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**Governance and
development in
Africa: A concise
review**

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Abstract

Given the increasing importance of governance in economic development and the yearn for Africa to catch up, the present paper provides a concise review of the literature with relevance to the region. First, the paper presents the stylized facts showing that Africa as a region, since about the late-1990s, substantially improved on growth and economic outcomes in the form of per capita income, human development, and poverty. Second, it shows that both economic governance (EG) and political governance (PG) have improved considerably since about the late 1980s or early 1990s, with EG measured by economic freedom, and PG by the index of electoral competitiveness, executive constraint and polity 2, as well as by indicators of political stability. Third, it attributes the favourable changes in economic outcomes significantly to these improvements in EG and PG. Finally, the paper flags the challenge of the likely disequilibrium between the economic and political equilibria under multiparty democracy, with adverse implications for fiscal allocation.

JEL Codes

O11, O15, O43, O55

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1. Introduction

Governance has long been suspected as a major impediment to African economic development. This suspicion came to the fore in the late 1970s when African economies suffered major setbacks during post-independence. In a 1981 report, commissioned by the Bretton Woods Institutions (BWIs), “Accelerated Development in Sub-Saharan Africa: An Agenda for Action”: the “Berg Report” (World Bank, 1981), poor governance was highlighted as a major culprit responsible for Africa’s poor state of economic health. The proposed solutions included: market liberalization, anti-inflationary macroeconomic stabilization, and other market-based and private sector-driven policies. The report additionally suggested the following reforms: strict debt management; effective control of budget deficits; massive privatization of state-owned enterprises; and curtailment of government spending, including severely limiting government subsidies for consumption goods and social services. Particularly salient among the proposed policies were currency devaluation and trade liberalization intended to achieve an economically healthy and stable external balance. These proposed reforms refer to ‘economic governance’.

Subsequently, a number of African countries undertook political reforms, partially in support of the above economic policies, and also in response to donors’ demands for such reforms in exchange for external aid. These reforms refer to ‘political governance’.

The importance of governance has also been highlighted in a subsequent study by the African Economic Research Consortium (AERC), “Explaining African Economic Growth” (the Growth Project). This project put governance at the core of the growth record of sub-Saharan Africa (SSA),¹ concluding that poor governance led to growth-inhibiting ‘policy syndromes’ while improved governance resulted in greater prevalence of growth-enhancing ‘syndrome-free’ regimes (see Ndulu et al., 2008a, 2008b). And, in a more recent study, ‘governance’ was highlighted as a most prominent basis for the achievement of economic successes in the developing world generally, and in selected African countries: in particular, Botswana, Ghana, Mauritius and South Africa (see Fosu, 2013c).

Have the above reforms improved both economic and political governance in Africa? What have been their development consequences? What is the nature the governance challenge currently? And, what are the implications for the future? Following this introduction, the present chapter attempts to answer these questions.

2. The African Growth and Development Record

In order to put the implications of the evolution of governance for Africa’s development in proper perspective, I first sketch out the development record. Although, there has

¹In the present paper, ‘sub-Saharan Africa (SSA)’ is used synonymously with ‘Africa’.

been much disparity across African countries, both at given points in time and over time, I shall limit this sketch to the overall record for SSA as a whole.²

2.1. Growth

Economic growth is a critical element for development. It has been the main engine for poverty reduction globally (Dollar and Kraay, 2002; Fosu, 2011), and for SSA. (Fosu, 2015a). Furthermore, growth provides a major explanation for improvements in human development in African countries (Fosu, 2002; 2004). Thus there is need for reemphasizing economic growth in the African region, consistent with the general extant literature.

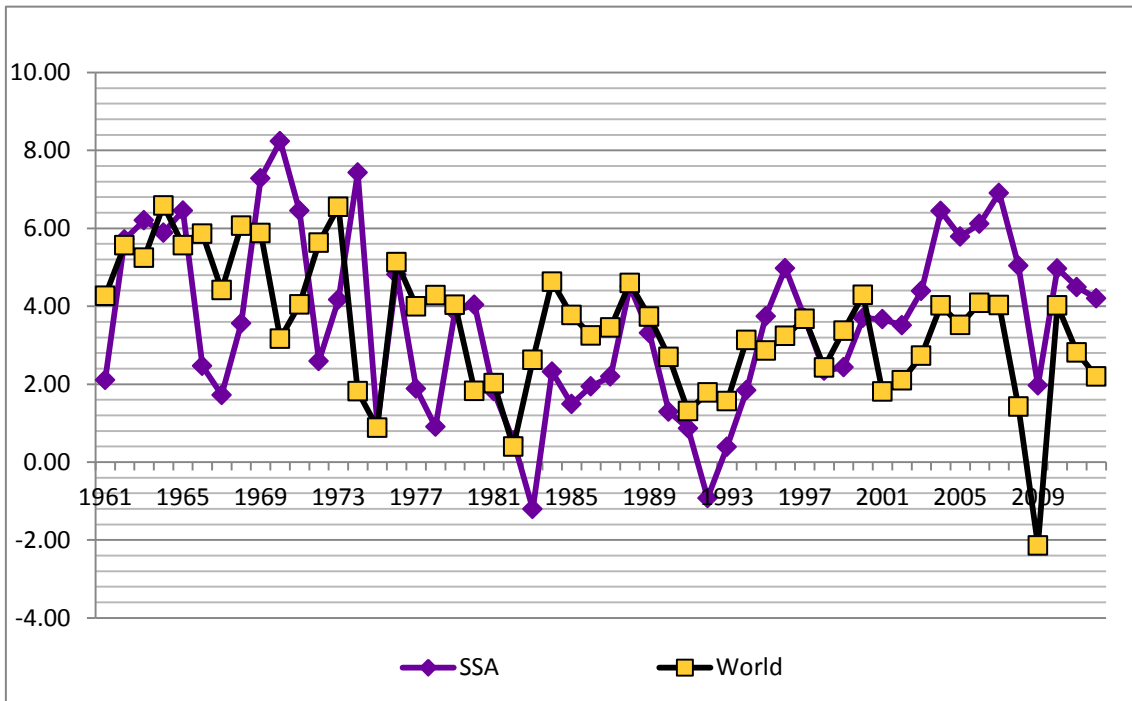
There has been economic growth resurgence in SSA since the mid-to-late 1990s, following the dismal performance in the 1980s and early 1990s (Figure 1).³ Moreover, Africa's GDP growth has over the last decade and a half exceeded the World's, which must happen if the region is to catch up with the rest of the world.

On a per-capita basis, however, the recent growth resurgence is not as impressive (Figure 2), suggesting the need to limit population growth and dependency. Africa could, of course, rely on a 'natural' demographic transition as incomes grow, but that process may take much too long. Furthermore, unless productivity continues to rise sustainably in the region, this transition may be quite distant, with any economic catch-up likely to be considerably delayed.

² For recent studies that discuss the disparity in performance among African countries see, for instance, Fosu (2010d, 2012).

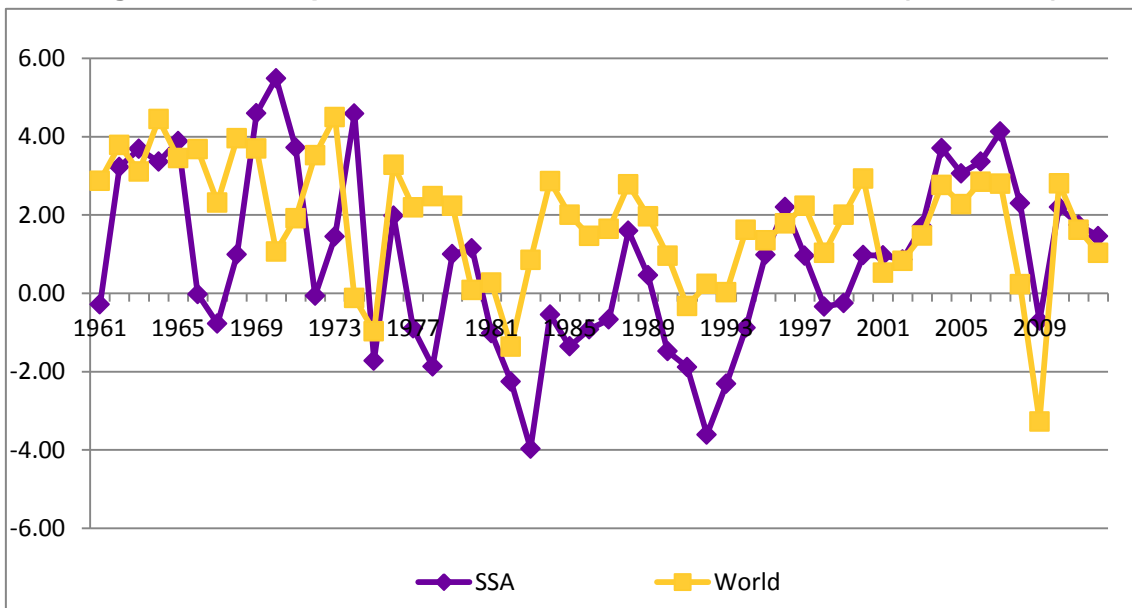
³ Employing data on consumption rather than national income or GDP, Young (2012) finds that SSA's growth has been miraculously faster. Rodrik (2014) however has a contrarian view, arguing that the 'miracle' may actually be a mirage.

Figure 1: GDP Annual Growth (%), Africa vs. World (1961-2012)



Source: World Bank, 2013a

Figure 2: Per Capita GDP Annual Growth, Africa vs. World (1961-2012)



Source: World Bank, 2013a

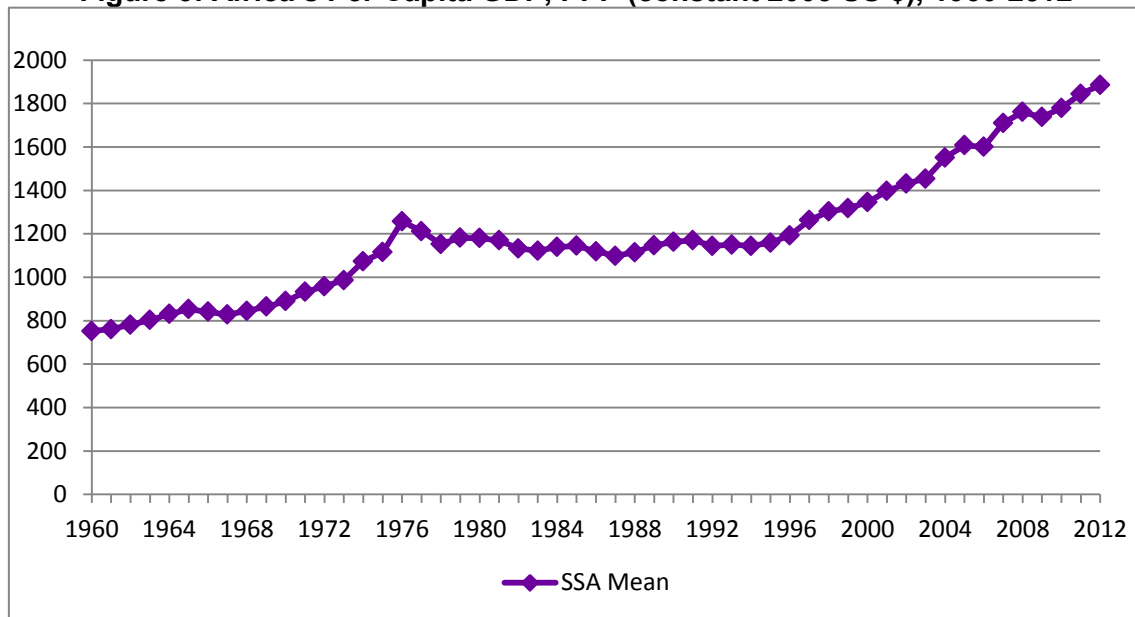
As in the rest of the world, Africa's growth declined substantially during the recent economic crisis of 2008-2009, with SSA's GDP growth falling by more than 60% between 2007 and 2009. However, the region has recovered reasonably well, actually exhibiting considerable resiliency during this crisis, relatively to the world, and better than in any other economic crises during post-independence. Such resilience is

attributed in considerable part to improvements in governance/institutions. (Fosu, 2013a)

2.2. Development Outcomes

Consistent with the above growth record, per capita GDP stagnated during the 1980s and early 1990s but has risen considerably since the late 1990s (Figure 3). Indeed, the mean GDP per capita has increased substantially during the last decade and a half, from 1192 in 2005 PPP-adjusted international dollars (PPP\$) in 1996 to PPP\$1885 in 2012, that is, by nearly 60%.

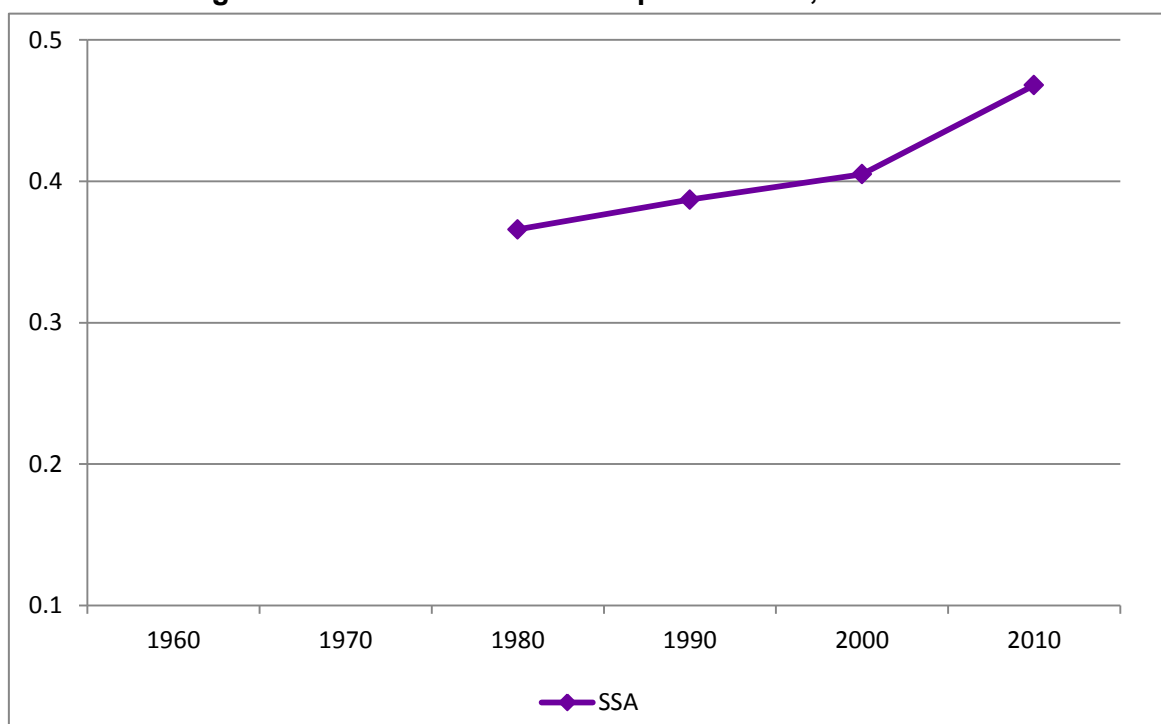
Figure 3: Africa's Per Capita GDP, PPP (constant 2005 US \$), 1960-2012



Data source: World Bank, 2013a

In addition, human development, as measured by the human development index (HDI), has accelerated in 2000-2010, compared to the performance in the previous decade (Figure 4). Between 2000 and 2010, the HDI increased from 0.405 to 0.468. This rise is three and one-half times its increase during the preceding decade.

Figure 4: Africa's Human Development Index, 1980-2010



Data source: UNDP, 2013

Furthermore, poverty has been falling in SSA since the mid-1990s (Figure 5), following its substantial rise in the 1980s. Extreme poverty (at the \$1.25 poverty line) fell by 10 percentage points between 1999 and 2010.⁴ Thus, the African growth resurgence has been generally inclusive. Decomposing poverty reduction into growth and inequality changes, Fosu (2015a) finds, as in the global case (Dollar and Kraay, 2002), that income growth has been the primary driver of the progress on poverty. However, the responsiveness of poverty to growth or changes in inequality tends to be small in SSA compared to that of the world (Fosu, 2010c; 2009). Hence, greater efforts are required for translating growth and improvements in income distribution into progress on poverty in SSA relative to the world's. While the relatively high level of inequality in Africa tends to retard the continent's progress on poverty (Fosu, 2010a; 2010b), the low level of income poses an even greater impediment (Fosu, 2015a). Thus, once again, the importance of growth for development in the form of poverty reduction in Africa cannot be overstated.

⁴ The poverty data presented here are based on household surveys. Using national income data, Pinkovskiy and Sala-i-Martin (2014) find that Africa's poverty rate has been falling even faster.

Figure 5: Africa's Poverty Picture (\$1.25), 1981-2010



Data source: World Bank, 2013b

Moreover, Ravallion (2012) finds that initial poverty constitutes a major obstacle to progress on poverty. Success in reducing poverty should, therefore, help to facilitate further improvements in poverty. Accordingly, social-protection programs that insure against the downside risk of undertaking economic activities could raise income for the poor while reducing inequality, and thus accelerate the progress on poverty (Thorbecke, 2013).

3. Evolution of Governance and Implications for Economic Outcomes in Africa

By 'governance' I mean the division of labor between markets and states (Bates, 1981; Hayami, 2001). Since this concept involves the 'rules' that define that division, it closely resembles the definition of institutions as the 'rules of the game' by North (1990, 1991). The latter, however, entails all aspects of societal activities; hence, it seems reasonable to conceive of 'governance' as a proper subset of institutions. In this paper, however, I shall view these two concepts as synonymous, by limiting myself to that subset of institutions, namely, the 'rules' governing the division of labor between markets and states. Those rules pertaining to economic and political activities are designated as 'economic governance' and 'political governance', respectively.

3.1. Economic Governance

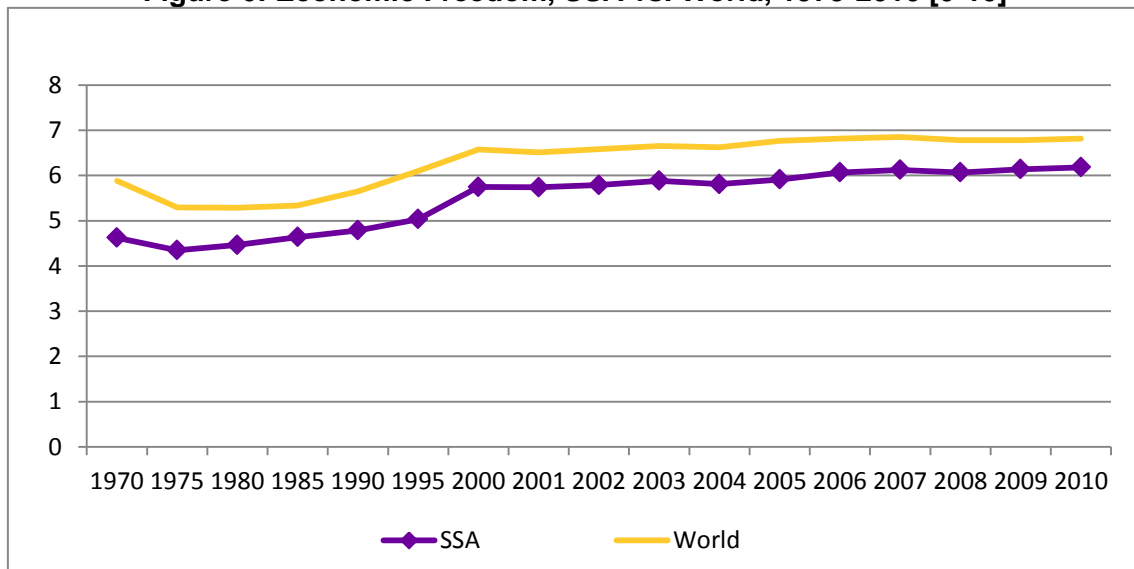
Arguably the most important measure of economic governance is 'economic freedom' (EF). EF is defined as the degree to which an economy is market-liberalized. Considering the Fraser Index (Gwartney et al., 2012), the following five broad policy areas define EF:

- Size of Government: Expenditures, Taxes and Enterprises (Area 1)
- Legal Structure and Security of Property Rights (Area 2)
- Access to Sound Money (Area 3)
- Freedom to Exchange with Foreigners (Area 4)
- Regulation of Credit, Labour, and Business (Area 5)

The Fraser Index measures the degree of market-liberalization and is a (simple) average of the scores for the above five areas. FE is larger as: (1) the size of government is lower, (2) the protection of property rights is stronger, (3) access to sound money is more open, (4) freedom of international exchange is higher, and (5) the regulation of the various sectors of the economy is less. Figure 6 presents the evolution of EF for SSA, versus the World, for 1975-2010. It shows that EF has increased appreciably, from a value of 4.5 in 1980 to 6.2 in 2010 (range: 0-10), though its trend closely follows that of the overall world average.

The increase in EF over time bodes well for growth in Africa, given the positive association of EF with economic growth (Haan and Sturm, 2000). In addition, EF may provide direct utility to society a la Sen (Friedman, 1962; Sen, 1999). And, according to Friedman (1962), EF is a precursor to political freedom, which in turn provides further utility to individuals (Sen, 1999). Thus, not only might the upward trend of EF be consistent with the African growth resurgence since the late 1990s, but also it may have contributed directly to social welfare.

Figure 6: Economic Freedom, SSA vs. World, 1975-2010 [0-10]



Notes: Data from Gwartney et al., 2012.

3.2. Political Governance

Consistent with the above definition, political governance is measured by the following indicators of democracy: electoral competitiveness, constraint on the government executive, and polity 2. Also employed as indicators of political governance are measures of political instability (PI). PI has been a major feature of the African political terrain since independence, whether as elite PI in the form of coups d'état or civil wars.

Electoral competitiveness

As an indicator of political governance, the index of electoral competitiveness (IEC) has risen considerably (Figure 7), from 3.3 in 1980 to 5.9 in 2010 (range: 1-7).⁵ Unlike EF, however, the IEC gap with ROW has virtually closed.

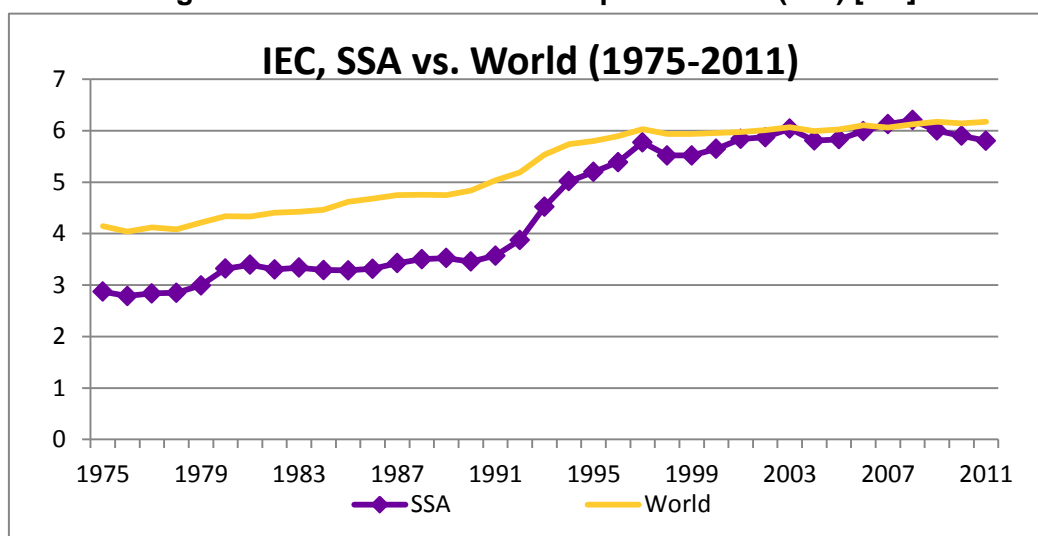
The effect of IEC on growth in Africa has been found to be nonlinear: at the early stages of democratization ('intermediate level') it is negative, but positive at the 'advanced level' (Fosu, 2008a).⁶ This result holds for both the index of executive electoral competitiveness (EIEC) and index of legislative electoral competitiveness (LIEC).

Based on EIEC, Bates et al. (2013) provide causal evidence, consistent with the New Institutional Economics, 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 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, 2013a, p. 492)

⁵ 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).

⁶ 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).

Figure 7: Index of Electoral Competitiveness (IEC) [1-7]



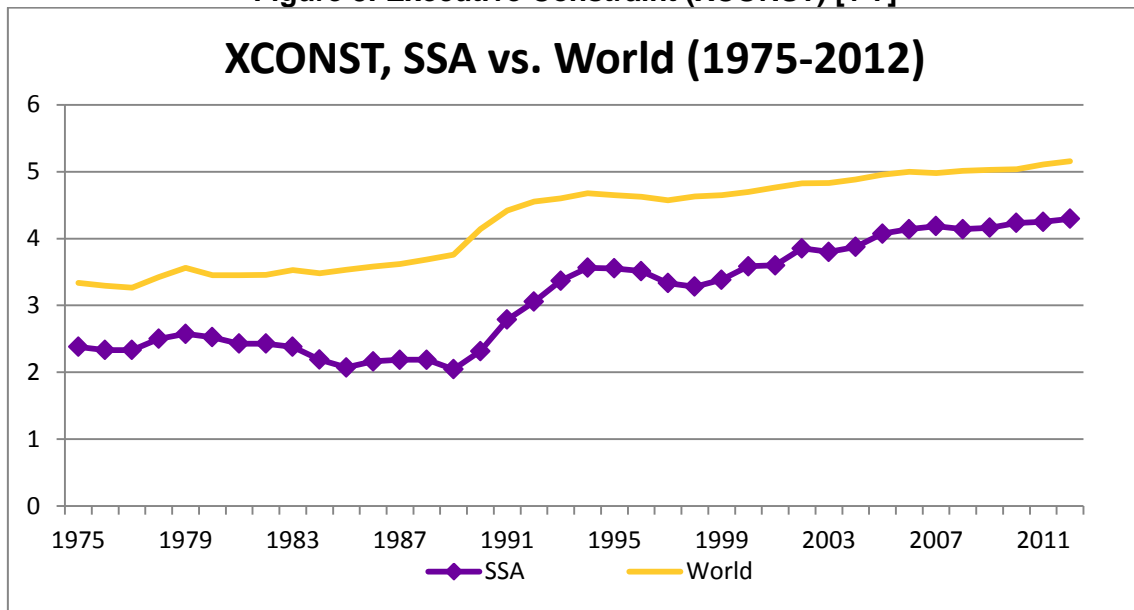
Notes: IEC is the first principal component of the legislative index of electoral competitiveness (LIEC) and executive index of electoral competitiveness (EIEC), with respective weights of 0.51 and 0.49 and explaining over 90% of the variance (Fosu, 2008a). Data for LIEC and EIEC are from World Bank, 2013c.

Executive Constraint

Similarly, the degree of constraint on the executive branch of government (XCONST)⁷ has increased steadily in recent years (Figure 8). XCONST began to accelerate in SSA around 1990, when the cold war ended. The gap with the World had narrowed substantially by 2000, although it remained significant and little changed since then. Interestingly, the gap in 2012 was the same as that in 1975 when the data was first available. The widest gap occurred in 1989, which was double that in 1975 and 2012. Thus it seems appropriate to emphasize that Africa has made considerable progress on executive constraint since the late 1980s, though this progress represents a return to its relatively high levels in the 1970s.

⁷ 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).

Figure 8: Executive Constraint (XCONST) [1-7]



Notes: XCONST is a measure of the constraint on the executive of government (source: data from Polity IV Project, 2013).

But why is XCONST important as an institutional variable? Alence (2004) observes that democratic governance in Africa greatly improves ‘developmental governance’: ‘economic policy coherence (free-market policies), public-service effectiveness, and limited corruption’. He 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)

Moreover, XCONST can accentuate the likelihood of a ‘syndrome-free’ (SF) regime,⁸ independently or by mitigating the potentially pernicious effect of ethnicity (Fosu, 2013b). At the same time, the prevalence of SF is a necessary condition 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). Further, 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% for African economies during 1960-2000 and the growth gap with the rest of the world was roughly 1.0 percentage point (Fosu, 2010d). Avoiding growth collapses could, therefore, be quite consequential.

Thus, 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 growth collapses. The growth-enhancing role of XCONST, therefore, cannot be overstated.

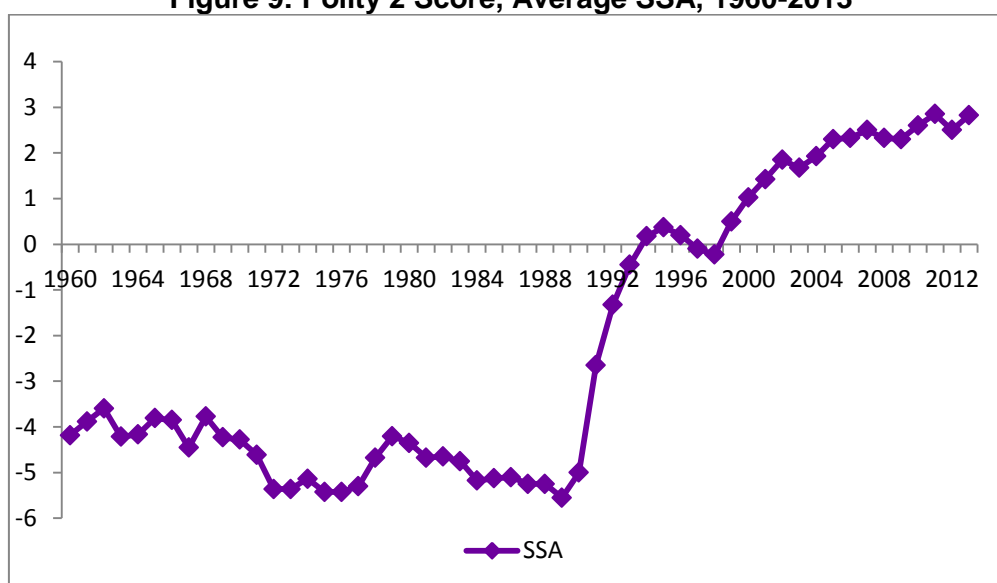
⁸ ‘Syndrome-free’ regime means a ‘combination of political stability with reasonably market-friendly policies’ (Fosu and O’Connell, 2006: 54).

Polity

Another indicator of political governance is polity 2 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 9, the polity 2 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.

McMillan and Harttgen (2014) find that this measure of political governance has contributed to the promotion of 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 interactively with price changes.

Figure 9: Polity 2 Score, Average SSA, 1960-2013



Notes: Polity2 score ranges from +10 (strongly democratic) to -10 (strongly autocratic); source: Polity IV, 2014.

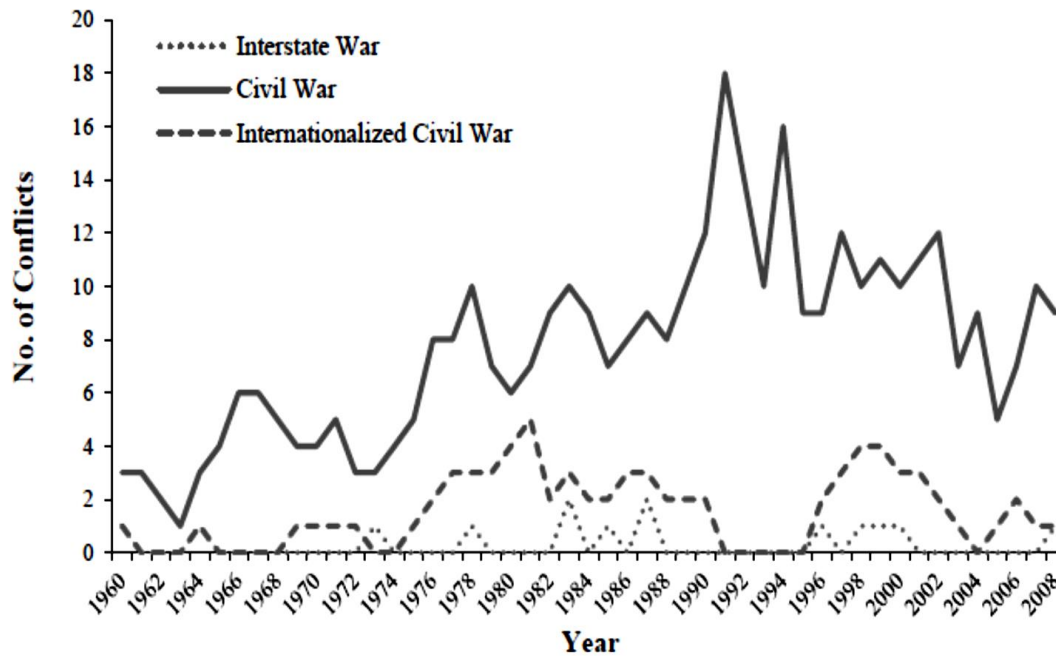
Political Instability

Political instability (PI) – including military coups d'etat and civil wars – constitutes a reasonable measure of the quality of governance and may have 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). In addition, the prevalence of elite PI, involving military coups, tends to be deleterious to growth in SSA (Fosu, 1992, 2001, 2002a, 2003). PI could, moreover, reduce the rate at which growth might be transformed to human development (Fosu, 2002b, 2004).

As Figures 10 and 11 indicate, the incidence of PI in its various forms seems to be declining on the continent. For example, the frequency of civil wars fell from as high as 18 in 1991 to 8 in 2008 (Figure 10). Similarly, the incidence of military coups shows a downward trend from the early 1990s, despite the apparent spike in 2008 (Figure 11).

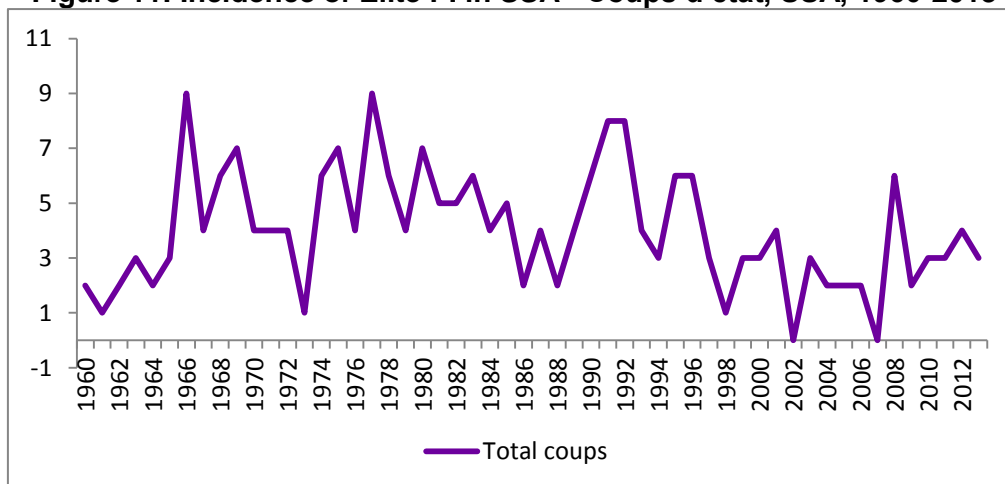
Based on the extant literature, therefore, this state of affairs for PI might have contributed to the aforementioned improved African economic and development outcomes as.

Figure 10: Frequency of Armed Conflicts in SSA, 1960-2008



Source: Strauss (2012)

Figure 11: Incidence of Elite PI in SSA - Coups d'état, SSA, 1960-2013



Note: '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 Center for Systemic Peace, 2014.

4. The Governance Challenge: What Next?

The above account shows that Africa appears to have turned the corner on its economic and development outcomes. This record is, furthermore, supportable by the accompanying improvements in governance. But are the current trends durable?

As more and more African countries have become relatively democratic within the multiparty framework, an important challenge has arisen: will the political outcome be consistent with the desired economic outcome? Interpreting Bates (2006), Fosu et al. (2006, p. 1) write:

“First, while politically accountable governments can lead to improved economic outcomes, they are unlikely to adopt economically desirable policies that are unpopular with the populace. Unfortunately, such governments also tend to increase the risk of political disorder in Africa, which may in turn be growth-inhibiting. Thus, recent attempts by African countries to adopt more democratic governments may not lead to the expected improved growth and development outcomes unless successful attempts at minimising political disorder can be achieved.”

Coupled with the additional argument, based on Kimenyi (2006), that “the existence of ethnically based interest groups is likely to result in sub-optimal provision of public goods” (Fosu et al., 2006), the foregoing ‘Batesian’ proposition is a very powerful argument. It provides the basis for revisiting the issue of the desirability of multiparty democracy in an ethnically polarized society. Indeed, certain authors view ethnicity as a major culprit for the dismal growth performance in African countries (e.g., Easterly and Levine, 1997). Thus, the role of governance becomes critical. As Collier (2000) and Easterly (2001) argue, ‘good’ governance might be an appropriate mechanism for resolving ethnic conflicts. The key challenge then is how to attain such governance. For example, Easterly (2001) employs Knack and Keefer’s (1995) measure of institutional quality, which combines: (a) freedom from government repudiation of contracts, (b) freedom from expropriation, (c) rule of law and (d) bureaucratic quality. While this measure is comprehensive and is found to be effective in attenuating ethnic conflicts, attaining a regime that appropriately reflects all these components is indeed a tall order.

Perhaps, the recent finding that XCONST can mitigate the potential pernicious effect of ethnicity might be a good starting point (Fosu, 2013b), as XCONST constitutes a better ‘policy’ variable for implementation purposes. But even here, there is the problem of finding the growth-enhancing optimal level of XCONST, which might actually deviate from that which minimizes the ethnicity-based adverse outcome. After all, attaining the upper limit of XCONST would be sub-optimal, since it might imply complete impotence of the executive branch of government. But even if the optimal level of XCONST could be found, it is not clear how to achieve it in practice.

Nor is ethnicity the only challenge? In an environment with heterogeneous geographically based interest groups, ‘free’ local public goods are very attractive to local constituents and, therefore, to politicians who wish to win national elections.

Given a government budget constraint, however, such local public goods (e.g., local-level schools, clinics, roads, etc.) might be provided at the expense of national ones (e.g., national-level schools, roads, railways, etc.), which could nonetheless be relatively productive.⁹

I conjecture that such a strategy maximizes the probability of a given political party winning the presidency nationally. Apparently, with strong local affiliation and affinity, voters tend to value local public goods relatively more than national ones.

Cumulatively, however, there is the tendency for such local-based provision to lead to a sub-optimal supply: a higher quantity but lower quality of the public good, while exacerbating the fiscal condition of the economy. Thus, in my view, such a politico-economic disequilibrium, as pointed out by Bates (2006, 2008a) and Humphreys and Bates (2008) in a more general context,¹⁰ is a key challenge that development stakeholders need to grapple with, as African countries continue their march toward improved growth and development. A critical risk is that the potential adverse implications, including likely mismanagement of the economy (Bates, 2008a; Humphreys and Bates, 2002) and political disorder (Bates, 2008b) in such disequilibrium, might lead to backtracking by African countries in the thrust toward democratic dispensation. Achieving 'advanced-level' democracy resulting from deeper democratic consolidation might help to resolve this challenge. But would it, and how?

⁹ For example, in Ghana, the government has been building and operating 'regional' universities, which are likely to duplicate programs in already existing national universities. Why?

¹⁰ 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."

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