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Aid is good, business is better

By Ellen Johnson-Sirleaf and Nicky Oppenheimer
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Africa is more democratic today than at any point since the start of decolonialization. The amount of aid flowing to the continent, exceeding $30 billion, has never been greater. And the global commodities boom has fuelled high economic growth rates, averaging 6.6 percent across sub-Saharan Africa.

Why, then, is Africa still lagging behind the rest of the world on most indicators of development?

The answer, we are told, is that Africa isn't using aid properly. So African governments devote enormous time and energy to discussing, among themselves and with organizations like the United Nations and the World Bank, how to improve the impact of aid

Aid is important for Africa's poorest countries, but we must also address the real reason why growth stalls: The cost of doing business is just too high.

According to the International Finance Corporation, 24 of the 30 countries with the most costly business environment are in sub-Saharan Africa. These costs are seldom borne by consumers. They are shouldered by African businesses and producers.

Circumstances are ripe for a culture of competitiveness to take hold. Private capital flows to sub-Saharan Africa in 2007 were estimated at $50 billion. Increasing interest from investors in China, the Middle East and other parts of Asia toward Africa afford new opportunities to market Africa's unique natural resources in the global marketplace.

African states can reduce costs and lower the hurdles to investment even further once they take charge of their own development and make investments a priority.

No single rule can apply to all African states. But we do not have to reinvent the wheel. The experience of successful small and medium-sized economies elsewhere over the past 30 years has important development lessons for Africa.

First, competitiveness requires government that can establish the framework for investment and step aside to let businesses thrive. In increasing their responsiveness to the private sector and not standing in the way of its success, governments can focus on their own competitive advantages in infrastructure, health and education.

Few countries in Africa have managed to establish and sustain a domestic political consensus around private-sector growth and the often painful reforms necessary to stimulate it. Yet that is exactly what countries that are development successes have done. For example, Costa Rica has increased its per capita economy 250 percent over the past two decades, in going from an agricultural to a high-tech and services base.

This success was built on openness to trade and capital, using one's head and good policy as the principal tools. The same ethos is driving the creation of a diamond sorting and beneficiation center in Botswana, building on the public-private partnership that has seen the country among the fastest growing economies in the world over the last 40 years.

Second, countries must be willing to make a change in mind-set from the idea that foreign programs and plans will lift countries out of poverty to a belief in their own vision for their future. Foreign aid should only temporarily support countries while they implement difficult reforms and get on their feet.

This is not easy. It is true that African governments suffer from a lack of capacity. They struggle to raise taxes and to plan and coordinate activity with investors and donors. But working together, African governments, businesses and external partners can create prosperity and employment on the continent - if they act as partners, not predators.

Third, the international debate on development must be reshaped. At the heart of development is the relationship between governments, their citizens and their own private sector. Yet the international debate on development is by and large still focused on the interaction of donors, NGOs, and recipient governments.

Part of this debate should involve complementing the UN's Millennium Development Goals with a set of "development goals for competitiveness." By incorporating measures of economic innovation and administrative efficiency, countries will be encouraged to build business and to trade their way out of poverty. It would address those indicators that entrepreneurs find to be the main obstacles to running a business: the cost of capital, electricity, transportation, telecommunications, taxes, labor and corruption.

Finally, to make this happen, African governments need to sell the necessary reforms - to sell capitalism - at home. Citizens must understand that Africa's competitive edge will not come from short-term price movements in resources and people. Productivity will result from well-governed businesses, educated citizens and leaders willing to take the tough steps to make this happen.

Effective use of aid can support African reforms, but it must not be the organizing principle for African development. The key to success will be the extent to which African governments can provide the private sector with the right incentives to add value to the economy, so both business and government can concentrate on what each does best.

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Correction:

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