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Growth and Institutions in African Development

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Growth and Institutions in African Development by Augustin K. Fosu

Despite the recent growth resurgence experienced by African countries from the mid 1990s and the continent hosting six of the ten fastest growing economies in the world, concerns in academic and policy circles about immiserizing growth on the continent have been recently confirmed by the April 2015 World Bank report on attainment of the Millennium Development Goal (MDG) poverty target (World Bank, 2015). According to the report, extreme poverty has been decreasing in all regions of the world with the exception of sub-Saharan Africa (SSA). The report has further established that the milestone of poverty reduction achieved so far has been marred by population growth since poverty has been decreasing in the sub-region at a slower rate than population growth. In my modest opinion, this reporting style is a euphemism for failing inclusive growth policies, implying the continent is being confronted with even more dire challenges in the face of the post-2015 sustainable development agenda.

Good institutions have been documented to be critical in providing an enabling environment for the juice of economic prosperity to trickle down to the poorer segments of the population in SSA (Thorbecke, 2013). To this end, there have been growing debates in contemporary African development literature about: (i) shortcomings of the Washington Consensus and (ii) need to reconsider emerging development schools like the Liberal Institutional Pluralism (LIP), New Structural Economics (NSE) and the Beijing Model (BM) (Fofack, 2014; Asongu and Aminkeng, 2013).

There is yet no consensus in the literature on how to tackle the highlighted issues, notably: the type of institutions needed for sustained and inclusive growth in the post-2015

African development agenda. The interested reader would quickly acknowledge that these overarching concerns must have motivated Augustin K. Fosu, a leading and respected expert in the field of African development, to edit an interesting bulk of studies within the underlying framework for his book: *Growth and Institutions in African Development*.

The book is a timely contribution to knowledge that offers very interesting insights into views and agenda within rigorous theoretical and empirical frameworks on policy issues surrounding the relevance of growth and institutions in African development. The book's coverage comprises of 15 chapters presented into two main subject areas, namely: growth and institutions. Each of the two subjects is further divided into two parts. On the one hand, the growth area covers: (i) growth determinants (industrial embeddedness, innovation, exchange-rate regimes and environmental quality); and (ii) sectors, dynamics and distribution of growth. On the other hand, the institutions area entails: (i) institutional development; and (ii) institutions and development outcomes. An interesting common denominator among authors of various chapters in the two subject areas is that the empirical results are succinctly summarised to enhance accessibility and readability by interested readers who might have required technical reading skills to understand the rigorous empirical analyses and resulting policy insights. Hence, it is an easy-to-read and richly policy-relevant book for both specialists and non-specialists. Moreover, the underlying ease of readership is facilitated with an introductory chapter by Augustin K. Fosu which lays out the general framework with hard but interesting stylized facts, before summarising the key motivations and contributions of various chapters with very accessible and non-technical language.

Contemporary overarching issues of Africa's development highlighted in the first-two paragraphs are aptly captured by Fosu (2015a) in the introductory chapter. I have been quick to compare the plethora of interesting stylized facts with corresponding interpretations from the highlighted World Bank report. Surprisingly, there is a genuine accord on that; the substantial progress towards curbing poverty has been fundamentally thwarted by a more proportional population growth in SSA. It is not within the scope of this review to engage a debate on precedence of information. However, the fact that the book is edited prior to the World Bank report attests to: (i) the academic rigour of the editor and (ii) consistency of analytical and policy insights with authoritative reports from multilateral development institutions as well as other respected authors in the field. It is also interesting to note that the hard evidence provided in this introductory chapter substantially debunks an overly-optimistic stream of studies that have been so quick to qualify SSA are being on time for the MDG extreme poverty target. For instance, the engaged Fosu (2014), now Fosu (2015b), used to

articulate some of the stylized facts: (i) is broadly consistent with the underlying World Bank report and (ii) debunks Pinkivskiy and Sala-i-Martin (2014) who have concluded that but for the Democratic Republic of Congo, all countries in the sub-region attained the MDG extreme poverty target in 2014 or one year ahead of time. For lack of space, I am stopping at this example, but more examples of how the introductory chapter clarifies and complements contemporary African development literature are available upon request.

As a caution to my assessment, the consistency of the introductory chapter with the World Bank report (on nexuses among growth, poverty and inequality) should not be construed as a pro Washington Consensus narrative because Fosu is careful about not completely aligning his discourse with the ‘African rising’ narrative, notably: on the feeble responsiveness of African poverty to her growth, relative to other regions of the world. Moreover, at the institutional level, emphasis on the relevance of New Institutional Economics (NIE) in improving the performance of African economies is a clear acknowledgement of the need for post Washington Consensus economics. In other words, while articulating the need for institutions (economic freedom, electoral competitiveness and executive constraint) and growth in African development, Fosu is also cautious about not extolling and venerating the rewards of neoliberal ideology and capital accumulation which have been documented to neglect fundamental ethical concerns, essential for sustainable African development, inter alia: inequality, ecology and job sustainability (Obeng-Odoom, 2013, 2014). The mixed but balanced picture provided by the editor well augurs with diverse perspectives of World Bank agents in contemporary African development literature, among others: the ‘false economics of preconditions’ (Monga, 2014) and overly optimistic narratives about ‘Africa rising’ (Leautier, 2012).

I invite interested readers to beware of the potentially confusing use of concepts of governance and institutions. On the one hand, political governance and economic governance measured with the electoral competitiveness index (ECI) and economic freedom respectively, are much broader concepts, even by World Bank standards. For instance, political governance is the election and replacement of political leaders, proxied with political stability/non violence while economic governance is the formulation and implementation of policies that deliver public commodities, proxied with government effectiveness and regulation quality. On the other hand, executive constraint (XCONST) which is considered as an institutional variable should by definition sink into the category of economic governance because institutional governance is more concerned with the respect of the State and citizens of institutions that **govern** interactions between them (corruption-control and rule of law). While

the highlighted governance variables are very likely to display a high degree of substitution with the institutional variables engaged by Fosu, the conceptual clarification is worthwhile to enhance understanding of subsequent chapters, which I engage chronologically in four main strands, namely: (i) growth determinants (industrial embeddedness, innovation, exchange-rate regimes and environmental quality), (ii) sectors, dynamics and distribution of growth, (iii) institutional development and (iv) institutions and development outcomes.

In the first strand, Na-Allah (2015) in Chapter 2 assesses the phenomenon of industrial embeddedness within a framework of SSA manufacturing firms to establish findings that are consistent with previous literature, notably: that positive ‘relationship effects’ are linked with measurements which proxy for plant age and two sectoral identities (garment, food and beverages) whereas; large firm size, Asian ownership status and poor potential of supply, display substantial negative spillover of supplier linkage. Understanding linkages between manufacturing firms and ‘local input supply source’ is important in sustaining growth within an economy. While the study engages a line of inquiry that has hitherto focused on non-SSA countries, the interesting contribution to the literature may be misleading if the findings are generalised to the sub-region because Lesotho, which is legitimately selected from sound selection criteria is not representative of the sub-region. Fortunately, the author is intellectually honest to admit this shortcoming towards the conclusion.

The concern of whether the lack of innovation and absorptive capacity retards economic growth in Africa is investigated in Chapter 3 by Onyeiwu (2015). The author further concludes that the ability to innovate appears to be less relevant for African growth relative to the ability of a country to assimilate and effectively use novel technologies. This finding is consistent with the South Korean and Taiwanese courses of development, set by the pattern of Japan which progressed to an advanced industrialised nation by relying on the improvement of existing technologies and commodities instead of investing the new technologies (Kim, 1997, p. 220; Kim and Kim, 2014). The conclusion of Onyeiwu aligns with an evolving stream of development literature emphasising the need for Africa to catch-up with the rest of the world by accelerating its transition from product-based economies to knowledge economies (Anyanwu, 2012; Asongu, 2014a; Andrés et al., 2014; Oluwatobi et al., 2014, Asongu, 2015a), especially through the implementation of policies based on the knowledge that, it is more feasible for African countries to engage in reverse engineering because their current technologies are more imitative and adaptive in nature (Asongu, 2014b, p. 578; Asongu, 2014c).

Given the post-crisis slow economic recovery of countries within the European Monetary Union (EMU) and the European Central Bank's (ECB) recent move to depart from its longstanding obsession with inflation-control and engage in a less conventional monetary policy like quantitative easing, I would have been disappointed had a chapter not been devoted to potential and embryonic monetary zones in Africa. Fortunately, Qureshi and Tsangarides (2015) in Chapter 4 have examined the effects of monetary unions vis-à-vis conventional peg or fixed exchange regimes on bilateral trade on the continent. Their findings contribute to the ongoing debate on regional currency formation by recommending that candidate countries for currency unions aspiring for more stable exchange-rate regimes (with some margin for flexibility) could consider pegs as a viable alternative to full monetary integration. This policy recommendation is still very open to debate as countries within the French African Colonies (CFA) franc zone have suffered from growth-inhibiting overvaluation which led to a major devaluation in 1994 (Fosu, 2012). Hence, a peg, while mitigating exchange rate volatility could also damage growth in cases of overvaluation. Given that projects on the potential East African Monetary Union (EAMU) and West African Monetary Zone (WAMZ) are already underway, the recommendations of Qureshi and Tsangarides (2015) should not be understood as a case against embryonic African monetary unions. From my own reading, the authors are sending a strong message to policy makers that the EMU crisis should serve as a strong lesson because the serious disequilibria in the zone has been the result of a currency union that was not designed to be robust to a variety of macroeconomic shocks. A quick perusal of studies with similar scope reveals that, the indirect cautions of Qureshi and Tsangarides are consistent with an evolving stream of literature on the subject, notably, on the: (i) proposed WAMZ (Mkenda, 2001; Buigut and Valev, 2005; Alagidede, 2012); (ii) embryonic EAMU (Calesun and Justiniano, 2005; Kishor and Ssozi, 2011; Mafusire and Brixiova, 2013; Lepetit et al., 2014); (iii) Economic Community of West African States (ECOWAS) forming a monetary union (Debrun et al., 2005; Tsangarides and Qureshi, 2008; Dufrénot and Sugimoto, 2013); (iv) existing African monetary unions like the CFA franc zone in light of the recent EMU crisis (Asongu, 2013a) and (v) proposed African monetary unions (Asongu, 2013b; Asongu, 2014de).

The first strand is concluded with an investigation by Drabo (2015) on the economic consequences of linkages between health, environmental quality and economic activity in Chapter 5. The line of inquiry is timely and augurs well with the post-2015 development agenda. The study concludes that environmental degradation: (i) negatively impacts economic activity and (ii) decreases the catch-up process between poor and rich countries. While the

analysis is quite robust with a battery of estimation techniques, I am concerned that the sampled 117 developed and developing countries is with data for the period 1971-2000. In light of this issue, future studies devoted to extending the extant literature on this subject could: (i) use an updated dataset that captures the period of Africa's growth resurgence and (ii) decompose the updated dataset (on developed and developing countries) into some homogenous and/or fundamental characteristics (e.g (i) African and developed countries, (ii) Latin American and developed countries, (iii) Low income and developed countries...etc). While the latter recommendation may not substantially alter Drabo's results, it could nonetheless provide more targeted policy implications because within a heterogeneous panel, some fundamental characteristics or homogenous settings facilitate the convergence process (Islam, 1995; Narayan, 2011, p. 2773; Asongu, 2013c, p. 46).

The second strand on 'sectors, dynamics and distribution of growth' begins from Chapter 6 with the interesting analysis by Ogunleye (2015) of emerging evidence on the relative importance of sector sources of growth in SSA, which is complemented by Seetanah et al. (2015) on the relationship between tourism and economic growth in Chapter 7. Ogunleye concludes that the service sector is the leading driver of growth, followed by agriculture and manufacturing. This finding while debunking the popular consensus that the agriculture sector is the leading driver of growth, also informs policy on the relevance of service activities which do not occupy/employ a substantial bulk of the population in the sub-region, namely: tourism, finance, construction, trade and information and communication technologies (ICTs). The policy relevance of the service sector is broadly consistent with the knowledge economy literature discussed earlier, notably: on the need for countries in SSA to quicken the process of transition from product-based economies to knowledge-based economies. The findings of Ogunleye are confirmed by Seetanah et al. from a tourism perspective. Moreover, the documented principal drivers of tourism are 'knowledge economy'-related. In essence: 'private investment, trade openness' and human capital are respectively proxies for the knowledge economy dimensions of economic incentives and education (Andres et al., 2014, p.10).

In Chapter 8, Arbache and Page (2015) engage a very rich assessment of long-term characteristics of growth and income distributions among countries in SSA, in order to provide long-term regularities and patterns of income dynamics across countries. The plethora of interesting findings presented amply reflects contemporary African literature and debates centred on the building of an African middle class (Moyo, 2013; Ncube et al., 2011, 2015; Kodila-Tedika and Asongu, 2014; Thurlo et al., 2015) and its politico-economic

consequences (Anyanwu and Erhijakpor, 2014, p. 15; Asongu and Ssozi, 2014; Resnick, 2015).

I would have also been very disappointed had a chapter not been devoted to concerns about achieving the MDG extreme poverty target. Tregenna (2015) in Chapter 9 provides a simulation of various distribution scenarios that would help halve poverty in the country with the highest level of income-inequality in the World: South Africa. A plethora of policy mechanisms by which this goal could be achieved are also proposed by the author. However, what is important in the analysis and implications for other African countries is the critical role of inequality in the response of poverty to growth: conjectures already engaged in the: (i) **introductory** paragraphs of this review and (ii) introductory chapter of book being reviewed (also see Fosu, 2009; 2010abc). From my own further perusal of the literature, the findings and discussion of results are broadly consistent with South African general and specific literature, notably: (i) general perspectives, inter alia, determinants and measurements of multifaceted poverty (Jansen et al., 2015), impact of maize yield on poverty reduction (Fischer and Hadju, 2015) and gender equality using the Global Multidimensional Poverty Index (Rogan, 2015) and (ii) specific views on nexuses between growth, inequality and poverty from Finn et al. (2014), Mabugu and Mabugu (2014) and Bhorat and Tseng (2014).

The third strand on institutional development begins with Gitau (2015) who **employs** hard facts to demonstrate that throughout the contemporary Liberian state, laws that could serve the common interest of Liberians have been tailored to the benefit of outside forces and to the detriment of local operators. The author uses the case study of the country's telecommunications sector to substantiate the underlying thesis in Chapter 10. In Chapter 11, Kangoye (2015) extends his previous stream of works on the role of foreign aid on governance (Kangoye, 2013) by establishing a case for the indirect positive impact of foreign aid on democracy through a 'dampening effect' on the instability of terms of trade in recipient countries. While the direct effect of foreign aid on political governance remains very questionable in Africa (Eubank, 2012; Asongu, 2015bc), Kangoye provides an interesting approach to understanding nexuses among macroeconomic variables, foreign aid and good governance in contemporary development literature. Duponchel (2015) completes this strand with Chapter 12 by using household data collected from the Johannesburg inner city and Alexandra township to provide specific household patterns that significantly influence the likelihood of xenophobic attacks. The **findings and interesting policy implications** are very timely given recurrence of xenophobic attacks in early 2015 in South Africa.

The nexus between institutions and development outcomes is the focus the fourth strand. Agbor (2015) devotes Chapter 13 to assessing how colonial origins affect economic performance in SSA to confirm the edge Anglophone countries with English common law traditions have over their Francophone counterparts of French civil law traditions. While Agbor has confirmed the widely documented consensus with the educational channel, it is important to note that recent African legal origins literature has debunked the dominance of countries with English common law traditions. In essence, while they are consistent with the law-finance theory by dominating in areas of financial intermediary depth, activity and size, their French civil law counterparts are dominant in financial allocation efficiency, essentially because they have preferred peg or fixed exchange rate regimes (Asongu, 2015d).

Okey (2015) in Chapter 14 investigates linkages between institutional reforms, private sector development and economic growth in Africa to establish that reforms in the doing of business (destined to improve the business climate) have positively influenced investment (foreign and private) and private domestic credit, which have positive externalities on economic growth. My own very quick review of prior exposition reveals the findings of Okey are broadly consistent with African entrepreneurial and business literature, notably: (i) Mensah and Benedict (2010) on the positive long-term rewards of entrepreneurial activity on economic growth and poverty reduction; (ii) Oseifuah (2010) on the nexus between youth entrepreneurship, financial literacy and potential growth externalities; (iii) Singh et al. (2011) on the importance of general education in doing business, especially (iv) management lessons and entrepreneurial studies that play a positive role in entrepreneurial intentions (Gerba, 2012) and (v) the linkage between knowledge economy and the doing of business (Tchamyou, 2014).

The last strand is completed by Bhalotra and Umana-Aponte (2015) who examine women's labour supply and household insurance in Africa to establish that gender equality consolidates a multitude of positive externalities like children education and health improvement while at the same time enhancing female access to employment and market opportunities. These findings (if intersected with ethnicity) align with those of Elu and Loubert (2013) on earnings inequality in SSA under the hypothesis that the interesting findings from Bhalotra and Umana-Aponte are likely to be more apparent in the absence of ethnic inequality. I would even go a step further to linking the implications of the underlying study with an evolving stream of ICT literature. Accordingly, mobile phones which are becoming a form of household insurance can aptly reward women with the established benefits by the authors, notably: (i) female access to market and employment and (ii)

enhancing of children health and education. Consistent with Asongu (2015e, pp. 712-713), the mobile phone can accomplish the findings of the underlying study in at least a twofold manner: (i) mobile phones can substantially empower women to engage in small business and/or manage existing businesses more efficiently and (ii) mobile phones can also assist women in household management of shocks that are very likely to negatively affect children's health and education. Hence, the ICT creates an enabling environment for timely responses to underlying poverty-related shocks via mechanisms like: income saving, multi-tasking, education, reduced travelling cost, and household budget management¹. Moreover, from a broader perspective, studies in Ghana have shown that access to market information by means of the mobile phone could increase traders' income by about 10% (E-agriculture, 2012, p. 6-9), through mitigating agricultural wastages via a reduction of demand-supply mismatches as well as demand- and supply-side constraints (Asongu and De Moor, 2015), inter alia. While I may have overstretched the relevance of the findings of the last chapter in contemporary African development literature, what is granted is that browsing through the easy-to-read book reveals substantial policy insights which provide the reader with day-to-day stylized facts with which to connect the dots.

I will end my observations by highlighting two key themes which in my humble opinion have not been sufficiently engaged. First, while Fosu (2015a) in the introductory chapter has alluded to post-‘Washington Consensus’ (WC) models, I expected a chapter of the strands on institutions to be devoted to an in depth assessment of what kind of post-WC institutions are very likely to sustainably chart the course of African inclusive growth in the post-2015 development agenda. While Fofack (2014) has provided some thoughts in this direction, more studies within this stream would stimulate the debate and enrich the extant literature. Second,

¹ “mobile phones can assist households’ budget when faced with unpredictable shocks which drive poverty. The probability of a poor family incurring drastic loss due to an unpredictable shock is certainly mitigated and lowered when families are able to respond to the shock in a more timely fashion. Hence, the mobile phone could have the greatest effects on poverty reduction during vulnerable shock experiences through driving down costs associated to the shock. Better financial management and coping with shock include: incurring lower travel costs, more efficient action, less trauma and improved access to information. Immediate positive feedbacks of income saving and cost mitigation are found particularly during vulnerable situations like death or illness in the family. It is also interesting to cite security increases for poor families through reduced loss of poverty. For instance, a family’s ability to scale-down the number of overnight hospital days or capacity to avoid transport cost during desperate situations are some major cost saving strategies implemented with the quick dial of the mobile phone. In a nutshell, the communication device provides a means of timely response, reduced surprises, multi-task and plans during shocks, as well as less time to physically search individuals during difficult ordeals” (p. 713).

there is an evolving stream of literature sustaining that the African growth narrative is based on a myth because the computation of economic growth has failed to debit the national resource account with values corresponding to extracted resources. For brevity and purpose of clarity, this concern is well articulated by Bond (2010): “*Seeking a less-biased wealth accounting – i.e., by factoring in society and the environment so as to calculate a country’s “genuine savings” from year to year – we find that Africa gets progressively poorer*”. This ‘myth dimension’ should have been critically engaged because the book emanates from the successful execution of the project entitled: ‘*African Development: Myths and Realities*’ . Unfortunately, the editor is not responsible for the choice for what contributors to a book decide to engage. Overall, the book is timely, intellectually stimulating and will substantially provide both academic and policy makers with relevant insights for the post-2015 African development agenda.

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