

**Ethnicity, Institutions of Governance
and Conflict Avoidance**

Mwangi S. Kimenyi

Kenya Institute for Public Policy
Research and Analysis

*KIPPRA Discussion Paper No. 23
November 2002*

KIPPRA IN BRIEF

The Kenya Institute for Public Policy Research and Analysis (KIPPRA) is an autonomous institute whose primary mission is to conduct public policy research, leading to policy advice. KIPPRA's mission is to produce consistently high-quality analysis of key issues of public policy and to contribute to the achievement of national long-term development objectives by positively influencing the decision-making process. These goals are met through effective dissemination of recommendations resulting from analysis and by training policy analysts in the public sector. KIPPRA therefore produces a body of well-researched and documented information on public policy, and in the process assists in formulating long-term strategic perspectives. KIPPRA serves as a centralized source from which the government and the private sector may obtain information and advice on public policy issues.

Published 2002

© Kenya Institute for Public Policy Research and Analysis

Bishops Garden Towers, Bishops Road

PO Box 56445, Nairobi, Kenya

tel: +254 2 2719933/4; fax: +254 2 2719951

email: admin@kippra.or.ke

website: <http://www.kippra.org>

ISBN 9966 949 41 0

The Discussion Paper Series disseminates results and reflections from ongoing research activities of the institute's programmes. The papers are internally refereed and are disseminated to inform and invoke debate on policy issues. Opinions expressed in the papers are entirely those of the author or authors and do not necessarily reflect the views of the Institute.

KIPPRA acknowledges generous support by the European Union (EU), the African Capacity Building Foundation (ACBF), the United States Agency for International Development (USAID), the Department for International Development of the United Kingdom (DfID) and the Government of Kenya (GoK).

ABSTRACT

Post-independence Africa has been marked by numerous ethnic conflicts. These conflicts have adversely impacted on the quality of life and have greatly undermined the continent's prospects for development. In addition to disrupting economic and social activities, conflicts have resulted in many fatalities and have generally weakened the institutions of governance. This paper argues that conflicts are the results of poorly designed institutions that are not suited to harmonizing ethnic claims. Ethnic groups behave much like special interest groups that seek to maximize the well being of their members at the expense of other ethnic groups. In institutions where power is centralized (as is the case in many African countries), competition for wealth transfers translates into conflicts. The paper discusses the behaviour of interest groups and proposes institutional reforms for ethnically-fractionalized societies. Specifically, the paper proposes establishment of decentralized institutions of governance complemented by functional governments, therefore creating overlapping ethnic and functional jurisdictions.

This paper was first presented at the *African Economic Research Consortium's post-Conflict Economies Special Workshop* held from 5-6 July 2002 in Kampala, Uganda. The views expressed in this paper are those of the author and should not be attributed to KIPPRA.

Table of Contents

	<i>Abstract</i>	<i>iii</i>
1.	<i>Introduction</i>	<i>1</i>
2.	<i>Post-independence African institutions and ethnic conflicts</i>	<i>5</i>
3.	<i>Ethnic units of collective choice</i>	<i>11</i>
4.	<i>Overlapping functional and ethnic jurisdictions</i>	<i>23</i>
5.	<i>Conclusion</i>	<i>26</i>
	<i>References</i>	<i>27</i>

1. Introduction

Of the many challenges facing Africans, establishment of durable peace is probably most critical, yet most difficult to achieve. It is now well established that conflicts in Africa have been a major hindrance to the improvement of the well-being of Africans (World Bank, 2000). Conflicts involve various costs such as loss of life and injuries and the general disruption of economic and social activities (Stewart, 2000). Civil wars are also associated with prevalence of child labour, disruption of social networks, and weakening of the government's capacity to deliver crucial services. Conflicts are also associated with disease outbreaks that impact negatively on the quality of life. In addition, conflicts involve collateral damage to neighbouring countries as a result of the inflow of refugees and guns. To the extent that conflicts disrupt investments in human capital, their effect on development tends to be long-term as generations of young people miss on education opportunities due to prolonged conflicts such as has been the case in Angola and Sudan. Furthermore, conflicts have a major impact on investment flows due to the increased risk premium. In essence, conflicts have a direct negative effect on economic growth through disruption of economic activities and increase in the risk of investment. Conflicts also impact on human development by disrupting investment in human capital, provision of basic services and increasing mortality rates. Therefore, the various development targets such as those articulated in the Tokyo International Conference on African Development (TICAD-II) or the more recent Millennium African Renaissance Programme are unlikely to be achieved unless there is marked reduction in the incidence, severity and duration of civil wars.

Conflicts are pervasive in Africa and according to some estimates, one fifth of the people in the continent live in countries involved in conflict. While it is true that the history of Africa is marked by many conflicts, post-independence conflicts have been relatively more intense and have entailed enormous costs. It is for example estimated that conflict lowers

economic growth by 2 percentage points every year. Additionally, conflicts divert huge resources from development uses. In Central and West Africa for example, such resources are estimated at \$1 billion and more than \$800 million a year respectively (World Bank, 2000). These estimates exclude the indirect costs of conflict such as costs on neighbouring countries generated by refugee flows, costs arising from impeded communication routes and disruption in economic activity.

What is quite clear about post-independence conflicts is that they have generally been between different ethnic groups within a country. Virtually every African conflict has some ethno-regional dimension to it. Even conflicts that are apparently free of ethnic considerations involve factions and alliances built around ethnic lines (Deng, 1997). One of the first post-independence conflicts was the civil war in Nigeria. The conflict arose from differences between the Ibos in the eastern region who feared domination by other ethnic groups in the country. The Ibo wanted to secede and form their own Biafra nation. This was prevented by use of military force. The conflicts in Rwanda and Burundi have been reported as some of the most intense inter-ethnic conflicts in the developing world. They involve the Tutsi and Hutu ethnic groups. In both Rwanda and Burundi, the Hutu constitute a numerical majority while the minority Tutsi dominate the economic and political life in both countries. The rivalry between the two is reportedly so intense that each ethnic group has attempted genocide aimed at eradication of the other. In 1972 for example, the Tutsi-controlled government in Burundi killed between 100,000 and 200,000 Hutus in one such incidence of genocide. In Ethiopia, ethnic conflict lasted for hundreds of years as the Eritrean people sought independence from Ethiopia. Similarly, members of the Somali ethnic group have sought independence from the Amhara who have for years dominated the politics and economy of that country. Other examples of inter-ethnic conflicts deteriorating into wars that have claimed the lives of hundred of thousands of people

have occurred in Sudan, Mozambique, Somalia, Angola and the Democratic Republic of Congo. Clearly, to understand conflicts in Africa necessarily requires an appreciation of ethnic dynamics. In particular, it is important to understand why ethnic groups engage in conflict and what features of ethnicity make Africa prone to conflicts.

A number of explanations have been advanced for the occurrence and persistence of conflicts. These include natural resource endowment, ethnic and religious hatreds, economic inequalities, lack of political rights, economic mismanagement of the state, among many others (Collier and Hoeffler, 1998 and 2001; Collier et al, 1999). While it is a fact that ethnicity does play a role in triggering conflict, it has been established that it is not the mere existence of ethnic diversity that causes conflicts but rather the institutions of governance. Institutional arrangements play a critical role not only in determining economic outcomes but also in establishing peace within nations. It is for example evident that economic and political crisis that has characterized most of post-independent Africa is an outcome of poorly designed institutional frameworks. Specifically, political instability, civil strife and economic stagnation that characterize the majority of Black Africa are to a large extent the product of institutions that are not suited to dealing with heterogeneous populations. The failure of political institutions to accommodate diverse interests (ethnic, religious, linguistic etc.) has generated conflict situations that adversely affect political and economic outcomes. It is becoming increasingly clear that African countries are unlikely to achieve stability and economic growth in the absence of major institutional reforms. In particular, the greatest challenge facing African countries is the establishment of institutional arrangements that can effectively deal with ethnic diversity and facilitate the peaceful coexistence of population groups (Kimenyi and Mbaku, 1995).

If in fact institutions determine outcomes, then the problems in Africa should not be attributed merely to the existence of extremely heterogeneous population groups. Instead, the problems experienced in Africa must be seen as the result of institutions that are not well-suited to harmonize ethnic claims. The failure of institutions to harmonize diverse ethnic interests has resulted in the various undesirable outcomes observed in Africa today. Therefore, the problem is not diversity but the institutional arrangements in place. Specifically, this paper suggests that the centralized unitary states of Africa have failed to deal effectively with diversity because the institutions are not suited to achieving cooperative agreements among the various groups. Unitary centralized states have tended to encourage ethnic competition for resources and power which in turn has led to conflicts.

The basic argument advanced in this paper is that ethnic groups are important institutions that organize for the production of “ethnic goods” in order to generate a surplus to their members. The surplus can be increased either through creation of value (production and specialization) or by seeking transfers from other ethnic groups. Because there are substantial benefits that accrue from associating and identifying with an ethnic group, there is an interest by members to identify with their group. The ability of an ethnic group to “force” transfers from other groups is largely determined by the institutions of governance. Ethnic conflicts are more likely in institutions that make it easy for some group to improve its welfare by transferring surplus from other groups. The paper contends that the optimal institutional arrangements in nations characterized with strong ethnic identification is one that allows for the establishment of governments based on local ethnic jurisdictions, each possessing a fair degree of autonomy, and therefore permitting groups to retain their surplus. In such institutions, groups can increase their well-being by improving efficiency in

production or by engaging in mutually beneficial exchange with other groups.

The next section discusses post-independence African institutions and policies that have tended to trigger conflicts. Section three outlines various features of ethnic groups in Africa and stresses the fact that ethnic groups comprise an important institution that can be used to organize collective activity. Section four introduces the idea of functional governments to complement ethnic governments, while section five provides conclusions to this discussion.

2. Post-Independence African Institutions and Ethnic Conflicts

Probably the most important event that explains contemporary African institutions is European colonialism. In regularizing the scramble for Africa, colonialists partitioned Africa among themselves in a manner that reflected their spheres of influence, paying little regard to matters concerning ethnic heterogeneity or hitherto existing institutions of governance. As a result, different ethnic groups each with its own language, culture, religion, traditions, customs and political and economic systems, were brought together to form a single political and administrative units. In Nigeria for instance, an assortment of four hundred ethnic groups were combined to form one country, while seventy-three ethnic groups were brought together to establish Central Africa.

The partition of Africa also resulted in many situations where members of the same ethnic group were separated and placed in different countries. Members of the Somali community for example found their members dispersed between Somalia, Ethiopia and Kenya; the Yoruba and the Aja were dispersed between Nigeria, Benin and Togo; the Wolof and the Serers between Senegal and the Gambia. The political units

that were created were not only arbitrary but also lacked any strong unifying factors. Partition disrupted long established kingdoms and tribal governments and also disrupted existing trade networks and other inter-ethnic linkages. Additionally, colonial rule did little to develop democratic institutions in Africa, the interest of colonialists being mainly in maximizing economic gains. The colonialists further favoured members of certain tribes over others, a policy of divide and rule that weakened the opposition to colonial rule. The ethnic divisions therefore created were manifested during the struggles for independence and continue to be important today. In fact, ethnic differences in levels of education and income that exist today are a product, in large part, of colonial experience.

The post-colonial African leaders sought to retain the unitary governments bequeathed by colonialists. They argued that for the various ethnic groups to coexist peacefully, it was necessary to homogenize otherwise heterogeneous groups. Unifying the groups into one national state was considered crucial for political stability. Additionally, the centralization of power allowed for the adoption of uniform policies and the balancing of economic resources. Similar arguments were advanced for the preference for single-party political systems where all ethnic groups would be joined together under a one-party state. Leaders warned that unity would be compromised if political party competition were to be introduced, because particular tribal and linguistic groups would dominate different political parties, essentially promoting tribalism. The leaders therefore sought ways for the diverse ethnic groups within each country to unite in a unitary state. The approaches to coexistence that were adopted involved suppressing expressions of ethnic identity ostensibly to promote national unity and integration. Therefore, the common response to diversity in many African countries has been the adoption of institutional arrangements

that seek to unify heterogeneous populations by limiting expressions of group differences (Kimenyi, 1997a).

African leaders have therefore been eager to weaken the tribe as a unit of collective choice because the tribe is considered harmful to peaceful coexistence. Determined to preserve national unity, leaders sought to establish unitary states with power concentrated at the center. The result was creation of institutions where the head of state holds the power over all public policies and with no constitutional limitations that constrain the central authority in its exercise of power. As a result, the state wields immense power over the economy and the allocation of resources in most African countries. For the most part therefore, post-independence African institutions were characterized by one party rule and excessive centralization of power.

The experiment with one-party highly centralized governments has shown that such institutional arrangements are not suited or capable of harmonizing the interest of heterogeneous groups. Since the state is highly centralized, the leader of the ethnic group that captures the state has control of an enormous amount of resources. There is ample evidence that many African governments have maintained their control of governance structures by redistributing resources in favour of groups such as the military, urban dwellers, and specific ethnic groups. Instead of unifying the various ethnic groups, centralized unitary states have provided leaders with opportunities to extend benefits to some groups at the expense of others (Kimenyi, 1989; Brough and Kimenyi, 1986; Kimenyi and Shughart, 1989). But such discriminatory allocation of resources creates dissatisfaction among groups that are not in the ruling coalition. The discriminatory allocation of resources in ethnically divided societies is a primary cause of ethnic conflicts. Ethnic conflicts in the continent can therefore be viewed as a reflection of sub-optimal institutional arrangements that make it possible for governments to use discriminatory policies that seek to transfer benefits from one group to

another. The ethnic groups that are not part of the ruling coalition are excluded from effective and full participation in economic and political markets. Many such excluded ethnic groups turn to violence as a way to minimize further marginalization and to improve their participation in political and economic markets. Given that control of the government has potentially large benefits to members of the ruling ethnic group, the various ethnic groups in a country have an interest to take control of the leadership. Because there are many barriers that make it difficult to remove leaders through democratic processes, one common approach to attaining power has been through military coups. Conclusive evidence of the ethnic orientation of most military coups is revealed by the changes in composition of members of the cabinet and senior civil servants before and after the coups. Between 1960 and 1982, for example, almost 90% of the 45 independent countries in sub-Saharan Africa experienced a military coup, an attempted coup, or a plot to overthrow the government. In almost all cases, military leaders awarded top government positions to members of their own ethnic groups. Before the 1966 coup in Central African Republic that deposed President Dacko who was a member of the Baya group, no member of the Mbaka ethnic groups was in the cabinet. After the coup, the composition of the cabinet changed such that 23% of cabinet members were Mbaka.

Likewise, when Kwame Nkrumah was president of Ghana, 71% of the cabinet members were from Krumah's Akan ethnic group. Following the coup that was organized by members of the Ga and Ewe ethnic groups, the representation of Akan people in the cabinet dropped to 25%; that of the Ga increased from 7.7% to 38% (Kimenyi, 1997a). Such changes in the ethnic composition of the cabinet have also been evident after peaceful transitions of government (Kimenyi and Shughart, 1989). The above examples demonstrate the notoriety of ethnic groups for imposing costs on non-members. The same ethnic unit that advances the well-being of its members can also undermine the liberty of others.

Under a centralized state, ethnic groups engage in conflict primarily because they are in a struggle to capture the state. That is, they mobilize to control the instruments of government as part of the competition for resources. Control of governance structures allows the controlling group to redistribute income and wealth in favour of its members and its supporters.

Over the last few years, political and economic reform efforts have been undertaken in most African countries. The political reforms have generally taken the form of opening up political markets to allow opposing political parties, therefore replacing single party and military dictatorship. There is little doubt that political party competition is likely to make the political leadership more responsive to a wider cross-section of the population. However, the problems that plague the continent are unlikely to be resolved by such reforms. It is in fact possible that political party competition can widen the ethnic divide unless accompanied by other far-reaching institutional reforms. This is because issues take on an increasing ethnic character under a multi-party system as power brokers prey on their ethnic background to drum up political support. The limited experience with political party competition in Africa provides an example. Political parties have more often than not turned out to be tribal factions that have no clear ideology or plan of action other than transferring benefits to members of their coalition. In Kenya for example, after the introduction of multi-party politics, political parties tended to form along ethnic lines: the ruling Kenya Africa National Union (KANU) became the party of the Rift Valley; the National Development Party (NDP) evolved as the party of the Luo/Nyanza tribes; the FORD-Kenya became the party dominated by Luhyas in Western Kenya; while the Democratic Party (DP) and FORD-Asili were largely dominated by the Kikuyus of Central Province.

Furthermore, the legalization of opposition parties has not really resulted in truly competitive political markets that would otherwise serve as effective vehicles in the design of viable constitutional contracts that guarantee protection of individual and group rights. In virtually all the countries that have recently entered the era of multi-partyism, the structures of governance have remained virtually as they were during the single-party era. As a result, African states continue to suffer from the single-party legacy of over-centralization, weakly developed civil societies, and a lack of independent institutions that are necessary for proper governance. Clearly, conflicts among groups are not likely to be eliminated by political party competition alone and it is conceivable that such conflicts may be intensified by the introduction of political party competition. In short, democratization as represented by political party competition is an important institutional reform but not sufficient for harmonizing ethnic interests and therefore not necessarily conflict reducing. Alternative forms of institutional designs are therefore required.

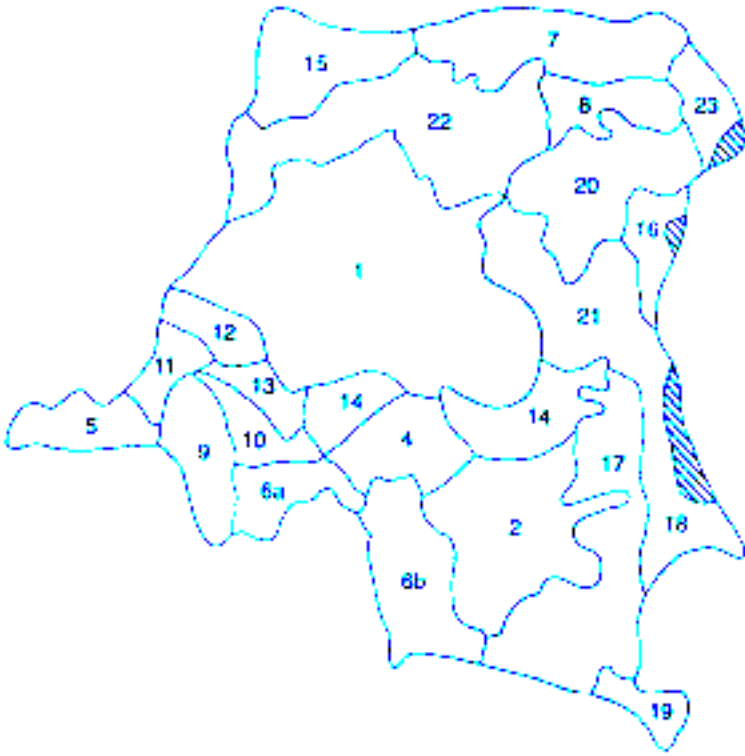
3. Ethnic Units of Collective Choice

The experiment with centralized African state has clearly been a failure and marginal reforms such as the introduction of political party competition are unlikely to result in significant changes in terms of peaceful coexistence of ethnic groups. Instead, it is suggested that more radical reforms that provide for greater decentralization of political power are necessary. Such decentralization must necessarily involve the creation of autonomous ethnic governments. To appreciate the thrust of the argument advanced in this paper, particularly why the ethnic unit is suited as a unit of collective choice, it is important to first appreciate the importance of the ethnic group as an institution and also the complexity of ethnicity in Africa.

One of the most important features of sub-Saharan Africa is the high degree of ethnic heterogeneity. Countries in this region (what is also known as Black Africa) are home to over 2,000 distinct ethnic groups. Each of these groups has its own language, culture, and tradition. Sudan alone has over 170 distinct linguistic groups while there are over 250 ethnic groups in Zaire. In Nigeria, there are between 200 and 400 distinct linguistic groups. The size of the tribes vary, with some having as few as 100,000 members while others consist of millions of people.

One important feature of African societies that make ethnic units suitable as units of collective choice is the fact that in many cases, each group associates with a particular territory—what is referred to as *geoethnicity*. The various ethnic groups have what they refer to as their territory and in many respects members of other ethnic groups are considered as outsiders. Although the boundaries that demarcate ethnic territories are not always clearly specified, they nevertheless exist and are to a large extent respected by the respective groups that live next to each other. Figure 1 provides an example of the Democratic Republic of Congo (former Zaire) where although there are over 250 or so ethnic groups, these can be grouped into 23 units that are closely related in

Figure 1: Ethnic units in the Democratic Republic of Congo



- | | |
|--------------------------|-------------------|
| 1. Mongo | 13. Yanzi |
| 2. Katanga Luba | 14. Kuba |
| 3. Songye | 15. Ngbandi |
| 4. Kasai Luba | 16. Kivu |
| 5. Kongo | 17. Hemba (Kunda) |
| 6. Lunda (Luimbe+Ndembu) | 18. Bemba |
| 7. Azande | 19. Lala |
| 8. Mantebu | 20. Amba |
| 9. Yaka | 21. Rega |
| 10. Pende | 22. Babwa |
| 11. Teke | 23. Alur |
| 12. Sakata | |

terms of culture and language. As is evident, each of the groups is confined to clearly defined ethnic territories. Cobbach (1988, p.73) observes that:

In Africa, this ethnic identity is above all other things a territorial identity. Nothing defines the ethnic group better than its 'standing place'. Thus the term geoethnicity has been used to describe the African ethnic phenomenon. Geoethnicity as opposed to non-territorial ethnic identification involves the historic identification of an ethnic group with a given territory, an attachment to a particular place, a sense of place as a symbol of being and identity.

Therefore, by and large, ethnic units do make up what could be called "ethnic nations". As a matter of fact, these ethnic units have for generations organized various activities to serve their members.

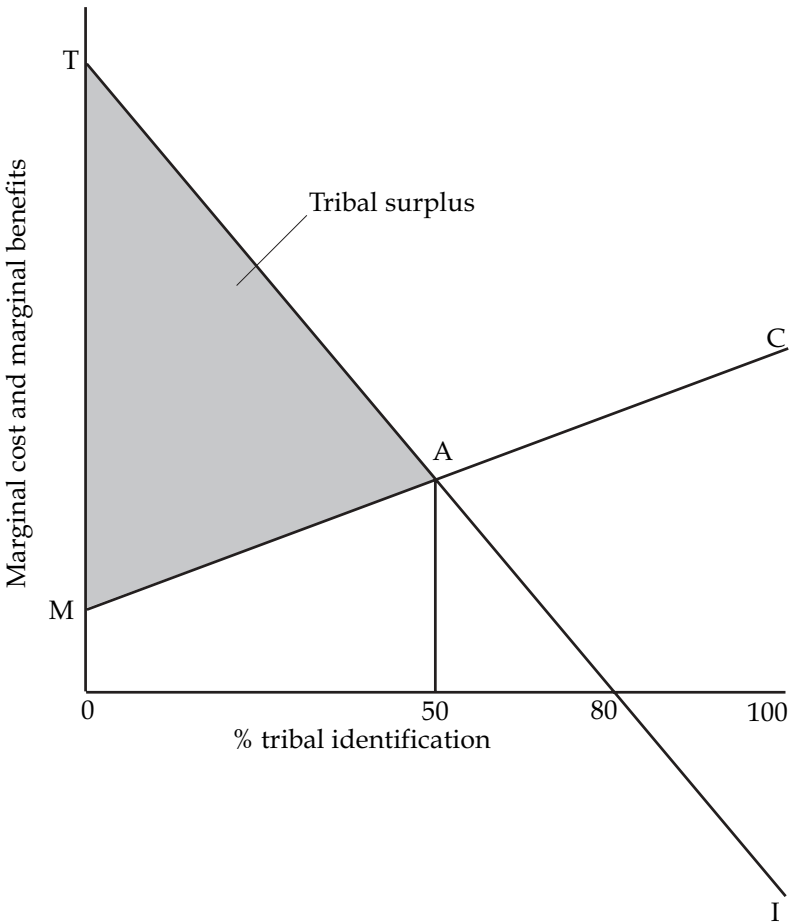
Just because ethnic groups occupy a specific territory does not necessarily qualify ethnic groups as appropriate units of collective choice. However, associated with the diversity is the fact that ethnic groups have through the years continued to remain distinct with members identifying strongly with their tribe. Unfortunately, such tribal identification is viewed in a negative way and African leaders and intellectuals have engaged in highly publicized efforts to denounce such identification as tribalism. Identifying with a particular tribe is considered regressive. Tribalism, many claim, has no place in the modernizing nations of Africa. At the national level, identifying with a tribal group or other social cleavage is considered inconsistent with development. The truth, however, is that tribal attachment is alive and well throughout Africa. By and large, identifying with ones tribe is highly valued and resources are devoted to make certain that members of a group continue to identify with that group. Children are taught to identify and be proud of their tribe and ethnic identity is strongly felt

and behavior based on ethnicity is normatively sanctioned (Horowitz, 1985).

The result of strong ethnic identification is that most voluntary and business organizations form along ethnic lines. The majority of urban social welfare organizations, urban soccer leagues and even trade unions are organized along tribal lines. It has been observed that tribal-oriented associations rate among the most important voluntary associations in West Africa (Little, 1957). More telling evidence of the degree of ethnic identification in politics is revealed by the patterns of voting. No matter which country one looks at, it has become clear that people vote very much on ethnic lines, and political ideology in the western sense rarely plays a significant role. The fact that we observe high degrees of tribal identification implies that the expected benefits of identifying with a tribal group exceed the costs of such identification. Because there are benefits associated with identifying with a particular tribe, the tribal leadership has an interest in investing in tribal identification.

Kimenyi (1998) presents a simple model of tribal identification based on costs and benefits as shown in Figure 2. The horizontal axis measures the degree to which individuals identify with their tribe. The vertical axis measures the marginal costs and benefits of ethnic identification. While there are benefits from identifying with one's tribe, the benefits tend to decrease as one identifies more and more with the tribe. This is represented by the demand (TI) for tribal identification. Notice that even if the costs of tribal identification were zero, it would not pay to identify completely with the tribe. MC represents the cost of identifying with one's tribe. Point A is the optimal level of tribal identification (50% in this case) and TAM is the tribal surplus. This point is optimal because identifying more with one's ethnic group beyond this point implies that the additional benefits are less than the costs associated with such identification. In essence, beyond point A, the benefits of associating with one's tribe are less than those that would accrue from identifying

Figure 2: Market for tribal identification



with members of other tribes. The idea of maximizing tribal surplus assumes that the main focus is on group welfare and all the members therefore share the benefits. This does not imply that members share the benefits equally but rather that the group is better off in general.

The strong ties within ethnic groups makes such groups ideally suited as units to organize for collective provision. This is because ethnicity economizes on organizational costs. This is consistent with the suggestion by Addison and Murshed (this volume) that the primary reason why many civil wars have an ethnic dimension is precisely

because ethnicity is efficient in overcoming collective action problems. In particular, ethnic-based institutions have a comparative advantage in solving prisoner's dilemma problems. It can be argued that the outcomes observed in centralized states of Africa are the result of the fact that the costs of arriving at cooperative outcomes are very high such that countries end up in pareto-inferior non-cooperative outcomes. Because members of ethnic groups have a long-term attachment to their groups (for example, through blood or past memories), they are more likely to have continuous dealings with members of their ethnic group than with members of other ethnic groups. Continuous dealing reduces cheating in prisoner's dilemma situations. As a result, ethnic groups may be more efficient in the provision of public goods than the state (Roback, 1991). The free-rider problem is likely to be less prevalent when the group is made up of one ethnic group than when several ethnic groups are involved. If we define an optimal unit of collective choice as one that minimizes the costs of achieving cooperative agreements, we then expect jurisdictions to vary in both size and composition. Since transaction costs associated with achieving cooperative agreements depend on the composition and size of the decision making group, those groups composed of homogeneous members face lower transaction costs of achieving agreements than groups whose members are heterogeneous, *ceteris paribus*.

The other important characteristic of ethnic groups is that the groups act as interest groups that compete for transfers. In other words, the ethnic group can be considered as an interest group that seeks to maximize the well-being of its members by competing for wealth transfers from other groups. But ethnic groups comprise distinct features from other interest groups such as labour unions or producer groups in that membership in an ethnic group is permanent because entry and exit are not possible (Kimenyi, 1989). This makes ethnic interest group competition intense and continuous than in the case of other non-

permanent interest groups. The interest group theory of government teaches that public policy outcomes reflect the interplay between 'demanders' and suppliers of wealth transfers. Transfers may involve taxes, subsidies, regulations, public projects or even government jobs. In Africa, though many interest groups compete for wealth transfers, ethnicity represents the most important group. Kimenyi and Mbaku (1995) for example identify various African interest groups that compete for wealth transfers including farmers and urban dwellers, but they note that the most important characteristic of these groups in Africa is ethnicity. Permanent interest groups attempt to maximize their share of wealth transfers through the political process. To ensure that a group maximizes its share of wealth transfers, it is necessary to control the instruments of wealth transfers, namely political leadership. It follows that it is more profitable for groups in African countries to invest to influence government policy than it is for them to invest their scarce resources in the market where the returns are comparatively lower. Not surprisingly, the competition to control the instruments of wealth transfers has been intense in most African countries and has been one of the underlying causes of ethnic conflicts. Because governments do not create wealth, such transfers must be taken from other groups, which essentially implies that the transfer-seeking behaviour by permanent interest groups is at best a zero sum game. This analysis helps explain, at least in part, the continued state of conflict and political instability in Africa where there are so many tribal groups attempting to control governments. It should be noted that the interest-group behaviour of ethnic groups is more pronounced in centralized unitary states.

Efficient production increases the producer and consumer surplus which essentially is a measure of an ethnic group's well-being. As can be expected, ethnic groups within the same country are likely to be vastly different in terms of their ability to generate surplus. Each ethnic group can increase its 'ethnic' or 'tribal' surplus by entering into mutually

beneficial exchange with other ethnic groups. Therefore, under conditions where ethnic groups are able to freely organize production and enter into market exchange with other groups, each ethnic group would seek to be efficient in production in order to increase its surplus. Note that this is true if the ethnic groups are able to retain their tribal surplus.

But efficiency in production is not the only way that an ethnic group can increase its surplus. One attractive alternative is to use the political process to capture the surplus generated by other groups through rent-seeking. Under a system of government where taxing and spending decisions are centralized, rulers are able to redistribute surplus from some ethnic groups to others. Given the fact that ethnic groups occupy different regions, governments are able to direct the resources to specific groups. Such ethnic rent-seeking can be minimized under a system of decentralization.

The discussion so far emphasizes that ethnic groups possess specific advantages in organizing for the provision of “ethnic” goods. However, in unitary centralized states, ethnic groups can use their organizational capacity to undermine the well-being of others. As such, the first reform that can help reduce ethnic conflicts is the movement from such states to ones that provide ethnic units with a fair degree of autonomy. Ideally, decentralized federal states would be best-suited to deal with diversity. Of the various strategies aimed at resolving conflicts in societies characterized by diversity, federalism is the most prescribed system of governance.

Decentralization has the potential to resolve the institutional problems affecting the countries of the continent. Decentralization can increase the efficiency and responsiveness of government in two ways. Firstly, local leaders have superior information on the local peoples’ needs, compared to central government officials in far off offices. Devolving resource allocation decisions to locally elected leaders therefore helps

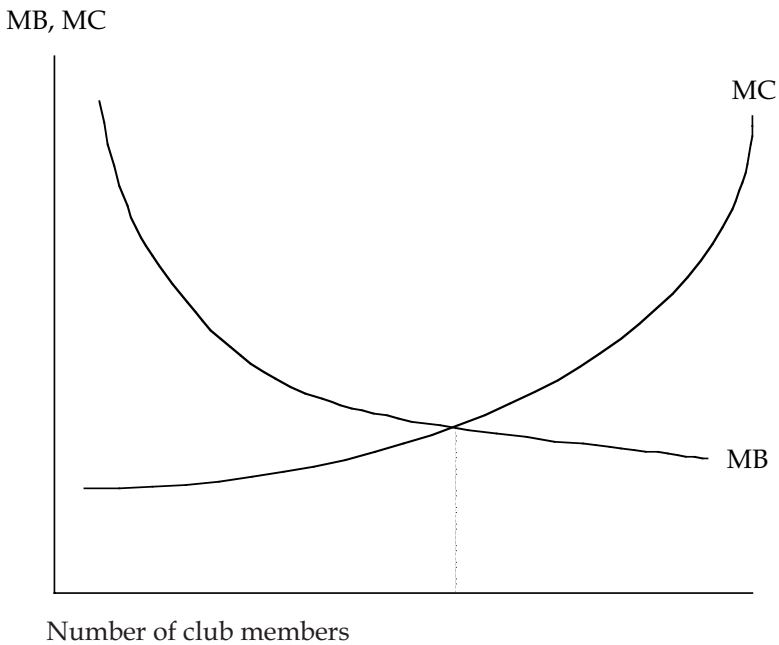
improve the match between the preferences of local people and the government's output. Secondly, local leaders are more accessible to local people and can be held more accountable. This results in improved management of resources through improvement in performance. Decentralization also encourages innovation in the delivery of services as individuals have greater incentive to participate in all aspects of community life and to seek solutions to individual and collective choices.

Considering the institutional problems in Africa however, one can argue that the primary advantage of decentralization lies in the fact that it is probably the only system of organizing collective activities that protects groups from oppression by others and also accommodates diversity. It provides mechanisms for bringing rival groups into a formal bargaining process (Burke, 1991) therefore reducing conflicts. Decentralization reduces the points of inter-ethnic contacts that result in conflict and instead increases the contacts that are mutually beneficial. In such a decentralized system, each autonomous political jurisdiction has greater latitude in policy design and implementation and can also determine the nature and scope of interaction with other groups. Under constitutional federalism, individuals can migrate freely and at low cost to competing political jurisdictions. This significantly reduces the ability of the state to coerce. Moreover, this ability of citizens to vote with their feet enhances competition among units and results in improved service delivery.

While there is consensus about advantages of decentralized state, the use of ethnic units of collective choice is controversial. It is suggested that ethnic-based units have distinct efficiency characteristics that should be exploited in designing the units of collective choice. Given geoethnicity, effective decentralization naturally implies that the local governments will be primarily composed of ethnically homogenous groups. Kimenyi (1998) advances the use of ethnic groups as units of collective choice and compares ethnic groups to voluntary associations

or clubs whose members have fairly homogenous preferences. Using the model of clubs as developed by Buchanan (1965), the optimal size of the club is determined by the membership at which marginal cost is equal to marginal benefit (Figure 3). In this model, the costs increase and benefits decrease steadily as membership increases.

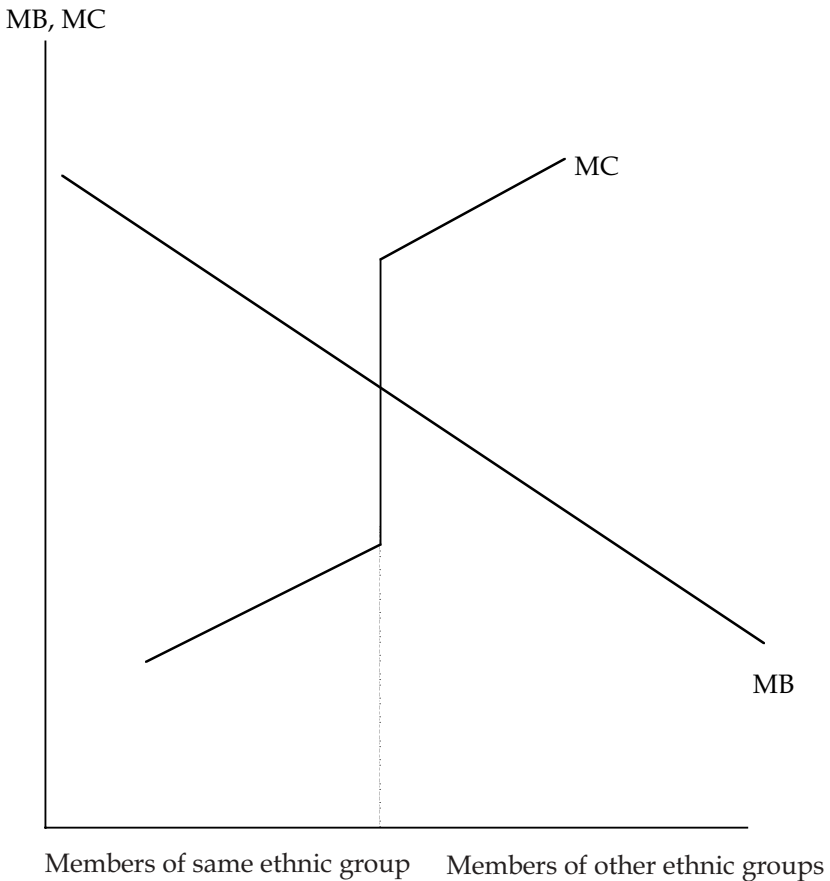
Figure 3: Optimal size of clubs



Figures 4 and 5 extend the model to cases of ethnic units of collective choice. Based on previous discussion, organizing collective activities by one ethnic group is expected to resemble the club model where costs increase and benefits decrease steadily as membership increases. This is because the ethnic group possesses various advantages that economize on organizational costs. However, increasing the

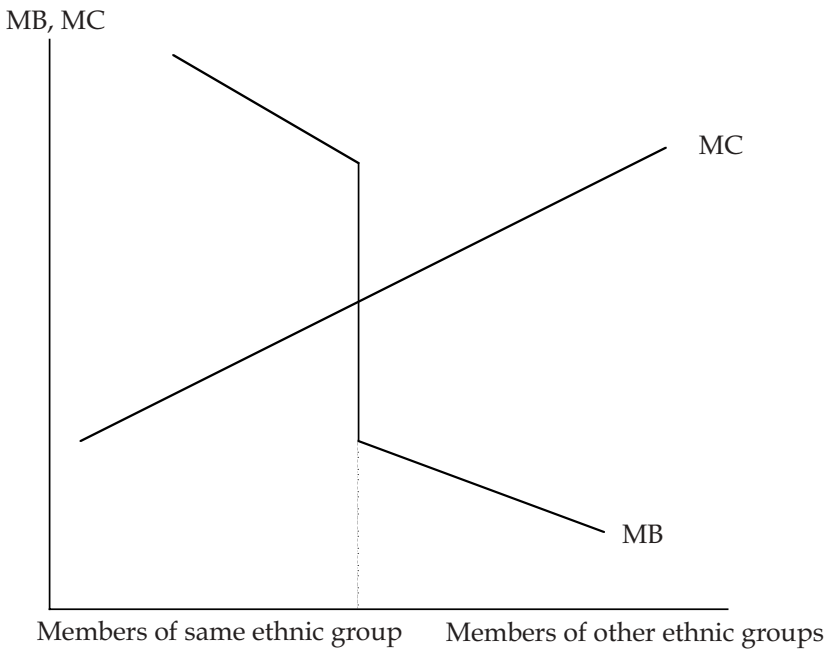
membership beyond some level results in a situation where the benefits of organizing the activity are lower than the costs. This would imply that the benefits of ethnic provision are less than the costs (Landa, 1994).

Figure 4: Optimal ethnic club size: kinked marginal cost



The benefits and costs change more dramatically when more than one ethnic group is involved. Organizing across different ethnic groups is

Figure 5: Optimal ethnic club size: kinked marginal benefit



more complicated and adding members from other ethnic groups creates a discontinuity in the costs and benefits. Such discontinuities result from difficulties in communicating across ethnic and linguistic boundaries and also because of differences in preferences, taste, and also because of the fact that there is less trust across ethnic groups than within the same ethnic group.

The implication of the foregoing analysis is that optimal units of collective choice are ones that are ethnically homogeneous. Establishment of autonomous ethnic governments does not preclude collaboration across ethnic groups. However, such collaboration will only be acceptable if all groups benefit from the association. In essence, a system of ethnic governments would help reduce ethnic rent-seeking that often translates into ethnic conflicts.

4. Overlapping Functional and Ethnic Jurisdictions

The basic message articulated in this paper is that ethnic governments have some desirable features that have the potential of reducing conflicts. The proposal then is for the establishment of decentralized federalism with local governments that are fairly autonomous and basically ethnically homogenous. However, this should not be seen as totally severing linkages between ethnic groups.

Ethnic governments, though retaining a significant degree of autonomy, must necessarily associate with other ethnic governments. In particular, it is important to note that such governments will only be able to provide a limited number of “local” public goods. Therefore, each unit has a desire to cooperate with other units in the provision of public goods that cannot be efficiently provided within the confines of the individual units. Note here that such joint provision establishes cooperation across ethnic units based on mutual interest. It would therefore not involve conflicts and would instead encourage peaceful coexistence.

Figure 6 shows how ethnic governments can be complemented with “functional” governments. In addition to the ethnic governments, various other functional governments for the provision of various services are proposed (Frey and Eichenberger, 1999). These governments cover different regions, some transcending the boundaries of ethnic governments. In addition, in some cases, the functional governments overlap. Provision of water may for example require communities to join together to build a dam or distribute water to their communities. Note that the communities cooperate out of self-interest. In essence, establishment of ethnic governments can be an important cornerstone for defining the nature of cooperation among ethnic groups.

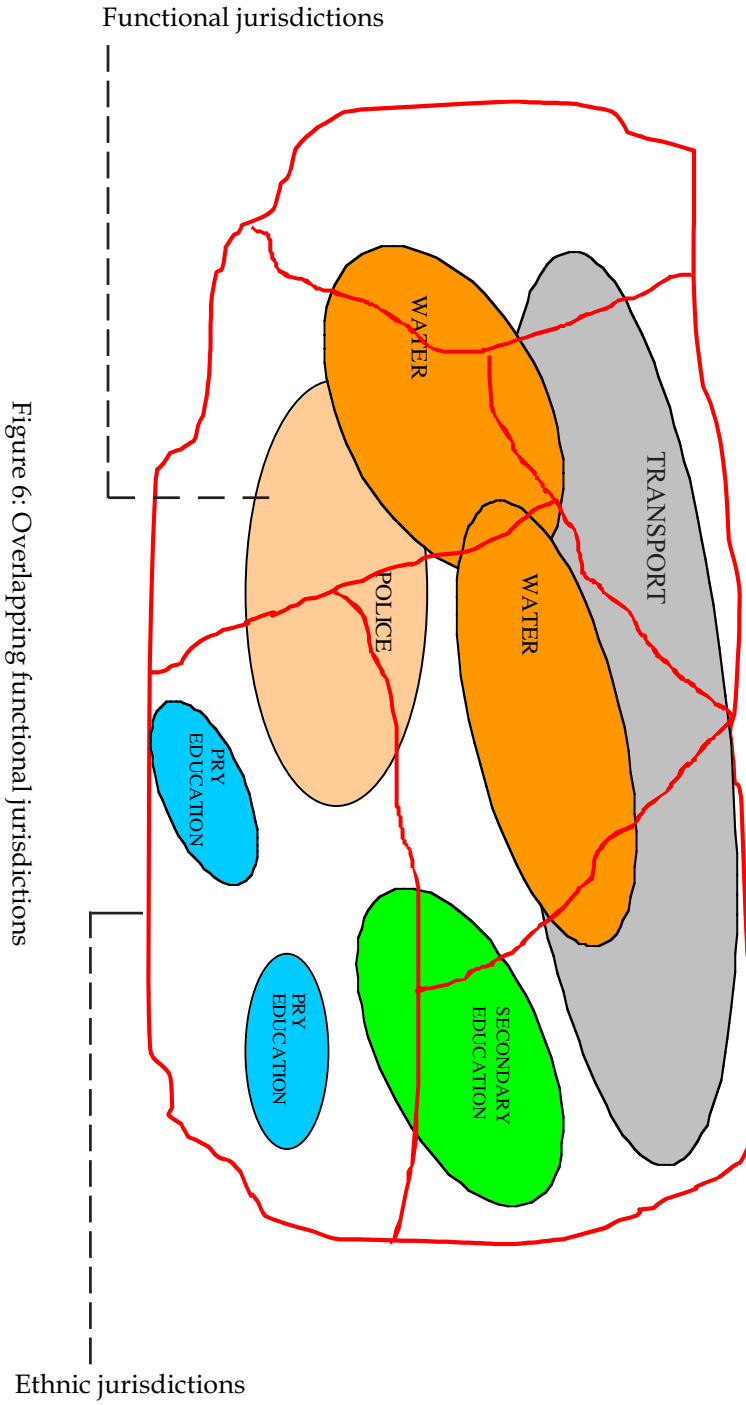


Figure 6: Overlapping functional jurisdictions

Ethnic governments can be fairly inefficient particularly in cases where individuals do not have the mobility option and are not able to vote with their feet. This is quite often the case in Africa where migration from one ethnic community to another is quite difficult. However, establishment of overlapping functional governments such as the water government in Figure 6 acts as a good substitute for voting with the feet and therefore enhances the efficiency in provision of services.

The point to emphasize is that the establishment of ethnic governments does not preclude cooperation among ethnic groups. Instead, such institutions form the basis for groups to enter into mutually beneficial arrangements in the provision of public goods.

5. Conclusion

This paper has highlighted the importance of establishing institutions that harmonize ethnic interests in Africa. It is argued that the recent democratization reforms that have involved the introduction of political competition are not sufficient to deal with the issue of conflict avoidance. In fact, it is argued that political party competition can intensify conflict-generating ethnic competition under the current highly centralized unitary states. The paper proposes the establishment of decentralized institutions of governance that involve ethnically homogenous local units of collective choice that possesses a fair degree of autonomy. In addition, the paper suggests that ethnic governments can be complemented with functional governments that transcend the boundaries of ethnic governments within a given country.

The paper does not discuss institutional issues related to conflicts between countries or wars of secession. In previous work, Kimenyi (1997b, 1997c, 1999) has argued that such conflicts reflect the fact that national boundaries do not reflect consensual units of collective choice. Kimenyi then proposes that it may be necessary to redraw Africa's borders because the current national boundaries are to a large extent arbitrary and tend to lead to conflict situations.

References

- Buchanan, J.M. (1965). "An economic theory of clubs". *Econometrica* 32: 1-4
- Brough, W. T. and M. S. Kimenyi (1986). "On the inefficient extraction of rents by dictators". *Public Choice* 48(1): 37-48.
- Burke, F. (1991). *Africa*. Boston: Houghton, Mifflin Co.
- Cobbah, J.A.M. (1988). "Toward a geography of peace in Africa: redefining sub state self-determination rights". In R. J. Johnson, D. B. Knight and E. Kofman (eds). *Nationalism, self-determination, and political geography*. London: Croom Helm.
- Collier, P., A. Hoeffler and M. Sanderbom (1999). "On the duration of civil war". World Bank.
- Collier, P. and A. Hoeffler (2001). "Greed and grievance in civil war". World Bank.
- Collier, P. and A. Hoeffler (1998). "On economic causes of civil war". *Oxford Economic Papers*, 50: 563-73.
- Collier, P. (1999). "Doing well out of war". Paper prepared for the Conference on Economic Agendas in Civil Wars, London, April 26-27.
- Deng, F. M. (1997). "Ethnicity-an African predicament". *Brookings Review* Vol. 15 No.3, p28-31. Washington DC: The Brookings Institution,
- Horowitz, D. (1985). *Ethnic groups in conflict*. Berkeley: University of California Press.
- Kimenyi, M. S. (1997a). *Ethnic diversity, liberty and the state-the African dilemma: The Shaftesbury papers*, 12. Cheltenham: Edward Elgar Publishing.
- Kimenyi, M. S. (1997b). "Redrawing Africa's borders: logical foundations for consensual units of collective choice". Unpublished manuscript, Department of Economics, University of Connecticut.
- Kimenyi, M. S. (1997c). "Ethnic rent-seeking and optimal integration". Unpublished manuscript, Department of Economics, University of Connecticut.
- Kimenyi, M. S. (1989). Interest groups, transfer seeking and democratization: competition for the benefits of government power may explain African political instability". *American Journal of Economics and Sociology*, 48: 339-49.
- Kimenyi M. S. (1998). Harmonizing ethnic claims in Africa: a proposal for ethnic based federalism. *Cato Journal*, Vol. 18 No.1.

- Kimenyi, M. S. (1999). "Spatial competition, ethnicity and the optimal size and composition of units of collective choice". In M. S. Kimenyi and J. M. Mbaku (eds). *Institutions and collective choice in developing countries*. Aldershot: Ashgate.
- Kimenyi, M. S. and W. F. Shughart (1989). "Political successions and the growth of government. *Public Choice*, 62: 173-9.
- Kimenyi, M. S. and J. M. Mbaku (1995). "Democratization in Africa: the continuing struggle". *Coexistence*, 32: 119-36.
- Landa, J. T. (1994). *Trust, ethnicity and identity*. Ann Arbor: University of Michigan Press.
- Little, K. (1957). The role of voluntary associations in West African urbanization". In P. L. Van den Berghe (ed). *Africa: social problems of change and conflict*: San Francisco: Chadler.
- Roback, J. (1991). "Plural but equal: group identity and voluntary integration". *Social Philosophy and Policy*, 8 (2): 60-80.
- Stewart, F. (2000). Civil wars in sub-Saharan Africa: counting the economic and social cost. In Dharam Ghai (ed). *Renewing social and economic progress in Africa*. Houndmills: Macmillan Press.
- World Bank (2000). *Can Africa claim the 21st century?* Oxford University Press.

KIPPRA PUBLICATIONS

Conference Proceedings

Report of the proceedings of the AERC-KIPPRA World Trade Organization (WTO) Workshop, 2000.

Report of the proceedings of the International Conference on Finance and Development: Evidence and Policy Issues, 2001.

Discussion Papers

The exchange rate and the interest rate differential in Kenya: a monetary and fiscal policy dilemma. Njuguna S. Ndung'u, DP No. 1, 2000: ISBN 9966 949 00 3.

Macro models of the Kenyan economy: a review. Stephen N. Karingi and Njuguna S. Ndung'u. DP No. 2, 2000: ISBN 9966 949 01 1.

A review of Kenya's current industrialization policy. Eric E. Ronge and Hezron O. Nyangito. DP No. 3, 2000: ISBN 9966 949 02 X.

Delivery of services to smallholder coffee farmers and impacts on production under liberalization in Kenya. Hezron O. Nyangito. DP No. 4, 2001: ISBN 9966 949 03 8.

Banking sector interest rate spread in Kenya. Njuguna S. Ndungu and Rose W. Ngugi. DP No. 5, 2000: ISBN 9966 949 04 6.

Beer taxation in Kenya: an assessment. Stephen N. Karingi, Mwangi S. Kimenyi, Njuguna S. Ndung'u. DP No. 6, 2001: ISBN 9966 949 09 7.

Vision and long term development strategy for Kenya's tourism industry. Moses M. Ikiara. DP No. 7, 2001: ISBN 9966 949 15 1.

Specifying and estimating partial equilibrium models for use in macro models: a road map for the KIPPRA-Treasury Macro Model. Alemayehu Geda and Njuguna S. Ndung'u. DP No. 8, 2001: ISBN 9966 949 16 X.

Determinants of poverty in Kenya: household-level analysis. Alemayehu Geda, Niek de Jong, Germano Mwabu and Mwangi S. Kimenyi. DP No. 9, 2001: ISBN 9966 949 17 8.

Kenya's exchange rate movement in a liberalized environment: an empirical analysis. Maureen Were, Alemayehu Geda, Stephen N. Karingi and Njuguna S. Ndungu. DP No. 10, 2001: ISBN 9966 949 24 0.

Theoretical base for the Kenya macro model: the KIPPRA-Treasury macro model. Free Huizinga, Alemayehu Geda, Njuguna S. Ndung'u and Stephen N. Karingi. DP No. 11, 2001: ISBN 9966 949 25 9.

Predicting household poverty: a methodological note with a Kenyan example. Germano Mwabu, Mwangi S. Kimenyi, Paul Kimalu, Nancy Nafula and Damiano Kulundu Manda. DP No. 12, 2002: ISBN 9966 949 28 3.

Human capital externalities and returns to education in Kenya. Damiano Kulundu Manda, Germano Mwabu, Mwangi S. Kimenyi. DP No. 13, 2002: ISBN 9966 949 18 6.

The decline in primary school enrolment in Kenya. Arjun Bedi, Paul Kieti Kimalu, Damiano Kulundu Manda, Nancy Nelima Nafula. DP No. 14, 2002: ISBN 9966 949 19 4.

Land laws and land use in Kenya: implications for agricultural development. Walter Odhiambo and Hezron Nyangito. DP No. 15, 2002: ISBN 9966 949 23 2.

Better understanding of the Kenyan economy: simulations from the KIPPRA-Treasury Macro Model. Maureen Were and Stephen Karingi. DP No. 16, 2002: ISBN 9966 949 31 3.

Performance of Kenya's wheat industry and prospects for regional trade in wheat products. Hezron Nyangito, Moses Ikiara and Eric Ronge. DP No. 17, 2002: ISBN 9966 949 35 6.

Impact of institutional and regulatory framework on the food crops subsector in Kenya: 1990-1999. Hezron Nyangito and Lydia Ndirangu. DP No. 18, 2002: ISBN 9966 949 36 4.

Impact of tourism on environment in Kenya: status and policy. Moses Ikiara. DP No. 19, 2002: ISBN 9966 949 37 2.

Review of government policies for the promotion of micro and smallscale enterprises in Kenya. Eric Ronge, Lydia Ndirangu and Hezron Nyangito. DP. No. 20, 2002: ISBN 9966 949 38 0.

Tobacco excise tax in Kenya: an appraisal. Jane Kiringai, Njuguna S. Ndung'u, and Stephen N. Karingi. DP No. 21, 2002: ISBN 9966 949 33 x

Analysis of Kenya's export performance: an empirical evaluation. Maureen Were, Njuguna S. Ndung'u, Alemayehu Geda, Stepehen N. Karingi. DP No. 22, 2002: ISBN 9966949 40 2.

Occasional Papers

Strengthening the link between policy research and implementation. Kang'ethe Wamaita Gitu. OP No. 1, 2001: ISBN 9966 949 07 0.

Effective private sector representation in policy formulation and implementation. Mwangi S. Kimenyi. OP No. 2, 2001: ISBN 9966 949 27 3.

Agriculture, economic growth and poverty reduction. Mwangi S. Kimenyi, OP No. 3, 2002: ISBN 9966 949 32 1.

Post-Doha African challenges in the sanitary and phytosanitary and trade related intellectual property rights agreement. Hezron Nyangito, OP No. 4, 2002: ISBN 9966 949 34 8.

Policy Papers

Policy and legal framework for the tea subsector and the impact of liberalization in Kenya. Hezron O. Nyangito. PP No. 1, 2001: ISBN 9966 949 05 4.

Policy and legal framework for the coffee subsector and the impact of liberalization in Kenya. Hezron O. Nyangito. PP No. 2, 2001: ISBN 9966 949 06 2.

Special Reports

Legal and other constraints on access to financial services in Kenya: survey results. KIPPRA, Private Sector Development Division. SR No. 1, 2001: ISBN 9966 949 08 9.

Thinking about regulating? The better regulation guide. KIPPRA, Private Sector Development Division. SR No. 2, 2002: ISBN 9966 949 20 8.

Policy timeline and time series data for Kenya: an analytical data compendium. KIPPRA, SR No. 3, 2002: ISBN: 9966 949 30 5.

Working Papers

Road infrastructure policies in Kenya: historical trends and current challenges. Wilson S. K. Wasike. WP No. 1, 2001: ISBN 9966 949 11 9.

Policy framework of Kenya's tourism sector since independence and emerging policy concerns. Moses M. Ikiara. WP No. 2, 2001: ISBN 9966 949 12 7.

A review of poverty and antipoverty initiatives in Kenya. Damiano Kulundu Manda, Mwangi S. Kimenyi and Germano Mwabu. WP No. 3, 2001: ISBN 9966 949 13 5.

Education indicators in Kenya. Paul K. Kimalu, Nancy Nafula, Damiano Kulundu Manda, Germano Mwabu and Mwangi S. Kimenyi. WP No. 4, 2001: ISBN 9966 949 14 3.

Estimation procedure and estimated results of the KIPPRA-Treasury macro model. Alemayehu Geda, Stephen N. Karingi, Njuguna S. Ndung'u, Marein van Schaaijk, Maureen Were, Willis Wassala and John Obere. WP No. 5, 2001: ISBN 9966 949 26 7.

A situational analysis of poverty in Kenya. Paul Kimalu, Nancy Nafula, Damiano Kulundu Manda, Germano Mwabu and Mwangi S. Kimenyi. WP No. 6, 2002: ISBN 9966 949 29 1.

Budget reforms and the Medium-Term Expenditure Framework in Kenya. Jane Kiringai and Geoffrey West. WP No. 7, 2002: ISBN 9966 949 21 6.

Developing a revival strategy for Kenya's cotton-textile industry: a value chain approach. Moses Ikiara and Lydia Ndirangu. WP No. 8, 2003: ISBN 9966 949 39 9
