

GAMBLING ON DEVELOPMENT

WHY SOME COUNTRIES WIN
AND OTHERS LOSE



Will Uganda Gamble on
Development (again)?

24 January, Makerere University, Uganda

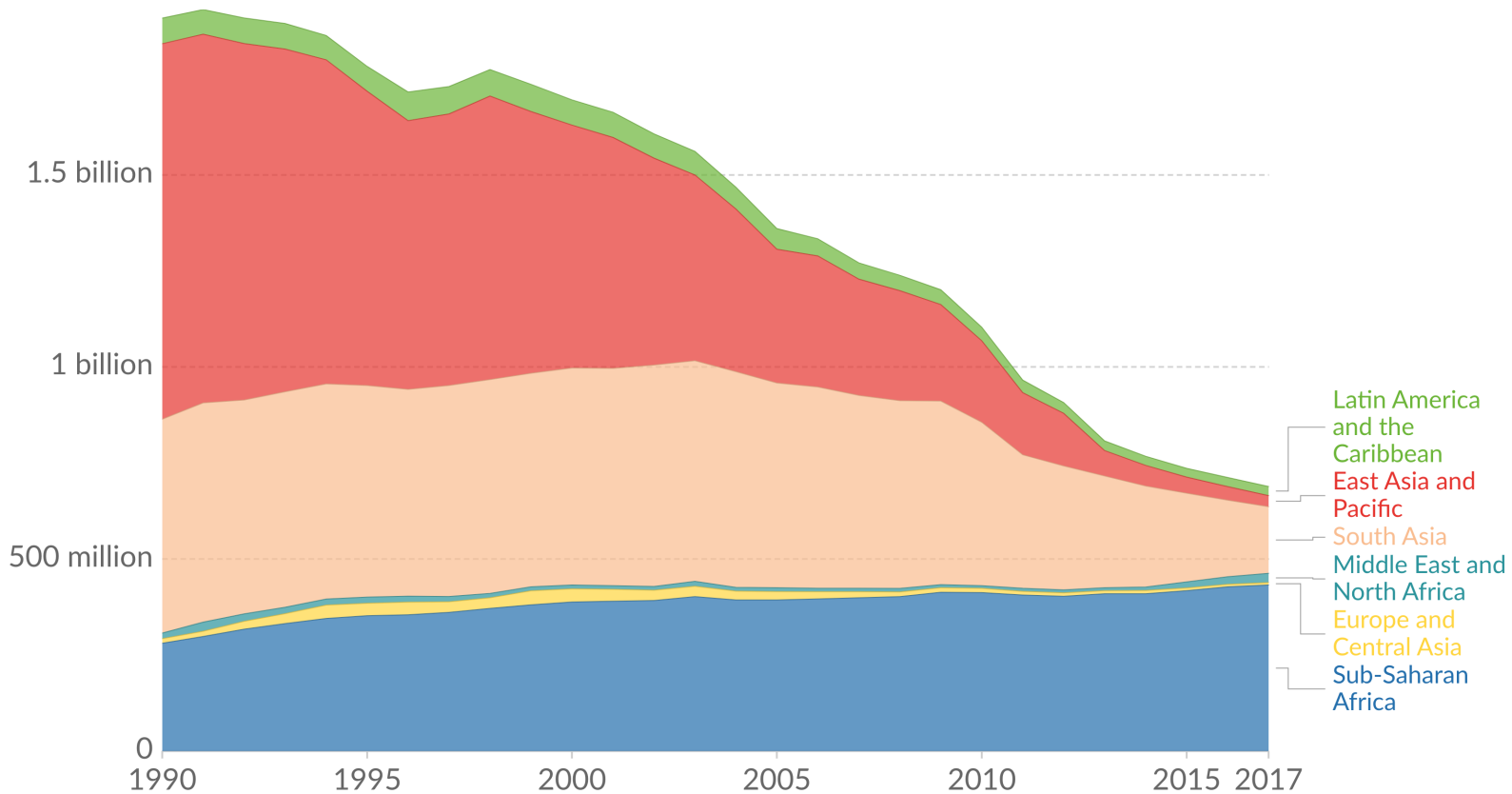
@gamblingondev

The facts

Total population living in extreme poverty by world region

Our World
in Data

Extreme poverty is defined as living with per capita household consumption below 1.90 international dollars per day (in 2011 PPP prices). International dollars are adjusted for inflation and for price differences across countries.



Source: PovcalNet (World Bank)

OurWorldInData.org/extreme-poverty/ • CC BY

Note: Consumption per capita is the preferred welfare indicator for the World Bank's analysis of global poverty. However, for a number of countries poverty is measured in terms of income. An income basis is common amongst high income countries and Latin American countries.

Differential progress
across the world:

Largest poverty declines
in East Asia

Later but solid declines
in South Asia

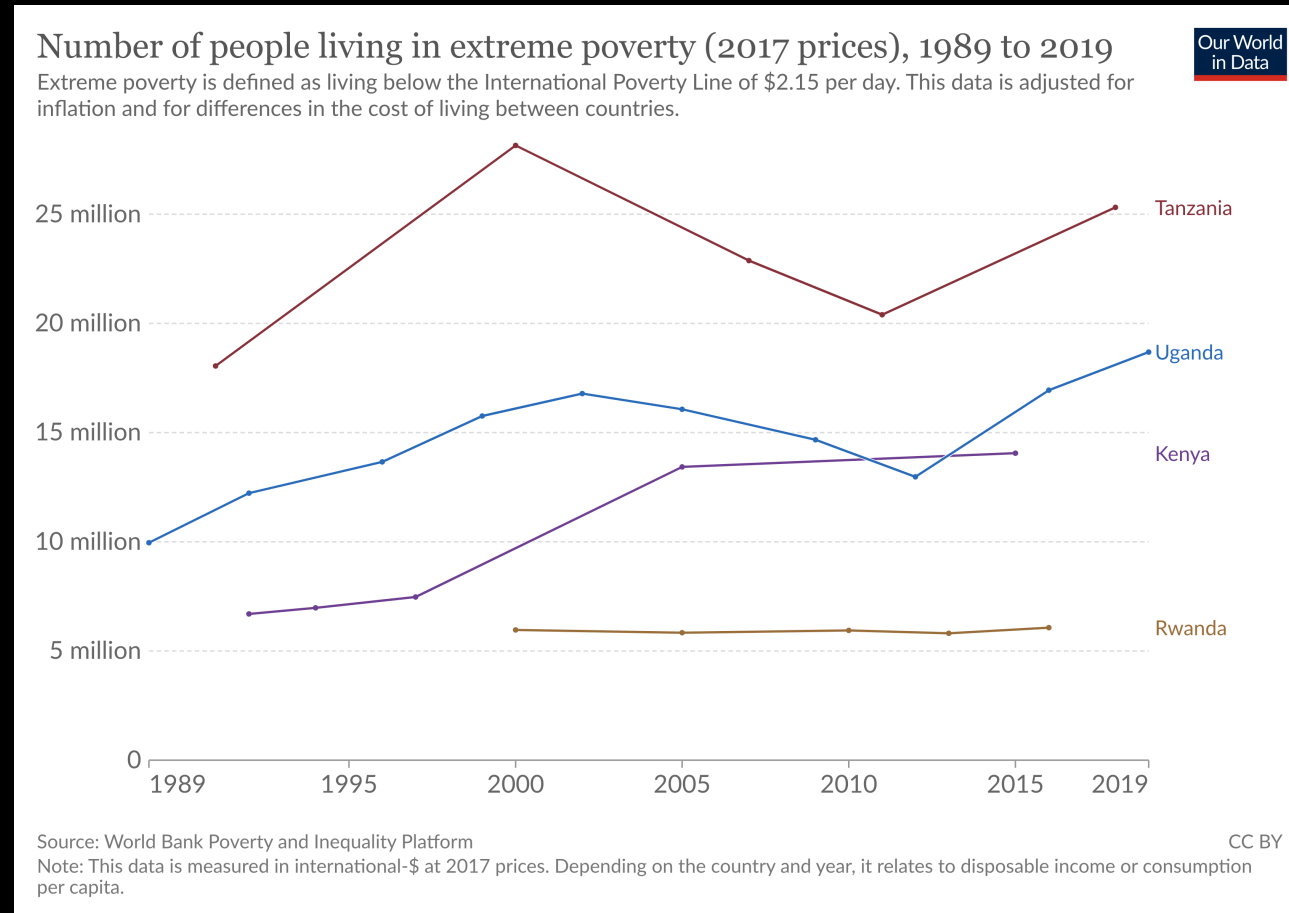
African Poverty Numbers
still creeping up

Hiding differences, even in sub-Saharan Africa

- In 1990, **18 countries** had both more than 8m population and more than **20 percent extreme poverty**.
- Of them, only **Ghana and Ethiopia halved poverty** by 2018
- Seven more than **doubled number of people** in extreme poverty – **Nigeria, the Democratic Republic of Congo (DRC), Madagascar, Angola, Malawi, Kenya, and Zambia**
- About 150 million more people were living in extreme poverty in 2018 than in 1990, with the largest increases in the **DRC (plus 35 million), Nigeria (plus 26 million), and Madagascar (plus 13 million)**.



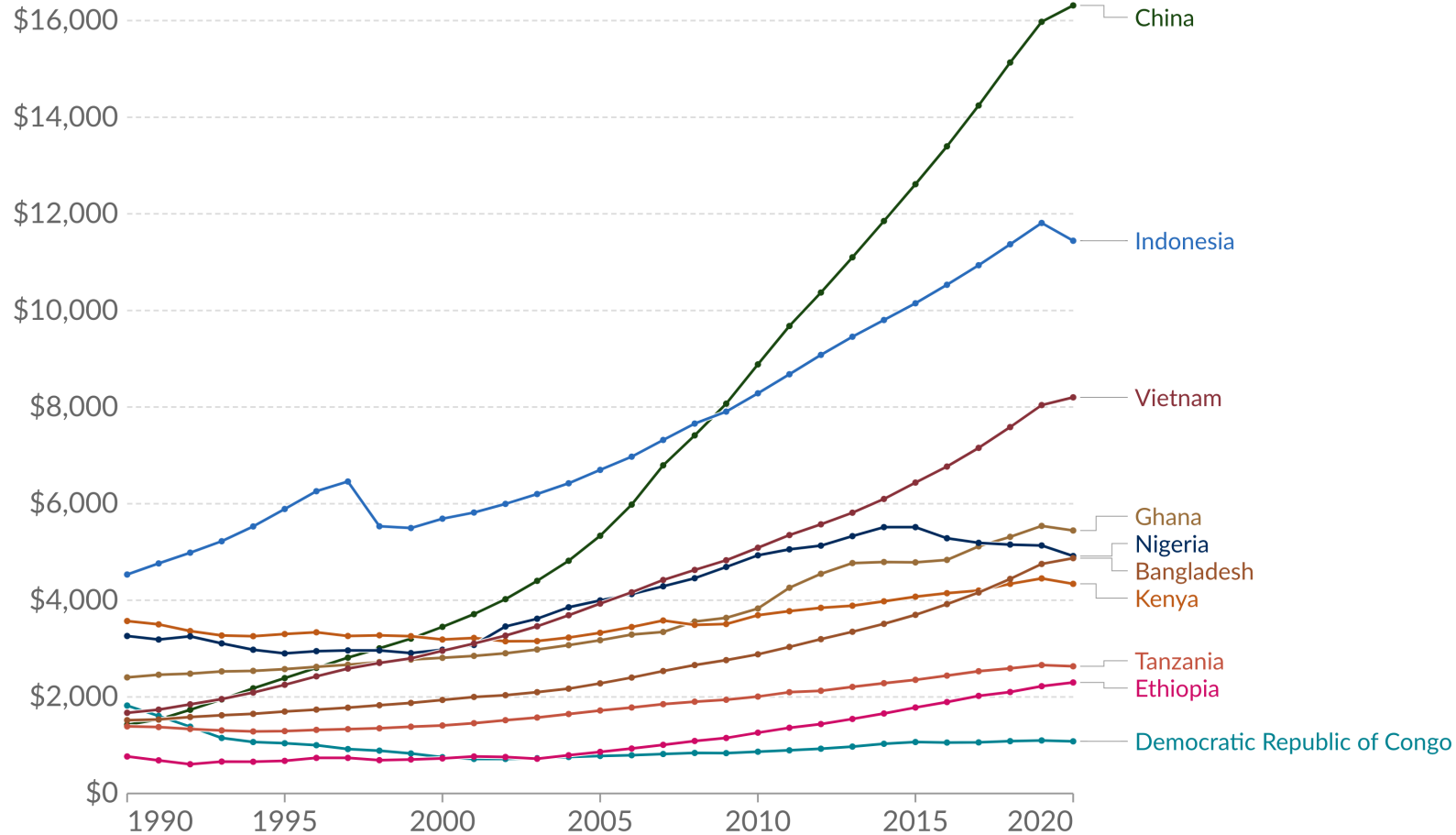
Estimated poverty (comparable between countries at \$1.90)



Also differences in GDP growth!

GDP per capita

Measured in constant international-\$.
Our World in Data



Source: Data compiled from multiple sources by World Bank

OurWorldInData.org/economic-growth • CC BY

Exceptional growth e.g China...

Or Vietnam

But also Indonesia, or
Bangladesh

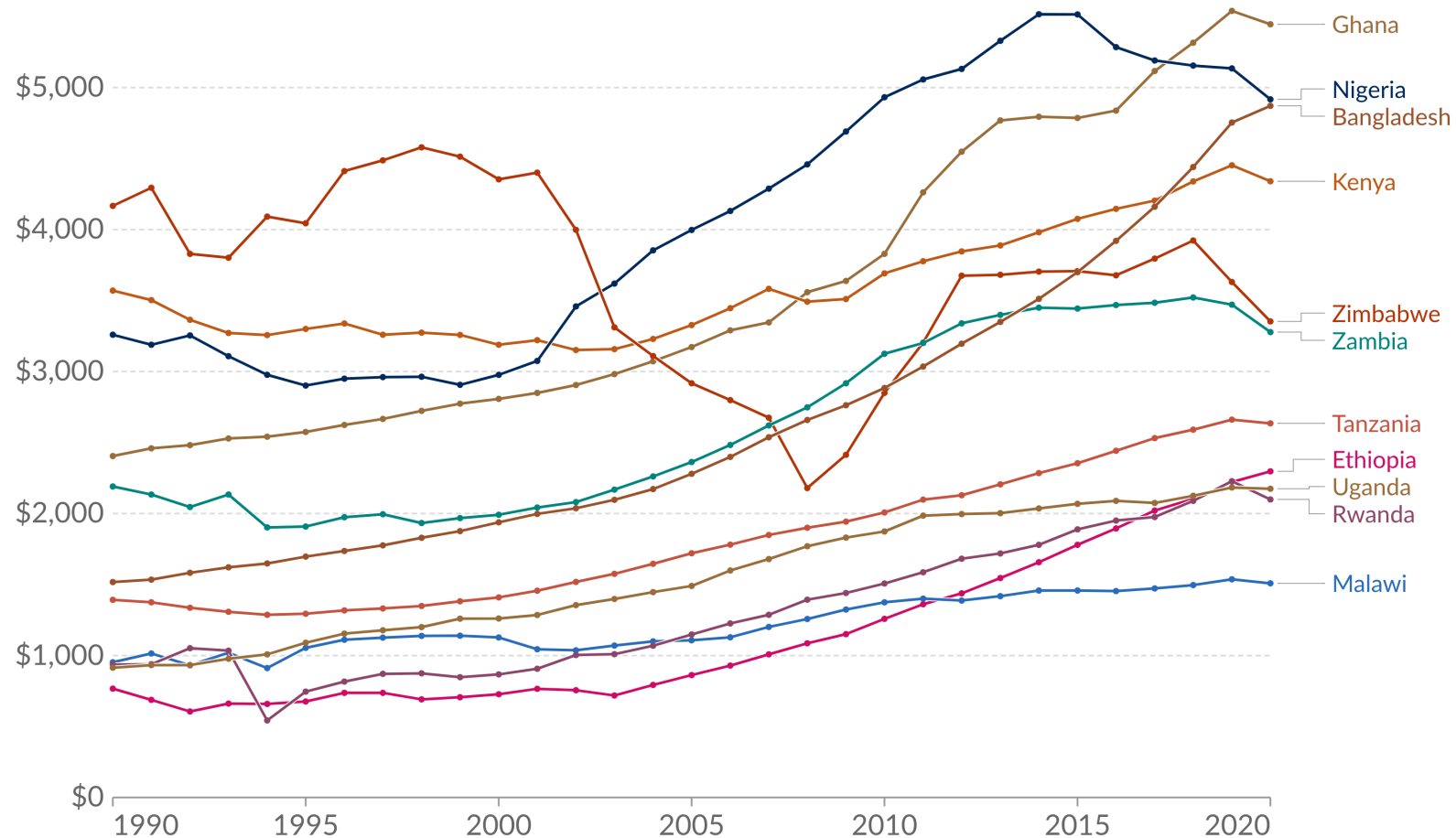
Or Ethiopia and Ghana

But stagnation or decline in
Nigeria, DRC.

Also differences in GDP growth path in (East-) Africa!

GDP per capita

Measured in constant international-\$.
Our World in Data



Source: Data compiled from multiple sources by World Bank

OurWorldInData.org/economic-growth • CC BY

Ethiopia and Ghana

But stagnation or decline in
Malawi, Zimbabwe

Rwanda not much faster than
Tanzania (below Ethiopia)

Kenya recovery (after terrible
1990s)

Zambia riding natural resource
wave until stagnation 2010

Uganda ran out of steam by
2010

How to understand these differences?

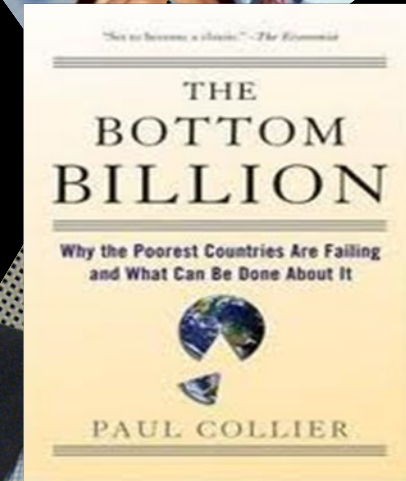
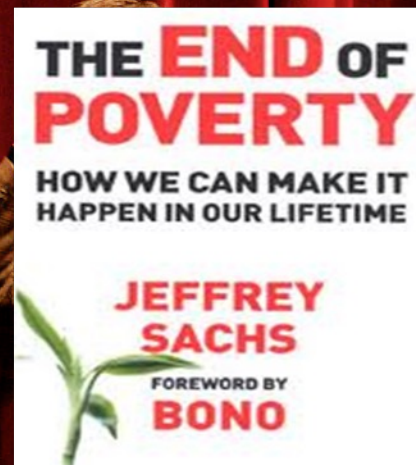
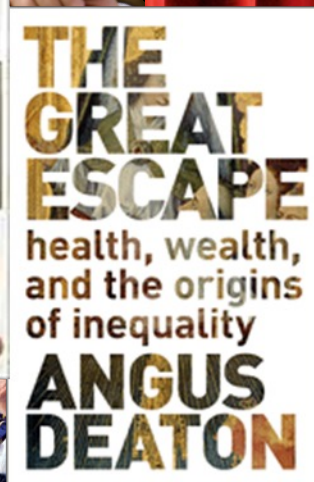
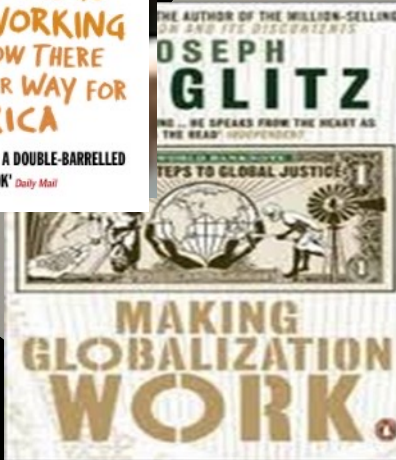
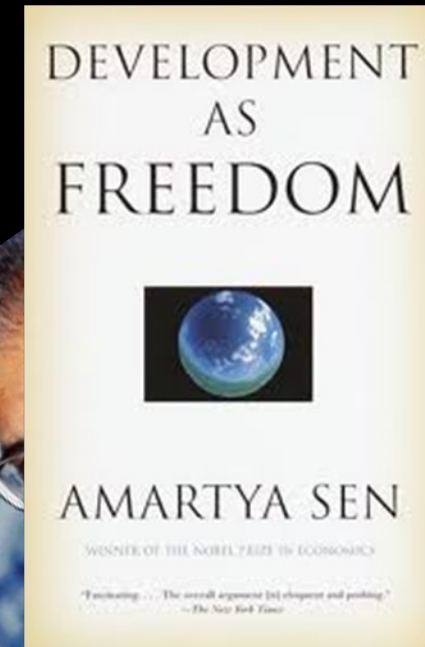
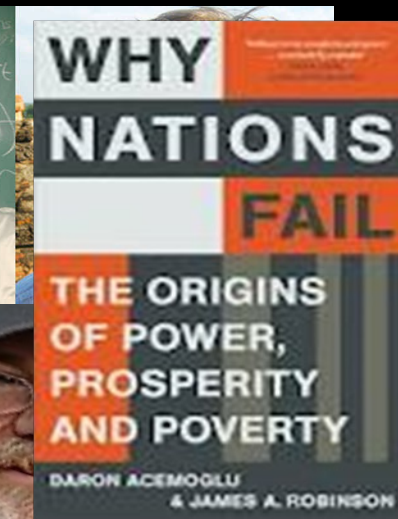
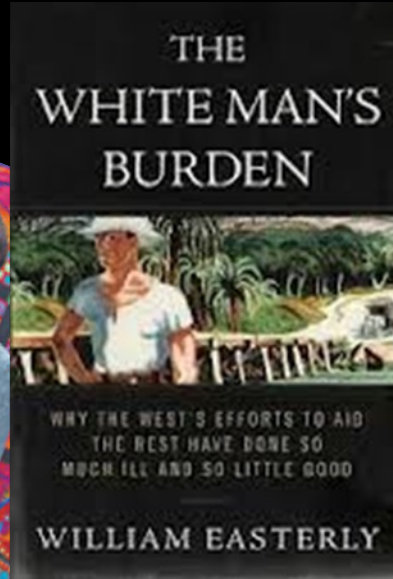
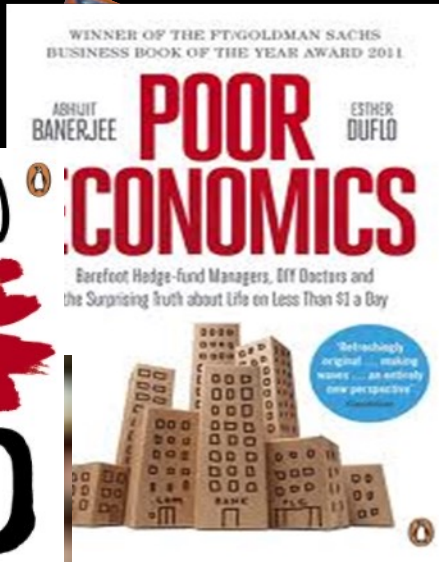
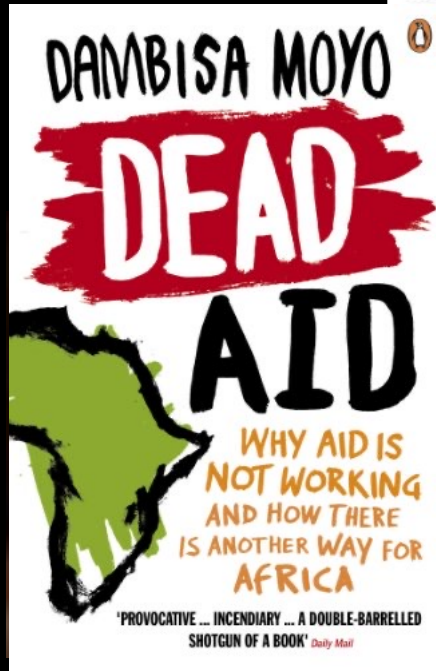
Why are some countries making substantial progress and not others?

Even countries that have initially similar incomes per capita or other characteristics?

Bestsellers in Economic Development



Bestsellers in Economic Development



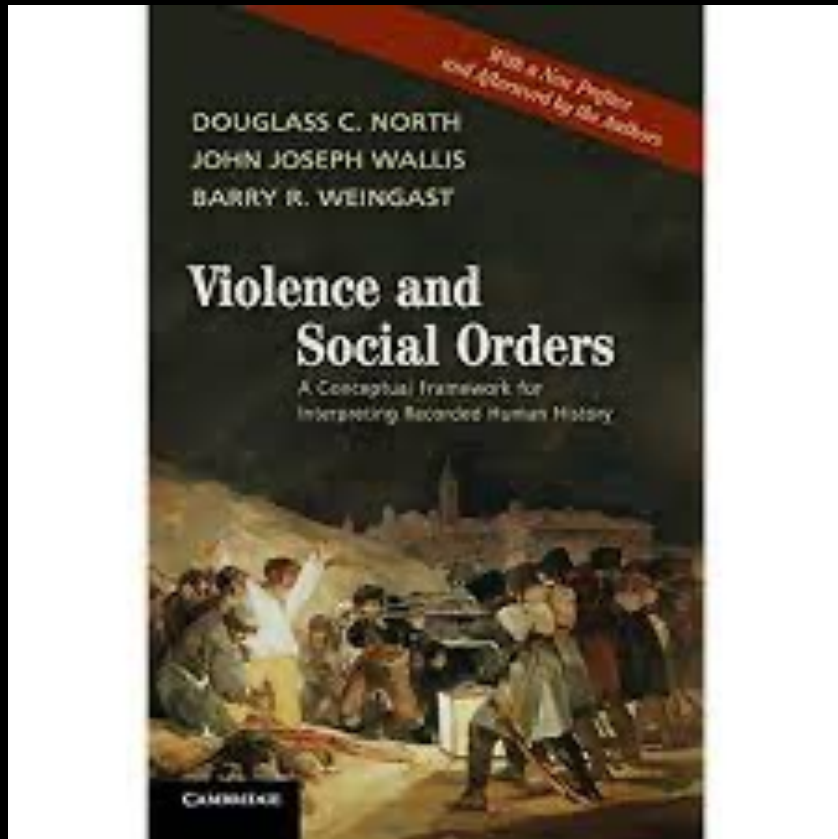
Diagnosis?

Tend to focus on what to do – or what not to do

- With big (competing) diagnoses:
 - Get your institutions right
 - *What advice can we then give?*
 - *But also, were they really 'good' when others took off?*
 - Get your policies right
 - *Larger set than we used to promote*
 - *So why don't some country adopt reasonable ones?*



The origin of the state



A [...] state manages the problem of violence by forming a dominant coalition that limits access to valuable resources – land, labor, and capital – or access to and control of valuable activities – such as trade, worship, and education – to elite groups.

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Think of a state as an elite bargain amongst those with power or influence, whereby the elite are those with power and influence. Any state...

It is at a minimum a coalition for peace and stability.

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It involves a political deal – who controls the state – and an economic deal – who has access to resources and their distribution.

Elite bargains: some examples

- A kleptocratic elite bargain
- A oligarchic elite bargain
- A meritocratic state
- A clientelist state

Note they can exist within democratic or autocratic political system

....

How to get growth and development? Through a development bargain

You need an elite bargain that involves a shared commitment to growth and development

- Serious about **peace and stability**
- **Self-aware state**, in the service of growth and development
- **Bureaucratic/political error-correction**: learning, accountability

Keep in mind

- Not perfect (no perfect institutions)
- Not market versus state
- Not autocracy or democracy per se
- *But systems of 'error-correction' 'internal and/or external accountability' or there is no learning!*



AND IT IS A GAMBLE!

The Case of Uganda

Uganda in last 30 years

- By **early 1990s**, serious macroeconomic instability
- Response:
 - **pragmatic (orthodox) macroeconomic policies**;
 - not ideology
- Relatively **fast stabilisation in 1990s** with results: gdp growth per capita of 3.3% - well outpacing Kenya, Tanzania, Rwanda, Ethiopia...

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- **Continued stability in 2000s** – fast growth 4 percent per capita, not fastest in group – but stable with good progress in poverty...
- **After 2010? Growth lagging** (1.5% per capita) – below this group (3 out of four double growth to Uganda) – and poverty reduction stalled

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What did Uganda do right?

Broadly shared commitment to growth and development across elite forged in 1990s, from above

- Dominant coalition for **peace and stability**
- A *relatively* pragmatic self-aware state

- *Some* learning and accountability...

What did Uganda do right?

Broadly shared commitment to growth and development across elite forged in 1990s, from above

- Dominant coalition for **peace and stability**
- A *relatively* pragmatic self-aware state
 - focused on **'pockets of excellence'** such as MoF, BoU, NRA
 - macroeconomic over **micro-level implementation**
 - large part of state: a form of (competitive) **clientelist state**
- *Some* learning and accountability...
 - Some 'external accountability' (imperfect, but seeking legitimacy)
 - Limited 'internal accountability' (clientelist behaviours dominate, except for in pockets of excellence)

Consequences and implications?

Not 'bad' elite bargain (there are far worse cases across the world) but not quite a development bargain:

- **Clientelist state** (delivering for those who provide and sustain power of 'elite' at times more important than overall growth and development)
- Implying too **little focused on results** in growth and development
- **Macroeconomic stability** suits status quo
- Too **limited focus of state capability** for actual quality delivery beyond macroeconomic stability
- Implying early 'growth' and 'poverty reduction' impacts from early reform petered out, **risking current stagnation**

Future?

- **Oil is opportunity.** Could be 'signal'...
 - Good sign: very able people involved in deal making, even if slow
 - Bad sign: scramble for 'massive' resources...
 - Only about \$20-\$40 per capita resources to Uganda (one-tenth of Nigeria)

Future?

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 - State-led development would require very different "state" than we have here
- Needs pragmatic and not 'ideological' or 'clientelist' state
 - External but especially **internal accountability** – expanding pockets of excellence
 - **Self-aware state**: no ideology, but pragmatic "knowing what you can do and cannot do", and focused on delivering growth and development
 - Goes deeper than simply 'politics', but would require political leadership

How to get growth and development? Through a development bargain

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What does this mean for policy advice?

- Ability to move from **short-term challenges** to **long-term (better) equilibria** will depend on nature of **elite bargain!**

For researchers and advisors:

- Don't advice simply the first best;
- Understand the **local political economy** (the nature of objective function and how it is shaped and sustained);
- look for **second best economic advice** that takes into account political constraints;
- or even **endogenizes** the political constraints – using economic advice that helps overcome political constraints for more growth and development.

In sum...

As practitioners, academics, as researchers, as technical advisors and experts, we will be far more effective:

- if we understand the politics and the entry points for change, and
- how our economic policy advice and interventions may affect existing elite bargains, and may embed or change them.

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The Role of Outsiders

**Countries with
development bargain**

**Countries with an
emerging or chance for
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‘Just’ support them –
budget support, work
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‘do good’ but risk
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Countries with an emerging or chance for development bargain

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Countries with an emerging or chance for development bargain

“aid as a gamble”

- Work hard at **increasing odds** of improving or better elite bargain
- **illicit finance**, trade
 - Thinking through **local politics of growth and development**
 - Strengthen **agency**: civil society, technopols, ‘reform-minded’ agents
 - But never forget: **we are outsiders!**

Countries without a development bargain

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