

Some Thoughts on The Political Economy of Market institutions in
Sub-Saharan Africa

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Market institutions in Sub-Saharan Africa: Summary of Findings

Evidence on markets for goods (manufacturing goods, agricultural commodities):

- laws and courts play a subsidiary role, except for large firms
- relational contracting is the rule
- outside relational contracting, prevention is the rule
- plenty of evidence of opportunism
- long time to establish new relationship, through trial and error
- the presence of malicious or incompetent individuals helps discipline markets
- little evidence of coordinated punishment of cheaters
- no evidence of meta-punishment (punishment of those who deal with cheaters)
- cheating is punished if interpreted as sign of impending bankruptcy, not otherwise
- family plays little or no role (>< partnerships, start-up finance, hiring where family matters)

- strong ethnicity effects, but the dominant ethnic group varies from country to country
- much of the role of ethnicity can be explained as result of network effects

Africa does not fit the micro textbook anonymous market cliché

Can this be changed?

Does it matter?

I don't have the definitive answer to either questions but here is some food for thought

Can it be changed?

Probably not in the short-run because of social norms and expectations about market participants.

If we want to understand social norms and expectations, it is useful to look at geographical and historical determinants.

History and geography of Africa:

- very large continent (fits US, Europe, China, India, Argentina, and a few others)
- flat, rather homogeneous
- poor soils (except for volcanic soils in a few places)
- relatively recent human settlement (the Neolithic revolution and Bantu diaspora)
- very mobile population with low attachment to land but strong social bonds
- population has exploded; wild west feel
- => all this makes it much alike Latin America

Unlike LA, Africa has kept non-indigenous people at bay

- Arabs traded along the East coast for 400 years without entering the continent
- then Europeans travelled around it for close to 400 years before colonizing it
- during colonization they encountered formidable resistance in spite of enormous technological advantage
- (they could probably not colonize it today even if they wanted to)
- they did not stay very long (around 80 years versus 300 years in LA, 200 years in India)
- the first thing most independent African nations did was Africanize
- many instances of expelled/attacked non-indigenous populations

=> Africa is a LA where indigenous people won

End-result: unlike LA, did not adopt European institutions, or only superficially

Africa and the wild west: A broad brush picture

- History: mobility of population, weak or non-existent states
- law is not source of enforcement of contracts and property rights
- power used to challenge contracts and property rights (e.g., Chad and oil)
- power often backed by the threat of use of force
- modern state claims monopoly of use of force
- hence power is found in and around state
- => state is source of power and hence of property rights
- => the way to accumulate property is to gain control over (part of) the state
- (this is in many ways similar to the Roman empire)
- often this is called corruption
- but it also covers access to the spoils of development assistance (NGOs, consulting contracts, per diems, 4x4 vehicles)

Power and legitimacy

- sense of insecurity for those without power
- counterweight: sharing norms
- power is tolerated provided the powerful man shares his wealth/success
- sharing norms are source of legitimacy of property, not the law
- in fact, the law more likely to be seen as instrument of power, as a way for the powerful to seize property
- => strong distrust towards the law, the state, the government
- => clientelistic solution to institutions (visible in land access and village life, politics, business)
- => those who seek to escape are punished/excluded/overthrown
- Africans' disgust of corruption is geared primarily towards those who take without sharing
- Fight against corruption is usually the means of excluding certain people from power

Africa and FDI

- All this makes Africa very inimical to foreign investors:
- law is not a way of protecting property rights; power is
- non-indigenous people seen as outside sharing norms, hence their power lacks legitimacy
- the access of non-indigenous population to power is thus illegitimate
- hence their property rights are regularly challenged, typically by those in power or with their blessing
- autocrats have at times relied on non-indigenous groups as wild card/source of finance
- but the same groups can easily be dismissed as scapegoats
- => at the mercy of dictator

The bottom line: it would be very difficult to make Africa look like Finland.

Does it matter?

- Probably not.
- Like China, Africa very much wants to develop on its own terms.
- It probably will develop well before it remotely fits the micro textbook cliché.
- The lesson is to change the textbook cliché about markets, not to change Africa so that it fits what's in the textbook.
- Markets are not anonymous, they are embedded.
- This generates loss of efficiency and equity.
- But institutions can be found to make personalized markets more reliable and more fluid.
- As was the case in China, this is where the solution lies for Africa.
- But Africans have to find their own way to build on their social norms to improve the efficiency of market exchange so that they become more competitive.

What is the path Africa is likely to take?

- Unlike China or India, politically fragmented. Inner market too small for Africa to isolate itself.
- Unlike China or India, Africa welcomes lots of foreign assistance, much of which funds welfare projects. It is exporting ‘feelgood’ services for the rich. This is now the major industry in Africa, and it is quite sophisticated. With the expected increase in aid, it is even going to expand.
- Where does Africa go from here? It has to find other other goods and services that the world wants to buy. Through international migrations, more and more Africans gain a better understanding of what the North wants. Once opportunities for making money have been identified, they will be taken, probably using methods that are not completely legal.
- It is true that opportunities are more likely to be taken if all they require is power and little institutional development (e.g., mining, drugs). But provided the collective will is there, Africa, like the Wild West, can rise up to the challenge.
- I am very optimistic for the medium-term future, but not optimistic for the immediate future. Although it will be welcomed by many African elites, the doubling of aid to Africa will only attract more talented entrepreneurial Africans in the ‘development brokerage’ business. What Africa needs at this point is trade, not aid – unless aid is meant to help Africa export. But this is not what the MDGs are about.