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**Institutions and African Economic Development**

Augustin Kwasi Fosu

University of Ghana and University of Johannesburg and University of Pretoria and University of Oxford

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# **Institutions and African Economic Development<sup>1</sup>**

By

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<sup>1</sup> This working paper is significantly influenced by an earlier paper presented at the Special Conference in honour of Prof Robert Bates: **'Markets and States and Robbers and Bates: On the Papers and Traits of Robert Bates'**, which was held at Harvard University, Cambridge, MA, USA, on 16 April 2015. I appreciate comments from the conference participants, as well as from reviewers on an earlier draft, a version of which is published as: Fosu, A. K. (2019), "Institutions and African Economic Development," in E. Nnadozie and A. Jerome (eds.), *African Economic Development*, Bingley, UK: Emerald Publishing, chapter 12, pp. 232-255. I wish to also thank the National Research Foundation (NRF) of South Africa for 'B2-rated' grant support via the University of Pretoria.

## Abstract

In the light of the increasing importance of institutions in economic development and Africa's desire to catch up, the present paper provides an account of this crucial subject, 'Institutions and African Economic Development'. First, adopting the usual definition of 'institutions' as 'rules of the game', the paper shows that improvements in economic institutions, such as economic freedom, had begun by the early 1990s, and accelerated about the mid-1990s, consistent with observed improvements in economic and development outcomes. Also improved are measures of political institutions: an index of electoral competitiveness, constraint on the executive branch of government, and polity 2 as an indicator of the level of democracy, beginning in the late 1980s or early 1990s. Second, based primarily on a review of the extant literature, the paper observes that these improvements in the measures of economic and political institutions are positively associated with the increasing economic development in Africa. Third, indicators of institutional instability, measured by the frequency of civil wars and the incidence of coups d'état, have been diminishing since the early 1990s, with implications for improved growth and human development. Fourth, some evidence is provided in support of the notion that African countries with better performance on institutional quality during the period of growth resurgence have also exhibited greater progress on poverty reduction. Finally, the paper concludes by flagging the potential risk of African countries backtracking on their respective trajectories toward achieving the democratic consolidation required to sustain the gains in growth and development.

JEL classification: O11, O15, O43, O55

## **Institutions and African Economic Development**

### **1. Introduction**

The role of institutions in (African) economic development has become increasingly prominent in the literature. For instance, the Washington Consensus, which formed the basis for economic reforms in many African countries in the 1980s and 1990s, is often faulted for not having incorporated institutional reforms. This criticism led to subsequent modifications, resulting in the ‘second-generation’ reforms. Rodrik (2006, table 1) then proposed the ‘augmented Washington Consensus’ to highlight the important role of institutions. Furthermore, North (1990) showed the dynamic importance of institutions in economic performance. Indeed, the new institutional economics (NIE) projects the supremacy of institutions over most impediments to development (see Rodrik et al. 2004; Acemoglu et al. 2005).<sup>2</sup> Consistent with the NIE, Bates et al. (2013) find that recent institutional development in Africa has significantly contributed to the improved performance of African economies generally.

In a major research project undertaken by the African Economic Research Consortium (AERC) – the Growth Project - institutions are accorded substantial attention in explaining the growth performance of African economies. The Growth Project attributes the poor growth in the 1980s and early 1990s primarily to weak institutions and, conversely, the recent growth resurgence to improved institutions (Ndulu et al. 2008a, 2008b).

Bates (1981) focussed on the importance of markets in the efficient allocation of resources. The study faulted African governments’ suppression of markets as a major culprit responsible for the then emerging economic problems of failed growth on the sub-continent. This ‘Batesian’ urban-biased framework would go a long way in contributing to the understanding policies pursued by African policy-makers as well as the implications of such policies for growth and development. Expectedly, the restoration of markets as part of the economic reforms of the 1980s and 1990s appears to have paved the way for the growth resurgence of many African economies.

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<sup>2</sup> See Haggard et al. 2008 for an extensive review.

In section 2, I define terms: ‘institutions; and ‘economic development’. Section 3 reviews the extant evidence on institutions and their implications for economic and development outcomes in Africa.<sup>3</sup> Consistent with the evidence, the section also presents data on the respective behaviours of the respective institutional measures during post-independence in Africa.<sup>4</sup> In addition, some evidence is presented on the association between the more recent measures of institutional quality (IQ) and economic/development outcomes across African countries during the period since the mid-1990s, when African economies have generally been experiencing resurgence in growth and development. Section 4 concludes with an emphasis on the crucial role of institutions, and with flagging the inherent risks faced by African countries in their efforts to sustain the recent gains within the present politico-economic framework.

## **2. What are ‘institutions’ and ‘economic development’?**

By ‘institutions’, I refer to the definition by Douglass North (1990) as ‘rules of the game’ involving human interactions. Such interactions may or may not lead to optimal economic outcomes. The basic question is: What are the appropriate rules that result in the greatest amount of economic development? To answer this question, one must also define ‘economic development’, which is viewed in the present writing as increases in the material well-being of a society, a definition which is synonymous with improvements in ‘human development’ or ‘economic welfare’. Various measures include: increases in per capita income or in the human development index (HDI), reductions in poverty, and attenuation of extreme inequality.

It is assumed here that institutions constitute the medium for ‘developmental governance’, which constitutes the basic recipe for development. In this regard, such governance measures as ‘government effectiveness’, ‘control of corruption’, ‘regulatory quality’, ‘the rule of law’, ‘political stability’, and ‘voice and accountability’ become quite consequential. Yet, these variables themselves derive from the rules of governance, including those set out to define the economic space, such as economic freedom, or those defining the political space, such as political governance: the nature and degree of democracy. The importance of such variables emanates from the fact that the rules affect the incentives for

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<sup>3</sup> Aron (2000) tackles this issue of growth and institutions in some detail, reviewing several studies on the subject. However, that study is rather outdated, in that it does not shed light on more recent improved performance of African economies, which is the focus of the present undertaking.

<sup>4</sup> By ‘post-independence’, it is meant roughly 1960-present, but the empirical discussion is limited to the available data.

generating the desirable economic outcomes (Acemoglu and Robinson, 2008). These are the ‘institutions’ that constitute the crucible for developmental governance.<sup>5</sup>

Institutions may be formal or informal. The former could be viewed as those defined under the modern state while the latter govern interactions based on tradition. These two types of institutions may compete or may be reinforcing. In the final analysis, though, whether informal or formal, the relevant issue is which institutions provide the best incentives for development?

Because the modern African state usually constitutes a set of ethnic groups with likely disparate informal rules, and state rules often determine policies pursued for development, this chapter focusses on formal institutions. This choice is not meant to discount the importance of informal institutions. It is just that they are likely to differ considerably even within the same country, and policies are usually constructed at the state rather than group-identity level, with presumably the interest of the nation as whole in view. Besides, ‘developmental governance’ transcends formality or informality. The basic question is: what institutions are likely to generate optimal developmental outcomes? This question is answered by identifying the various measures of institutions that are considered in the literature as positively influencing growth and development, particularly in Africa, and documenting the extent to which inter-temporal changes of these measures in Africa might be consistent with the extant evidence. In addition, I present preliminary results on possible association between the IQ measures and economic and development outcomes, using cross-country data over the period since the mid-1990s when African countries have generally experienced resurgence in growth and development.

### **3. Institutions and Implications for Economic and Development Outcomes**

Institutions, as the ‘rules of the game’ (North, 1990), have undergone changes in Africa over the post-independence period. As stated in an earlier section above, I limit my analysis to modern institutions, although traditional institutions may complement or counter the ability of modern institutions to impact economic growth and development (Meagher, 2007). In the final analysis, however, it is modern institutions that define the role of their traditional counterparts in the nation-state. To be

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<sup>5</sup> Obviously, economic outcomes may also influence the nature of institutions (Lipset, 1959), although the latter tends to change rather slowly. Furthermore, Bates et al. (2013) find unidirectional causality from institutions to economic growth in Africa.

effective, therefore, modern institutions should be designed, taking into account the realities of their traditional counterparts.

I present below some evidence on institutions, with respect to their inter-temporal changes during post-independence, and draw out the implications for economic and development outcomes in Africa based on the extant literature. These institutions comprise:<sup>6</sup> economic institutions, as represented by ‘economic’ freedom; and on political institutions, measured by electoral competitiveness, constraint on the government executive, and polity 2. Also reviewed is the evidence on the role of political instability, as an indicator of institutional quality, in economic growth and development in Africa.

To capture the intertemporal disparities in performance of Africa during post-independence, I focus the discussion on those institutional measures for which there are available data spanning the period that includes at least the 1970s, as well as the more recent period starting in the late-mid-1990s when Africa as a whole has been performing relatively well economically. In that case, it would be possible to gauge the role of institutions during both sub-periods.

Hence, I provide only a terse reference to the rather paltry extant evidence on the implications of the more recent IQ measures, presented as ‘governance indicators’, the data for which begin about the mid-1990s (see World Bank, 2018). These IQ variables include: ‘rule of law’, ‘government effectiveness’, ‘control of corruption’, ‘voice and accountability’, and ‘political stability and absence of violence/terrorism’. Indeed, to the best of my knowledge, there is little reliable existing literature on the implications of these variables for economic performance in Africa. One such study is Fayissa and Nsiah (2013), which finds that the institutional measures exert positive effects on economic growth in African countries. Another study is on the importance of these variables for poverty in a sample of developing countries globally, though not for African economies per se (see Tebaldi and Mohan, 2010), while yet another emphasizes the implications of these IQ measures for poverty in African countries (Asongu and Kodila-Tedika, 2017).

I also review in this chapter the implications of political instability (PI), as an indicator of institutional quality, for Africa’s development outcomes, which include not only growth but also human

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<sup>6</sup> It is often difficult to delineate between ‘institutions’ and ‘governance’. Following North (1990), for instance, while institutions are the ‘rules of the game’, governance refers to the setup that carries out these rules. However, ‘economic governance’ and ‘political governance’ are often used rather loosely in the literature, and also in the present writing, to actually refer to the rules, rather than to the structure of organizations per se. I employ these terms interchangeably here.



development. PI has indeed been a major feature of the African continent. It entails both elite PI in the form of coups d'état and civil wars.

In interpreting the inter-temporal behaviours of the institutional measures, it would be instructive to keep in view changes in the growth and development outcomes on the continent. For example, Africa's average economic growth resurgence began about 1993, and so did decreases in the poverty rate, while improvements in the region's human development index (HDI) has accelerated since approximately 1999 (see Fosu, 2015b, 2018a; Fosu and Ogunleye, 2018).

### *Economic Freedom*

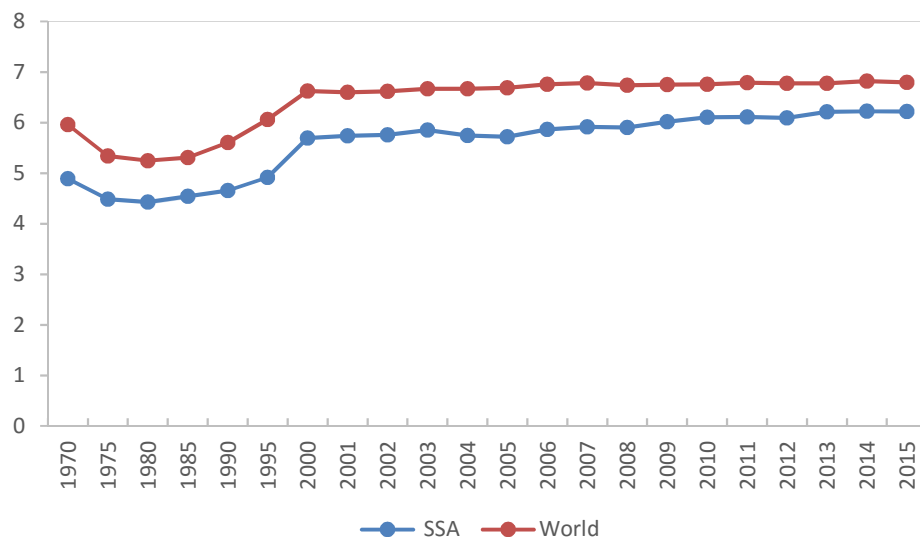
As a measure of economic institutions, economic freedom (EF) incorporates indicators of: the size of government (expenditures, taxes and enterprises); legal structure and security of property rights; access to sound money; freedom to exchange with foreigners; and regulation of credit, labour, and business. EF has improved appreciably in SSA (Figure 1), from a value of 4.4 in 1980 to 6.2 in 2015 (range: 0-10);<sup>7</sup> indeed, there appears to be an acceleration of EF from about 1990 or earlier, slightly preceding the period of improved economic and development outcomes.

Higher levels of EF should have positive implications for economic growth (Haan and Sturm, 2000). In addition, EF may offer direct utility to individuals (Friedman, 1962; Sen, 1999). According to Friedman (1962), furthermore, EF is a precursor to political freedom, which in turn provides further utility to individuals (Sen, 1999).

### **Figure 1: Economic Freedom, Africa vs. World, 1970-2015 [0-10]**

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<sup>7</sup> There also appears to be a slight convergence with ROW, especially within the last decade.



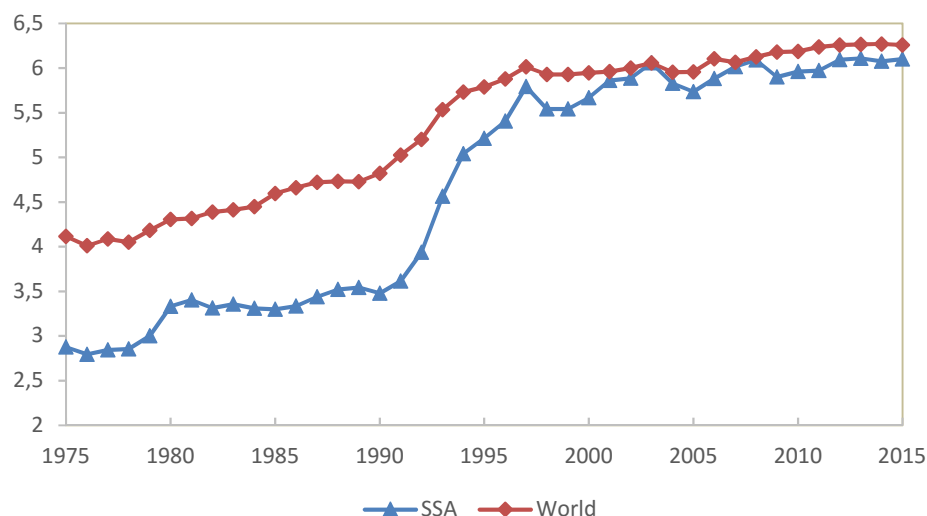
Notes: Data from Gwartney *et al.*, 2017.

### *Political Institutions*

The index of electoral competitiveness (IEC), as an indicator of political institutions, has risen substantially (Figure 2), from 3.3 in 1980 to 6.1 by 2015 (range: 1-7).<sup>8</sup> Indeed, the IEC gap with ROW has virtually closed, from as much as 2.2 in 1990 to 0.1 by 2015.

**Figure 2: Index of Electoral Competitiveness (IEC) [1-7], Africa vs. World (1975-2015)**

<sup>8</sup> This index is the first principal component of the legislative index of electoral competitiveness (LIEC) and the executive index of electoral competitiveness (EIEC), with the respective weights of 0.49 and 0.51 (Fosu, 2008a); the first principal component explains over 90 percent of the variance (Fosu, 2008a).



Notes: IEC is the first principal component of the legislative index of electoral competitiveness (LIEC) and executive index of electoral competitiveness (EIEC), with respective weights of 0.51 and 0.49 and explaining over 90 percent of the variance (Fosu, 2008a). Data for LIEC and EIEC are from World Bank, 2017c.

Fosu (2008a) finds that at a sufficiently high level of IEC, African countries, on average, could be viewed as having attained growth-enhancing ‘advanced-level democracy’<sup>9</sup>. This outcome holds for both the index of executive electoral competitiveness (EIEC) and index of legislative electoral competitiveness (LIEC). Interestingly, Figure 2 shows that the index accelerated beginning in approximately 1990, and reaching a value of 4.6 by 1993; this value just exceeds the threshold of 4.4 for attaining the growth-enhancing ‘advanced-level’ democracy in Africa, as estimated in Fosu (2008a). Furthermore, as indicated above, this period tallies quite well with that for Africa’s resurgence in growth and development.

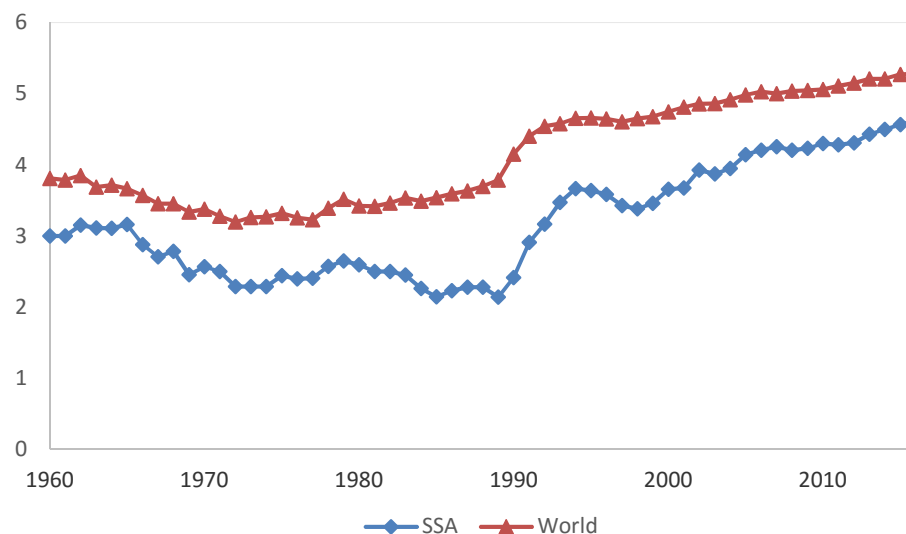
Based on sufficiently high levels of EIEC (6 or 7), Bates et al. (2013) present causal evidence in support of the hypothesis that better political institutions have improved economic outcomes at both the macro- and micro-levels in Africa. At the macro level, the authors find that political reform Granger-causes per capita GDP growth. They observe additionally that at the micro level, changes in national political institutions towards greater democracy have served to raise total factor productivity (TFP) in

<sup>9</sup> Fosu (2008a) estimates the threshold for this regime as the level of the index of electoral competitiveness in excess of 4.4 (0.0–7.0 range).

agriculture. Furthermore, “that Africa’s electorate is largely rural further suggests that the movement to majoritarian institutions has served to attenuate the ‘Batesian’ urban-bias policies of the past where governments pursued policies favoring (urban) consumers at the expense of the (rural) producers of agricultural products (Bates, 1981).” (Fosu, 2013c, p. 492) These results are, therefore, consistent with the dictates of the New Institutional Economics (NIE).

Similarly, the degree of constraint on the executive branch of government (XCONST)<sup>10</sup> has increased steadily in recent years (Figure 3). XCONST began to accelerate in SSA around 1990; the gap with ROW narrowed substantially by 2000, with the widest gap occurring in 1989. Thus, it seems appropriate to emphasize that Africa has made considerable progress on executive constraint since about 1990, slightly leading Africa’s improved economic and development outcomes, though the gap with the World’s today is about the same as that in the 1960s.

**Figure 3: Executive Constraint (XCONST) [1-7], Africa vs. World (1960-2016)**



Notes: XCONST is a measure of the constraint on the executive of government (source: data from Polity IV Project, 2016).

<sup>10</sup> XCONST measures the degree of constraint on the executive branch of government, and it takes on values of 0-7, where 7 is for ‘strict rules for governance’, 1 means ‘no one regulates the authority’, 0 signifies ‘perfect incoherence’, etc. (for details, see Fosu, 2013b).

What is the importance of XCONST as an institutional variable? Alence (2004) observes that democratic institutions in Africa greatly improve ‘developmental governance’: ‘economic policy coherence (free-market policies), public-service effectiveness, and limited corruption’. The study finds additionally that while ‘restricted political contestation’ (with limited executive constraints) has little direct impact on developmental governance, executive restraints improve developmental governance even if there is little political contestation. (Fosu, 2010d: 68)

According to Fosu (2013b), furthermore, XCONST can accentuate the likelihood of a ‘syndrome-free’ (SF) regime,<sup>11</sup> independently or by mitigating the potentially pernicious effect of ethnicity. At the same time, the prevalence of SF has been observed to be necessary for sustaining growth and constitutes ‘virtually a sufficient condition for avoiding short-run growth collapses’ (Fosu and O’Connell, 2006: 31; see also Collier and O’Connell, 2008). In addition, growth collapses have historically reduced Africa’s annual per-capita GDP growth by about 1.0 percentage point (Arbache and Page, 2007). This estimate is not paltry, given that the growth averaged 0.5 percent for African economies during 1960-2000 and the growth gap with ROW was roughly 1.0 percentage point (Fosu, 2010d). Avoiding growth collapses is, therefore, quite consequential.

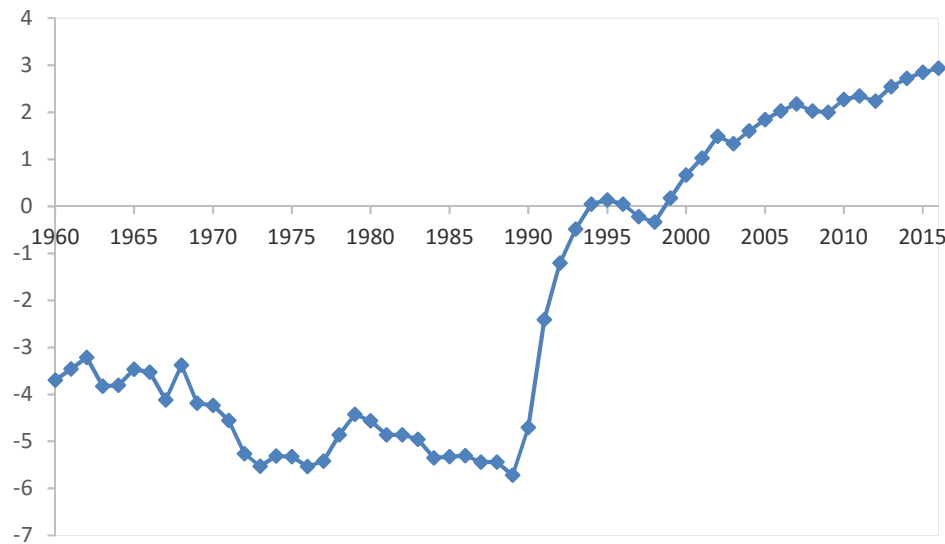
Hence, the role of XCONST in African growth and development is critical. It may promote developmental governance, accentuate the prevalence of SF regimes, and constitute an important antidote for preventing growth collapses. The growth-enhancing role of XCONST, therefore, cannot be overstated.

Another indicator of political institutions is the polity 2 score as a measure of the degree of democracy, with a score of -10 representing complete autocracy and +10 indicating complete democracy. As shown in Figure 4, the polity score fell below -5 in the 1970s and the latter part of the 1980s, but has risen steadily since 1990, reaching well above zero in the 2000s. As the case with the other institutional measures presented above, the rise in this index also slightly precedes Africa’s resurgence in economic growth and development.

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<sup>11</sup> ‘Syndrome-free’ regime means a ‘combination of political stability with reasonably market-friendly policies’ (Fosu and O’Connell, 2006: 54).

**Figure 4: Polity 2 Score, Average SSA, 1960-2016**



Notes: Polity2 score ranges from +10 (strongly democratic) to -10 (strongly autocratic); source: Polity IV, 2016.

McMillan and Harttgen (2014) find that this measure of political institutions appears to have promoted structural change in Africa since 2000, by reducing the share of employment in the relatively low-productivity agricultural sector. This outcome can occur directly, or via interaction with price changes.

#### *Political Instability*

Political instability (PI) – including military coups and civil wars –constitutes a reasonable indicator of institutional quality, with important implications for economic and development outcomes in Africa. For example, civil wars in Africa have been found to be growth-inhibiting (Collier, 1999; Gyimah-Brempong and Corley, 2005). Collier (1999) for instance finds that the incidence of a civil war could on average reduce growth by as much as 2 percentage points. A similar estimate is obtained by Fosu and O’Connell (2006) for ‘state breakdown’ (civil war or severe political instability). In addition, the incidence of elite PI, involving military coups, tends to be deleterious to growth in SSA (Fosu, 1992, 2001, 2002a, 2003). PI could, furthermore, attenuate the rate at which growth is translated into human development (Fosu, 2002b, 2004).

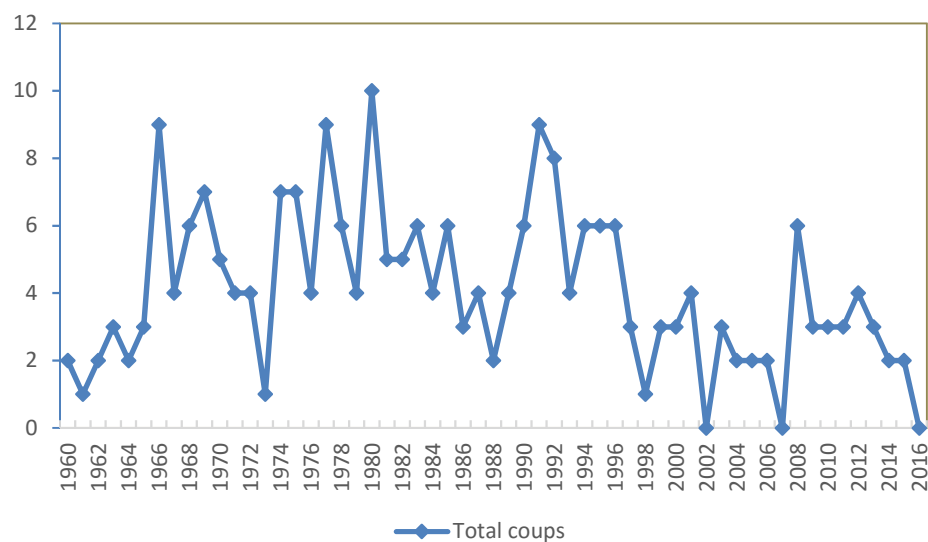
As Figures 5 and 6 indicate, the prevalence of PI in its various forms seems to be declining in Africa. For example, the frequency of civil wars fell from as high as 18 in 1991 to 8 in 2008 (Figure 5). Similarly, the incidence of military coups shows a downward trend from the early 1990s (Figure 6). This diminution in PI might have, therefore, contributed to the observed improvements in African economic and development outcomes since the mid-1990s.

**Figure 5: Frequency of Armed Conflicts in Sub-Saharan Africa, 1960-2008**



Source: Strauss (2012)

**Figure 6: Incidence of Elite PI in Africa - Coups d'Etat, SSA, 1960-2016**



Notes: ‘Total coups’ equals the sum of the frequencies of ‘successful’ and ‘failed’ coups d’état that occurred in the year of record. This is computed using data from Centre for Systemic Peace (CSP), 2016.

#### *Recent Institutional Quality Measures*

As stated above, the literature on the importance of recent IQ measures for growth and development is not vast. Nonetheless, the little existing evidence points to favourable impacts of these variables. While they do not help us explain the historical performance of African countries on the aggregate, given their limited temporal coverage, these measures can nevertheless be useful in accounting for some of the variation in the economic performance across African countries since the mid-1990s, corresponding to the period of resurgence in African growth and development.

To shed some light on possible associations between these IQ variables and growth, table 1 presents the 1996-2015 averages of the six IQ measures for the 48 SSA countries for which data was available. Also reported are the mean per capita GDP growth rates by country over the same period.



**Table 1: Institutional Quality (IQ) measures (average scores), and per capita GDP annual growth rates (mean), by SSA country, 1996 – 2015**

<b>Country</b>	<b>Control of Corruption</b>	<b>Government Effectiveness</b>	<b>Political Stability and Absence of Violence /Terrorism</b>	<b>Regulatory Quality</b>	<b>Rule of Law</b>	<b>Voice and Accountability</b>	<b>GDP per capita growth (annual %)</b>
Angola	-1.32	-1.16	-0.89	-1.20	-1.39	-1.23	3.61
Benin	-0.61	-0.47	0.46	-0.40	-0.44	0.24	1.37
Botswana	0.94	0.53	1.02	0.59	0.64	0.57	2.83
Burkina Faso	-0.24	-0.63	-0.21	-0.24	-0.50	-0.32	2.96
Burundi	-1.06	-1.26	-1.76	-1.15	-1.19	-1.04	-0.84
Cape Verde	0.78	0.10	0.86	-0.15	0.57	0.83	4.57
Cameroon	-1.13	-0.85	-0.60	-0.83	-1.12	-1.03	1.63
CAR	-1.13	-1.49	-1.73	-1.16	-1.42	-1.08	-0.85
Chad	-1.35	-1.25	-1.43	-1.05	-1.37	-1.25	3.05
Comoros	-0.84	-1.56	-0.31	-1.32	-1.00	-0.44	-0.07
Congo, Dem. Rep.	-1.42	-1.65	-2.23	-1.54	-1.67	-1.48	0.18
Congo, Rep.	-1.11	-1.20	-0.82	-1.21	-1.23	-1.10	0.74
Cote d'Ivoire	-0.86	-0.97	-1.38	-0.72	-1.15	-0.95	0.87
Equatorial Guinea	-1.53	-1.49	0.00	-1.41	-1.38	-1.78	17.02
Eritrea**	-0.32	-1.22	-0.78	-1.78	-1.08	-1.97	-0.18
Ethiopia	-0.63	-0.68	-1.42	-1.05	-0.76	-1.22	5.13
Gabon	-0.83	-0.68	0.29	-0.40	-0.50	-0.76	-0.74
Gambia	-0.58	-0.63	0.20	-0.43	-0.39	-1.02	0.43
Ghana	-0.15	-0.08	-0.03	-0.09	-0.01	0.29	3.20
Guinea	-1.03	-1.06	-1.38	-0.99	-1.35	-1.13	1.59
Guinea-Bissau	-1.21	-1.23	-0.75	-1.10	-1.36	-0.85	-0.14
Kenya	-1.00	-0.54	-1.18	-0.24	-0.85	-0.35	1.38
Lesotho	0.05	-0.31	0.06	-0.51	-0.11	-0.08	2.52
Liberia	-0.95	-1.42	-1.26	-1.37	-1.26	-0.59	7.15
Madagascar	-0.43	-0.75	-0.21	-0.48	-0.55	-0.34	0.09
Malawi	-0.55	-0.55	-0.03	-0.52	-0.23	-0.24	1.38
Mali	-0.67	-0.82	-0.29	-0.44	-0.38	0.06	2.02
Mauritania	-0.60	-0.62	-0.36	-0.48	-0.75	-0.86	1.15
Mauritius	0.37	0.71	0.90	0.68	0.96	0.87	3.87
Mozambique	-0.54	-0.53	0.14	-0.44	-0.67	-0.15	5.50
Namibia	0.36	0.15	0.71	0.14	0.19	0.39	2.51
Niger	-0.76	-0.77	-0.62	-0.59	-0.60	-0.44	0.79
Nigeria	-1.17	-1.02	-1.77	-0.88	-1.19	-0.76	3.48
Rwanda	-0.04	-0.39	-0.79	-0.50	-0.63	-1.32	4.76

Sao Tome and Principe	-0.15	-0.66	0.40	-0.75	-0.48	0.26	2.60
Senegal	-0.22	-0.30	-0.29	-0.21	-0.17	0.04	1.44
Seychelles	0.40	0.22	0.82	-0.42	0.17	0.08	2.79
Sierra Leone	-0.89	-1.25	-0.61	-1.01	-1.03	-0.43	2.11
Somalia	-1.61	-2.14	-2.73	-2.33	-2.30	-1.90	-
South Africa	0.29	0.54	-0.13	0.49	0.14	0.66	1.47
South Sudan*	-1.36	-1.88	-1.87	-1.60	-1.60	-1.42	-7.64
Sudan	-1.26	-1.28	-2.24	-1.36	-1.41	-1.72	3.96
Swaziland	-0.29	-0.68	-0.18	-0.48	-0.59	-1.35	1.56
Tanzania	-0.62	-0.53	-0.36	-0.42	-0.38	-0.30	3.08
Togo	-0.92	-1.30	-0.35	-0.78	-0.88	-1.04	0.73
Uganda	-0.89	-0.51	-1.11	-0.14	-0.46	-0.64	2.97
Zambia	-0.52	-0.76	0.27	-0.48	-0.42	-0.26	2.86
Zimbabwe	-1.21	-1.12	-0.99	-1.81	-1.56	-1.35	-0.95
<b>Mean</b>	-0.64	-0.78	-0.56	-0.72	-0.73	-0.62	2.13
<b>Median</b>	-0.72	-0.76	-0.36	-0.56	-0.71	-0.70	1.63
<b>Min</b>	-1.61	-2.14	-2.73	-2.33	-2.30	-1.97	-7.64
<b>Max</b>	(Somalia) 0.94	(Somalia) 0.71	(Somalia) 1.02	(Somalia) 0.68	(Somalia) 0.96	(Eritrea) 0.87	(South Sudan) 17.02
<b>Std. Dev.</b>	(Botswana) 0.60	(Mauritius) 0.62	(Botswana) 0.90	(Mauritius) 0.62	(Mauritius) 0.66	(Mauritius) 0.73	(Equatorial Guinea) 3.18

**Notes:** The data on the IQ measures are derived from the World Governance Indicators (World Bank, 2018). These are standardized and are expressed as standard deviations from the global mean, with the range: -2.5 to 2.5. Data for the per capita GDP growth rates are from the World Development Indicators (World Bank, 2017a).

(\*) South Sudan's data cover the period 2009-2016.

(\*\*) For Eritrea, the average per capita GDP growth is computed using data from 1996 to 2011.

I discuss first the IQ measures, which are standardized, ranging from -2.5 to 2.5, where a value of zero corresponds to the global mean. With the SSA IQ averages (mean and median) being negative, it is apparent that on average, SSA countries have below-global levels IQ levels, with Government Effectiveness (GOVEF) as being especially low, followed by Rule of Law (RULA), and then by Control of Corruption (COC) and Voice and Accountability (VOA). It is also noteworthy that with the exception of few countries (Botswana, Cape Verde, Mauritius, Namibia, Seychelles, and South Africa), SSA countries almost universally display negative values for all the IQ measures.

Per capita growth rates of GDP over 1996-2015 are generally positive for SSA countries, however. Indeed, only Burundi, CAR, Comoros, Eritrea, Gabon, Guinea-Bissau, South Sudan, and Zimbabwe exhibit negative values, with South Sudan's per capita GDP decline being unusually large. On average (non-weighted), SSA's per capita GDP grew about 2 percent annually during the 1996-2015 period, which far exceeds the negative growth of the 1980s and early 1990s (Fosu, 2010d).

It is difficult to discern, from table 1, the ranking of countries on the various IQ measures, or whether these institutional indicators are related to the performance of per capita GDP. Table 2 therefore presents quintile rankings of countries on both the IQ measures and per capita GDP growth. The best performing countries (mostly top first quintile) include: Botswana, Cape Verde, Ghana, Mauritius, Namibia, Seychelles, and South Africa. In contrast, those performing the worst (mostly bottom fifth quintile) include: Angola, Burundi, CAR, Chad, DRC, Equatorial Guinea, Somalia, South Sudan, Sudan, and Zimbabwe.

On per capita GDP growth, the top performers (top first quintile) are: Angola, Cape Verde, Equatorial Guinea, Ethiopia, Liberia, Mauritius, Mozambique, Nigeria, Rwanda, and Sudan. The worst performers (fifth bottom quintile) are: Burundi, CAR, Comoros, DRC, Eritrea, Gabon, Guinea-Bissau, Madagascar, South Sudan, and Zimbabwe. These mixed results from the IQ measures and per capita GDP growth ranking lists suggest that there may be little correlation between IQ and per capita GDP growth rate. Obviously, one is yet to consider the other quintiles as well, which represent the bulk of the sample.

**Table 2: Quintile classification: Institutional Quality (IQ) measures, and per capita GDP growth, 1996 – 2015**

<b>Country</b>	<b>Top Quintile (Control of Corruption)</b>	<b>Top Quintile (Government Effectiveness)</b>	<b>Top Quintile (Political Stability and Absence of Violence /Terrorism)</b>	<b>Top Quintile (Regulatory Quality)</b>	<b>Top Quintile (Rule of Law)</b>	<b>Top Quintile (Voice and Accountability)</b>	<b>Top Quintile (GDP per capita growth)</b>
Angola	5	4	4	4	5	4	1
Benin	3	2	1	2	2	1	4
Botswana	1	1	1	1	1	1	2
Burkina Faso	2	2	2	1	2	2	2
Burundi	4	5	5	4	4	4	5
Cape Verde	1	1	1	1	1	1	1
Cameroon	4	3	3	3	4	4	3
CAR	4	5	5	4	5	4	5

Chad	5	4	5	4	5	5	2
Comoros	3	5	3	5	3	3	5
Congo, Dem. Rep.	5	5	5	5	5	5	5
Congo, Rep.	4	4	4	5	4	4	4
Cote d'Ivoire	3	3	5	3	4	3	4
Equatorial Guinea	5	5	2	5	5	5	1
Eritrea	2	4	4	5	4	5	5
Ethiopia	3	3	5	4	3	4	1
Gabon	3	3	1	2	2	3	5
Gambia	2	2	1	2	2	4	4
Ghana	1	1	2	1	1	1	2
Guinea	4	4	4	4	4	4	3
Guinea-Bissau	5	4	3	4	5	3	5
Kenya	4	2	4	1	3	2	4
Lesotho	1	1	2	3	1	2	3
Liberia	4	5	4	5	4	3	1
Madagascar	2	3	2	2	3	2	5
Malawi	2	2	2	3	1	2	4
Mali	3	3	3	2	2	1	3
Mauritania	3	2	3	3	3	3	4
Mauritius	1	1	1	1	1	1	1
Mozambique	2	2	2	2	3	2	1
Namibia	1	1	1	1	1	1	3
Niger	3	3	3	3	3	3	4
Nigeria	5	4	5	4	4	3	1
Rwanda	1	1	4	3	3	5	1
Sao Tome and Principe	1	3	1	3	2	1	2
Senegal	2	1	3	1	1	2	3
Seychelles	1	1	1	2	1	1	2
Sierra Leone	4	4	3	4	4	3	3
Somalia	5	5	5	5	5	5	-
South Africa	1	1	2	1	1	1	3
South Sudan	5	5	5	5	5	5	5
Sudan	5	5	5	5	5	5	1
Swaziland	2	3	2	2	3	5	3
Tanzania	3	2	3	2	2	2	2
Togo	4	5	3	3	3	4	4
Uganda	3	2	4	1	2	3	2
Zambia	2	3	1	3	2	2	2
Zimbabwe	5	4	4	5	5	5	5

**Notes:** The classification is based on the data in table 1. The first quintile represents the best performance, and the 5<sup>th</sup> quintile the worst.

Table 3 now reports zero-order correlation coefficients between the IQ measures and per capita GDP growth, and for the (headcount) poverty rate. Interestingly, both per capita GDP growth and poverty

exhibit expectedly positive and negative coefficients, respectively, with all the IQ measures. However, the coefficients are significant simultaneously for both outcomes with Government Effectiveness, Control of Corruption, and Rule of Law. These findings for poverty as a development outcome are particularly interesting, but are preliminary; much more rigorous results based on the poverty function (for various poverty functions, see for instance Fosu, 2008b, 2009, 2010a, 2010b, 2010c, 2011, 2015a, 2017, 2018c) might be required. Nonetheless, the current results for African economies are consistent with Tebaldi and Mohan (2010) for developing countries generally, and with Asongu and Kodila-Tedika (2017) on African economies, both which find that institutions may be effective in reducing poverty via income.

**Table 3: Zero-order Correlation Coefficients: Institutional Quality Variables vs. Per Capita GDP and Poverty Growth Rates (Percent)**

	<b>GDP per capita growth</b>	<b>Poverty growth</b>
<b>Control of Corruption</b>	<b>0.340**</b> (2.110) [0.042]	<b>-0.294*</b> (-1.790) [0.082]
<b>Government Effectiveness</b>	<b>0.379**</b> (2.390) [0.023]	<b>-0.378**</b> (-2.380) [0.023]
<b>Political Stability and Absence of Violence/Terrorism</b>	<b>0.220</b> (1.320) [0.197]	<b>-0.167</b> (-0.990) [0.331]
<b>Regulatory Quality</b>	<b>0.221</b> (1.320) [0.196]	<b>-0.329**</b> (-2.030) [0.050]
<b>Rule of Law</b>	<b>0.310*</b> (1.900) [0.066]	<b>-0.315*</b> (-1.930) [0.062]
<b>Voice and Accountability</b>	<b>0.205</b> (1.220) [0.229]	<b>-0.126</b> (-0.740) [0.464]

**Notes:** t-statistics and p-values are in parentheses ( ) and brackets [ ], respectively. The correlation coefficients are computed based on a sample of 36 SSA countries from those in table 2a. The data for per capita GDP growth and the IQ measures are from table 2a. A number of countries from table 2a are excluded due to missing data on poverty growth. These countries are: Comoros, Democratic Republic of Congo, Eritrea, Gabon, Liberia, Mauritius, Seychelles, Somalia, South Sudan, Sudan and Zimbabwe. The data used for per capita GDP growth and the IQ measures are from table 2a. The underlying data for poverty growth are annualized growth rates (each obtained by taking the logarithmic difference between the respective country values of latest-year and the beginning-year, from the mid-1990s, and dividing by the number of

intervening years, x 100 percent.), using data from the PovcalNet database (World Bank, 2015). The poverty line is US \$ 1.25 per day in 2005 PPP.

\*\*  $p < 0.05$ , \*  $p < 0.1$

#### 4. Conclusion

As apparent from the extant literature, Africa seems to have turned the corner on its economic and development outcomes, and with some economic resiliency in facing the most recent severe global financial-economic crisis (Fosu, 2013a). Furthermore, the account presented in the foregoing sections suggests that the accompanying improvements in institutions likely supported these gains. But, are the current trends long-term or episodic?

Rodrik (2018) calls into question the ‘African growth miracle’ (Young, 2012). The author attributes the recent African progress on economic growth primarily to the favourable external environment, especially high commodity prices and low interest rates in the 2000s. Hence, reversals of these external variables may render the gains episodic.

Under the new institutional economics framework, however, institutions are primary. If so, then pessimism about growth sustainability may also be pre-mature, unless institutions are weak. Thus, the need to continue fortifying institutions in Africa is critical. Fosu (2018b)

Unfortunately, strengthening institutions within the African democratic setting is fraught with certain fiscal challenges. For example, democratically elected governments may not undertake certain growth-enhancing policies that may be unpopular with the electorate, and will have the tendency to spend more and tax less, resulting in unsustainable fiscal deficits (Bates, 2006). These imbalances are likely to be exacerbated by the tendency for the central government to more-or-less freely supply local public goods in order to win votes, resulting in ‘politico-economic disequilibrium’ (Fosu, 2018a).

Furthermore, consistent with Kimenyi (2006), “the existence of ethnically based interest groups is likely to result in sub-optimal provision of public goods” (Fosu et al., 2006). Indeed, there is a school of thought that ethnicity has been a major culprit for the dismal growth performance in African countries (e.g., Easterly and Levine, 1997), suggesting that one must pay attention to the nature of multiparty democracy being adopted in many African counties.

According to Collier (2000) and Easterly (2001), ‘good’ institutions provide an appropriate mechanism for resolving ethnic conflicts. The key challenge, then, is how to attain such institutions. For example,

employing Knack and Keefer's (1995) measure of institutional quality, Easterly (2001) finds that institutions are capable of attenuating ethnic conflicts. This measure combines: (a) freedom from government repudiation of contracts, (b) freedom from expropriation, (c) rule of law and (d) bureaucratic quality.

The above Knack and Keefer institutional measure is indeed quite comprehensive; however, how can it be achieved, given its several components? Alternatively, the recent finding that executive constraint (XCONST) may mitigate the potential deleterious impact of ethnicity within the African setting might provide a more feasible policy instrument (Fosu, 2013b). Unfortunately, the optimal growth-enhancing level of XCONST is likely to fall short of that required to eliminate the adverse effect of ethnicity (Fosu, 2013b).

Meanwhile, the 'politico-economic disequilibrium' and the implied mismanagement of the economy,<sup>12</sup> along with possible political disorder that tends to initially accompany the adoption of multiparty democracy (Bates, 2008b), may pose a risk for its sustainability (Fosu, 2018a). As already observed, however, for long-term growth and development, 'advanced-level' democracy is required, which implies that democratic consolidation must be pursued.

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<sup>12</sup> Bates (2008a, p. 387), for instance, argues that the recent political reforms in Africa may have actually resulted in macroeconomic mismanagement, as "governments in competitive systems tend to spend more, to borrow more, to print money, and to postpone needed revaluations of their currencies than do those not facing political competition." See also Humphreys and Bates (2002).

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