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Institutions and Sustainable Industrial-Led Development in Sub-Saharan Africa

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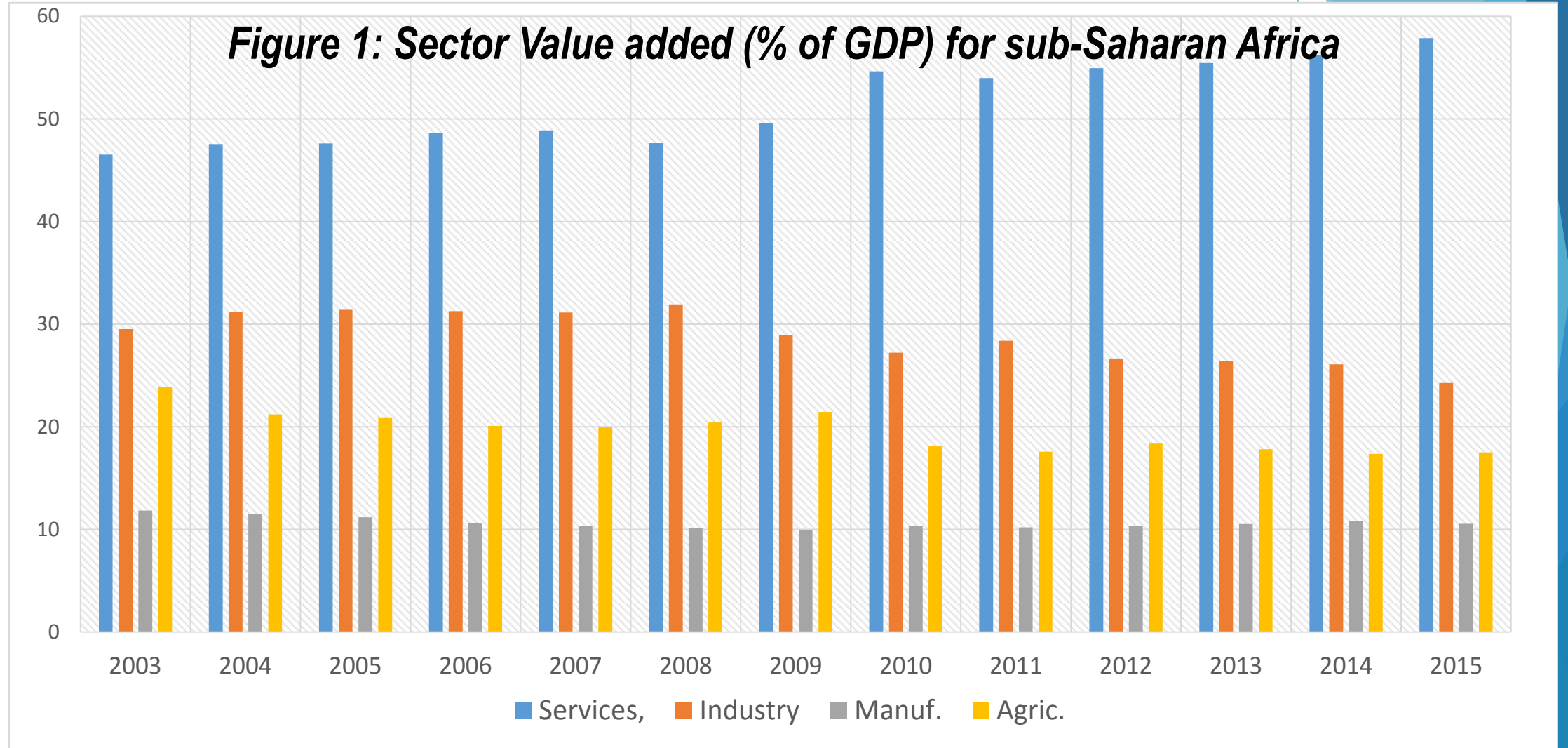
Outline

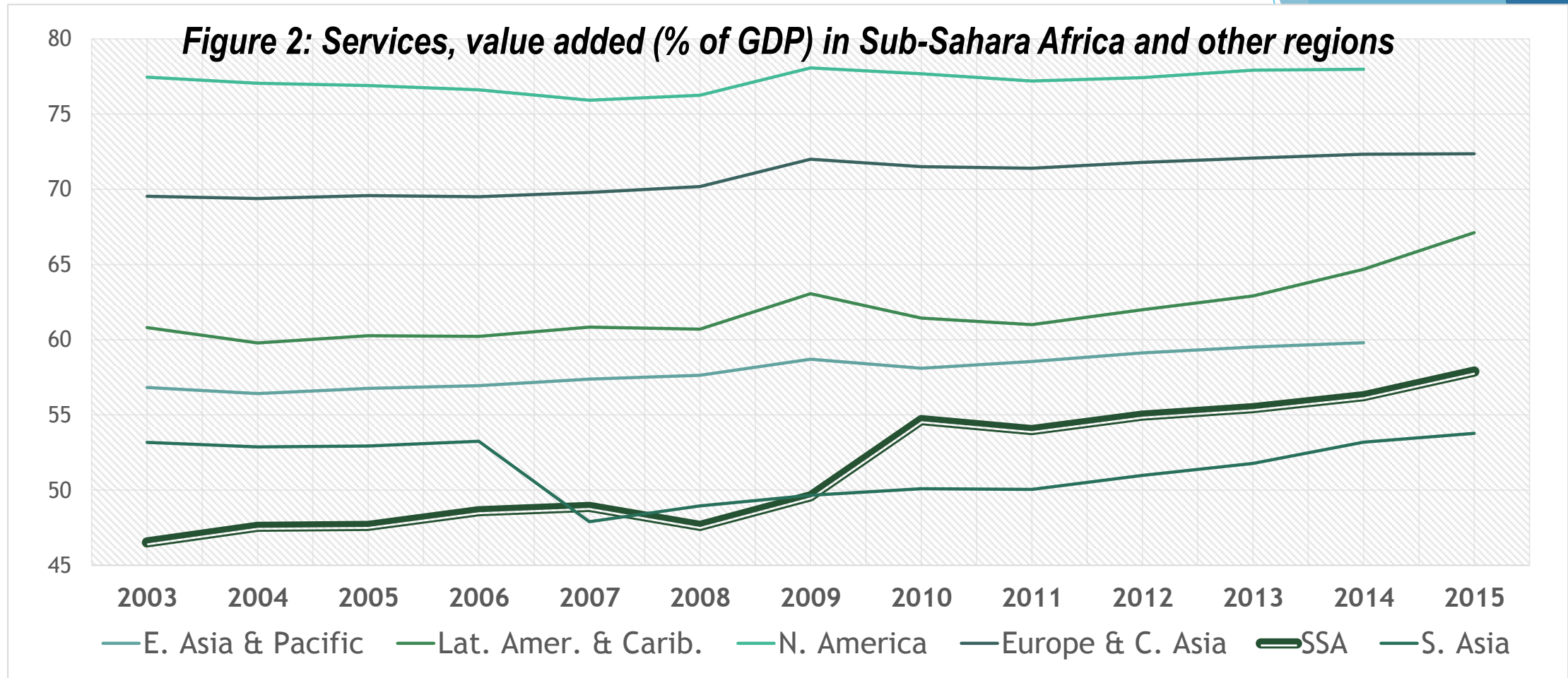
- ▶ **1.0. Introduction**
 - ▶ Stylized facts of economic growth and development in sub-Saharan Africa
- ▶ **2.0. What Are Institutions?**
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 - ▶ Industrial led development in the context of Sub-Saharan Africa
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 - ▶ Informality, institutions and industrial development in Sub-Saharan Africa
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Stylized Facts on Economic Growth and Development in SSA

- ▶ **SSA economies grew rapidly at an average 5 per cent per annum in the decade between 2003 and 2013.**
- ▶ **However, the growth has been immiserising and non-inclusive.**
- ▶ **In 2015, economic growth in Sub-Saharan Africa (SSA) slowed to 3.4 percent from 4.6 percent the previous year. External and Domestic factors**
- ▶ **The dependence on commodities makes the economies of the region particularly volatile.**
- ▶ **The region faces the challenge of kick-starting productivity driven and labour absorbing economic development. One that is based on an industrial economy.**

Sub-Saharan Africa has Been Deindustrializing





- ***A Large services sector in a developing country with low GDP per capita a signal of structural deficiencies.***

Industrialization has always been the backbone of economic development

Institutions Matter to the Type and Pattern of Growth and Development Observed Across Economies and there is a Gradual Consensus

▶ **They act as motivator**

- ▶ They set limits of acceptable behavior

▶ **Institutions frame incentives**

- ▶ They can usefully create stable expectations of the behavior of the various actors in any economy/society

What are Institutions?

- ▶ Institutions as “the rules of the game in a society” or, “more formally” as “the humanly devised constraints that shape human interaction”

Douglas North (1990, p. 3)

- ▶ **Formal institutions** are the (written) laws, regulations, legal agreements, contracts and constitutions that are enforced by third parties, while **informal institutions** are the (usually unwritten) norms, procedures, conventions and traditions that are often embedded in culture

Leftwich & Sen (2010)

Why and How do Institutions Matter for Industrial Development

- ▶ Institutions determine the security of property rights, entry barriers and the set of contracts available to businessmen
- ▶ Institutions determine to what extent economic efficiency and proper resource allocation are promoted
- ▶ Dysfunctional economic institutions are supported by a system of specific laws and regulations that relate to economic institutions.

- ▶ Government could overstep its bounds and become so big as to crowd out private sector
- ▶ Government has the responsibility to create the enabling environment
- ▶ Overall however, the effects of institutional arrangements on economic growth in and development is likely to be context specific.

Institutions and Industrial-led Development: How well do SSA Countries Fare?

- ▶ ***Global Competitiveness Index by WEF***
- ▶ ***The International Country Risk Guide (ICRG) Composite Risk Rating***
- ▶ ***Competitive Industrial Performance (CIP) Index***

Figure 4: ICRG Regional Political Risk Index as at April 2015

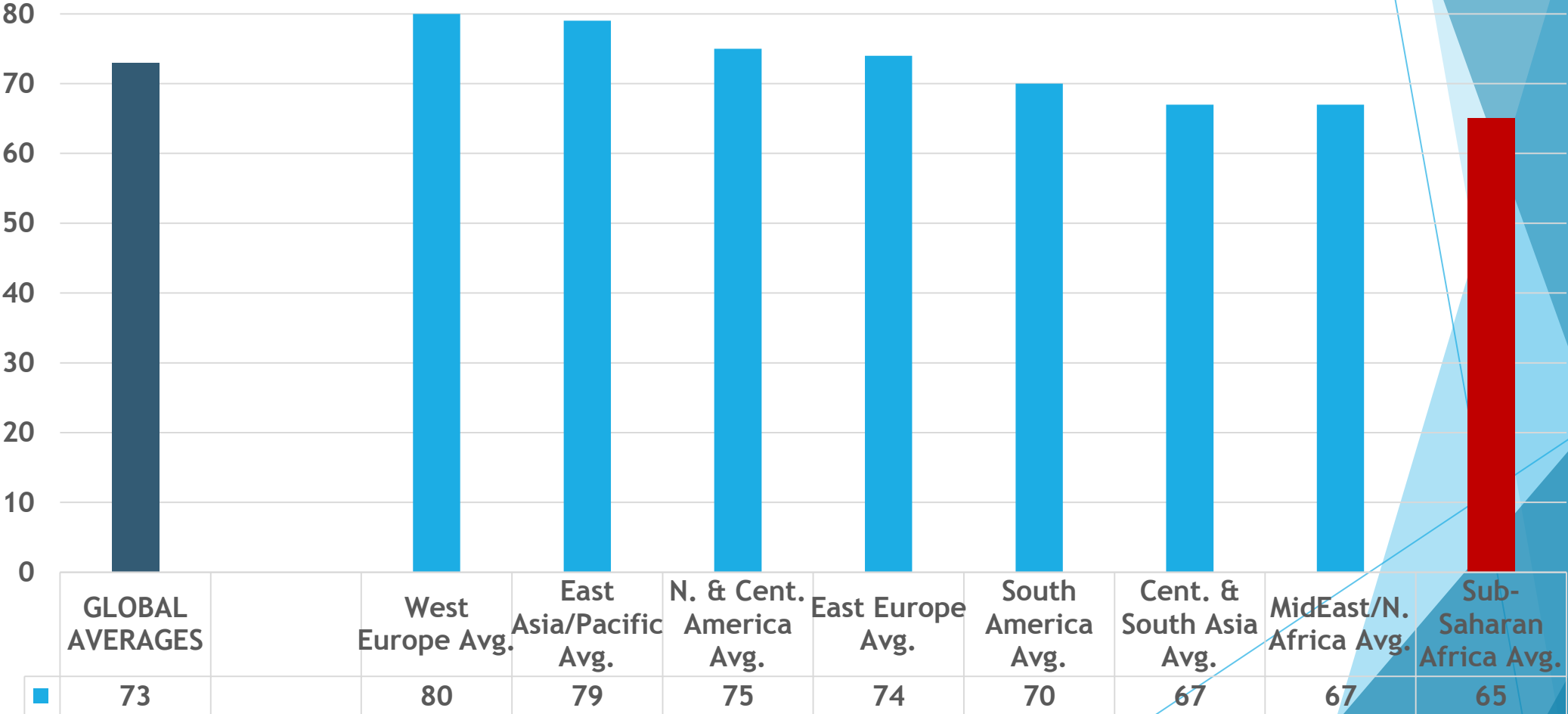
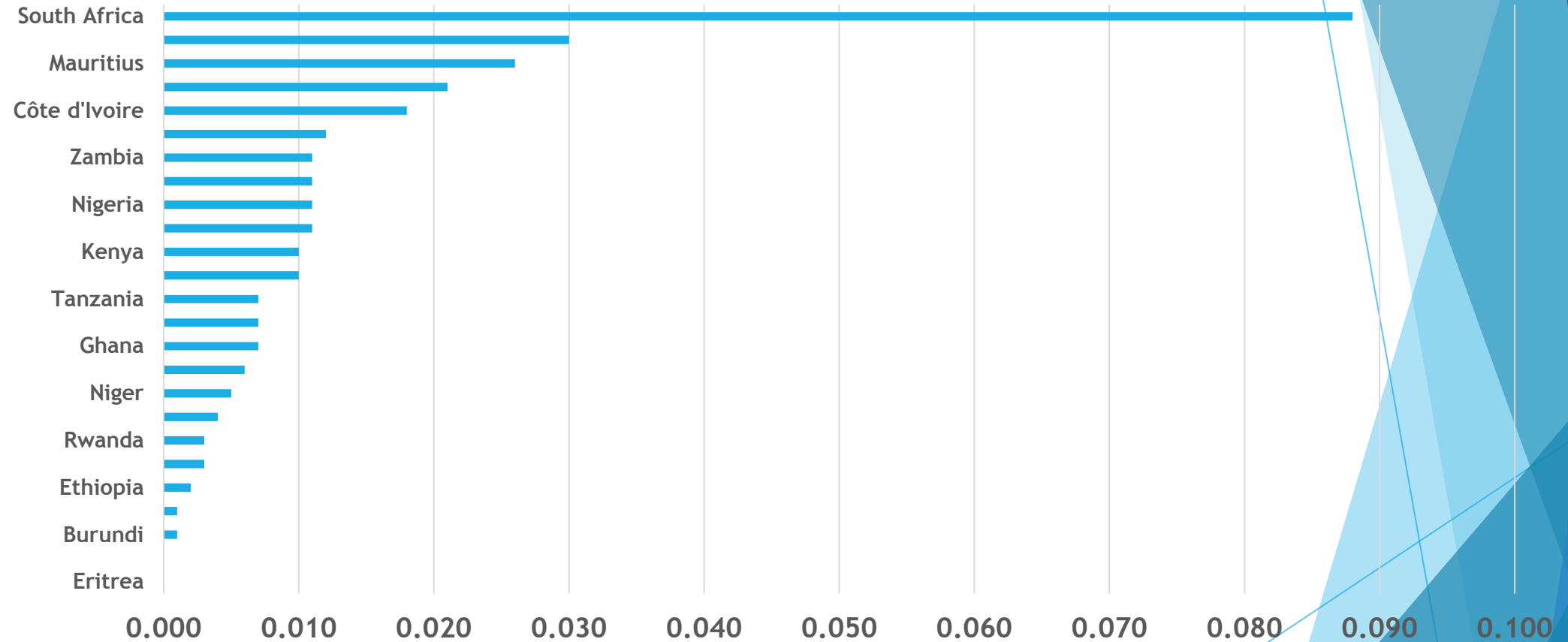


Figure 5: Competitive Industrial Performance Index for selected SSA countries (2013)



The background features abstract, overlapping geometric shapes in various shades of blue, ranging from light sky blue to deep navy blue. These shapes are primarily located on the right side of the frame, creating a modern, layered effect.

Correlations: Institutions and Industrial Development in SSA

Figure 6: Global Competitiveness Index 2014-2015 versus ICRG Composite Risk Rating 2015

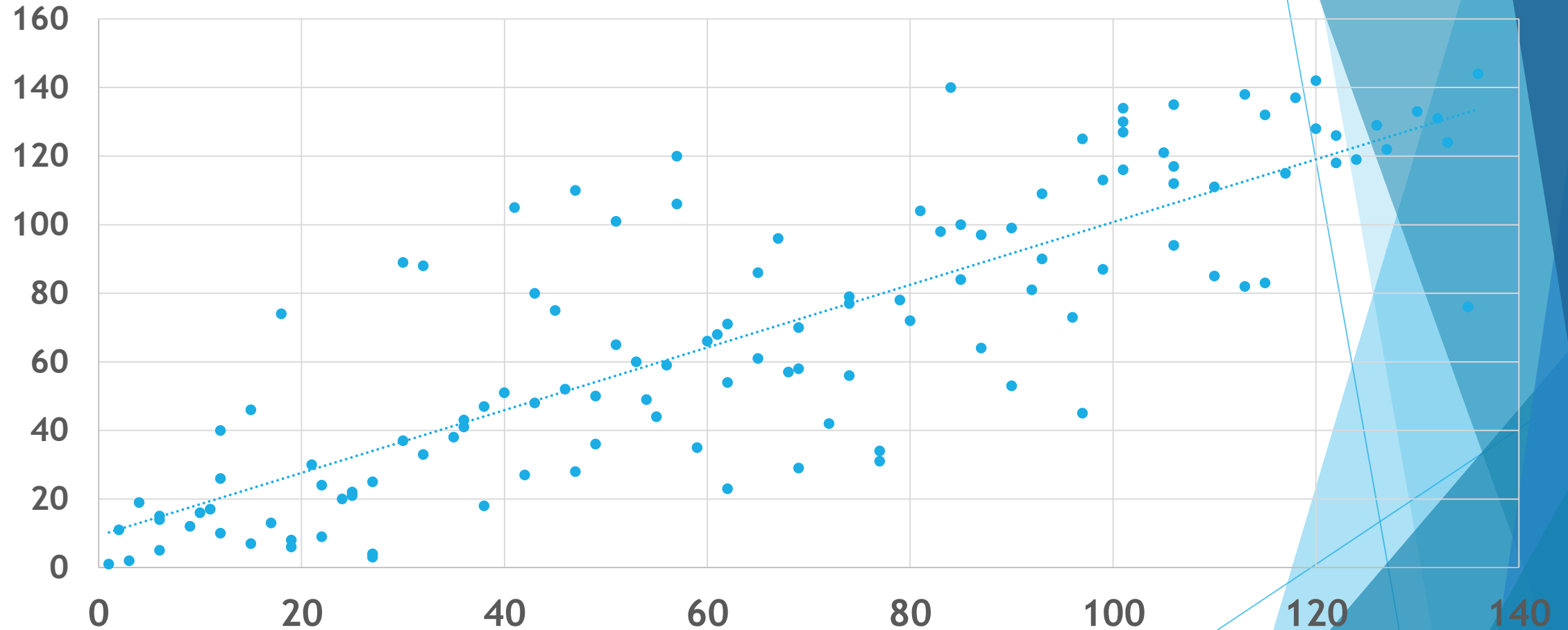


Figure 7: Competitive Industrial Performance (CIP) Index versus Global Competitive Report 2013

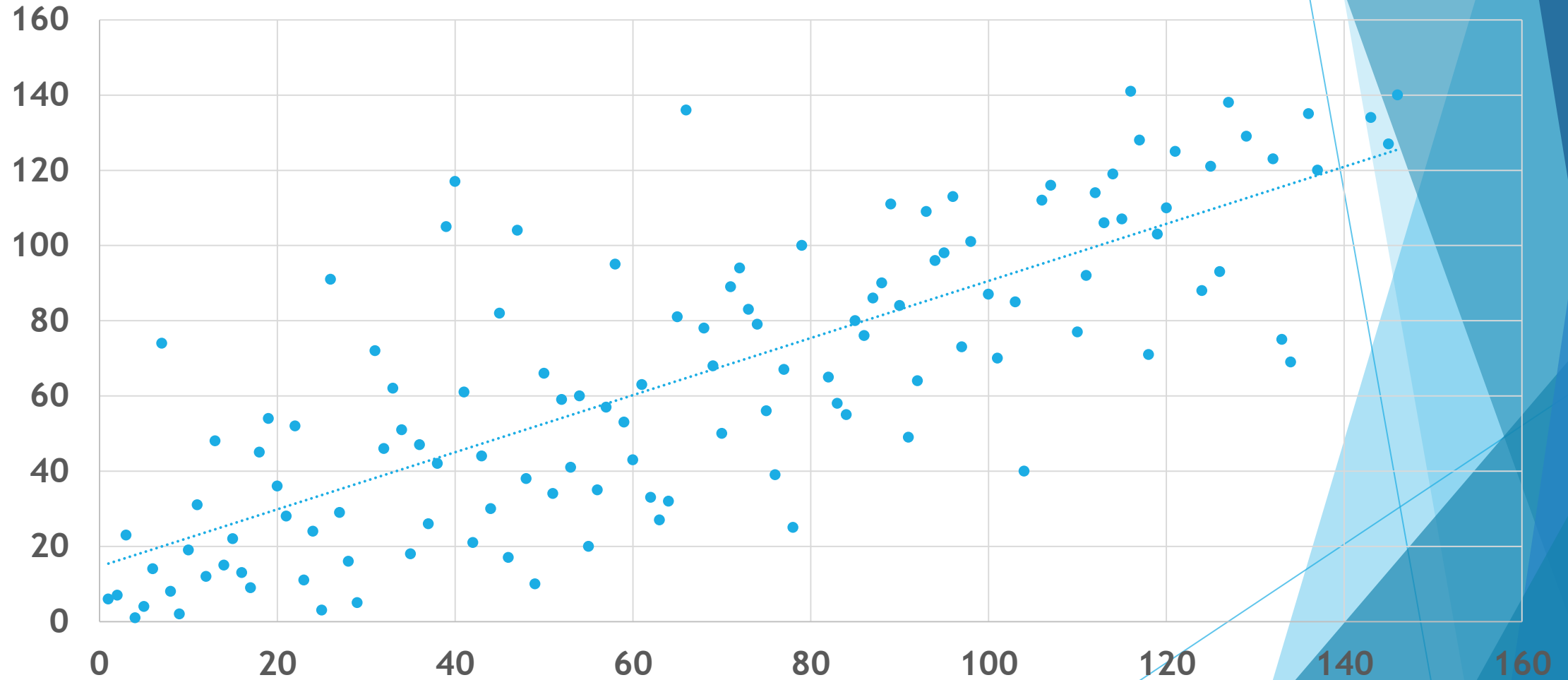
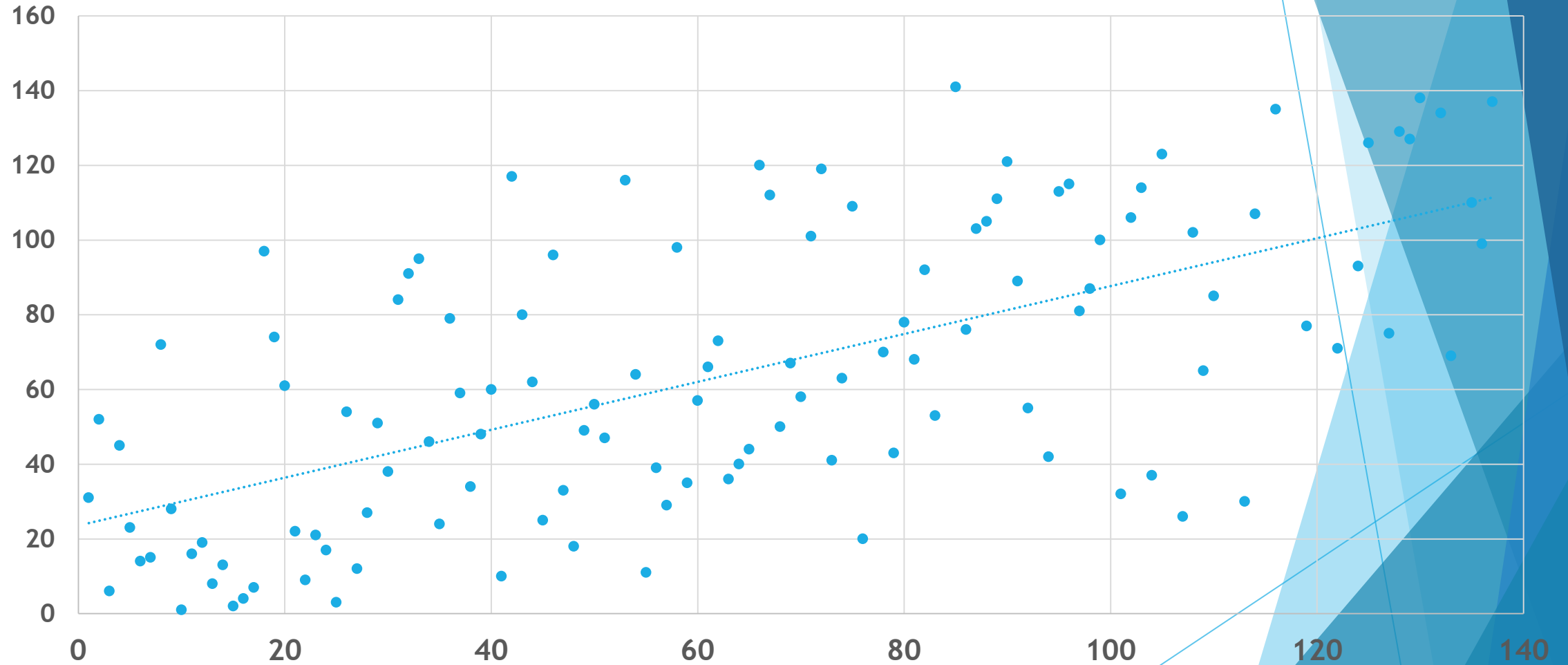


Figure 9: Competitive Industrial Performance (CIP) Index 2013 versus ICRG Country Risk Rating 2014



Emerging Issues and Lessons

- ▶ Why do institutions fail in Sub-Saharan Africa?
- ▶ Informality, institutions and industrial development in Sub-Saharan Africa
- ▶ Institutional change, environmental sustainability and industrial development in SSA

Why do Institutions Fail in Africa?

Essentially, institutions fail on one of four accounts;

- ▶ **Context:** institutions fail when there is a misalignment between the realities of the systems for which they exist on the one hand and the institutional rule structures on the other hand. The western, euro-centric approach to institutional reforms in SSA countries often means little or no attention is paid to the context, and the unique socio-political dynamics of individual African societies.
- ▶ **Content:** This could very well derive from issues of context as a clear understanding of the context within which institutions are to operate facilitates proper institutional design. This also speaks to a situation where institutions are not performing their assigned tasks because their rule structures have not been carefully thought through or are not clearly understood
- ▶ **Administration:** when custodians of institutions, i.e. those responsible for administering the rule structures, by their actions or inactions sabotage the functioning of institutions, or when other institutional players/actors acquire capabilities to outmaneuver the rule structures.
- ▶ **Expectations:** institutions fail when there are changes in expectations. Changes in socioeconomic and political power structures or other structural conditions can make hitherto well-functioning institutions less effective

What can be Done?

- ▶ A focus on problems draws on a particular attention and introspection needed for institutional reform to work, and a preoccupation with context-specific solutions; where success is measured in terms of problems solved rather than solutions adopted.

Andrews & Bategeka (2013)

- ▶ Accommodates a wide spectrum of institutional actors; those who have to implement and live with the new rules of the game. They find such rules and fit them to their realities.

Informality, Institutions and Industrial Development in Sub-Saharan Africa

- ▶ Informality is many times seen as being synonymous with breakdown of institutions and poverty
- ▶ Repressing the informal economy, could also effectively repress entrepreneurship. This could be counterproductive, more so seeing that evading the limitations imposed by formality may itself be an aspect of entrepreneurship.
Gibson (2014)
- ▶ Informal local governance institutions can in practice work synergistically with formal institutions. This view does not however preclude situations where informal institutions compete with formal **institutions** in negative ways and undermine them. In such instances as when they promote patronage networks and discriminatory practices particularly towards women and youth.

- ▶ Overall however, a robust approach to building inclusive institutional frameworks to promote development would require that competition between informal and formal state institutions is kept to the minimum. It is also important to understand the conditions in which they can be beneficially linked.
- ▶ A critical juncture for building the necessary institutional framework to drive sustainable industrial-led development in SSA could therefore exist in the adaptation of informal norms to formal institutions in some form of “hybrid governance arrangements”.
- ▶ A classic example of this is “*imihigo*” – Performance contracts - in Rwanda; which has its roots in a pre-colonial Rwandan cultural practice.

Institutional Change, Environmental Sustainability and Industrial Development in SSA

- ▶ If environmental sustainability is not kept in view, chances are that a pursuit of industrial development will come back to hurt livelihoods in SSA.
- ▶ SSA countries have the unique advantage to shorten their industrialization learning curve by adopting technologies and practices that support the environment.
- ▶ In the development of national industrial policies, governments should assiduously work to mainstream these issues of climate change and carbon footprint impacts of its industrialization agenda.

Conclusion

- ▶ SSA is however not totally bereft of success stories: Botswana is a case in point.
- ▶ Promising opportunities exist in such areas as agro-processing and production, clothing and textile, leather works, small scale light manufacturing, amongst a host of others.
- ▶ Also, countries in the region could move towards greater integration into the value chains of the primary commodities and natural resources which they currently export. Regional integration is also important for the success of a successful industrialization agenda in the region.

- ▶ The desired level of industrial development can be achieved within a framework of institutions that protects property rights, ensures respect for the rule of law, guarantees returns on investment, encourages innovation and promotes the development of local content.
- ▶ Meanwhile, the Sustainable Development Goals (SDGs) which define the development trajectory which the World has set for itself in the coming years provides a unique opportunity for countries of SSA to reform her institutions to meet their context specific challenges.

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