An appraisal of the role of good institutions in stimulating economic growth and development in sub-Saharan Africa

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Abstract: Good institutions were pivotal to the emergence of capitalism and hence the creation of wealth, prosperity and development in the world. In this paper, the authors argue that one of the reasons for the poverty and underdevelopment in sub-Saharan Africa is the weak institutional framework which exists in these countries. The laws, rules and regulations governing businesses and entrepreneurial activities are either too weak or ineffective, and could be riding roughshod over any political interest or individual. The paper presents evidence from the literature to amplify the view that strong and effective institutions are fundamental to reinvigorating economic growth and development. Finally, the authors suggest that a complete overhaul and rejuvenation of the institutional framework which exists in the countries of sub-Saharan Africa is crucial to the creation of jobs, and the alleviation of poverty and underdevelopment.

Keywords: Institutions, Development, Economic growth, Poverty, Underdevelopment.

Introduction

In 1759, the authoritative French intellectual, Voltaire, wrote one of his classic novels, the Candide or *Optimism*. This story revolved around the young and impressionable Candide as he left home to experience life outside his family, as he had been taught by his teacher and Professor, Pangloss, to experience the best of all possible worlds. However, what Candide experienced in reality was the murderous and treacherous world of poverty, disease, pirates, persecution, lies and betrayal (Pangloss cited in Reinert, 2008:8). He experienced a world in which his fiancée, the beautiful Cungonde, was knifed, beaten up, gang-raped and sold into slavery. While all this happened, Professor Pangloss continued to preach that this was the best of all worlds, and Candide broke down in exasperation and despair and asked if this was the best of all possible worlds, and if so, what must the others be like? (Pangloss cited in Reinert, 2008:8).

The story about Candide narrated in the above paragraph is meant to illustrate that our lives cannot rely only on the vagaries of weather and fate alone. Human beings and societies must make conscious efforts to improve their living conditions or else the status quo would remain ad infinitum. In economic and politic terms, it means it is time that Africans stop accepting the orthodoxy common to its leaders that the problems on the continent were caused by outsiders from Europe and North America (Ukwandu, 2014: 46). This is not an attempt to postulate that slavery, colonialism and neo-colonialism had no role in the poverty and underdevelopment of the continent. The reality is that Africans have to insist on good governance and hold African leaders accountable for the mismanagement of national resources and poverty in their countries. The author argues that corrupt and inefficient states and their insipid institutions are contributory factors to poverty and underdevelopment on the continent (Ukwandu, 2014).

The conundrum of how and why some societies develop and some do not, and what the essential ingredients for the development of states and societies are, have been the concerns of many intellectuals (de Tocqueville, Tonnies, Weber, Schumpeter, Comte and Adam Smith, List, Spencer, Maine, Marx, Durkheim and Keynes). The conditions that facilitate or hamper human development have long been an area of interest for these scholars. A careful appraisal of their views will help us understand that the internal conditions of a state, through which it exercises its control and dominance over its citizens, which Mkandawire (1999) called 'institutions', is an indispensable piece of the development puzzle.\

The German economist List (1885:174-5) advised that states should play a critical role in solving the problems of poverty and underdevelopment in their countries, and that these responsibilities should not be abdicated to foreign powers or the market. His advice

was heeded by his native Germany and many European and even Asian powers at the time. According to him:

> *"Between each individual and entire humanity... stands the nation, with its special language and literature, with its own peculiar origin and history, with its special manners and customs, laws and institutions, with the claims of all these for existence, independence, perfection and continuance for the future, and with its separate territories. It is the task of the national economy to accomplish the economic development of the nation and to prepare it for admission into the universal society of the future"* (List, 1885:174-5).

Some political and economic leaders in Africa are preoccupied with placing the blame for the economic failures of the continent on the evils of colonialism and globalisation, while no attention is paid to the structural deficiencies and weak institutional framework that has impeded development on the continent. According to Reinert (2008:8), Voltaire used the message of Pangloss to attack the deterministic and hands-off policy that blamed outside forces such as faith, God, deities, markets and nature for poverty and underdevelopment in the world, without looking at how internal forces contributed to the miasma. The central message of Voltaire is very applicable to Africa today, as the problem of poverty and underdevelopment on the continent is blamed squarely on outside forces such as colonialism and globalisation, without questioning the effect of weak institutions which hinders development on the continent (Reinert, 2008:8). The sooner African policy- makers and citizens confront the spectre of mismanagement and poor governance in Africa and eradicate poverty, the better for Africans.

Africa's poverty and underdevelopment therefore lies in its poor governance. In other words, the failure of development in most of post-colonial Africa is a direct consequence of the poor policies, programmes and governance that have characterised government decisions in Africa (Ukwandu, 2014). Human societies are characterised by a plethora of interests, values and ideas that are jostling to determine and shape the sharing and distribution of resources in any given area (Ukwandu, 2014). African countries have not been able to develop states that are able to effectively distribute scarce resources and also prevent the minority elite from exploiting and manipulating the national interests for their own purposes.

Leftwich (1983) defined politics as all the activities of conflict, cooperation and negotiation involved in the use, production and distribution of resources, whether material or ideal, at local, national or international level, or in the private or public domain. Implicit in the idea of Leftwich (1983) is the fact that because the politics of governments in most of Africa has been prebendal, patrimonial, autocratic, authoritarian and atavistic, it has not been able to properly initiate and implement genuine development efforts and reduce poverty. This has resulted in weak institutions in most aspects of national life, and that is a major cause of the poverty and underdevelopment on the continent (Leftwich, 1983).

The role of good and effective institutions in development has long been a permanent feature of development discourse. In 1613, Antonio Serra, in his Brief Treatise (cited in Reinert, 2008), was concerned about why his city of Naples was poor, despite its abundant natural resources, and the city of Venice, which was located and built on a swamp, was rich and prosperous. In his research, Serra found that Venetians, without the rich agricultural land of the Neapolitans, had simplified their way of doing business and the regulations which were implemented, and as a result of the simple and transparent laws of the rulers of the city, it attracted all sorts of skills; and manufacturing and other types of activities flourished in the city (Reinert, 2008:8).

Simply put, good institutions helped to improve governance in Venice which in turn created the conditions necessary for economic activities and prosperity to flourish. This is in contrast to the rulers of Naples who believed that their abundant natural resources would automatically lead to growth and development (Reinert, 2008:8). The relevance of Serra's treatise can be found in the condition of many countries in Africa which, although rich in natural resources remain steeped in poverty and poor living conditions, while countries like Singapore built on a swamp with little natural resources, have flourished and developed (Reinert, 2008:8). Good institutions remain the key ingredient in the transformation of any country, and Africa has neglected this to its own detriment. Before we consider the relationship between good institutions and economic growth and development, it is necessary to clarify some key concepts used in the article; like institutions and development (North, 1990; 1995; North & Weingast, 1989).

Conceptual clarification on Institutions

Capitalism and its benefits enjoyed by many parts of the world were effected through good institutions. The interactions that underpinned capitalism were grounded in the mutual exchange of goods and services in a free market economy (Orkasson, Obed & Svensoon, 2009). For the majority of people within a society to reap the benefits of capitalism and development, good institutions

must and should create an enabling environment in which the transaction costs of exchanging goods and services or producing services are minimised (North, 1995). Under good institutions, entrepreneurial activities, both private and public, can be profitable and organised (North, 1990).

It must be emphasised that certainty concerning government policy contributes to growth and development (North, 1990). It is within this paradigm that the authors argue that the institutions that characterise most business transactions in Africa, both private and public, serve as a disincentive to promoting economic growth and development on a scale that can reduce poverty in Africa.

This school of thought also believes that the institutional framework undergirding economic activities in Africa needs a major overhaul or reform. In outlining the salient role of institutions in stimulating the growth and development of countries, it is important to consider the views of North (1990:65), who stated the following:

> *"We have only to contrast the organisation of production in a Third World economy with that of an advanced industrial economy to be impressed by the consequences of poorly defined and ineffective property rights. Not only will the institutional framework result in high costs of transacting in the former, but also insecure property rights will result in using technologies that employ little capital and do not entail long-term agreements... Moreover, such mundane problems as the inability to get spare parts or a two year wait to get a telephone installed will necessitate a different organisation of production that an advanced country requires. A bribe sufficient to get quick delivery through the maze of import controls or get rapid telephone installation may exist, but the resultant shadow transactions costs significantly alter relative prices and consequently the technology employed"*(North 1990:65).

To further clarify the meaning, North (1990:80) defined 'institutions as the rules of the game in a society, or more formally, are the humanly devised constraints that shape human interaction'.To provide clarity on what good institution entails, Rawls (1971) provided this view:

> *"By a good institution I shall understand a public system of rules which defines offices and positions with their rights and duties, powers and immunities and the like. These rules specify certain forms of actions as permissible, others as forbidden.... An institution may be thought of in two ways: first as an abstract... system of rules; second as the realized actions specified by these rules.... A person taking part in a real institution knows what the rules demand of him and others. He also knows that others know this and they know that he knows this, and so on"* (Rawls, 1971).

Good institutions have been an essential component of economic growth and development in the world. There are many examples in literature dating back to the onset of industrial revolution in Britain. Reinert (2008:8) examined the link between good institutions and development, using the events that triggered the Industrial Revolution in England. He used the role of good institutional reforms as a precursor to development in this regard. Reinert (2008:8) praised the role of King Henry VII of England, who came to power in 1485 and transformed a backward and rural English society from a net producer of raw material to a country well on its way to world economic domination and prosperity. At that time, textile production was done in France, but the raw material needed to produce the garments and textiles, such as wool and aluminium silicate, were imported from England, while Burgundy in France converted this wool into garments, the latter being more prosperous than England (Reinert, 2008:8). King Henry VII undertook huge reforms in the regulations and tariffs governing trade and manufacturing in England, which set the country on the path to growth and development (Reinert, 2008:8). It is not necessarily the natural resources with which a country is endowed that determine its level of growth and development, but rather the presence of good transparent and effective institutions in the country.

What development entails in Sub-Saharan Africa

In this article, it is important to provide a theoretical framework of what development should entail for the average person living in sub-Saharan Africa. To unpack the meaning of development, it is crucial to understand the power of domination in the discourse of development (Ukwandu, 2014). In this dispensation, the view of the French theorist Michael Foucault aptly describes the concept of development. Foucault (1972,1980), postulated that the "discursive formation theory" is used to illuminate the fact that a theory consists of a constellation of assumptions, ideas, values, definitions, themes, opinions, images, meanings, statements, techniques and interpretations, which are used by people in order to understand and discuss a particular subject or issue". Foucault's (1972, 1980) narrative has helped development theorists and intellectuals to see development as a discourse of domination (Said, 1978; Escobar, 1984; Esteva, 1987; Ferguson, 1990; Crush, 1995).

The "discourse theory" also shapes the way in which people relate to and deal with these issues, and it governs their understanding and interpretation (Foucault, 1980). The central tenet of discourse

theory is that discourses differ from society to society, nation to nation, and religion to religion (Foucault, 1980). This means that discourses vary depending on race, class, gender and social norms, and discourse theory therefore rejects the idea of universal truths and a single course of action (Foucault, 1972). The theory holds that beliefs, perspectives and understanding regarding issues will differ from time to time.

Foucault's (1980) discourse theory privileges community-level understanding of and insights into any concept, theory or idea. Using this example to clarify the discourse theory, as a group of people living in sub-Saharan Africa, the author's view of development and what it entails could be vastly different from the view of a person living in a developed country like Canada. This difference in perspectives and privileges emphasises community, national and regional insights and understanding of what development entails. Consequent to this deduction, it then means that the views of Africans must be taken into consideration in any definition of development (Ukwandu, 2014).

The narrative of Foucault (1980) suggests that in seeking the meaning of a concept such as development, its meaning must be located within the cultural milieu of the African continent or a country like South Africa. The understanding and appreciation of development in sub-Saharan Africa then should not be based on Western beliefs, values and ideology, since each society or country has its own truths, which are unique to it (Ukwandu, 2014). This is how Foucault (1980) explained it:

> *"Each society has its regime of truth, its general politics of truth: that is, the types of discourse which it accepts and makes functions as true, the mechanism and instances which enable one to distinguish true and false statements, the means by which each is sanctioned; the techniques and procedures accorded value in the acquisition of truth, the status of those who are charged with saying what counts as true"* (Foucault, 1980:131).

In a similar vein, Gramsci (1985) identified the differences between civil and political society. He is of the view that the former is made up of voluntary and rational affiliations in society, such as schools, families, groups, churches, unions etc, while the latter includes the army, police, intelligence and secret services of a country, which rely on domination to control and safeguard society (Gramsci, 1985). Gramsci (1985) posited that culture, which determines the trajectory of each society, is transferred through civil society. This is so because this is where the influence of ideas and ideologies pervades the whole society through consent or teaching in schools and churches.

It is the view of Gramsci (1985) that some cultural beliefs and ideologies are more dominant than others, and this explains how ideas came to be shared and accepted in Western societies, which he refers to as 'hegemony'. Extrapolating from the thesis of Gramsci (1985) helps us to understand that because many international organisations, such as the United Nations, World Bank, etc. have defined development based on Western narratives, values and ideology; the African perspective of development has mirrored Western perspectives and worldviews. The Western perspective has been shaped through what Gramsci (1985) called "Western hegemony". In view of these realities, it is imperative that, in this article, the authors find a definition of development which is based on the African context.

Demarcating a meaning and definition of development that gives recognition and awareness to the living conditions of the average African is crucial. This is so because, as Escobar (1995:213) proposed in his interpretation of 'discourse theory' (Foucault, 1980:131), if the meaning of an idea is imposed on another society as the only acceptable or best way of analysing and understanding this concept, without taking into account the socio-cultural context of that society, then it becomes 'a colonising discourse' that is devoid of meaning or context (Escobar, 1995:213).

The focus here is on the fact that when we write about and discuss development as it relates to sub-Saharan Africa, the aim is not to conform to the narrow and technical definitions of Breton Woods institutions (IMF and World Bank). This is because the technical definitions of these world bodies are influenced and shaped by their view of an increase in GDP as an indication of development. Increase in the GDP of a country does not necessarily mean that development is taking place. We know for a fact that economic growth that does not create jobs and alleviate poverty makes little or no difference in the lives of an ordinary African (Ukwandu, 2014). The goal is to focus on the human-based idea of development, as highlighted by various scholars, an idea which is based on the needs of the poor (Todaro, 1992; Sen, 1999; Marx, cited in Cowen & Shenton 1996; Seers, 1983; Goulet, 1971; Chambers, 1983).

It was Seers (1983) who summed up what development should entail for the average person living in a poor and developing region such as sub-Saharan Africa. He believed that whenever development is mentioned, policy-makers and intellectuals should interrogate whether or not it is fulfilling certain objectives (1983). This is how he explained it:

> *"What has been happening to poverty, to unemployment and to inequality? If all three of these have become less severe, then beyond doubt this has been a period of development for all concerned. If one or two of these central problems had been growing worse... it would be strange to call the result development, even if per capita income had soared" (Seers, 1983).*

Staudt's (1991) view of development had a powerful effect on the reality of what development entails for the majority of people living in sub-Saharan Africa. He explained that development is the process of enlarging people's choices, enhancing the 'participatory democratic process' and the 'ability of people to have a say in the decisions that shape their lives'; of providing 'human beings with the opportunity to develop their fullest potential; of enabling the poor, women and free independent peasants to organise for themselves and work together' (Staudt, 1991).

It is vital to emphasise the European and American dominance of the meaning and concept of development. It has been widely accepted, although erroneously, by developing countries of the world, especially those in sub-Saharan Africa, that development encompasses capitalistic and Eurocentric 'developmentalism' and what it embodies, as well as its values and aspirations (Escobar, 1995). Aseniero (1985) shared these sentiments by referring to development as 'a process that recreates the industrial world: industrialised, urbanised, democratic and capitalist'.

In the Western literature, development has been depicted as a 'crucible' through which successful societies emerge purified, modern and affluent (Goulet, 1971).It is in the context of these prevailing narratives that 'missionaries of development' from Washington, such as the IMF and World Bank, beguile sub-Saharan African governments about the merits of mythical economic theories that have woefully failed the continent. An example of some of the prescribed reforms that failed is the structural adjustment programmes or the downsizing of state machineries and withholding of the various subsidies that cushion the poverty and suffering of the masses (Sachs, 1992). Using development as a banner, the majority of African governments were persuaded by international organisations such as the World Bank and IMF to shoulder large reductions in public expenditure in the early 1980s (Mkandawire & Olukoshi 1995; Bangura, 1986). These reductions in size of the public were done at a level that cannot be achieved even in the so-called developed countries of the world, where the welfare system helps to sustain the vulnerable members of the population (Mkandawire & Olukoshi, 1995; Bangura, 1986; Mamdani, 1991; Mustapha, 1988).

Finally, when we use the concept of development in sub-Saharan Africa, it must pave the way for a more comprehensive, inclusive and broader definition of the concept that includes all segments of the population. This definition of development provided by the World Bank sums up the reality of what development should entail for an average person in sub-Saharan Africa:

> *'Development in a broader sense is understood to include other important and related attributes as well, notably more equality of opportunity and political freedom and civil liberties. The overall goal of development is therefore to increase the economic, political and civil rights of all people across gender, ethnic groups, religion, races, regions and countries'* (World Bank ,1991a:31).

Sen (1999) provided the most poignant definition of development, which captures the kind of development that is needed in Africa. According to Sen:

> *"The expansion of freedom is viewed as both (a) the primary end and (b) the principal means of development. They can be called respectively 'the consultative role' and the 'instrumental role' of freedom in development"* (Sen,1999:36).

The second definition of development by Sen (1999) was also apt to the socio-cultural milieu of sub-Saharan Africa. This is how he captured it:

> "Development requires the removal of major sources of unfreedom: poverty as well as tyranny, poor economic opportunities as well as systematic social deprivation, neglect of public facilities as well as *intolerance or over activity of repressive states"* (Sen, 1999:37).

The relationship between good institutions, economic growth and development

There is now a near unanimity among many experts in economic growth and development that good institutions or what is referred to by some as good governance is crucial to any development policy and initiative (Kaufman et al., 2000; Knack, 2003; Hall & Jones, 1999; Henisz, 2000; Bockestette et al., 2002; Rodrick et al., 2004; Dreher & Herzfeld, 2005; Persoon & Tabellini, 2006). It is the poor institutions in sub-Saharan Africa that militates against economic growth and development in the region. Pempel indicated that the role of good institutions in the socio-economic growth and development of Japan, South Korea, Malaysia, Taiwan and other countries of South East Asia cannot be overemphasised (cited in Woo- Cummings, 1999:142).This salient role offers lessons and

insights to countries in sub-Saharan Africa on developing countries in Africa.

Many scholars in the development field have pointed out that having clear economic and political guidelines and policies remains the best way to stimulate growth and development (Hall & Jones, 1999; Henisz, 2000; Dreher & Herzfeld, 2005; Persoon & Tabellini, 2006). In their view, good governance entails having clear, coherent, transparent and effective guidelines by which businesses operate (Hall and Soskice 2001; Pontusson 2005; Svensson & Oberg 2005). These aspects of good governance must be in the form of an efficient judiciary and good institutions of government, such as the bureaucracy responsible for the registration of companies and securing of property rights of individuals, which are the responsibilities of government, and it has to be guaranteed that politically connected individuals will not sabotage the system (North, 1990:25). Understanding the crucial nexus between the political and economic institutions in a country, which the authors equate with good institutions, is essential to the smooth functioning of capitalism, economic growth and development. This absence of good and effective institutions is one of the reasons why development has been elusive in Africa.

North (2005) noted that 'good institutions beget good governance'. It is the quality of the institutions or governance structure in a country that determines its long-term economic growth or stagnation. Sharma (2007) opined that when one writes about institutions of governance, one needs to bear in mind that this consists of all the formal rules and regulations that guide the country (the constitutions, laws and regulations).Good institutions also comprise of all the informal rules and regulations of governance (such as traditional beliefs, social customs, norms, morals and values) that regulate and influence human behaviour and, most importantly, those that influence economic transactions between people within the economy (Sharma, 2007).

North (2005) enumerated the distinctions between good and poor institutions when he posited that when the governance structure of a society acts as an incentive (good institutions) for individuals, firms and organisations to be productive, then the economy grows, leading to economic growth and development. However, when the institutions of governance are predatory on individuals (which is poor and ineffective institutions), the economy stagnates (North, 1995). Examples of these poor institutions abound in many countries in sub-Saharan Africa, where the police extort money from private businesses, municipal councils come up with all sorts of levies and taxes, and national governments take forever to register companies. In this scenario of poor and ineffective institutions, economic growth stagnates and poverty and underdevelopment become normalised (North & Weingast, 1989).Sharma (2007) emphasised the critical importance of good governance in development when he distinguished between poor institutions, which are riddled with uncertainty, and good institutions, which are characterised by certainty and clarity. This means that the informal methods of conducting interpersonal exchanges or business, which are common among people in traditional societies, are unsuitable for modern and complex societies that desire economic growth (Sharma, 2007). The authors can infer from these sentiments that given the complex division of labour and specialisation of skills needed for economic growth and development in a globalised economy today, it becomes essential that rules governing the activities and transactions of individuals or firms be formally regulated, clarified and transparent (Sharma, 2007). This is what is called good institutions.

Knack & Keefer (1997) posited that the institutional environment for economic activity generally determines the ability of developing countries to catch up with the developed countries' standard of living. Mauro (1995) studied the strong empirical link between corruption and growth and concluded that lack of effective checks and balances in public finances hinders development efforts and poverty reduction, especially in sub-Saharan Africa. A good number of scholars in the field of Development and Economics place good institutions over other factors such as geography and culture as a key determinant of economic growth and development outcomes in a country (Easterly & Levine, 2002; Rodrik, Subramanian & Trebbi, 2002). Some other experts in the field of development have found evidence of how geographical, ethnographic and epidemiological factors stifle or accelerate economic growth and development in countries, but these researchers are still of the view that good and effective institutions remains the most important factor in determining the development trajectory of a country or region (Sachs & Warner, 1997; Diamond, 1999). It is the 'Holy Grail' in the quest for development (Sachs & Warner 1997; Diamond, 1999).

According to North (1990:25), one of the crucial components of a good institution is the transaction cost involved in setting up a business or company in a country or region. North explains that transaction costs involve the fees, levies payable by a company or an entrepreneur in a particular country, documents to be filed, the

length of time it takes for public officials to approve or disapprove a particular business proposal or project. It also includes protection of property rights, rule of law, security etc. It is his argument that this transaction cost which is an integral aspect of good institutions plays a significant role in the overall economic growth and development of a country or region.

Some scholars have examined the relationship between the transaction costs in a country and its economic growth and development, and they are of the view that transaction costs have a significant effect on the productivity, economic growth and total development of any country or region (Martinez & Dacin, 1999). In a country or region with good institutions, transaction costs should ideally set out the terms of operation, rules and regulations and agreement between individuals and firms operating in that particular country or region. These transparent rules and regulations help entrepreneurs and companies to plan accordingly.

The cost of doing business in sub-Saharan Africa or what North (1990:25) called the 'transaction cost' is very high compared to other regions of the world. This high transaction cost which is a product of poor institutions in the region has served as a disincentive to business and economic growth and development. The terms of doing business and the efficacy of the regulatory bodies that protect the intellectual property of entrepreneurs serve as oil in the engine of capitalism and growth, and this is what good institutions entails (North, 1995:25). The uncertainty that stems from incomplete information or lack of clarity on the regulations of countries is actually poor institutions, and this is the main impediment to growth and development in the region.The crucial role of transaction costs (which is an important determinant of good institutions) in stimulating economic growth and development globally is clearly amplified by Milgrom and Roberts. This is how they explained it:

> *"The cost of deciding, planning, arranging and negotiating the actions to be taken and the terms of exchange when two or more parties do business; the costs of changing plans, renegotiating terms and resolving disputes as changing circumstances may require; and the costs of ensuring that parties perform as agreed. Transaction costs also include any losses resulting from inefficient group decisions, plans, arrangements or agreements; inefficient responses to changing circumstances; and imperfect enforcement of agreements"* (cited in Oskarsson et al., 2009).

These transaction costs are products of the kind of institutions of governance existing in much of sub-Saharan Africa. Economic growth and development in any country is a direct function of the type of institution (poor or good) which is dominant in that country or region. Economic growth and development, as well as the subsequent reduction of poverty, depends on the smooth functioning of and trust in the regulations governing business activities in a country or region (Ukwandu, 2014). These rules must be clear and transparent, and anyone flouting the laws or regulations should be disciplined without fear or favour. Laws must be formulated in such a way as to conform to what Adam Smith called the 'favouring of commerce'. According to him:

> *"Commerce and manufacturing can seldom flourish in any state which does not enjoy a regular administration of justice in which the people do not feel themselves secure in their possession of their property, in which the faith of contracts are not supported by law, and in which the authority of the state is not supposed to be regularly enforced in the payment of debts from all those who are able to pay. Commerce and manufacturing can flourish in any state in which there is a certain degree of confidence in the justice of government"* (cited in Rodrick et al., 2004).

An example of how the transaction costs of doing business in sub-Saharan Africa blights economic growth and development can be understood in terms of how poor and ineffective institutions have stifled economic growth in the region. These examples illustrate evidence of poor institutions in the region: it takes 153 days to register a company in Mozambique and 14 steps to complete the registration. It takes three months and 16 processes to register a company in Democratic Republic of Congo. In Nigeria, there are 15 different types of taxes paid to the local governments, state and federal governments to register and start a company. Starting a brand new business in Nigeria is bedevilled with the twin problem of lack of adequate infrastructure and electricity, and insecurity. This is notwithstanding the fact that the business owner has to provide his own security, water and electricity. It takes almost a year for an office telephone line to be installed for a new entrepreneur or company to start a business in Ghana, Nigeria, Cameroon, DRC, Sierra Leone, Liberia etc. Different layers of different taxes by the governments discourage people from starting small-scale businesses in Cameroon. In Malawi, it is far better to operate without the registration of companies, as the government charges prohibitive fees and taxes for all business owners(internet source: BBC News*).*

Let us narrow it down to the events in Mozambique. This is because the country is usually touted as a template for good institutions and strong regulatory framework in the region. Mozambique is globally seen as the beacon of hope and reform, while the reality

is that it takes six months to register a company. Within those six months, various government departments will demand all sorts of permits and licences and mandatory fees totalling almost 10% of the budgeted cost of the company (Emery & Spence, 1999:9). This incongruity is replicated in many sub-Saharan African countries, and it is unthinkable how small-scale business owners are able to obtain permits, start their businesses and still make profits and pay taxes.

Kaufman & Kraay (2003) concluded through their studies that good institutions and governance is the most important aspect of development. According to them, it also determines whether or not governments are able to use the resources in their countries for the upkeep of the majority (Kaufman & Kraay, 2003). This sentiment is shared by many experts in the development field (North & Thomas, 1973; Olson, 2000; Acemoglu et al., 2003; Rodrik, Subramanian & Trebbi, 2002; Hall & Jones, 1999; Dollar & Kraay, 2003). These views of Kaufman and Kraay (2003) were affirmed by others, who held that critical aspects of governance in a country, such as its institutions, bureaucracy and economic policies, actually account for the variations in economic growth and development that we witness across regions and continents today (Roll & Talbot, 2003). These variations in economic growth and development have little to do with geography, culture, colonialism or globalisation, as is commonly believed by many in Africa. This means that countries that have clear, concise and transparent property rights, transparent business practices, political rights, civil liberties, and a stable rule of law, which all embody good institutions, usually have a greater possibility of experiencing economic growth and development (Roll & Talbot, 2003).

Landes (1999:217) listed the essential ingredients for the growth of Britain and indeed much of the developed world. At the top of the list is the idea that good institutions are inviolate to development. Development must involve a state that is premised on growth. The essential ingredients for development, according to Landes (1999:217), are as follows:

- Secure rights of private property, the better to encourage savings and investment.
- Secure rights of personal liberty against both the abuses of tyranny and private disorder (crime and corruption).
- Enforce rights of contract, both explicit and implicit.
- Provide stable government, not necessarily democratic, but itself governed by publicly known rules (a government of

laws rather than men). If democratic, the government should be based on periodic elections, where the majority wins but does not violate the rights of the losers, while the losers accept their loss and look forward to another turn at the polls.

- Provide responsive government, one that will hear complaints and come up with solutions.
- Provide honest government, such that economic actors are not moved to seek advantage and privilege inside and outside the market place. No preference must be shown with regard to favour and position.
- Provide moderate, efficient, and non-rapacious government. The effect should be to keep taxes down, reduce the government's claim on the social surplus, and avoid privilege (Landes, 1999:217).

The role of good institutions in development can be gleaned through the work of Amsden (1989) who, in her very perceptive study underscored the way in which the South Korean state was able to facilitate an amazing technological and industrial revolution in a formerly rural and agricultural country that had endured years of Japanese colonialism. It is a fact that South Korea was poorer than Tanzania in 1950 and had the same GDP as Ghana and Nigeria in 1960 (Amsden, 1989).This change was possible though good institutions. The ruling elite in South Korea was able to reduce the transaction costs of doing business in their countries and improve the efficiency of public institutions to engender good governance, which ultimately paved the way for the development of the country. Africa can replicate this outcome if it enshrines good and effective institutions in its body polity.

Wade (1990) also concentrated in his study on the role of good institutions. The author used Taiwan as an example of a capable and effective state that managed to transform a rural and agrarian society into one of the economic success stories of the 20th century (Wade, 1990). Ha-Joon Chang (1994) believed that a state that is imbued with good institutions and good governance is best equipped to direct and transform the economic trajectories of its country. He further stated that it must be a state which can create and regulate the economic and political relationships to support sustained industrialisation (Ha-Joon Chang, 1994). According to him, the state should have a strategic goal of long-term growth and take structural change seriously (Ha-Joon Chang, 1994). The state should also politically manage the economy to ease the

conflicts that are inevitable during the process of such change, and engage in institutional adaptation and innovation to achieve these goals (Ha-Joon Chang, 1994).

Mauro (2004) noted that a consensus seems to have been reached within the development community that corruption and other aspects of poor institutions have substantial and adverse effects on economic growth and development. Hall & Jones (1999) further affirmed that the primary determinant of a country's long-run economic performance is its 'social infrastructure'. This 'social infrastructure' refers to the institutions and government policies that provide the incentives for individuals and firms within an economy (Hall & Jones, 1999). Weber (1981:312-14) underscored the reason for the rise of Western and European economies from the ashes of poverty and penury, namely the presence of rationality in their public affairs. By this, Weber was referring to an effective bureaucracy that understands the essence of governance and administration (Weber, 1981:312). He emphasised that economic growth and development, and subsequently humane capitalism, can only develop and flourish when the essence of governance in states is rational and efficient. In other words, the state must have good institutions (Weber, 1981:312).According to him:

> *"The West developed because of its rational organisation of labour. The entry of the commercial principle into the internal domestic economy, with the concomitant lifting of national and ethical barriers to commerce; and the disintegration of primitive economic fixity in the wake of the entrepreneur organisation of labour. Only the West knows the state in the modern sense, with professional administration, specialised officialdom, and law-based on the concept of citizenship... Only the West knows rational law. Furthermore Western civilisation is further distinguished from every other by the presence of men with a rational ethic for the conduct of life"* (Weber, 1981:312-14).

Kohli (2006) explored the various development outcomes of several countries such as South Korea, Brazil, India and Nigeria, and concluded that good institutions and governance is the minimum requirement for establishing growth and development. Evans (1995), in his study on the economic transformation and development of East Asian economies (Singapore, South Korea and Taiwan), gave further support to the views of Kohli (2006), and was able to underscore the significant strides that can be made in development outcomes in countries that are not even democratic, as long as coherent government policies are effectively implemented.

Acemoglu and Robinson determined (2002) the reasons for the differences in economic growth and development between some parts of the world, such as Mexico and Indonesia, which were more prosperous, populated and developed than the countries of North America, Australia and New Zealand in 1500 before the advent of European colonialism in those areas. The study found that the most touching clarification for the rise and decline of nations, which is relevant to many developing countries in sub-Saharan Africa, is what is called 'institutional hypothesis' (Acemoglu & Robinson, 2002:2). In this regard, they held that societies which endeavour to provide incentives and opportunities for investment and efficiency in the administration of their affairs will, in the long run, be richer than those who do not (North & Thomas, 1973: North & Weingast, 1989; Olson, 2000). Embedded in this view is the role of good and effective institutions in stimulating economic growth and development.

Conclusion and recommendations

As seen earlier in the paper,there is abundant evidence in the literature concerning the development of formerly poor countries in Asia and South America that once the minimum requirement of good institutions of governance is met in any country, whether in the global South or North, development would be rooted and poverty could be alleviated. It is very easy in Africa to blame the legacies of colonialism, globalisation and uneven terms of trade within the global economy as the reasons for the poverty and underdevelopment of the region. Very few policy-makers and politicians are willing to assess the poor institutional framework that underpins businesses and economic activities on the continent. Sub-Saharan Africa is characterised by poor institutions and poor governance. This serves as a handbrake to economic growth and development. A survey of events in South America where many countries that also went through the brutal legacy of colonialism and imperialism were able to navigate their economies out of poverty and underdevelopment; would provide useful lessons to the policy-makers and politicians in the region.

Further evidence to underscore the role of good institutions in development can be found in the remarkable transformation and development of South America. In the course of all the changes that took place in this country, poverty fell dramatically: from 55% to 18% in Costa Rica; 65% to 34% in El Salvador; and 57% to 44% in Columbia (Mills, 2010). Despite the legacy of brutal Spanish colonial rule in these countries, they have been able to implement

good governance in many sectors of their public service, and as a result, the reduction of poverty and underdevelopment. If these countries could overcome poverty through institutional reforms, the onus is on countries in sub-Saharan Africa to do the same through the establishment of much leaner, more responsible and effective government.

According to Mills (2010), Alvaro Uribe's transformation of Columbia is remarkable and almost revolutionary. He emphasised good institutions and good governance since assuming the presidency of his country in 2002 (Mills, 2010). He helped reduce poverty in the country by 20% and unemployment by 25% and the number of citizens receiving public health care rose from less than 400,000 in 2002 to just below 8 million in 2007 (Mills 2010). In addition, primary school enrolment increased from 7.8 million to 9.3 million in the same period (Mills, 2010).

Brazil offers an example to countries in Africa which desire to change the development prospects of their people, as Brazil endured a brutal period of colonialism, had to navigate the treacherous waters of globalisation, and was characterised as a multi-ethnic, multi-cultural and multi-racial society. These are legacies which we in the sub-region of Africa most times blame for our poverty and underdevelopment, while the real reason is poor institutions. Brazil is South America's most populous country and has its biggest economy, but has made significant strides in development as a result of good institutions (Ukwandu, 2014).

To further underscore the role of good governance in development, the former president of Brazil, Lula da Silva, on a recent visit to South Africa, had this to say about the phenomenal growth and development of his country:

> *'The biggest legacy of my presidency is not the programmes that took 30 million Brazilians out of absolute poverty and created 15 million jobs. It is the accountability of the public institutions and the real partnership with business, labour and civil society that brought hope to the people. We put the needs of the people first, not ours'* (Naidoo, 2012:15).

When one remembers that one of the objectives of good governance is accountability, it becomes clear that the main stumbling block to Africa's poverty and underdevelopment is poor governance and the endemic corruption that characterises public institutions on the continent. It is not geography, culture or malaria that is to blame. The usual scapegoats of many political leaders in Africa, namely colonialism and globalisation, were surmounted by the

Brazilian presidency of da Silva, which put the needs of the poor first. This is the route to development.

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