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Underdevelopment in Sub-Saharan Africa The Role of the Private Sector and Political Elites

by Moeletsi Mbeki

Executive Summary

Economic growth in Africa, as in the rest of the world, depends on a vibrant private sector. Entrepreneurs in Africa, however, face daunting constraints. They are prevented from creating wealth by predatory political elites that control the state. African political elites use marketing boards and taxation to divert agricultural savings to finance their own consumption and to strengthen the repressive apparatus of the state. Peasants, who constitute the core of the private sector in sub-Saharan Africa, are the biggest losers. In order for Africa to prosper, peasants need to become the real owners of their primary asset—land—over which they currently have no property rights.

Peasants must also be given direct access to world markets. They must be able to auction their cash crops, including coffee, tea, cotton, sugar, cocoa, and rubber, freely rather than being forced to sell them to state-controlled marketing boards at discounted prices. In that respect, South Africa is unique in the region. The country does not have a large disenfranchised peasantry. Most of South Africa's private sector belongs to South Africans, who also have a say in the political process. The future will show whether those factors will constrain the power of the South African political elite in a manner that is sufficient to safeguard South Africa's growth potential.

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At the root of Africa's problems are ruling political elites that have misused the economic surplus generated by the African continent over the last 40 years.

Introduction

When the colonies in Africa and Asia became independent, their political leaders were faced with two main challenges: achieving domestic political stability and transforming their economies from the production of raw materials to industrial production. The outcome of that project is today a matter of general knowledge. Although Asian countries went through many conflicts in the early years, by 1965 most of those conflicts had been resolved. Asian leaders turned to the second challenge of developing and diversifying their countries' economies. Africa's story is far more mixed. Many old conflicts, including wars in Sudan, Ethiopia, and Eritrea, continue. More recent conflicts, such as the genocide in Rwanda, continue to erupt on a scale and ferocity that is difficult to fathom. Internal conflict has split Côte d'Ivoire—once the crown jewel of West Africa—in two. With few exceptions, Africa's political elites have driven their countries' economies backwards.

In a recent publication entitled *Can Africa Claim the 21st Century?* the World Bank noted that many observers, the 1974 winner of the Nobel prize for economics Gunnar Myrdal among them, expected Asia to remain mired in poverty while Africa steamed ahead. A comparison between Ghana and South Korea, two countries that were at a similar level of development in the 1960s, shows that the opposite happened. The World Bank found that "In 1965 . . . incomes and exports per capita were higher in Ghana than in Korea . . . Korea's exports per capita overtook Ghana's in 1972, and its income level surpassed Ghana's four years later. Between 1965 and 1995 Korea's exports increased by 400 times in current dollars. Meanwhile, Ghana's increased only four times, and real earnings per capita fell to a fraction of their earlier value."¹

What Has Gone Wrong in Africa?

At the root of Africa's problems are ruling political elites that have misused the eco-

nomical surplus generated by the African continent over the last 40 years. African political elites have exploited their position in order to

- bolster their standard of living to Western levels,
- undertake loss-making industrialization projects that were not supported by the necessary technical, managerial, and educational development, and
- transfer vast amounts of money from agriculture and mineral extraction to overseas private bank accounts, while borrowing vast amounts from developed countries.

What were the results of those predatory policies? According to the World Bank and the International Monetary Fund, which have become Africa's fairy godparents, Africans are poor and getting poorer. The World Bank noted, "Despite gains in the second half of the 1990s, Sub-Saharan Africa . . . enters the 21st century with many of the world's poorest countries. Average per capita income is lower than at the end of the 1960s. Incomes, assets, and access to essential services are unequally distributed. And the region contains a growing share of the world's absolute poor, who have little power to influence the allocation of resources."²

Other researchers have corroborated the World Bank's observations. According to the National Bureau of Economic Research,

Thirty-six percent of the region's population lives in economies that in 1995 had not regained the per capita income levels first achieved before 1960. Another six percent are below levels first achieved by 1970, 41 percent below 1980 levels and 11 percent below 1990 levels. Only 35 million people reside in nations that had higher incomes in 1995 than they had ever reached before.³

In fact, many people in sub-Saharan Africa have fallen so far down the economic

scale that it is hard to imagine them getting poorer.

Origins of the Predatory Political Elites in Africa

African states as we know them today were not created by Africans. With a few exceptions, such as Egypt, Ethiopia, Liberia, and Sierra Leone, they were created by European imperial powers that had little regard for ethnic and religious differences among Africans. The arbitrary nature of African boundaries explains in part why over the past 30 years Africa has experienced civil wars, intertribal wars, violent communal conflicts and pogroms, wars of secession, and more recently, in the Great Lakes region of Central Africa and in parts of the Sudan, genocide and ethnic cleansing. Those conflicts have been accompanied by vast population movements in and out of several national boundaries. As a result, Africa is host to the largest number of refugees and internally displaced persons in the world.

The states that the African political elites inherited from the colonial powers often served as tools of political oppression but also of economic exploitation through such instruments as poll taxes and forced labor on plantations, mines, and infrastructure projects. The introduction of cash crops provided the state with revenue that the colonialists used to consolidate their power over the local populations. State corporations or favored private monopolies from the colonial power's home country bought cash crops from the peasants. Either way, the farmers got the worse end of the bargain, as they were paid at far below world market prices.

The political elites that took over African countries in the 1960s saw government as a source of personal enrichment. One of the great pioneers of this scramble for power on the eve of Africa's independence, Ghana's Kwame Nkrumah, urged the emerging political elites: "Seek ye first the political kingdom and all else shall be given."⁴ The history of

Africa since the 1960s is thus the history of groups of elites seeking the "political kingdom," with the primary purpose of enriching themselves. Built into that quest for wealth was the exclusion of outsiders, including both the masses and the weaker parts of the political elite. Competition for economic resources exacerbated the ethnic and religious tensions that were already present. That explains in part why there have been so many intrastate conflicts in Africa.

During the past 50 years there have been only two interstate wars among African countries—the war between Tanzania and Uganda in the 1970s and the war between Ethiopia and Eritrea in the 1990s (and the latter war could be considered a continuation of the secessionist conflict between Eritreans and Ethiopians). But intrastate conflicts have been legion, fragmenting African states into warring factions and parties. In many countries, internal conflicts have weakened the state to the point where African governments can no longer perform essential services, including enforcement of the rule of law.

The Private Sector: Key to Economic Development

All modern schools of political thought, from Marx and Lenin to Hayek and Friedman, agree on at least one thing: the private sector is the driver of modern economic development.

In their quest for greater security and comfort, private individuals seek ever more material wealth. That process compels them to produce more and exchange what they produce with other individuals who also seek greater security and comfort. Put together, those acts of production, exchange, and consumption constitute the modern capitalist economy.

In order to produce more, private individuals must generate savings and plow those savings back into the production process in the form of new and improved techniques, processes, and products.

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Table 1
Percentage of Labor Force Working in Agricultural, Industrial, and Service Sectors

	Agriculture			Industry			Services		
	1970	1980	1990	1970	1980	1990	1970	1980	1990
Agricultural countries									
Ethiopia	91	89	86	2	2	2	7	9	12
Kenya	84	82	80	5	6	7	9	11	13
Oil producing countries									
Nigeria	71	54	43	11	8	7	19	38	50
Gabon	79	65	52	9	12	16	12	22	33
Newly industrializing countries									
Mauritius	34	27	17	25	28	43	41	45	40
South Africa	31	17	14	30	35	32	39	48	54

Source: World Bank, *African Development Indicators 2002* (Washington: World Bank, 2002).

That is the logic of capital accumulation. If you wish to accumulate more value, you have to produce more value. To be able to consume more, you must be able to do the following:

- Raise your labor productivity by using more capital. That, in turn, requires you to accumulate more capital or save.
- Use capital and labor more efficiently. That may come from technological improvements or entrepreneurial alertness to opportunities to reduce waste.

Those who cannot use their capital most efficiently tend to have less of it than others. Alternatively, less efficient producers are “bought out” by more efficient producers.

Like people everywhere, Africans want security and comfort. Unfortunately, the great majority of Africans are today experiencing the opposite. In many instances, Africans face daily hunger, homelessness, threats of violence, actual violence, and starvation.

If we consider the peasant household as a firm, Africa may have one of the largest private sectors in the world. Most Africans live and work on small farms that populate the African countryside (see Table 1 for examples of select-

ed African countries). Theoretically, therefore, Africa should be a hive of economic activity. What has gone wrong?

Africa’s private sector is predominantly made up of peasants and, to a lesser extent, subsidiaries of foreign-owned multinational corporations. But those groups are dominated by the unproductive political elites who control the state. Africa’s private sector is powerless. It does not have the freedom to maximize its objectives. Above all, it is not free to decide what happens to its savings.

The Peasants’ Vulnerability

It has long been recognized that peasants tend not to join forces to further their political interests. They are, therefore, open to exploitation by other social groups that dominate them politically. In his classic analysis of French society in the 19th century, Karl Marx noted the powerlessness and, therefore, the vulnerability of peasants.

The smallholding peasants form a vast mass, the members of which live in similar conditions but without entering into manifold relations with one another. Their mode of production

Africa’s private sector is not free to decide what happens to its savings.

isolates them from one another instead of bringing them into a mutual intercourse. . . . Each family is almost self-sufficient; it itself directly produces the major part of its consumption and thus acquires its means of life more through exchange with nature than in intercourse with society. . . . In so far as there is merely a local interconnection among these smallholding peasants, and the identity of their interests begets no community, no national bond and no political organization among them, they do not form a class. They are consequently incapable of enforcing their class interests in their own name, whether through a parliament or through a convention.⁵

More recently, Milton Friedman observed that the reduction of the size of the agricultural sector relative to the rest of the economy tends to be accompanied by increased political clout of agricultural producers. When farmers form a majority of the population, they tend to subsidize the urban minority. When farmers form a minority, the urban majority subsidizes them. The reason, Friedman wrote, rests in higher transaction costs that large groups have to face in comparison to smaller groups.

A group that seeks benefits through political pressure is handicapped by being too numerous and, at least up to a point, benefited by being few. Government can spend a dollar per member of a majority only by collecting more than a dollar from each member of the minority, each of whom will therefore squeal louder than each of the majority will applaud. On the other hand, government can spend a dollar per member of a small minority by collecting only a few cents from each member of a large majority—the applause is then far louder than the squeal.⁶

In most of Africa, the urban population is much smaller and more concentrated than

the rural population. As such, the urban population finds it easier to organize and to achieve its ends. The peasants, however, are more numerous and more disorganized. As a result, the interests of African peasants are not well represented, even in countries where the political elites claim to act in the interests of peasants. Robert Mugabe, for example, has reduced the Zimbabwean peasants to paupers who now have to be fed by the United Nations' World Food Program.

African political elites use their control of the state to extract the agricultural surplus or savings. Were the peasants free to retain that surplus capital, they could invest it in improving their production techniques or diversifying their economic activities. Instead, the political elite uses marketing boards and taxation to divert those savings to finance its own consumption and strengthen the repressive instruments of the state. *The Economist* recently made the following observation about Ethiopia's dependence on foreign food donations: "By law, all Ethiopian land is owned by the state. Farmers are loath to invest in improving productivity when they have no title to the land they till. Nor can they use land as collateral to raise credit. And they are taxed so heavily that they rarely have any surplus cash to invest."⁷

A great deal of what is consumed by Africa's political elites and the states they control is imported. Such elite consumption of imports acts as a major drain of national savings that would otherwise have gone into productive investment in Africa. That is the secret to Africa's growing impoverishment despite its large private sector. The more the African political elites consolidate their power, and the more they strengthen their hold over the state, the more the peasants are likely to become poorer, and the more the African economies are likely to regress or, at best, stagnate.

One of the most striking cases of that phenomenon is Nigeria. According to a study of Nigeria prepared by the Centre for the Study of African Economies at Oxford University, between 1980 and 2000 per capita gross

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domestic product (GDP) in 1996 dollars adjusted for purchasing power parity fell from US \$1,215 to US \$706. The authors pointed out that the 40 percent drop in income understated the size of Nigeria's problem. "First the fall in real per capita consumption was very much greater [than the fall in per capita income] while the available evidence suggests that inequality rose. This combination of a very large fall in per capita consumption combined with increasing inequality implies a large rise in poverty."⁸ According to another source, the number of Nigerians living below the poverty line increased from 19 million in 1970 to 90 million in 2000. That was accompanied by a massive rise in inequality. In 1970 the top 2 percent of the population earned the same income as the bottom 17 percent. By 2000, the income of the top 2 percent was equal to that of the bottom 55 percent.⁹

To understand the potential of what could be achieved in Africa with correct policies, let us compare what is happening in Nigeria to what is happening in China. While per capita GDP nearly halved in Nigeria and the number of people living below the poverty line skyrocketed between 1970 and 2000, per capita income in China increased sevenfold during the same period, lifting more than 400 million people out of poverty.¹⁰

The African oil industry provides the most graphic illustration of the role played by predatory political elites in African underdevelopment. Oil revenues make it possible for the political elite to become detached from the local population and economy. When that happens, there is no need for the political elite and the state it controls to invest in public goods enjoyed by the population at large. Worse, oil revenue provides the political elite with the funds to repress the local population. This is how *The Economist* described the impact of oil production on Equatorial Guinea and Gabon:

Equatorial Guinea now pumps more oil per person than Saudi Arabia. Its economy, once negligible, has grown at an

incredible 40 percent annually since 1996, when the oil boom began. . . . Equatorial Guinea was never well governed: Obiang Nguema, the president, seized power by executing his uncle in 1979. But oil has made his regime increasingly paranoid. Several members of the ruling family are thought to want a bigger slurp at the oil barrel. Mr. Obiang sees plots everywhere, and arranged periodic crackdowns. Several opposition leaders were jailed last year after a mass trial, to which many defendants turned up with broken arms and legs. Mr. Obiang scoffs at western notions of transparency, insisting that how much money his government earns from oil is nobody's business. "Oil has turned him crazy," says Celestino Bacale, a brave opposition politician.¹¹

In the years after independence, when the political elite was relatively small and closer to the masses that had supported it in its struggles against colonialism, the elite invested in education, healthcare, and transportation. Thandika Mkandawire, director of the United Nations Research Institute for Social Development, has noted:

If one takes a growth rate of 6 percent over more than a decade as a measure of successful development performance, in the 1967-1980 period, ten countries enjoying such growth were African. These not only included mineral-rich countries such as Gabon, Botswana, Congo and Nigeria but also such countries as Kenya and Côte d'Ivoire, who slightly outperformed both Indonesia and Malaysia during the period. One interesting feature is that much of this growth was sustained largely by domestic savings, which increased significantly after independence, reaching, on the average, 21.5 percent by 1980.¹²

Zimbabwe provides a textbook example of the correlation between falling standards of

living of the population at large and the growing power of the political elite. In their struggle against the white minority regime, Zimbabwe's nationalists enlisted the support of the peasants and agricultural workers that made up the majority of Zimbabwe's population. During the 1980s, the first decade of Zimbabwe's independence, the ZANU government made strenuous efforts to uplift those agricultural constituencies. In the meantime, however, ZANU set out to crush ZAPU—its former ally. ZANU succeeded only after a great deal of bloodletting. What remained of ZAPU was absorbed into ZANU-PF (ZANU's new name) in 1988. Once it consolidated its hold on power, the ZANU-PF political elite quickly forgot about its wartime constituency and proceeded to enrich itself to the great detriment of the national economy and the population at large. The University of Zimbabwe's Tony Hawkins notes that Zimbabwe's per capita GDP in 1990 Zimbabwean dollars fell from Z\$2185 in 1999 to Z\$1355 in 2003. Zimbabwean per capita GDP was lower in 2003 than at the time of Zimbabwe's independence from British rule in 1980.¹³

The Vulnerability of Multinational Corporations

European joint stock companies have operated in Africa since the dawn of the capitalist era. One of the most famous among them, the Dutch East India Company, started the colonization of South Africa in the mid-17th century. During the "Scramble for Africa," those companies followed close on the heels of the conquering armies of the colonial powers and established agricultural plantations, mines, railways, harbors, and new cities. Later they diversified into making consumer goods for the burgeoning African market, from soap and beer to blankets, fishing nets, and processing raw materials.

When African states became independent, foreign corporations lost their colonial protectors. Before long they, like the peasants, fell prey to the appetites and whims of the

new African political elite that controlled the newly independent African states. The lucky corporations were nationalized and their owners compensated. The unlucky ones were confiscated by individual politicians without compensation. Many corporations survived as best they could. They bribed the new elite or found ways of ingratiating themselves with their new masters. Even the mighty Western oil companies have not escaped the destructive power of Africa's political elites. They are periodically compelled to make huge payments to foreign private bank accounts of the local heads of state and their friends and families. For example, the U.S. Senate has uncovered vast sums paid by oil companies to the private American bank accounts of Equatorial Guinea's head of state, Obiang Nguema.¹⁴

The political elites in sub-Saharan Africa largely refrained from seizing the heavy manufacturing and mining companies. Foreign-owned companies therefore still dominate those sectors, with state-owned enterprises or parastatals increasingly playing a minor role. A recent study by the World Bank showed that the most productive companies in, for example, Nigeria, are those owned by multinational corporations or by non-African industrialists, including Indians, Chinese, and Lebanese.¹⁵ All of those owners are easy targets, however, as they are not represented within the political elites. Like the peasants, they are subjected to all sorts of official and unofficial taxes, ranging from bribes for factory inspectors and customs officials to artificially high electricity tariffs, arbitrary municipal rates, and so on. That is another way that the African political elite contributes to fostering Africa's underdevelopment. Because political elites obstruct the operations of industry and divert profits to elite consumption and capital flight, Africa's manufacturing industries are unable to grow and, therefore, create employment for all types of workers.

According to one study, for example,

Between 1970 and 1980 [Ghana's] per capita GDP declined by a total of 19.7

Like the peasants, foreign entrepreneurs are subjected to all sorts of official and unofficial taxes, ranging from bribes for factory inspectors and customs officials to artificially high electricity tariffs, arbitrary municipal rates, and so on.

The South African elite is enormously constrained by the fact that it does not have a passive peasantry to exploit.

percent; from 1980 to 1983 it dropped by a further 21.3 percent. There was sharp decline in both domestic and export production. The manufacturing index plunged from 100 in 1977 to 69 in 1980 and 63.3 in 1981, with average capacity utilization in that year estimated at only 24 percent.” Even after 1983, when the World Bank and other donors tried to breathe life into Ghana’s industry, “Overall capacity utilization improved from 30 percent in 1983 to 40 percent in 1989 and appears to have stagnated at around this level for much of industry in the 1990s.¹⁶

The result of that massive onslaught against Africa’s manufacturing and mining sectors was all too predictable. In a recent report, the UN Industrial Development Organization painted a grim picture:

Sub-Saharan Africa, as a whole, has *deindustrialized* since 1970, though there are a number of exceptions to this trend. Moreover, average manufacturing labor productivity relative to aggregate labor productivity is lower now than it was in 1970. There is, therefore, both a widening productivity gap between agriculture and manufacturing and between manufacturing and economy-wide productivity, meaning that Sub-Saharan Africa has moved backwards in the past three decades.¹⁷

Not surprisingly, the UN International Organization for Migration estimates that each year 20,000 African professionals emigrate out of the continent.¹⁸

The issues discussed here do not mean there is no new investment in sub-Saharan Africa. Investment in petroleum and other extractive industries proceeds apace. More recently there has been a spate of investment in mobile telephony and in some tourism and retail infrastructure. There are also a few new investors in sub-Saharan Africa, in par-

ticular South African and Mauritian corporations and companies from Asia and Latin America. Most of those investors, however, shy away from long-term investment in manufacturing.

The Peculiarity of South Africa

Though part of sub-Saharan Africa geographically, South Africa has two features that distinguish it from the rest of the region. First, South Africa does not have a large peasantry. Second, its private sector is owned mainly by South African citizens, one of the unintended consequences of sanctions and disinvestment in the 1970s and 1980s. Those two features have enormous implications for governance in South Africa.

Although South Africa is ruled by a political elite that has much the same roots and characteristics as most of the political elites in the rest of sub-Saharan Africa, the South African elite is enormously constrained by the fact that it does not have a passive peasantry to exploit. Instead it is surrounded by a dynamic private sector that is owned by South African citizens whose rights are constitutionally guaranteed and are enforced through the electoral process, the judiciary, and an independent mass media that sees itself as the watchdog over citizens’ rights.

In addition, during the struggle against apartheid, the current South African political elite was compelled to enter into an alliance with the black urban workers. South Africa’s urban workers are well organized into independent labor movements, especially trade unions, which articulate and represent their interests. Central to the interests of the black workers and private-sector owners is job creation for the former and profit maximization for the latter. Those two forces, therefore, have a common interest in promoting economic growth and minimizing the private enrichment of the political elite. That is what makes South Africa different from the rest of the region and what accounts for its ability to

grow its economy while the economies of the rest of sub-Saharan Africa are stymied by the dead weight of consumption by political elites.

That argument does not, however, mean that the political elite in South Africa will not try to enrich itself at the expense of private-sector producers. Black Economic Empowerment, a government policy that aims to increase black participation in the South African economy through a system of racial quotas, is in reality an attempt to siphon savings from private-sector operators. The fact that BEE has proved to be more of an uphill battle than the political elite in South Africa expected is due to the ability of the private sector to resist dispossession. Time will tell who will come out ahead in what could be a titanic struggle by the political elite to “privatize” the wealth of South Africa’s current private-sector owners. An even bigger question is what impact such struggles will have on the future growth of the South African economy.

The South African political elite is being encouraged to pursue BEE by elements of the super rich who seek political favors from the state in order to

- externalize their assets by moving the primary listing of their corporations from the Johannesburg Stock Exchange to the London Stock Exchange,
- get the first bite of government contracts, and
- buy seats at the high table of economic policy decisionmaking.

Foreign multinational corporations continue to play an important role in the South African economy. The property rights protection enforced by the South African Constitution protects foreign investors. The sophistication of the South African economy and its extensive integration in the global economy via a plethora of international licenses, patents, and copyrights means that foreign corporations have independent clout in South Africa. That point was brought home in the negotiations between South Africa and the American Chamber of Commerce over BEE in

American information technology companies operating in South Africa. Not surprisingly, the giants of U.S. information and communication technology will not have to comply with BEE if they do not wish to.

Solutions to the Problem of Underdevelopment in Sub-Saharan Africa

In 2001 most African governments adopted the New Partnership for Africa’s Development, or NEPAD. NEPAD, which provides a framework for Africa’s development, emphasizes the role of good governance in stimulating economic growth. While NEPAD may address some of the worst excesses of the political elites, it does not address the fundamental problem: the enormous power imbalance between the political elite and key private-sector producers. If the driving force behind sub-Saharan Africa’s underdevelopment is the structural powerlessness of producers and therefore their inability to retain and control their savings, there will be no development in sub-Saharan Africa. So how is that to be reversed, and by whom?

Development in sub-Saharan Africa requires a new type of democracy—one that empowers not just the political elite but sub-Saharan Africa’s private-sector producers as well. It is therefore necessary that peasants, who constitute the core of the private sector in sub-Saharan Africa, become the real owners of their primary asset: land. In addition to generating wealth, private ownership of land is the only way in which rampant deforestation and accelerating desertification can be addressed. That means that freehold must be introduced and the so-called communal land tenure system, which is really state ownership of land, ought to be abolished. Moreover, peasants must gain direct access to world markets. The producers must be able to auction their own cash crops, including coffee, tea, cotton, sugar, cocoa, and rubber, rather than be forced to sell them to state-controlled marketing boards.

It is necessary that peasants, who constitute the core of the private sector in sub-Saharan Africa, become the real owners of their primary asset: land.

If NEPAD is to contribute to Africa's economic development, it must help redesign Africa's political economy so that it protects the rights of private-sector actors instead of rent-seeking political elites.

Sub-Saharan Africa needs new financial institutions that are independent of the political elite and can address the financial needs not only of peasants, but of other small- to medium-scale producers as well. Those could be cooperatives, credit unions, savings banks, and so on. In addition to providing financial services, those institutions could undertake all the other technical services that are not being provided at present by African governments, such as crop research, extension services, livestock improvement, storage, transportation, distribution, and many other services that would make agriculture in sub-Saharan Africa more productive. Foreign donors could play a constructive role by helping such institutions with expertise and management and shielding them from predation by Africa's political elite. The above changes could for the first time bring into being a capitalist market economy that answers to the needs of African producers and consumers.

If NEPAD is to contribute to Africa's economic development, it must help redesign Africa's political economy so that it protects the rights of private-sector actors instead of rent-seeking political elites. NEPAD must devote more of its time to addressing fundamental issues related to African political economy rather than impressing foreign governments, such as those in the G8, with inflated accounts of democratization on the African continent.

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