Governance and the Challenge of Accelerating Growth in Africa

Mushtaq H. Khan,
Department of Economics, SOAS

Africa Task Force Manchester 11th July 2007

Douglass North defined institutions as rules, but he also pointed out that the existence of a rule does not mean it can be enforced

The debate on governance is sometimes about the particular *rules* that should be enforced, and sometimes about improving the *governance capabilities* that allow the enforcement of these rules

The two issues are closely connected because if a particular set of rules cannot be enforced, their appropriateness as a policy priority can be questioned

3 sources of support for good governance reforms

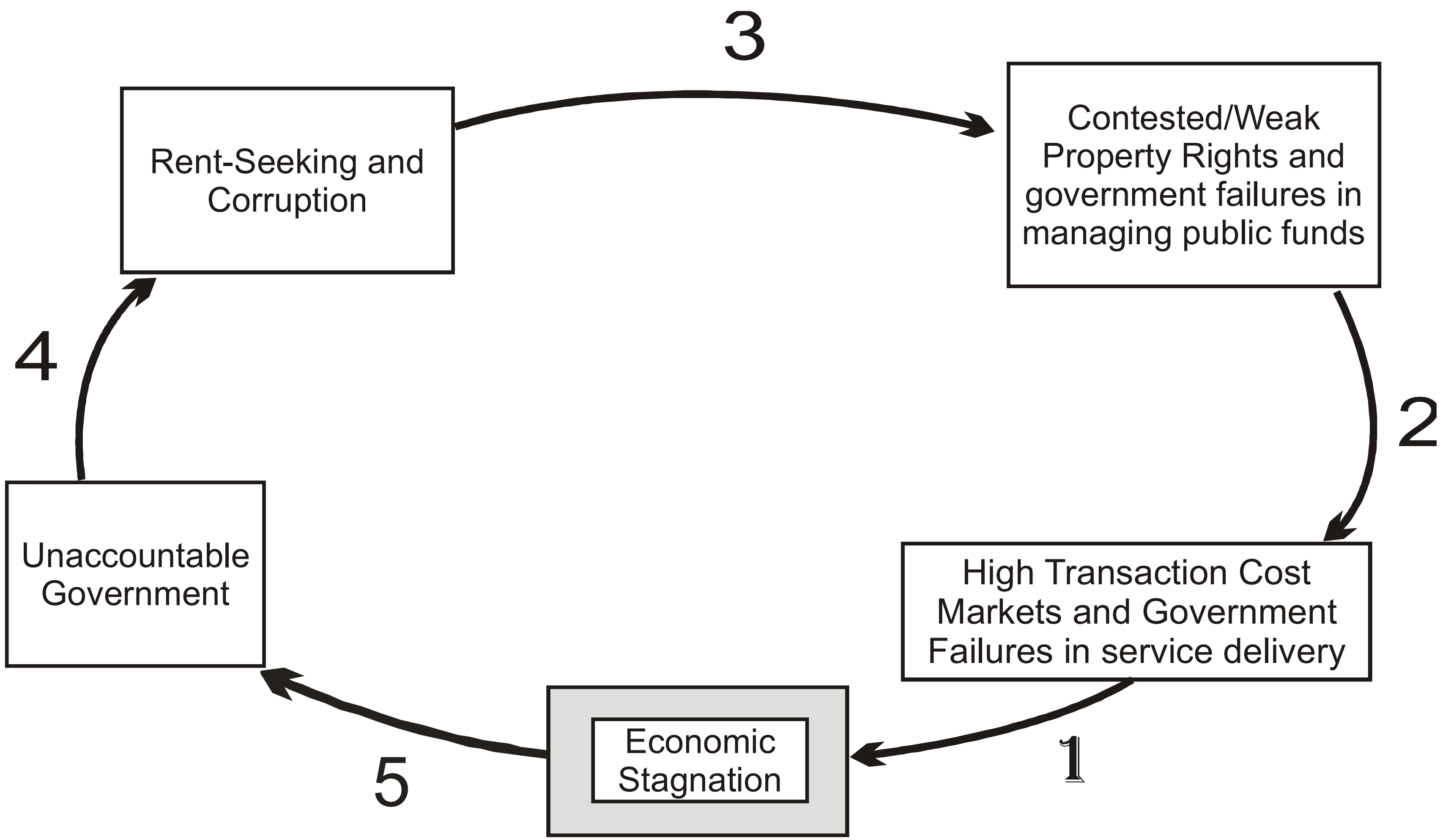
Civil society in developing countries often supports the enforcement of good governance on the grounds that these are highly desirable goals *in themselves*

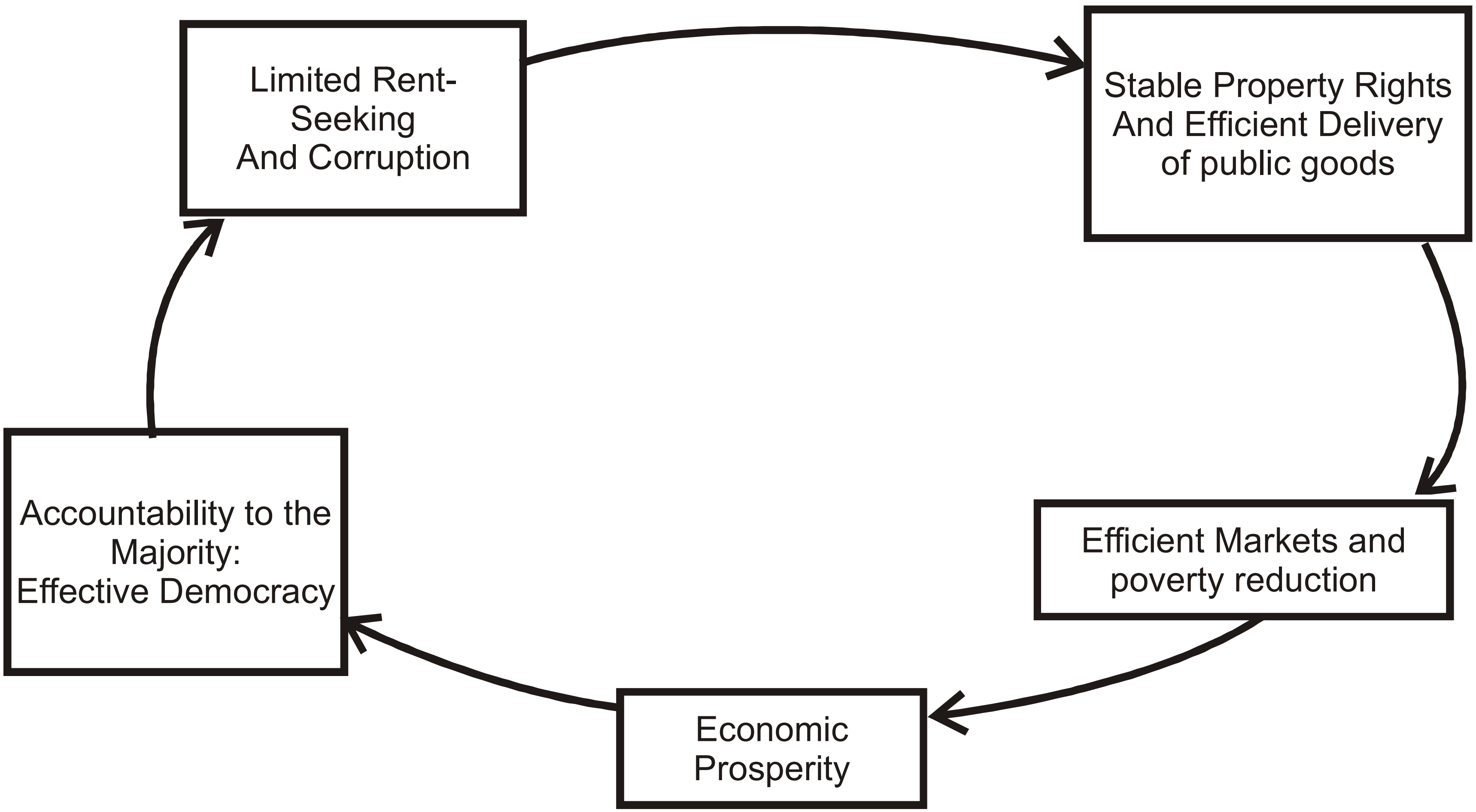
Fiduciary responsibility of donor agencies has driven concerns about corruption and the diversion of resources: focus on PFM, anti-corruption strategies and accountability

Our concern is with theory and evidence on the relationship between better enforcement of ‘good governance’ institutions and economic growth

Even if good governance institutions are desirable,
Is the reform agenda implementable to any significant extent?
If not, are these institutions and governance capabilities the right priorities for growth?

Theoretical linkages in the new consensus



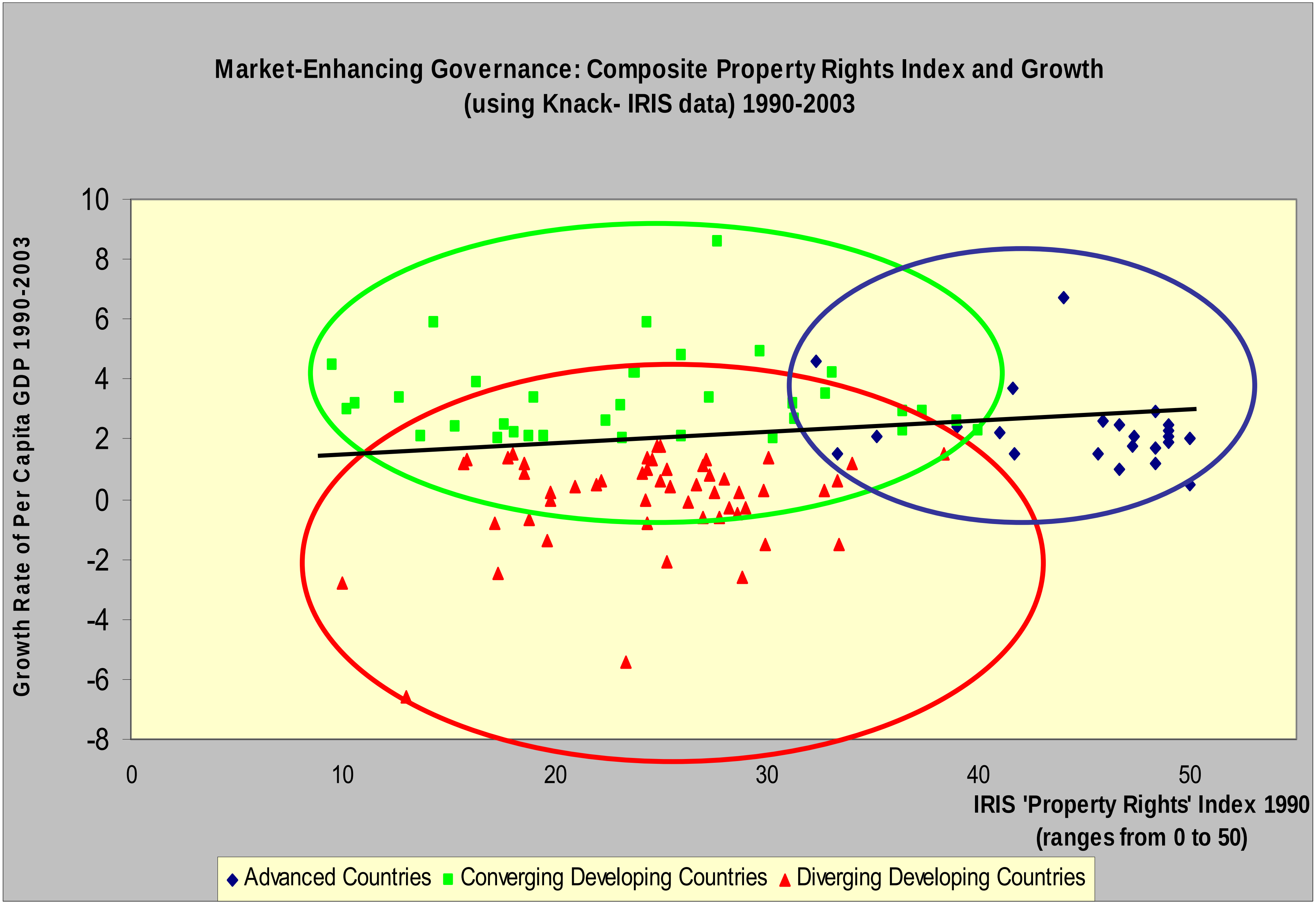

Limited Rent-
Seeking
And Corruption
Stable Property Rights
And Efficient Delivery
of public goods
Efficient Markets and
poverty reduction
Economic
Prosperity
Accountability to the
Majority:
Effective Democracy

The debate on theory and evidence focuses on 3 questions

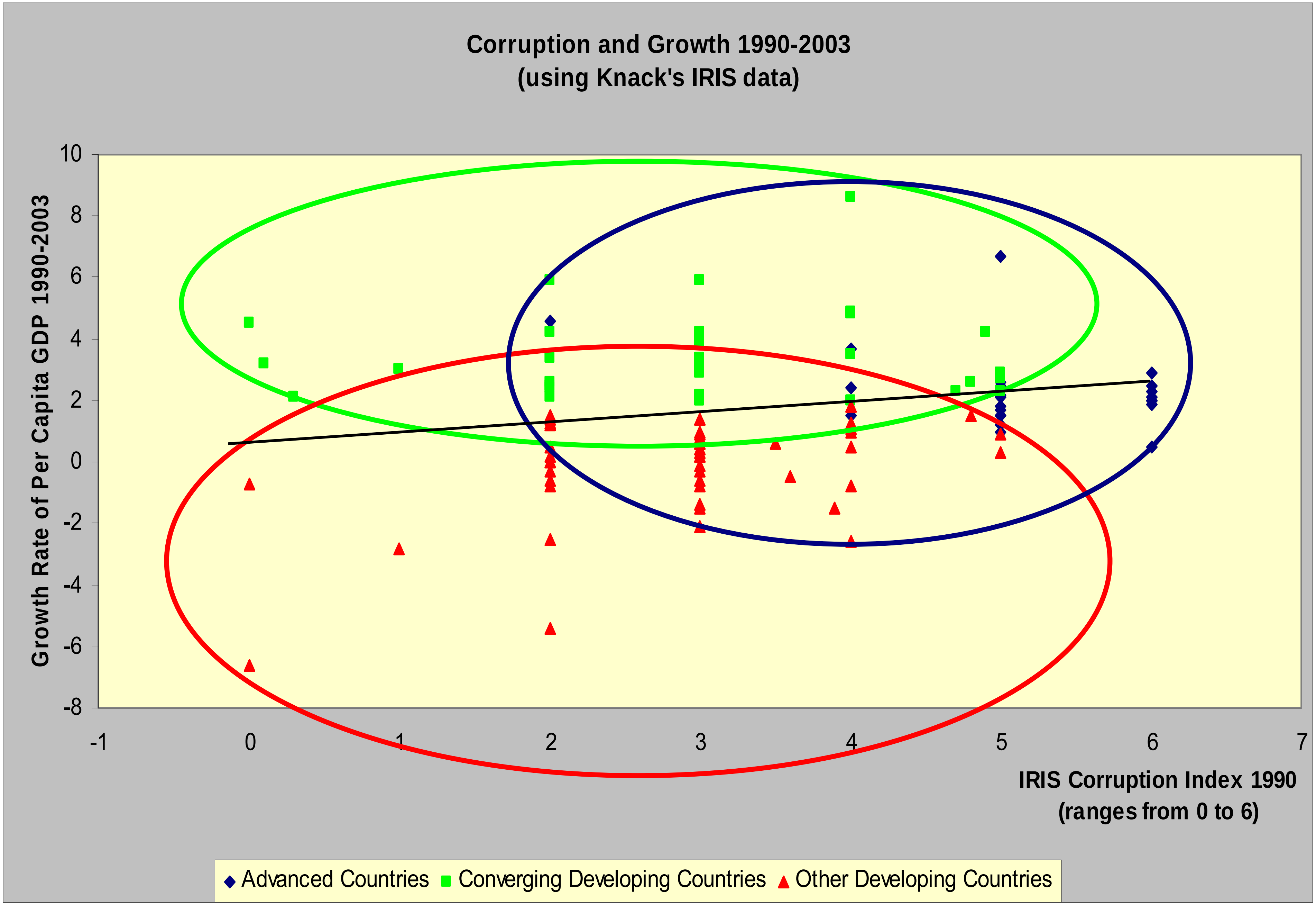
i) Are these institutions and their proper enforcement desirable *goals* or are they also necessary *preconditions* for development?

ii) Even if in theory effective enforcement of these institutions *would* enhance growth, to what extent are they *achievable* in the typical developing country?

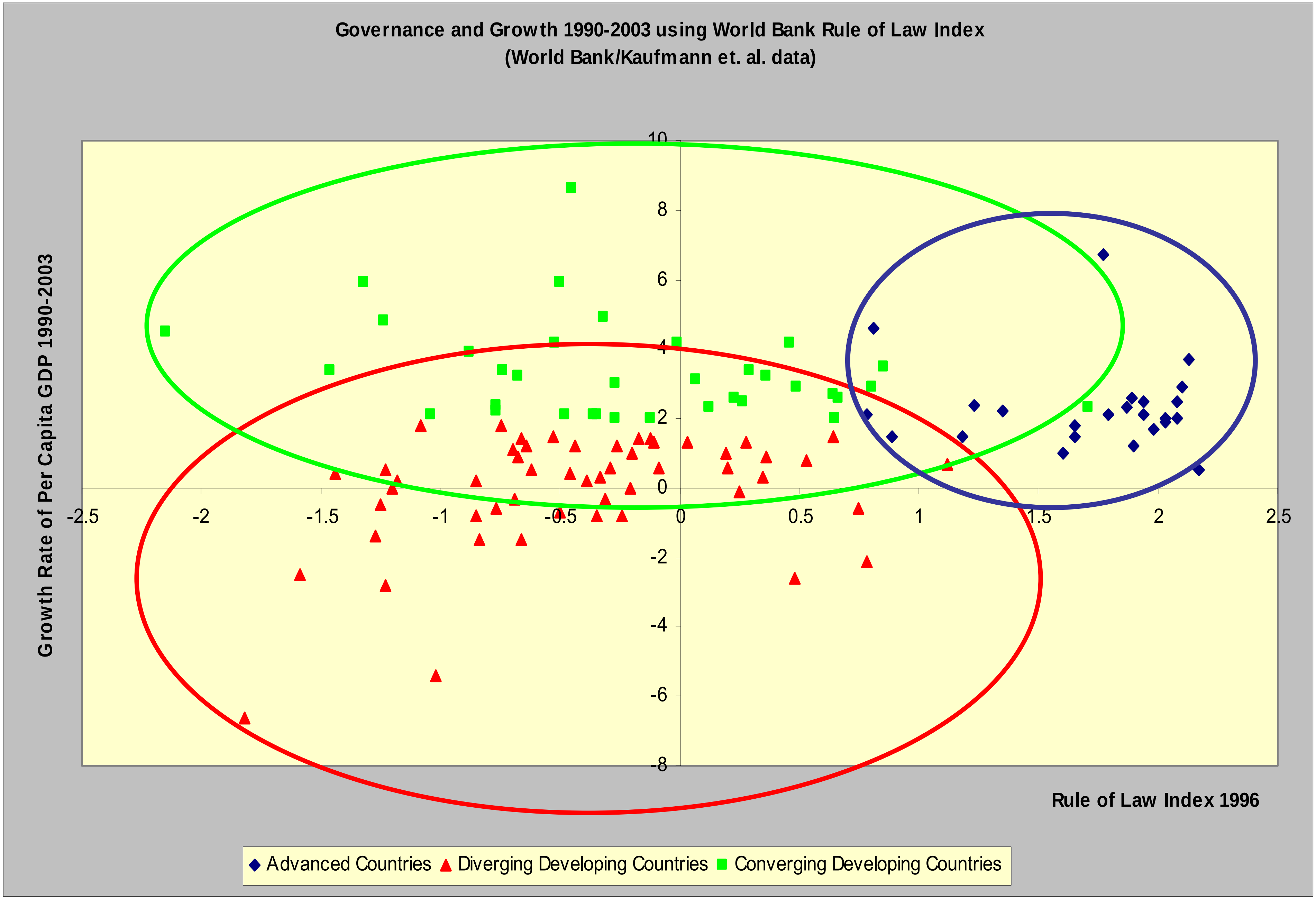
iii) By focusing on these governance conditions, are we taking our eyes off *other more important institutional rules and associated governance capabilities* that are both achievable and important for growth?


Market-Enhancing Governance: Composite Property Rights Index and Growth
(using Knack- IRIS data) 1990-2003
Growth Rate of Per Capita GDP 1990-2003
10
8
6
4
2
0
-2
-4
-6
-8
0
10
20
30
40
50
IRIS 'Property Rights' Index 1990
(ranges from 0 to 50)
Advanced Countries
Converging Developing Countries
Diverging Developing Countries

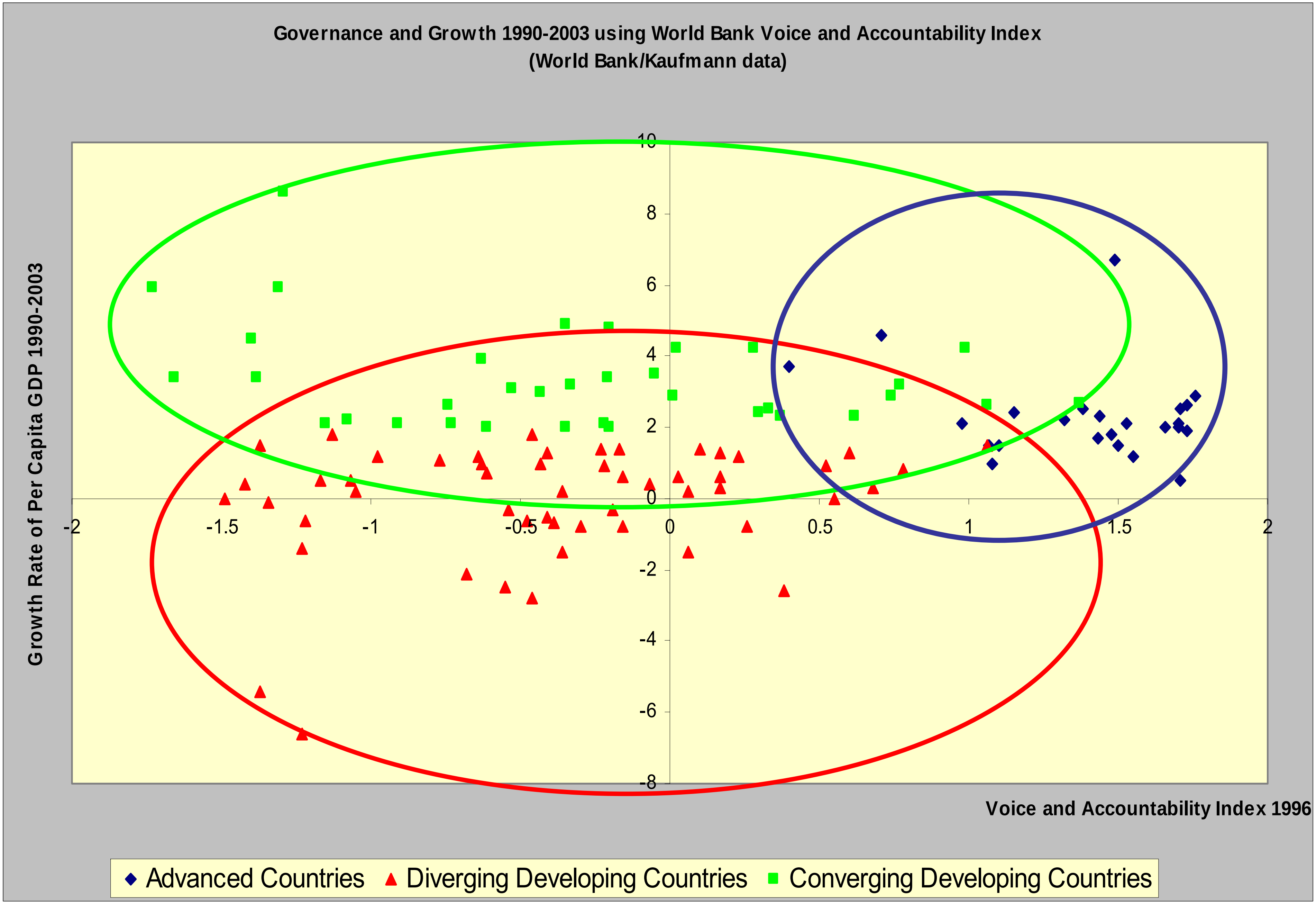
Corruption and Growth



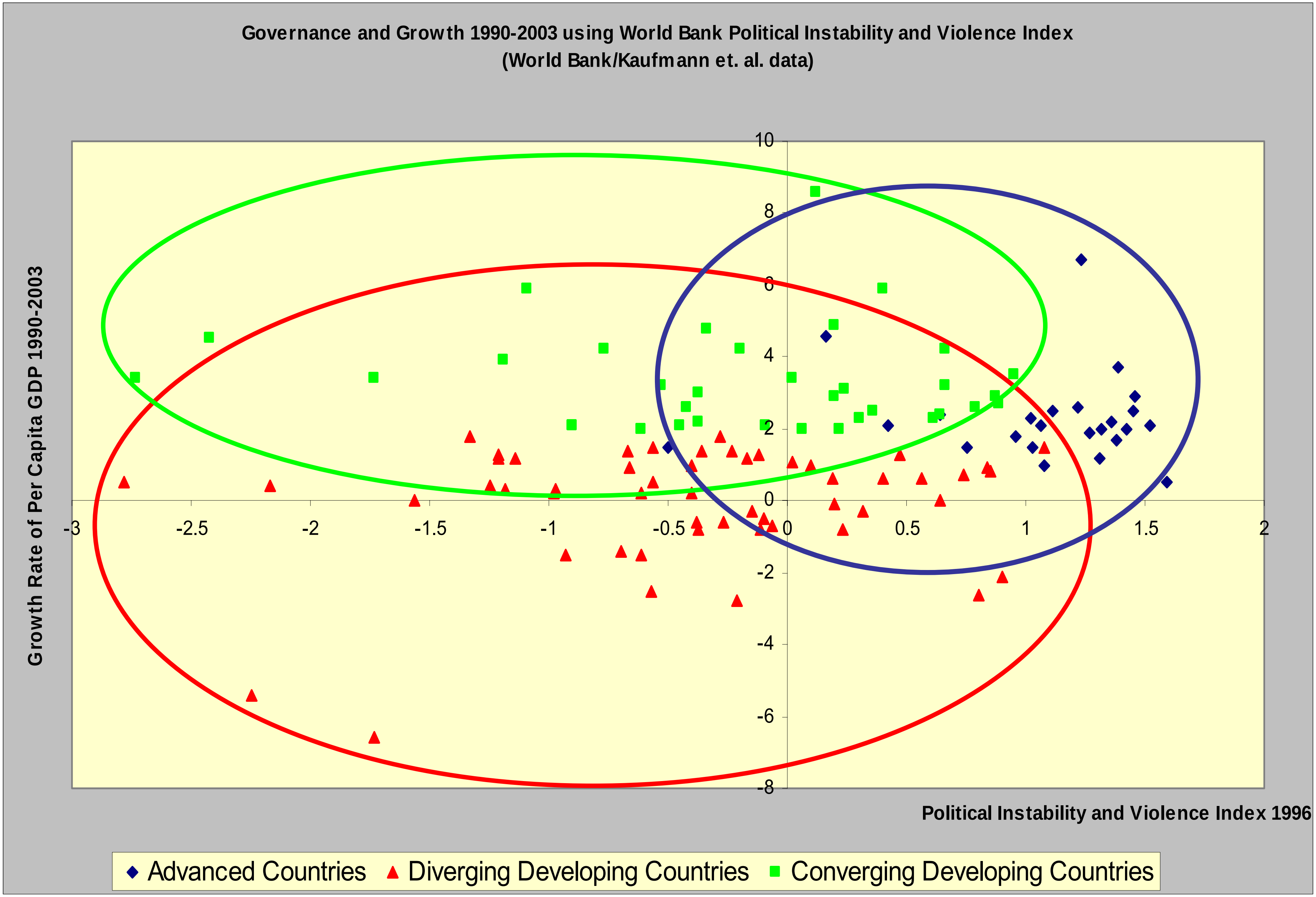
Rule of Law and Growth

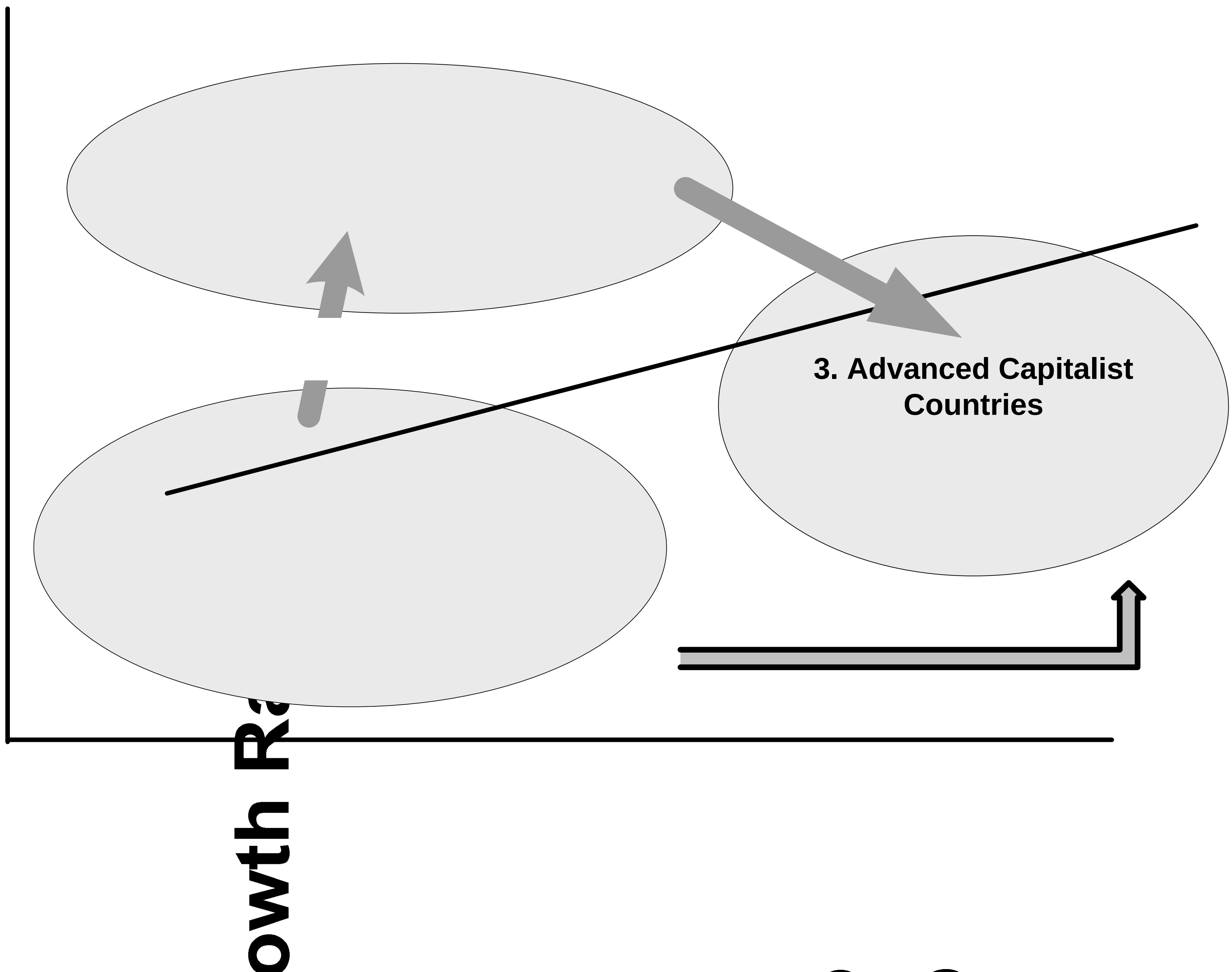


Voice and Accountability and Growth



Political Instability and Growth




3. Advanced Capitalist
Countries

Structural Impediments to Achieving "Good Governance" rapidly

Stabilizing and protecting property rights is costly and assumes that most assets are already productive

Rents are pervasive in all market economies: In particular, the acquisition of new technologies and moving up the value chain faces significant market failures in developing countries and responses have involved the creation of temporary/conditional rents

Political stabilization is expensive and often requires off-budget resource allocation

Asian countries did not achieve good governance across the board *before* they began to grow

To varying degrees they did have “transformational” governance capacities to

- increase national savings and investment rates
- assist the creation and growth of new entrepreneurs
- create conditional incentives for the acquisition of productivity-enhancing technology
- manage internal political stability often using off-budget transfers and patron-client politics

We may be setting Africa governance targets that no-one has achieved anywhere else

We may be missing critical governance capacities to accelerate the emergence and consolidation of African capitalists able to compete in international markets

Governance reforms associated with PGBS may improve service delivery and even assist MDG targets but are unlikely to accelerate a productive transformation of Africa

Best case scenario: Limited growth in commodities and low technology agriculture and industry, possibly with some poverty reduction through targeted aid

Worst case scenario: temporary improvement in MDGs but unsustainable aid dependence and low growth

- Donor concern about the theft of their money should not be confused with the challenge of governance reforms to accelerate development
- If key parts of the good governance agenda are not easily implementable the agenda can damage the identification of other pragmatic capacity-building goals
- For a growth agenda, narrow governance issues and leveraging available political forces to enforce narrowly defined but critical rules may be more important, for instance,
- Making land and infrastructure available for new industries or industrial zones
- Providing finance for investors in new technologies or for moving up the value chain