Abstract

This paper examines the contribution of institutions, social cohesion, and trade to development (per-capita income) with an emphasis on fragile states in Africa. Results from Arellano-Bond GMM estimations suggest that political institutions, openness to trade, and social cohesion affect growth in fragile states via direct and indirect mechanisms. The results indicate that, beyond a certain level, openness to trade may actually be harmful to economic performance in fragile states, particularly in countries with high export concentration. Improvements in institutional quality, or more specifically in democratization, also may be harmful in the short run. On the other hand, social cohesion has a positive effect once a threshold level is reached. The results associated with the effects of political institutions and openness to trade seem to suggest the possibility of a 'catch-22', at least in the short run. If a fragile state tries to improve its political institutions or its openness to trade it may wind up with lower per-capita income. According to the formula used to allocate World Bank-IDA funds, such a country would get more aid. However, while obtaining more aid may be a good outcome, lower income implies more poverty (assuming no changes in income distribution). Thus, aid may not lead to significant poverty reduction.

Keywords: fragile states, aid effectiveness, institutions, social cohesion
JEL classification: E61, F35, F43, O19

Acknowledgement

I am grateful to the Institute of Economic Development (IED) at Boston University and to ICER for research fellowship that supported this work. A preliminary version of this paper was presented at the UN-WIDER conference 'Fragile States – Fragile Groups: Tackling Economic and Social Vulnerability' held in Helsinki in June 2007. I wish to thank Rob Vos and participants in Session 2.1 for useful comments. The usual disclaimer applies.