INSTITUTIONAL FOUNDATIONS FOR SHARED GROWTH IN SUB-SAHARAN AFRICA

Machiko Nissanke

School of Oriental and African Studies (SOAS), University of London
mn2@soas.ac.uk

and

Alice Sindzingre

National Centre for Scientific Research (CNRS, Paris) and School of Oriental and African Studies (SOAS), University of London
sindzingre@wanadoo.fr

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Abstract

The paper examines the dynamically evolving triangular relationships between institutions, growth and inequality in the process of economic development, in order to deepen the understanding of institutional conditions for pro-poor growth and shared growth. In this context, the paper discusses the institutional conditions found in Sub-Saharan Africa, which may have produced the growth pattern that is unequal and against the poor. The analysis shows that Sub-Saharan African countries require transforming institutions for embarking upon and sustaining a development path which would ensure shared growth in years to come. The paper first evaluates the growth-inequality-poverty nexus, as found in the recent literature, which increasingly challenges the trade-off between growth and equity, as postulated in the traditional theories. Various definitions of pro-poor growth are discussed and a sharper definition of the concept of 'shared' growth is provided. Definitions of institutions are then examined, as well as the triangular inter-relationships between institutions, inequality and poverty. The paper finally analyses specific institutional conditions found in Sub-Saharan Africa that prevent economies from emerging out of low-equilibrium poverty traps that are characterised by low economic growth, unequal distribution of income and wealth as well as unequal access to resources and power.

I. Introduction

The relationship between equity and growth is one of critical issues in development economics and economics at large. However, this issue has not consistently been given a high priority in the policy discourse in the post-war history of development doctrine[1]. As Atkinson (1997) notes, indeed, the subject of income distribution has been "very much in the cold" for much of the 20th century, in

[1] See Thorbecke (2005) for a thorough, critical review of the evolution of the development doctrine, 1995-2005.

contrast to the central importance accorded to it in classical economics. Atkinson detected the signs that this unfortunate trend might be reversed in the 1990s. Since then, there has been a revival of keen interests in revisiting the conventional theories that postulated the inverse relationships between inequality and growth, and trade-off between equity and efficiency/growth[2].

This recent resurgence of interests in the issues concerning equity and income/asset distribution is closely related to the growing emphasis assigned to poverty reduction as the most important goal for the development effort (Kakwani, Khandker and Son 2004). Thus, Bourguignon (2004) argues that: a) it is no longer acceptable to frame a question whether the main focus of development strategies should be placed on growth, or poverty, and/or on inequality; b) achieving the goal of rapidly reducing absolute poverty requires strong, country-specific combinations of growth and distribution policies (Bourguignon 2004, p. 1).

In this connection, as Nissanke and Thorbecke (2005a) notes, there is now an increasing recognition that the *pattern* of growth, rather than the rate of growth per se, is crucial for poverty reduction, as the growth-poverty relationship is heterogeneous and non-linear. Growth can be pro-poor, distribution neutral or even poverty-increasing. While it is most likely that the poor will benefit from growth, the ultimate poverty-reduction effects will depend on how the growth pattern affects income distribution. In this sense, inequality is the filter between growth and poverty reduction

Understanding the growth-inequality-poverty nexus and conditions for “shared” growth acquires a particular urgency in the context of African development, since Sub-Saharan Africa is the only region where poverty has increased significantly in terms of poverty incidence as well as depth of poverty since 1980 (Chen and Ravallion 2004). Furthermore, as Milanovic (2003) notes, the African countries have a relatively high inequality as well - among the highest in the world. This can be seen as a puzzle: Africa should be a low-inequality continent according to the Kuznets hypothesis because “African countries are poor and agriculture-based, and also because the main productive asset - agricultural land - is relatively evenly distributed in most of Sub-Saharan Africa (except the region of Southern Africa) in part thanks to the tradition of communal-land holding” (Milanovic 2003, p. 2)[3].

Sub-Saharan Africa has also been singled out as “the region whose ability to achieve the Millennium Development Goals is most in doubt”. Despite the hopeful signs of recovery in growth rates since the second half of the1990s, Africa’s growth record is still very fragile. Average per capita income today is lower than at the end of the 1960s in many Sub-Saharan countries. Importantly, the pattern of growth found in Africa appears to be poverty-increasing, as the growth path these countries have followed since independence has given rise to an unacceptable level of unequal income/asset distribution with a most unequal access for the majority of population to essential services required for their mere survival. Undoubtedly, the high level of poverty and inequality and the deteriorating trends on both accounts poses a great challenge to policy-makers in Africa in their efforts for reversing the trends and overcoming this debilitating condition.

[2] World Development Report 2006, which is entirely devoted to the issues on ‘Equity and development’ epitomises the recent surge of interests in the inter-relationships between growth and inequality. In the report, equity is specifically related to equality of opportunity.

[3] Milanovic (2003) tests the hypothesis that high inequality in Africa is principally a political phenomenon with a very hierarchical social organization reinforced by European colonialism. He further advances a conjecture that the high levels of inequality in Africa are also a social condition characterised by the high degree of ethical and religious fragmentation.

For meeting this challenge, it is insufficient to implement short-term redistributive policy measures on an *ad-hoc* basis without examining and addressing fundamentally institutional conditions that have engendered such a 'poverty-aggravating' growth path in Africa. For it is now widely established that institutions and institutional environments are a critical factor for shaping the growth pattern. There are a large number of recent literatures on inequality and poverty as well as on the growth-inequality nexus. In the last few years, we have also seen the emergence of interesting studies that investigate the roles of institutions for economic growth and development[4]. More recently, several pioneering research papers have attempted to define and develop the concept of pro-poor growth[5]. However, relatively little has been written on the inter-relationships between growth, inequality and institutions[6].

Building on growing theoretical and empirical literature in this area of research, the present paper examines institutional conditions for pro-poor growth and shared growth by investigating the dynamically evolving triangular relationships between institutions, growth and inequality in the process of economic development. As discussed above, poverty is endogenously linked to these three dimensions[7]. The paper will also try to advance our understanding about the types of institutional transformation required for Sub-Saharan African countries to embark upon and sustain a development path which would ensure shared growth. In particular, critically applying different concepts of institutions, the paper will examine institutional constraints in their relationships with economic structures that have prevented institutional transformation and the broadening of economic growth in Sub-Saharan Africa.

The paper is structured as follows. Section II evaluates the growth-inequality-poverty nexus, as found in the recent literature, which increasingly challenges the trade-off between growth and equity, as postulated in the traditional theories. In this context, various definitions of pro-poor growth will be discussed and a sharper definition of the concept of 'shared' growth will be provided. Section III, after presenting definitions of institutions, discusses triangular inter-relationships between institutions, inequality and poverty in order to understand the institutional foundations for economic transformation towards broad-based, shared growth. Section IV examines specific institutional conditions found in Sub-Saharan Africa that prevent economies from emerging out of low-equilibrium poverty traps that are characterised by low economic growth, unequal distribution of income and wealth as well as unequal access to resources and power. Section V offers some preliminary concluding remarks.

II. Rationale for Pro-Poor and Shared Growth

The growth-inequality-poverty nexus[8]

There are two contradictory theoretical strands relating income- and wealth-inequality to growth. The classical approach best reflected by Kaldor argues that a higher marginal propensity among the rich to save than among the poor implies that a higher degree of initial income inequality will yield

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[4] See, for example, Rodrik (2001), Acemoglu et al. (2001 and 2004), Banerjee and Iyer (2002), Engerman and Sokoloff (2003).

[5] See Bourguignon (2004), Ravallion (2004), Besley et al. (2004) and Kakwani et al. (2004).

[6] The recent papers by Daron Acemoglu, Dani Rodrik, Bill Easterly, Branko Milanovic, Alberto Chong and Mark Gradstein are pioneering studies in this field.

[7] See Kanbur (2004).

[8] This sub-section draws in a large part on Nissanke and Thorbecke (2005a).

higher aggregate savings, capital accumulation and growth. Additional arguments in favour of the growth-enhancing effect of inequality are based on the existence of investment indivisibilities and incentive effects[9]. From this theoretical perspective, the desirability of an unequal income distribution is thus rationalised on economic grounds, i.e. on the basis of the claim that “more poverty today is a precondition to more economic growth and less poverty in the future” (Thorbecke 2004, p. 1).

The contrasting new political economy theories linking greater inequality to reduced growth operate through a number of subchannels (Thorbecke and Charumilind 2002). These are, respectively: (i) unproductive rent-seeking activities that reduce the security of property; (ii) the diffusion of political and social instability leading to greater uncertainty and lower investment; (iii) redistributive policies encouraged by income inequality that impose disincentives on the rich to invest and accumulate resources; (iv) imperfect credit markets resulting in underinvestment by the poor, particularly in human capital; and (v) a relatively small income share accruing to the middle class—implying greater inequality—has a strong positive effect on fertility, and this, in turn, has a significant and negative impact on growth.

Some additional indirect paths through which inequality ultimately affects growth are likely to exist. Wide income and wealth disparities can impact on education, health and crime, respectively, through such manifestations as underinvestment in human capital, malnutrition leading to low worker productivity and stress and anxiety, respectively. In turn these manifestations may contribute to lower long-term growth. The rejection of the Kuznets hypothesis of the inverted U-shaped relationship between growth and inequality by a number of empirical studies provided much impetus to the new political economy literature that postulates that high initial inequality is detrimental to economic growth, as noted above. The proponents of this approach, while rejecting the immutability of the Kuznets curve, argue that growth patterns yielding more inequality in the income distribution would, in turn, engender lower future growth paths.

In the light of the new literature that emphasizes the impact of inequality on incentives, social conflicts, transaction costs and property rights, the possible link between growth and poverty is examined in the WIDER studies on the Growth-Inequality-Poverty interrelationships (Cornia, 2004, Shorrocks and van der Hoeven 2004). Since inequality affects the future growth path, it also influences poverty. Cornia (2004) concludes that the widespread increase in inequality has been detrimental to the objective of poverty reduction, because large rises in inequality have stifled growth, and because poverty, at any given growth rate of GDP, falls less rapidly in the case of a more unequal distribution than in the case of a more equitable one. High inequality tends to reduce growth. The obvious policy implication following from the above causal sequence is that successful poverty alleviation depends not only on favourable changes in average GDP per capita growth but also on favourable changes in income inequality.

The conclusions drawn from these recent studies challenge the dominant mainstream views established earlier (e.g. Deininger and Squire, 1996; Li, Squire and Zou 1998; Dollar and Kraay 2001a, 2001b). The conventional views argued that there is no clear association between inequality and growth and growth is distribution neutral; hence growth is the only realistic option. For example, Dollar-Kraay (2001a, 2001b) argue that ‘since the share of income going to the poor does not change *on average* with growth, the poor benefit from growth’, and ‘trade is good for growth and growth is good for the poor’. They estimate that the *average* growth elasticity of poverty reduction ranges from 0.6 per cent to 3.5 per cent.

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[9] See Aghion et al. (1999) for detailed discussion on this debate.

However, the methodology used in yielding these results has since then been challenged. Ravallion (2002) argues, for example, that average neutrality found in the Dollar-Kraay study and other studies is not inconsistent with strong distributional effects at the country level. He concurs with Cornia's position, reaffirming that a critical question is whether or not inequality is an impediment to poverty-reducing growth, or in other words, whether high inequality attenuates the growth elasticity of poverty. His analysis confirms that the elasticity of poverty with respect to growth is found to decline with the extent of inequality.

Indeed, despite the opposite inferences made by mainstream economists on the basis of cross-country regression analyses, it has been increasingly recognized that the *pattern* of economic growth and development rather than the rate of growth *per se* may have significant effects on a country's income distribution and poverty profile. This issue has led to a debate on what constitutes pro-poor growth.

Debate on pro-poor growth

DFID (2004) notes that there are two competing approaches to defining what constitutes pro-poor growth: an *absolute* and a *relative* concept. The *absolute* concept is associated with the work by Ravallion (2004). Focusing on the rate of change in absolute poverty, he defines pro-poor growth as any growth in mean income that benefits the poor in absolute terms. According to this definition, any increase in GDP that reduces poverty measured by some agreed indicators is pro-poor growth, even if it is accompanied by a worsening income distribution. In contrast, the *relative* concept places much more emphasis on the distributional effect of growth, i.e. changes in inequality during the growth process. For example, Kakwani and Pernia (2000) consider growth as pro-poor if the distributional shifts accompanying growth favour the poor proportionately more than the non-poor.

As Osmani (2004) notes, what matters most for the relative concept is the nature and pattern of growth, whereas the absolute concept captures the effect of the totality of the growth process on poverty. Seen in this light, both concepts are useful for policymakers in tackling the issue of poverty reduction, although it is difficult for some analysts to accept as pro-poor growth a situation where, for example a 10 per cent aggregate GDP growth rate would reduce the incidence of poverty by only 1 per cent[10].

Indeed, the debate on the meaning of pro-poor growth is related to the issue underlining the complex triangular relationships among poverty, growth and inequality, as discussed above. Taking up this relationship, Bourguignon (2002 and 2004) notes that first, absolute poverty reduction could be achieved through two effects: (i) the growth effect, i.e. the effect of the growth rate of the mean income of the population; and (ii) the distribution effect, i.e., the change in the income distribution. Second, he emphasizes that these two effects are not independent of each other, but dynamically interact over time in a country-specific context, producing heterogeneity and nonlinearity in the poverty-growth relationship. Hence, Bourguignon (2004) advances the following three interrelated points: (i) distribution matters for poverty reduction; (ii) effective redistributive policies may in fact yield a double dividend: they reduce poverty today and accelerate poverty reduction in future, as discussed above; and (iii) the real challenge in establishing a development strategy for reducing poverty lies in understanding the interactions between distribution and growth.

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[10] It is important to note here that irrespective of which concept is used in discussing pro-poor growth, what is considered *pro-poor* critically depends on the choice of standards for poverty measurement, in particular, the shape of the distribution around the poverty line and the choice of poverty lines (Grinspun 2005).

Thus, despite the heated debate concerning the definition of pro-poor growth, there appears to be general agreement that poverty reduction would require some combination of higher growth and a more pro-poor distribution of the gains from growth. For Ravallion (2004), the real issue is not *whether* growth is pro-poor, but *how* pro-poor it is, which can be measured by a 'distribution-corrected' rate of growth.

Now, from a policy perspective, it is important to note that pro-poor growth cannot be achieved spontaneously. It is widely acknowledged that the postulated 'trickle down' *process* often fails to materialize or is too slow to have a significant impact on poverty. Hence, pro-poor growth requires strong commitments on the part of policymakers to adopt pro-poor policies capable of producing and sustaining a distribution-corrected growth path. The exact design of such pro-poor policies depends on initial conditions and institutions in country-specific settings. Indeed, substantial changes in institutional environment may be necessary for achieving truly 'pro-poor' growth in many countries of Sub-Saharan Africa.

Defining shared growth

As discussed above, the absolute concept of pro-poor growth is focused on the poverty dynamics in the growth process, as measured by some agreed indicators such as the head count ratio. On the other hand, the emphasis of the relative concept of pro-poor growth is on the dynamics of income distribution in the growth process. In our view, the debate stems, to a certain extent, from the difference in the opinions how the growth performance should be assessed and judged as pro-poor whether it should be in relation to changes in the poverty profile exclusively or to changes in income distribution, as generated by a particular growth process.

The concept of *shared* growth can be interpreted as equivalent or close to the relative concept of pro-poor growth with its focus on the distributional profile over time, hence, it is no surprise that these two concepts together with the concept of *equitable* growth are often used interchangeably in the literature. However, the 'shared-growth' concept can be potentially broader than the pro-poor-growth concept. In our view, shared growth can be defined in at least three different ways. First, it can be defined as relating to the processes, whereby gains from growth are widely shared *ex-post* through various *retrospective* fiscal tax-cum-subsidies/transfers policies for redistribution. Secondly, shared growth can be viewed as just another term for the earlier concept of 'redistribution with growth'**-** the strategy favoured in the 1970s by Chenery and his associates. Thorbecke (2005) views this strategy as "essentially incremental in nature, relying on the existing distribution of assets and requiring increasing transfers in projects benefiting the poor…(It) focussed on the redistribution of at least the increments of capital formation in contrast with the initial stock of assets (p. 18)".

Finally, shared growth can also be defined as the *inclusive* process of growth, wherein sharing opportunities for growth and development takes place *ex-ante*, all-encompassing and inclusive of poorer segments of population. As a result, economic growth can be accompanied by the process of asset/income equalisation, and hence the growth path becomes *equitable*. In short, in this 'shared growth' model equity and efficiency could interact dynamically ex-ante so that a virtuous circle of growth and equity/equality could be created in the development process. Thus, the shared growth concept as defined in this way allows us to address more aptly the issues on the relationships between equity/inequality on the one hand and growth/efficiency on the other. This is because an explicit use of adjectives such as 'inclusive', 'sharing' or 'equitable' would make us to embed our economic analysis in, or at least relate to, a fundamental ethical principle striving for a fair and just human society, as shown in Thorbecke (2004). Hence, in our view, the concept such as 'shared' or 'equitable' growth is particularly pertinent for addressing the question whether there is a trade off between equity and growth, explicitly from an ethical or moral perspective.

The traditional view on the growth-inequality nexus emphasised the existence of a fundamental trade-off between productive efficiency/growth and social justice represented by equity/equality considerations, often on grounds of the incentive effects. In contrast, the new political economy approach discussed above argues that the presumed trade-off was overplayed in the past. It suggests instead that there is a long-run complementarity between equity/equality and growth. If there are no clear trade offs on *economic* grounds, equitable and shared growth should be good for efficiency and growth as well. Thus, Thorbecke (2004) emphasises "if equality is conducive to growth, it then becomes a *means* towards economic development and future poverty alleviation", and hence, "the conflict between the ethical objective (norm) of egalitarianism and the economic conditions required growth disappears (p. 2)". Therefore, "(i)f equality is both *an end* and *a means*, we have a virtuous convergence (p. 8)".

Aghion et al (1999) also argues that inequality is harmful for growth through: reducing investment opportunities; worsening borrowers' incentives; and generating macroeconomic volatility. In their view, wealth redistribution to the less endowed is, on the whole, growth-enhancing, as redistribution is a key to creating a virtuous circle in the growth-equality nexus. Thus, they suggest redistributive policy could be used "to reduce inequality, which in turn would accelerate growth and thereby automatically induce further reductions in inequality (p. 1616)". They argue that in the presence of capital-market imperfections as well as externalities and spillovers in knowledge and production, redistribution of wealth creates more investment opportunities, increases efforts-incentives by reducing moral hazard and enforcing contracts, and dampens persistent credit cycles.

However, while the long-run complementarity between equity and growth is acknowledged, the question remains whether there is a short-run trade off between equity and efficiency/growth. For example, it has been argued that redistributive policies aiming at reducing inequality through increased provision of public goods to the poor such as education and health through higher tax burdens on the rest can conflict with growth-stimulating policy aiming at creating an incentive for private investors to accumulate wealth or take risks for innovation or other productivity-enhancing activities. It may be argued that "too much equality and cooperative behaviour can lead to stagnation while too much inequality fed by an overly competitive pattern of behaviour can lead to the breakdown of the social order" (Thorbecke 2004. p. 7).

Therefore, the critical policy question remains as to how to strike a balance between the two economic objectives in the short run, while animating the complementary relationship between equity and efficiency in the long-run. In the end, a particular social norm prevailing in a society may determine the actual weight given to the 'equity' consideration against the 'efficiency' consideration[11]. Thus, Thorbecke (2004) suggests that "the optimal societal degree of equality considered desirable depends on the specific norms in a specific society and the relative value it places on the objectives of creating in relation to its required incentives and rewards for growth" (p. 2).

There is also a policy question how best to effect redistribution. Redistribution can take place through standard fiscal instruments such as a tax-cum-transfers/subsidies system, which is likely to be more incremental and affecting on individuals' relative endowments at margin. With emphasis on possible immediate conflicts between redistributive policy and pro-growth policy, it has been often argued that pro-poor redistributive policies are best to effect through incremental measures.

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[11] Atkinson (1997) also notes the effect of social norms on income distribution.

Others go on to argue that in order to minimise interference with economic growth, redistributive measures should be allowed to operate strictly only on an ex-post corrective basis, such as instituting ‘safety nets’ to deal with in retrospect adverse effects of growth on the vulnerable poor particularly exposed to negative shocks.

Such an approach to redistributive policy has been strongly challenged, as it essentially places social policy into a residual category of ‘safety net’ to cater for social casualties, as Mkandawire (2004) argued. He sees instead redistributive policy as an integral part of social policies, defined as “collective interventions in the economy to influence the access to, and the incidence of, adequate and secure livelihoods and income (p. 1)”. In his view, there is no trade-off between social and economic development and the postulated ‘equity-efficiency’ or ‘equity-growth’ trade offs are imaginary issues created in mind of economists who have systematically failed to give a due attention to social dimensions and goals of economic development.

Indeed, if social and institutional environment is the source for wealth and income inequality, structural, institutional transformation is required to address the root cause of that inequality.

III. Institutions for Shared Growth

Defining institutions

It is not easy to define the concept of institutions. They are very diverse, regulating different domains of human interactions – economic, political, social. They must be first ‘unbundled’, as argued by Acemoglu and Johnson (2003). This means also that it is hard to measure institutional quality in empirical exercises (Rodrik 2004 and 2005). Indeed, in the literature of institutional economics, several definitions of institutions can be found[12]. According to North (1990), institutions are the humanly devised constraints that shape human interaction. Institutions structure opportunities and constrain human exchanges, whether political, social and economic. They ensure individual compliance with collective rules through appropriate incentives and sanctions. From this perspective, the main functions of institutions are: i) to protect property rights; and ii) to reduce transaction and information costs by establishing a stable structure to human exchange and interaction. North (1990, 1995) defines organisations separately from institutions, as ongoing interest groups bound by common purpose to assure the perpetuation of certain institutional structures: institutional arrangements create the framework, but collective action takes place within organisations. Distinct institutional arrangements can shape organisational behaviour, while alternative sets of organisational responses and modes may affect institutions (Harriss et al. 1995). The inter-dynamics between institutions and organisations are critical forces for social change.

In the institutional economics literature, institutions are usually divided into *formal* rules, regulations and enforcement and *informal* constraints[13]. The former include political, judicial and economic rules and contracts in the form of constitutions, regulations and laws governing property rights and others, while the latter refers to conventions, codes of conduct, sanctions and traditions and norms of behaviour, which are self-enforcing (North 1991, p. 97). Hence, the same formal rules

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[12] For example, they may be approached from a ‘*rules*’ perspective or ‘*behavioural*’ perspective (Nabli and Nugent 1989); see Sindzingre (2005c) for more detailed discussion of the various ways of defining institutions.

[13] See Sindzingre (2005b) for a critical assessment of the dichotomy between the concepts of ‘formal’ and ‘informal’..

and constitutions could produce different outcomes if they are applied to different societies (North 1990). North's recent analysis of institutions is increasingly constructed in terms of shared mental models that are stabilised through evolutionary processes of learning and competition. Institutions are indeed cognitive devices: they are rules governing mental representations, and are more widely disseminated and shared on account of their large cognitive gains at less costs and efforts (Sperber 1990).

Human interactions can be conducted through market-based or non-market based institutions. In a pure neoclassical general equilibrium model, markets are seen as a realm where rational utility-maximising atomistic individual agents interact in exchange of goods and services. It is assumed that while coordination takes place centrally and instantaneously in the minds of an abstract Walrasian auctioneer (the 'invisible hand'), this instantaneous process of relative price adjustments is to be accomplished in an extremely decentralised manner in the absence of such a coordinator. Institutions are exogenously given to the pricing system that is viewed as the main coordinating mechanism, and exchanges involve no transaction costs. It is then claimed that markets free from distortions will produce Pareto efficient prices and resource allocation.

In contrast, institutional economics—old and new—sees markets as broad institutional structures and arrangements that organise and legitimise contractual agreements and the exchange of property rights[14]. Markets as institutions support and govern the process of exchange with the aim of minimising transaction costs[15]. Coase (1992) notes that "what are traded on the market are not physical entities, but the rights to perform certain actions and the rights which individuals possess are established by the legal system.… As a result, the legal system will have a profound effect on the working of the economic system.… (p. 717)". This gives rise to the concept of efficient property rights, since the institutional setting that governs the exchange process, including an appropriate system of property rights, becomes an important prerequisite for the efficient functioning of markets. In Coase's view, the efficient system of property rights is the one that results in minimising transaction costs for market operation.

Another important departure from the Walrasian world is an explicit recognition that real markets are institutionalised in environments characterised by imperfect, costly and incomplete information, and that players in real markets are not atomistic, fully informed individuals, which could ensure an outcome of perfect competition. An analysis of market structures with unequal distribution of market power, then, becomes important for the understanding of market operations. Markets also require appropriate governance mechanisms and arrangements to prevent agency problems arising out of opportunistic behaviour such as moral hazard and adverse incentives.

In this context, Arrow (1998) notes that the role of non-market institutions is, in essence, to coordinate expectations as well as to enforce incentives, in the presence of asymmetry of information; market failure, particularly with regard to contingent future markets; and the need for coordination due to externalities and increasing returns. In this sense, institutions serve as mechanisms and means to deal with a whole set of market failures (e.g., public goods, externalities, imperfect and costly information,

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[14] While New Institutional Economics tends to anchor its analysis in microfoundations of neoclassical economics such as individual rationality and homo economicus, Old Institutional Economics emphasises the embeddedness of human behaviour in a broad institutional context that has a great impact on economic activities. According to the latter, human behaviour reflects settled habits of thought common to the generality of men and women (Veblen 1919, p.240). Hargreaves-Heap et al. (1992) advance the concept of homo sociologicus, where individuals are not constantly calculating utility maximisers, but live according to 'rules, roles and relations' (p. 63).

[15] Stiglitz (1989) also defines markets as an important set of institutions.

wedge between social and private benefits/returns, etc). As Bardhan (2005) notes, one of critical functions of institutions is to correct coordination failures.

Indeed, emphasising the presence of market failures, Aoki and others focus on agents' strategic interactions in a game-theoretic framework, providing a 'behavioural' micro analytic perspective of institutions. Here, institutions are outcomes of game equilibria, in particular those of repeated games. For Aoki, for example, an institution is "a self-sustaining system of shared beliefs about a salient way in which the game is repeatedly played" (Aoki 2001, p.10). Similarly, Young (1998) views institutions and norms as self-enforcing patterns of behaviour that could result in a specific equilibrium of games that operate in various domains of property, statuses, contracts.

The dynamics of institutions

Institutional economics has comparative advantages over the standard static economic theory in dealing with the determinants of change over time, as it places the nature and sources of dynamism at the centre of analysis (Harriss et al. 1995, Bardhan 1989). Institutions and norms are seen to be endogenous to social interactions and economic environments, such as factor endowments, technological changes and types of property rights. However, there are a number of different approaches to understanding what constitutes a main force in triggering institutional changes and dynamics.

North (1989, 1990) for example explains the transformation of markets as social institutions in terms of a trade off between transaction costs and economies of scale, as increasing specialisation and division of labour proceeds. North (1989) views this evolution of markets as a movement from personal exchange towards impersonal exchange of modern economies. Personal exchange involves local trade where specialisation and division of labour are limited and where individuals engage in repeated interactions in a geographically and socially confined setting. The transaction costs in these personal exchanges are low, because transactions are governed by social norms with minimum monitoring and enforcement costs[16]. Personal exchange may evolve into limited impersonalised exchange that involves long distance trade across societies and networks. This type of exchange requires mechanisms that ensure the credibility of commitments[17], such as kinship rules or merchant codes of conduct. Impersonal exchanges, trade, credit and markets relied on self-enforcing institutions and sanctions of free riding and breach of norms, as shown in the examples of the differences between the medieval Maghribi and Genoese traders associations (Greif 1993, Greif et al. 1994).

The impersonal exchanges of modern economies require third-party enforcement rules and other elaborate institutional structures to reduce transaction costs with effective formal mechanisms of monitoring and enforcing contracts and property rights. An extensive information network that can provide market participants timely and comprehensive information is thus a critical prerequisite for market development and efficiency. The rules governing market operations should be transparent and comprehensible to all market participants. North (1989, 1990) emphasises that an economy does not necessarily graduate automatically from the first stage of personalised exchange towards the modern impersonal mode of exchange, as markets require an institutional structure that supports

[16] See Nissanke and Aryeetey (1998) for measured transaction costs for informal finance in Sub-Saharan Africa.
[17] At a macro level, credibility is also a key condition for ensuring the effectiveness of institutions and policies, as shown by the analyses of time consistency. Fernandez and Rodrik (1991) examine the issue of credibility for economic reforms.

the exchange process. An appropriate institutional environment is a condition of market transformation in order to reduce uncertainties and transaction costs. The history of commerce illustrates how this requirement led to the rise of city states initially and nation states later on, which were capable of specifying and enforcing property rights and contracts (North 1989, 1990).

A number of studies analyse institutional changes, and the formation and stabilisation of norms, in terms of changes in individual mental models, perceptions and preferences, which result from social interactions and others' behaviour, as well as from external environments. Status ranking and preferences for social statuses, for example, are determined endogenously in this process, and hence they may be viewed as evolutionary outcomes and norms equilibria (Weiss and Fershtman 1998).

Similarly, game-theoretical approaches analyse institutional changes as evolutionary processes that result from learning, competition and strategic interactions of agents, as shared beliefs that determine a final equilibrium outcome would constantly shift and evolve. For Aoki (2001), these evolutionary games and shifting equilibria result from 'information compression', involving imitation, inertia, imperfect inferences and randomness. Institutional changes are also the evolutionary outcomes of individual adaptive behaviours that may involve reciprocity (Bowles 2004).

However, as institutional changes endogeneously result from shifts in shared beliefs, these changes may lock-in individuals' beliefs, choices and behaviour in particular paths as emphasised by the concept of path dependence[18]. Thus, institutions may generate processes of cumulative causation[19]. Because of path-dependence, institutional changes usually occur incrementally at the margin. As North (1990) notes, "institutional change is incremental as a result of the imbeddedness of informal constraints in societies" (p. 6). Sindzingre (2005a) also suggests that: i) local and social norms at the micro level change slowly; ii) certain social norms show significant resilience, such as partitions of groups according to particular membership criteria (occupations, classes, races, and so on) or political allegiance systems; and iii) self-enforcing mechanisms and status quo bias may be a feature of social rules that explains their resilience though their intrinsic inequality and, in some cases, inefficiency.

Recent studies analyse institutional changes through the concept of multiple institutional equilibria[20], with questions such as how institutions settle in a particular equilibrium, how multiple equilibria could emerge, or how stable these equilibria are. The existence of institutional equilibria is closely related to the endogeneity of institutions for social, political and economic changes and the generation of a particular set of institutional equilibria[21]. Basu (2000), for example, analyses how different norms, by limiting rationality or changing preferences, help individuals select a specific equilibrium among multiple possible equilibria.

The understanding of the dynamics of institutions has been considerably enriched by evolutionary perspectives, such as evolutionary psychology, behavioural and experimental economics, evolutionary game theory. Since the prehistoric times, institutions and norms emerge not only as a stabilised outcome of humans' efforts of adaptation to various external environments, but also as

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[18] For non-ergodicity, see the retrospective analysis by David (2000).
[19] A review of the concept of cumulative causation in the work of, e.g., Rosenstein-Rodan, Hirschman, Myrdal and Kaldor, is in Toner (1999).
[20] The concept of multiple equilibria and the existence of low and high equilibria are not new. Rosenstein-Rodan highlighted spillover effects, increasing returns and the effects of coordination failures as critical conditions leading to a slow progress towards economic development.
[21] See Conning (2004) for the co-existence of various agrarian institutions such as tenancy and land oligopolies in rural economies.

devices aimed at solving specific problems (Cosmides and Tooby 1994, Sperber and Hirschfeld 2004). Moreover, there seems to be an evolutionary dominance of behaviour and institutional equilibria that involve cooperation, reciprocity and altruism, besides self-interest[22]. Indeed, rational choice theories cannot explain cooperative behaviour. It has been argued that cooperation and commitment to the goals of a group may be Pareto-optimal compared with non-cooperative games (Sugden 2000, Harp 2005). In an evolutionary perspective, a key issue facing human societies has been to address the 'dealing with strangers' and organise simultaneously cooperation and division of labour. The most effective institutions here have been those able to build trust and cooperation (Seabright 2004).

Institutions and economic growth

Economic growth is increasingly seen to be associated with institutional quality (Rodrik 2004, Acemoglu et al. 2000, 2001). For example, Rodrik et al (2002) suggests the primacy of institutions over geography and integration in explaining comparative economic development experiences. Indeed, there has emerged a general consensus among economists that an institutional environment constitutes one of important conditions for economic growth, along with other conditions such as integration into the world economy and maintenance of sustainable public finance and sound money.

However, most studies rely on cross-country regressions, which tend to identify 'institutions' simply with protection of private property rights and contract enforcements. As Rodrik (2004) notes, the empirical finding that 'institutions rule' is narrowly interpreted as a form of property-rights reductionism, viewing the formal institutions of property rights protection as the end-all of development policy. Policy implications drawn from this reasoning have often resulted in an oversimplified recommendation for an ambitious institutional and governance reforms.

In contrast, institutional economics examines institutional conditions for growth in relation to institutional '*innovations*', which favours technological progress leading to economic growth. As North (1990) argues, an economy that takes advantage of new market and technological opportunities is likely to be subject to these innovations. In contrast, a stagnant economy is more likely to be characterised by structural and transition failures of its institutions.

Naturally, institutional innovations could result from a constant exposure to domestic, regional and global conditions. How an economy is integrated into the international economic system has a critical bearing on the evolutionary path of institutions and organisations. In this context, Sindzingre (2005a) shows that globalisation can induce institutional change, which in turn may have positive or negative effects on inequality and poverty profile[23]. However, the pace of change can be very different among institutions. For example, globalisation as a set of flows and policies is more likely to induce transformation on the aspects of institutions that can experience rapid change (e.g. formal political or economic rules), and less likely on slow-changing institutions such as social institutions. The second causal process is the impact of institutions on globalisation. Globalisation is 'filtered' (intensified or hindered) by institutions at the country and micro levels (villages and households).

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[22] Regarding reciprocity, see the studies in experimental economics by Fehr and Schmidt (1999), Fehr and Gächter (2000).
[23] See Nissanke and Thorbecke (2005a, 2005b) for various channels through which globalisation affects inequality and poverty.

Hence, the effects of globalisation on institutions are indeterminate and context-specific. On the one hand, as globalisation proceeds there may emerge a new set of norms and standards of transparency, accountability and enforcement of law and human rights. Yet, traditional institutions may erode under the pressure of market integration. For example, customary land tenure may lose its social security and equity functions through the individualisation of land rights and land concentration that stems from market transactions, especially when combined with demographic pressure.

Sindzingre (2005a) further argues that institutions generate threshold effects in the impact of globalisation on institutions and poverty because of their composite nature: institutions are indeed made of distinct components—forms and contents (e.g. functions, mental models, etc)—that evolve differently over time. Further, forms do not correspond to unique contents and functions, and growth results from contingent combinations of policies, structures (economic, geographic endowments) and institutions. Particular combinations may generate processes of cumulative causation and self-sustained poverty traps.

Institutions, inequality and poverty

Inequality and poverty are also an outcome of economic, social and political processes and their interactions, which are mediated through a range of institutions. For example, while institutions define property rights, how the rights over the use of assets and resources as well as over the income derived from them are determined and interpreted in practice depends largely on economic and political context and social norms. Nissanke (2003) argues that, establishing differential incentive/governance structure for different individuals institutions affect the *pattern* of growth through income and wealth distribution effects. For the poor, these institutions determine the set of opportunities as well as constraints in their social, economic and political interactions with each other. For instance, institutions that induce discrimination by ethnicity, gender and religion may create social and spatial fragmentation and barriers to poverty reduction.

Thus, depending on their characteristics, these institutions may limit for the poor to have access to assets essential for living, to cope with various risks, or to move up in their well-being[24]. For example, gender discrimination with respects to property rights has prevented women from owning land or managing property in many countries. This places female-headed households in a disadvantageous position, and often in a poverty trap. The institutional environment also affects and determines the distributional mechanisms of returns to assets.

On the other hand, if social, economic and political institutions are flexible and favourable, the poor can have a better opportunity of coming out of poverty by building up physical, human and social assets over time or extracting higher returns on assets. Thus, the institutional environment can have a significant effect on inequality of income and wealth of a society and its poverty profile.

Institutions - especially political - and social norms may entrap entire countries in poverty (Bowles, Durlauf and Hoff 2004). For example, a society that fails to develop institutions for protection of property rights will be characterised by low investment, whilst a society without proper provision of public goods such as public education would sustain pockets of chronic poor. Poverty traps may also stem from externalities and neighbourhood effects such as peer group and role model effects, as in the case of high levels of corruption that make harder for non-corrupt individuals to sustain

[24] See Nissanke (2003) for the details how institutions affects asset characteristics of the poor and their capacity of risk management and asset accumulation.

productive activities or piracy (North 1994). In contrast, inequality and poverty are reduced by institutions that deter predation and sustain incentives to invest, produce and exchange.

Institutions and norms are the endogenous outcomes of individual beliefs and social interactions, as highlighted above. Poverty traps could persist also due to the collective action problem. Bowles (2004) advances the concept of *institutional poverty traps*, which is defined as institutions that implement persistently highly unequal division of the social product, though they do not offer any efficiency advantages over other feasible, more egalitarian social arrangements. For Bowles, unequal institutions persist over long periods due to the self-enforcing nature of existing arrangements and due to the difficulty for the poor in coordinating the collective action necessary to 'tip' a population from an unequal to a more equal set of institutions. An example of poverty traps, coordination failures and inefficiencies can be found in the resilience of social norms, such as traditional kinship systems, which may be due to network effects (Hoff and Sen 2004). Institutions also explain the poor growth record in Latin America (Engerman and Sokoloff 2004): indeed, institutions inherited from the colonial rule have barred a broad segment of society from participating in economic and social opportunities..

IV. The Obstacles to Shared Growth in Sub-Saharan Africa: Institutional Poverty Traps

Sub-Saharan Africa is characterised by specific institutional conditions that prevent economies from emerging out of low-equilibrium poverty traps and achieve a growth path that is equitably shared among individuals. These low-equilibrium traps are characterised by low economic growth, unequal distribution of income and wealth as well as unequal access to resources and power. The way norms and institutions have emerged and stabilised in Sub-Saharan African settings constitute key obstacles of a wider sharing of the social product and growth.

Traditional institutions favouring shared growth

On the one hand, local rural norms, social arrangements and contracts in Sub-Saharan Africa have been efficient for sustaining livelihoods of local groups. Traditional social norms have been able to provide mutual insurance, establish trust, resolve the problems arising from opportunistic behaviour, and produce collective goods (Platteau 2000). Traditional land tenure systems are examples of social institutions that protect individual members form risks of falling below subsistence levels. Other examples can be found in institutions that guarantee access to productive assets, labour, and land, or allow members to reduce, share and pool risks at the household level or at the level of wider social groups[25].

Traditional rules regulating access to land to members of a given group may be inclusive at a collective level. This is the case of collective ownership of land by group members or distribution of access rights by elders (De Janvry et al. 2000). Traditional sharecropping contracts have also been viewed as efficient (Stiglitz 1974). Together with wage contracts, they exhibit a wide variety of forms, which are adapted to the type of crops and the demographic environment[26]. Traditional arrangements may adapt to changing conditions, including migration flows (e.g. demand for land

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[25] See Platteau (1991) for the social security function of traditional rules and norms organising kinship and communal activities.

[26] See Lambert and Sindzingre (1995), Boadu (1992) for the example of sharecropping contracts in Ghana.

use by arriving migrants or management of departure of migrant labourers) via ‘secondary’ rights or ‘derived’ rights regulating the access to and use of land. Such rights, which are common in Sub-Saharan Africa, refer to non-permanent transfers of farming rights to the land user through open-ended loans, short-term tenancies, or other procedures. Derived rights arrangements are considered as efficient solutions in addressing three dimensions of shared growth: fairness, security and equity. While fairness and security appear to be context-dependent, these arrangements address the unequal distribution of production factors in contexts of high risks stemming from opportunistic behaviour or harvest failure as well as imperfect and missing markets[27]. Similarly, traditional institutions allow households to organise themselves in terms of members’ activities and choices of crops in order to diversify their source of income, while adapting traditional lineage institutions[28].

Likewise, traditional institutions of redistribution, risk-sharing, mutual assistance and insurance systems are efficient, in the context of small-scale rural societies with low transaction costs and low specialisation in terms of labour and production. These institutions smooth shocks (e.g. income, weather shocks) affecting individuals or groups and attenuate their adverse effects on inequality. Indeed, Sub-Saharan countries are handicapped by limited social protection provided by a third party external to groups – the state – and traditional rural institutions organising kinship, production, and exchanges at the village level in Sub-Saharan Africa are an efficient response to market failures.

These institutions often function as interlinked contracts involving credit, labour and production, with credit working as an insurance[29]. Traditional rules may function as a quasi-credit system with zero interests for the members of a kinship group. However, the application of these rules is limited by group boundaries (village or lineage)[30]. Village organisations and kinship systems may generate ‘adaptive’ equilibria in the context of limited natural resources via norms of asset equality, sharing gains and collective land property rights. Traditional management of common pool resources may indeed be efficient (Ostrom 1990). Households are able to exhibit adaptive demographic strategies that use kinship rules for optimising agricultural labour force.

Traditional risk-sharing systems rely on kinship norms and networks provide social protection through the establishment of reciprocal rights and obligations. These systems work as redistributive and insurance devices for smoothing consumption in the event of shocks. They may function horizontally for group members as well as intergenerationally (Dercon 2002). Networks also provide information and capital. Moreover, they may combine with other redistributive institutions, such as those organising the household. Wives may have insurance networks that are distinct from their husbands[31].

Networks as devices of controlling free riding via trust and reputational mechanisms are efficient and conducive to growth. They enhance trade exchange and hence help markets to develop (Fafchamps 2002). Unwritten contracts may preserve trust, reputation, or personal relationships[32]. In the case of informal lenders, unwritten contract enforcement may benefit higher loan repayment

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[27] This is examined in detail in Lavigne-Delville et al. (2001); see also Lambert and Sindzingre (1995) for land property rights in Sub-Saharan Africa.
[28] Hillborst et al. (1999) for the example of Mali.
[29] For the example of Nigeria, see Udry (1990).
[30] See Fafchamps and Lund (2003) for risk-sharing networks in a non-African context, i.e. the Philippines.
[31] See Udry and Conley (2004) for the example of Ghana.
[32] See Fafchamps (1996) for the case of commercial contracts in Ghana.

rates than formal lenders[33]. Similarly, unwritten commercial contracts may be more efficient, coercive and subject to more credible enforcement mechanisms than written contracts that are guaranteed by a state legal apparatus and courts.

Traditional institutions impeding shared growth

On the other hand, a series of institutional features act as impediments to shared growth. Traditional rural institutions may become inefficient, for example for developing commercial exchanges or organising credit markets. Trust, personal exchanges and common group memberships, for instance along ethnic lines, are often prerequisites for obtaining credit, as shown in the case of supplier credit in the manufacturing sector in a series of African countries (Fafchamps 2000). This constrains the development of financial and product markets. Equally, these institutions do not solve the problems of low economies of scale and high transaction costs beyond personal exchanges. In Sub-Saharan Africa, trade exchanges are indeed often subject to high transaction costs, because of poor infrastructure or isolation, which is detrimental to agricultural productivity and farmers' incomes because of limited use of input and marketing opportunity[34]. Similarly, in many Sub-Saharan countries, the organisation of agricultural trade is disadvantaged by the lack of increasing returns and almost constant returns to scale[35].

Even the social insurance functions of traditional norms are 'elusive'[36], as there are thresholds of poverty beyond which mutual redistribution cannot work. Equally, covariate risks from natural disasters or other shocks affecting an entire population reduce the level of resources that could be redistributed or increase transfer requirements beyond available resources. Social norms may have difficulties in solving problems of information asymmetries and rule enforcement in the case of opportunistic behaviour across social groups. These economies have been analysed as 'bazaar economies', as coined by Geertz (1978): information is poor and scarce, as the game of bargaining is to search for information while others protect the information they have, which result in inefficient outcomes.

Membership norms constitute key constraints on the sharing of growth. Indeed, institutions such as the rules and norms organising group memberships, based on, for example, kinship, age, gender, status, occupation, ethnicity, territory, religion, prevent cooperation and coordination outside these membership groups. In Sub-Saharan Africa, historical, political and social environments have made economic activities and market transactions typically fragmented. Fragmentation is observed not only in terms of location, but also because of membership norms in individual exchanges and group behaviour. Groups are heterogeneous and segmented according to many criteria. Group memberships multiply social boundaries and generate the fragmentation of trust mechanisms, shared mental models and even hinder participation in social activities, as shown in the example of a developed country such as the US (Alesina and La Ferrara 2000).

Different membership norms imply differential entitlements to exchange and access to resources – for example jobs, trade networks, land, and so on. These kinds of norms do not apply to non members. Mutual transfers and assistance apply only within the borders of groups. These

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[33] See Aryeetey (1998) and Nissanke and Aryeetey (1998) for the example of four Sub-Saharan African countries.
[34] See Stifel et al. (2003) for the case of Madagascar.
[35] Fafchamps et al. (2003) for the examples of agricultural trade and transportation in Benin, Madagascar and Malawi.
[36] Platteau (1997); for the imperfections of 'communities', Platteau (2000).

membership norms may therefore leave many individuals out of insurance mechanisms, if they are institutionally isolated because of demographic reasons, individual characteristics or other motives[37]. This creates room for social exclusion from markets as well as non-market entitlements, such as membership in social networks or rights on customary assets, e.g., land tenure, statuses, and so on. Likewise, because of membership-based institutions, enforcement of credible commitments functions only within group boundaries, which inhibits the development of markets (Platteau 1994, Fafchamps 1992). Credit, information flows, or risk-sharing are limited to networks members (Fafchamps and Minten 1998).

Market segmentation as well as institutional and social fragmentation – which reinforce each other - makes it difficult for African economies to initiate a process of diversification and transformation and hence, to benefit from dynamic spillovers and coordination externalities. The absence of meta-public goods – which could be provided by the state – and separation between social groups foster communal tensions (Dasgupta and Kanbur 2003).

Sub-Saharan Africa may be characterised by significant levels of social fractionalisation and polarisation, in particular because of the weakness of state institutions. Local allegiances and norms thus compete with public institutions. The process of group formation and boundaries may constitute self-enforcing devices, for example when local groups and memberships provide more public goods (education, health, security) than the state. Social fractionalisation has been viewed as a factor of slow growth in Sub-Saharan Africa (Alesina et al. 2002). These constitute endogenous processes, and fractionalisation may equally be a cause as well as an effect of poor institutions (Leeson 2005).

Traditional norms may act as locking-in devices[38]. Furthermore, because norms are heterogeneous, they generate inequality that is discontinuous and compounding exclusion for certain individuals and groups. Indeed, vicious circuits may be developed in the triangular relationships between institutions, growth and inequality. Examples are interlinked markets that characterise rural economies (credit, land, labour). The fact that a single contract involves interlinked transactions on several markets acts as a locking-in device: agricultural wage contracts may be linked with kinship institutions; sharecropping may involve production, labour and credit markets and may rely on kinship or networks.

Divisive states and public policies

Moreover, the specificities of state formation in Sub-Saharan Africa have prevented the state from providing coordination devices, public goods and institutions that are equalising and cross-cutting local social divisions generated by membership norms, as observed in industrialised democracies. States in Sub-Saharan Africa have sometimes been described as 'failed' states, which do not exhibit features that define states in developed democracies: stable institutions in contrast to personal rule, Weberian impersonal bureaucracy oriented towards public service, equal social protection of citizens or accountability of political regimes.

In many Sub-Saharan African states, the constraints on state formation after decolonisation led to unstable political regimes, which prevented impersonal state institutions from emerging and often favoured the reliance by rulers on pre-existing social institutions, in particular kinship affiliations. Sometimes, rulers' objectives have been more to stay in power than to strive for development. They

[37] See Goldstein et al. (2002) on the example of Ghana.
[38] As noted by Jean-Philippe Platteau in several articles, or by Hoff and Sen (2004).

created predatory, not 'developmental' regimes[39]. Predatory rulers are in essence hostile to policies that are developmental. If rulers' interest is mainly to stay in power over a long term time-horizon, their goals may be to prevent the emergence of impersonal state institutions and growth. Indeed, wealth accumulation by others and equal distribution present threats, because they would encourage challengers to appear (Robinson 1996). In such cases, public policies are devised according to these goals, so that instead of sharing state and fiscal resources, the latter are reserved to narrow groups of individuals; state institutions are characterised by patronage, clientelism and nepotism and inherently exacerbate distributive conflicts[40]. The presence of segmented societies and norms has created endogenous processes of fragmentation and impoverishment in influencing the design of public policies. This may have been the case with regard to the allocation of public goods and public expenditure, resulting in their deprivation for particular groups and their reduced efficiency, which has in turn eroded the adherence by citizens to public institutions and policies[41].

Clientelist regimes may lead to the stabilisation of specific individual routines and expectations vis-à-vis states: the credibility – i.e. the capacity to commit - of states which are grounded on arbitrary and personal power is necessarily low. Rulers cannot commit to not using their power and not reversing their promises, as there are no outside binding institutions that have a coercive capacity on these rulers and provide credibility to their commitments (Acemoglu 2002). The combination of such political regimes and weak public institutions has generated vicious circles of decreasing credibility of state policies, which, as shown by Fernandez and Rodrik (1991), tend to stabilise preferences for status quo and hinder investment. This has also created locking-in mechanisms in low-equilibria, which may rely on routine corruption, looting of scarce public resources and their redistribution to the wealthiest, and 'capture' of state policies and resources by interest groups. Norms of patronage simultaneously lead to unfair competition and therefore are detrimental to social welfare and impede access to resources for the majority, for example jobs, capital, or credit.

The failure of public institutions and policies also has a negative impact on one of the dimensions of shared growth, i.e. the creation of linkages**,** in particular linkages between economic sectors as well as cooperative institutions between the private sector and governments. As argued by Hirschman or Myrdal, these linkages are the ingredients of sustainable growth in contrast to immiserising growth which lacks economy-wide linkages. Cooperative institutions are indeed among the critical elements of developmental states, and they seem to be often missing in Sub-Saharan Africa. The model of small colonial economies, as coined by A. G. Hopkins (1973), which persisted after independence, has consolidated economic structures characterised by weak linkages and growth based on enclave exploitation of natural resources. The political economy conditions of state formation – for example, fragile institutions and political instability – often made the relationships of rulers with private entrepreneurs either clientelist or antagonist, because the latter could become political entrepreneurs. At the same time, in many countries, the rest of population tended to be increasingly disfranchised economically and politically (Nissanke and Aryeetey 2003).

Sectoral linkages, for example linkages with non-farm activities or with urban markets, are among the key ingredients of rural development (Mwabu and Thorbecke 2004). Because of the prevailing economic structures and political economy, in Sub-Saharan Africa the lack of linkages among individuals, household and rural communities on the one hand and firms and governments on the other hand has prevented spillover effects required for growth. State institutions are often viewed as non-relevant from the perspective of villages. The equilibria established by social norms that

[39] According to the canonical analytical distinction made by Evans (1989).
[40] See among other studies, Bates (2005), Bates et al. (2003).
[41] Alesina et al. (1999) on the example of the US.

anchored in various affiliations – ethnic, territorial, kin – have strengthened norms that are local and built trust in economic or political interactions that are mostly based on personal allegiances. As shown by Greif in his studies of medieval business coalitions, this has impeded the transitivity and spreading of institutional linkages, trade networks and market exchanges. Trust could not be developed for impersonal exchanges and remained confined to narrow networks. This has limited the sharing of norms that prevent opportunistic behaviour, are self-enforcing and trigger a virtuous path of shared growth.

Dynamic equilibria and traps

The issues of sectoral linkages and the role of public policies reveal the differences between Sub-Saharan Africa and Asia and the persistence of low-equilibrium traps in Sub-Saharan Africa. In Asia, institutional changes have provided the incentives for eroding traditional social institutions that were detrimental for sharing the benefits of growth. Some Asian countries witnessed the emergence of permanent labour contracts as well as collective mechanisms of work enforcement[42]. Similarly, social pooling arrangements evolved that could overcome pervasive market failures, such as in Japanese fisheries by interlinking insurance and profitability objectives (Platteau and Seki 2001). This process has allowed to bridging the gap between the state and the private sector as well as between public institutions and market institutions. Likewise, in Europe, a merchant class emerged in the absence of support by the state through building the incentives for market institutions. In contrast, in Sub-Saharan Africa, the combination of economic environment and institutional features made escaping institutional traps more challenging. Trading networks are exposed to inefficiencies and have difficulties to overcome the problems of contract enforcement through reputation and trust mechanisms, as achieved by the merchant guilds in medieval Europe. In Europe, prior to the rise of the state, institutions such as mercantile guilds, fairs and law-merchant courts were able to develop market exchanges and stabilise shared norms because they achieved enforcement devices through information and banishment, which prevented opportunistic behaviour (Milgrom et al. 1990).

Sub-Saharan Africa has also been disadvantaged by the existence of numerous and fragmented social groups. Because of the maintenance of multiple social affiliations - lineage, ethnic, associative -, trade networks in Sub-Saharan Africa tend to lack the transitivity that characterise Asian diasporas. Networks are often 'short', therefore with a narrow scope for trust and shared norms, easy breach of rules, opportunities of free riding and thus a limited space for market exchanges. Exceptions are a few large societies historically based on long distance trade[43]. Similarly, in contrast to East Asia, post-independence governments and public policies did not support the emergence of a merchant class[44]. These conditions created institutional poverty traps that stabilised themselves as these features are endogenous to each other.

From a dynamic perspective, the equilibria and efficiency of traditional institutions are subject to transformation with changes in external environments and shocks, in particular globalisation. This is the case with the fragile equilibria based on investing in social networks and the related mutual rights and expectations of returns, which may have an intergenerational scope. This may also imply the weakening of the mechanisms of social insurance and equalisation in the event of shocks for network members, as shown by Platteau (2002) in the example of traditional land tenure arrangements. In the absence of credible enforcement institutions, the spreading of impersonal market exchanges creates possibilities of opportunistic behaviour, for example individual migration

[42] See Hayami and Kikuchi (2001) on the case of the Philippines.
[43] For example the Hausa or the Dyula in West Africa.
[44] On the concept of network, Sindzingre (2002).

strategies. Another example of endogenous impoverishing processes can be found in some Sub-Saharan African countries in the weakening of state institutions, due to fiscal crises, civil conflicts, or other factors, and therefore their capacity to provide public goods, in particular economic security, which, in anonymous urban settings, may intensify investment in private networks. The latter may act as substitutes for genuine economic security, but may represent significant opportunity costs in terms of time, resources and investment for a given individual.

Economic reforms may also introduce imbalances into local institutional equilibria. Privatisation, for example, has sometimes been detrimental to women's rights on land in Sub-Saharan Africa (Lastarria-Cornhiel 1997). Likewise, the responses to globalisation may lead to a change in norms that may be detrimental to their equalising functions. Equally, an outcome of globalisation may be the superimposition of new rights on previous rights or the fixation of rights that were flexible. Economic and political structures in Sub-Saharan Africa have historically been characterised by instability. In rural oral societies, this has consolidated specific risk-coping institutions, for example flexible contracts and property rights that are rather social processes than fixed institutional features[45]. In some cases, external norms imposed on existing norms have triggered social conflicts and eroded the resilience of previous cooperative norms, thus generating poverty traps.

V. Concluding Remarks

The paper first examined the dynamically evolving triangular relationships between institutions, growth and inequality in the process of economic development, in order to deepen the understanding of institutional conditions for pro-poor growth and shared growth. In this specific context, the paper discussed the institutional conditions found in Sub-Saharan Africa, which may have produced the growth pattern that is unequal and against the poor. It has been shown that Sub-Saharan African countries require institutional transformation for embarking upon and sustaining a development path which would ensure shared growth in years to come.

It may be interesting to evaluate the arguments put forward by Rodrik (2004). He argues that large–scale institutional transformation may not be a prerequisite for simply "getting growth going". While recognising that sustained economic convergence eventually requires high-quality institutions, he reckons that once growth is set into motion, it becomes easier to maintain "a virtuous cycle with high growth and institutional transformation feeding on each other". It has been observed that economic growth can bring about a shift in norms and behaviour, and hence, changes in institutional parameters. Indeed, globalisation may make surprisingly substantial impacts on perceptions and norms though information flows, as discussed above.

For an institutional design for sustained economic growth, however, Rodrik draws the attention of policy makers to the need for *institutional innovations*. Naturally, institutional transformation and policy changes required for *pro-poor* and *shared* growth is more demanding than those needed simply for economic growth. First of all, it requires the commitment on the part of policy makers to introduce substantial changes into policies, so that new policies exhibit an inherent bias in favour of the poor and are capable of producing and sustaining a distribution-corrected growth path. Policies may entail not only measures of mitigating negative distributional effects of growth but also active measures of redistribution of assets and wealth or income.

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[45] 'No condition is permanent', as coined by Berry (1993), see on Ghana, Berry (1997).

In Sub-Saharan Africa, where deep institutional poverty traps may have been developed, as discussed above, more decisive steps should be taken to induce institutional transformation in a significant scale. This implies a transformation of political, social and economic institutions, both formal rules and informal norms. The goals would be to eliminate divisive norms, create positive incentives and structures to embrace all private agents and overcome social and markets fragmentation by integrative policies.

However, the exact design of such equitable, all-inclusive and shared-growth policies and institutional changes should be again country-specific, taking into account initial conditions and existing institutions. Policy makers have to be always innovative, as there is no universally applicable model of institutional changes for designing a shared growth strategy which is most appropriate for prevailing conditions in each country.

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