

Institutions, Entrepreneurship and Economic Growth in Africa

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Introduction

As the first decade of the new millennium comes to an end, Africa remains the poorest region of the world despite its large endowments of human and natural resources (see, e.g., UNDP, 2004, 2005, 2006). Why have the African countries failed to significantly improve the quality of life for their citizens? The evidence points to extremely poor macroeconomic performance. In fact, only a few countries (notably Botswana and Mauritius) have been able to achieve *sustained* economic growth in the post-independence period (Mbaku, 2004; Parsons and Robinson, 2006). While many reasons have been advanced to explain the failure of African countries to create the wealth that they need to deal effectively with poverty and significantly improve human conditions, the absence of laws and institutions that enhance the creation of wealth is the main constraint to economic growth in the continent. These institutions must (1) adequately and effectively constrain state custodians (i.e., civil servants and politicians) and hence, prevent them from engaging in corruption, rent seeking and other opportunistic activities; (2) promote the peaceful coexistence of each country's diverse population groups; and (3) provide entrepreneurs with the right type of incentives—those that encourage them and enhance their ability to engage in productive activities. It is especially important that the participation of historically marginalized and deprived groups and communities in economic growth (e.g., women, ethnic minorities, rural inhabitants, and those forced by economic circumstances to live on the urban periphery) be maximized. It is only through such a process that Africa can place itself on the road to sustainable economic growth.

Before we proceed, it is important that we differentiate between *growth* and *development*. While economic growth involves increases in a country's production or income per capita, development is growth that is accompanied by substantial changes in income distribution and the structure of the economy. Such structural changes include an improvement in the well-being of the poorer half of the population; a decline in agriculture's share of the national output and a corresponding rise in the latter's share of manufacturing, finance, construction, and government administration; an increase in the education and skills of the labor force; and substantial technological innovations originating within the domestic economy. Growth, however, is a necessary but not sufficient condition for economic development. The main focus of this paper is to determine how

African countries can enhance the creation of wealth, which is an important and critical contributor to economic growth.

As Africans struggle to chart a course for sustainable economic growth in the new century, three top priorities have emerged for the continent. These are: (1) peaceful coexistence of each country's diverse population groups—there cannot be sustained economic growth without peace; (2) the creation of the wealth that the continent needs to deal effectively with poverty and promote human development; and (3) the elimination of venality from the continent's public sectors. Africa would not be able to create the wealth that it needs unless and until corruption, rent seeking and other forms of opportunism are eliminated or, at least, minimized from each economy, and the peaceful coexistence of population groups is restored. Each country must engage all its relevant stakeholder groups in institutional reforms to provide incentive structures that encourage entrepreneurs to engage in productive (as opposed to unproductive) activities, as well as institutions that adequately constrain the state and prevent its custodians from undertaking opportunistic activities.

Since the end of the Cold War, efforts to deal with poverty and deprivation in Africa have slowly been shifting from state-imposed income and wealth redistribution regimes in favor of the poor to public policies that promote economic growth, with specific emphasis on the provision of the appropriate incentives for entrepreneurs to create wealth. However, despite this shift, which began in the late 1980s with the collapse of socialism in Eastern Europe and the "triumph of the market," there remain persistent calls, especially since the beginning of the new century, for a return to a regime of income and wealth redistribution—particularly at the global level. While the new movement does not specifically downplay wealth creation (and hence, the provision of entrepreneurs with the appropriate incentives), it, nevertheless, places most of its emphasis on global wealth redistribution—the most important programs in this regime include (1) cancellation of the external debt of African and other poor countries; (2) significant increases in development assistance flows from the countries of the economic North to those of the South, including, of course, those in Africa; and (3) an improvement in the participation of developing countries in global governance. Although these goals appear noble, our emphasis in this paper is on *wealth creation* and hence, economic growth, because we believe very strongly that the only sustainable way to deal with poverty and high levels of deprivation in Africa and significantly improve the quality of life for the people who live in this part of the world, is to enhance entrepreneurship and the creation of wealth.

Institutions and Economic Growth

Research by many social scientists has shown that there is a strong relationship between the quality of a country's institutions and its ability to create wealth. As argued by Olson (1996: 22), developing countries, many of which have large endowments of natural resources, have not been able to convert that

potential into the wealth that they need to meet their various obligations because they lack the institutions that provide entrepreneurs with the right incentives and stir them towards productive undertakings. In many African countries, one finds mostly weak and/or poorly functioning institutions, all of which discourage engagement in productive activities, while at the same time, favoring such unproductive and evasive pursuits as rent seeking, corruption, financial malfeasance, tax evasion, and maladministration (see, e.g., Fosu, Bates and Hoeffler, 2006). Recently, Kimenyi (2006) has found a strong link between institutions and *pro-poor* economic growth. The latter is the kind of economic growth that produces significant reductions in distributional inequalities and as a result, improves the welfare of the poor. In addition, such growth empowers the poor through increased access to productive resources. The World Bank (2001: 53) argues that growth is *pro-poor* if it (1) expands job opportunities for the poor; (2) is derived primarily, but not exclusively, from economic sectors, which offer the poor the greatest opportunities for self-actualization; and (3) generally increases the poor's share of national output. But, what type of institutions does one need to achieve these objectives? According to Ali (2006: 20), "the most important institutions to be built, or to strengthen where they exist, include property rights, regulatory institutions, economic management institutions, institutions for social insurance and institutions for conflict management." The main objective is for each African country to undertake democratic institutional reforms to provide an *institutional environment* that enhances peaceful coexistence, adequately constrains state custodians, provides entrepreneurs with the right incentives—those that maximize entrepreneurial engagement in productive activities and minimize rent seeking, corruption and other forms of opportunism.

North (1990: 3) defines institutions as the "rules of the game in a society, or, more formally, are the humanly devised constraints that shape human interaction." Institutions determine the nature and structure of the incentives faced by all participants in markets, including entrepreneurs. Hence, a country's existing institutions determine whether entrepreneurs would devote their resources to productive or non-productive pursuits. Any country that seeks to maximize the creation of wealth, then, must provide its citizens with laws and institutions, which maximize engagement in productive activities and minimize participation in non-productive or opportunistic activities. Unfortunately, most African countries failed, at independence, to engage their people in the type of constitution making that would have allowed them to create relevant laws and institutions to meet their post-independence needs. In fact, many of the problems that the African countries now suffer from, the most important of which is their inability to generate enough wealth to deal with poverty and other social problems, can be traced to non-democratic constitution making at independence. The outcome of the top-down, elite-driven, non-participatory, and non-inclusive rules compacting process that characterized the decolonization project and

preparations for independence in many European colonies in Africa was the adoption of laws and institutions that were not considered by most citizens as legitimate tools for governing socio-political interaction and the creation of wealth in the post-independence society (see, e.g., LeVine, 1964, 1997). In addition to the fact that the constitutional rules created for most post-independence African countries did not reflect the values, aspirations, traditions, customs and cultures of the majority of citizens, they were not locally-focused and were not designed to complement existing informal governance structures. In order for institutions to function efficiently, they must complement existing social structures. If there is compatibility between formal and informal institutions, then the incentives provided by formal institutions are compatible with those that are produced by custom and tradition. This compatibility is critical because it, at the very least, ensures that entrepreneurs face the appropriate incentives—those that point them to all the available profit opportunities and enhance their ability to engage in these productive pursuits.

Economic institutions are very important to wealth creation and hence, economic growth in Africa. The question, of course, is: What are economic institutions? The latter include laws or legal norms, common practices, and organizations, which have an impact (positive or negative) on economic activities. Within any country, government and all its agencies, corporations, customs and traditions, and cultural norms are all examples of economic institutions. Some of these institutions are formal (e.g., a statute enacted by parliament) and others are informal (i.e., based on custom and tradition). Given the importance of tradition to many African societies, one must keep in mind that formal institutions can enhance and maximize the creation of wealth only if they are compatible with and complement informal structures and provide entrepreneurs with a complete set of incentives (see, e.g., World Bank, 2002; Ali, 2006; Kimenyi, 2006).

In virtually all African countries today, existing institutions, which were inherited from the colonial state, provide incentive structures that direct entrepreneurs to activities that do not contribute to economic growth. In fact, these incentives make engagement in unproductive and evasive activities very attractive. Hence, an important pre-occupation of profit-maximizing entrepreneurs on the continent is rent seeking and other opportunistic activities, which involve primarily income and wealth *redistribution*. Unfortunately, what the continent badly needs, as it struggles to deal with high levels of poverty and material deprivation, is the *creation of wealth*—a productive activity that entrepreneurs can only engage in if they are provided the right incentives. Public policy, then, must place emphasis on the reconstruction and reconstitution of the post-colonial state, through democratic constitution making, to provide laws and institutions that enhance the creation of wealth—institutions that direct entrepreneurs to profit opportunities, enhance their ability to profitably exploit those opportunities,

and safeguard their earnings against plunder by opportunistic civil servants and politicians.

Entrepreneurship and the Failure of Economic Growth in Africa

In a recent study of underdeveloped and transition economies, with special emphasis on Romania, Coyne and Leeson (2004: 236) argued that the critical element in economic growth is not just the presence, within the country, of an entrepreneurial class, as well as an entrepreneurial spirit within the society, but (1) the existence of profit opportunities within the economy, and (2) the ability of entrepreneurs to quickly recognize these opportunities and effectively utilize them to create wealth. Existing institutional arrangements in a country can, therefore, direct entrepreneurs to either economically productive pursuits (which lead to the creation of wealth and economic growth) or to perverse and unproductive ends (e.g., rent seeking and corruption), which constrain growth and enhance economic deterioration. Hence, as the author of this present paper observed during research visits to several countries in Africa during the summer of 2006, it is not the lack of entrepreneurship that is the major obstacle to the alleviation of poverty in the continent of Africa, but the existence of institutional environments (and hence, incentive structures) that force entrepreneurs into unproductive activities. In fact, even a casual observer in Nairobi, Accra, Lagos, Douala, Addis Ababa, Monrovia, or any other African metropolitan area can attest to the fact that there is a vibrant class of entrepreneurs in each of these metropolitan areas. However, instead of engaging in wealth-creating activities, these individuals spend most of their time and resources fighting public bureaucracies that are determined to erase even the simplest form of productive activity. As a consequence, the informal sector continues to grow as many frustrated entrepreneurs exit into the latter, and corruption and rent seeking remain pervasive. For the few entrepreneurs who have remained in the formal sector, corruption, which consumes a significant part of their profit, and in some instances, working capital, has become an important and critical mechanism for survival.

Governments usually do not create wealth. Through “tax and spend” policies, they redistribute the wealth that has been created by the private sector. It is important to note, however, that government can and does play an important role in the creation of wealth. As is argued in this paper, the government can provide the enabling institutional environment within which entrepreneurs can function effectively as producers of wealth. By engaging in productive activities (e.g., arbitrage and innovation), entrepreneurs can create wealth and hence, contribute to economic growth. These productive activities, although carried out privately for the sole benefit of the entrepreneur undertaking them, provide benefits that accrue to society as a whole. In addition to the tax revenue generated from the profit earned, the entrepreneur’s productive activities also provide employment activities for many citizens. Of course, as argued by Coyne

and Leeson (2004: 237), entrepreneurs can, instead, engage in unproductive (e.g., rent seeking and corruption) and evasive (e.g., tax evasion) activities. The latter provide benefits only for the entrepreneur engaging in the specific form of opportunism (e.g., rent seeking) and impose significant costs on society. Unlike productive activities, which create wealth, unproductive and evasive activities are concerned exclusively with the redistribution of existing wealth. As has been shown by public choice economists, the government-sponsored wealth transfer process is not only wasteful, since it creates no social value, but it also generates additional costs to society due to the fact that owners of wealth are likely to expend resources in an effort to defend and protect their wealth and minimize what is essentially indirect (through the government) expropriation by rent-seeking interest groups (see, e.g., Rowley, 1999: 223–234; Mbaku, 2004, 2007a, 2007; TI, 2006; Hope and Chikulo, 2000).

Like many other developing societies, most African countries have institutional arrangements that (1) do not guarantee *economic freedom* (the concept involves the constitutional guarantee of the freedom of the individual to work, create and consume wealth, and freely engage in exchange and contracting; this freedom is not only protected by the state but is also not constrained by the state—see, e.g., Kane, Holmes and O’Grady, 2007: 38); (2) fail to adequately constrain the state; and (3) provide entrepreneurs with perverse incentives. Hence, the African economies are characterized not by high levels of productive activities (i.e., wealth creation) but by rent seeking, corruption and other wasteful pursuits.

In the 1960s and 1970s, it was argued that poor economic growth in Africa was due to a shortage of skilled entrepreneurs to lead the wealth-creating enterprise (Mbaku, 2004; also see Leys, 1996). The evidence points, instead, to institutional arrangements within these countries that direct entrepreneurs to non-productive “enterprises.” For example, throughout the continent, university graduates are most likely to seek government jobs for which they are over-qualified but which offer them the best opportunities to extract bribes from the private sector. Thus, a university graduate with expertise in economics or management, whose services are critically needed in a private enterprise, would prefer a job as a clerk in the customs and excise department (a job that requires only a high school diploma) because the latter provides significant opportunities for self-enrichment through the extortion of bribes from importers. Through engagement in corruption and other forms of extortion, made possible by his government position and existing laws, the individual can garner for himself significant amounts of extra-legal income (Jua, 1998; Agbese, 1998). In recent years, new technology has made the Internet scam or flim-flam a popular activity for many young school graduates throughout the continent. Hence, instead of preparing for and engaging in productive pursuits, these young school leavers spend their days roaming the Internet for unsuspecting people to rip-off.

Regardless of where the entrepreneurs are located in Africa—whether in the urban or rural areas—they face enormous government-imposed bureaucratic and administrative obstacles. DeSoto (2000) provides a detailed accounting of the various obstacles that entrepreneurs face, on a daily basis, in their efforts to engage in productive activities in various developing countries, including those in Africa. As Coyne and Leeson (2004: 240) found in Romania, rural entrepreneurs face additional challenges. This is also true of Africa's rural producers and traders. First, government services (e.g., telephone, permits to engage in certain economic activities, justice, police protection, etc.) are either not available in the rural areas or are available but are allocated in a capricious, erratic and extremely unreliable manner. Of course, an entrepreneur can untangle the incredible web of regulations and accelerate the process of obtaining the necessary permits or services by paying bribes to the right officials. Unfortunately, rural entrepreneurs often operate on profit margins that are so thin that they are not able to afford to pay the bribes demanded or required. Second, entrepreneurs from the rural areas must travel to the major urban areas, where government offices are located, in order to obtain the necessary papers to allow them to legitimately operate their enterprises. In the cities, these peasants face institutions that (1) are alien to them, and (2) which operate in a language that they do not understand—most African governments operate in the language of their former colonizers. It is only in rare cases that one would find government services being provided in indigenous African languages. Unfortunately, most Africans, especially those who reside in the rural areas, are not literate in the European languages. Perhaps, the biggest challenge for rural entrepreneurs who travel to the urban areas to solicit government assistance in starting and operating their businesses is the alien and complex nature of urban social, political and cultural practices, which render their stay in the city culturally and socially traumatizing.

One institution that is especially critical to the creation of wealth and hence, economic growth, is the judiciary. If a country's judiciary system is pervaded by corruption, entrepreneurs, including those in the rural areas, are most likely to conclude that the government is either unwilling or is unable to effectively protect the property rights of those who engage in productive activities. Under such conditions, most entrepreneurs would tend to favor unproductive activities, such as rent seeking, and avoid wealth-creating pursuits. If the governance system in a country does not have fully functioning mechanisms for the effective, fair, impartial and equitable resolution of conflicts arising from trade (i.e., voluntary exchange), the development and sustaining of the well-integrated markets that are essential for economic growth will be stunted. In studies of several African countries, the World Bank (2000: 9) determined that “the presence of a more developed legal system [can encourage] firms to undertake riskier activities because well-functioning legal

systems helped to adjudicate and settle disputes that arose from such market activities.”

An unstable, unreliable and erratic legal environment creates many problems for entrepreneurship and hence, the creation of wealth. First, transaction costs are raised significantly, making operations less likely to be profitable. Second, the uncertainty associated with such a legal system creates risk that entrepreneurs in these economies do not have the tools to manage, especially given the fact that few African economies have appropriate institutional structures for effective management of business risk. Finally, entrepreneurs are forced to undertake costly and unnecessary defensive or avoidance activities in order to minimize the impact of the uncertainties created by the corrupt judiciary on their enterprises. The end result is that entrepreneurs are forced to avoid engagement in productive activities (i.e., wealth creation) and, instead, devote their resources and time to rent seeking and other unproductive endeavors. In the process, wealth creation, the most important positive contributor to economic growth, is neglected.

It is important to recognize that the absence of a stable, predictable legal environment in many African countries also makes it very difficult for entrepreneurs to forecast, with some reasonable degree of accuracy, their expected liabilities, especially those owed to the government (e.g., tax obligations). A survival strategy under these circumstances is for entrepreneurs to bribe tax assessors in order to ensure a lower assessment than the legal amount, and to intentionally lie about one’s expected revenues in order to mislead the assessor. In Africa, where most countries have extremely thin tax bases, tax evasion is an extremely serious problem. Unfortunately, existing institutional environments make tax evasion an important survival mechanism for struggling entrepreneurs (Mbaku, 2007b).

Where the judiciary system is corrupt and operates in a capricious manner, entrepreneurs, especially those who reside in the rural areas, are not able to establish the types of trade links that would allow them to expand their businesses and take advantage of all profit opportunities (see, e.g., Coyne and Leeson, 2004: 242). In many African countries, for example, rural entrepreneurs are unable to take advantage of urban markets because of the legal difficulties associated with resolving disputes arising from contracts involving trade between them and customers who are not members of their immediate surroundings. Hence, these entrepreneurs remain trapped in an extremely limited village market and cannot expand their activities to markets beyond their village. In the latter, trade conflicts can be resolved effectively by reliance on traditional mechanisms unique to the group (e.g., a village) of which the rural entrepreneur is a member, whereas in the urban areas or markets outside the rural entrepreneur’s immediate place of operation, resolution of trade-related conflicts must be undertaken through formal mechanisms provided by the country’s

judiciary system. Unfortunately for these entrepreneurs, these formal mechanisms are pervaded by corruption and do not function in a fair and predictable manner. As a consequence, arms-length transactions, which are a critical part of a well-functioning economic system, are rarely attempted by these entrepreneurs because of the need to rely on what is essentially an unreliable, corrupt and ineffective judiciary system. What happens, then, when an entrepreneur becomes aware of a profit-maximizing opportunity? The entrepreneur may either forego such an opportunity or must be willing and ready to pay bribes to bureaucrats at every level of government in order to successfully navigate all the numerous steps required to obtain the various permits needed to undertake the activity (DeSoto, 2000; Coyne and Leeson, 2004). This, of course, is not the end of the entrepreneur's involvement with and contribution to venality in the country. To stay in business and continue to operate profitably, the entrepreneur must pay bribes, on a regular basis, to the appropriate officials within the government. Under such an unstable institutional environment, entrepreneurs are most likely to prefer businesses that can easily be dismantled and disbanded quickly and with minimum losses. Hence, owners of businesses that require huge initial investment (i.e., large sunk costs) are more susceptible to extortion by the bureaucracy since the latter know that the owners are not likely to easily abandon them. Judiciary instability and uncertainty then, can have a significant impact not only on whether entrepreneurs engage in productive or unproductive activities, but also on the types of business investments that would dominate the economy.

Earlier, we mentioned that one of the most important things that Africa and Africans need in order to deal effectively with poverty is wealth—preferably that created by its populations. Since the 1960s, students of African political economy have wondered why Africa, with its huge endowments of natural resources, has not been able to create all the wealth that it needs. Throughout the 1960s and 1970s, it was generally believed that the inability of most African countries to create wealth was due to the fact that these societies lacked entrepreneurs and the entrepreneurial spirit. Studies since then have shown that entrepreneurship flourishes in the continent. Whether one visits Africa's urban or rural areas, one is likely to witness flourishing entrepreneurial activities. The problem is that most of these entrepreneurs are engaged in unproductive activities. Are they any productive activities being undertaken in these countries? Of course, they are. Unfortunately, these are dwarfed by unproductive and evasive activities. For example, when a rent-seeking entrepreneur is successful in getting a corrupt tax enforcer to illegally reduce or eliminate taxes owed by the business owner to the government, the tax collector will make up for these "lost" revenues by imposing a bigger tax burden on the productive entrepreneurs. Such a process will significantly raise the transaction costs faced by the productive enterprise, leading to a decrease in profits and in some cases, a reduction in the scope of operations. Rent seeking, of course, generates other costs that negatively affect

the greater economy. As a consequence, there has been a steady exit of entrepreneurs out of the formal and into the informal sector and a tremendous increase, during the last several decades, in the number of entrepreneurs engaged in unproductive activities. All these unproductive activities have negatively affected economic growth in the continent.

Economic Freedom and Entrepreneurship in Africa

Institutions that support productive entrepreneurial activities can have a significant impact on economic growth in Africa. These institutions can help (1) direct entrepreneurs to profit opportunities within the economy; (2) enhance their ability to profitably exploit them; (3) protect them from opportunistic civil servants and politicians in search of ways to garner for themselves, extra-legal income; (4) minimize the deleterious effects of rent seeking by various interest groups on business operations; and (5) generally promote the creation of the wealth that the country needs to deal, in an effective and sustainable manner, with poverty and deprivation.

One of the most important ways in which the nation's institutions can enhance entrepreneurship and maximize wealth creation is to guarantee economic freedom. In those countries in which economic freedom is constitutionally guaranteed and protected, it is the case that (1) all citizens (including the poor) can freely engage in exchange and contracting; (2) government regulations and other activities in the market do not unnecessarily impede productive activities—in fact, government activities are designed to complement the activities of the private and voluntary sector, direct entrepreneurs to profit opportunities, and enhance the creation of wealth; and (3) civil servants and politicians find it very difficult to exploit their public positions for private gain. Economic freedom's single most important contribution to economic growth in Africa is that it exposes all entrepreneurs, including even historically marginalized ones, to the same opportunities for participating in economic growth. Alerting all entrepreneurs (including poor ones) to profit opportunities and providing them with the wherewithal to fully and effectively exploit these opportunities can result not only in significant economic growth but also development.

Gwartney and Lawson (1997: 2) state that economic freedom is about “personal choice, freedom of exchange, and protection of private property.” As mentioned earlier, although the government can use its redistributive powers to effect wealth transfers in favor of the poor (and hence, improve the quality of life for the poor), a more sustainable way to deal with poverty in Africa is to provide institutions that support entrepreneurship and the engagement of entrepreneurs in productive activities. Through the latter process, more wealth is created and, with the participation of entrepreneurs from all sectors of society in the process,

increasing proportions of income should flow to the poor, leading to significant improvements in the welfare of the latter.

The overall function of economic freedom is to enhance the creation and equitable allocation of wealth. Hence, economic freedom is an important contributor to economic growth. Beginning from the basic economic belief that wealth is more effectively created by the private sector, it is argued that maximum protection should be given to the entrepreneur so he or she can undertake productive activities and create wealth. Hence, as Gwartney and Lawson (2004: 6–10) have shown, such protection can be understood in terms of five major freedoms. First is, the degree of an economy's reliance on personal choice and markets rather than on decision-making by the public sector—government activities in the economy must be designed to minimize rent seeking and corruption, and enhance the ability of entrepreneurs to engage in productive pursuits. Second, while enhancing wealth creation by the private sector is an important function of the government, it is also important that the government protect the individual and his or her legally acquired wealth; hence, the legal system must be one that guarantees the rule of law, security of property rights, and resolves disputes arising from trade in a fair, equitable and predictable manner. Third, without sound money, relative prices can be distorted, fundamentally altering the terms of long-term contracts, a process that can make it very difficult for entrepreneurs (and individuals) to make plans for the future. Hence, the government should make certain that entrepreneurs and other individuals within the economy have access to sound money, even if that money is not provided by the national government. Fourth, most African countries have small and not very viable domestic markets, and as a consequence, most domestic entrepreneurs are not able to benefit from technological economies of scale. International trade offers a great opportunity for these countries to expand the size of their markets and significantly improve local production efficiency. Hence, the freedom to trade globally should be guaranteed entrepreneurs. Fifth and finally, regulations that limit entry into credit, labor, and product markets impede the creation of wealth and foster underdevelopment. In fact, throughout Africa, especially in the rural areas, the inability of entrepreneurs (especially female ones) to have access to credit is one of the most important obstacles to engagement in productive activities. The overall function of government regulations should be to enhance the ability of individuals to use their resources (including their talents) in productive ways to generate the wealth that they need to meet their various obligations.

The Imperative for Institutional Reforms in Africa

In this paper, we have argued that one of the most effective and sustainable ways to enhance economic growth in Africa is to provide, within each country, laws and institutions that enhance the ability of entrepreneurs to engage in productive activities. These institutions, of course, are also expected to

minimize such activities as rent seeking, corruption and other forms of opportunism. Placing the hopes of poor Africans on some grandiose schemes to redistribute global resources (e.g., increased foreign aid from the developed countries) is not a realistic and sustainable way to deal with the problem of poverty on the continent. Foreign aid might be able to enhance human development in Africa if it is directed at helping develop, within each country, institutions that enhance the creation of wealth. The reality of the matter is that the responsibility for attacking and defeating poverty and enhancing human development in Africa lies squarely in the hands of Africans themselves. While the developed countries, especially those which took part in the long colonization and exploitation of the continent and its peoples, bear some responsibility for the continent's present poor economic performance, and hence, its development quagmire, it is unrealistic and, to a certain extent, irresponsible, for African policymakers to place the lives of millions of their fellow citizens in the hands of so-called foreign benefactors, especially given the fact that the latter are yet to see improved living conditions in Africa as beneficial to their national interests.

While comprehensive institutional reforms must be the first step of any meaningful wealth-creation enterprise, and hence, sustainable economic growth, in Africa, it is important to note that given the continent's present economic, social, and political conditions, successful institutional reforms are likely to be quite challenging but not impossible. First, the level of development in most of the countries in the continent does not augur well for rapid and effective response of the people to institutional reforms. Most Africans, especially those who live in the rural areas, are poor and suffer from high levels of material deprivation. Many are unable to meet their daily basic needs. In addition, communication infrastructures either do not exist or function poorly, and the existence, within each country, of a multiplicity of languages, customs, and cultures, make effective mobilization of people for participation in reforms quite a challenge.

Second, despite the many institutional reforms that have been undertaken in the continent since the end of apartheid in South Africa, certain ethno-regional groups still monopolize political (and to a great extent, economic) power to the exclusion of other groups. As they have done since independence, a few urban-based (mostly male) elites continue to dominate economic and political governance in most of Africa. The result has been that women, youth, rural inhabitants and the urban poor have been pushed to the economic and political periphery. This type of marginalization, especially as it relates to institutional reforms, has resulted in the design and adoption of laws and institutions that reflect only the interests and values of the elites and not those of all the relevant stakeholder groups within the country.

Third, entrenched groups, which have monopolized political and economic markets since independence, are likely to oppose any reforms designed to

deepen and institutionalize democracy. Given the fact that such democratic reforms threaten the privileges of these entrenched groups, the latter are likely to expend a lot of resources to oppose them. The success of constitutional reforms in South Africa and, at a modest level in Ghana and Senegal, however, attests to the fact that opposition from such entrenched groups can be overcome and the appropriate institutions created through democratic constitution making.

Fourth, the effective management of cultural and ethnic diversity is critical for wealth creation and human development. What is needed are institutional arrangements that provide each ethnic group or nationality with the facilities to participate fully and effectively in governance and compete in a fair way for the benefits of economic growth. Unfortunately, ill-conceived and opportunistic government policies have worsened inequalities in the distribution of income and wealth and forced many ethnic groups to opt for violent mobilization as a way to improve their participation in economic and political governance and minimize further marginalization. Appropriate institutional reforms, especially those in which the various groups are provided the facilities to participate, should produce laws and institutions that enhance peaceful coexistence and pave the way for genuine and sustainable economic growth.

Fifth, currently the African economies are still not able to compete gainfully in the post-Cold War global economy. They remain, as they did during the colonial period, suppliers of raw materials to the factories of the industrial North and receptacles for what are often technologically obsolete goods from the industrialized countries. Africa's peripheral position in the international division of labor has deprived it of meaningful participation in global governance.

Finally, despite more than five decades of independence, most African countries remain burdened with parasitic, highly inefficient, opportunistic, and non-productive civil servants and politicians. After capturing power through non-democratic means or by manipulating elections, these individuals then privatize the state and use the latter's structures as instruments for their personal enrichment. This explains, partly, why many of these elites are usually quite reluctant to engage the people in genuine institutional reforms and why they have been unable to deal in an effective way with poverty and underdevelopment. Instead, they have engaged in opportunistic reforms, designed to enhance their ability to continue to monopolize political power and the allocation of resources.

The situation in the continent, of course, is not hopeless, even if the industrialized West does not fulfill the various pledges that it has made at successive G8 meetings to help the continent through increased flows of so-called development aid. What Africans need to recognize is that the continent has an enormous amount of resources that can be utilized to create the wealth that it needs for human development. The only impediment to the creation of this wealth and its utilization for the improvement of the lives of the people is the absence of institutions that enhance the ability of entrepreneurs to engage in

productive activities. These institutions can be created, even if one takes into consideration existing opposition from highly entrenched opportunistic groups. The ability of South Africans, and to a certain extent, Ghanaians and Senegalese, to overcome opposition from entrenched groups and undertake necessary democratic reforms is quite instructive. Africans can, through democratic constitution making, design and adopt a development-oriented constitution that guarantees economic freedom, limits the power of state custodians to engage in opportunistic behaviors, promotes peaceful coexistence of population groups, and enhances entrepreneurship—that is, the ability of entrepreneurs to undertake productive activities.

Conclusion

Enhancing sustained economic growth in Africa and effectively dealing with poverty calls for Africans to develop wealth-creating mechanisms instead of relying on so-called global wealth redistribution schemes. The continent is endowed with significant amounts of natural and human resources, which can, given the appropriate institutional environment, be transformed into the wealth that is needed to confront poverty and improve the welfare of the people. Hence, what Africans need are laws and institutions that point entrepreneurs to wealth-creating opportunities, enhance their ability to undertake those activities, and protect their wealth from parasitic and bloated bureaucracies, which during the last five decades, have functioned almost exclusively as plunderers.

As we have argued throughout this paper, the fact that Africans are not currently creating the wealth that they need is not because of the lack of entrepreneurs to do so. Many African countries have an abundance of entrepreneurs and the spirit of entrepreneurship remains quite strong in these countries. However, because of laws and institutions that provide entrepreneurs with perverse incentives, these entrepreneurs continue to engage almost exclusively in unproductive and evasive activities, all of which actually stunt wealth creation. The creation of wealth is the only sustainable way to advance economic growth and deal effectively with poverty in the continent. Each country, thus, must provide its citizens with an institutional environment that (1) adequately constrains the state so as to prevent public workers (e.g., civil servants) from exploiting entrepreneurs and hence, stunting the creation of wealth; (2) directs entrepreneurs to profit opportunities and enhances their ability to engage in productive activities; and (3) promotes the peaceful coexistence of population groups.

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