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Developmental patrimonialism?

Rethinking business and politics in Africa

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Africa may have some of the world's fastest-growing economies, but investment and incomes still lag far behind other regions. Conventional development wisdom lays the blame on a governance syndrome known as neo-patrimonialism, a system of personal rule held together by the distribution of economic rents to clients or cronies. But recent research by the Africa Power and Politics Programme (APPP) into seven historical and six contemporary African cases shows that neo-patrimonialism is not always as economically damaging as the development community believes. Findings include:

- In some circumstances neo-patrimonialism does not harm, and may even help, the climate for business and investment
- Neo-patrimonialism can be compatible with rapid, pro-poor, economic growth
- Donors and policy-makers need to recognise developmental neo-patrimonialism where it exists, and understand their impact on it.

Informal traders near Ubungo power plant, Dar es Salaam
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Rethinking neo-patrimonialism

Neo-patrimonial governance has a poor reputation in developmental circles. 'Strongman' regimes, being quasi-democratic at best, are believed to make bad policies, the economic rents they distribute are said to be inefficient and wasteful, and the personalised relations on which neo-patrimonialism rests are thought to be inherently arbitrary and off-putting to investors. This poor reputation is supported by copious evidence from Africa and beyond.

And yet there is also evidence, especially from outside Africa, of neo-patrimonial regimes presiding over rapid and poverty-reducing economic growth. For example, South Korea, Indonesia and Malaysia had strong neo-patrimonial elements in their political systems during their most rapid growth phases. They were able to distribute economic rents in a way that balanced the demands of political stability and economic growth, while facilitating investment through what Moore and Schmitz have called 'relationship-based' governance.[2] Most European political systems also contained significant neo-patrimonial elements during their initial growth phases.

Evidence from Africa

There is growing evidence that some African regimes have also harnessed neo-patrimonialism for developmental ends. APPP conducted research into economic performance from independence to the present day in seven countries: Côte d'Ivoire, Ghana, Kenya, Malawi, Rwanda, Tanzania and Uganda, all of which had neo-patrimonial elements to varying degrees.

We found that four countries (Côte d'Ivoire 1960-75, Kenya 1965-75, Malawi 1964-79, and Rwanda 2000 - present) had enjoyed strong economic performance for periods of a decade or more. Three others (Ghana 1981-92, Malawi 2004-2009, and Uganda 1986-2000) had slightly less strong performance, in two cases for similar periods of time.[3]

We have supplemented this historical study with in-depth fieldwork into business and politics relations in six contemporary states (Ethiopia, Ghana, Malawi, Rwanda, Tanzania, Zimbabwe), and found Ethiopia and Rwanda to be examples of present day developmental patrimonial regimes.[4]

All the strong or quite strongly performing regimes had one thing in common: a system to centralise the management of economic rents and orient rent-generation to the long term. In other words, there was a structure in place that allowed a person or group at the apex of the state to determine the major rents created and to distribute them at will. In addition, leaders had a vision that inspired them to create rents and discipline rent-seeking to expand income through productive investment over the long term. The mechanisms for doing this differed from country to country, but they always involved a combination of:

- a strong, visionary leader (often an independence or war-time hero)
- a single or dominant party system
- a competent and confident economic technocracy
- a strategy to include, at least partially, the most important political groups in some of the benefits of growth
- a sound policy framework, defined here as having a broadly pro-capitalist, pro-rural bias.[5]

Rent-centralisation permitted the leadership to put some limits on rent seeking and to play a coordinating role, steering rent creation into areas with high economic potential, or to areas that must be resourced in the interests of political stability. A long-horizon orientation, meanwhile, meant that rent-earning opportunities were steered to activities that involved increases in value-added, or transformations in the productive forces over time, rather than the simple quick wins that could be gained from embezzling monies or taxing markets (although there was an element of this in most places).

> **“ *Crucial to making neo-patrimonialism work for development in Africa has been a system for centralising economic rents and gearing their management to the long term.***

Côte d'Ivoire, for example, has been in the news recently for the wrong reasons, but for 15 years after independence its economic performance was exceptional. Its nationalist leader, the redoubtable Félix Houphouët-Boigny, exercised a tight grip over both the polity and economy through a strong, French-assisted planning machinery and a network of personal barons. The *Caisse de Stabilisation* set an efficient price for cocoa growers for many years, while the Ministry of Agriculture, provincial administration and extension services supervised the expansion of the cocoa industry into virgin lands. A skilful system of ethnic quotas, although favouring Houphouët's own group, ensured that the benefits of rapid growth were shared with relative equity.

But all this was to change. In the mid-1970s Houphouët lost control of rent management to his barons and economic decisions were increasingly made outside the normal planning process. This resulted in a massive expansion in the number of parastatal projects, many of them inefficient. Economic performance declined and debt spiralled, setting the scene for structural adjustment, popular protest, multi-party elections, the break up of Houphouët's 'grand coalition' and the divisive ethnic politics of later years.

As with contemporary Côte d'Ivoire, most regimes in Africa today lack a centralised structure for developmental rent-management. In Tanzania, for example, APPP found that members of the high political leadership have been permitted to indulge in non-productive rent-creation and rent-seeking with the tacit, if not direct, knowledge of the President. Some of the proceeds have been used to fund election expenses, and some have been pocketed privately.

In addition, ruling party candidates have been permitted to engage in various types of rent-seeking to fund their own constituency campaigns. This has been coupled with a certain permissiveness toward petty corruption at lower levels of the administration. The comparative lack of central discipline and control means that unproductive rent-seeking has infiltrated sectors of the economy that have strategic importance, such as roads, power, and port facilities. As a consequence, public goods crucial for business have been underprovided, and investment and performance below potential.[6]

Should 'developmental patrimonialism' be the new development model?

"Developmental patrimonialism has a limited shelf life and will not be appropriate everywhere.

Our research has shown that in certain conditions neo-patrimonialism can be compatible with strong economic performance. But developmental patrimonialism is not, we stress, a 'one-size fits all' solution.

First, developmental patrimonialism seems to be best suited to the least developed countries, where relatively simple economic structures are more responsive to relationship-based governance. As the economy grows and becomes more sophisticated, more rules-based governance is probably required.

Second, developmental patrimonialism seems unlikely to work in all political systems. Where power is regularly changing hands through the ballot box, as in contemporary Ghana, there are strong incentives for political leaders to focus on short-term rent-management rather than plan for the long term. Increased, personalised, centralisation of rents by either party leader in these circumstances would be likely to prove very controversial and damaging.

Third, rent-centralisation is likely to be exceedingly difficult in societies where a few large ethnic groups are competing for political power, as in Nigeria and contemporary Kenya.

Finally, countries such as Equatorial Guinea or Central African Republic, where technocratic integrity has reached a very low ebb, are unlikely to make a success of rent-centralisation.

Nevertheless there are some nations in which developmental patrimonialism looks the most viable route to pro-poor growth. Let us consider, for example, Ethiopia, an extremely poor, landlocked economy with no liberal tradition of note, in which market failures are widespread. Over the past two decades the dominant regime of the Ethiopian Peoples' Revolutionary Democratic Front (EPRDF), under the strong leadership of Prime Minister Meles Zenawi, has presided over the increased centralisation of rents and implementation of a long-horizon development strategy that aims to guide Ethiopia to middle income status.

Key features include control over a large state-owned enterprise sector and substantial regional development organisations, together with tight regulation of financial institutions and expansion of the tax base. Regional 'endowment funds' are also important. These are charitable trusts with strong links to the ruling party that act as holding companies for a variety of different businesses. They play a role in financing or facilitating investment in areas of weak private involvement, and by small or new businesses, including emergent youth cooperatives.

The Endowment Fund for the Rehabilitation of Tigray (EFFORT), for example, was set up with resources accumulated by the Tigrayan People's Liberation Front during its war against Colonel Mengistu. It aimed to open up new sectors into which private sector businesses could follow, contribute to the development of human resources, and generate income for the families of war victims and other charitable causes. Its Council and Board are dominated by members of the ruling party, while its individual companies are managed, for the most part, by professionals with significant private sector experience and good business training.

Today, EFFORT owns 18 enterprises, covering areas such as cement manufacture, trading, textiles and garment-making, transport and logistics, industrial engineering, construction and pharmaceuticals. There is a high degree of vertical and horizontal integration of its companies, which offer a multitude of opportunities to exploit business synergies. Almost all its companies are now profitable, and EFFORT is the largest taxpayer and non-state employer in Tigray.

Experiments with venture capital and industrial learning in Africa are not new, of course. In the 1960s and 1970s many newly-independent states embarked on ambitious import-substitution industrialisation programmes, but almost all of these were failures. Infant industries never grew up and could only survive by draining resources from other sectors, a trend reflected in macro-imbalances and disappointing growth.

In contemporary Ethiopia, however, the activities of state-owned and endowment companies have been consistent with impressive economic performance. The country has shown increasingly strong growth since 1991, with a particular escalation in the period since 2003, as well as continuing high annual growth rates throughout the period of the global downturn from 2008. The International Monetary Fund (IMF) records Ethiopia's real average annual growth over the last decade as 8.4% (2001-2010).

Ethiopia's political-economic strategy is certainly not without its problems. In particular, and as with other developmental-patrimonial regimes, the highly dominant nature of the EPRDF, rather like the regime of the Rwandan Patriotic Front (RPF), raises troubling questions. But these questions, we believe, should not blind us to the significance of their unconventional development models.

Policy implications

If we are right about developmental patrimonialism's potential, donors and policy-makers need to be attuned to its existence. If they see genuine signs of developmental patrimonialism at work, they should think twice before insisting on best practice solutions like level playing fields, minimal rent-seeking and arm's length government-business relations.

They should engage African regimes in more imaginative discussions about the kind of administrative capacity building that might help better achieve their goals. And where, in under-performing economies, development partners encounter resistance over good governance reforms, they should consider whether developmental patrimonialism might be a more viable alternative option.

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1. Tim Kelsall leads the Business and Politics 1 stream of the Africa, Power and Politics Programme (http://www.institutions-africa.org/). He would like to thank David Booth, Diana Cammack, Brian Cooksey, Mesfin Gebremichael, Fred Golooba-Mutebi, and Sarah Vaughan for contributions to the research on which this paper is based, and Richard Crook, Angela Hawke and Sue Martin for editorial input.
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