-

ment that, among other things, shields them from community demands and resulting temptations for embezzlement. Women were systematically appointed to head procurement because they are perceived to be more reliable in the management of finance.

Delegation

Putting the regional manager directly in charge of four districts compelled the delegation of real authority to sixteen collaborators (four per district). Although that level of delegation is hard for some older people to accept (they want to command), younger persons generally see its virtues. Because of their youth, however, they also run the risk of not commanding the respect of older employees. In such cases, the authority of the office, using the myth of the chief, comes in handy to help assert authority with older, less-qualified subordinates.

However, decentralization and delegation present two special risks in the African context. First, there is the very strong possibility that eliminating the local chief administrator at the district level might simply shift the district agents' overdependence on and subservience to the regional administrator. This would not remove the impediments to employee initiative or reduce the community-based pressures. In addition, there is the danger that decentralizing, empowering, and trusting employees could mean the sacrifice of good, methodical, and rigorous management. This is why the comanagement of each district by four district agents, none of whom has start-to-finish responsibility for operations dealing with money, is important to ensure that the benefits of decentralization are reinforced by methodical management and accountability.

Methods or Processes

Decentralization involved more than a shift of authority. It was complemented by improvement in budgeting, financial management, and the procurement process—all assisted by computerization and frequent training. Electronic processing of information was needed, since energy production and distribution requires quick and accurate information management. Local data collection and processing were handled by microcomputers, for which generalized software is readily available and adaptable. Budgeting was focused on districts and based on collaborative estimates of costs and revenues among the four agents, culminating in negotiations as to what was necessary (all in the context of guidelines from the regional manager). One reason this collaborative budget procedure

works is that it is complemented by elaborate control procedures (financial, user-focused, and legal) that reinforce integrity, pride, and trust.

These changes in process served to channel behavior, and procedures were collaboratively designed to improve morale. Procedural training and manuals (the importance of which is shown in the Togo case discussed later in this chapter) provided a sense of consistency, of executing actions to completion, and of protecting from lapses of memory. Written procedures also helped employees resist improper requests from family members and friends. Without such controlled procedures, a refusal was likely to be seen as an unfriendly act; with them, refusals can be justified.

Both CIE's decentralization and delegation initiatives seemed to capitalize on a favorable "trust boosting" cultural factor. Here, the binding nature of the traditional oral contract, with its expectations of fulfillment, was adapted to the professional level: "Once a subordinate has the assurance of his boss's esteem and trust, he becomes totally devoted to the enterprise" (Zadi Kessy 1994: 9).

Reinforcing Social Solidarity and Trust

One of the most important facets of the cultural adaptation of CIE's management related to human resource management. Motivation innovations included worker empowerment measures whereby employees developed job-related (instead of employer-centered) motivation as a result of clearly specified responsibilities, goals, and performance-based rewards. In this case, women, too, were particularly empowered—in their special claim on roles relating to financial management. Ivorian women are generally regarded as more honest with money than men, and an additional artifact of gender advantage is that women have fared better than men in extracting late payments from male clients. Reportedly, men lose face if they admit they are broke to a woman. Therefore, they make extra efforts to find the means to pay their bills. In addition, communication was regularized through weekly staff meetings about policies, procedures, and guidelines; field visits by managers; and the open office concept (even at headquarters)—all of which contributed to the sharing of information.

Fringe benefits such as bonuses and individual performance rewards were important aspects of employee incentives. So were solidarity and investment funds that encouraged employees to buy company shares, facilitated their saving and borrowing program, and helped them meet the special costs associated with marriages, births, and funerals. Taken together, these measures diffused social

pressure on employees and reinforced their dedication to the organization. They proved to be powerful buffers for employees, enabling them not only to save—despite strong communal pressure to redistribute and share—but also to plan for and face the numerous and unavoidable demands of participating in and contributing to social events such as marriages, births, and funerals. (As outlined in Adelman and Fetini's 1993 study of the lineage levy in Senegal, and discussed in Chapter 6, such transfers are important to the synergy and survival of the group.)

By formalizing and helping strengthen these social safety nets and formal mechanisms for sharing and saving, CIE helps employees build the social capital needed to safeguard their status within the group. As Zadi Kessy points out, maintaining good standing and status within the group is a powerful motivation for CIE's employees. By setting up solidarity funds, CIE showed its concern and understanding of employees' social needs; it also laid the foundation for more trust and reciprocity, which are needed for strengthening employee identification with and "ownership" of the company—making CIE their second family. The trust and solidarity prevalent in the biological family is replicated in the wider context of the enterprise. It builds a positive "tunnel effect" between the employees and the enterprise.

By also creating a joint investment fund to enable employees to purchase the company's shares, CIE addresses the important issues of equity and inclusion that could further strengthen the tunnel effect. By giving the employees the possibility of becoming co-owners and sharing the dividends, CIE enlarges the circle of stockholders interested in and committed to the company's welfare and the performance of the work force. Empirical evidence suggests that profit-sharing programs for workers (through employee stock ownership programs or similar schemes) have a positive impact on enterprise productivity if they are combined with greater worker participation in decisionmaking and performance-based reward and sanction systems (see the discussion below of quality control circles in Burkina Faso). The ultimate aim of these institutional adaptations is to promote a greater sense of employee dedication and commitment, building on the positive values of enthusiasm, reciprocity, and sharing that characterize African economic psychology.

Reconciliation of corporate and cultural values along these lines has resulted in substantial technical and financial achievements. For example, in 1990, power cuts were numerous and averaged fifty hours per customer; in 1991, with the new CIE management, the power-cut average came down to thirty-one hours; by 1992 it

was twenty-four hours; and by 1993, nineteen hours. In 1994, for the first time, all turbines are running. The company's financial recovery, resulting from the increasing availability of power and from decreasing expenses, was accomplished without increasing client prices. In fact, the tariff for economically disadvantaged clients was reduced.

CIE, which in 1990 inherited a deficit of 37 billion CFA francs, including losses from substantial fraud at the customer-service level, made profits of 700 million CFA francs in 1991 and 1.3 billion CFA francs in 1992. Profits to shareholders amounted to 10 to 15 percent of their investment. Similar increases were expected for 1993. The 50 percent devaluation of the CFA franc, decided upon in early 1994, was expected to increase company expenses by approximately 800 million CFA francs a month. However, CIE remains optimistic, since its management had anticipated the move, prepared new financial plans, renegotiated decentralized budgets, and sensitized employees accordingly. Finally, in reviewing CIE's results, Zadi Kessy (1994: 11) argues: "We do believe that our rapid economic recovery as soon as 1991 was made possible because we have convincingly implemented an indigenous local management system based upon our African cultural traits described earlier and consistent with our specific technical professional environment."

In summary, the CIE attempt at cultural adaptation is very comprehensive and far-reaching, as it involves recognizing both the negative and positive aspects of specific cultural values and uses them in complex interactive ways to reconcile productivity and efficiency. For instance, by appealing to the favorable cultural asset of enthusiasm leading to commitment, which focuses on enhancing productivity through group solidarity, CIE management was able to wean its employees away from overdependence on the authority of the chief and to minimize the risks of decentralization and delegation in a highly hierarchical context marked by a high level of power distance. The decentralization to four co-administrators rather than one also greatly limited the possibility that any one co-administrator could be pressured to grant preferential treatment to family and community members.

Overall, CIE's adaptation of formal institutions and management practices to make them convergent with indigenous institutions and values has rendered the corporate culture more interactive with the local culture. Such strong convergence could not have been achieved, however, without a leadership that is comfortably in control and aware of both the problems and the potential solutions. Finally, as the results show, this high level of convergence has led to increased productivity and efficiency in CIE.

The Importance of Procedure in the Cultural Adaptation of Management: The Togo Water Supply Company

The story of Régies Nationales des Eaux (RNET)—a high-performing water-supply public enterprise in Togo—is similar to that of CIE. Alain Henry, who studied RNET under the AM90s research program, and most RNET employees attribute part of the company's success to an operating guide with precise written procedures describing "how each employee should proceed with respect to both technical areas and management tasks" (Henry 1994: 15). The procedures were drafted with the participation of the affected staff, and they incorporated employee knowledge about work processes, products, and habits or practices that need to be accommodated (such as prayer time for Muslims and funeral and other family leave).

Henry's argument is that certainty—provided by detailed specification of tasks and work processes—tends to neutralize the negative effects of culture. In this case, much like the case of CIE, those effects included the myth of the chief, deference to age and seniority to the point of abdication, belief in magic, and continuation of a village notion of community consensus for everything. Knowing what to do, what is expected, how to do it, and what the rewards and penalties are minimized the risks of improvisation and increased transparency and predictability. The procedures were also intended to deter malfeasance, to mitigate the intrusion of hindering factors of culture, and to facilitate consensus. Henry uses "procedures specificity" as shorthand for a range of dimensions and instruments of management. He argues that, however paradoxical it may seem, high power distance engenders trust when combined with detailed operating procedures. The very culture that values power distance can also be one that is closely bound together by a mutual understanding of behavioral expectations; this in turn yields loyalty through reciprocal obligation.

Binet's (1970) study confirms the importance of detailed procedures in the traditional savings and credit associations. His examination of the charters that these associations devised for themselves offers a good illustration of this drive to detail procedures in order to avoid conflict of interpretation. Even details that elsewhere would appear trivial—such as matters of politeness—are treated at great length.

For example, in looking at the regulations of the Bamileke associations in South Cameroon, Binet was struck by the number of rules and requirements that have absolutely no apparent connection with group purposes, namely, saving and mutual assistance.

Penalties are prescribed for interrupting the speaker who has the floor, or addressing a meeting without obtaining the floor, dressing carelessly, sitting sprawled at the table, and so on. These penalties are payable in the form of beverages and generally enable the association to organize lively buffets from time to time. The fines are therefore happily paid by the offenders; they help to reinforce the sense of group solidarity. Although these details and the resulting regimentation may seem to contradict the reluctance to legislate described earlier, the contradiction is only apparent. Through such meticulously detailed instructions, and through what may seem bloated and useless bureaucratic rules, these associations seek to prove their worth and to demonstrate that they can impose discipline and obtain consensus on everything. The conflict of interpretation is minimized.

The Use of Group Dynamics to Foster Greater Efficiency and Productivity: Quality Control Circles in Burkina Faso

Developed by statisticians and management experts in the United States, quality control systems began in Japan in 1949 as one of a multitude of fresh ideas that found fertile soil in a country eager for change and rejuvenation after World War II. Quality control is in many respects a radical departure from better-known Taylorian approaches to production. Although in Taylorian methods scientific studies by experts are used to identify efficiencies of mechanical movement by both worker and machine, and subsequently as the basis for training workers to repeat these movements, the operational concept underlying quality control is rather that workers themselves are most likely to be able to identify and suggest the most effective means of carrying out the human side of the worker-machine equation. The quality control process, therefore, encourages the active intellectual activity of workers on the shop floor, and it assumes that workers have, or can acquire, the technical capacity to begin to identify and suggest means to control problems affecting their production. Along with insights on how to do their job better, results include more accurate production by more fully committed workers.

If knowledge gained on the shop floor is to be shared throughout the firm, communication channels must be established within the hierarchy of the firm to allow ideas to trickle up. Only in a firm in which managers are comfortable with, and indeed encourage, this kind of communication can information circulate. The quality control approach entails an effort to keep all members of the company aware of the tasks of other parts of the company, as well as of the

broader environment in which their products are competing and from which their livelihood is derived. A sense of teamwork and close identification with the firm thus spreads, and labor-management tensions may be greatly reduced through fuller information exchange in both directions.

Consequently, quality control has worked remarkably well in contexts where the successful mediation of group activities, even within the context of clear social hierarchies, is a dominant cultural attribute. It has also worked well in institutional environments that encourage maximum information exchange to make the somewhat abstract consumer focus of production a more feasible goal. In certain cases, the consumer is seen as those workers at the next stage of assembly. The important point is that, within the minutiae of his or her particular task, each worker is responsible for doing the job consistently at the highest possible level of quality, so that the consumer of the product is assured of its quality. The emphasis in quality control is on perfecting the process of production, instead of relying on inspection to get rid of poor products. Indeed, where quality control circles work successfully, inspection of the finished product becomes obsolete.

Receptivity of Burkinabe Society to Quality Control Circles

A generally low level of basic skills and the prevalence of management problems in Burkina Faso hamper the efficiency and productivity of Burkinabe enterprises.[2] Yet a number of cultural factors that underlie all social relations and individual potential within each firm are rather promising for successfully adapting the quality control circle (QCC) approach.

Regarding skills, it is obvious that Burkina Faso is getting its industrialization effort under way with a considerable deficit in basic skills. Although the nation's illiteracy rate of more than 80 percent is not mirrored throughout the industrial labor pool, lack of basic education among many workers, and limited education among many managers, have led to weak technical proficiency in all five enterprises that have adopted the QCC approach.

Regarding management hierarchies within the enterprises, relations between workers and management—and relations among different segments of management—are often poor. As with management and labor relations in any number of countries, when asked probing questions, each group readily attributes the source of enterprise difficulties to the other. Managers claim that in many cases workers do not listen and are undermotivated and unproductive. Workers complain variously that managers fail to get primary

materials to them and make planning mistakes, that they are losing economic ground personally as their compensation has not increased for years, and that they are alienated from the enterprise because even their representatives (union delegates) are often coopted by management once elected. Establishing trust and harmony in the workplace was crucial to improving morale and productivity in the enterprises in Burkina Faso.

Several factors make the sociocultural environment in Burkina Faso a very favorable context for adapting the QCC concept—both to ease the above problems and to improve enterprise productivity. To begin with, although tribal identity continues to operate as the foundation of social relations throughout the country, intertribal relations are generally smooth. Within firms, tribal divisions generally are not significant; animosities such as those described above are derived from the hierarchical structures of the enterprises themselves. It is much easier to improve conditions at this level than when personal and tribal group identity are tied to hierarchy.

Second, although all tribal groups in Burkina Faso are generally strongly patrilineal and hierarchical—a combination that generally results in extreme formality—there remains considerable flexibility in decisionmaking authority and group structure. The Mossi, who dominate the Burkinabe political world and traditionally reside around Ouagadougou, are more authoritarian in their hierarchies than are other tribes. But all Burkinabe groups appear willing, for example, to switch leaders when more competent individuals emerge—as long as this does not fundamentally threaten the hierarchical social structure. At the family level, this implies that the transition of authority, usually from grandfather to son, occurs smoothly when it is most practical. It is of special interest that a group of workers of equal rank may initially choose the eldest member as their leader, but he will step to the side without disruption if it is recognized that he is less capable than other members of the group. This flexibility in basic human relations is a true asset for quality control activities.

Third, this flexibility is made possible because interpersonal, face-to-face relations in Burkina Faso are generally frank, direct, and fundamentally trusting. It is significant that the Burkinabe accurately describe themselves as hardworking, direct, trustworthy, and respectful of authority.

These Burkinabe traits have several implications for the successful application of the quality control approach.

- Quality control circles depend on positive small-group dynamics in which information and opinions can be exchanged

freely and frankly, often between subordinate and immediate superior or quality control circle leader. The Burkinabe have a valuable asset in their capacity to function productively in face-to-face interaction. Quality control throughout the firm depends on structured but open channels of communication and on a commitment to maximizing information exchange. The effort to push quality control must first come from management, and management must decide to sustain the firm's commitment of time and resources to make quality control work. A major part of management's commitment at the outset will have to take the form of rethinking the exchange of information in the enterprise.

- The flexible hierarchies that exist throughout Burkinabe society indicate that there are no fundamental cultural barriers to good communications throughout Burkinabe firms (although other structural barriers are present). The steps necessary for quality control success should contribute significantly to the easing of labor-management difficulties where these exist.
- Forming new conceptions of the goals of production is a critical step in quality control. Quality control as applied in Japan puts considerable emphasis on the satisfaction of the consumer, or end-user, as a motivator for quality control activities. But also, as mentioned above, the consumers may be viewed as the co-workers at the next stage of assembly, who rely on the quality of materials for their successful production. Among Burkinabe workers, at least at the initial stages of quality control efforts, this latter emphasis is most appropriate: Production should be focused on the consumers in the next stage of production, who are respected co-workers with whom face-to-face relations are ongoing in daily life. Excellence in production is more likely to be forthcoming if the welfare of colleagues in the enterprise requires it, rather than in terms of an abstract, unknown, final consumer.

QUALITY CONTROL CIRCLES IN BURKINA FASO. The QCC concept was adapted in Burkina Faso, beginning in 1989, primarily by building on the group dynamics and other favorable sociocultural traits outlined above in order to foster greater efficiency and productivity in the management of Burkina's enterprises. By 1992 the productivity improvement of the ten private enterprises involved in the initial QCC pilot program was so rapid that the government decided to expand the QCC project to a group of public enterprises, including the national hospital and the Social Security Bureau. By mid-1994, the national Association Burkinabe pour les Cercles de Qualité et le

Management Participatif (ABCERQUE), created to promote QCC activities in Burkina Faso, was successfully established and had successfully completed—with the government's blessing—the transition from a pilot project to a nongovernmental, private association being paid (by an expanded group of clients) for its QCC training services.

This success came as no surprise to the training staff of the Japanese Union of Scientists and Engineers (JUSE), who were training, at intermittent times, the cadre of Burkinabe professionals who created ABCERQUE. The JUSE trainers had firsthand experience with Japan's export success, especially in manufacturing, and they knew that the QCC concept had gained its reputation as one of the key sources of Japanese firms' success. They had also been involved in many of the subsequent QCC implementations in more than fifty other countries, but this was their first effort to introduce the QCC concept to Sub-Saharan Africa, and there were numerous skeptics.

By 1994 ABCERQUE was therefore particularly interested in documenting QCC success in expanding in-country organizational efficiency and productivity. Anecdotal evidence clearly suggested that by developing greater synergy and sense of teamwork among employees and giving them a greater role in restructuring the production process, QCCs not only raised productivity but also reduced labor-management tension. ABCERQUE therefore undertook an evaluation of QCC services in late 1994, with its clients participating fully.

At the same time, ABCERQUE was interested in determining why and how the QCC concept was so successful in adapting to Burkina Faso's needs. ABCERQUE therefore also initiated a joint inquiry with the Kombi NAAM association (the rural peoples' association discussed in Chapter 4) to analyze whether QCC problem-solving mechanisms reflected problem-solving processes traditionally used at the village level.

QCC IMPACT ASSESSMENT. Initial results of the impact assessment indicate that positive changes are due to increased participatory problem solving and enhanced group focus on quality. The evaluation indicators—increased productivity, improvement in worker and management attitudes, improvement of workplaces and processes, evidence of expanding clientele, and client willingness to pay for services—demonstrated positive impact on all points for the private sector enterprises, as well as some positive but slower movement for the public sector enterprises.

For example, QCC-inspired group problem solving made a significant difference for SIFA, a manufacturer of bicycles in its fourth

year of operation. Worker production teams recognized that they had a difficult problem to solve when, through QCC assessment initiatives, they established that 72 percent of baggage carriers placed over the rear wheels of bicycle in the production line were placed incorrectly the first time around, and that when the baggage carriers were redone, new materials were normally needed. The QCC group subsequently identified the problem as caused by a poorly functioning tooling machine that was beyond repair. Instead of suggesting to management that the expensive machine be replaced, the workers figured out how to adapt another existing machine so it could do the work of the malfunctioning machine. As a result, workers have improved their reputation and the company as a whole has increased its profits.

The fact that productivity increases large enough to make a difference in balance sheets do not appear until the third or fourth year of applying the QCC approach does not seem to deter interest on the part of prospective clients: The fourth annual QCC seminar, held in 1994, attracted more than 200 Burkinabe participants, including sixteen executive directors from Burkina Faso's private and public enterprises—in addition to a delegation of twenty-two Nigerians and one representative from Guinea.

ABCERQUE Burkinabe trainers were not surprised that it took three to four years for QCCs to make changes that are large enough to show up in the profit column. They point out that QCC processes initiate changes in attitude and work production processes that emphasize quality and group-oriented service that is usually incremental in nature.

WHY QCC WORKS IN BURKINA FASO. The joint inquiry by ABCERQUE and Kombi NAAM into the QCCs' success offers several insights relating to the importance of group incentives. The Kombi NAAM participants—while noting several essential differences between the production processes of urban organizations using QCCs and Kombi NAAM's own agricultural production initiatives (in particular the differing levels of sophistication required for success)—also noted two critical similarities: philosophy and organization of work.

The Kombi NAAM participants observed that their NAAM organization, created in 1978, was to some extent a reaction to the "bureaucratization" and resulting "dehumanization" they had experienced in their region with traditional donor-driven rural development projects, where the focus is on individual production units, thereby discounting the importance of group work and rituals. NAAM participants felt that the QCC approach—with its emphasis

on each person within a group being able to express opinions and participate in group decisions—also rejected such negative prospects of bureaucratization. They concluded that neither their NAAM organization nor the QCC process would follow those traditional transplant approaches. By rejecting bureaucracy and embracing quality through group effort, both were able to guard community spirit while at the same time encouraging both individuals and organizations to develop.

The NAAM participants also observed the importance of democratic work principles in the QCC approach, noting that the directors of an organization do not monopolize or guard problem solving for themselves alone but expect the workers to be equally involved. Here, the Kombi NAAM participants observed that they had changed (renovated) their association to be more democratic and to accept all—men, women, youth, elders—according to their contributions. They also pointed out that they are "the only Mossi association where no social inequalities exist."

As a result of the joint inquiry, the members of the NAAM association decided that it was important for them to formalize and place on paper their own problem-solving and work organization mechanisms. Since NAAM organizational methods were found to be in many ways similar to QCC methods, it was felt that this could contribute to expanded QCC- and NAAM-type interactions. Finally, the Kombi NAAM group concluded that such interaction could assist in bringing together the modern and the traditional—the urban and the rural—in a national culture dedicated to quality and to group survival in a difficult environment. They concluded that in some ways their needs were similar to those of Japan several decades earlier.

In summary, QCC processes have had substantial success in increasing enterprise productivity. In addition, this success seems to be definitively linked to the fact that the values, incentives, and work methods used build on both urban QCC and rural indigenous organizations. Corporate productivity therefore seems to be strongly related to ability to design and use processes that reflect specific cultural characteristics of the given society while remaining open to outside influences and challenges.

Replicability of Quality Control Circles in Other African Countries

At the risk of overgeneralizing, a few brief points should be borne in mind regarding the challenges of replicating the quality control concept in the context of African development efforts. First, industrial experience in most African societies is not deep, so the poten-

tial success of quality control can be expected only over the long term. Quality control can and should be part and parcel of the learning curve about industrial production, but it cannot replace the development of basic technical expertise and experience. In Japan, quality control began slowly in the postwar period and became clearly significant to production only after fifteen to twenty years; this was after considerable prewar experience in heavy and chemical industries. However, experimentation in quality control techniques and teaching has greatly improved the rate at which successful implementation can be expected in the current era, even in the relatively inexperienced African context.

Second, because it is difficult to directly correlate the effects of "soft" management techniques and productivity when technology and other factors of production are shifting, the impact of the quality control approach should not be assessed exclusively in terms of the increased profitability of enterprises. It is intuitively obvious that the sharing of information and responsibility among groups leads to greater solidarity and commitment to service and quality. This is a key factor in explaining Japan's success in so many sectors, especially given that human resources are the only resources that need not be imported by Japan. In considering African countries, the lesson here is that the success or failure of quality control will not always appear directly on the bottom line, but it will surely affect it.

Third, given the constraints on management capacity in general in the developing world, and the fact that a great number of firms continue to be linked to the government, long-term commitment and support by the government remains essential for backing up quality control efforts at the individual firm level. The trinity formula to build a compact among the state, the private sector, and local stakeholders and communities (here, the labor force) could be usefully adapted to build this partnership. The creation of such compacts will be one of the central elements of QCC success in Africa.

Fourth, in the context of import substitution and other means used to protect local markets in many countries, the pressures of competition stimulated by consumer choice are likely to be overlooked. This phenomenon often leads to lax consideration of consumer interests and to low-quality products. The more that managers at all levels of the firm, as well as workers themselves, know about what their real competition is producing, and at what price, the more motivated they will be during the reprieve of protection to produce better, higher-quality products that may become truly competitive. In the case of developing countries, therefore,

the very survival of the firm in an increasingly competitive environment—in addition to emphasis on co-workers as consumers—is a key motivating factor for making quality control efforts.

Notes

1. The analysis in this section builds on Zadi Kessy (1994).
2. The analysis in this section builds on ABCERQUE (1994).

Part IV

Conclusions: Process and Institutional Requirements and Operational Implications for Reconciliation

9. Process and Institutional Requirements for the Reconciliation Paradigm

From the analysis in Chapter 1, one can identify at least three major requirements for successful implementation of the proposed reconciliation paradigm. The first, which is the major focus of this chapter, is the need for a new, genuinely participatory process that focuses on building convergence between formal and informal institutions and on empowering beneficiaries and local communities. The second requirement is a new communications system that ensures access and voice for a larger number of beneficiaries and stakeholders who are quasi-illiterate in English or French. The third requirement is a stable institutional and political environment. In December 1994 at the Africa-Asia forum held in Bandung, Indonesia, to discuss the relevance of the East Asian experience to Africa, political stability was highlighted as a key factor behind the East Asian "miracle." Without engaging in a debate on African politics (which is beyond the scope of this book), this chapter concludes with a brief reference to how the South African model of constitutional engineering has used reconciliation as a cornerstone to achieving peace and stability.

Participation beyond Consultation

The AM90s findings build a compelling argument that improved institutional performance and the resulting sustainable economic development is a more achievable objective when renovated indigenous institutions and adaptive formal institutions converge. The AM90s results suggest that institutional convergence—created through a process of reconciliation that builds institutional legitimation and enforceability—is essential to institutional relevance, sustainability, and performance.

Reconciliation between indigenous and formal institutions, as discussed in this study, is an exercise that brings together dominant societal values of indigenous cultures on the one hand, and technical and organizational ideologies supporting modern institutions (emerging mostly from Western development contexts) on the other. For reconciliation to take place and bring about convergence, development programs and initiatives need to approach institutions—the prime medium of development efforts—as social entities with established value structures and organizational preferences, and not as mere organizational instrumentalities ready to implement externally defined objectives. This calls for constantly recognizing institutions as more than organizations—as sets of structured and lasting patterns of behaviors and relationships (roles) that are guided and supported by broad societal values, regulated by certain norms of conduct (rules), and put into practice by organizations.

Convergence begins when both informal and indigenous and formal institutions recognize the need for some level of sustained interaction. A process of reconciliation can then begin to forge convergence between them. When indigenous institutions renovate themselves, they build themselves anew to meet the demands and challenges of a changing outside environment in a process that is internally initiated. The process itself requires deliberate reflection and analysis by individuals active within a specific group and the subsequent definition of solutions that resonate and create immediate interest. These solutions then usually have a ripple effect among similar types of organizations in the community.

Institutional renovation is exemplified by the Kombi NAAM associations in Burkina Faso. Traditionally seasonal, temporary associations of young men and women who banded together to provide ad hoc agriculture-based communal services, the Kombi NAAM have evolved into all-inclusive permanent groups that are an economic and social force in six Sahelian countries. Formal institutions adapt themselves when they build on the local context to better mirror and validate indigenous value systems. The formal financial systems reviewed in Chapter 7 failed because they were out of kilter with culturally determined behavior and expectations in Mali.

For optimal impact, renovative informal institutions need to forge relationships with adaptive formal ones—and vice versa. These relationships should revolve around concrete programs or projects, and they should be capable of unleashing synergy between the interacting institutions. In the areas of health, education, and resource mobilization, for example, service delivery institutions that operate side by side with informal institutions will have to

undertake specific reconciliation processes with their relevant counterparts. For activities and functions relating to macroeconomic policy and other core government functions, where informal indigenous institutions will not be readily at hand, formal institutions can still make the shift to accommodate the values, expectations, incentives, and self-enforcement practices of civil society.

Finding adaptive formal institutions that are amenable to reconciliation activities with renovating indigenous institutions is crucial to achieving institutional convergence. For example, from the very beginning of independence, the Botswana chieftaincy found a fairly amenable assemblage of formal institutions to develop convergence with; in this case, validation of chieftaincy offices and rules was made explicit in the constitution of the country. In most African countries, however, local, customary institutions were generally matched with or undermined by transplanted institutions that either ignored these indigenous institutions or used their resources without acknowledging or legitimizing their existence.

The inability of formal financial institutions in Mali to devise effective adaptive mechanisms to ameliorate the financial services of tontines has greatly constrained the ability of financial institutions to meet the needs of microenterprises and small- and medium-scale enterprises. The NAAM groups of Burkina Faso forge ahead with their activities but continue to be frustrated by essentially bureaucratic requirements from transplanted, formal economic and political institutions. Indeed, AM90s evidence supports the view that there are many more renovating informal institutions than there are adaptive formal ones, and that this is curtailing the impact of and growth potential for institutional reconciliation and performance.

The Process for Reconciliation

The AM90s research strongly suggests that the process critical for successful reconciliation will be participation—but not just any type of participation. What is needed is a participatory approach that not only helps to strengthen legitimacy (by building on existing indigenous institutions and capacity) but also empowers the clients and beneficiaries. It is a combination of putting local institutions first and listening to customers and stakeholders. The proposed process requires shifting from winning through influence and leverage (as in a zero-sum game) to winning by achieving synergy and convergence (win-win).

This participatory reconciliation process is based on South Africa's experience in building a tripartite compact among the state, the

local community, and the private sector in public service delivery. The proposal presented here is intended not as a blueprint but as a way of suggesting existing possibilities and providing guidelines that could be customized to the circumstances of different African countries. There are six phases in the reconciliation process as it has been applied in building the compact in South Africa. These are described below.

PHASE 1: DEFINITION AND IDENTIFICATION. The process begins with a comprehensive definition of a given situation and the identification of stakeholders, possible development paradigms, resource needs, and any other pertinent issues. The underlying objective of this stage is to achieve desired outcomes within the constraints in resources and capacities available to the group. The identification of all stakeholders is based on their capacity to provide expertise and technology, organizational capacity, financial backing, or community or other support. The different contributions that can be expected from stakeholders are determined by a resource audit and fall under the following categories: skills and technology, organizational capacity, capital and facilities, and community support. In the case of community support, the audit should try to identify those organizations and stakeholders who enjoy such support and can serve as valuable advocates for the community, mobilizing it and keeping it abreast of all relevant information. Information gathered through the resource audit should ideally be displayed in an information center where it would be accessible to all. This information is usually processed for use in the follow-up phase of the reconciliation process—that is, the lobbying phase. Facilitators play crucial roles in the various stages of Phase 1.

PHASE 2: LOBBYING. The lobbying phase builds on the information gathered in Phase 1. It hinges on interpersonal contacts between facilitators and key community leaders and other stakeholders. The aim is to provide general orientation and afford facilitators the opportunity to establish their own credibility, to build interest in the reconciliation process and commitment to potential projects, and to generate enthusiasm for participation in working groups. Areas of misunderstanding and conflict are identified and clarified during this phase.

The lobbying phase clarifies the social dynamics of the community, the power plays and political aspirations of key players, and their perceptions of one another. The way various community leaders position themselves with regard to change—as visionaries with

the flair to mobilize people around new ideas or as die-hard conservatives who balk at any change—also needs to be identified. The resultant profiles of key players are used in the subsequent planning of the process, particularly during group sessions. In this phase, building legitimacy and trust among stakeholders is an important consideration, as are transparency and group participation.

PHASE 3: CAUCUS FORMATION AND CAPACITY BUILDING. If, during the lobbying phase, a high degree of proactive energy and synergy is achieved, the caucus phase can be skipped. However, where community-based organizations are involved, this phase is usually recommended in order to ensure a basic understanding of the reconciliation process. During this phase, stakeholder groups hold separate workshops in which they try to buttress their own group positions. Each group thus has the opportunity to clarify its own strengths, weaknesses, and values; determine its own development paradigms, needs, and resources; and map out the various strategies that the group should follow. When conflicts break out among stakeholders, they are guided by the facilitators to consider the resolution options open to them.

The caucus phase also provides an opportunity for stakeholders to broaden their information base, as facilitators are expected to provide all required information about the various issues and available resources. Capacity building also proceeds in tandem during this phase. In conflict-ridden groups, it might be necessary to provide training in negotiation and conflict management skills before the intergroup conclaves. Also, where community-based organizations need to establish liaisons with local authorities or business concerns, it may be necessary first to introduce to community members the idea of local authority and how it functions, as well as business notions and practices. Capacity building and caucus formation continue throughout the reconciliation process as stakeholders evince the need for further self-assessment and empowerment. When the various stakeholders are ready, well informed, and cooperative, then the time is ripe for the fourth phase, that of dialogue.

PHASE 4: DIALOGUE. The prime objective of the dialogue phase is to generate a common focus and broaden the common ground among stakeholders. This usually entails identifying and making a genuine effort to appreciate differences. Synergy cannot be triggered if groups are in perfect consensus, as it is born of the continual interplay between agreement and disagreement. Where there is too much conflict, facilitators try to bring about more consensus,

and where there is too much consensus, they try to highlight differences to prevent stagnation of synergy. During the dialogue phase, needs and objectives are prioritized and action plans mutually agreed upon. Genuine paradigm shifts occur as stakeholders come face to face with the necessity of adapting their own structures, positions, and values, to bring them into line with the development needs of the group.

The dialogue phase culminates in the formation of joint forums or working groups to structure future relationships among stakeholders and provide vehicles for joint action. Joint groups must not degenerate into mere "talkshops"; energies must be bent toward real joint projects. Because all needs cannot be addressed at one stroke, it is often necessary for facilitators to look for small victories—that is, needs that can be readily addressed, or projects that can be undertaken and brought to a relatively speedy conclusion to prevent momentum from flagging.

PHASE 5: JOINT IMPLEMENTATION. During the implementation phase, all stakeholders are involved so that real empowerment can take place. Entrepreneurial development, coaching, and training are all undertaken so that participants will, in the future, be able to initiate their own projects. For instance, in the school-building case example discussed in Chapter 4, architects, building contractors, and members of community-based organizations were all involved in the operational planning and scheduling phases of the project. Community-based organizations were not merely co-opted onto a project working committee; they were part and parcel of operational planning. This is the essence of empowerment. The architects, quantity surveyors, and building contractors were also empowered to understand community needs and to work within the parameters provided by the community-based organizations.

PHASE 6: JOINT MONITORING AND FEEDBACK. The dictum that "it's not what you expect, but what you inspect that counts" captures the essence of Phase 6. The joint forum set up during the dialogue phase needs to get feedback on progress, to give positive reinforcement, and to rectify mistakes as project implementation unfolds. The information center can be useful for storing and continuously updating available project-related information. Ideally, the forum should launch a joint monitoring program working to a schedule of key events and a timetable of review meetings. Any findings of potential relevance to stakeholders should be displayed in the information center or otherwise provided to the public.

A FLEXIBLE PROCESS. Although presented as distinct, the above six phases are not necessarily sequential. Activities have a tendency to overlap, and the focus may shift as the reconciliation process gains momentum. The specific approach taken should be tailored to the unique needs and dynamics of given communities and stakeholders.

The reconciliation process itself can be thrown off course if it is not safeguarded against a number of possible risks. For instance, stakeholders may be out to hijack the process for political, corporate, or personal gain. Also, the process should not lose momentum because of inadequate financial, moral, or expert support at critical moments, and facilitators should not lack essential logistics, communication facilities, or other operating resources. Inertia among stakeholders may also impede the process. Delays in disbursements should be avoided as much as possible because morale is likely to be sapped, sometimes irremediably, if projects are suddenly left high and dry because funds are unavailable.

Adaptation of the Communication System

In the African context, given the prevalence of illiteracy and the fact that most communication in the communities is in native dialects, modern information media and communication systems (mostly using English, Portuguese, or French) require local adaptation. As was seen in the role reserved for information dissemination in the reconciliation process, information is of primary importance in giving voice to project beneficiaries, thereby boosting empowerment, transparency, and legitimacy. In looking for ways of adapting indigenous African channels of information to innovative uses, valuable insights can be gleaned from the AM90s findings reported by Hagos (1993). The study takes a critical look at the core elements of the communication strategies of the Eritrean People's Liberation Front (EPLF) and the Tigrai People's Liberation Front (TPLF) and outlines five major justifications for the centrality of traditional media resources to information dissemination in Africa.

First, the preliminary findings of the study indicate that indigenous channels of communication can serve as powerful instruments of change. The experiences of the EPLF and TPLF provide insights into how effective these media resources can be. The evidence shows that the traditional modes of communication were effective not only in the conduct of war but also in developmental activities and the exercise of governance in the rural sector. They

were culturally congruent and highly legitimate. This ensured complementarity and mutual reinforcement among the different channels into a culture-sensitive, potent system of communication that was singularly effective in reducing rural isolation. It also helped considerably in bridging the gap between the rural population and the national leadership. Great trust and a sense of belonging resulted, in part, from the many face-to-face meetings and seminars held in practically all villages and districts. Messages from these meetings were then reinforced and relayed by various other indigenous channels of communication, including musicians, storytellers, and artists. These are sometimes a more effective dissemination vehicle than the formal meeting, because the message gets repeated over and over again and remembered for a long time.

Second, the experiences of Ethiopia and Eritrea demonstrate the superiority of these culturally based channels of communication over technology-based mass media in reaching out to rural populations. Some obstacles to development in Africa are traceable to the lack of an appropriate communication strategy that allows the full and active participation of beneficiaries. Traditional development approaches favored the use of mass media and modern communication systems largely inaccessible to people in rural areas. The EPLF and the TPLF, however, have been effective in reaching rural groups by relying on indigenous media. Such channels played a large part in changing entrenched beliefs about the liberation movements and their reform agendas, and helped muster nearly total support for the war effort.

Third, Hagos's research shows that blending traditional and modern systems of communication, thereby converting the modern channels into two-way, interactive media, can maximize the impact of messages. The field study exposes shortcomings of modern media channels when used without regard to the crucial cultural dimension of communication. The integration of radio in 1979 into communication strategies was a landmark in the communication histories of both societies. However, to counter the shortcomings of this modern medium from the start, it was changed from a one-way channel into an interactive medium by means of cadres serving as human linchpins between the medium and the rural audience.

Fourth, the study shows the vibrancy of at least some indigenous institutions as well as their effectiveness as channels of communication and their capacity to adapt to the demands of the day. Both the EPLF and TPLF were very thorough in the way they used indigenous social, political, economic, educational, and spiritual institutions in their respective societies as vehicles of communication.

When they found some of these institutions dysfunctional within the new systems they had put in place, the organizations modified some and created new ones so as to strengthen systems of governance and communication.

Fifth, it is possible to infer from the findings of the study that Africa has within it the capacity to build on its own media resources. Development planners and designers generally bemoan Africa's lack of capacity to exploit its resources. The experiences of the EPLF and the TPLF largely belie this. They indicate that with a clear policy, strong political will, and appropriate human resources, Africans can successfully and effectively tap their local resources.

Although Hagos's findings seem generalizable because the conditions that constrain development are more similar than dissimilar in almost all African countries, further study is warranted in areas and circumstances different from those of Ethiopia and Eritrea. The achievements of the EPLF and TPLF were admittedly realized under difficult conditions, but information tends to play a different role in times of conflict than during peacetime. Issues for further study include (a) implementing and institutionalizing the use of traditional modes of communication to ensure that those affected can participate fully in the decisionmaking process, (b) determining whether traditional institutions are credible and accessible channels of communication in different contexts, and (c) determining what effect organizational culture has on the effectiveness of a communication medium.

Building Political and Institutional Stability through Inclusiveness

It is now generally agreed that economic development is closely linked to peace and political stability. The countries enjoying the most solid growth are also those with strong and continuous leadership or relatively smooth successions and virtual freedom from pending civil upheavals (Whitaker 1988: 41). In addition to the strength of the leadership, the most important operative concepts are the smoothness of succession and peaceful continuity.

As discussed in Chapter 1, exclusion from the group is the ultimate sanction against individuals in traditional Africa. Exclusionary practices that could keep some from participating in administrative, policy, and economic decisionmaking are therefore very likely to sow the seeds of institutional and political instability. As long as this situation persists, stability is likely to be a forlorn hope, and precious time will be frittered away in endless machina-

tions and jockeying for exclusive advantages. Meanwhile, development will stall.

There is an enormous need for a leadership commitment to a more inclusive institutional formula behind which entire nations can rally. In the absence of that, the kind of development triad proposed in this study will be difficult to realize. Although in the final analysis it is up to each country to choose the solution best suited to its particular circumstances, the AM90s research suggests that the model in constitutional engineering used in postapartheid South Africa has great promise and could be an important trailblazer in achieving the needed inclusiveness. In ethnically divided societies—which means most countries of Sub-Saharan Africa—finding a workable medium between national reconciliation and the preservation of institutional and ethnic pluralism (as was done in South Africa) may be one promising way of achieving peace and stability. The South African model also conjures up interesting possibilities of decentralization involving genuine empowerment of local or regional entities in an ethnically and culturally divided society without sacrificing national unity. As the following quotation illustrates, the South African experience has generated welcome hope in Africa:

> What simplicity, what modesty by the victorious. In fact, except for the extremists to whom Nelson Mandela continues to extend a reconciliatory hand, there are no losers. Everyone is victorious. What a lesson in tolerance from this South African experience. The major philosophy behind this is the strong and unanimous desire of all political actors not to marginalize anyone during this transition phase. And this is the essential lesson that the rest of Africa should retain from the wisdom coming from the south of our continent. How much time would have been gained, how many tears and how much suffering our people would have avoided, if at the ends of the national conferences and other democratic experiments, the emphasis had been on building transitions that are foundations for national reconciliation instead of arenas for the sterile struggle to get even. (Translated from *Jeune Afrique Economie*, July 1994: 3.)

10. Operational Implications for Donor Support

The examples of successful institutional reconciliation presented in Parts II and III confirm that reconciliation is not only possible but necessary to improving the performance of the civil service, developing the indigenous private sector, and making African enterprises more productive. Furthermore, the high impact and low cost of the numerous best practices identified for delivering social services (local community development, primary health and AIDS care, urban infrastructure, education, and water supply) make the replication of these activities an important aspect of poverty alleviation and sector investment programs. This chapter analyzes the operational implications and discusses how these best practices can be translated into pragmatic components of operations to reform the civil service, develop the private sector (especially the indigenous private sector), and improve the performance and productivity of public and other large enterprises.

The Reconciliation Paradigm and the Creation of an Effective, Service-oriented Bureaucracy

As background to a discussion of the operational framework for institutional reforms to develop a service-oriented civil service, it is useful to clarify the two complementary but distinct facets of capacity building in Africa. The first involves strengthening *technical* capacity. This is the supply side of capacity building, where the emphasis is on assessing and improving the skills, methods, systems, and technology to deliver the product or services. This facet will determine the transformation and production costs. Most past efforts at capacity building in Africa have focused on this supply, or technical, side through training, education, and technical assistance to transfer new technology and systems.

The second facet is building *institutional* capacity. This is the demand side of capacity building, where the emphasis is on assessing and developing the institutional base to make good use of existing capacity in a sustainable fashion. This facet will determine the transaction and exchange costs for capacity utilization. This demand side is the weakest aspect of capacity building and the major focus of the institutional reform and capacity-building program discussed below.

Design of Civil Service Reform and Capacity Building through Institutional Reconciliation

The lessons of experience and the best practices documented in Chapters 3 and 4 show that, contrary to widespread misconceptions, Africa does possess a substantial reservoir of institutional endowments and best practices on which to build to improve both service delivery and the performance of core government functions. More important, most of the successful cases identified in the AM90s research were high-impact, low-cost, and built on local, indigenous institutions and capacity. These successful examples confirm that institutional adaptation and reconciliation are not only possible but necessary if civil service reform is to achieve both the intended client orientation and results. The focus should be on utilizing the existing reservoir of capacity by following or adapting the approaches pursued in these cases of institutional reconciliation for the purpose of helping improve the performance of core government functions and the delivery of public services. Where no best practices with a proven success record exist, civil service reform programs should include pilot programs to test new approaches (such as, for example, improving incentives).

Civil service reform would thus be a means of improving core government functions and service delivery—not just a self-contained exercise in bureaucratic reengineering to change process, organizational structure, systems, and methods with a heavy dose of outside technical assistance and studies. The design of such civil service reform would emphasize capacity utilization, replication of best practices, and field testing of pilot programs and would involve the following:

- Assessment of client feedback on the quality of the civil service; identification of impediments to the performance of core government functions, through institutional environment assessments; and analysis of user feedback on sector service delivery, through sector institutional assessments

- Preparation of reform programs and operations to remove impediments through the replication of best practices, along with design of pilot operations building on the reservoir of capacity and successful experience in both formal and informal institutions—that is, using indigenous institutional and congruent incentives to achieve quick increases in the effectiveness and productivity of core government functions and in the quality of service delivery
- Undertaking the above steps through participatory processes that maximize ownership and empowerment of local leadership and beneficiaries or stakeholders.

Another important step in building a more service-oriented and effective civil service is the rationalization and balancing of the respective roles and missions of the state, the private sector, and local communities and NGOs in the production and delivery of public goods and services. The importance of this step in the process of reinventing government was forcefully and convincingly argued by Peter Drucker in a 1994 article on reinventing government, in which he showed the risks of approaching civil service costs and efficiency through downsizing and retrenchment across the board without first rethinking the role and mission of government (see Box 10-1).

The failure of SAL-funded retrenchment programs in Africa (documented in Dia 1993: 10) confirms Drucker's point in the African context. The rethinking of the role and mission of government should drive downsizing retrenchment—and not the reverse. It should involve not only asking questions about the object and justification of the mission for every agency, policy, program, and activity in the public sector, but also carefully deciding afterward (for those tasks and activities to be kept) whether it is the government, the private sector, or the local community or NGO that can most efficiently perform a given task. The matrix developed by Osborne and Gaebler (1992: 348) provides a useful framework and criteria for deciding on this division of labor. However, identifying the respective missions and activities in which government, the private sector, or the local community or NGO, respectively, has the comparative advantage should not imply that each would or should then operate in isolation of the others. The AM90s work shows that building partnerships, synergy, and compacts among these various actors in most cases contributes not only to improved performance but also to greater sustainability. The South African social compact experience illustrates how in practical and operational terms this reconciliation among the state, civil society, and

Box 10-1. Really Reinventing Government

(The following is from an article by Peter Drucker, "Really Reinventing Government," in the February 1994 issue of the *Atlantic Monthly*.)

The first reaction in a situation of disarray is always patching. It always fails. The next step is to rush into downsizing. Management picks up a meat-ax and lays about itself indiscriminately. In the past fifteen years one big American company after another has done this—among them IBM, Sears, and GM [General Motors]. Each first announced that laying off 10,000 or 20,000 or even 50,000 people would lead to an immediate turnaround. A year later there had, of course, been no turnaround, and the company laid off another 10,000 or 20,000 or 50,000—again without results. In many if not most cases, downsizing has turned out to be something that surgeons for centuries have warned against: "amputation before diagnosis." The result is always a casualty.

But there have been a few organizations—some large companies (GE [General Electric], for instance) and a few large hospitals (Beth Israel in Boston, for instance)—that, without fanfare, did turn themselves around, by *rethinking* themselves. They did not start out by downsizing. In fact, they knew that the way to get control of costs is not to start by reducing expenditures but to identify the activities that are productive, that should be strengthened, promoted, and expanded. Every agency, every policy, every program, every activity, should be confronted with these questions: "What is your mission?" "Is it still the right mission?" "Is it still worth doing?" "If we were not already doing this, would we now go into it?" This questioning has been done often enough in all kinds of organizations—businesses, hospitals, churches, and even local governments—that we know it works.

the formal private sector can help improve the delivery of developmental services.

The table provided in Appendix C summarizes the conceptual framework for designing civil service reform programs with the above principles in mind and with three objectives: building a leaner civil service (the fiscal stabilization objective), improving the performance of core government functions, and improving the quality and efficiency of public services. The assessment and prescriptive phases using the participatory process to empower the government, clients, and stakeholders should be organized around two issues that could help explain the poor performance of the civil service: adequacy of technical capacity and related systems

and methods, and adequacy of institutional capacity to ensure effective utilization of existing resources. The parameters to be considered should include (a) the legitimacy (ownership) of institutions used (indigenous or transplanted); (b) mechanisms for enforcement (participation and self-enforcement or leverage and conditionality); (c) accountability: whether the needs being met are the ones that should be met (serving clients); and (d) incentives: determining if incentives are reinforcing service to clients.

Using the above organizing framework, the process for designing civil service reform should focus on assessing the extent to which poor performance is due to lack of technical capacity or to governance and other institutional impediments to using existing capacity and institutions in both formal and informal areas, including poor monetary and other incentives. It should also focus on identifying reform programs and operations to build the needed technical and institutional capacity, mostly through replication of the best practices outlined in Chapters 3 and 4.

Appendix C provides a guide for undertaking such an exercise using the above framework. It includes (in the second column) a definition of the expected outcomes in a form that makes them usable as performance indicators to be eventually linked to incentives.

Linkage with the Broad Sector Approach to Lending

A World Bank paper on the broad sector approach to lending (World Bank 1995) identifies the following factors as critical criteria and requirements for eligibility for and preparation of related sector investment programs (SIPs):

- Participatory process to ensure that local stakeholders are in charge
- Reliance on local capacity to minimize long-term foreign technical assistance
- Definition of the respective roles of the public and private sectors and of NGOs
- Government capacity to play a strong role both at the level of the ministry concerned and, more generally, in the coordination and linkage with finance and planning.

Thus the framework identifies the need for a participatory process and an institutional assessment for the sector and agency involved as one of the most critical steps in the process of designing the SIPs (see Box 10-2).

Box 10-2. Questions to Ask in Assessing Sector Investment Projects

Sector policy framework

- Has good sector analysis been done with the government to determine sector policy and key priorities and constraints?
- Is there a clear government statement of sector strategy?
- Have public expenditures and investments for the sector been reviewed?

Sector-wide coverage

- Would the proposed sector operation cover all public expenditures (current and capital) within a coherent sector or subsector?
- Have the role of the private sector and the possibility of private financing been considered?

Commitment of all donors

- Have initial and advanced discussions been held among the government, the World Bank, and donors on the possible sector approach?
- Are there any significant differences of view among donors?

Role of local stakeholders

- Were the private sector and beneficiaries involved in preparing the strategy?
- Does the government agency (or agencies) concerned have the capacity to manage the program, and has an institutional assessment been carried out?

Common implementation arrangements

- Does the government have the capacity to manage procurement, accounting, and project monitoring? (For example, are there standard procurement documents and procedures, both local and international?)
- Are government project accounts up-to-date, acceptable, and independently audited? More generally, what is the state of financial management?

Need for long-term technical assistance

- What proportion of senior posts is filled or heavily advised by expatriate personnel?

Source: World Bank (1995: 46).

The first main purpose of these sector institutional assessments is to help judge the government's capacity to implement SIPs, the adequacy of the existing local capacity and technical assistance, and the extent of institutional and other impediments to efficient delivery of high-quality services (for example, the enforceability of existing regulations and systems, the quality of incentives, and so forth). The second main purpose is to identify the remedial measures needed to improve the performance of the sector (see Pinto and Mrope 1994).

The methodology, process, and conceptual framework for carrying out these SIP-related sector institutional assessments were developed using the lessons derived from the responses to the survey of clients and the customized assessment of the Zambian education sector described in Chapter 2. Chapter 4 also provides a rich menu of successful practices that could be replicated or adapted to help improve the performance of relevant sectors through the SIPs. The sector-wide coverage that is a major feature of the SIPs also requires close coordination among the different local institutions and key actors to be involved in the preparation and implementation of SIPs.

The compact developed in South Africa to build consensus and better balance the roles of the state, the private sector, and local communities and NGOs in the delivery of social services is particularly relevant to both the substance of and the process for achieving this institutional coordination. South Africa's broad sector approach connotes a commonality of vision and purpose as well as an agreed implementation agenda—factors that are eminently suited to elicit the synergy needed for success. Being goal-driven, such a compact generates momentum for implementation and suggests benchmarks for monitoring and evaluating civil service performance from the perspective of the clients and stakeholders. Furthermore, it presupposes a dialogue leading to reconciliation, thereby creating an ideal climate for enforcement as well as ownership of whatever product it delivers.

That development can be effectively propelled by compacts between stakeholders and other key actors stands up well to scrutiny. In East Asia, for instance (as highlighted in the discussions at the Asia-Africa forum in Bandung, Indonesia, in December 1994), both partnership between the government and the private sector and institution and capacity building on the basis of existing indigenous institutions have been cardinal elements in the high-performing Asian economies' phenomenal economic accomplishments.

Chapter 4 of this report illustrates the beneficial impact of these compacts between the state, the community, and the private sector in improving education and supplying water in South Africa. The

formula could be easily extended and adapted to public service delivery in other sectors, especially in the social sectors, in which SIPs can be considered. While the concept of the compact as tried in South Africa involves a triad (government, private sector, and local government and NGOs), a compact need not always involve all three partners. The cases of AGETIP in urban infrastructure, TASO in the fight against AIDS, and the Gambian and Zimbabwean experiences in primary health care provide other successful examples of bilateral partnerships. However, the broader partnership between government, the business sector, and the community offers brighter prospects in social investments, foremost among which is the reduction of dependence on the government and the strengthening of beneficiaries' ownership and commitment. Such a broader partnership provides the possibility of simultaneously winning legitimacy and enforceability for the government; building bridges between the formal business sector and informal small enterprises—enhancing the capacities of both, but particularly the latter; and building institutional capacity and higher levels of empowerment and ownership in the community.

This kind of tripartite partnership recognizes the importance of integrating sociopolitical and socioeconomic factors in development, and it compellingly drives home the point that promoting interdependence among the diverse stakeholders and economic actors in a given community unearths tremendous—so far largely unrecognized—resources of expertise, organizational capacity, and financial resources. The partnership is best implemented through integrated development approaches. In that context, it is a logical and natural complement to the SIPs. Although the SIPs have initially focused on better coordination of donor support for sector investments, the compact here described can ensure the needed coordination of the internal stakeholders and other actors who would implement the sector investments and who are potential recipients of the benefits.

Regarding the essential reconciliation and participatory process, the chronology of the steps and related outputs—building on the South African experience—were outlined in Chapter 9. Appendix D provides a conceptual road map for going through each of the six phases of the reconciliation process that could also be adapted to the SIPs.

The Reconciliation Paradigm and the Development of the Indigenous Private Sector

The results of the best practices of reconciliation between the formal and informal sectors and the management practices presented in Chapters 5 through 8 provide operational modes that could be

directly replicated in future programs to develop the private sector and related financial sector reforms to improve enterprise productivity and performance. Using the framework of the reconciliation paradigm, the operational implications of the AM90s research findings are summarized below.

Reconciliation and Graduation from Microenterprises to Modern Enterprises

How convergence and reconciliation between corporate and societal culture can help the development of the indigenous private sector was illustrated in Chapter 5, which discussed several African enterprises that have successfully become modern enterprises. The managerial styles of the studied entrepreneurs showed that the ability of their enterprises to grow was in part linked to the extent to which they were able to renovate the basic tenets that undergird their societal culture as they adapted to the requirements and constraints of growth and expansion. While the sample covered only seven entrepreneurs, the AM90s research team was subsequently apprised of the existence of several other similar cases in both Sub-Saharan Africa and Northern African (Tunisia). This shows that Africa does have a pool of successful indigenous entrepreneurs whose experience needs to be widely disseminated to help other microentrepreneurs and SMEs to grow.

A training and capacity-building program modeled on these successful cases could take the form of the twinning or adapted training and visit (T&V) formula to bring together in a collaborative learning and training process the leadership of enterprises that have graduated to the stage of large modern enterprises and of those that are starting or in the process of graduation. The formal enterprises (trainers) could include immigrant entrepreneurs (Asians in East Africa and Lebanese in West Africa). The case of reconciliation through twinning and subcontracting initiated by K-MAP in Kenya (discussed in Chapter 5) illustrates how this formula for building capacity and bringing informal businesses closer to formal ways as they graduate from informal enterprises can be put into practice. Such a program could be supported by technical assistance loans and grants (from, for example, the Institutional Development Fund)—as in the case of support for K-MAP by the U.S. Agency for International Development.

Reconciling the Needs for Saving and Sharing

The importance of building social capital and informal social insurance through reconciliation between sharing and saving was illus-

trated in Chapter 6. The findings of the AM90s study of the transfer economy of Senegal are generalizable to other Sub-Saharan African countries. Socially motivated transfers to extended family members continue to be deeply entrenched in Senegalese society. Social transfers perform economic functions that in advanced societies have been assumed by specialized economic institutions. They provide mutual assistance and insurance to members of the extended family and serve to minimize risk to both society and its individual members—subject to a minimum income constraint on the transferors. Given the important socioeconomic role of the transfer system and its staying power, government policies that ignore or neglect the social and financial responsibilities the system involves and its importance for society are likely to be misconceived.

Social transfers are both monetary and in kind (work on family farms or expenditures for ceremonies, for example), and they are provided to extended family members, to specific individuals in the community (such as religious leaders), and to fraternal and religious organizations. Social transfers are an integral and accepted part of local culture, even among the educated and the rich. Transfers are considered a religious obligation as well as a contributor to prestige and social respect, and individuals go to great lengths to maintain transfer levels in the face of income reductions.

Transfers provide a potent, efficient, finely tuned, and need-based social insurance system. The extended family transfer system responds to both the customary and unusual needs of the lineage, providing old-age and catastrophic insurance. It also substitutes for a welfare system, increases the sense of security of individuals and society, and encourages a more egalitarian distribution of access to schooling and health services. By tying up individuals' funds, institutions such as tontines provide a cushion against excessive demands by the transfer system, while religious and social institutions reinforce the system. The key operational implication for private sector development is that in attempts to foster greater savings and accumulation, and in the formulation of fiscal policy—especially with respect to tax revenue—the lineage tax burden must be taken into account; ignoring it leads to incorrect assumptions about the propensity to save and accumulate in the indigenous sector and about the limits of the tax effort. The evidence the Senegal study presents that the Laffer curve effect also applies to the lineage tax provides an argument for incorporating this indigenous dimension into savings and fiscal calculations.

Filling the Financial Missing Middle

The experience of the successful enterprises analyzed in Chapter 5 illustrates the difficulties of finding appropriate financing mechanisms to sustain the graduation process from microenterprises to small- and medium-scale enterprises, and then from medium-scale to large modern enterprises that are risk-worthy for formal bank lending. Chapter 7 illustrates the limits and lessons of experience from some attempts at filling this financial missing middle. The case studies reported illustrate and compare the strengths and weaknesses of formal and informal institutions providing financial intermediation to economic agents in the informal sector. By examining and illustrating reasons for the failure of formal banks, the cases point out the role of social pressure exerted by close-knit groups in successful indigenous institutions, such as tontines, which ensure the viability and sustainability of the schemes. It also shows how the formal and impersonal mechanisms used by banks fail to acknowledge culture-based attitudes to savings and credit requirements in the African context. In the case of the *groupes d'intérêt économique*, the semiformal institutions discussed in Chapter 7, convergence fell short because the GIE scheme for adapting financial institutions to lending requirements of small Malian entrepreneurs did not generate long-term commitment on the part of the contributing savers, who tended to expect access to credit facilities in the short run.

Clearly the key operational implication emerging from these cases and to be factored into financial sector reforms intended to help the development of the indigenous private sector is that savings and credit schemes must be built around common economic interests and a culturally convergent incentive system. If contributing savers are all involved in the same line of economic activity, the bonding that ensures sustainability is strengthened. Also relevant for implementing the desired convergence is the preservation of social pressures—a strong element of cohesion, but also a mechanism to ensure effective debt recovery. For social pressure to exert its disciplining influence over savings and credit operations, it is critical that financial intermediation schemes be pitched at the social group scale and not be allowed to escalate to the size of massive impersonal institutions. Failure to adapt to the culturally accepted scale is illustrated by the unsuccessful case of Mali's BIAO savings plan discussed in Chapter 7, which also failed to meet savers' expectations for ready access to credit while providing terms and conditions that created heavy burdens.

Drawing lessons from the failures at institutional adaptation catalogued in Chapter 7, from other failed experiments, and from the more successful experiences of non-African institutions (for example, the privately run Grameen Bank in Bangladesh and the Bank Rakyat in Indonesia), the AM90s study proposed two prototypes of intermediate financial institutions that could provide the needed financial support to microenterprises and SMEs in the process of graduation to a larger modern scale. To balance individual and group interests and to meet cultural expectations and institutional requirements, the semiformal system of GIEs could be restructured as a member-owned formal credit institution. GIE members could then be regrouped into larger savings and credit associations based on common interest in a given sector. These commercial lending groups could be integrated into a Banque Mutuelliste, which would design savings and credit packages to meet the capacity to save as well as the financing requirements of the respective groups.

To secure access to formal sector financing for entrepreneurs making the informal-to-formal transition, a finance company could be organized and capitalized by assembling a core investor group made up of local entrepreneurs and other private individuals who would all be required to make equal monthly contributions to a common investment fund. On reaching a certain minimum capital, the company could be incorporated, and its funds would be used to leverage outside resources. The company could then extend term loans and equity participation to private enterprises presented by members. The incentive structure could include offering institutional shares and financing for projects presented by shareholders, thereby building the "equal stakes" condition that seems to be required for the success of financial institutions. The above prototypes could be supported either as freestanding pilot operations or as components of larger financial sector reform programs.

Reconciling Corporate and Societal Cultures

In addition to insulating enterprise management from political and patrimonial interference through, among other things, privatization, lease contracting and performance contracts, the AM90s research in Chapter 8 analyzes best practices and illustrations of how reconciling corporate and societal cultures can also improve the performance and productivity of large, modern public and private enterprises. Given that traditional values drive legitimacy, social commitment, expectations, and behavior, and that individual workers are molded by their sociocultural heritage, congruence

with traditional values is the hallmark of effective human resource management in African settings. This realization has, with positive results, infused the approaches taken by management in Côte d'Ivoire's electricity company (CIE) and in Togo's water supply company (RNET). It also accounts for the important role reserved for group dynamics in the quality control circles of Burkina Faso.

In the CIE case, the chief executive practiced several of the culturally appropriate leadership behaviors. He used power distance in a number of ways to maximize its benefits for the management of people while minimizing its adverse consequences. He decentralized operations so as to minimize the bureaucratic burden and cost of managerial layering in a context characterized by high power distance. This also helped ensure local social controls, such as those deriving from pride, trust, and integrity. In addition, CIE capitalized on women's strong performance in financial management by reserving for females the top managerial jobs related to ensuring operational reliability and greater accountability. By far the most innovative reconciliatory feature of CIE's operations was its compensation policy. Alongside performance bonuses, the "solidarity funds" established within the company brought to the workplace the same principles that ensured the sustainability of the tontines. The social safety net engendered by these funds provided another powerful motivating factor that translated into higher productivity in an environment that workers felt to be an extension of their family and social group.

The Togo water company's achievement was more limited and consisted of preparing precise operating guidelines setting out how employees should handle technical and management tasks. The guidelines were drafted with the participation of the staff, and they incorporated employee process-related knowledge and culture-based habits and practices. By increasing certainty about work procedures, the detailed specifications neutralized the negative effects of the myth of the powerful chief and enhanced transparency and predictability in performance expectations.

The concept of quality control circles (QCC), based on U.S. and especially Japanese experience, emphasizes trying to perfect the process of production. In Burkina Faso the QCC concept has been adapted by building group dynamics among employees prevalent in the collectivist sociocultural context of the country. Groups are being used to develop greater synergy, and they are assuming a more pronounced role in restructuring the production process. Increased productivity, improvements in worker and management attitudes, and a better working environment have resulted from increased participatory problem solving and enhanced group focus

on quality introduced through the QCCs. Management has not been placed on the sidelines. Rather, it plays a different role; it has decentralized, and now shares, the responsibility for quality development.

Notwithstanding their merits, quality control circles are not a proxy for the development of basic technical expertise, and their success in Africa, given the continent's shallow base in management capacity, will be predicated on long-term government support and commitment. These three best practices can be directly integrated into public enterprise reform programs to be undertaken by African countries and supported by donors through policy reform programs or technical assistance operations.

The Role of Donors and External Assistance

The framework outlined above provides an operational instrument for replicating the best practices documented in Chapters 2 through 8 and building them into mainstream donor lending for civil service reform, private sector development, and enterprise reform and management as either freestanding institutional development and capacity-building projects or as components of investment operations. Given that Africa needs quick results and that most of these best-practice cases build on local institutions with proven performance records and require relatively little funding to adapt, a fast-track processing procedure could facilitate their replication. This could involve not only reduced and simplified documentation but also less-centralized approval procedures. The World Bank–financed social fund project begun in Madagascar in 1995 provides a good example of such fast-track lending for the delivery of social services.

Another interesting concept, proposed at a meeting in Kampala April 4–6, 1995, is that of independent funds to channel money for delivery of social services in Africa (see Appendix E). Such funds could complement traditional lending in replicating high-impact, low-cost operations in the social sector in countries where no appropriate mainstream lending operations are available but where an appropriate, broad macroeconomic and sectoral strategy and strong commitment do exist. Where no best practice (with a proven record in the field) can be identified, part of the resources from the World Bank's research and regional studies programs, complemented (where necessary) with other donors' joint financing (for example, trust funds), could be used to prepare new prototypes to test new approaches using the framework outlined in Parts II and III of this report (a new financial intermediation institution, new

incentive systems, and so forth). The adaptation and successful testing of the QCC approach in Burkina Faso, with the help of funding from Japanese trust funds, provides a good example of this pilot approach to test innovation. The African Capacity Building Foundation could contribute to the funding of high-impact, low-cost projects and prototypes to improve economic management and policy capacity.

Although the menu of best practices identified in Chapters 2 through 8 is a relatively rich one, it is hardly an exhaustive list of all best practices in the areas covered (that is, improving the service orientation of the civil service, developing the indigenous private sector, and improving enterprise productivity). The shift from the individual farmer to group of farmers as a focal contact point is another successful adaptation of the T&V extension method in Burkina Faso. The very rich exchange of operational experience at the September 1994 AM90s workshop in Dakar and follow-up discussions with participants suggest that many more interesting initiatives and successful practices may be happening in Africa, especially at the grassroots level, but that these generally are not widely disseminated or known.

An effort to identify similar best practices in institutional reconciliation through mainstream sector lending operations is also likely to add to the above list of best practices. Several participants at the Dakar workshop, including donors such as the Netherlands, recommended the creation of a data base and network for sharing information about new experiences, best practices, and lessons of experience. The goal was to facilitate replicating existing best practices and testing the prototypes in institutional adaptation and capacity building in Africa—as part of either the AM90s study program or another research effort. The funding of such a project clearly fits the terms of reference and activities that could be supported by grants from the World Bank in coordination with other donors.

The proposed focus on using mainstream donor lending to support both the replication of high-impact, low-cost best practices and the development of prototypes to test new approaches seems well suited to counteract current donor fatigue and to meet pressures from both Africans and donors for quick results in the field. Replicating the successful best practices identified in Chapter 4 for delivering social services (local community development, primary health care, AIDS-related services, urban infrastructure, education, and water supply) is also an important aspect of poverty alleviation. The voluntary sector (local communities and NGOs responsible for initiating and carrying out some of these best practices—for

Box 10-3. Indonesian Public Works and Village Workers

Three million Indonesians living in villages throughout Java will benefit in two direct ways from an innovative project to improve village infrastructure: they will get new public facilities of their choosing, plus the jobs to build them. With help from a $72.5 million World Bank loan approved May 23, 1995, Indonesia is launching a broad-based effort to improve infrastructure and reduce poverty in 1,200 poor villages. The village-based project will provide funds for community-selected infrastructure projects, employing villagers to build public works such as access roads, bridges, irrigation schemes, sanitation facilities, drainage systems, markets, and piers.

Under past government-sponsored projects, villagers have been expected to contribute free labor. The focus of this project is direct employment, with wages paid in cash. The earnings will mean additional income for villagers, who can continue performing other jobs as well. The cash wage feature of this project is especially important for Java, which is home to more than half of Indonesia's poor, many of whom live on $100 annually—a bare minimum with which to buy clothing, medicine, and school supplies.

The project is innovative for the Bank because of its decentralized approach, with technical assistance and financing being provided directly to village groups. Other infrastructure projects in Indonesia, because of their large scale and complexity, are usually carried out through government agencies. Through the project's grassroots approach, villages will decide for themselves the works they want, in line with simple economic, environmental, and other criteria. They are likely to concentrate on all-weather access roads and bridges that will make schools, jobs, and markets accessible in the rainy season, when crops mature and need to be sold but when many roads and rivers are impassable.

Source: World Bank News 14 (May 25, 1995): 2.

example, Groupements NAAM, TASO, and the primary health care efforts in The Gambia and Zimbabwe) should expand these projects inside their countries and provide technical assistance (for instance, through twinning) for their replication or adaptation in other parts of Africa. In this way, cooperation between mainstream lenders and NGOs would be intensified—both in strengthening participatory processes and in making high-impact, low-cost activities major components in mainstream operations to reform the civil service, develop the local private sector, and improve the productivity of enterprises in Africa. Finally, by building on homegrown best practices, local capacity, and indigenous institutions, and by

putting the government and local stakeholders and beneficiaries in charge (participatory process), the proposed approach would help maximize local ownership, commitment, and legitimacy—all of which are essential to enforceability and sustainability.

Box 10-3 provides an excellent illustration of how the proposed institutional reconciliation paradigm and related empowerment of beneficiaries and local communities could be translated into mainstream World Bank lending to support improved delivery of services.

Appendixes

Appendix A. Statistical Data Base for Chapter 6

Table A-1. Regression Results for Amount Transferred
(dependent variable: amount transferred; adjusted R-square: 0.84)

Variable	*Estimated coefficient (CFA francs)*[a]	*T-ratio*	*Elasticity at mean*
Transfer proportion	3413900	4.66	0.92
Transfer proportion squared	–2932500	–3.26	–0.32
Income	–0.0417	–3.51	–0.33
Income squared	0.00000000142	13.20	0.41
Education	105330	2.98	0.33
Amount saved	–0.0345	–2.12	–0.04
Tontine membership	–165160	–1.42	–0.38
Constant	307960	1.23	

a. 250 CFA francs = US$1.

Note: The F-ratio for the joint significant of transfer proportion and its square 15.2 with 2 and 179 degrees of freedom; the F-ratio for the joint significant of transfer proportion and its square 459 with 2 and 179 degrees of freedom.

Table A-2. Tobit Results for Amount Saved
(dependent variable: amount saved)

Variable	*Estimated coefficient (CFA francs)*[a]	*T-ratio*	*Elasticity at mean*
Transfer proportion	–589540	–3.74	–0.48
Income	0.077627	3.92	0.18
Number of dependents	186650	2.12	0.93
Participation in tontine (dummy)	1837300	3.09	0.43
Has savings in kind (dummy)	5471000	6.76	0.19
Business destroyed by fire (dummy)	1832000	1.92	0.93
Constant	6332800	–7.10	

a. 250 CFA francs = US$1.

Note: The F-ratio for the joint significant of transfer proportion and its square 15.2 with 2 and 179 degrees of freedom; the F-ratio for the joint significant of transfer proportion and its square 459 with 2 and 179 degrees of freedom. Log likelihood = –295; R-square = 0.243; R-square between observed and predicted savings = 0.22.

Table A-3. Tobit Results for Fraction Saved
(dependent variable: fraction saved)

Variable	*Estimated coefficient (CFA francs)*[a]	*T-ratio*	*Elasticity at mean*
Transfer proportion	–0.3149	–5.87	–0.86
Income	–0.0000000389	–1.81	0.31
Income squared	3E–15	1.67	0.11
Number of dependents	–0.08	2.74	0.63
Participation in tontine (dummy)	0.77	4.16	0.67
Has savings in kind (dummy)	1.6566	6.61	1.54
Business destroyed by fire (dummy)	0.8385	2.86	0.14
Constant	–1.88	–6.93	

a. 250 CFA francs = US$1.

Note: The F-ratio for the joint significant of transfer proportion and its square 15.2 with 2 and 179 degrees of freedom; the F-ratio for the joint significant of transfer proportion and its square 459 with 2 and 179 degrees of freedom. Log likelihood = –209; R-square = 0.253; R-square between observed and predicted savings = 0.23.

Table A-4. Regression Results for Amount Saved by Nonzero Savers
(dependent variable: amount transferred; adjusted R-square: 0.27)

Variable	*Estimated coefficient (CFA francs)*[a]	*T-ratio*	*Elasticity at mean*
Transfer proportion	–2465200	–1.39	–0.43
Income	–0.14516	–1.85	–0.70
Income squared	0.00000000292	3.20	0.40
Number of dependents	265740	2.80	1.32
Participation in tontine (dummy)	1644600	2.78	0.43
Has savings in kind (dummy)	2168300	2.04	1.58
Religion	3102300	2.22	2.55
Business destroyed by fire (dummy)	2569400	3.20	0.40
Constant	–5506700	–2.90	–4.35

a. 250 CFA francs = US$1.

Note: The F-ratio for the joint significant of transfer proportion and its square 15.2 with 2 and 179 degrees of freedom; the F-ratio for the joint significant of transfer proportion and its square 459 with 2 and 179 degrees of freedom.

Table A-5. Regression Results for Reservation Price for Extra Work
(dependent variable: reservation price for work; adjusted R-square: 0.33)

Variable	*Estimated coefficient (CFA francs)*[a]	*T-Ratio*	*Elasticity at mean*
Transfers per capita	0.0113	3.15	0.06
Income	0.0025	3.98	0.36
Income squared	0.000000000031	–3.17	–0.17
Education	4435	2.82	0.26
Born in Dakar (dummy)	9776	1.71	0.42
Constant	2089	0.17	

a. 250 CFA francs = US$1.

Note: The F-ratio for the joint significant of transfer proportion and its square 15.2 with 2 and 179 degrees of freedom; the F-ratio for the joint significant of transfer proportion and its square 459 with 2 and 179 degrees of freedom.

Appendix B. Summary of Chilean Public Ethics Report

In July 1994 the Chilean Commission on Public Ethics presented to President Eduardo Frei-Tagle its report, titled "Public Ethics: Probity, Transparency, and Accountability at the Service of the Citizens." The report covers the proper conduct of public servants, conflicts of interest, oversight and control, contracts and bidding procedures, criminal justice, funding of political activities, and social empowerment. Its forty recommendations are summarized below.

1. Draft and implement a national policy on public ethics.
2. Give constitutional status to principles of honesty and transparency in public office.
3. Incentives for public service: Raise the status of the role of public servants and their pay. Improve the merit systems.
4. Establish a Public Sector Code of Honesty.
5. Assign jurisdictional boundaries and responsibilities in the public sector.
6. Create offices of internal affairs in the public sector to issue information and receive complaints.
7. Review procedures to determine administrative accountability.
8. Prohibit trafficking in influence and the misuse of privileged information.
9. Improve the regulations governing conflicts of interest between public duties and private activities.
10. Have the judicial branch provide more information to the public, set up a system to hear complaints about improper behavior by court officials, and eliminate irregularities and favoritism.
11. Strengthen ethical self-regulation within all branches of government.

12. Make the declaration of assets and personal interests compulsory for persons entering or leaving public service.

13. Strengthen prohibitions against personal interests influencing public decisions.

14. Regulate the transition of public servants to the private sector in order to prevent public business from being conducted by officials influenced by personal considerations of future private employment.

15. Regulate acceptance of gifts, payments for speeches, or travel expense defrayals for public servants.

16. Remove local officials and national legislators from office when they use influence over public decisions for their own benefit.

17. Extend the legislation on conflict of interest to cover higher officials up to and including the president.

18. Use the system of blind trusts as an option for high-level federal officials.

19. Reinforce congressional oversight in the House of Representatives.

20. Review and streamline administrative procedures and regulatory content. Penalize officials for procedural delays.

21. Have private accounting firms carry out selective audits supervised by high-level federal officials.

22. Publicize information on management performance and the profits (or losses) of federal enterprises.

23. In order to increase public control over government management, use greater transparency, link resources to goals, provide information to the public and NGOs.

24. Eliminate secret government accounts and discretionary executive spending unless fully justified.

25. Review and strengthen municipal control and oversight mechanisms for contracts, competitive biddings, concessions, and contract awards.

26. Draft and enact a framework law on contracts and federal contract competitions.

27. Bring greater objectivity to the process of municipal procurement.

28. Create an electronic adjudication system for state bidding to ensure transparency and the lowest purchase price on all items.

29. Define criminal penalties for influence peddling, insider trading, and illegal enrichment.

30. Strengthen mechanisms to report acts of corruption.

31. Strengthen laws against the crimes of bribery, extortion, and conflicts of interest that may not currently be covered by the criminal code.

32. Reform the procedural code in order to introduce oral arguments into criminal procedures, expedite court proceedings, and make them transparent. Create a public prosecutor's office in the executive branch so the judicial branch can remove itself from investigations.

33. Create the office of Anti-Corruption Prosecutor.

34. Record and publicize contributions, over a predetermined amount, to political parties and campaigns, and introduce transparency into campaign funding in general. Elected candidates should declare funding sources. Political parties must use a single bank account and be denied banking secrecy privileges.

35. Limit campaign expenditures and the length of campaigns; consider public financing of campaigns. Prohibit televised campaign spots.

36. Recognize and introduce public campaign financing in gradual stages.

37. Enact a freedom-of-information law.

38. Require government agencies to release regularly to the public their balance sheets and reports of activities.

39. Introduce active ethical instruction into the curriculum at all levels of the educational system.

40. Encourage ethical self-regulation of professional associations, trade unions, and other civic groups. Strengthen their internal controls.

Appendix C. Framework for Civil Service Reform to Reconcile the State and Civil Society

		Areas of reform				
			Institutional capacity			
Country targets	*Expected effect*	*Technical capacity*	*Commitment of leadership to enforceability*	*Local ownership/ legitimacy*	*Accountability and managerial autonomy*	*Incentives*
I. Building a Leaner Civil Service						
Fiscal stabilization (stabilize deficit as percentage of GDP; stabilize government expenditures as percentage of government revenues)	Reduce size of public sector (percentage of public sector in total employment) Reduce cost of public sector (government wage bill as percentage of government revenues)	Set up reliable data base (census and reconciling files in civil service and payroll)	Clarify role and mission of government Functionally downsize and set ceiling for size of central government (contract out, divest) Demonstrate strong political commitment Shift role of government to employer of last resort	Ensure broad consultation and agreement with all key players (unions, etc.)	Set and enforce hard budget constraints by departments and units Have independent institutions monitor and evaluate enforcement of hard budget constraints Give civil service commission (or equivalent) political autonomy for hiring and firing	Rationalize and monetize pay allowances Set up appropriate compensation mechanisms and social safety nets for those affected by downsizing Ensure credible incentives to private sectors to help with retraining and hiring or redundant personnel

(Table continues on the following page.)

		Areas of reform				
			Institutional capacity			
Country targets	*Expected effect*	*Technical capacity*	*Commitment of leadership to enforceability*	*Local ownership/ legitimacy*	*Accountability and managerial autonomy*	*Incentives*
			Ensure consistency of hard budget constraints throughout public sector (public administration and public enterprise) to avoid "water-bed effect" Demonstrate fair and consistent application of functional downsizing and compensatory measures		and monitoring performance and career development	Ensure sufficient funding of social securities and other funds for retirees Link rewards and sanctions to respect for budget constraints Ensure regular payment of salaries
II. Strengthening Core Government Functions						
Resource mobilization: revenue as percentage of GDP	Increase collection of taxes and customs (percentage increase per year; cost of collection	Simplify tax code and make it user-friendly Improve data management and	Eliminate tax and customs exemptions Demonstrate political com-	Link rewards and sanctions to cultural incentives (social capital)	Increase autonomy and accountability of tax and customs institutions (e.g., Ghana enclaves)	Link appointment, tenure, and pay of tax and customs administrators to their

	as percentage of revenue collected) Reduce corruption from tax and customs fraud (percentage of tax evasion versus collection target)	management information systems	mitment to prosecuting evaders		Put independent institutions in charge of carrying out sanctions against evaders (rule of law)	collection performance Use independent third-party audits of performance
Resource allocation: actual capital and recurrent expenditures made by all sectors compared with total revenues	Reduce variance between PIP/PER benchmarks and actual allocation of resources (difference between budget allocations and actual expenditures) Ensure sufficiency and timeliness of counterpart funding (percentage of projects with counterpart problems)	Strengthen capacity for planning and budgeting Strengthen capacity for auditing, accounting, inspection, and procurement Simplify and increase transparency of budgeting process and PIP/PER benchmarks Ensure timely receipt of audited accounts	Reduce military expenditures Reduce percentage of wage bill in recurrent budget Demonstrate political commitment to respecting PIP/PER benchmarks and following up audit recommendations (application of incentives)	Increase transparency in the linkage between resource allocation and community development needs	Set hard budget constraints Maintain independence of accountant and auditor general Create more credible legislative checks and balances and control	Reward meeting budget constraints and PIP/PER benchmarks Conduct independent third-party audits of performance Punish noncompliance with auditing requirements
Policy capacity	Increase self-reliance and long-term sustainability of	Strengthen policy capacity Strengthen and make better use of	Demonstrate government and donor commitment in economic	Reduce use of long-term expatriate TA		Avoid nonperformance-related salary supplements

(Table continues on the following page.)

		Areas of reform				
			Institutional capacity			
Country targets	*Expected effect*	*Technical capacity*	*Commitment of leadership to enforceability*	*Local ownership/ legitimacy*	*Accountability and managerial autonomy*	*Incentives*
	institutional capacity (reduce dependence on expatriate TA for policy design and implementation) Improve legal framework (adoption of civil service acts) Ensure core policy capacity to address poverty	local training institutions and consultants	and social work and lending, etc. Adopt a plan addressing poverty in national PIP/PERs	Avoid donor-driven enclave for project implementation Include sunset clause in all TA contracts		Shift part of TA resources to support linking enhancement of local salaries to performance Include cost of expatriate TA in indicators of cost effectiveness Set up and enforce capacity-building indicators for TA
Judicial capacity	Ensure independence of judiciary (lack of political interference) Ensure enforceability of the rule of law (responsiveness to actual social norms and behavior)	Strengthen judicial and related institutions, notably law schools and bar associations Revise, compile, and codify laws (legal reform) Provide training and continuing education for legal personnel	Prevent political interference in hiring and firing of and rewards and sanctions for judicial personnel Establish credibility of judiciary as third-party enforcer (redress executive discretion)	Reconcile customary and formal rule of law (e.g., Botswana's judicial system)	Establish constitutional and political guarantees of judiciary's independence	Disconnect pay and employment of judicial personnel from civil service Fix pay and employment incentives at most attractive level to reduce financial vulnerability Create strict sanctions against breach of ethics code

III. Improving the Delivery of Services

Service delivery (sector investments and operations; reinventing government)	Improve quality of service delivery (rate of satisfaction of clients and customers) Improve cost and efficiency of delivery system (efficiency of cost recovery and ability to self-finance) Improve effectiveness of public services in alleviating poverty	Build or strengthen regulatory capacity for private provision of public services	Shift role of state from rowing to steering Enforce equitable rules of allocation and access to assets and services Enforce more efficient and transparent procurement rules	Increase use of indigenous institutions for service delivery to local community	Rationalize size and role of government through decentralization, divestiture, and contracting out of public goods and services to private sector and nongovernmental organizations Build compact among state, private sector, and local community to efficiently deliver public services (e.g., education in South Africa) Ensure greater autonomy and accountability of public enterprise management	Link tenure of managers and pay and employment packages to delivery of services Independently monitor performance Build customer satisfaction in performance Use systematic client consultation to measure impact on poverty reduction Monitor to see that improved service delivery is reducing poverty

Note: PIP/PER = Public investment program/public expenditure review; TA = technical assistance.

Appendix D. The Reconciliation Process

Phase	*Inputs*	*Process*	*Output*
Phase 1 Definition and identification	• Trained facilitators • Information/date ⇒ Stakeholders ⇒ Resources ⇒ Needs ⇒ Definitions	• Data gathering ⇒ Desk research ⇒ Interviews ⇒ Individual stakeholder meeting • Data presentation ⇒ Information center	• Stakeholders' assessment ⇒ Contact information ⇒ Skills and technology audit ⇒ Capital and facilities ⇒ Community support assessment • Assessment of needs, development strategies, and program • Lobby guides for facilitators • Phase 2 program
Phase 2 Interpersonal lobbying	• Lobby guides for facilitators • Interpersonal contact with stakeholders by facilitators • Information gathered in Phase 1	• Dialogue about: ⇒ Vocabulary—on development and other issues ⇒ Ownership ⇒ Energy ⇒ Sociodynamics ⇒ Power plays	• Stakeholders' assessment: ⇒ Vocabulary definitions and clarification ⇒ Levels of legitimacy, trust, and suspicion ⇒ Energy types • Development paradigms assessment • Phase 3 program ⇒ Schedule ⇒ Workshop design ⇒ Capacity building needs audit ⇒ Orientation of facilitators and trainers
Phase 3 Caucus	• Stakeholder workshops with facilitators • Information gathered in Phases 1 and 2 • Trainers (specified capacity building)	• Facilitation of movement from common ground • Capacity building	• Stakeholder readiness assessment for dialogue • Decision to proceed to Phase 4 • Phase 4 program: ⇒ Schedule ⇒ Workshop

Phase 4 Dialogue	• Joint dialogue workshops coordinated by facilitators	• Facilitation of commitment to common ground among stakeholders • Joint projects defined and participants and beneficiaries agreed on • Joint working groups defined and members agreed on • Donor alignment • Development paradigm alignment	• Formation of joint forums • Lists of projects and project teams • Mandates for project teams and joint working groups established and approved • Donor contracting • Phase 5 program ⇒ Schedules ⇒ Participants ⇒ Objectives and deliverables
Phase 5 Joint implementation	• Involvement of as many stakeholders as viable or appropriate • Facilitators work to increase the number of participating stakeholders • Appropriate skills and funding • Project management	• Project teams and working groups meet • Facilitators ensure sustained participation • Facilitation of any conflicts that arise	• Project implementation • Implementation of joint working group recommendations • Empowerment of participating stakeholders • Alignment through participation • Donor feedback • Phase 6 program ⇒ Agreed-on mechanisms for monitoring
Phase 6 Joint monitoring and feedback	• Project implementation inspection system or mechanisms	• Joint inspection and monitoring • Identification of corrective actions • Identification of new projects and working groups	• Sustained joint participation and alignment • Continuous joint corrective actions • New project or working group formulation • Donor feedback

Appendix E. Communiqué of the Expert Consultation on the Role of Independent Funds as Intermediaries in Channeling Money for Social and Economic Development in Africa

(The following document is from a meeting in Kampala, Uganda, April 4–6, 1995.)

Ever since political independence, Official Development Assistance (ODA) has played a major role in the socio-economic development of African countries. In its initial stages it was characterized by partnership relations in which donor and recipient participated as equals and in which ODA was viewed as a true complement to national African efforts. With increasing evidence that much ODA has failed to produce the anticipated results, donors have become more reluctant to dispense their funds and only do so on conditions that give them increasing control of aid disbursement and management. What was once a partner relationship has been turned into one that makes the donor more like the master, the recipient the subordinate. This, in turn, has led to an increasing sense of distrust between African governments and donor agencies. Both parties must take responsibility for this negative turn of events.

The purpose of this Expert Consultation has been to explore means of restoring mutual trust and a renewed partnership between donors and recipients. The principal focus of the deliberations has been the model of a non-partisan development fund presented in the background paper prepared for the consultation. The sponsors of this consultation, the African Association for Public Administration and Management (AAPAM) and the Dag

Hammarskjold Foundation (DHF), are convinced, following initial preparations for this event, that sufficient interest exists among both donor agencies and African countries to pursue this idea further. It was adopted in principle by the Regional Conference on "The Strategic Agenda for Development Management in Africa in the 1990s," organized by the U.N. Economic Commission for Africa in March 1993 in Addis Ababa, and approved by the Conference of African Ministers of National Planning and Economic Development the following month. On the donors side frustrations with previous approaches have led many agencies to search for innovative ways of administering their operations.

The fund model is not new in that many such mechanisms, both private and public, have been in existence for some time. As the expert consultation recognized, some types of intermediary institutions have failed. The case of development banks was mentioned. On the other hand, there is also promising evidence from both Africa and other regions of the world that such institutions can work provided they are properly constituted and supported. The consultation benefited from presentation of such cases in Bolivia, Ecuador, the Philippines and Portugal.

Following a careful examination of the fund model, experts from African countries and elsewhere . . . agreed that funds should be public institutions established in consultation between African governments, civil society and donors. They should be so constituted that they are insulated as much as it is practically possible from partisan political pressures. Where such laws do not already exist, a special piece of legislation which entitles the funds to such an autonomous status, would have to be introduced. Established as national institutions, normally with a specific sectoral mandate, these funds would be dispensing money within the context of national policy to organizations applying for their resources on a competitive basis. The funds would be run by boards of trustees representative of government, donors, and civil society. These boards would consist of individuals who command public respect, good judgment, professionalism and are of independent stature. Their appointment would not be controlled by the head of state or any other member of the executive branch of government. To secure the operational autonomy of these funds they would be endowed, i.e., they would have their own capital base. Capital would be raised from external donor sources as well as domestically with the help of donations or treasury bills.

Various opinions were expressed on what institutions should be eligible for support from these funds. Experts agreed that priority should be given to private, voluntary and cooperative organizations involved in social and economic development as well as local government entities. Priority should therefore be given to those organizations which have a strong commitment to work with the poorer groups in society and those others who have little or no access to existing institutional mechanisms. As such the funds are being introduced with a view to enhancing the flow of aid to the poorer segments of society.

It was generally agreed that these funds would be created with a view to ensuring better use of donor resources for development in individual African countries. They should complement existing transfer mechanisms. For example, direct resource transfer to governments or NGOs would continue. The role of the proposed new funds would be to encourage greater innovativeness and effectiveness in the use of development resources.

Experts agreed that the broader mission of these funds would be to help build constructive links between government and civil society, encourage decentralization and stimulate development and initiatives at the grassroots level. These institutions would also increase transparency in aid utilization and cut the bureaucratic red-tape currently associated with the administration of foreign aid and other development resources.

What this new approach demands of the interested African government is the readiness to abstain from direct political control of these funds in return for an anticipated increase in development resources, for social and economic development and the prospect of a broader political legitimacy in society. Of the interested donors it asks for a readiness to pool resources into funds that are locally incorporated in the recipient country but where donors, directly or indirectly, would exercise influence through representation on the board of trustees. It is also intended to relax conditionalities in order to promote flexibility and innovativeness in the application of aid funds—focusing on contributions to poverty reduction among the rural and urban and peri-urban poor. The gains that they stand to make from this institutional arrangement would be the possibility of greater transparency and accountability in the use of their money and the possibility of allowing their aid to reach the poorer groups in society with increased beneficial impact.

Because conditions in African countries vary, the establishment of these funds has to be done with some degree of flexibility There was also agreement that funds should be started on a gradual basis

in countries showing interest in this approach. Experts were convinced that given a genuine political commitment on the part of donors and recipients alike as well as careful attention to legal, managerial and financial issues, these funds would help Africa in attracting additional funds and restoring a sense of partnership in donor-recipient relations.

The consultation ended with agreement on a series of follow-up measures that are necessary to see the model translated into institutional focal points in each country interested in adopting the model. There would most likely also be need for some form of nonpartisan facilitation. Both AAPAM and DHF confirmed their willingness to assist on these matters. The report from the consultation would also be tabled before the next meeting of Ministers of Planning and Economic Development organized by the U.N. Economic Commission for Africa. It was also agreed that donors needed to be briefed about this new approach through such mechanisms as the Development Assistance Committee of the OECD. Finally, the Government of Uganda, through its Minister of Finance and Economic Planning, indicated its readiness to test how the model could best be implemented.

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