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Private-Public Dialogue in West Africa: Moving Beyond the Financial Crisis Toward Democratic Development

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Article at a glance

- Although the global financial crisis has not been as severe in West Africa as in the United States or Europe, it does have an effect on remittances, manufacturing, and financing for business.
- The crisis has not undermined the basic confidence of West Africans in democracy and market economy but it has highlighted the need for stronger governments.
- Stronger government does not equal strongman rule or too much control over the economy; it means strong institutions that can make democracy deliver regardless of who is in power.

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The Financial Crisis in West Africa

Although the impact of the financial crisis in West Africa has not been as severe or as immediate as in the United States or Western Europe, it has affected local economies, governments, and citizens alike. To better understand the effects of the crisis, it is important to properly recognize the regional context.

West Africa is not well integrated into the world economy. Its trade and economic structures still resemble those that were in existence during the colonial period, with the region largely seen as a supplier of natural products and raw materials. Today, the bulk of the region's economies still focus on exporting cocoa, timber, gold, and similar goods.

West Africa is not very integrated into the global financial system, so a severe global financial crisis did not have an immediate impact and, at first, was not as dramatic as in other regions. After some delay, however, the financial crisis has begun to have an impact on West African economies – namely through remittances, manufacturing, and financing for business.

According to the Bank of Ghana, remittances fell by 10 to 15 percent over the last year. This trend has been similar for other countries in West Africa as nationals abroad who send money home to support their families have been victims of recession lay-offs in their adoptive countries. Remittances play an important role in shaping economic conditions in Africa – in Ghana alone they amount to approximately $5 billion per year.

Although manufacturing in West Africa has not developed to its full potential – the region still primarily relies on exports of natural resources rather than more developed value-added products – it still has suffered as a result of the recent global economic downturn. Exporters of natural resources as well as existing manufacturers have been negatively affected by the financial crisis, especially those manufacturers who focus on producing goods for exports.

The weaknesses in financing for business have been particularly damaging to the prospects of recovery. Many financial institutions in West Africa are closely tied to parent companies in Europe. As the likes of Barclay and Société Générale deal with the aftermath of the financial crisis, they have cut lending not only at home but in African countries as well, making it harder for new and existing businesses to access credit and financing.

In isolation, these three factors may not seem significant. Yet, combined they have been powerful enough to slow down the growth of West African economies, create high unemployment, and force governments to cut back on key services.

Perceptions of Democracies and Market Economies

Beyond the immediate economic impact on countries in West Africa, the crisis has a potential to change attitudes towards democracies and market economies. History shows that when a country suffers from a crisis – especially an economic one – democratic and economic freedoms are often among the first casualties.

In times of economic uncertainty there are always those who question the ability of democracy to solve the crisis and the power of the market economy to build prosperity. They claim that the democratic and market system itself is to blame for the current dire situation. This line of thought overlooks the concrete issues that caused the crisis and that can be addressed through reform.

As the crisis starts unfolds, some immediately posit that if a dictator had been in power, things would have been better. They argue that in a crisis strong leaders must run governments and economies and make tough decisions. When times are difficult this is precisely what politicians who are not interested in competitive politics, or who have lost elections, say.

Despite such voices, citizens of West African countries are not yet demanding change away from the market economy and democratic government towards some form of a dictatorship. While West Africans recognize some shortcomings of the market economy exposed in the financial crisis, they are not arguing for abandoning it altogether. Additionally, there is no significant push against democracy. They are, however, discovering a place for a stronger role of government.

There is one key difference between a strong man argument and stronger governments. The latter does not require the former. Stronger governments arise from strong institutions that make things work regardless of who is in power. In the end it is the institutions that endure; it is the institutions that outlive particular leaders, strong or weak.

Dealing with the Crisis: Public Sector Responses

Government leaders in West Africa have to understand two things regarding the financial crisis: it has largely been caused by the outside factors, and that economies in West Africa have been affected differently from those in the United States or Europe. The public sector response in West African countries cannot simply copy policy solutions adopted elsewhere. In the case of the United States and Europe, for instance, governments stepped up to boost aggregate demand through increased spending, but in African countries, few have the same capacity.

Some governments have relied on the International Monetary Fund and World Bank loans to meet the challenge of boosting demand and expanding credit. As West African countries are looking for international agencies to borrow from, their internal debt crisis only worsens. It may not be the most appropriate solution but under the circumstances few other immediate options exist.

Increasing government spending is one type of a response. As the governments borrow more, it is increasingly evident that West African economies have not grown as much as they should have, even after decades of borrowing money and taking instructions from international financial institutions. There must be a better choice to deal with long-term growth issues, not just the immediate needs of alleviating the effects of the crisis.

In this regard, West African economies should look to what East Asian countries have done over the long-term. This does not mean copying exact policies, but rather learning valuable lessons from their overall development strategy by asking the right questions: How did they grow their economies? Why have they been so successful? East Asia has a number of interesting answers.

The major lesson is that the region's governments have been active in developing their economies. In Africa, governments have often misinterpreted the advice from the international community to advance free markets. They took it to mean that they should abdicate their responsibilities, sit back, and watch the economy run itself. That is not how market economies work. To function properly, economies need infrastructure – both physical and institutional – that must be provided by governments.

At the other end of the spectrum some African governments exercise too much control over the economy, such as Zimbabwe or Ethiopia. Excessive interventionism and a constricting grip on the economy has been a common theme in many countries, undermining competitiveness and entrepreneurship. The key is finding a balance – proactive governments to create institutions that allow a market economy to function without stifling economic potential.

West Africa's leaders have been made to believe that there is no role for governments when it comes to business; they should just leave business alone and the private sector will build everything their countries need. This is a mistaken approach. East Asia has shown that there is a constructive role for government and that, in fact, the market economy needs effective government to create a business-friendly climate, provide rule of law, and encourage entrepreneurship. That is the lesson many African countries still have yet to learn.

Building Stronger Economies for the Future

As a result of poor governance and stifled markets, Africa remains plagued with lost economic potential. Gold may be sitting in one region while there is a port just 100 miles away with no railroad to connect them. When African governments hear of free markets, some of them think it is the role of a private company to develop the infrastructure to move that gold to the port. Governments, however, must be more proactive and facilitate the development of the infrastructure necessary for economic activity: roads, railroads, ports, and airports.

Areas that the private sector does not have the capacity to develop, but are necessary for the economic development of countries, demand government leadership. Governments must be more responsible for leading, not simply sitting back and doing nothing. Part of this is recognizing the needs of the private sector, especially the small and medium-sized enterprises (SMEs) that often contribute most to job creation even as they face the burdens of weak infrastructure, overregulation, and limited access to credit.

There are many institutional changes that governments in West Africa will have to undertake to help the private sector grow. The most important one is a mentality change. Fifty years ago, African governments looked for a foreign investor to request a concession to mine gold or some other commodity in exchange for a percentage of profits as royalties. They did not feel that they needed to shape the conditions conducive for development of local businesses. Decades have passed and many governments have not changed.

The global financial crisis has clearly demonstrated that the time to act is now. There must be more value added locally to natural resources through domestic industries to transform those resources into more advanced products. Rather than exporting raw cocoa or rubber, West Africa should be exporting chocolate or tires. That is the key to creating better jobs, acquiring technical know-how, and developing competitive economies that can better handle future crises.

Governments can do much to support the development of the manufacturing base. They should facilitate growth by providing tax exemptions to businesspeople, especially on the importation of equipment to build factories and turn raw materials into manufactured products. Governments should also work with banks to provide loans for manufacturing companies at a discounted rate. In Ghana, and many neighboring countries, borrowing from a bank carries an interest rate of about 35 to 40 percent. Few enterprises – and certainly no SMEs – can afford that, especially given short repayment schedules. In some countries such as Liberia, citizens do not even have the ability to borrow. Banks may only take deposits and buy government bonds, preferring not to risk loans to the private sector at all.

Governments will have to learn what kind of incentives they can offer to create a private sector that can grow and become a foundation for a strong manufacturing base in the region. Locally owned SMEs are the key but they must become sustainable and employ more people. Making access to credit easier is crucial to increase the competitiveness of the SME sector. Multi-nationals are unlike SMEs; they have no need to borrow domestically so high local interest rates do not affect them. As the economy worsens, multi-nationals do not suffer as much as SMEs. With much deeper pockets and with ability to borrow back home, they gain a competitive edge. Better access to local lending is needed to level the playing field.

The Role of Private-Public Partnerships

One common problem of advancing public-private partnerships in West Africa comes down to unmet and poorly communicated expectations. The region's governments often expect the private sector to address all economic development challenges. On the other hand, the private sector expects governments take on a greater burden of development and reform so that it can survive and grow. The two sides frequently do not talk to each other, or if they do, they fail to discuss the issues productively.

The government, the private sector, and the public must work together. Although stakeholders have tried for 50 years, they have met with only small successes. Governments must learn to appreciate and understand the problems of the private sector and also recognize their own responsibilities. Efforts must move beyond the conversations between ministries and business executives and think more constructively about engaging the broader business community into a closer dialogue with political parties and parliaments.

Voluntary business associations, chambers of commerce, and independent economic think tanks can be important conduits in this dialogue. Individual businesses – and especially SMEs – lack the capacity to communicate their needs and concerns to policymakers. When they join a larger business organization, they gain a voice in democratic discourse they would otherwise lack and together they can advocate for change.

Associations are a beneficial advocacy tool for several reasons. First, advocacy through well-functioning associations has to extend beyond interests of an individual company (often called rent-seeking) and has to focus on identifying common barriers to doing business. This is a prerequisite to building broad-based coalitions for reform. Second, well-functioning associations can gain greater visibility in the policymaking process than any individual company, because they can have what companies do not – hundreds and hundreds of voices all supporting the cause. Finally, associations help de-personalize advocacy, deflecting attention from individual companies towards broader issues.

Too often the private sector will log complaints about inefficiencies or poorly functioning services in their country, with the expectation that the government will improve or fix it. The private sector must change its mentality and the manner in which it approaches reform. Rather than coming forward with a list of complaints, the business community should develop a set of concrete reform recommendations and proactively advocating for their implementation.

In Ghana, an example of how the private and public sectors can talk constructively developed in the run-up to the 2008 elections. The Institute for Economic Affairs organized a number of pre-election presidential and parliamentary debates where candidates could openly discuss their platforms and focus on issues that matter to the public and the business community. Over 10 million people watched the presidential debates on television and about 8 million listened over the radio, with close to 650 people attending the debates in person.

This is the essence of private-public partnerships: coming together to figure out solutions to common problems. It does not mean a focus on individual projects, such as building one road or a school or a hospital. The focus must be on building lasting organizational relationships, not just personal contacts. The focus must be on achieving a systemic change. We need the private sector and governments to learn how to work together to solve some of the broader institutional problems, so that they become partners in growing stronger economies, creating jobs, nurturing wealth, and building a brighter economic and democratic future.

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IEA is a public policy institute based in Accra, Ghana. IEA's mission is to promote good governance, democracy and a free and fair market economy. IEA believes that the creation of an environment in which economic, social, political, and legal institutions function openly and freely is the key to the attainment of sustainable economic growth and human development.

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