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The Stagnant Low-Income States

This chapter identifies the countries in which development has proved the most intractable during the last two decades. These countries could be said to be in a "poverty trap," if such a thing exists. I use the World Bank's list of 63 economies it identifies as low-income as the basis for creating the list of the core countries that this book is about. According to the World Bank, the poorest country in per capita income terms in 2000 was Ethiopia, with a GNP per capita of $100 (in current dollars, calculated with the World Bank's Atlas method). The richest country in the World Bank's category of low-income economies was Ukraine, with a GNP per capita of $700.

I define performance in terms of the past record of economic growth and the current level of national income. To create my list, I eliminate a total of 37 countries from the World Bank's list.

First, to focus on the poorest countries, I exclude—somewhat arbitrarily—12 countries with a GNP per capita of more than $500. This leaves 51 low-income countries. Are all of them trapped in a low-level equilibrium? In fact, many of them appear to owe their poverty to ongoing or recently ended civil conflict rather than to issues of economic governance.

So, as the second step, I exclude 12 such war-torn economies.[1] But why exclude them? It may be argued that at least some of these war-torn countries owe their current instability to their inability to promote

1. Afghanistan, Angola, Burundi, Democratic Republic of the Congo, Eritrea, Ethiopia, Liberia, Rwanda, Sierra Leone, Somalia, Sudan, and Tajikistan. The margin between civil war and extremely poor governance is admittedly a gray one. I do not exclude states such as Chad, for instance, judging that the civil strife that it suffered from does not qualify as a civil war.

development: Poverty led to state collapse and civil war. But in prescriptive terms, the issues of these countries are quite different from the ones I wish to address in this book, so it makes sense to exclude them. For countries mired in civil war, the best economic prescription is clearly peace rather than a new set of economic policies or more effective foreign aid. Thus, Angola is desperately poor despite its huge oil resources and despite being one of Africa's most diversified economies in the early 1970s, largely because of the persistence of civil war for over two decades. With the end of civil war in early 2003, the prospects for the country appear much better. Most, if not all, of the low-income countries undermined by civil strife and war would similarly benefit from peace, though they vary in terms of their levels of resources, human capital, and general development potential. For many of them, the end of civil strife seems predicated on the different segments of the population at war with each other coming to some basic agreement about the precise nature of the political community to which they wish to belong. If people cannot agree on the basic parameters of citizenship and nation, they surely will not be able to agree on a productive set of economic policies. In most cases, some minimal nation building has to precede state building. Past experiences with conflict management and reconstruction following the end of civil war point to a store of complex issues; the record of the international community in resolving them is clearly mixed (Ottaway 2002, Kumar 1997, Forman and Patrick 2002, Development Initiatives 2003). But these problems are distinct and need not concern us here.

Third, to focus on the countries that have been unable to sustain adequate levels of economic growth, I eliminate 12 with a growth rate of 4.5 percent or more a year during the 1990s.[2] Given a typical annual population growth rate of slightly more than 2 percent between 1980 and 2000 in low-income economies, such a cutoff eliminates all but the cases with little or no economic growth in per capita terms. Again, this cutoff point is arbitrary.

Finally, I also eliminate North Korea, both because few economic data are available for the country and because it is not a traditional recipient of aid.

The 26 economies thus identified (see table 2.1) represent the core set of countries that this book is about. Interestingly, these "stagnant low-income states" (SLIS) are more varied than one might assume. Twenty are based in sub-Saharan Africa, suggesting an African dimension to the problems of poverty, but every region of the world is represented, with one state from Central America (Nicaragua), three from Europe and Central Asia (Moldova, Kyrgyzstan, and Uzbekistan), and two from Asia (Mongolia and Pakistan). The list has relatively young states, recently

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2. Bangladesh, Benin, Burkina Faso, Cambodia, India, Laos, Mozambique, Myanmar, Nepal, Uganda, Vietnam, and Yemen Republic.

Table 2.1 Economic characteristics of stagnant low-income states, 2000

Country	**GDP per capita** (PPP, current dollars)	**GNI per capita** (Atlas method, current dollars)	**GNI** (Atlas method, millions of dollars)	**Total population** (millions)	**Average annual GDP growth, 1990–2000** (percent)	**Adult female illiteracy rate** (percent)	**Poverty headcount**[a]
Central African Republic	1,172	280	1.0	3.7	2.0	65	n.a.
Chad	871	200	1.5	7.7	2.2	66	64
Comoros	1,588	380	.2	.6	0.1	51	n.a.
Gambia, The	1,649	340	.4	1.3	3.1	71	64
Ghana	1,964	340	6.6	19.3	4.3	37	31
Guinea	1,982	450	3.3	7.4	4.3	n.a.	40
Guinea-Bissau	755	180	.2	1.2	1.2	77	49
Kenya	1,022	350	10.6	30.1	2.1	24	42
Kyrgyzstan	2,711	270	1.3	4.9	–4.1	n.a.	40
Madagascar	840	250	3.9	15.5	2.0	40	70
Malawi	615	170	1.7	10.3	3.8	53	54
Mali	797	240	2.5	10.8	3.8	66	n.a.
Mauritania	1,677	370	1.0	2.7	4.2	70	57
Moldova	2,109	400	1.4	4.3	–9.7	2	23
Mongolia	1,783	390	1.0	2.4	1.0	1	36
Nicaragua	2,366	400	2.1	5.1	3.5	33	50
Niger	746	180	1.9	108.0	2.4	92	63
Nigeria	896	260	32.7	126.9[a]	2.4	44	34
Pakistan	1,928	440	61.0	138.1	3.7	72	34
São Tomé and Príncipe	n.a.	290	.04	.1	1.8	n.a.	n.a.

(table continues next page)

Table 2.1 Economic characteristics of stagnant low-income states, 2000 *(continued)*

Country	GDP per capita (PPP, current dollars)	GNI per capita (Atlas method, current dollars)	GNI (Atlas method, millions of dollars)	Total population (millions)	Average annual GDP growth, 1990–2000 (percent)	Adult female illiteracy rate (percent)	Poverty headcount[a]
Senegal	1,510	490	4.7	9.5	3.6	72	33
Tanzania	523	270	9.0	33.7	2.9	33	51
Togo	1,442	290	1.3	4.5	2.3	58	n.a.
Uzbekistan	2,441	360	8.8	24.8	–0.5	1	n.a.
Zambia	780	300	3.0	10.1	0.5	29	86
Zimbabwe	2,635	460	5.9	12.6	2.5	15	26
Average							
All stagnant low-income states	1,415	321	6.4	19.2	1.7	47	
Excluding Nigeria and Pakistan			3.1	9.7			
Average, all low-income countries	3,963	1,230	6.3	18.7[b]	3.5	31	

n.a. = not available

a. Latest available data.
b. Excluding China and India.

Source: World Bank's *World Development Indicators 2002*.

emerged from colonial rule, as well as much older states and several states from the erstwhile Soviet Union. Other variations and distinctions among these economies will be noted later.

Of course, the number of these stagnant low-income states is somewhat arbitrary. These 26 states are not the only countries that have recorded economic growth well below their potential during the last several decades. Haiti and Armenia, for instance, are generally viewed as low-income countries with severe development problems yet just miss being in the SLIS set because of GNI per capita of $510 and $520, respectively. Cameroon and the Republic of the Congo, two very weak performers with negative per capita growth rates, have income levels just beyond my cutoff point, thanks to their significant oil resources. Had this list been conceived 10 years ago, it might have featured several different members. Similarly, in a decade, there may be additions to and subtractions from this list. Nonetheless, whatever the analytical weaknesses of my category of countries, the SLIS set will prove useful to motivate the analysis that follows, by providing an empirical face for the arguments developed.

Political Characteristics

The economic characteristics the stagnant low-income states share are well known. That they also share political characteristics is less well understood. It is worth discussing these political characteristics because they have a powerful effect on economic outcomes in these countries.

Hybrid Political Systems

The 2003 Freedom House survey of political rights and civil liberties in the world rates 9 of the 26 countries as "not free," 12 as "partly free," and 5 as "free" (Karatnycky 2004). (See table 2.2.) The "free" countries are relatively stable electoral democracies, where elections have been rea sonably free and fair, and basic rights are respected. In Mali, for instance, a military regime was toppled in 1991, leading to the election of President Alpha Oumar Konaré, who was reelected in 1996 and stepped down at the end of his second term in early 2002. Amadou Toumani Touré replaced him through elections in the first peaceful electoral transfer of power in the country's history. At the other extreme, countries like Pakistan, Kyrgyzstan, and Guinea have political systems where the most basic political and civil rights are not respected, and thus they are rated as "not free."

These Freedom House distinctions are perhaps too tidy. The "third wave of democratization" in the late 1980s and early 1990s affected all these 26 regimes (Huntington 1991, Diamond 1999, Bratton and van de

Table 2.2 Political longevity in poorest countries, 1960–2003

Country	Current leader[a]	In power since	Number of leaders since 1960[b]	Average number of years in power of all leaders since 1960	FH score[c]
Zimbabwe	Mugabe	1980	1	23.0	nf
Guinea	Conté	1984	2	21.5	nf
Gambia, The	Jammeh	1994	2	21.0	pf
Malawi	Muluzi	1994	2	19.5	pf
Mongolia	Bagabandi	1997	3	14.5	f
Senegal	Wade	2000	3	14.3	f
Togo	Eyadema	1967	3	14.3	nf
Tanzania	Mkapa	1995	3	14.0	pf
Kenya	Kibaki	2003	3	13.3	pf
Kyrgyzstan	Akayev	1990	1	13.0	nf
Uzbekistan	Karimov	1990	1	13.0	nf
Zambia	Mwanawasa	2001	3	13.0	pf
Mali	Touré	2002	4	10.8	f
Guinea-Bissau	Yala	2000	3	9.7	pf
São Tomé and Príncipe	de Menezes	2001	3	9.3	f
Chad	Déby	1990	5	8.6	nf
Mauritania	Taya	1984	5	8.6	nf
Niger	Tandja	1999	5	8.6	pf
Nicaragua	Bolanos	2001	5	8.5	pf
Central African Republic	Bozizé	2003	6	7.2	nf
Madagascar	Ravalomanana	2002	6	7.2	pf
Comoros	Azali	1999	7	6.1	pf
Ghana	Kufuor	2001	9	4.7	f
Moldova	Voronin	2001	3	4.3	pf
Nigeria	Obasanjo	1999	11	3.9	pf
Pakistan	Musharraf	1999	13	3.7	nf
Average			4.3	11.4	

a. Leader in power at the end of 2003.
b. 1960 or year of independence. Leader duration averages for former Soviet states are dated from the breakup of the Soviet Union in 1990. Number of leaders does not include interregnum or temporary leaders.
c. Freedom House (FH) scores (2004): f = free; pf = partly free; nf = not free.

Sources: *CIA Fact Book,* author's calculations based on Bienen and van de Walle (1991).

Walle 1997). With the exception of the Gambia and Pakistan, all of them had been single-party or no-party authoritarian states two decades ago.[3] All of them underwent some political reform during the 1990s, in the context of varying degrees of international pressure, popular protests, and elite support for democracy. In the erstwhile Soviet republics, the collapse of the Soviet Union in 1991 resulted in the emergence of often unstable regimes with formally democratic institutions. In Africa, the Central African Republic, Guinea-Bissau, Madagascar, Malawi, Mali, Niger, São Tomé and Príncipe, and Zambia all underwent unprecedented democratic transitions that toppled authoritarian rulers in the early 1990s (Bratton and van de Walle 1997). As a result, 24 of these stagnant low-income states have had multiparty elections during the 1990s, in some cases for the first time in their history. These countries thus reflect the reality that at the beginning of the 21st century, the traditional single-party regime is dead, existing only in a handful of the most retrograde authoritarian states. Virtually all countries now include electoral competition and formally recognize some basic rights for their citizens. Today, all of them have governments that allow opposition parties to compete and win seats in the legislature, while an independent press is allowed to exist and nongovernmental associations are free to form and seek members. Later paragraphs will considerably nuance these achievements, but their extraordinary novelty in historical perspective must be remarked upon. Virtually no one predicted the demise of the single-party regime or the universalization of electoral politics. Indeed, the alleged superior stability and resilience of authoritarian regimes was an adage of faith of most political scientists throughout the 1970s and 1980s (Crozier, Huntington, and Watanuki 1975, Kirkpatrick 1982).

The emergence of electoral politics all over the world does not mean that liberal democracy has triumphed. On the contrary, Freedom House still ranks 49 states in the world (out of 192) as "not free" and 55 as only "partly free." In most of these cases, the presence of formal democratic institutions disguises what remains an authoritarian political system. The same holds true in many of the 26 stagnant low-income states. In Togo, for instance, a former dictator for life, President General Gnassingbe Eyadema, has been in power since a 1967 coup but adapted nicely to democratization in the early 1990s; after winning single-party elections in 1979 and 1986 with 100 percent of the valid votes cast, he won competitive contests for the presidency in 1993, 1998, and 2003, thanks to a combination of violence, intimidation, and fraud (e.g., Apedo Amah 1997).

In sum, the single-party regime has been replaced by what Larry Diamond (2002) has called "hybrid" political regimes, which combine newly

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3. The Gambia's highly imperfect multiparty electoral regime was ended by a military coup in 1994; in Pakistan, the return to civilian multiparty rule in 1985 lasted until October 1999, when it was ended by a military takeover.

minted democratic institutions with the persistence of authoritarian practices. The regimes in all the stagnant low-income states can be characterized as hybrid, including the five "free" countries. As such, a number of other common characteristics are important to understand the governance of these states and its consequences.

"Presidentialism"

The stagnant low-income states can be characterized as *presidential* in two different but related ways. First, they are presidential in a formal sense: These states have all long had a presidential constitution, in which a president is head of state and almost invariably effectively the head of government, even when a prime minister is formally head of cabinet. They are typically strongly presidential, with a constitution that confers wide powers to the executive branch and very few to the legislature, clearly the junior partner of government. Powers that allow the legislature and judiciary to discipline the president do not exist or are limited to a difficult impeachment process requiring a supermajority, whereas the executive branch has a number of legal instruments with which to cow the other branches of government in addition to the extralegal and informal powers at the president's disposal. For instance, in most of these countries, the president has the power to dismiss the legislature and force legislative elections, one of the governmental powers usually associated with parliamentary rule. But the parliament lacks the power to impeach the president, one of the legislative perquisites associated with the balance of powers in presidential systems (Powell 2000, Haggard and McCubbins 2001; see Frye [1997] on the former Soviet republics). In sum, these regimes often combine executive advantages of both presidential and parliamentary regimes. The only effective check on presidential power is through direct elections, if and when these are free and fair.

Something of a consensus has emerged in recent years among students of Third World politics about the benefits of parliamentary government for fledgling democracies (e.g., Linz and Valenzuela 1994, Stepan and Skach 1993). Alfred Stepan and Cindy Skach's (1993) well-known finding shows that all the stable democracies among the countries that became independent after 1945 have been parliamentary and none presidential. As they conclude in an influential analysis, parliamentary government is more likely to allow for the consolidation of democratic rule because of its greater propensity for governments to have majorities to implement their programs; its greater ability to rule the constitution and its greater facility at removing a chief executive who does so; its lower susceptibility to military coup; and its greater tendency to provide long party-government careers, which add loyalty and experience to political society (Stepan and Skach 1993, 22).

Table 2.3 Developing countries with parliamentary systems

Country	**GDP per capita, 2002** (PPP, current dollars)	**GNI per capita, 2002** (Atlas method, current dollars)	**GNI, 2002** (Atlas method, billions of current dollars)	**Aid per capita, 2001** (current dollars)	**Freedom House ratings,[a] 1999–2000**	**GDP per capita average growth rate, 1990–2001** (percent)
Bahamas	17,000	14,960	3.80	27.3	1,1,f	0.1
Bangladesh	1,700	370	48.50	7.7	3,4,pf	3.1
Barbados	14,500	9,750	2.60	–4.3	1,1,f	1.7
Belize	4,900	2,960	.75	86.6	1,1,f	1.6
Botswana	9,500	3,650	5.10	17.2	3,2,f	2.9
Dominica	5,400	3,180	.23	276.7	1,1,f	1.4
Fiji	5,500	2,160	1.80	31.8	2,3,f	1.7
Grenada	5,000	3,720	.36	114.6	1,2,f	2.9
Guyana	4,000	840	.55	132.8	2,2,f	4.4
India	2,358	450	455.00	1.0	2,3,f	4.1
Jamaica	3,900	2,820	7.40	20.9	2,2,f	–0.3
Kiribati	840	810	.77	133.9	1,1,f	0.6
Mauritius	11,000	3,850	4.70	18.1	1,2,f	3.9
Papua New Guinea	2,300	530	2.80	38.7	2,3,f	1.0
St. Lucia	5,400	3,840	.61	103.6	1,2,f	0.6
St. Vincent and the Grenadines	2,900	2,820	.33	74.6	2,1,f	2.5
Solomon Islands	1,700	570	.25	136.6	1,2,f	–1.5
South Africa	10,000	2,600	113.50	9.9	1,2,f	0.2
Trinidad and Tobago	9,500	6,490	8.60	–1.3	1,2,f	2.9

a. The three scores are, from left to right, for political rights, civil liberties, and freedom status. The first two are each measured on a one-to-seven scale, with one representing the highest degree of freedom and seven the lowest; "f," "pf," and "nf," respectively, stand for "free," "partly free," and "not free." Countries whose combined averages for political rights and for civil liberties fall between 1.0 and 2.5 are designated "free," between 3.0 and 5.5 "partly free," and between 5.5 and 7.0 "not free."

S*ources*: World Bank's *World Development Indicators 2003.* Data for India from World Bank's *World Development Indicators 2002.*

How successful are parliamentary regimes in the developing world? Table 2.3 lists the 19 low- and middle-income countries with parliamentary regimes and some of their characteristics. On average, they are more democratic and have enjoyed better economic performance than the presidential regimes in the developing world. Of course, many are micro island states, so it is difficult to generalize. But the presence of India and South Africa in the list suggests parliamentary rule can thrive in bigger countries as well.

Formal presidential powers in the stagnant low-income states are reinforced by a series of informal mechanisms. Executive accountability is weakened not only by the combination of constitutional provisions that insulate the presidency from the other branches of government but also by the de facto practices of power. Inadequate resources typically dilute the ability of legislatures to undertake real oversight of the executive branch. For instance, Rakner et al. (2004) report that in Malawi government funding is available only for the parliament's plenary sessions. As a result, there is no functioning committee system, though 13 committees exist on paper. These deficiencies are particularly striking in an area such as budgetary oversight. In their study of budgetary procedures in anglophone Africa, Ian Lienert and Feridoun Sarraf (2001) note several ways in which parliamentary oversight of the budget has been undermined.[4] In countries like the Gambia, Malawi, and Zambia, the budgetary auditing function was placed in the executive rather than the legislative branch. A shortage of resources has delayed and undermined reporting to parliamentary oversight committees on budgetary matters; thus in the Gambia in 2001, the last audited accounts related to the 1990–91 fiscal year (Lienert and Sarraf 2001, 14). In these and other cases, inadequate resources and short sessions have weakened the legislature, and it cannot take advantage even of its limited prerogatives to impose accountability on the executive branch (see Burnell [2001] on Zambia).

Donors and aid practices have tended to accentuate these presidential tendencies. Until very recently, the donors almost entirely ignored the nonexecutive branches of government. It was only in the 1990s that donors began to extend any technical assistance and resources to parliaments. Though judicial-sector assistance is more long-standing, at least for some bilateral donors, it remains true that the overwhelming majority of donor assistance is directed to the executive branch of government. Moreover, the donors have largely ignored the legislative and judicial branches of government in the policy dialogues conducted during the last 20 years. The emergence of parallel budget structures through which donors attempt to enforce conditionality actually weakens the ability of the legislature to provide oversight. The latest of these attempts, the World Bank's Poverty Reduction Strategy Papers (PRSPs), is analyzed in the next chapter.

A hallmark of presidentialism is the greater tendency toward weak and poorly institutionalized political parties (Mainwaring 1993). The separation of powers inherent in presidential systems weakens the legislature, where organized parties are most likely to wield power. When the presidency controls the majority party in the legislature, legislative auton-

4. In a review of budgetary practices in Haiti, Myers (2000) makes a remarkably similar diagnostic.

omy may in any event be pro forma. In all but three of the stagnant low-income states where party competition is meaningful, the president's party held a majority in the legislature in mid-2003; only in São Tomé and Príncipe and Mali was the president's party not the biggest single party in the legislature. Much more typically, the president's party is the dominant player in the legislature. Thus, in the Gambia in 2003, the Alliance for Patriotic Reorientation and Construction (APRC) had 50 out of 53 seats; in Mongolia, the Mongolian People's Revolutionary Party (MPRP) won 72 of 76 total seats; and in Moldova, the Communist Party of Moldova (PCM) had 71 out of 101 seats. The president uses his control over the presidential majority to weaken parliamentary power, including constitutional provisions to enforce accountability on the executive. In addition, many have rules that limit debate and make members' bills harder to bring up.

The judicial branch of government is similarly weak, both because it is starved of resources and because its independence from the other branches of government is either not recognized or extremely recent. Although most developing-country constitutions since 1945 have paid lip service to the principle of judicial independence and review (Schwartz 1999, Domingo 1999), in practice, judicial subservience to the executive branch of government has predominated. Poorly trained and underfunded judges, an often antiquated legal system, and strong legal-political pressures undermine the judicial sector's ability to function effectively, and the much more ambitious task of constituting an effective mechanism of executive accountability is almost entirely unrealistic. To be sure, judicial independence has improved in a number of low-income countries, one of the gains of the third wave of democratization (see Widner [1999] on the African cases). Yet, even in countries that have undertaken substantial recent democratization, the judicial sector continues to exhibit many traits of the previous authoritarian period, including excessive deference to the executive branch. Writing about Ghana, Kwasi Prempeh (1999) notes the continuation of a "jurisprudence of executive supremacy" since the successful return to multiparty politics and the difficulty of establishing the more desirable "jurisprudence of constitutionalism."

The SLIS regimes can be called presidential in the second sense that national politics revolves around the person of the president and his office. The president dominates a politics that is deeply personal and clientelistic rather than rule-driven or ideological (see next section). That is to say that it is impossible to understand the contemporary politics of Zimbabwe without focusing on Robert Mugabe or of Kyrgyzstan without focusing on Askar Akayev, because both dominate their political systems to an extent inconceivable in the more mature Western democracies.

One dimension of this power is longevity in office. These countries have been characterized by relatively little alternation in power, as is made clear by table 2.2. The average leader in these 26 countries has

been in power 11.4 years.[5] Since 1960, they have had an average of 4.3 leaders. By way of comparison, the United States during the same period has had nine presidents, who stayed in power an average of 4.7 years, while a typical parliamentary democracy such as the Netherlands has had 12 prime ministers, who stayed in power only 3.5 years on average. The presidential stability in the stagnant low-income states is all the more remarkable given their dismal economic performance. Such longevity in office is in large part explained by the nondemocratic nature of many of these regimes, even when the countries have moved to regular nominally competitive elections in the last decade. Thus, during the last decade only one of the sitting presidents in all 26 countries lost an election. In Madagascar in 2001, Didier Ratsiraka refused to accept an inevitable electoral defeat, and his attempts to steal the election resulted in a long and costly constitutional stand-off with his rival Marc Ravalomanana, who finally was allowed to occupy the office. Otherwise, leaders in the stagnant low-income states have routinely won the elections they have competed in, sometimes with suspiciously large margins of victory.

The real significant innovation of recent democratization has been the arrival of term limits, which have forced the retirement of leaders like Daniel Arap Moi in Kenya (2003), Konaré in Mali (2002), Jean-Bertrand Aristide in Haiti (first time in 1996), or Frederick Chiluba in Zambia (2001). In these countries, the citizenry has been able to assert the legitimacy of term limits as a mechanism to circumscribe presidential power. To be sure, many leaders continue to be able to maintain themselves in power: Lansana Conté in Guinea and Eyadema in Togo managed to engineer last-minute constitutional changes to allow them third terms in 2003, despite considerable domestic and diplomatic pressures (on Togo, see *The Economist*, "Africa's Longest-Serving President: Never Togo," June 5, 2003). Nonetheless, the mantle of "president for life" that Third World dictators once wore quite officially and without reticence is no longer acceptable in all but a very few stagnant low-income states; in even highly imperfect multiparty electoral regimes, the principle that the current incumbent will one day have to step down is one of the achievements of the recent political liberalization.

The importance of alternation in power should not be underestimated. Its absence is a characteristic of many authoritarian regimes, which typically lack institutional mechanisms to effectuate a peaceful change of leadership. Even in the hybrid multiparty electoral regimes of the developing world today, the degree to which it is possible for a sitting president to lose an election provides an indication of how democratic the country really is. Recent research suggests that the absence of alternation

5. This average is actually somewhat lower than the true average time in power in these countries because the current leaders are all "right censored"—that is, we do not know how much longer they will be in power. See Bienen and van de Walle (1991).

in the 1990s explains the degree of democracy a country has enjoyed more than any other variable (e.g., van de Walle 2001). In other words, the longer a leader has been in power, the lower the level of political competition and participation prevailing in the political system. The longer leaders stay in power, the more power they accumulate, the more they escape accountability, and the less other political actors check their power. This lesson has long been internalized by mature democracies, which almost invariably have institutional rules, such as term limits, to limit the power of the executive. In the hybrid regimes of the developing world, where presidential dominance is little tempered by the regular multiparty elections, these term limits are even more important.

In the sense in which it is used here, presidentialism is associated with the absence of liberal democracy. The personalization of power, in which the presidency is effectively above the rules of the game and not accountable to the other political actors, is not compatible with democratic politics. To what extent, then, are the more democratic countries like Mali or Mongolia presidential? I would argue that democratization in these countries involves their progressive movement away from the dynamics of presidentialism but that in the short term, these countries are likely to continue to exhibit many of these dynamics, given the weight of the past, the expectations of political actors, and the relative strengths of different national institutions.

The evolution of Mali in the 1990s demonstrates this. The emergence of the Third Republic in 1992 and the election of President Konaré was a decisive step toward liberal democracy (Smith 2001, Thiriot 1999, and Vengroff 1993). The egregious human rights abuses and patrimonial management of public resources, which marked the regime of Konaré's predecessor Moussa Traoré (in power between 1968 and 1991), clearly ended. Most observers described President Konaré (1992–2002) as a sincere democrat throughout his two terms in office. Yet, presidential dominance has continued to mark public life. The executive branch of government remains largely unaccountable, as attested by evidence of considerable corruption in civil service. In Mali today—unusually among the stagnant low-income states—President Touré does not command an automatic majority in the National Assembly, whose members are divided into several dozen highly volatile parties, but the constitution gives him considerable discretion over national legislation. The legislature has not emerged as an effective body for debating national policies and cannot provide real oversight of the executive branch of government. In sum, in a country like Mali, the progression away from presidentialism will be slow and arduous.

Pervasive Clientelism

Politics in the stagnant low-income states is also characterized by systematic political clientelism, which can be defined as a dyadic exchange

involving actors with different levels of wealth and power. Anthropologists argue that clientelism is a very important institution in peasant society, where it plays an important role of social insurance and risk management in the absence of viable state institutions (Schmidt et al. 1977). In the poorly integrated societies that emerge during the modernization process, clientelism remains pervasive because of the continuing weakness of state institutions. At every level of the political system, actors resort to the granting and receiving of favors. For poor people, clientelism is a survival mechanism, in the context of very nonresponsive public institutions, even if it rarely offers the possibility of economic redistribution. It must instead be seen as an instrument to palliate and legitimate social stratification. For politicians, various forms of clientelism help maintain support and achieve political stability. As a result, in these countries politics revolves around the giving and taking of favors. Parties are not distinguished by their policies so much as by the clientelistic networks they represent, which often take on an ethnoregional dimension.

Pervasive clientelism has several implications. Most important, even as it results from weak formal political institutions, it promotes political and sociological dynamics that further weaken those same institutions. Economic actors have low expectations regarding the ability of state organizations to meet their needs, so they go to local "patrons" for favors. As a result, shadow institutions, rather than public ones, perform key allocation processes in a nontransparent and usually highly inegalitarian fashion. Clientelism results in weak fiscal extraction, with effective privatization of a substantial proportion of government revenues. It may subvert public policy—for example, customs fraud may in effect constitute a tax on international trade, which is at odds with the government's own official trade policies.

Two somewhat distinct forms of clientelism can be identified.[6] The first form, *patronage*, can be defined as the practice of using state resources to provide jobs and services for political clientele. Robert Bates and Paul Collier (1993) estimate that President Kenneth Kaunda of Zambia personally controlled some 50,000 jobs in and around the city of Lusaka in the late 1980s. Patronage is designed to gain support for the patron who dispenses it. Almost invariably, patronage is achieved thanks to state resources, so it confers a fundamental political advantage to the incumbents, who have privileged access to these resources. In the poorest countries, patronage is limited by the fiscal constraints on the state and may thus be actually limited in comparative terms, but it is nonetheless a fundamental component of these political systems.

The second type of clientelism is *prebendalism* (Joseph 1987). This refers to the handing out of *prebends*, in which individuals are given public offices in order for them to benefit from personal access to state resources.

6. The following arguments are further elaborated in van de Walle (2002).

Prebends and patronage overlap but are distinct political institutions, with different economic implications. Hiring a member of one's ethnic group to a senior position in the customs office is an example of patronage. Allowing the customs officer to use the position for personal enrichment by manipulating import and export taxes is an example of a prebend.

In the language of economics, the prebendal relationship provides a classic principal-agent dynamic in which the principal has few effective means of monitoring the agent's behavior. The precise nature of the arrangement is typically ambiguous or flexible and thus unstable. In some cases, the right to benefit from state resources and appropriate public revenues is explicitly given to the officeholder. President Mobutu Sese Seko of Zaire famously commanded his ministers to enrich themselves but not "to steal too much" (Young and Turner 1985). He could not know exactly how much each of his ministers actually took in, so he regularly rotated officials in and out of office and periodically arrested a minister to scare the others. Governments know there is considerable rent seeking by officials but are unable to control its extent, even if they wished to do so (Blundo and Olivier de Sardan 2001). Alternatively, governments by necessity choose to countenance practices they know about. The state's top officials probably do not formally sanction teachers who charge an unofficial tuition to their public school students or policemen who charge cars at informal road blocks. The government often accepts such behavior because it lacks the resources to pay reasonable salaries or has accumulated arrears because of revenue shortfalls and so views such behavior as a form of informal revenue generation it cannot itself undertake.

Patronage is often perfectly legal, though it is frowned upon and constitutes a "grey area" of acceptable practice; it is present in the bureaucracies of the most advanced economies, though it is often circumscribed through various forms of codification. For example, Robin Theobald (1990, 56) cites the estimate of 4 million patronage positions in state and local government in the United States during the early 1980s. Prebendalism, on the other hand, entails practices in which important state agents unambiguously subvert the rule of law for personal gain. As a result, these practices are always illegal, even when they are endemic.

The economic cost of prebendal forms of clientelism are much greater than the costs of patronage. The latter is often, though not necessarily,[7] inefficient and tends to result in excessive government consumption. But otherwise, its negative effects on economic growth may be minimal and outweighed by its sociopolitical benefits. Certainly, a number of middle-

7. If the member of one's ethnic group hired at the customs office is fully qualified, honest, and hardworking, there is no cost at all. One explanation of the high growth rates found in countries, notably in Asia, in which there was clearly pervasive clientelism, is that the people who benefited from patronage performed very well.

income countries, such as Korea and Brazil, demonstrate that healthy economic growth is possible in systems with considerable levels of petty corruption and cronyism, because those governments do not systematically undermine the property rights of investors and because, despite existing flaws, the government performs many of its core functions reasonably well. In industrialized, mature democracies, such practices are even less dysfunctional because there is a large pool of qualified applicants for the offices, and minimal qualifications can be imposed even on patronage positions. Moreover, the legislature holds the executive accountable through mechanisms such as confirmation processes for higher-level appointments.

Endemic forms of prebendalism, on the other hand, imply the subversion of property rights and the rule of law and thus undermine productive forms of investment. The predatory behavior of government officials results in lower returns to private capital and thus lower rates of investment. Probably the majority of the complaints that foreign businesses make to explain their reluctance to invest in these economies concern forms of rent-seeking and corruption that are linked to prebendalism. In a study of the constraints on private-sector investment in sub-Saharan Africa, James Emery (2003) writes that "one finds an astonishing prevalence of petty obstructionist behavior by officials . . . to impose a requirement on a firm, and then act in classic rent-seeking fashion to leverage their position." He concludes that the survival of many of these practices, despite two decades of donor attempts to liberalize the investment climate, shows that they play a fundamental political function in these states. Indeed they do: Political stability is achieved at least in part by allowing enough key political elites access to the offices that will result in rent extraction.

In addition, these practices have a deeply corrosive effect on civic attitudes. In Madagascar, for instance, recent public opinion surveys reveal deep mistrust of all public officials, largely because of the perception that public officials are venal. Over 60 percent of those interviewed believed high-level corruption and the greed of political elites were the biggest obstacle to national development in the country in the mid-1990s (Razafindrakoto and Roubaud 1996). High-level corruption tends, moreover, to help legitimate petty corruption, which is more likely in these kinds of political systems.

How pervasive are these practices in the stagnant low-income states? It is hard to know exactly, but anecdotal evidence and the generally bad performance of the countries on various "rule of law" and corruption indices suggest that these practices are endemic. World Bank researchers have assembled a dataset on six governance indicators.[8] The 173 countries

8. See Kaufmann, Kraay, and Zoido-Lobaton (2002). The indicators are voice and accountability, political stability, government effectiveness, regulatory quality, rule of law, and control of corruption.

included were ranked for each of the six indicators, and these rankings were then averaged. The highest-ranked country—or the one with the best governance in the eyes of these researchers—is Switzerland, with an average ranking of just over 5. The highest-rated stagnant low-income state, by way of comparison, was Mongolia, with an average rank of 54. The average ranking for all of the stagnant low-income states was 114. Even allowing for anomalies in the data,[9] such numbers suggest the unusually poor governance record in these countries, even in comparison with other low-income states.

Eliminating corruption and all forms of clientelism in the stagnant low-income states is unrealistic and probably not necessary to promote economic growth and individual welfare. Some analysts point to countries like China to suggest that economic growth and relatively high levels of clientelism can coexist. Perhaps, but that does not mean that clientelism does not sometimes significantly hamper low-income economies. The discussion here has sought to show that some forms of clientelism are more damaging to the economy than others and that policymakers need to focus on eliminating or circumscribing the most damaging forms if the stagnant low-income states are to develop.

Low Capacity of Public Institutions

Another characteristic of these stagnant low-income states is the low level of capacity in public institutions, despite decades of institution building. These institutions appear incapable or unwilling to provide any of the wide number of services to their citizens. Public education and health services are of poor quality or are unavailable to substantial segments of the population, particularly outside the main urban centers. Public infrastructure is weak and poorly maintained. Government revenue collection is inefficient and undermined by considerable leakage. Governments often have a comprehensive and complex regulatory framework in place in theory, but in practice regulation of societal and economic processes is haphazard, arbitrary, and incomplete. Government officials are unable to apply some of the laws in the books but apply those not in the books.

Paradoxically, institutional capacity in many stagnant low-income states appears not to have improved over the last 30 years, despite rapid growth in the number of trained individuals available to the state and despite the sizable increase in the size and budgets of the state apparatus (Berg 1993, Bräutigam 1996; but see Goldsmith [2003] for a contrary position). To cite just one example, Zambia is said to have had fewer

9. Among other anomalies, the dataset views Zambia's regulatory environment as better than South Korea's, while Chad is viewed as the third best country in the world in terms of "corruption control," and the Gambia is suggested to have a more effective government than South Africa.

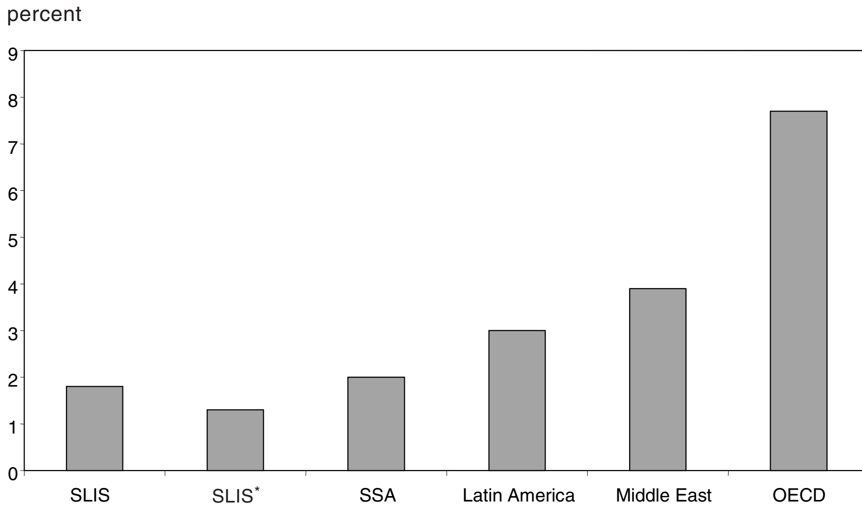
than 60 college graduates at the time of independence. Since then, the number of graduates has increased to tens of thousands, yet there is little evidence that the ability of the state to perform routine tasks has improved. On the contrary, the quality of many public services appears not to have improved or to have even declined since the mid-1970s, judging by the lack of improvement in basic welfare indicators, as well as reports about widespread public management problems (Rakner 2003). In 2001, the World Bank was arguing that "institutional weaknesses and public expenditure management" were key factors undermining the Zambian "government's ability to carry out the broad objectives of growth and poverty reduction" (World Bank 2001a, xxii).

Despite popular notions to the contrary, these countries are not easily characterized as having big bloated bureaucracies that need to be pruned (Goldsmith 1999). Examining cross-national data on the size of public employment, it is clear that the former Soviet states typically have relatively large bureaucracies, but many of the stagnant low-income states have civil services that are quite modest in size. Thus, if the former Soviet states were excluded, total civil service employment would average 1.25 percent of the total national population in the stagnant low-income states.[10] These totals are shown in figure 2.1. By way of comparison, total public employment in the OECD countries averages 7.7 percent of the total population, while that in a region of mostly middle-income countries, like Latin America, averages 3.9 percent of the population (Schiavo-Campo, de Tommaso, and Mukherjee 1997). It is true that public employment is often a disproportionate share of total formal employment in the stagnant low-income states, largely because of the weakness of the private sector. Nonetheless, in relative terms, these are small state structures, with small bureaucracies.

The most devastating effect of long-standing fiscal pressures has been the progressive erosion of civil service salaries. Unfortunately, there are few reliable time-series cross-national data on the purchasing power of civil servants in low-income countries. The stylized fact that emerges from partial and anecdotal evidence, however, is that in these countries, patronage concerns have led governments to gradually increase the *number* of public employees but often at the cost of the *quality* of the staff recruited. In part under the pressures of fiscal pressures, governments have had to manage the overall payroll, leading to a trade-off between quantity and quality. The former has prevailed, and civil service salaries have been allowed to decline over time. Again, the data are sparse but suggest sharp declines in the purchasing power of civil servants in many countries (Schiavo-Campo, de Tommaso, and Mukherjee 1997; Lienert and Modi 1997).

10. Data are available for just one of the former Soviet republics in the set of countries: Moldova's was 7.3 percent. With Moldova, the average rises to 1.9 percent.

Figure 2.1 Public employment in the civil service, mid-1990s
(percent of population)



OECD = Organization for Economic Cooperation and Development
SLIS = stagnant low-income states
SSA = Sub-Saharan Africa

Note: SLIS* excludes the former Soviet republics.

Source: Schiavo-Campo, de Tommaso, and Mukherjee (1997).

The choices made by the political leaders in these countries suggest that improving the capacity of public institutions is not a big priority. Civil service salaries are allowed to atrophy. It is not unusual for civil service salaries to have lost 50 to 75 percent of their real value since the 1970s (Lindauer and Nunberg 1994). Deborah Bräutigam (2000, 40) cites the example of a mid-level government economist in Kenya in the late 1990s earning $250 a month. Compare this with the monthly salaries of between $3,000 and $6,000 offered by nongovernmental organizations (NGOs) and donor projects to those same economists, which explains why the government has been unable to retain qualified staff in recent years. One should also compare the $250 with salaries in a middle-income country like Mauritius, where a permanent secretary, for example, was making $15,000 annually in 2002. Governments that value capacity and wish to build it up understand that they have to provide suitable salaries to the staff.

Similarly, the supplies and services budgets are absurdly underfunded. Civil service recruitment is politicized, and promotions are allowed to be nonmeritocratic. The independent civil service commission that

existed at the time of independence has been eliminated or coopted into the control of the presidency. In fact, it makes perfect sense to believe that nondemocratic low-income country governments that rely on substantial amounts of clientelism to maintain political stability have fewer incentives to increase state capacity. Clearly, success stories such as Korea or Taiwan suggest that higher capacity does not by itself eliminate corruption. An effective system of checks and balances is probably necessary for that. Nonetheless, building the technocratic component of government, on balance, undermines the ability of political actors to engage in illicit activities.

That is not to say that there are no dedicated civil servants who sincerely wish to eliminate corruption and build more effective public management systems. Most of these bureaucracies are in fact "hybrid" administrations, which combine good and bad governance tendencies. The point is that there is always a negative synergy between state capacity and corruption. The greater the state capacity, the harder it is to engage in corruption, because of the greater likelihood of transparency and rule-based norms of behavior. On the other hand, the more corruption there is, the more a rational and effective bureaucracy will be undermined. Corrupt state agents will enhance their ability to engage in illegal activities by trying to undermine effective accounting and auditing functions, for instance. In sum, these political systems have many political actors who have an incentive to undermine the accumulation of institutional capacity. This largely explains why it has been so hard to build capacity in these countries.

Weakness of Nonstate Actors

It was argued earlier that stagnant low-income states are characterized by a low level of horizontal accountability, in which the other branches of government would be able to balance the power of the presidency. Equally important is *vertical accountability,* which refers to the extent to which state leaders are answerable to citizens—through elections, referenda, and day-to-day pressures. Perhaps the key instrument of vertical accountability is a strong civil society, but the stagnant low-income states are typically found lacking here as well, because their private sectors and civil society are weak. This weakness has important implications for political economy, because it is the powerful civic actors and interest groups that typically bring about the vertical accountability so critical to democracy and sound economic management (e.g., Przeworski, Stokes, and Manin 1999).

The structure of the economy largely explains the weakness of interest groups. The low level of industrialization and the paucity of big companies help to account for the weakness of trade unions and business associations. A small, dependent, and relatively young professional class supports

an emerging but still inadequate set of professional associations that can promote and expand the civic realm. In addition, authoritarian governments long sought to prevent the emergence of independent organizations that might contest those governments' monopoly on decision making. Unions and interest groups were typically coopted and emasculated through corporatist arrangements that made them subservient to the government. Thus, many governments automatically deducted membership dues from the salaries of the public sector's unionized labor force to support an official union federation bureaucracy closely tied to the government and little interested in defending employee interests.

This situation is changing. With the onset of democratization in the early 1990s, governments are much more likely to tolerate institutional pluralism, and a wide array of interest groups, civic organizations, and special-interest associations have progressively emerged in the last decade all over the low-income world (Clark 1991, Van Rooy 1998, Hilhorst 2003, and Tripp 2003). Citizens, moreover, have turned to civic organizations to provide them with goods and services that the increasingly decrepit state no longer consistently provides. Progress is likely to be slow, as the legacy of the past and the persistence of economic difficulties will continue to undermine the emergence of the nongovernmental sector.

Perhaps the strongest and most independent single NGO in all the stagnant low-income states under review is the main trade union in Zambia, the Zambia Congress of Trade Unions (ZCTU). It was estimated to have roughly 270,000 members in the late 1990s (though fewer probably paid dues on a regular basis) (Ludwig 2001). Such a total would amount to about 7 percent of the active population in the country. Despite government attempts to control the union, it has always maintained a fair degree of independence. Indeed, the ZCTU played a key role in the political protests that ended the Second Republic of strongman Kenneth Kaunda and resulted in the election of union leader Frederick Chiluba in 1991. It has over the years consistently voiced worker concerns on economic policy and is probably the only organization in Zambia that can claim to represent more than 5,000 dues-paying members (Ludwig 2001, 162). With its relatively old mining history, Zambia's union movement is unusually strong compared with other low-income states. Union membership data are only very rarely available[11] for the 26 countries and then usually of doubtful quality. Nonetheless, it is probably fair to say that a number of these countries probably cannot claim a single organization with more than a couple thousand dues-paying members, if the central trade union federation is excluded.

11. The ILO's dataset on union membership does not include data from any stagnant low-income state, with the exception of Pakistan.

NGOs are weakest in the countryside, even though the majority of the population typically lives there. Again, there are significant exceptions: SYCOV, the organization of cotton farmers in Mali that emerged during that country's democratization process in the early 1990s, has proven to be a very effective representative of farmer interests and has gained very wide adhesion among the country's several hundred thousand cotton producers (Bingen 1998). But SYCOV's success is well publicized in part because it is unusual. Studies of other existing rural organizations[12] show that they are often creations of the government or highly dependent on donor funding and usually lack the autonomy that has been a hallmark of SYCOV. In this area, as in others, the current era is one of rapid change and progress, but the legacy of past neglect and sometimes repression of these groups continues to weigh heavily.

Economic Characteristics

Small Economies

The first striking similarity across the stagnant low-income states is that they are mostly very small economies. There are two striking exceptions: Nigeria and Pakistan have populations in excess of 100 million, but they are the only states in the group with a population of more than 30 million. Pakistan has enjoyed periods of sustained economic growth over the last half-century and is in my list only because of recent economic troubles. Nigeria's economic record is certainly more mediocre, but it enjoyed periods of rapid growth during its oil boom in the 1970s. If these two large country outliers were excluded, the average population of the remaining 24 economies would be 9.7 million people and their GNI $3.1 billion in 2000. Together, the 24 countries have a total population of 233 million and combined GNI of $74 billion in 2000, roughly on a par with the economy of Ireland ($86 billion) or Singapore ($99 billion), both with populations of around 4 million. Even including Nigeria and Pakistan, the combined GNI of the 26 countries was $167 billion in 2000. By way of comparison, the gross state product of Connecticut in 2001 was $153 billion and that of Massachusetts was $266 billion. In other words, and to get a sense of proportion, the modal stagnant low-income state has an economy roughly comparable in size to an average county in an eastern state of the United States.

12. The World Bank's Rural Producers' Organization project has tracked the most successful of these organizations in low-income countries. See the project's web page, www.worldbank.org/html/extdr/thematic.htm.

There are too many small rich countries to believe that small population size has an automatic negative effect on economic growth. The preponderance of small countries in my set of countries nonetheless suggests that these countries are hampered in some way by their "smallness." It makes sense to think that small economies have less of a margin of error, and that the market thus punishes them more than big countries for governance and policy lapses. A long-standing economics literature suggests that a smaller domestic market increases the likely efficiency losses from import-substitution industrialization (ISI) policies and trade protection, while also deterring foreign investors (e.g., Robinson 1960, Kindleberger 1984). In addition, smallness combined with certain geographic characteristics shared by these countries appears particularly disadvantageous. Eleven of the 26 states are landlocked, a situation that appears to be linked to the historically low rates of economic growth (e.g., Gallup and Sachs 1998). Twenty-four are situated in a tropical or subtropical zone. Economists have also identified this geographic characteristic as a structural disadvantage for growth. Jeffrey Sachs (2000) emphasized the prevalence of diseases such as malaria in tropical zones as a significant constraint on economic growth. Similarly, though the stagnant low-income states tend to be small, they exhibit a high degree of ethnic fractionalization, also identified in the literature as correlated with low economic growth (Easterly and Levine 1997). In fact, the SLIS are almost 50 percent more fractionalized than non-SLIS low- and lower-middle-income countries.[13]

Low Human Development

The socioeconomic characteristics of these countries are well known and need not be described in great detail. These are countries with a high level of poverty and low human capital. The World Bank estimates the average proportion of the population below the level of poverty at 47 percent. Adult literacy rates are extremely low, with an average of 71 percent for men and an abysmal 58 percent for women in 2000, putting many of these countries at below-average levels even for the category of low-income economies. The significant gender difference in literacy rates points to another characteristic of these countries: women's low status and gender discrimination. Interestingly, however, several of these countries claimed literacy rates of above 90 percent, suggesting that a simple linkage cannot be made between basic educational services and economic growth.

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13. These findings should be treated with caution, given the large number of missing values, and conceptual and measurement problems with the ethnic data (see Fearon 2002).

Few Natural Resources

These countries are typically not well endowed in natural resources nor have fully exploited the resources they have. True, oil in Nigeria represents a significant exception. Zambia has long exploited its considerable copper reserves. Substantial oil resources were discovered both in Chad and São Tomé and Príncipe, but the oil revenues are just now coming on tap. In 17 of the 26 countries, neither oil nor minerals accounts for as much as a tenth of total exports.

Recently, economists posited a "resource curse," according to which countries with natural resources tend to enjoy slower economic growth than countries that lack them (Gelb 1988, Ross 1999, Auty 2001, Birdsall and Hamoudi 2002). The econometric studies that demonstrate this curse are noteworthy and well worth highlighting. However, before completely dismissing the benefits of natural resources, it may be useful to point out that natural resources do increase the *level* of national income, if not its *growth rate* over time. Very poor countries, such as the ones on my list, owe their poverty at least in part to the absence of natural resources, even if it is true that some resourceless countries have managed to lift themselves to higher income levels by enjoying sustained economic growth. To take just one example, it may well be true that oil-rich Gabon has not grown much faster than its neighbor the Central African Republic over the last 20 years; nonetheless, Gabon's per capita GDP is several thousand dollars higher than that of the Central African Republic, and it is comfortably a middle-income country. In part because of the corruption and venality of the Gabonese government, that oil wealth has brought much less development than one might have thought: Gabon's poverty and social indicators are only slightly better than those of the Central African Republic. But they are better.[14] The absence of significant natural resources is thus only part of the story in the poorest countries.

The Current Relationship with the World Economy

Foreign aid almost entirely mediates the stagnant low-income states' relationship with the international economy. In sum, and as shown in table 2.4, these countries receive a lot of foreign aid but relatively little foreign direct investment (FDI), and their participation in world trade is minuscule in relative terms. The importance of these countries to the global economy can be measured by their FDI and trade statistics.

14. For instance, life expectancy in the mid-1990s was 47 years in the Central African Republic and 52 in Gabon, while the rates of measles immunization were 37 and 50 percent, respectively. (Data taken from the World Bank's *World Development Indicators 2002*.)

Table 2.4 International economic links of stagnant low-income states

Country	Net FDI, 2000 (millions of dollars)	Total exports, 2000 (millions of (dollars)	Aid per capita, 2000 (current dollars)	Total aid, 2000 (percent of GNI)	Net ODA, 2000 (millions of dollars)	Net ODA, 2001 (millions of dollars)
Central African Republic	n.a.	125.3	20	8	75	76
Chad	n.a.	233.2	17	9	131	179
Comoros	n.a.	51.8	33	9	19	28
Gambia, The	n.a.	201.8	38	12	49	51
Ghana	n.a.	2,552.9	32	12	609	652
Guinea	n.a.	777.8	21	5	153	272
Guinea-Bissau	n.a.	68.4	67	40	80	59
Kenya	n.a.	2,743.9	17	5	512	453
Kyrgyzstan	–6.9	566.9	44	18	215	188
Madagascar	n.a.	955.4	21	8	322	354
Malawi	n.a.	445.4	43	27	446	402
Mali	n.a.	574.9	33	16	360	350
Mauritania	n.a.	387.3	80	23	212	262
Moldova	127.5	640.4	29	9	123	119
Mongolia	n.a.	634.8	91	23	218	212
Nicaragua	n.a.	962.2	111	27	562	928
Niger	n.a.	282.2	19	12	211	249
Nigeria	n.a.	21,499.5	1	1	185	185
Pakistan	467.0	9,575.0	5	1	703	1,938
São Tomé and Príncipe	n.a.	15.4	236	80	35	38
Senegal	n.a.	1,335.1	44	10	424	41
Tanzania	193.5	1,324.9	31	12	1,022	1,233
Togo	n.a.	433.3	15	6	70	47
Uzbekistan	75.0	3,383.4	8	3	186	153
Zambia	n.a.	890.0	79	28	795	374
Zimbabwe	n.a.	2,245.2	14	2	178	159
Average, all stagnant low-income states	171.2	2,034.9	44.2	16	303.7	360.8

n.a. = not available; FDI = foreign direct investment; ODA = official development assistance

Source: World Bank's *World Development Indicators 2002.*

Foreign Direct Investment

Overall, the 26 countries totaled an average of udner $2 billion of the $175 billion in net annual FDI received by all the low- and middle-income countries during 1997–2000. The small amounts of FDI that accrue to these countries tend to be focused on mineral resources and oil. Thus, two substantial oil producers, Nigeria and Uzbekistan, were the only two countries that averaged a larger amount of FDI than foreign aid during 1997–2000.

Why have these countries attracted so little FDI? A complete answer is far beyond the scope of this book, but a couple of issues seem particularly salient. First, the small size of the domestic market—both because of small population and high levels of poverty and low levels of economic activity—in most of these countries makes them less attractive to foreign investment (UNCTAD 2002). Second and increasingly emphasized by scholars and policymakers who have examined this issue, these countries are not attractive to investors because of an array of governance issues. Thus, some studies have linked low investment rates to the widespread perception that political instability and corruption in these countries make them risky investments (e.g., Collier and Pattillo 2000). Others (Emery et al. 2000, Cotton and Ramachandran 2003) have emphasized the negative role still played by governmental policies and attitudes toward the private sector, which hamper not only foreign but also domestic investment. As suggested earlier, governments often subvert property rights and use regulatory mechanisms to capture rents, a practice which has a degree of political rationality but that is extremely negative for both foreign direct and domestic investment and thus tends to result in slow economic growth.

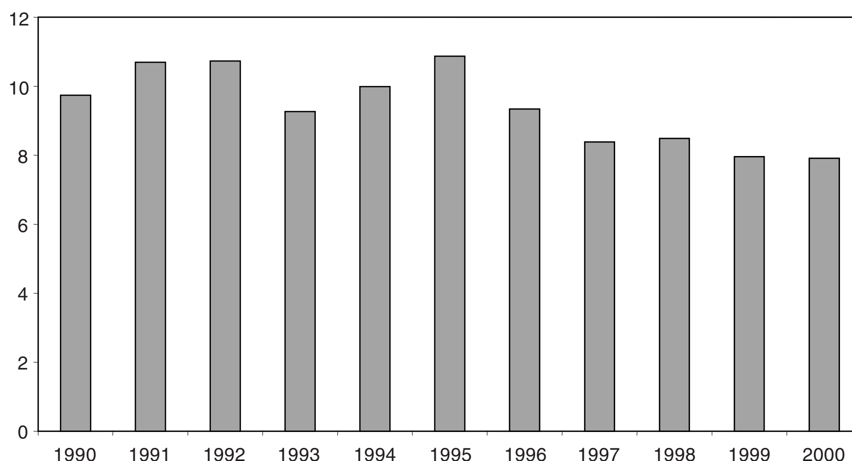
International Trade

Only six of the 26 countries had total merchandise exports in excess of $1 billion on average in the late 1990s. In seven of the countries, foreign aid actually even exceeded total exports during 1997–2000.[15] Traditional commodities dominate merchandise exports in these countries. Between 1997 and 2000, manufacturing exports constituted an average of only 24 percent of all exports, compared with 81 percent in the high-income states of the OECD, 50 percent for all low-income states, and 62 percent for all low- and middle-income developing countries. Thus, compared even with comparable states, the stagnant low-income states have not been able to generate investment in competitive manufacturing industries that would allow them to gain access to dynamic trading sectors.

15. The countries are Comoros, the Gambia, Guinea, Guinea-Bissau, Madagascar, São Tomé and Príncipe, and Tanzania.

Figure 2.2 ODA in stagnant low-income states, 1990–2000

billions of current dollars



ODA = official development assistance

Source: Calculated from www.oecd.org/dataoecd.

Foreign Aid

On the other hand, these countries do receive a lot of foreign aid, as indicated by table 2.4. On average, they each received just under $340 million in official development assistance (ODA) annually between 1997 and 2000, or an average of $44 in aid per capita during the same period, amounting to 14 percent of GDP. It should be noted that this high average level disguises significant differences. São Tomé and Príncipe is one of the most aid-dependent countries in the world ($217 per capita in 1997–2000), while Moldova received a modest amount in the same years ($19.50). Several observers have lamented the sharp reduction in foreign aid during the last decade (Stern 2003, Sachs 2001). In fact, in the stagnant low-income states, the 1990s witnessed an overall decline of ODA volume of 25 percent, as is shown in figure 2.2. But this overall decline disguises very distinct evolutions, as portrayed in table 2.5. In four of the 26 countries, in Eastern Europe and Central Asia, overall aid actually increased during the 1990s. Eight countries, on the other hand, had declines of 40 percent or more during this period. All eight are sub-Saharan African cases, where declines appear linked to growing donor concerns about governance problems. The role of foreign aid in these economies is discussed in more detail later.

Table 2.5 Aid winners and losers: Evolution of ODA during the 1990s (millions of current dollars)

Country	1990–92 average	1998–2000 average	Percent change
Winners			
Uzbekistan	1.38	166.55	119.7
Kyrgyzstan	3.51	241.04	67.7
Moldova	9.70	89.79	8.3
Mongolia	68.34	214.90	2.1
Losers			
Chad	272.30	162.18	–40.4
São Tomé and Príncipe	54.14	30.25	–44.1
Central African Republic	200.25	104.37	–47.9
Comoros	52.33	25.14	–51.9
Zimbabwe	508.04	234.36	–53.9
Kenya	997.20	433.22	–56.6
Togo	227.53	89.89	–60.5
Gambia, The	103.53	40.38	–61.0

ODA = official development assistance

Source: World Bank's *World Development Indicators 2002.*

The Implications for Development

The preceding discussion demonstrated the striking extent to which the stagnant low-income states share certain economic and political characteristics. In particular, it seems clear that the poor economic record in these countries is linked in some way to the manner in which they are governed. What are the implications for development and, in particular, for the international community? Can foreign aid help improve this situation? The following discussion points to three general propositions.

These countries will not develop without foreign aid. The economic characteristics of these countries suggest that they require foreign assistance to spearhead the struggle against poverty. External assistance is also essential for positive change in these countries because their governments have an equivocal commitment to economic development. The governance problems described earlier prevent effective domestic policies to promote economic development. Yet a political elite in power derives benefits from the existing political status quo, and there is no reason to believe that it will be willing to give up the advantages it derives from power. Development is therefore unlikely to take place without external change agents, given the absence of a domestic political coalition that supports rapid development.

In recent years, some critics of foreign aid have argued that the West should replace aid with special incentives and policies for private-sector operators to invest in and trade with these countries. Some even argue that the current system of foreign aid prevents private-sector development and is thus directly counterproductive (e.g., Bandow and Vasquez 1994). Yet, the data presented above suggest that the rhetoric of "trade, not aid" has little to offer the stagnant low-income states, which will continue to depend heavily on the public assistance of Western donors to maintain contact with the world economy. Of course, increasing these states' share of world trade and FDI is a desirable goal, but given their governance problems and economic structure, it is unrealistic to believe that the private sector can spearhead growth by itself.

Foreign aid has to focus on creating and strengthening prodevelopment institutions. In these countries, the main objective of foreign aid should be to help bring about political and institutional change. To do so, aid has two tasks. First, it must work to increase the accountability of those in power. In all stagnant low-income states, the weakness, if not absence, of accountability of the executive branch of government has a profound development cost, and so greater accountability of the executive branch is a prerequisite for development. In a small number of countries, mostly in Asia, the absence of democracy did not prevent development. Indeed, a number of theorists have held up these "developmental dictatorships" as examples of the proposition that rapid growth and democracy were antithetical (e.g., Wade 1990). In fact, the statistical analysis of the relationship between political regime type and economic growth does not suggest an advantage for authoritarian governments (Przeworski, Limongi, and Cheibub 2000; see Leftwich [1996] and Evans [1995] for a general discussion). In any event, in the stagnant low-income states, the development failures of the last 30 years demonstrate the need to make the executive more accountable to other institutional actors.

Second, foreign aid should work to expand the capacity of state institutions to promote development. This is problematic because *clientelistic regimes have no incentive to promote state capacity for development*. Because low capacity facilitates rent-seeking and clientelistic politics, the governments in the stagnant low-income states are typically extremely ambivalent about strengthening their own capacity. In many cases, government ambivalence implies the need to privatize, deregulate, or decentralize public/state institutions in order to sidestep the executive branch, but this is only a partial solution at best because, first, rent-seeking interests within the executive branch will always have the power to manipulate these reform processes, and second, a number of pure public goods require public provision. There is no getting around the need to build state capacity. However, traditional strategies for institution building are

doomed to failure. So strategies to build state capacity must be conceived that change current incentives within the state apparatus.

Some observers argue that the political obstacles to developing capacity within the state should lead the donors to promote institutional alternatives to the state. NGOs are often heralded as such an alternative. Yet, *while they are a critical complement to the central state, NGOs cannot replace it in key developmental functions.* There is no getting around the fact that the central state is the key player in low-income economies. There is a striking positive correlation between the strength of the central state and the presence of a vibrant civil society. NGOs cannot replace the state in the developmental realm for the simple reason that in practical terms, a relatively strong and effective state is probably a prerequisite for a dynamic NGO sector. Historically, at least, the rise of civil society has accompanied and interacted with the rise of strong central states. The central state is essential to the provision of basic infrastructure and key public goods like law and order, without which the NGO sector will not thrive. The same is probably true of the local government vis-à-vis the central government. These institutions can provide stopgap relief for inadequate central states, but they cannot replace them to provide long-term development.

The large volume of aid to these countries in the past has not achieved the desired goals. Most of the stagnant low-income states are highly aid-dependent, based on even a loose definition of this concept. Given the importance of aid to countries whose marginal economies have few links to the global economy, foreign aid should play a fundamental role in their economic growth process for the foreseeable future. It may be argued that these countries do not get too much aid. But it is difficult to believe the argument—at least in the absence of a major rethinking of the relationship between donors and recipient governments—that a massive infusion of yet more aid will bring about a structural transformation of these economies. These issues are further explored in the next chapter.