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Do No Harm: Aid, Weak Institutions, and the Missing Middle in Africa

By Nancy Birdsall

Abstract

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Most middle-income households in Africa are actually poor by international standards, or at risk of becoming poor. While maintaining their concern for the "poor" as conventionally defined, donors need also to avoid harm to the fragile "middle". Of special concern should be the implications of high and unpredictable aid inflows for small entrepreneurial activity and job creation in the private sector. In the more than 20 countries already highly dependent on aid (where aid constitutes 10 percent or more of GNP and as much as 50 percent of total government spending), donors (in collaboration with recipient governments) should be monitoring more closely than has been the case the effects of aid and of planned aid increases on the labor market, particularly for skilled workers; on interest rates and other macroeconomic variables; on domestic investor confidence (given the volatility of past aid); and on incentives for domestic revenue generation.

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Do No Harm: Aid, Weak Institutions, and the Missing Middle in Africa

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Abstract

The implicit assumption of the donor community is that Africa is trapped by its poverty, and that aid is necessary if Africa is to escape the trap. In this note I suggest an alternative assumption: that Africa is caught in an institutional trap, signaled and reinforced by the small share of income of its independent middle-income population. Theory and historical experience elsewhere suggest that a robust middle-income group contributes critically to the creation and sustenance of healthy institutions, particularly healthy institutions of the state. I propose that if external aid is to be helpful for institution-building in Africa's weak and fragile states, donors need to emphasize not providing more aid but minimizing the risks more aid poses for this group in Africa.

Most middle-income households in Africa are actually poor by international standards, or at risk of becoming poor. While maintaining their concern for the "poor" as conventionally defined, donors need also to avoid harm to the fragile "middle". Of special concern should be the implications of high and unpredictable aid inflows for small entrepreneurial activity and job creation in the private sector. In the more than 20 countries already highly dependent on aid (where aid constitutes 10 percent or more of GNP and as much as 50 percent of total government spending), donors (in collaboration with recipient governments) should be monitoring more closely than has been the case the effects of aid and of planned aid increases on the labor market, particularly for skilled workers; on interest rates and other macroeconomic variables; on domestic investor confidence (given the volatility of past aid); and on incentives for domestic revenue generation.

Introduction

The implicit assumption of the donor community is that Africa is trapped by its poverty, and that aid is necessary if Africa is to escape the trap. In this note I suggest an alternative assumption: that Africa is caught in an institutional trap, signaled and reinforced by the small share of income of its independent middle-income population. Theory and historical experience elsewhere suggest that a robust middle-income group contributes critically to the creation and sustenance of healthy institutions, particularly healthy institutions of the state. I propose that if external aid is to be helpful for institution-building in Africa's weak and fragile states, donors need to emphasize not providing more aid but minimizing the risks more aid poses for this group in Africa.

I focus on Africa because so many of its sub-Saharan countries have high poverty rates and are aid-dependent, receiving aid flows greater than 10 percent of GNP (Table 1), and because donors are committed to increasing aid substantially to this part of the world in the next few years. Other countries including Bangladesh, Cambodia, and Pakistan, are as poor or almost as poor on average but have lower proportions of people living in extreme poverty, are less aid-dependent, and are growing faster. Guyana and Nicaragua are also aid-dependent (receiving more than 10 percent of their own GNP in external aid) but are much less poor on average. In addition a large number and high proportion of sub-Saharan African states are now categorized by donors as "fragile" in many cases because they are now or have recently suffered internal conflicts. Those conflicts in many cases reflect and no doubt reinforce the weakness of their state institutions and thus their fragility. In any event the issues raised here may apply more broadly in poor, aid-dependent countries, and may not apply everywhere in sub-Saharan Africa.

This note tests no new causal model of state formation or donor behavior. Its purpose is modest in line with its limitations. It is to use existing data and some new compilations of information to make a case for systematic attention to minimizing the risk that in countries already heavily dependent on aid, additional aid inflows will undermine (rather than ideally supporting) the private sector economic opportunities that create and sustain an eventual middle class.[1]

The note proceeds in five parts plus conclusions.

1. Africa: Poverty trap or weak institutions?

[1] There is no agreed definition of "middle class" among social scientists. I use it here and below in the relative sense – an income and social group in the middle relative to some who are poorer and some who are richer. To avoid the lack of an agreed definition, I use the term "middle strata" rather than middle class, in referring to households in the middle of a country's income distribution, rather than to the middle class. When the middle strata are economically relevant and politically influential they might be said to constitute a country's "middle class".

The idea that poor countries fail to grow because they are poor was suggested by Rostow among others decades ago and most recently argued and elaborated by Jeffrey Sachs and his colleagues, including for Africa.[2] The fundamental logic is built on two propositions. First: very poor people cannot save, and thus their societies cannot generate sufficient resources to fund much investment. Without sufficient new investment they do not grow.[3] Second: returns to investment kick in only above some threshold – investing in a rural road has no additional return if there is not sufficient investment in trucks. Sachs, following Rostow, envisions infusions of external aid (the "big push" into a country) as one way to fill the investment gap and reach the critical threshold for the "takeoff".[4]

In recent papers Easterly (2005), Kraay and Raddatz (2005), Berg et al. (2006, forthcoming) and Jones and Olken (2005) provide evidence that contradicts the two key propositions. First, many countries that were extremely poor (with U.S. income per capita in 2000 dollar terms at less than $300 in 1965) have subsequently grown, including Botswana, Indonesia, India and Pakistan. (Indeed one might justifiably note that today's advanced Western economies at some point in the past were equally poor. GDP per capita in Finland and Germany, for instance, was $538 and $777 respectively in the year 1600.[5])

Table 2 lists countries in Africa that have had periods of substantial growth in the last five decades, or "growth accelerations" as defined by Hausmann, Pritchett and Rodrik (2004). Those authors define a growth acceleration as a period of GDP per capita growth equal to or greater than 3.5 percent a year sustained for eight years or longer, with growth in the acceleration period exceeding past growth by 2 percentage points or more, and post-growth output greater than pre-acceleration growth. Among the countries included are Chad, Ghana, Malawi, Mali, Rwanda, Uganda and Zimbabwe. Sustained periods of growth (of at least 5 percent per capita for 10 years) have also occurred in other countries that were in 1960 among the poorest in the world, including China, Indonesia, Thailand, Bangladesh, Vietnam, Tanzania, Mauritius, and Botswana.[6]

Nor do countries that attain a certain minimum threshold of per capita income then necessarily "take off" into sustained growth. Among countries in Africa that reached levels of per capita income above $1250 – and then suffered negative growth sufficient to fall below $1000 – are Mozambique, Sierra Leone, Central African Republic, Niger, Madagascar, and Nigeria. Among Africa's landlocked countries – though most seem to have been stuck since 1960 at per capita incomes below $700 – some in every decade except the 1980s have had periods of reasonable GDP growth (Berg, Leite, Ostry and Zettelmeyer, 2006, forthcoming).

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[2] See Rostow (1959), UN Millennium Project (2005), Sachs et al (2004)
[3] The concepts are grounded in the neoclassical model of growth, formalized by Solow (1953.)
[4] Similarly there has been the idea (the two-gap model – see Chenery and Strout, 1966) that aid could fill the "capital" gap (and the foreign exchange gap) that explain the lack of growth in poor countries.
[5] Maddison (2001), 1990 U.S. $.
[6] See Figure 2, Jones and Olken (2005).

The challenge in sub-Saharan Africa, in short, seems to be not how to ignite a period of growth but how to sustain it. In the last 10 years, many countries in the region (Mozambique, Uganda, Ghana) have benefited from good management on the macro side and the global boom in commodity prices. The question is whether their success will endure.

An alternative way to define the problem is not as a lack of savings and investment due to low average income, but the absence of a "developmental state" (Leftwich, 2006). A developmental state can be thought of as the non-market mechanism that maintains incentives for savings and investment. It does so via predictable, credible and clear rules of the game (and sometimes via positive or active management of its resources) in a way that enables (and sometimes actively encourages) markets to operate; the result is increases in investment, invention, efficiency and thus economic growth. Political scientists and other theorists of the developmental state emphasize that developmental states have at least one of these two characteristics: "autonomy" of the state from the pressures of interest groups, which is typically associated with a capable bureaucracy and civil service as in pre-democratic East Asia, or direct "accountability" of the state, which is typically associated with democratic institutions including voting and a free press as in India.[7]

Development economists have similarly begun to focus on the centrality of sound and stable institutions as a key contributor to growth.[8] Growth for limited periods is demonstrably common. But it has often not reflected sound economic fundamentals or growth-oriented political institutions. Instead growth spurts have been the outcome of high commodity prices (the case that explains growth in the late 1970s in many countries of Africa) or recovery or "catch-up" following war, drought or failed socialist experiments. It is plausible that "good" institutions are the critical factor in sustaining growth beyond the initial "growth accelerations" referred to above. Countries without the political, economic, and social institutions that adapt to new constraints and opportunities, resolve conflicts and generate political compromises, provide checks on use of power, and so on – may enjoy growth (due to an increase in the global price of a key export, or the exploitation of a new natural resources, or the vision and competence of a key leader) but remain vulnerable to negative internal and external shocks that will put an end to their temporary good luck. This may be why democracies, though they have on average grown more slowly than some non-democratic countries, have grown much more steadily over longer periods – e.g. India and Chile compared to Korea and Indonesia in the 1970s and 1980s.[9]

The outcome of low growth in many sub-Saharan African countries (on average over the last 30 to 40 years), sometimes reflecting the failure to sustain growth for long, suggests what I would call a "weak-institutions trap" (a WIT!). The key to understanding

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[7] See Evans (1989), Acemoglu, Johnson, and Robinson (2001), Sindzingre (2004), Brautigam (2000).
[8] For example, Acemoglu, Johnson, Robinson, 2000.
[9] Rodrik (2003) concludes on the basis of many case studies that institutions are key to sustaining growth but not necessarily to catalyzing growth. See also Acemoglu et al. (2001) and Easterly, Ritzen and Woolcock (2006).

Africa's poor long-run growth record (and limited poverty reduction) may be the weakness of its "institutions", including its institutions of the state. With neither the institutional structure that provides sufficient "autonomy" from interest groups nor the democratic arrangements and habits that create contestability in the political realm and make the state accountable to the great majority of citizens, the state in many African countries fails to protect the property rights (except of the few insiders) that sustain productive private investment and risk-taking; indeed in the worst cases the state actually abuses the property rights of citizens.

2. The problem for donors: using current measures of institutions

The idea of a poverty trap (and related notions such as the two-gap model) supports an emphasis on increasing the quantity of aid as the key to sustained growth. The idea of a weak-institutions trap (and the failures of past aid programs that led to high debt burdens without growth in many countries) supports emphasis on the quality of aid, including the nature of aid programs and their impact on local institutions, especially local political institutions.[10]

The donor community has not been unaware of the constraint to effective aid of weak institutions of the state, including in Africa -- what Moss et al. (2006) aptly call the "aid-institutions paradox."[11] Indeed much of the discussion of increasing aid to Africa has been in the context of a "compact" in which more aid from donors would be matched by increased attention to "good governance" by recipient governments.[12] As Bourguignon (2007) notes, a new model of aid architecture is emerging and is characterized by two main features: first, an emphasis on country ownership as exemplified by the PRSP process (i.e. the process leading to a country's Poverty Reduction Strategy Paper) in which donors have sought to encourage "participation" of citizens in the development of policy reform agendas in low-income countries, and second, allocation of aid on the basis of performance. The declaration by the IDA Governors of the World Bank three decades ago that scarce IDA funds be allocated across countries as a function of those countries' "policies" and "institutions", giving rise to the World Bank's CPIA measure (Country Policy and Institutional Assessment), was a move in that direction. The Bush Administration has devised a system to increase the effectiveness of its aid to low-income countries by targeting aid to select countries performing well on specific measures, including measures reflecting the quality of state institutions (Radelet, 2003). Most recently donors have defined a category known variously as fragile, failing or weak states, in which the institutions of the state are inadequate – and are asking themselves how to spend money directly on building and supporting state institutions.[13]

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[10] Many other factors have led to an increasing concern with the quality of aid programs in highly aid-dependent countries. For a review of the "sins" of donors, see Birdsall (2004).
[11] William Easterly (forthcoming) calls it the Gordian knot of the state, referring to donors' difficulties in helping countries improve delivery of public services.
[12] Monterrey statements; MP report; Commission on Africa (pages or chapters or something if possible)
[13] These responses and the problems they create for donors are explained in somewhat more detail in Barder and Birdsall, 2006. For discussion of and a definition of "weak states" see CGD, 2004.

An enticing characteristic of the poverty trap is that it is easy to assign countries to it – countries where average incomes are low because long-run growth rates have been low. And the idea also provides a basis for what aid should pay for: infrastructure and social investments that a country is too poor to finance itself. Identifying the countries that are victims of a weak-institutions trap is not so straightforward. Growth is a poor indicator since there is probably some lag between an improvement in institutions and subsequent growth, and since recent growth is a poor proxy for adequate institutions given the growth reversals after long growth accelerations noted above. Moreover absent an ex ante definition of what constitutes weak "institutions," or how institutions can be strengthened, it is not clear what aid should pay for.

The problem is that "institutions" covers many rules, habits, customs, constraints, cultural and social factors and more; the state of a country's institutions is harder to describe let alone measure than is the extent of its poverty. Kaufmann, Kraay and Mastruzzi's (2006) latest paper reports on indicators they derive based on at least 27 different surveys and other sources, each in turn reflecting answers to hundreds of questions ("What percent of total contract value do firms like yours pay in bribes to secure procurement contracts) and measurement of dozens of specific facts (anti-corruption commission exists or not), which they put into six categories. They emphasize that the links from specific policy actions (or specific aid programs to strengthen "institutions") to the institutional outcomes they measure are "complex".

At the same time, a growing number of cross-country studies in the economics literature indicate the likelihood that institutions, variously described, matter for growth.[14] The best of these use instrumental variable techniques to minimize the problem that growth is likely to lead to good institutions, leading to overstated effects of the latter on the former without recourse to such techniques. The problem is that those instrumental variables (such as settler mortality) are not only rare but by definition are chosen because their effects on growth (solely through subsequent "institutions") are assumed to persist. Thus they do not differentiate among the many institutions that might matter or not (rule of law; control of corruption, free press) now for subsequent growth, nor do they enable study of how changes in institutional strength in a country affect (or not) subsequent growth.

Actual efforts to measure contemporaneous political, economic and other "institutions", such as the KKM indicators (previously KKZ) and the International Country Risk Guide (ICRG) measures, are not particularly good predictors of subsequent growth. The ICRG measure is older than many others, and goes back to 1980.[15] In 1985 Cote d'Ivoire and Kenya (which have since had average annual per capita growth of 1.6 percent and 3.2 percent respectively) scored higher on the ICRG than India and Vietnam (5.8 and 6.6 respectively); Zimbabwe (1.0 percent growth since) scored above Pakistan

[14] Pande and Udry (2005) provide a useful listing and discussion.

[15] The ICRG statistical model for forecasting financial, economic, and political risk was created in 1980 by the editors of *International Reports*. The version used here incorporates measures of corruption, rule of law, bureaucratic quality, repudiation of government contracts and expropriation risk. See http://www.icrgonline.com.

(4.6 percent growth since) and well above Bangladesh (4.6 percent growth since) (Table 3.) (Similarly, as far as I know, the category of "developmental state" has been mostly defined and discussed in the political science literature after the fact – in some of the literature almost as a function of the typical characteristics of the East Asian tigers.[16])

Reflecting the difficulties, the various measures of contemporaneous "governance" used by different donors to make decisions about allocation of their aid are not consistent. Using the 16 indicators which were the basis for selecting low-income countries eligible for the Millennium Challenge Account, Radelet (2003) shows that as of that year Mauritania was not eligible and Lesotho was. In the same year, Mauritania was in the top quintile according to the World Bank's CPIA measure and Lesotho in the third quintile [17] (Table 4). Of course these two measures are not meant to be strictly comparable, so some differences are to be expected. On the other hand, they are both meant fundamentally to inform the same challenge: making outside aid more likely to be effective.[18]

The reason it is difficult to use any *ex ante* measure of institutions as a guide to aid allocation is that there is no obvious or single standard or dimension of "institutions" against which to assess their strength and longevity. In part that is because effective institutions, particularly effective institutions of the state itself, apparently have to be homegrown[19], and are almost by definition the dynamic outcome of a process in which societies are constantly experimenting and fine-tuning in line with evolving needs, constraints and opportunities. As a result, good institutions come in many forms, ranging from the European Union's independent central bank to the ingenious Chinese experiment with the village enterprise system.[20] In some societies a key "institution" can take a less tangible form, such as the longstanding trust that exists between private contracting Chinese parties that fueled growth in Malaysia – substituting well for the legally enforceable property titles and uncorrupted court system on which most advanced Western economies rely.[21] The only generalization is that there is no general recipe – and outsiders are unlikely to help if they try to push institutional forms and norms that have worked for them, in one place and time, as the solution for others at another place and time.

3. Some indicators of a weak-institutions trap[22]

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[16] See Sindzingre (2004).

[17] The Bush Administration retained some flexibility and thus the original set of MCA countries included Benin, Cape Verde, Madagascar, Mali, and Mozambique, and excluded Swaziland .

[18] Kaufmann and Kraay (2002) argue based on cross-country analysis of growth and using various measures of perception of governance (voice and accountability, government effectiveness, rule of law, corruption, political stability and regulatory quality) that good "governance" is a good predictor of subsequent growth (and not vice versa).

[19] Rodrik, 2000. On the centrality of institutions, see Acemoglu, Johnson and Robinson, 2004; and North, 1990.

[20] Rodrik, 2003 cites other examples from China, to help explain its success outside the boundaries of conventional wisdom.

[21] Some might argue that in Indonesia, Suharto himself constituted an "institution" representing protection of key investors' property rights.

[22] An appendix table shows countries in sub-Saharan Africa to which the indicators discussed apply.

In short, we have no reasonably predictive measure of a country's institutions and thus its WIT status. But political theories of state formation and recent economic theories of the role of state institutions in growth suggest possible current indicators that combined with the systematic measures of governance (such as KKM and ICRG) should be warning signs. Proposing possible indicators is a far cry from suggesting a causal model of the determinants of a country's WIT status. Some countries characterized by some indicators mentioned are probably not caught in a WIT, and some countries apparently suffering from weak state and other institutions do not have all of the characteristics mentioned below. I set out the indicators not to suggest causality or even correlates *per se*, but as warning lights for donors faced with ensuring that foreign aid helps rather than harms WIT countries.

Among likely underlying causes of a country's suffering a WIT are:

- Heavy dependence on mineral and oil exports. Auty (1993) and others have outlined the resulting economic difficulties of Dutch disease and limited investment in human capital, high concentration of income, and limited creation of productive jobs; and the resulting state arrangements with little autonomy and accountability to the majority of citizens – in almost all countries where discovery and exploitation preceded the development of democracy.[23] Engerman and Sokoloff (1994) argue that Latin America's factor endowment played a key role in affecting its high concentration of income and of political rights and power, compared to the process by which North America's endowment influenced its subsequent more democratic political institutions. Among aid-dependent sub-Saharan African countries which rely on oil or mineral production for more than 30 percent of their exports are Chad, Ghana, Mali, Mauritania, Sao Tome (soon) and Zambia .
- Low natural openness – essentially being a country with high transportation costs (landlocked, limited access to the sea via rivers) and non-trading neighbors. That reduces opportunities for trade and thus for export-driven growth. It may also reduce opportunities for diversification into manufacturing, where productivity gains via new technologies and processes have tended to exceed opportunities in agriculture. Gravity models that take into account these factors suggest 21 countries in SSA are among the 35 in the bottom quarter of countries in terms of "natural openness" (predicted trade/GDP ratio as a function of size and physical geography). Almost all our aid-dependent countries are in this category. Many are also small in economic size; given any barriers to trade posed by

[23] Auty (1993). On Nigeria, see Sala-I-Martin and Subramanian, 2003; on Venezuela, see Karl, 1999; on Iraq and what could be done to address its "oil spoils" see Birdsall and Subramanian, 2004. Birdsall, Pinckney and Sabot, 2001, provide evidence that resource rich countries, controlling for income per capita, have lower secondary enrollment rates and adult literacy rates than resource-poor countries.

borders, small economic size (in total income) exacerbates geographically based low openness.[24]

- Problematic borders combined with ethnic heterogeneity (that is inherited by the state, not voluntary), which together undermine the legitimacy of the state.[25] Sub-Saharan Africa includes many states whose borders were defined by colonialism and which therefore include accidental combinations of ethnic groups.[26] Ethnic heterogeneity complicates distributional politics, particularly when there are (only) a handful of groups and when an ethnic minority is economically powerful.[27] Englebert et al (2002) argue that artificial borders have been at the heart of political disputes and economic failures in sub-Saharan Africa.

Among symptoms of a WIT likely to reinforce (if not cause) an existing trap are:

- Primary commodity dependence, and associated economic volatility. Dutch disease combined with initially weak state institutions and suboptimal economic policies limit a country's diversification into manufacturing (or services). Birdsall and Hamoudi (2002) show that the countries most heavily dependent on commodity exports in the early 1980s have had a much worse subsequent growth record than their less dependent counterparts. Many of their set of 34 most heavily dependent countries are in sub-Saharan Africa: Angola, Burundi, Central African Republic, Cameroon, Democratic Republic of Congo, Ethiopia, Gambia, Ghana, Guinea, Liberia, Mali, Mauritania, Nigeria; Rwanda, Sierra Leone; Somalia, Sudan, Republic of Congo; Uganda, and Zambia. Primary commodity economies are vulnerable among other problems to the booms which lead to spending commitments that are then politically destabilizing when subsequent busts force cutbacks or inflationary financing.
- Recent experience of conflict and/or current inability of the state to effectively control all of its own territory. Congo, Liberia, Ethiopia, Sierra Leone, Sudan and others (recently Guinea) fall into this category.
- Low non-trade tax revenues. The ability to tax its own citizens and businesses is one indicator of a government's reach (and taxes provide one mechanism by which citizens can command accountability of government officials). Sub-Saharan Africa relies more heavily on trade taxes – which

[24] Elsewhere I point out that sub-Saharan Africa's economy is smaller than that of the city of Chicago, and that Africa's many borders are costly (Birdsall, 2006 ; on transportation and border costs in Africa see Radelet and Sachs, 1998). With its 48 countries that implies virtually all are small economies relative to the rest of the world.

[25] Van de Walle notes (personal correspondence, March 2007) that "when combined with ethnic diversity, the low legitimacy of African politics is due in no small part to the absence of pre-colonial states that bequeathed a sense of national identity to the country – the big difference between Africa and the states of Asia.

[26] See Alesina, Easterly and Matuszeski (2006) for a definition of problematic borders, which they note are prevalent in Africa.

[27] Nicolas van de Walle makes this point, referring to the Bamileke in Cameroun, the Igbo in Nigerio, the Kikuyu in Kenya, and the Ashanti in Ghana (personal correspondence).

do not have these positive characteristics – than any other region, including South Asia where average incomes are also low. This is the case for almost all aid-dependent countries in the region.

- Prevalent corruption, especially in the form of "prebendalism", which van de Walle defines as referring "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".[28] Many African countries score badly on international indicators of corruption.
- Lack of executive accountability. Van de Walle also emphasizes the destructive effects on state institutions of hyper-presidentialism, in which the president is subject to few checks and balances; a proxy for hyper-presidentialism is long stays of presidents in power – an obvious case (in early 2007) being that of Mugabe.

It is worth repeating that this list of indicators is not meant to add up to any model or theory of causation. Such a list is easy to make simply on the basis of visible problems of many weak and fragile states; and no one indicator or even the combination necessarily implies that a particular state is in fact weak (though it is hard to think of current effective "states" – perhaps Belgium, Texas(?!) – that once suffered more than one or two of these characteristics. The point of the list is simply to be more systematic about settings where donors would want to be alert to the risks of the WIT and the effects of aid on those risks.

4. Another indicator: the missing middle

The above indicators have been extensively discussed in the literature on weak and fragile states, and at least insofar as they influence outcome measures of governance are increasingly taken into account by donors about the amount and type of aid to particular countries (Section 2 above, and see also Fritz and Menocal, 2006).

An additional likely indicator has not been noted or used as far as I know. I highlight it here because, if it is salient, and some evidence suggests it is, then it should more systematically affect decisions about the amount of aid a country can absorb, and the type of aid that makes sense. It is:

- an unequal distribution of income with the particular characteristic of a small "middle", i.e. a distribution in which a small proportion of total national income is captured by the 60 percent of households in the three middle-income quintiles of the income distribution (of household income per capita).

Data on the distribution of income are famously poor, and particularly so for low-income countries in Africa. Still, theory and a growing body of evidence indicate that in low-

[28] Van de Walle, 2005, p. 20. Van de Walle, 2005, also emphasizes the pernicious effects on institutions in postwar Africa of heads of state long stays in power.

income countries, where markets tend to be shallow and governments weak, high inequality inhibits growth.[29] And recent work suggests that the distribution of income also matters in determining the sustainability of growth; Berg et al. (2006) provide preliminary estimates in which the "initial level of inequality" is statistically significant and substantial in magnitude in reducing the duration of growth spells across countries, controlling for initial per capita income and such other variables as political participation, democracy, constraints on the executive, and ethnic heterogeneity.[30]

Of course, inequality is high not only in Africa but in other regions of the developing world, especially Latin America (Table 6). But in Africa's low-income economies, the middle strata, i.e. the three middle quintiles of the income distribution, get on average an even smaller share of total income than in non-African low-income countries; a lower share than in the high inequality middle-income countries of Latin America; and a much lower share than in the OECD countries (Table 7). Moreover these ratios may actually exaggerate the relative standing of the "middle" in Africa, at least relative to standard notions of the "middle class", since the absolute income level of most people in the middle strata in low-income Africa is at or below the international poverty line (of $1 a day). The point, however, is that not only in absolute but even in relative terms, i.e. relative to the top quintile, the "middle" in many African countries has relatively limited economic power compared to the middle elsewhere.

Other work suggests a likely association between the causes and symptoms of the WIT outlined above and a small share of income of middle-income households. Easterly (2006) for example provides evidence that the smaller the income share of the three middle quintiles (in a sample of developing countries and along with ethno-linguistic fractionalization), the worse a country does on various institutional measures including voice and accountability, government effectiveness, the Freedom House measure of civil liberties, and the ICRG measures of law and order tradition and quality of the bureaucracy.

What is the intuition linking the size of a middle-income group to WIT causes and symptoms? Acemoglu et al. (2001) building on Engerman and Sokoloff,[31] propose that a set of initial conditions in a society (a country's factor "endowment") can be associated with the likelihood of a particular distribution of income (mineral wealth and the conditions conducive to sugar plantations are associated with concentration of income;

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[29] Birdsall and Londono, 1997, report a negative effect of various measures of inequality on average annual growth, controlling for initial income, for a sample of developing countries. Barro, 2000, concludes that income inequality hurts growth in countries at income levels below $2000 in 1985 U.S. dollars – equivalent to about $3600 in 2005 U.S. dollars. Birdsall (2007) defines a set of countries vulnerable to the negative effect of inequality on growth because their inequality is very high (at or above a Gini coefficient of .45) and their per capita income is below $5000 (2005 U.S.$).
[30] I am grateful to those authors for sharing their initial results with me. The statement above refers to regressions of survival time of growth based on breaks with minimum interstitiary period of 5 years and minimum growth of 2 percent annually.
[31] And de Tocqueville long before them, and Jefferson and so on….

wheat and coffee with a hearty smallholder class).[32] The endowment influences the nature, evolution and effectiveness of political institutions and in turn of economic institutions. (This is an extremely crude summary.) The link from the distribution of income to political and economic institutions can be best described in two dimensions. First, the size and income share of households in the middle of the income distribution is sufficient to provide an effective check on the potential abuse of economic and political power by the "rich" – a function which the ("voiceless") poor cannot perform. Second, it is in the interests of the middle income group to create and sustain a political system, including property rights and institutions that support a market economy, in which rewards accrue to productive investments and work, i.e. a system in which they benefit from increases the size of the economic pie, not from rent-seeking to capture more of an existing pie. A large middle is likely to politically support publicly financed investments in education, roads which enable them to be productive in a competitive market economy, and the other investments that create competition -- a level playing field.

Thus an economically powerful middle-income group, public investments in human capital, property rights, checks on abuse of state power and corruption – a "developmental state" – are the happy outcomes of some "initial" conditions. In turn by definition those outcomes, including the institutions of a developmental state, are likely to sustain economic growth, and economic growth of a particular kind – that is broadly shared, nurturing and safeguarding a middle class.

4. Implications for donors: Do no harm to the incipient non-state-dependent middle-income group, and in particular, *don't let aid constrain small business growth*

To summarize the discussion so far: Growth that is not sustained suggests an underlying problem of weak state institutions. Many low-growth societies are probably caught in what I have called a WIT: a weak-institutions trap. That is true even of many current donor favorites. (Burkina Faso, Madagascar, Mali, Mozambique, and Tanzania score reasonably well in terms of non-corruption, i.e. are not among the 25 percent worst scorers across all developing countries, but on other indicators set out above, including low natural openness and high primary commodity dependence, are highly vulnerable.)[33] The WIT is plausibly associated with a small and weak middle-income group – a characteristic of many countries in sub-Saharan Africa where there is a small but politically powerful elite (often itself dependent directly or indirectly on the state), and large numbers of very poor people.

What is the implication for donors? A summary statement is the following: In these settings, donors, while maintaining their concern with the poor, need also to be more focused on ensuring they do no harm to the middle and the latent middle – particularly to those in the middle in private business.

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[32] Engerman and Sokoloff compare North America and South America using these kinds of examples. Easterly (2001) uses a commodity variable as an instrument for the middle class.
[33] See the appendix table.

In Africa, not only is the size and share of the middle-income group small. It is also heavily dependent on the state, directly and indirectly, for jobs and income compared to Latin America and Europe. For a limited set of countries, the ILO has data on the share of the formal labor force in developing countries in the public and state enterprise sectors (as opposed to the private sector) that is comparable across countries. Table 8 indicates that that share is generally higher in Africa – for example 54 percent in Tanzania and 40 percent in Kenya – than in other developing countries, and higher than in the formerly socialist countries of Eastern Europe, such as Romania (23 percent) and the Czech Republic (22 percent). Of course in the low-income African countries, the absolute share of the private formal sector in the entire labor force is even smaller, to the extent the formal sector excludes many primarily subsistence agricultural producers The apparent reasons for a small private "middle" no doubt include high costs of doing business (Ramachandran and Shah, 2006) for lack of adequate public infrastructure and onerous regulations and taxes. Behind high costs is probably a more fundamental problem that, to quote Ramachadran and Shah, "despite decades of donor advice, it is still relatively difficult to find policymakers who really trust markets to deliver results." (p. 18) Behind that mistrust may be policymakers' aversion to the political threats associated with the generation of wealth (particularly where some ethnic groups dominate), leading to a preference for regulatory and administrative controls, in turn making the survival of a business dependent on personal relationships.

Donors currently do encourage governments to create business-friendly environments, while for good reasons eschewing direct support for private sector enterprises. But in aid-dependent countries, donors have yet to guard against the risk that they themselves, through their practices, harm private sector enterprises, particularly small and medium-size ones.

Put another way, donors reasonably advocate policies and programs in low-income countries that are "pro-poor." (In practical terms this has often boiled down to support for health and education, though recently there has been emphasis on agriculture and rural roads and other "pro-poor" infrastructure.) In highly aid-dependent countries, it makes sense to also systematically focus on avoiding harm to middle income households, in particular avoiding creating disincentives to small entrepreneurial activity and job creation in the private sector.

What are potential sources of harm and how should donors respond? Consider the pressures that high aid inflows create at the macroeconomic level, in the labor market, and in job creation through effects on investor confidence.

Macroeconomic pressures. High inflows of aid create pressure for currency appreciation if they are absorbed in the form of higher imports or increased domestic demand, or for inflation if they are spent by government locally. Currency appreciation hurts all enterprises that rely on exports – and in Africa's tiny economies (by global standards) that will include many relatively small businesses that necessarily rely on

regional not just local markets.[34] Sterilization of inflows cannot entirely solve the problem, as it tends to lead to high interest rates, which hurt most small businesses. Foster and Killick (2006) explain the case of Tanzania, where an increase in aid inflows in the late 1990s that was not absorbed via increased imports meant that tight credit was needed to control inflation. By 1996 private sector credit had fallen to one-third its level in 1990. Inflation fell but that raised the real interest rate in the late 1990s to 17 percent.

Good macroeconomic management can mitigate these effects, but seldom fully.[35] In countries in which aid already constitutes 50 percent of government spending (typical of our aid-dependent countries in which aid constitutes 10 percent or more of GNP, given government spending at about 20 percent of GNP), donors in collaboration with country officials ought to be monitoring closely inflation, interest rates, and currency changes, taking into account among other things differences in the import-intensity of aid as well as differences and changes over time in absorption in different recipient countries. At the least, given the risks, *donors as a group should take more responsibility for reporting and monitoring aggregate inflows of aid to recipient countries, and aid increases in already aid-dependent states should probably be explicitly planned to be more gradual.*

The labor market. Rajan and Subramanian (2005) present evidence that sectors in aid-dependent countries that are more reliant on skilled workers do less well the larger are aid inflows. They suggest that aid inflows increase demand, including by NGOs and government and donors themselves, for local talent that then has fewer incentives to engage in entrepreneurial, private sector activity more likely to be in tradable sectors, especially manufacturing. Africa is not competitive in non-traditional manufacturing exports, and evidence on the determinants of sustained growth elsewhere, especially in Asia, indicates that competitiveness in manufacturing has been necessary to sustain growth (Johnson et. al., 2006). (In Africa future global competitiveness may lie in services rather than manufacturing, but the overall issue is the same.) To the extent that tradables in any sector are associated with income growth of middle-income households (and the eventual emergence of an urban middle class), poaching of skilled workers for aid-financed activities undermines the very growth donors seek to advance.[36]

The multitude of donors operating in aid-dependent countries, particularly when each finances distinct and separate programs, is a key source of high demand for "aid workers" (including demand from NGOs whose work is financed by donors). That demand may help explain Knack and Rahman's (2004) finding of a decline in bureaucratic quality with increases in the number of donors.[37] It is surprising, however, how little is known about the nature of this potential problem. Informal soundings in

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[34] Birdsall (2006) notes that the economy of sub-Saharan Africa is smaller than that of the city of Chicago. Reflecting the still small size of light industry and retail, trade within the region is still also very limited, with most exports going outside the region.
[35] See Heller, 2005; and Plant (2006).
[36] Growth of manufacturing was closely associated with rapid and broadly economic growth in East Asia, because manufacturing provided opportunities and incentives for learning by doing and use of new technologies.
[37] Knack and Rahman provide an example from Niger, where several former ministers left government to set up aid-funded NGOs.

Ethiopia and Liberia by this author indicate donors do not collaborate in the collection and monitoring of information on their local hiring and salaries and that of the NGOs they fund locally, and thus do not know whether and what impact their financing is having on demand for and costs of semi-skilled and skilled labor for local small businesses and other private employers.

The bottom line is that *donors should minimize "poaching" of skilled workers, including by NGOs they finance*. That means paying closer attention to their collective impact on local salaries (and housing and other costs); putting more donor resources into adequate compensation for government staff[38]; and ensuring they are funding local competitive contracting whenever possible.

Local investor confidence. Large amounts of aid, particularly in the form of budget support, that are conditional on adequate political "governance" risk being viewed by potential investors as unreliable – at least in terms of providing the fiscal and price stability that encourages private risk-taking (This is in addition to the greater difficulty for local policymakers of managing the budget and macroeconomic policy if aid inflows are volatile and unpredictable.) Donors' difficulties in making aid more predictable and steady, despite their commitments (and in actually disbursing as planned against formal commitments[39]) thus risk discouraging private sector investment and job creation,in turn harming any incipient private-sector based "middle class". The growth success of China suggests that it is not measures of political dimensions of governance conventionally used by donors, but measures of economic dimensions (property rights, rule of law) that are associated with high levels of private investment and new job creation.

Auty (2006) suggests an approach for donors concerned with corruption in poor, rent-driven (resource-intensive) economies.[40] He advocates an enclave strategy (in which tax and other regulatory burdens on small retail and other businesses are suspended in a particular area as a way to support creation of a new small business elite, for example in the mining or oil sector. The enclave allows for minimal costs and risks on the current political and economic elites; and allows for gradual reform of the rent-driven aspects of the economy, while sustaining planned aid inflows.

The general lesson for donors is to be more patient, circumspect and strategic on governance and corruption issues, if they want to encourage the kind of stability that apparently encourages local small investors and entrepreneurs.

There are also ways that donors could positively enhance the prospects for the small private-sector driven middle-income population .

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[38] For a proposal on how to consolidate salary supplements in Liberia that have already been effective, see http://www.cgdev.org/section/initiatives/_active/Liberia.

[39] Bulir and Hamann (2001).

[40] Models of growth in rent-driven economies emphasize the risks of aid as a form of "geopolitical" rent (Auty, 2006), particularly in countries with weak political institutions (Svensson, 2000), where the demands of a middle class for growth-oriented economic policy are missing.

Use donor funds to enhance the pay of senior government officials, at least for limited periods. Paying people from poor and small countries more than their own countries can afford – at least for limited periods – has not been much tried.[41] In some settings it may be the an investment with enormously high returns, if it enables and locks in the leadership needed to begin a process of building or rebuilding state institutions. More generally donors could find other ways to strengthen and empower local experts and technocrats, including through external support of locally based independent policy research institutions and universities, particularly in the policy and social sciences. This kind of support would promote independent local constituencies for more accountable government.

Tie increases in aid to increases in direct forms of domestic revenue generation. Among low and middle-income countries tax shares exceed 18 percent only in those that receive less than 10 percent of their GNP in aid (Moss and Subramanian, 2005), and old and mineral-based economies reliant on "unearned" foreign inflows do have lower domestic tax effort. There is no clear evidence of causation in the aid-tax relationship. Still, Africa's heavy reliance on trade taxes (see table above) is particularly burdensome for exporters (and for producers of tradables in general) as well as for middle-income consumers. Donors need to ensure that increases in aid inflows do not discourage restructuring of tax systems to make them less reliant on the trade sector. Otherwise aid sustains tax regimes that are likely to be burdening disproportionately job-intensive export sectors, including agriculture and small industry. Moore (1998), Easterly (2006) and others have emphasized the risk that aid reduces accountability of recipient governments to their own citizens, in part because it is difficult to build in mechanisms of feedback.[42] In mature democracies it is the middle class, not the poor, who generate demand for accountable government – including through their willingness to pay taxes.

Conclusion

Many countries in Africa that are highly dependent on aid have the symptoms of a weak-institutions trap. Strengthening their local institutions, particularly the institutions of the state, is key to their sustaining growth. Proposals for reform of aid to make aid compatible with institution-building exist. But even in the case of "capacity development" – the first and often last resort of donors, caution is warranted given the failures of the past.[43] In the end experience suggests that the institution-building process is a local task; it is not particularly amenable to outside help.

[41] For ideas and discussion of this issue, and some examples, see Birdsall and Vyborny, 2007. Birdsall and Vyborny, 2007 outlines recommendations for such support in Liberia.
[42] Rajan and Subramanian (2007) provide evidence that aid is associated with worse governance (using the ICRG measure), possibly because aid inflows reduce the need for governments to tax the governed.
[43] Fritz and Menocal (2006) among others suggest "a serious commitment to improving capacity development." But capacity development has been a stated donor priority for decades with little or no apparent effect.

A first step for donors is to reduce the risk that aid from outside undermines existing and incipient institutions. Broad reforms of aid practice would help – harmonization would reduce poaching, and greater predictability would avoid the volatility that discourages domestic investment. But ambitions and rhetoric about broad donor reform are way ahead of the reality of how donors actually now behave. Donor reforms may yet take hold, but in what may be a long "meantime" official donors active in aid-dependent countries ought to focus on a more modest goal: while doing good for the poor, do not do harm the productive middle. After all, in the advanced economies and in developing countries that have sustained growth for several decades, it is the productive "middle" that not only fuels sustained, private sector growth but provides the ballast of accountable, democratic and strong state institutions.

TABLES

Table 1A: Selected Indicators: Low-Income aid-dependent countries (>10% GNI)					
	GDP per capita (constant 2000 US$): Most recent (after 1995)	**Aid (% of GNI): Average, 2000-2004**	**Poverty headcount ratio at $1 a day (PPP) (% of population): Most recent (after 1993)**	**GDP growth (annual %)**	
				Average, 1990-1999	**Average, 2000-2004**
Africa					
Benin	328	9.6	30.9	4.5	4.7
Burkina Faso	248	13.3	27.2	3.8	4.5
Burundi	105	31.2	54.6	n/a	2.2
Chad	257	11	n/a	2	12.1
Congo, Dem. Rep.	88	32.1	n/a	n/a	1.3
Djibouti	791	11.2	n/a	n/a	2.3
Eritrea	173	35.5	n/a	8.1	0.3
Ethiopia	113	19.4	23	2.9	5.2
Gambia, The	337	15.5	59.3	3.1	4.6
Ghana	278	12.8	44.8	4.3	4.7
Guinea-Bissau	137	38.9	n/a	2	1.1
Liberia	130	24.4	n/a	1.2	0.7
Madagascar	229	12.8	61	1.6	2.6
Malawi	153	25.2	41.7	4.1	2.4
Mali	237	13.9	72.3	3.6	5.8
Mauritania	437	20	25.9	3.8	5.2
Mozambique	275	30.5	37.9	5.7	7.6
Niger	156	14.7	60.6	1.9	3
Rwanda	250	20.5	51.7	2.1	5.4
Sao Tome and Principe	359	69.9	n/a	1.7	4
Senegal	461	9.6	22.3	3.1	4.3
Sierra Leone	156	35.8	n/a	n/a	6.4
Tanzania	313	14.1	57.8	3.1	6.4
Uganda	267	14.9	n/a	6.9	5.8
Zambia	336	17.8	75.8	0.4	4.3
Other low-income aid-dependent countries					
Bhutan	695	12.7	n/a	6.4	6.5

Cambodia	339	11.5	34.1	7.4	6.8
Kiribati	532	19.3	n/a	5.4	1.7
Kyrgyz Republic	325	12.9	2	n/a	5
Lao PDR	378	14.7	27	6.4	5.9
Mongolia	462	19.8	27	1.8	4.5
Nicaragua	817	20.4	45.1	3	3
Solomon Islands	636	26.2	n/a	3.2	n/a
Tajikistan	223	13.2	7.4	n/a	9.7
Timor-Leste	355	51.5	n/a	n/a	3.8

Table 1B: Selected Indicators: Other low-Income countries (not aid-dependent)

	GDP per capita (constant 2000 US$): Most recent (after 1995)	**Aid (% of GNI): Average, 2000-2004**	**Poverty headcount ratio at $1 a day (PPP) (% of population): Most recent (after 1993)**	**GDP growth (annual %)**	
				Average, 1990-1999	**Average, 2000-2004**
Africa					
Angola	799	4.7	n/a	1	7
Cameroon	662	6.2	17.1	0.4	4.5
Central African Republic	225	6.6	66.58	1.3	n/a
Cote d'Ivoire	574	3.6	14.8	2.6	n/a
Guinea	380	7.3	n/a	4.2	2.7
Kenya	427	3.6	22.8	2.2	2.5
Lesotho	540	6.1	36.4	4	2.7
Nigeria	402	0.7	70.8	3.1	5.1
Sudan	434	2.9	n/a	4.5	6.1
Togo	244	3.6	n/a	2.6	1.8
Zimbabwe	457	2.2	56.1	2.6	n/a
Other low-income countries (not aid-dependent)					
Bangladesh	402	2.3	36	4.8	5.4
Haiti	441	5.7	53.9	n/a	n/a
India	538	0.2	34.7	5.7	5.7
Moldova	400	6.9	22	n/a	6
Nepal	231	7	24.1	4.9	3.5
Pakistan	566	1.9	17	4	4.1

Papua New Guinea	604	7.7	n/a	4.9	0.2
Turkmenistan	752	1.1	n/a	n/a	19.5
Uzbekistan	639	1.7	n/a	n/a	4.8
Vietnam	502	4.5	n/a	7.4	7.2
Yemen, Rep.	534	3.8	15.7	5.7	3.8

Note: I have categorized Benin and Senegal as aid-dependent (aid as % GNI = 9.6)
GNI (gross national income) is equivalent to GNP (gross national product).
Source: World Bank World Development Indicators. Most recent data available for each data point. World Bank classification of low-income countries includes those with per capita income levels below $875.

Table 2: Episodes of Rapid Growth in Sub-Saharan Africa

Country	Year	Growth before	Growth after	Difference in growth
Nigeria	1967	-1.7	7.3	9.0
Botswana	1969	2.9	11.7	8.8
Ghana	1965	-0.1	8.3	8.4
Guinea-Bissau	1969	-0.3	8.1	8.4
Zimbabwe	1964	0.6	7.2	6.5
Congo	1969	0.9	5.4	4.5
Nigeria	1957	1.2	4.3	3.0
Mauritius	1971	-1.8	6.7	8.5
Chad	1973	-0.7	7.3	8.0
Comoros	1972	-0.6	5.3	5.9
Congo	1978	3.1	8.2	5.1
Uganda	1977	-0.6	4.0	4.6
Lesotho	1971	0.7	5.3	4.6
Rwanda	1975	0.7	5.3	3.3
Mali	1972	0.8	3.8	3.0
Malawi	1972	0.8	3.9	2.5
Guinea-Bissau	1988	-0.7	5.2	5.9
Mauritius	1983	1.0	5.5	4.4
Uganda	1989	-0.8	3.6	4.4
Malawi	1992	-0.8	4.8	5.6

Source: Hausmann, Pritchett and Rodrik (2004), Table 2.1.

Table 3: 1985 ICRG Risk Scores and Subsequent GDP Growth (1-10, 10 best)		
Country/Region	**ICRG Index 1985**	**Average annual GDP growth, 1985-present**
Africa		
Cote d'Ivoire	5	1.6
Kenya	4.56	3.2
Niger	4.4	2.8
Mozambique	4.3	6.1
Cameroon	4.2	1.5
Sierra Leone	4.2	-1.1
Burkina Faso	3.8	4.2
Malawi	3.8	3.2
Senegal	3.8	3.4
Tanzania	3.72	4.2
Ethiopia	3.6	3.4
Madagascar	3.6	2.1
Zimbabwe	3.6	1
Guinea	3.48	3.9
Angola	3.4	3.3
Togo	3.4	2.7
Zambia	3.4	1.8
Congo, Rep.	3.2	1.3
Somalia	3.2	2.4
Liberia	2.7	-0.9
Ghana	2.56	4.6
Mali	2.42	3.7
Uganda	2.4	5.7
Sudan	2.2	4.9
Congo, Dem. Rep.	2.06	-2.1
Guinea-Bissau	2.4	2.1
Other low-income countries		
Papua New Guinea	5.28	3.1
India	4.5	5.8
Vietnam	4.16	6.6
Pakistan	3.4	4.6

Myanmar	3.26	4.4
Haiti	2.4	-0.6
Bangladesh	1.92	4.6
	Mean	***Mean***
Sub-Saharan Africa Low-Income (25 countries)	3.42	2.82
Other Low-Income (7 countries)	3.56	4.08
Middle Income (53 countries)	3.62	3.30

Note: The World Bank defines 58 countries as low income, of which 34 have available data shown above; and 98 as middle income, of which 53 are included above.
Source: International Country Risk Guide Political Risk Score (PRS) Group dataset (2004).

Table 4: Inconsistency of Governance Measures

Country	*CPIA*		*MCA measures*						
	CPIA overall	IDA – Governance	Qualifies for MCA?	Civil liberties	Political rights	Voice and Account-ability	Govern-ment effective	Rule of law	Control of corrupt-
	(1-5, 1=best)			(1-7, 1=best)		(0-1, 1=best)			
Cape Verde	1	1	Possible	2	1	0.68	0.5	0.6	0.66
Mauritania	1	1	No	5	5	0.26	0.52	0.48	0.64
Senegal	1	2	Yes	3	2	0.54	0.52	0.52	0.53
Ghana	2	1	Yes	3	2	0.52	0.59	0.53	0.42
Benin	2	1	No	2	3	0.55	0.31	0.43	0.34
Burkina Faso	2	2	No	4	4	0.43	0.28	0.34	0.57
Malawi	3	2	No	4	4	0.36	0.28	0.46	0.19
Mozambique	3	2	No	4	3	0.44	0.42	0.3	0.15
Mali	2	3	No	3	2	0.58	0.19	0.34	0.46
Lesotho	3	3	Yes	3	2	0.49	0.49	0.54	0.48
The Gambia	4	3	Possible	5	5	0.2	0.21	0.37	0.24
Sao Tome and Principe	5	3	No	2	1	0.7	0.29	0.4	0.5
Togo	5	5	No	5	5	0.16	0.09	0.29	0.32

Source: Radelet (2003) Tables 3.1 and 3.2, World Bank CPIA (2003)

Table 5: Taxes on International Trade, Percent of Total Tax Revenue, 2002-2004			
Region	Number of Countries	Mean	Median
Sub-Saharan Africa	14	25.7	27
Latin America and Caribbean	16	9.3	7
East Asia	10	10.3	7
South Asia	8	18	16
High-income OECD	12	0.8	1

Note: Tax revenue excludes grants. Latest year available for period 2002-2004.
Source: WDI (2006).

Table 6: Income Gini by Region, 1995-2003			
Region	Number of countries	Mean	Median
Sub-Saharan Africa	18	50.2	49.8
Latin America and Caribbean	19	52.3	51.8
East Asia	10	41.7	43.4
South Asia	4	35.5	35.1
OECD Country average	23	31.6	30.9

Note: Latest year available for period 1995-2003.
Source: WIID 2a; author's calculations.

Table 7: Income Share of Middle Strata, 1995-2003 (Percent)			
Region	Number of countries	Mean	Median
Sub-Saharan African low-income countries	16	40.9	42.4
Other low-income countries	13	46.7	47.2
South Africa	1	30.3	30.3
Middle income countries (not in Sub-Saharan Africa)	53	45.3	46.7

High income OECD countries	21	52.8	53.5

Notes:
1. Middle strata defined as the three middle quintiles of the population.
2. Latest year available for period 1995-2003.
3. Income classifications calculated using World Bank Atlas method. The groups are: low-income, gross national income (GNI) of $875 or less in 2005; middle-income, $876 - $10,725; high-income, $10,726 or more.
4. Median income share of top decile for each region is as follows: 36.6 for sub-Saharan African low-income countries, 30.6 for other low-income countries, 54.3 for South Africa, 33.5 for middle income countries, 24.0 for high income OECD countries.

Sources: WIID 2a; author's calculations.

Table 8: Public sector employment as share of total formal sector employment for selected African countries

Africa	
Benin	13%
Botswana	44%
Gabon	60%
Kenya	40%
Malawi	22%
Mauritius	19%
South Africa	34%
Tanzania	54%
Uganda	3%
Zimbabwe	24%
Mean (12 countries)	**31%**
Median (12 countries)	**29%**
Selected other countries	
Albania	20%
Argentina	15%
Armenia	21%
Australia	16%
Belgium	31%
Brazil	11%
Canada	18%
Chile	16%

China	13%
Colombia	6%
Costa Rica	14%
Czech Republic	22%
Denmark	34%
Estonia	26%
Italy	15%
France	22%
Guatemala	17%
Hong Kong	9%
Hungary	31%
Japan	9%
Kazakhstan	21%
New Zealand	20%
Romania	23%
Turkey	14%
United States	16%
Uruguay	18%
Mean (26 countries)	**18%**
Median (26 countries)	**18%**

Source: ILO LABORSTA database, most recent years available in period 1995-2004. The percentage for each country is based on public sector employment number divided by total formal employment number. Uganda percentage probably reflects an error in the data.

Appendix Table: Indicators for a WIT: Low-income Sub-Saharan African countries						
Country	Control of Corruption (KKZ<= -0.82; bottom 23% of 210 countries)	Natural Resource Dependent (> 30% of exports)	Low natural openness to trade (<0.1; range for all countries: 0.0 to 1.4)	Primary commodity dependent (>70%)	High proportion of revenue from trade taxes (>20%; range: 1.2% to 51.2%)	Internal Conflict (ICRG<8.75; bottom 30% of 139 countries)
Aid-dependent countries (> 10% GNI)						
Burkina Faso			X	X	n/a	
Burundi	X		X	X		n/a
Cape Verde		X	n/a		n/a	n/a
Chad	X	n/a	X	n/a	n/a	n/a
Congo, Dem. Rep.	X	n/a		n/a	X	X
Eritrea			X	X	n/a	n/a
Ethiopia	X		X	X	X	X
Gambia				X	X	
Ghana		X	X		X	
Guinea-Bissau		n/a	X	n/a	n/a	X
Liberia	X	n/a	X	n/a	n/a	X
Madagascar			X		X	X
Malawi	X		X	X	n/a	X
Mali		X	X		n/a	
Mauritania		X	X	n/a	n/a	n/a
Mozambique			X	X	n/a	
Niger	X		X	X	n/a	
Rwanda		n/a	X	n/a	X	n/a
Sao Tome			n/a	X	n/a	n/a
Senegal			X	X	X	X
Sierra Leone		n/a	X	n/a	X	
Tanzania		n/a	X	X	n/a	X
Uganda	X		X	X		X
Zambia		X	X	X		X
Non aid-dependent countries						
Angola	X	n/a	X	n/a	n/a	n/a

Benin			X	X	n/a	n/a
Cameroon	X	X		X	X	n/a
Central African Republic	X		X	X	n/a	n/a
Comoros				X	n/a	n/a
Congo, Rep.	X	n/a	X	n/a		n/a
Cote d'Ivoire	X		X	X	X	X
Djibouti		n/a		n/a	n/a	n/a
Guinea	X	X	X		X	n/a
Kenya	X		X	X		
Lesotho			n/a		X	n/a
Nigeria	X	X	X	n/a	n/a	X
Sudan	X	X	X	X	X	X
Togo	X		X	X	n/a	X
Zimbabwe	X		X	X	X	X

Notes: The KKZ indicators are based on 2005 data. Natural resource dependence includes all mineral and energy exports (SITC 27, 28, 32, 33, 34, 68, 971) and is calculated from UN Comtrade data (2000). Natural trade openness is based on predicted trade/GDP ratio calculated by Frankel and Cavallo (2004). Proportion of exports from primary commodities includes agriculture (SITC 0,1,2, and 4) and non-agricultural commodities (SITC 3, 611, 667, 68), calculated from UN Comtrade data (2000). Taxes on international trade are based on World Bank World Development Indicators (2004). The ICRG indicators are based on 2003 data.

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