

# Will Money Solve Africa's Development Problems?

## Only If...

It empowers citizens.

African entrepreneurs are the key to solving Africa's development problems. It is they who can drive their continent's economic growth and it is they who can make their governments better. If money is invested engaging the organic and transformative potential of local entrepreneurs, Africa will flourish. If money is poured into government bureaucracies — which hold back these entrepreneurs — Africa will continue to languish.

Big money to governments in Africa, as it does elsewhere, empowers bureaucracies, promotes statism, and weakens government incentives to increase tax revenues through economic growth. Furthermore, economic assets are often kept in the hands of the state, leading to monopolies, stagnation, and the opportunity for extortion. As a bitter cherry on top, the more the red tape increases, the more discouraged entrepreneurs get and a vicious cycle ensues.

There are many instances where money — funding entrepreneurs and non-governmental bodies — does wonders in Africa. These examples are often cited by development gurus who then claim that aid in general is helping Africa, justifying any aid — including that to governments. But there is a clear pattern: money to entrepreneurs and non-governmental bodies helps; money to governments hurts.

A look at the history of England explains why outside money to governments is damaging. In the 13<sup>th</sup> century, after the advent of property rights, the monarch was forced to convene a group of citizens as a tax-legitimizing device. That group's name? Parliament.

Over several centuries, parliament capitalized on the monarch's chronic need for money and, indeed, made sure the crown did not gain financial independence. Every time a monarch came to parliament to pass a new tax bill, parliament obliged, but only after exacting more liberty from the Crown. Over time, parliament emerged as the more powerful branch of government. In hindsight, the two keys to the suc-

cessful economic and democratic growth of England were: (a) the monarch's shortage of money, not its adequacy; and (b) the lack of aid from outside.

Likewise, in today's sub-Saharan Africa, the opportunity exists to put into motion *true* economic development. It will not happen by deluging African leaders with aid dollars, but rather by adopting practical ways to help Africa's citizens thrive. Their increased strength is the best way to remove blockages to progress in the long run.

First, rich countries must be challenged to remove trade barriers for African countries now, irrespective of African trade policies. With global market access, Africans would automatically attract private investment to their countries, despite their institutional weaknesses. These institutions would become stronger over time as businesses began to flourish. Private investments capitalizing on access to global markets would necessarily employ Africa's low-cost labor, thus creating jobs. This is in stark contrast with companies extracting mineral resources in Africa, employing very few people relative to size of the business.



Next, small entrepreneurs must be helped with seed money in increments of \$10,000 to \$20,000 (in contrast to the approach of mega-institutions who tend to direct billions into state bureaucracies). Even these relatively small cash amounts can be broken up into several installments, each of which is provided under certain pre-determined performance criteria. Just like they do everywhere else in the world, these entrepreneurs would create jobs, products, services, and — let us not forget — choices. It is precisely such jobs, entrepreneurs, and choices that form the bedrock of flourishing democracies.

What goes naturally with supporting small entrepreneurs is introducing technologies that cost-effectively empower individuals, an area where Western knowledge can obviously add value. Such technologies multiply people's abilities and

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deliver *genuine aid* to citizens directly. A pair of wheels, for example, provides invaluable assistance in moving a heavy load of bricks.

Heightened productivity gives rise to four exciting benefits. First, as individuals control what they produce and consume, their lives improve. Second, when citizens accrue increased economic clout, institutions are forced to become more responsive to their needs. Third, by becoming more productive, users are able to pay for productivity tools, creating opportunities for entrepreneurs to launch profit-seeking enterprises to provide such tools. This is why businesses selling computers and cell phones sprang up naturally in Africa. Finally, profitable businesses attract imitators, unleashing competition. Competition gives rise to innovation, specialization, scalability, lower prices, higher wages, and a host of other good things including curtailing potential abuses by businesses. It's a virtuous cycle of organic economic growth that, like a mighty wheel, can move the entire continent.

We must also take practical action toward building healthcare infrastructure by working with local groups. Imagine if President Bush promised, on behalf of the United States, to give \$1 million to match any grassroots group (meeting certain organizational and self-sustainability criteria) that can come up with

\$1 million of its own. With only \$1 billion, one thousand such clinics would spring up with real roots in the ground, possibly attracting African doctors back into their homeland from Western countries. This is only one of many kinds of grassroots enterprises that can be effectively encouraged.

Finally, those of us in developed countries can also give direct aid to Africa by purchasing African products. And if rich countries want to further help Africa, they can issue vouchers to their own citizens to encourage the purchase of African goods in Western stores.

The time has come for us to stop pouring billions of dollars into bureaucracies. Instead, we must activate the billion brains in Africa, each of whom will tame those bureaucracies and make the continent a global economic powerhouse.

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