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## Institutional monocropping and monotasking in africa

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|---------------|---------------------------------------------------------------------------------------------------|
| Item Type     | Book                                                                                              |
| Authors       | Mkandawire, Thandika                                                                              |
| Publisher     | United Nations Research Institute for Social Development (UNRISD)                                 |
| Rights        | With permission of the license/copyright holder                                                   |
| Download date | 2026-09-17 05:45:07                                                                               |
| Link to Item  | <a href="http://hdl.handle.net/20.500.12424/178778">http://hdl.handle.net/20.500.12424/178778</a> |

# Institutional Monocropping and Monotasking in Africa

*Thandika Mkandawire*



This United Nations Research Institute for Social Development (UNRISD) Programme Paper has been produced with the support of UNRISD core funds. UNRISD thanks the governments of Denmark, Finland, Mexico, Sweden, Switzerland and the United Kingdom for their core funding.

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ISSN 2075-3977

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## Acronyms

|              |                                                        |
|--------------|--------------------------------------------------------|
| <b>BWI</b>   | Bretton Woods institution                              |
| <b>CNN</b>   | Cable News Network                                     |
| <b>FRBG</b>  | formal rule-bound governance                           |
| <b>GDP</b>   | gross domestic product                                 |
| <b>IFI</b>   | international financial institution                    |
| <b>IMF</b>   | International Monetary Fund                            |
| <b>NGO</b>   | non-governmental organization                          |
| <b>NIE</b>   | New Institutional Economics                            |
| <b>OECD</b>  | Organisation for Economic Co-operation and Development |
| <b>SAP</b>   | structural adjustment programme                        |
| <b>UNECA</b> | United Nations Economic Commission for Africa          |

## Summary/Résumé/Resumen

### *Summary*

The study of institutions is once again at the centre of development thinking in Africa. Early development economists were aware that institutions were the framework within which markets work, and the motors that can drive markets to perform differently from what would be expected by the simple extrapolation of their past performance. In fact, innovative institutional development would allow latecomers to move much faster and optimal arrangements would alter developmental trajectories. However, neoliberal policies were followed through facilitating the workings of the market, thereby removing distortions, in particular the negative role of the state. When it was found that the adjustment based on these policies had failed, policy failure and, subsequently, institutional weakness was blamed.

Mkandawire argues that the upsurge of interest in institutions is welcome and long overdue. However, the new focus is marred by the tethering of institutions to a “one-size-fits-all” policy perspective, incorporated into neoliberalism with a focus on credibility and property rights. This has led to “institutional monocropping”: idealized versions of Anglo-American institutions being imposed on developing countries on the assumption that they would transcend national circumstances and cultures. According to the author, institutional reforms also suffer from the insistence on institutional “monotasking”, whereby institutions are reduced to servicing a standard set of often imposed policies or tasks, and from the endless experimentation on institutions that renders them highly unstable and unpredictable. Monocropping depends on an attachment to “rational choice institutionalism”, which has tended to focus on the restraining role of institutions and has ignored the developmental and transformative role that historical and sociological forms of institutionalism highlighted. And finally, it has been defined by a proliferation of tasks to be performed by highly restrained institutions.

It is obvious that economic development requires good institutions. Outside the rarefied world of neoclassical economics, it has always been common knowledge that markets are embedded in complex social relations. The unresolved question is: which institutions are appropriate in a particular context to achieve a certain goal and perform a particular function?

After nearly three decades of adjustment and the evisceration of developmentalist arguments for state intervention, the return to institutions is indeed a major shift. According to Mkandawire, African economies have moved to a state of policy disarray in which getting everything right is now the goal, even as the effectiveness of institutions has been severely narrowed. Much of this has taken place through processes of imposition sustained by aid and conditionalities. African institutions that might have conceivably played a developmental role have been dismantled; the institutions that have been strengthened are, at best, those good for “stabilization” rather than development.

Mkandawire says that for all the “certainty” about the institutions needed by African countries—and the resulting monocropping—history and experience elsewhere suggest that institutions do not monotonically map onto any one set of policies, nor do certain policies require a specific set of institutions. There is no standard “market economy” model. Instead, market economies are compatible with a diverse range of institutional arrangements, products of path dependence, serendipity, luck and the force of unintended consequences of the actions of many agents.

The author recognizes that the remits of institutions go well beyond the narrow needs of the market. Institutions play many roles in the development processes, and seemingly identical institutions can take on different roles in different times from country to country, or even within a single country. The fact that an institution may be necessary for a particular function does not mean that is the only one that that particular institution can serve.

In addition, even when institutions are designed to serve a single purpose, they have multiple effects, not all of which may be intended. Because institutional reforms are demanded and supplied by the aid establishment and designed to empower groups favoured by external actors, there is little consideration of the distributive outcomes of institutional reform. Thus the main issues covered by the literature on institutional reform—process, collective action, the relationships and asymmetries of power, the problems of vested interests—are simply sidestepped, which, in turn, means that a range of issues related to institutions—social equity, legitimacy of power and, especially, their role in enhancing that which societies may have reason to value—are also sidestepped.

Mkandawire argues that many of the issues that developing countries were preoccupied with, such as autonomy, nation building, social cohesion, poverty and underdevelopment, are still on the agenda. However, the solutions being proffered have simply avoided these concerns and addressed an entirely different agenda—“market friendliness”—ignoring the fact that in real life, institutions tend to do much more.

The author says that the focus on institutional design that places a premium on creating “enabling environments” of stability and predictability for global investors is not necessarily desirable from a developmental point of view. The single-minded subjugation of institutional reform to one set of policies has denied local institutions the capacity for learning from the wide range of experiences from other parts of the world. He argues that it has also led to the marginalization of the many concerns that Africans have sought to address with their own or borrowed institutions. Worse still, this practice has blunted the effectiveness of institutions by denying them context specificity and flexibility.

Thandika Mkandawire was Director of UNRISD, Geneva, Switzerland, at the time of writing this paper.

## **Résumé**

L'étude des institutions est une fois de plus au centre de la réflexion sur le développement en Afrique. Les premiers économistes du développement avaient bien conscience que les institutions étaient le cadre dans lequel fonctionnaient les marchés et des moteurs capables de les amener à se comporter différemment de ce que l'on pourrait attendre en procédant à une simple extrapolation de leur comportement passé. En fait, un développement novateur des institutions permettrait aux derniers venus d'aller beaucoup plus vite et des mécanismes optimaux modifieraient les trajectoires du développement. Cependant, ce sont des politiques néolibérales qui ont été suivies; elles ont facilité le fonctionnement des marchés et ainsi supprimé les distorsions, en particulier le rôle néfaste de l'Etat. Lorsqu'on a constaté que l'ajustement fondé sur ces politiques avait échoué, on a attribué cet échec à celui des politiques et, plus tard, à la faiblesse des institutions.

Pour Thandika Mkandawire, le regain d'intérêt pour les institutions est le bienvenu et n'a que trop tardé. Cependant, cette attention nouvelle a ceci de négatif que les institutions sont enfermées dans un moule néolibéral qui impose à toutes des politiques identiques, axées sur la crédibilité et les droits de propriété. Il en est résulté une “monoculture institutionnelle” (*monocropping*) ou une pensée unique sur les institutions: les pays en développement se voient imposer des versions idéalisées des institutions anglo-américaines, censées transcender les particularités et les cultures nationales. Selon l'auteur, les réformes souffrent aussi d'un “*monotasking*” des institutions, d'un entêtement à réduire leurs fonctions à un ensemble standard de politiques et de tâches souvent imposées et d'une expérimentation sans fin qui les rend très instables et imprévisibles. Cette pensée unique sur les institutions est liée à un attachement à un “institutionnalisme rationnel de choix”, qui a eu tendance à ne voir que l'aspect contraignant des institutions et a ignoré la fonction de développement et de transformation qu'ont mis en évidence les formes historiques et sociologiques de

l'institutionnalisme. Et finalement, elle s'est définie par une prolifération des tâches confiées à des institutions très encadrées.

Il est évident que le développement économique a besoin de bonnes institutions. Hors du monde raréfié de l'économie néoclassique, il a toujours été de notoriété publique que les marchés s'inscrivent dans des relations sociales complexes. Quelles institutions faut-il dans un contexte particulier pour atteindre tel objectif et remplir telle fonction? La question demeure sans réponse.

Après près de trois décennies d'ajustement et d'obstination à vider de leur substance les arguments développementalistes en faveur de l'intervention de l'Etat, le retour aux institutions est effectivement un tournant majeur. Selon Thandika Mkandawire, les économies africaines, désorientées quant aux politiques à mener, se donnent maintenant pour but de tout faire dans les règles, alors même que l'efficacité des institutions a été sérieusement entamée. Cette évolution, dans une large mesure forcée, s'est faite au travers de l'aide et de la conditionnalité. Les institutions africaines qui auraient pu vraisemblablement favoriser le développement ont été démantelées; celles qui ont été renforcées sont, dans le meilleur des cas, plus aptes à "stabiliser" qu'à soutenir le développement.

Thandika Mkandawire estime que malgré toutes les certitudes dont ont besoin les pays d'Afrique sur les institutions—et la pensée unique qui en résulte—l'histoire et l'expérience d'autres pays et régions laissent à penser que les institutions ne s'inscrivent pas uniformément dans un ensemble donné de politiques et que telle politique n'appelle pas un ensemble spécifique d'institutions. Il n'y a pas de modèle standard pour l'"économie de marché". Au contraire, les économies de marché sont compatibles avec des combinaisons diverses de mécanismes institutionnels, produits de trajectoires passées, de hasards heureux et de chances et conséquences involontaires d'actions d'agents multiples.

L'auteur reconnaît que les attributions des institutions vont bien au-delà des besoins étroits du marché. Les institutions jouent de nombreux rôles dans les processus de développement, et des institutions apparemment identiques peuvent tenir des rôles différents selon les époques et les pays, ou même dans un même pays. Le fait qu'une institution peut être nécessaire pour une fonction donnée ne signifie pas que cette fonction soit la seule que cette institution particulière puisse remplir.

De plus, même lorsque les institutions sont conçues pour servir un seul but, elles ont de multiples effets, dont tous ne sont pas forcément voulus. Comme c'est l'establishment de l'aide qui exige des réformes des institutions et qui en fournit le modèle et qu'elles sont conçues pour autonomiser des groupes ayant la faveur d'acteurs extérieurs, les retombées de ces réformes sur la distribution intéressent assez peu. Ainsi, les grandes questions dont traite la littérature sur la réforme des institutions—le processus, l'action collective, les rapports de force et les asymétries du pouvoir, les problèmes des intérêts acquis—sont simplement esquivées, ce qui fait que tout un éventail de questions liées aux institutions—l'équité sociale, la légitimité du pouvoir et en particulier le rôle qui leur revient de renforcer ce que les sociétés ont des raisons de valoriser—sont aussi évitées.

Thandika Mkandawire fait valoir que beaucoup de questions dont se préoccupaient les pays en développement telles que l'autonomie, l'édification de la nation, la cohésion sociale, la pauvreté et le sous-développement, sont toujours à l'ordre du jour. Cependant, les solutions avancées ont simplement évité ces préoccupations pour répondre à d'autres, totalement différentes—les conditions favorables au fonctionnement des marchés—ignorant le fait que, dans la vie, les institutions font en général beaucoup plus que créer de telles conditions.

De l'avis de l'auteur, il n'est pas nécessairement souhaitable du point de vue du développement de vouloir concevoir des institutions qui s'attachent avant tout à créer des conditions de stabilité et de prévisibilité pour les investisseurs mondiaux. La subordination monomaniaque

de la réforme des institutions à un ensemble de politiques a empêché les institutions de tirer profit d'un large éventail d'expériences faites dans d'autres régions du monde. Il estime que cela a eu aussi pour effet de marginaliser les nombreuses préoccupations auxquelles les Africains ont cherché à répondre avec leurs propres institutions ou celles qu'ils avaient empruntées. Pis encore, cette pratique a amoindri l'efficacité des institutions en leur refusant flexibilité et spécificité contextuelle.

Thandika Mkandawire était directeur de l'UNRISD, Genève, Suisse, au moment où ce document a été rédigé.

## **Resumen**

El estudio de las instituciones ocupa nuevamente un espacio prominente en el análisis del desarrollo en África. Los primeros economistas del desarrollo estaban conscientes de que las instituciones eran el marco en el cual operan los mercados y los motores que pueden llevar a estos a funcionar de forma diferente de lo que cabría esperar con la simple extrapolación de su desempeño anterior. De hecho, un desarrollo institucional innovador permitiría a los recién llegados a avanzar con mucho más rapidez, al tiempo que la implementación de arreglos óptimos modificaría las trayectorias de desarrollo. Sin embargo, se aplicaron políticas neoliberales mediante la facilitación del funcionamiento del mercado, eliminando de esta forma las distorsiones, en particular el papel negativo del Estado. Cuando se observó que el ajuste basado en estas políticas había fracasado, la culpa recayó sobre el fracaso de las políticas y, seguidamente, sobre la debilidad institucional.

Mkandawire sostiene que el resurgimiento del interés en las instituciones es un acontecimiento positivo que debió ocurrir mucho antes. Pero este nuevo interés se arruina al maniatar a las instituciones a una perspectiva de política única y universal, que se incorpora al neoliberalismo con énfasis en la credibilidad y los derechos de propiedad. Esto ha conducido a la "monocultura institucional", (*monocropping*) vale decir, versiones idealizadas de las instituciones angloamericanas que se imponen a los países en desarrollo partiendo del supuesto de que trascenderían las circunstancias y culturas nacionales. De acuerdo con el autor, las reformas institucionales también adolecen de una insistencia en "*monotasking*" a nivel institucional, en virtud de la cual las instituciones se limitan a cumplir con un conjunto estándar de políticas o tareas a menudo impuestas, así como de la interminable experimentación con las instituciones, lo que las hace sumamente inestables e impredecibles. La monocultura institucional pasa por el apego al "institucionalismo de elección racional", que ha tendido a concentrarse en la función restrictiva de las instituciones e ignorado el papel desarrollista y transformador que resaltaban las formas históricas y sociológicas del institucionalismo. Finalmente, la monocultura institucional se caracteriza por la proliferación de tareas que han de cumplir unas instituciones altamente restringidas.

Huelga decir que el desarrollo económico requiere de buenas instituciones. Fuera del enrarecido mundo de la economía neoclásica, es de todos sabido que los mercados forman parte de complejas relaciones sociales. El interrogante que no se ha respondido aún es: ¿Qué instituciones son apropiadas en un determinado contexto para alcanzar un determinado objetivo y cumplir una determinada función?

Tras casi tres décadas de ajuste y el desentrañamiento de argumentos desarrollistas en favor de la intervención del Estado, el retorno a las instituciones representa realmente un cambio de envergadura. En opinión de Mkandawire, las economías africanas han pasado a un estado de desorden en relación con sus políticas en el cual poner todo en orden es ahora el objetivo, a pesar de la profunda reducción de la eficacia de las instituciones. Buena parte de esto se ha efectuado mediante procesos de imposición apuntalados con asistencia y condicionalidades. Las instituciones africanas que bien habrían podido cumplir funciones de desarrollo han sido ahora desmanteladas; y las instituciones que han sido fortalecidas son, en el mejor de los casos, aquellas buenas para la "estabilización" más que para el desarrollo.

Mkandawire sostiene que no obstante la “certeza” que se tiene sobre las instituciones que requieren los países africanos (y la monocultura institucional que de ello resulta), la historia y la experiencia de otros lugares indican que las instituciones no encajan monotónicamente en un conjunto único de políticas, así como tampoco ciertas políticas requieren de un conjunto específico de instituciones. No existe un modelo estándar de “economía de mercado”. Por el contrario, las economías de mercado son compatibles con una diversa gama de arreglos institucionales, productos de la dependencia de la trayectoria, la casualidad, la suerte y la fuerza de las consecuencias imprevistas de las acciones de muchos agentes.

El autor reconoce que las atribuciones de las instituciones van mucho más allá de las meras necesidades del mercado. Las instituciones cumplen muchas funciones en los procesos de desarrollo, e instituciones aparentemente idénticas pueden asumir distintos papeles en distintas ocasiones en diferentes países, o incluso dentro de un mismo país. El hecho de que una institución puede resultar necesaria para una función determinada no significa que dicha función sea la única que esa institución en particular puede cumplir.

Además, incluso cuando se conciben para cumplir un solo propósito, las instituciones tienen múltiples efectos, y puede que no todos ellos sean intencionales. Debido a que las reformas institucionales son una demanda y una oferta del sistema de ayuda y se conciben para empoderar a grupos favorecidos por actores externos, se presta poca atención a sus resultados distributivos. De allí que los principales aspectos que se examinan en los estudios sobre la reforma institucional—procesos, acción colectiva, relaciones y asimetrías de poder, problemas de intereses creados—son sencillamente eludidos, lo que a su vez significa que una serie de cuestiones relacionadas con las instituciones—equidad social, legitimidad del poder y, sobre todo, su papel en el mejoramiento de aquello que las sociedades pueden tener razón en valorar—también se evitan.

Mkandawire sostiene que muchos de los asuntos que preocupan a los países en desarrollo, como la autonomía, la conformación de la nación, la cohesión social, la pobreza y el subdesarrollo, siguen figurando en la agenda. Sin embargo, las soluciones que se proponen han simplemente evadido estas inquietudes para ocuparse de una agenda completamente diferente —“las condiciones de conformidad con las leyes del mercado”— con lo que se hace caso omiso del hecho de que, en la vida real, las instituciones tienden a hacer mucho más.

El autor señala que el énfasis en el diseño institucional que prioriza la creación de “entornos habilitantes” de estabilidad y previsibilidad para los inversionistas internacionales no es necesariamente deseable desde el punto de vista del desarrollo. La supeditación inquebrantable de la reforma institucional a un conjunto de políticas ha negado a las instituciones locales la capacidad de aprender de una amplia gama de experiencias vividas en otras partes del mundo. Argumenta Mkandawire que esto ha conducido además a la marginación de las numerosas inquietudes que los africanos han querido atender con sus propias instituciones o con instituciones prestadas. Peor aún, esta práctica ha minado la eficacia de las instituciones al negarles especificidad de contexto y flexibilidad.

Cuando escribió este documento, Thandika Mkandawire era Director de UNRISD, Ginebra, Suiza.



## Introduction

The study of institutions is once again at the centre of development thinking in Africa. The excitement over the discovery of the “key” to development has been most pronounced among those working within an essentially neoclassical economics framework. Since its very inception, development economics—the intellectual scaffolding for development strategies—identified itself with the task of “government-engineered economic transformation” (Toye 2003:21). Early development economists were thus keenly aware of institutions as the framework within which economic decisions and transactions were made. The next issue raised was: what institutions are appropriate for accumulation and structural transformation in the context of “catch-up”? Not only were institutions the framework within which markets worked, but also the motors that would drive markets to perform differently from what would be expected by the simple extrapolation of their past performance. In the linear view of history, “latecomers” would simply adopt the institutions from industrialized countries so as to traverse the stages that the latter had been through. The main task of research was to identify the preconditions for each stage and simply accelerate the movement from one stage to the next.

In contrast, Alexander Gerschenkron (1962) was sceptical of “preconditions” for growth such as those suggested by Rostow (1960). Gerschenkron’s alternative to such prerequisites, and his seminal contribution, was his suggestion that institutional innovations would circumvent the establishment of market-based relationships by mapping out the boundaries of the firm, type of finance likely to be appropriate for late industrializers, the role of the state and so on. Institutions would be designed to skip certain stages or telescope certain processes, allowing the latecomers to move much faster than was suggested by the linear theory of history. More significantly, “a clear message that derives from Gerschenkron and does still appear to be valid is that economies which develop from backwardness will probably go through the early stages of development with institutional configurations that look quite different from those of, say, the United States and that optimal arrangements will alter as development progresses” (Crafts 1999:310).

Together with “development economics”, there evolved approaches to development that drew on other disciplines and sought to identify the kind of institutional arrangements that were appropriate to development and the lessons that could be learned from the past.

In this paper I shall argue that while the upsurge of interest in institutions is welcome and long overdue, the new focus is marred by the tethering of institutions to a “one-size-fits-all” policy perspective, which leads to what Peter Evans refers to as “institutional monocropping”. This involves an “imposition of blueprints based on idealized versions of Anglo-American institutions the applicability of which is presumed to transcend national circumstances and cultures” (Evans 2004:30). It also suffers from the insistence on institutional “monotasking”, whereby institutions are reduced to servicing a standard set of often imposed policies or tasks, and from the endless experimentation on institutions that renders them highly unstable and unpredictable. Monocropping also depends on an attachment to “rational choice institutionalism”, which has tended to focus on the restraining role of institutions and has ignored the developmental and transformative role that historical and sociological forms of institutionalism highlighted.<sup>1</sup> And finally, it has also been defined by a proliferation of tasks to be performed by highly restrained institutions.

## From “Getting Prices Right” to “Getting Institutions Right”

To understand the new turn to institutional reforms, it is important to bear in mind the theoretical underpinnings of the new model behind these reforms. Neoliberal policies were said to draw their policy diagnoses and prescriptions from the notions of Adam Smith’s “invisible

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<sup>1</sup> For the distinction among the three forms of institutionalisms, see Thelen (1999).

hand”, a concept formulated more rigorously by Kenneth Arrow and Gerard Debreu. In its pristine form, the Arrow-Debreu model of decentralized allocation of resources—which assumes a full set of complete and contingent markets extending infinitely into the future, with economic actors endowed with perfect information to operate in all these markets—holds that institutions are superfluous and likely only to lead to distortions.<sup>2</sup> The World Bank’s initial characterization of the underlying market economy was taken straight from the Arrow-Debreu world:

If the economy is producing efficiently, scarcity values must be equal to opportunity costs, and their common value is the efficiency price. ... An economy is efficient, as opposed to just production efficient, if it is impossible to make anyone better off without making someone else worse off. In addition to producing efficiently, the final consumers must have exhausted all possibilities of mutually beneficial exchange. This in turn requires they all face the same market prices and that these are equal to efficiency prices. ... The case for removing distortions and moving market prices closer to efficiency prices rests on the argument that prices influence production efficiency and the reform will increase production efficiency (World Bank 1983:42).

Consequently, adjustment basically involved the liberalization of the market from both primordial and modern state interventionist institutions associated with market distortions. And of all the institutions, the one identified as likely to play the most negative role was the state. What was to follow from this stylization of economies has been spelled out in an earlier World Bank report: “It is now widely evident that the public sector is overextended given the present scarcities of financial resources, skilled manpower, and organizational capacity. This has resulted in slower growth that might have been achieved with available resources, and accounts in part for the current crisis” (World Bank 1981:5).

If the concern of the “interventionist era” was “getting investment right” through planning and later through project evaluation, the neoliberal view was initially simply “getting the prices right”. There was little concern about institutions that would facilitate the workings of the market.

### ***The failure of adjustment***

Already by the end of the 1980s, there was growing realization that neoliberal policies were not working in sub-Saharan Africa, which had been subjected to more conditionalities per capita than any other region (Killick 1996). This led to the view that attention had to be paid to other variables that could account for the failure of the African patient to respond as expected to the nostrums. This shift was first hinted in the World Bank’s report on Africa, *From Crisis to Sustainable Growth* (World Bank 1989), which categorically declared: “Underlying the litany of Africa’s development problems is a crisis of governance. By governance is meant the exercise of power to manage a nation’s affairs” (World Bank 1989:60). And since then the issues of good governance and institutional reform have become part of the Pavlovian punditry about Africa’s crisis.

There were two interpretations of the crisis underlying the good governance agenda. One view, with strong neo-Weberian underpinnings, suggested that, for all its size and ubiquity, the African state was a “lame Leviathan” (Callaghy 1987). The consensus was that African states had been based on patron-client relationships that drew from African culture and the peculiar path modernity was taking on the continent. The more optimistic view sought to set up institutions that would be shielded from African culture (Hyden 1980). The institutions that

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<sup>2</sup> The “a-institutional” nature derived from the axiomatic grid of neoclassical economics was one of the questions raised against structural adjustment programmes (SAPs) (Stein 1997). In an earlier paper I pointed how the wrong “stylization” of African economies as immanently competitive had contributed to the marginalization of the question about institutions for rapid accumulation (Mkandawire 1996).

have emerged in Africa are what one would expect from Africa's historicity. The corruption, kleptocracy, violence and so on were manifestations of "how Africa works" and evidence of the "political instrumentalization of disorder" (see especially Bayart 1993; Chabal and Daloz 1999). In a Panglossian sense, the current Africa was the best of all possible worlds. The more "Afropessimistic" view argued that the reforms in Africa were a mere charade, or so totally out of sync with African culture that they were doomed to fail. Donors had been hoodwinked by the neo-patrimonial elites into believing that any adjustment had actually taken place (Chabal and Daloz 1999; Van de Walle 2001). The other view drew on the neoclassical tradition and its methodological individualism. In this analytical political economy school, institutions were treated simply as instruments of advancing sectional interest groups to capture rents.<sup>3</sup> Both these formulations posed problems for donor financial institutions. While initially these positions counselled the establishment of institutions that would be insulated from domestic entanglements, it later became clear that the cynical view of politics made the aid pointless, if indeed the existing policies represented a self-reinforcing political equilibrium.

For a while economists at the Bank and other aid agencies treated the governance turn with hesitation, viewing it as a distraction from the key message of getting prices right. In addition, the formulation did not suggest exactly how this would relate to the corpus of neoclassical economics that underpinned stabilization and structural adjustment programmes (SAPs). In *Adjustment in Africa* (World Bank 1994), the World Bank argued that adjustment was in fact working but also noted that the response of private investment to adjustment had been "disappointing". Significantly the report did not pay much attention to the governance issue, and getting policies right remained its core mantra. Overwhelming evidence contradicted this report and suggested that in fact adjustment was not working. For a while the Bretton Woods institutions (BWIs) kept on moving the goalposts and always found a reason to argue that policy makers had not done as instructed and had been slow in abandoning their retrograde ways.<sup>4</sup> However, over time, the policy failure argument simply ceased to make sense, and it could no longer be argued that in good faith that developing countries, especially the Latin American ones, had not implemented the putative right policies. In official circles the failure of adjustment was signalled by calls for post-Washington consensus policies, a Comprehensive Policy Framework and so on.

In light of this failure of the injunction to get policies right, a new question arose: "Why is it that when the recommended policies are put into place (often under the guidance of—and pressure from—the International Monetary Fund and the World Bank), the hoped-for results do not materialize quickly?" (Clague 1997:1). The answer was: "institutional weakness".<sup>5</sup> This answer was provided by New Institutional Economics (NIE), which suggested a strikingly obvious point, namely that poor legal systems and inadequate contractual enforcement deter investment and credit. The new interest in institutions was now inspired by the NIE as formulated in the seminal work of Douglas North. In this approach, institutions were overarching structures shaped by "path dependence" and the unintended consequences of individuals' pursuit of their own interest. They also provided the kind of constraints that would facilitate transactions and reduce the unpredictability of individual choices and behaviour. This new approach provided a

<sup>3</sup> This was essentially the Bates interpretation of marketing boards (Bates 1981). The World Bank also adhered to this approach of African policy (Harrison 2005).

<sup>4</sup> Joseph Stiglitz equates the "moving goal" aspects of policy making in Africa to the manner in which religious beliefs are never falsifiable: "Undermining this particular religion was the disturbing observation that countries that seemed to get the prices right—to follow the visiting preachers of the free market—too often failed to grow. To be sure, like medieval medicine, there was always the allegation that the patient had not followed the doctor's orders precisely, and it was this that accounted for the failure of the remedy" (Stiglitz 1996:155).

<sup>5</sup> One should also add here that the debacle of shock treatment in the former Soviet Union was an important indication of how institutionally embedded markets are. As Dunning and Pop-Fleche note:

"When such replicas failed to materialize in most of the ex-Communist bloc (and, moreover, an unexpectedly sharp decline in output followed liberalization), the 'rediscovery' of institutions by the [international financial institutions] IFIs led to a veritable explosion of structural conditions in International Monetary Fund (IMF) programs, from an average of four structural conditions per IMF program in 1991 to a peak of sixteen in 1997. The emphasis on structural reforms mirrored a realization that implementation of the 'right' policies required the creation of the 'right' institutions, and thus marks the beginning of a second 'deep' stage of institutional monocropping during the mid 1990s" (Dunning and Pop-Eleches 2005:4).

formulation of the good governance agenda that could be reconciled to neoclassical economics. It also dovetailed neatly with the new growth theories and their attempts to take on board once again a wide range of determinants of growth, including in cross-country regression equations proxies of the rule of law, financial institutions, intellectual property law and so on, which are mainly the outcome of the institutional set-up of the country.

Institutions' most important role was to lend credibility to policy. Given the irreversibility of many investment decisions, predictability was important in encouraging private investors. One way of ensuring this was through the reduction of the discretionary space of the state. The theory informing this choice was drawn from a seminal paper by Nobel Prize winners Finn Kydland and Edward Prescott,<sup>6</sup> which argued that the central problem of policy was its credibility: fixed rules are preferable to discretionary ones because they increase credibility. Discretionary rules lead to "time inconsistency" which arises because policy makers may renege on commitments made earlier. This is the approach that rational agents use to correct economic models and take into account all the available information when forming expectations about the future and making decisions. Correct policy respects the "fundamentals" of economic theory. Insulated institutions were necessary to ensure credibility and minimize the risks of time inconsistency and policy reversals.<sup>7</sup> The problem for government, then, was how to assure private sector agents that announced policy rules would actually be carried out. Presumably, the rules were more credible if they were endorsed or even enforced by outside institutions. Governments could delegate authority to a "credible" institution, such as the International Monetary Fund (IMF) or deliberately surrender control and responsibility to the authorities of an independent central banking system. Rule-based policies were thus strongly recommended to reduce the risk of recidivism. Indeed conditionality "provide[d]...the theoretical underpinning for the widespread notion that an IMF agreement is akin to the Good Housekeeping Seal of Approval for government policy, increasing the attractiveness of a country to foreign investors" (Gordon 1993:112).<sup>8</sup>

The second pillar of this new argument was the need to ensure property rights. It should be recalled that property rights included protection of market-sanctioned returns, so that something like "rent control", inflation or state revenues from seignorage were tantamount to the violation of such rights.

## **"Good Governance" Once Again**

If the World Bank's arguments for good governance received a lukewarm welcome, the reception was different the next time the argument was made. In 1998 James Wolfensohn, the then president of the World Bank, declared that the Bank had "ignored institutional infrastructure, without which a market economy simply cannot work" (Wolfensohn 1998:11–12). In the light of these intellectual and policy shifts, the 1990s were therefore the era of institutional reform. Virtually all donor agencies were now involved in supporting institutional reform and capacity building. Often the new initiatives simply involved relabelling existing activities from, say, public administration to governance and institution building. Remarkably, in many cases, there was no attempt made to hide the fact that what that was taking place was

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<sup>6</sup> For a non-technical presentation of their argument, see The Royal Swedish Academy of Sciences (2004).

<sup>7</sup> Note, however, that the insulation and autonomy was only with respect to national institutions and politics. These autonomous institutions were beholden to outside institutions because they were often compelled by SAPs to adhere to certain operating practices, such as refusing to finance government debt, or were based on operating guidelines of credible Western central banks, sometimes employing central bank staff directly from these institutions.

<sup>8</sup> The IMF's own perception of the importance of its conditionalities was couched in this language: "Clearly endorsing IMF conditionality is a means by which borrowing countries establish the credibility and predictability of their policies...Markets want proof not only of the technical merit of policies but also of the authorities' will to sustain them. IMF financing vouches for this will, and conditionality helps countries signal their determination to act predictably, in accordance with prior commitments" (IMF 1997a:82). See also Dhonte (1997). As it happened, the catalytic effect of IMF policies proved illusory (Bird 1997a, 1997b; IMF 1997a). Hajivassilou found that between 1970 and 1982 there was a significantly negative correlation between IMF support and new private sector lending (Hajivassilou 1987).

cosmetic, rather than real change. Thus, although the IMF now took on good governance, it also insisted that the many reforms it had been involved in over the years (tax reforms, banking reforms and so on) were indeed core components of good governance. As stated by Michel Camdessus, the then Managing Director of the IMF: “Our approach is to concentrate on those aspects of good governance that are most closely related to our surveillance over macroeconomic policies—namely, the transparency of government accounts, the effectiveness of public resource management, and the stability and transparency of the economic and regulatory environment for private sector activity” (IMF 1997b).

By the end of the 1990s, many countries had adopted the “good institutions” mantra. Central banks had been made autonomous, parastatals had been privatized, legal reforms had strengthened property rights, stock markets had been set up and bureaucracies had been trimmed down to produce the desirable “lean and mean state”. Yet in a significant number of cases, although countries had made significant steps towards democratization, economic growth remained elusive. The new question then was why was it that even when countries had adopted good policies and good institutions, economic growth had remained anaemic? So a new set of explanations had to be invoked to explain the ineffectiveness of institutional reforms in Africa. These included the large numbers of ethnic groups, which undermined the national cohesion required for development (Easterly and Levine 1995); the important role played by religion; a lack of social capital; a “pathological” type of social capital; a lack of human capital (Glaeser et al. 2004); path dependence and “getting your past right”; the different patterns of colonization that determined the quality of their institutions (Acemoglu et al. 2001) and the bad hand that Africa—except for the white settler colonies—had been dealt. Some scholars argued that geography had overcome institutions and pointed to the continent’s large number of land-locked countries and unhealthy climate, and the problems of governing such thinly populated countries.<sup>9</sup>

## What Went Wrong with Institutional Reforms

### *Weak conceptual underpinnings and measurement problems*

This paper noted that some of the new interest in institutions was driven by the new thinking in economics. The work of Douglas North gave rise to a sort of cottage industry of econometrics, with growth on the left-hand side of the equation and some measure of institutions included among the right-hand explanatory variables. Many questions remain unanswered about the direction of causality, the appropriateness of the proxies used to measure institutional capacity or characteristics, the exact channels of their effects on growth, their relative importance vis-à-vis other exogenous and endogenous variables, such as trade policy and geography, and the interpretations of findings. The work, which putatively informs the current institutional reform agenda, presents many problems for policy makers and institution builders. First, economic theory does not specify the functional forms for the relationships between institutions and economic growth, so the link in the econometric specification of the relationship between theory and the estimated regression often involves a leap of faith. There is definitely no robust, long-term causal relationship among political, legal, economic and financial institutions (Fohlin 2000). Thus, the empirical evidence on the relationship between growth and such institutions as stock markets or central bank independence is still highly contested.

Second, as most authors admit, problems of simultaneity are prevalent in such cases, so endogeneity bedevils some of the simplistic derivations of appropriate institutions from econometric analysis. The direction of causation is not clear and may run in both directions. In

<sup>9</sup> Herbst 2000; Sachs 2003, 2000, 1996; Sachs and Warner 1997. A recent explanation is the debate on the relative importance of institutions in particular vis-à-vis trade and geography. On one side is group of researchers headed by Dani Rodrik (Rodrik et al. 2002), who stress the dominant importance of institutions, and another centred around Jeffery Sachs (Sachs 2003) for whom geography is the most important factor explaining differences in growth rates.

fact, since institutions condition both factors and responses, this should not be surprising. The simultaneous relationship between growth, investment and institutions makes it difficult to find the relative importance of indirect and direct effects. In a recent article Lindauer and Pritchett (2002:19) observe that “by now, there are thousands of papers that put economic growth on the left-hand side and other stuff on the right-hand side...(yet) estimates in the typical growth regressions are unstable over time and across countries”.

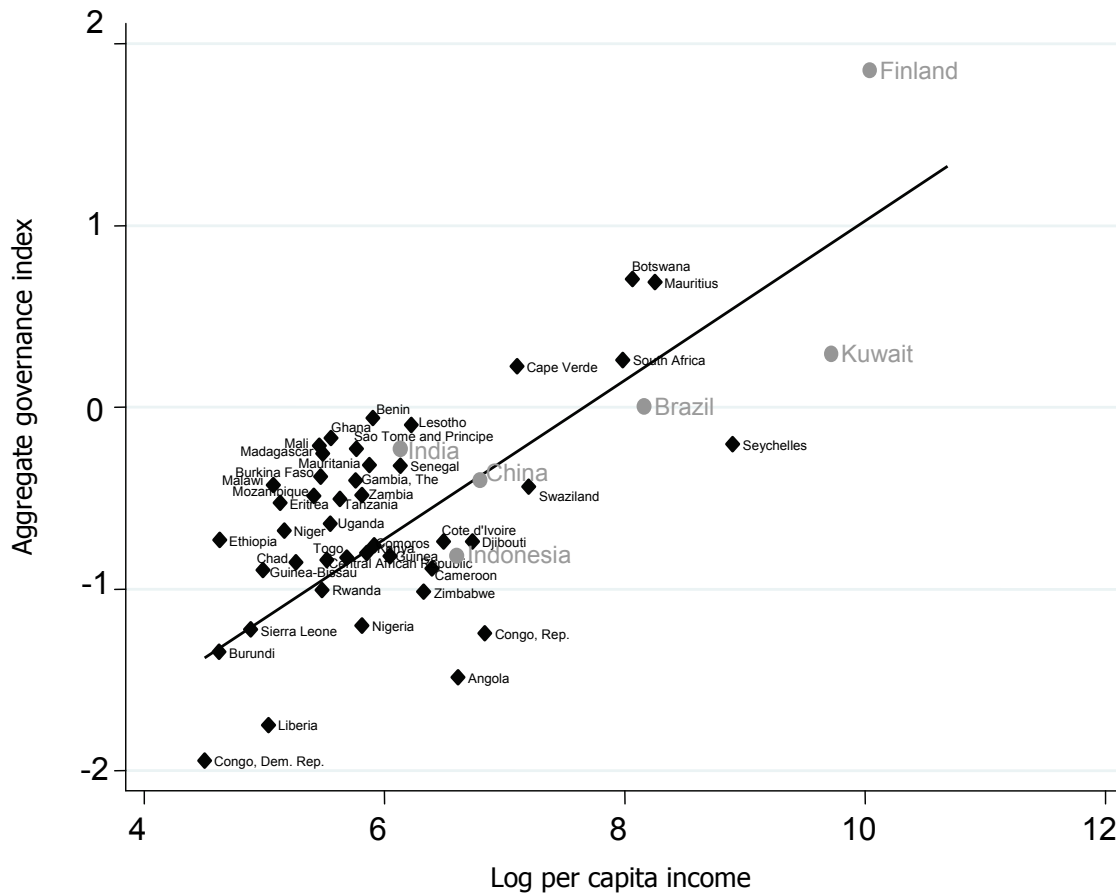
In addition, the “institution variable” raises enormous problems of measurement. Most of the measures of institutions are dubious empirical proxies for their theoretical counterparts, subject to errors and biases of measurement. Although in most models institutions are treated as prior or as determinants of behaviour, the actual proxies used are derived through the behaviour or action of agents. Such proxies suffer both subjective bias (since the index may be influenced by a country’s overall economic condition) and reputation (which has a self-fulfilling quality) and by an endogeneity bias since there is often feedback from growth to institutional quality. And so the fact that people are investing in a particular country (driven essentially by herd instinct) is used to suggest the existence of good institutions. Both cultural and racial bias in these measures and the so-called CNN factor should also be borne in mind. In the case of Africa, this is demonstrated in several studies that suggest that Africa is systematically rated as more risky than is warranted by the underlying economic characteristics (Collier et al. 1999). However, in the policy literature, there is usually the perfunctory admission that proxies are subject to endogeneity, but the analysis then proceeds as if the problem of direction of causation has been solved. And so the imposition of institutions takes place when “social scientific ignorance persists about the relationship of specific institutions and processes of institutional change to economic development” (Dunning and Pop-Eleches 2005:4).

Finally, the high correlation between some of the measures of governance and growth suggests that instruments measure the economic outcomes of economic development rather than the efficacy of these institutional characteristics in promoting growth (Glaeser et al. 2004). As figure 1 shows, there is a high correlation between good governance and per capita gross domestic product (GDP). Indeed, these measures demonstrate that many countries are as well governed as the level of development will permit, and several African countries are better governed than one would expect, given their levels of development.<sup>10</sup> It is important to remember what Ha-Joon Chang (2002, 2007) stressed in his work: generally speaking, the poor countries of today have better institutions than the industrial countries had at similar levels of economic development. This does not dismiss the importance of good institutions but points out that what may matter is the normative argument that such institutions are of intrinsic value and that their developmental role may be oversold.

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<sup>10</sup> Or as Naim (2000:9) observes “The difficult paradox, is that any country that is capable of meeting such stringent requirements is already a developed country”.

**Figure 1: Relationship between governance and per capita income**



## Institutional Monocropping and Monotasking

If the initial concern of the World Bank's 1989 report on Africa was with governance and focused on problematic state-society relationships (World Bank 1989), the new one (World Bank 1994) was informed by more technocratic concern over the effectiveness of the state. The notion of good governance to which African scholars such as Claude Ake had contributed was intended to bring politics back in. The ambition of the World Bank was, in light of mandate and its understanding of institutions, to depoliticize the good governance agenda. In the words of its general counsel (1983–1998), Ibrahim F.I. Shihata (1991, cited in Upham 2007:37–38):

Concern for rules and institutions is particularly relevant to a financial institution which at present does not only finance projects but is also deeply involved in the process of economic reform carried out by many of its borrowing members. Reform policies cannot be effective in the absence of a system, which translates them into workable rules and makes sure they are complied with. Such a system assumes that: a) there is a set of rules which are known in advance, b) such rules are actually in force, c) mechanisms exist to ensure the proper application of the rules and to allow for departure from them as needed according to established procedures, d) conflicts in the application of the rules can be resolved through binding decisions of an independent judicial or arbitral body and e) there are known procedures for amending the rules when they no longer serve their purpose.

Although many other concerns (such as participation and democracy) have been added to the good governance agenda, these core concerns still dominate the reform agenda, with a number of consequences.

### ***Monocropping***

The assumption that there were good policies, a highly dubious proposition,<sup>11</sup> and that there was one isomorphic mapping between the policies (or tasks) and institutions—drawn from the notion that in perfect markets there is only one optimum to which all economies must move if they are not to end in non-Pareto optimum situations—has led to an institutional monocropping through the imposition of what Peter Evans described “ideal-typical versions of a particular sub-set of supposed Anglo-American institutions” (Evans 2004:44). Since this singular truth maps monotonically into one type of institution, the whole idea of context specificity and path dependence is jettisoned as countries simply borrow best practices from Western countries.

In reality there are multiple equilibria that can be reached through different institutional arrangements (Freeman 2000).<sup>12</sup> One consequence is that the relationship between institutions and economic fitness is multi peaked, and each of these peaks may be associated with entirely different social institutions. The peak a country reaches depends on from where it came (path dependence) and the context within which choices about institutions were being made.<sup>13</sup> Consequently, the kind of standardized policy advice on institutions is unjustified and “the search for a single institutional ‘taproot’ of growth is likely to be a misguided exercise” (Haggard 2003:53), and simply mimicking a leader or best practice will not do (Schettkat 2002).

### ***Monotasking***

One remarkable effect of SAPs has been their failure to stimulate investment. Institutions perform many roles, some intended and some unintended. In the new view, “underlying differences in the credibility of policy announcements are differences in the institutions of policy making” (Clague 1997:25). Institutions are now assigned the task of encouraging or attracting (mainly) foreign investments. And so, surprisingly, the elements picked up from NIE were those that relate to attracting foreign investment: reinforcing property rights, regulating markets to promote competition (levelling the playing field), clamping down on corruption, bolstering political credibility, enhancing the administrative capacity of government agencies and transparency. This has had serious implications for the design and functioning of institutions in Africa. Virtually everything was to be harnessed to this task of ensuring private property.

The most emblematic case of monotasking has been the reforms in the statute and mandate of central banks. Under the reforms regime, “inflation targeting” has become the operational objective of central banks as monetary policy focuses almost exclusively on keeping inflation low, often at the expense of growth and employment creation. These restrictions deprive countries of a major instrument for accelerating economic and social development.

Historically central banks have carried out a wide range of functions:

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<sup>11</sup> History and Africa’s own recent past suggest that the policies being pursued under the aegis of the BWIs are not the “good policies” associated with economic development and structural change. As Dani Rodrik (2002:1) notes: “The few instances of success occurred in countries that marched to their own drummers—and that are hardly poster children for neoliberalism. China, Vietnam, India: all three violated virtually every rule in the neoliberal guidebook, even as they moved in a more market-oriented direction”.

<sup>12</sup> Strictly speaking, the inference drawn from neoclassical theory about the required institutions has much more to do with ideology than the strict logic of neoclassical economics. As Dan Rodrik argues, “first-order economic principles—protection of property rights, contract enforcement, market-based competition, appropriate incentives, sound money, debt sustainability—do not map into unique policy packages. Good institutions are those that deliver these first-order principles effectively. There is no unique correspondence between the functions that good institutions perform and the form that such institutions take. Reformers have substantial room for creatively packaging these principles into institutional designs that are sensitive to local constraints and take advantage of local opportunities. Successful countries are those that have used this room wisely” (Rodrik 2003:4).

<sup>13</sup> Hodgson (1996) notes that this multiplicity of adaptive peaks may lead to the congregation of units around a local rather than global maximum which may too costly to reach from any given position.

virtually throughout their history, central banks have financed governments, used allocation methods and subsidies to engage in 'sectoral policy' and have attempted to manage the foreign exchanges, often with capital and exchange controls of various kinds. The current 'best practice recipe', then, goes against the history and tradition of central banking in the countries now most strongly promoting it (Epstein 2006:16).

Epstein further notes that virtually all central banks have engaged in industrial policy or selective targeting. In the credit-allocating functions, central banks have been "most effective in helping to foster development, especially in 'late developers', where they have been part of the governmental apparatus of industrial policy" (Epstein 2006:16). In the Republic of Korea, the central bank was "nearly an administrative arm of the Economic Planning Board and the Ministry of Finance" (Epstein 2006:120). Significantly, Maxfield attributes this to the absence of the need to compete for international creditworthiness, and pressures to attract foreign investment due to the high export performance of the economy, ability to borrow cheaply in financial markets, aid and effective capital controls (Maxfield 1997). The new practice in developing countries differs substantially even from current practice in countries of the Organisation for Economic Co-operation and Development (OECD). In the United States, for instance, the Federal Reserve has to ensure low inflation and high employment rates. As Ha-Joon Chang demonstrates, this monotasking—the exclusive focus on monetary stability—not only deprives countries of a powerful instrument of resource mobilization and allocation, but actually forces the monetarist biases of these institutions on developing countries:

Given the costs of pursuing a restrictive monetary policy giving independence to the central bank with the sole aim of controlling inflation is the last thing a developing country should do because it will institutionally entrench a monetarist macroeconomic policy that is particularly unsuitable for developing countries. This is all the more so when there is actually no clear evidence that greater independence even lowers the rate of inflation in developing countries, let alone helps to achieve other desirable aims like higher growth and lower unemployment (Chang 2007:154).

Ultimately good governance has been reduced to primarily serving the market, just as earlier development administration was aimed at serving development plans. Even democracy was defended because it was good for property rights, a position buttressed by econometric studies suggesting that property rights are more secure under democracies than under autocracies (Clague et al. 1996).<sup>14</sup> As a consequence, central liberal and egalitarian (civil) components of democracy were shorn off the governance agenda. What Tuozzo (2004:106) observes with respect to Argentina has resonance for the African situation:

This rationale has led to the prioritisation of certain normative values above others, making democratic institutions more concerned with elements of 'performance' and 'effectiveness', whilst elements of representation, fairness and equality have moved onto the back burner. The prioritisation of goals produces complex tensions and incomplete institutional initiatives that only partially address governance problems in Argentina. Since the Bank believes that to govern is to manage the economy effectively, it sustains a managerial view of governance processes that may have detrimental implications for the unfolding process of democratic consolidation.

<sup>14</sup> Both the historical and conceptual analysis has often suggested that when the propertyless are the majority, there is always the danger that numbers can be used against the few propertied classes. As Przeworski and Limongi note, "[t]he idea that democracy protects property rights is a recent invention, and we think a far-fetched one" (Przeworski and Limongi 1993:52). The case for democracy is that it ensures the rule of law, which presumably encourages investment. However, it should be noted that what matters for investors is predictability and not accountability "and it is not clear that an authoritarian regime cannot provide a framework for a predictable set of contacts" (Bardhan 1999:95). This, after all, has been the main attractive feature of authoritarianism to business. In a more recent case, Glaeser et al. (2004) observe with respect to China:

"With respect to policy, our results do not support the view that, from the perspective of security of property and economic development, democratization and constraints on government must come first. In many poor countries, such security came from policy choices made by dictators. The economic success of East Asia in the post war era, and of China most recently, has been a consequence of good-for-growth dictators, not of institutions constraining them. Indeed, the Chinese example illustrates this point forcefully: there was nothing pre-destined about Deng, one of the best dictators for growth, succeeding Mao, one of the worst."

Transparency is intended more to ensure global legibility of local financial practices than to facilitate democratic oversight, which has, in many cases, been circumscribed by the ring-fencing of many economic institutions. In such a context even the notion of transparency so germane to the notion of accountability is subjected to the exigencies of this technocratic vision of policy makers and the perceived needs of the markets. Since accountability was important in ensuring “congruence between public policy and actual implementation, and the efficient allocation and use of public resources” (World Bank 1992:13–14), even institutions of society were perceived in this narrow sense. “The Bank’s promotion of civil society is linked to its promotion of accountability, legitimacy, transparency and participation; it is these factors which empower civil society and reduce the power of the state” (Williams and Young 1994:87).

Monotasking has even sought to reduce the functions of such institutions as the judiciary to the task of the protection of private property. According to a World Bank lawyer, judicial reform is part of a larger effort to make the legal systems in developing countries and transition economies more market friendly (Messick 1999:118). In the new institutionalism, economists deploy three key analytical concepts: property rights, contracting and transaction costs. One explanation for the failure of adjustment in attracting private investment was that institutions protecting property rights and enforcing contracts were weak, and transaction costs were generally high in Africa, due largely to cumbersome bureaucratic procedures. It was important that an independent and credible judicial system be set out to ensure respect of private contractual arrangements. Confidence in the enforceability of contracts was also crucial to the reduction of unreasonable delays, high costs and uncertainty in enforcing agreements. It should also be stressed that this understanding of the function of law dovetailed neatly with a political economy analysis that sought to reduce discretionary practices by the state (Tshuma 1999). The 1997 *World Development Report* (World Bank 1997) clearly spelled out this understanding of law and development. Its involvement with legislature reform was confined to law and governance aspects related to development. Aspects of the judiciary that serve the function of property rights receive better funding from the donors.

This focus on formal law downplays other normative or semiautonomous spheres in society that set rules and facilitate enforcement.<sup>15</sup> This form of monotasking also tends to downplay other functions of the judiciary. In addition, as John Ohnserge argues, the international financial institutions (IFIs) advocate judicial independence largely in terms of enforcing written rules, and as a check on populist politics (Ohnserge 2007). And Shapiro notes that the popularity of reform of the judiciary “may have more in common with the popularity of independent banks than with the protection of individual freedoms (by functioning as devices signalling investors that the capacity of elected officials to interfere in redistributive policy or interfere with property rights will be limited)” (Shapiro 2003:21).<sup>16</sup> Finally, the view that legal reforms are apolitical and are only confined to neutral technical reform is deceptive. Establishing property rights always has political implications because, in the context of scarcity, property rights are not only about incentives but also about exclusion of some from those protected properties. In Africa, schemes such as land entitlement have meant depriving communities of customary property rights in favour of the individual. Consequently “imposing new sets of formal rules without simultaneously reshaping the distribution of power that underlies prior institutional arrangements is a dubious strategy from the perspective of political economy” (Evans 2004:34).

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<sup>15</sup> An often-cited case is the land registration scheme in Kenya, launched in the mid-1950s and continued under national laws, which failed because the formal law did not accord attention to traditional norms of land ownership and inheritance.

<sup>16</sup> With respect to Africa, Nyamu-Musembi notes that reforms to equip the judicial sector (for example, through provision of new buildings and computerization) have privileged commercial dispute resolution and underinvested in judicial subsectors such as family courts and legal aid for family proceedings (Nyamu-Musembi 2005).

## The Consequences of Monocropping and Monotasking

### *Wrong institutions*

The problems of monocropping and monotasking were not only that they unnecessarily restricted the range of possible institutional arrangements by rendering institutions one-dimensional, but also that in most cases, they insisted on institutions that were neither necessary nor sufficient. The World Bank has premised most of its initiatives on privatization on the Anglo-Saxon model, presumably on best practice assumptions, since Anglo-American common law tradition is more conducive to economic development than the civil law tradition (La Porta et al. 1999).<sup>17</sup> In the case of Africa, the World Bank has published studies claiming that formal rule-bound governance (FRBG) was more entrenched in Anglophone countries “consistent with the emphasis which the British placed on building a foundation of law during the colonial period”.<sup>18</sup> Consequently, the World Bank has invested considerable efforts in setting up stock markets despite the evidence that such arrangements have not played a crucial role in any of the more recent high performers.<sup>19</sup> However other researchers have challenged both the accuracy of the portrayal of real “Anglo-Saxon” economies and the assertion of the model’s superiority because

- there is not much similarity among the real economies, even among Anglo-Saxon countries, nor are they anywhere close to the Chicago School model;
- there is no evidence that civil law hindered industrialization and, that indeed, some of the most dramatic cases of industrialization have been inspired by lessons from the German model. In fact, among most of the high-performing developing countries, the so-called Rhein model in which the banks were closely involved with industry has been extremely successful in ensuring long-term investments (Ohnesorge 2007);
- in Anglo-Saxon countries, informal, out-of-court arrangements have been important in accounting for the flexibility of the system. Carruthers and Halliday (2007:272) argue “Anglo-American commercial life unfolds outside the law as well as within it. And the variability of ‘law in action’, as opposed to ‘law on the books’, should never be underestimated. Furthermore, commercial predictability can be achieved outside the law as well as within it.” This is particularly the case in developing countries where enforcement of whatever laws that do exist may be quite weak. And where, consequently, preoccupation with legal forms and structure may be misplaced.

Many of the specific institutions included in econometric studies do not seem to have played the role assigned to them in the new success stories such as Taiwan Province of China, the Republic of Korea or, even more spectacularly, China. The experiences of these countries do not suggest that these institutions were as important as theorized. In cases where they were important, they did not assume the form suggested by their proxies. Or as Evans puts it, “the star performers in terms of sheer economic growth during the last ten years—e.g., China, Vietnam, and Malaysia—exhibit institutional patterns that are embarrassingly hybrid relative to the monocropping ideal” (Evans 2004:35). Daya Shanker (2003) argues that in China, most of

<sup>17</sup> The researchers concluded from their regression analysis that “countries that are poor, close to the equator, ethnolinguistically heterogeneous, use French or socialist laws, or have high proportions of Catholics or Muslims exhibit inferior government performance, (and that) larger governments tend to be the better performing ones” (La Porta et al. 1998:222).

<sup>18</sup> Brian Levy, sector manager, public sector reform and capacity at the World Bank, citing Mahmood Madan, does add the caveat that the laws were not applied evenly, without fully appreciating that Mahmood’s thesis completely undermines his view. Levy cites Ghana, Malawi, Mauritius, South Africa and Uganda as good examples of countries with “strong credibility and strong FRBG”. The shallowness of the intended institutional reforms is suggested by the following observation by the author: “To be sure, even these five countries did not emerge in the survey as unequivocal paragons of good governance: Ghana and Uganda, for example, both scored worse for corruption than the global median. Nonetheless, in contrast with the other countries surveyed, their institutional task seems to be more one of consolidation—for which a variety of supply-side technocratic reform initiatives can be helpful—than the more fundamental challenge of building a stable governance foundation for economic development” (Levy 2002:10–11).

<sup>19</sup> The World Bank has strongly denied that its proposals on corporate governance favour any particular model. However, as Ajit Singh, Alaka Singh and Bruce Weisse (2003) argue, the actual recommendations the Bank has made leave little doubt that the preferred model is the Anglo-Saxon one.

these institutions, such as rule of law, financial institutions, an independent judiciary, property rights and so on are underdeveloped or take a form diametrically opposite to the ones presumed in the literature.<sup>20</sup> Indeed the contrast between India and China in this respect compels Bajapa and Sachs to raise the question: “why can India not match China or even outpace China in attracting foreign direct investment, given India’s superior conditions regarding the rule of law, democracy, and the widely spoken English language?” (Bajpai and Sachs 2000:3). Hausmann and Rodrik (2003:3) note

China achieved phenomenal growth rates without formally enacting private property rights—something that would have seemed impossible to many economists had the Chinese miracle not taken place. India barely reformed its incredibly cumbersome trade and industrial regime before its economy took off in the 1980s. And even after more ambitious reforms were enacted in the early 1990s, the Indian economy remained among the world’s most protected.

In a similar vein, Donald Clarke (2003), considering the “property rights” hypothesis, notes the contradictory fact that, on the one hand, China has attained high growth rates while on the other, the institutions by which rights are enforced, particularly courts, are perceived to be weak, and thus rights are seen to be unenforceable.<sup>21</sup> In looking at the experience of Japan, Aoki et al. (1997) argues that that there was much more serendipity in institutional design or choice than is often imagined, and that there was an unintended fit or complementarity between the evolving organizations and the institutional framework in the emergence of which the government had played a central role.<sup>22</sup> One should add here that many of the recommended institutions are also based on a misreading of the practices in the West, which are often drawn from ideal types. The insistence on these recommendations, rather the institutions that the developed countries actually had, is something tantamount to what Ha-Joon Chang (2002) called “pushing away the ladder”.

### ***Institutional dualism***

The literature on institutions underscores the significance of the match between formal institutions and local social, political, economic and cultural settings. It also stresses the importance of complementarities within institutional systems. One major preoccupation of earlier discussions of institutions and development was around the duality of “modern-traditional”, “capitalist-pre-capitalist” and so on, and the implication of such dualities for development. In the debates of the 1960s, there were also concerns that national institutions might be “overdeveloped” because they were specified for non-national tasks or were empowered by foreign actors. Concerns about institutional dualities, nation building and the specificities of underdeveloped economies were abruptly brought to an end by a “monoeconomics”, which was essentially negative toward analyses that suggested different economies—or sectors within economies—would be driven by anything other than neoclassical utility maximization. Instead, the existence of such dualisms and segmentation were attributed to such artefacts as policy biases and the view that the real culprit in the modern-traditional, urban-rural dichotomies was the state, which had favoured or succumbed to urban interests and created market distortions that had blocked agrarian transformation. The long-awaited unification of the modern and traditional could be ensured by reliance on the market and a level-playing field provided by non-intervention.

Consequently, much of the analysis lacks detailed information on existing institutions. Instead, institutions in Africa are often studied for what they are not rather than for what they are (Ake 1996). The consequence of this tabula rasa approach was that institutional reforms often

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<sup>20</sup> With respect to security market regulations, the necessary institutions are probably better in some Latin American countries than in a number of high-performing countries. This is probably also the case with the stock markets in Egypt, Kenya and South Africa.

<sup>21</sup> Note that it is perception, which determines whether people are willing to invest and make deals, that counts for purposes of the rights hypothesis.

<sup>22</sup> In contrast, it turns out that the institutions that have mattered in countries such as China—family networks, repressive laws, a highly restricted stock market and a banking system still tethered to a central planning view of enterprise success—are not exactly what is being recommended in the new literature (Shanker 2003).

involved throwing away the proverbial baby with the bathwater or grafting institutions onto a body whose rejection mechanisms were poorly understood. This is the feature of the current modular view of institutions whereby parts of best practice can be easily added on to existing practices (Roland 2003). As noted earlier, Africans set up a whole range of institutions to address the problems of their colonial past, their developmental aspirations and nation-building needs. Many of these institutions may have been wrongly designed, poor copies of the original metropolitan institutions or have simply outlived their original intention. They do, however, constitute part of the landscape or “initial conditions” that must serve as the point of departure for serious reform.

Recent reforms have introduced a new form of dualism, partly as a result of the insulation of the new institutions from the broad developmental agenda, monocropping and the highly restrictive agenda (monotasking) set for these institutions. Such a dualism differs from the institutional layering in which the old and new are fused by processes of mutual adjustment and accommodation. The new dualism manifests itself in the professionalization and ring-fencing of those elements of the state designed around monotasking and the informalization of institutions that address other aspects of the economy. With respect to law, improved protection of property rights of a few is accompanied by increased social insecurity of the many, greater criminalization of their neighbours and insecurity of their property—both individual and collective.<sup>23</sup>

In the political sphere, the new institutional reforms have sought democratization, on the one hand, while on the other, have sought to create “authoritarian enclaves” that remain outside the oversight of democratic governments. Institutions intended to address issues of local development and those designed to facilitate global governance do not necessarily work well together. One consequence has been an institutional dualism within governments—with one part aimed at donors being visible, modern and often equipped with the latest technologies for managing digital information, and another poorly equipped, demoralized and often resentful of the other and frequently carrying the heavy tasks of development such as rural clinics and basic administrative services.

In the area of finance, most of the institutions that the World Bank is insisting upon are overly dimensioned and extremely expensive. One reason is that these institutions are set up to attract foreign private investment whose demands for legally codifiable and court-verifiable information may simply be too rigorous for domestic capital. Thus it is doubtful that stock markets that meet the standards of American pension funds are the appropriate ones for providing capital to local African capitalists. The needs and perceptions of domestic investors may be quite different from foreigners’ and the standards set up may be too restrictive for them.<sup>24</sup>

### ***Institutional instability and institutional sclerosis***

An important constitutive characteristic of institutions, stability, often creates tension between conformity and change. Such stability can at times be a fetter on development, while at times it can provide the kind of predictability that is valuable to economic actors. Indeed, the World Bank argues that it emphasizes the procedural and institutional version of the rule of law because it is supposed to guarantee stability and predictability, which are essential elements of a climate where business risk may be rationally assessed and the cost of transactions lowered (Tshuma 1999:84). People who work on institutions stress coherence and predictability while leaving room for

<sup>23</sup> On increasing violence and informalization in Latin America, see Kruijt et al. (2002) where, as in Brazil, “urban social tranquillity rests on the permanence of a state of siege” (Gledhill 2005:29).

<sup>24</sup> Thus in the case of China, ethnic Chinese investors have entirely different perspectives that pay much less attention to the variables that enter the standard measures of “high quality institutions”. As Singapore’s minister of information observed: “Investment and trading conditions are very complicated, with a weak legal system and unsettled frameworks for investments and currency exchange...China has never been a civilization with a tradition of the rule of law above the rule of men...The overseas Chinese...are relatively untroubled by the absence of legal and accounting frameworks” (cited in Pfeffermann 1997:270).

flexibility and adaptability. However, an institution can only have a limited degree of flexibility and malleability before it ceases to be one. Many of the new institutionalists claim to derive their inspiration from Douglas North, who argued that institutions change gradually in response to relative price changes and to changes in transaction costs. One argument for gradualism and tailoring of changes to pre-existing institutions is that this economizes on institution building. There is therefore a contradiction between the perception that institutions (whose establishment is inherently gradual) would go side by side with what David Ellerman refers to as “Big Bangery”, shock therapies and counter-revolutionary impositions (Ellerman 2005). The radical dismantling of existing institutions and the rapid implantation of institutions from elsewhere do not pay attention to the injunctions of the theories about institutions. Because institutional reforms are often the result of passing fads and donor initiatives, they lack the kind of anchoring that is key to Schumpeter’s “creative destruction”. Instead, what we have is “uncreative destruction” as donors move on immediately after the destruction without taking the time to create new institutions.

For Africa, the 1980s and 1990s were a period of what Whitehead (1993:1381) aptly describes as a “veritable cannibalisation of the state apparatus” brought about by untrammelled experimentation with half-baked ideas about how markets performed in Africa. In line with rational choice perspectives on what motivates individuals, reforms were made to “incentivize” the civil service by introducing competition into public service provision (“agentization”), the tendering of services and so on) through the New Public Management approach (Bangura and Larbi 2006; Harrison 2005). It has been noted that the introduction of New Public Management reforms in Tanzania and Uganda represented a “radical departure from the administrative logics” (Harrison 2005:11) that previously existed within the bureaucracies of Uganda and Tanzania. Furthermore, the reforms have been introduced into emaciated administrations – poorly resourced, or in Uganda’s case, all but entirely depleted by a long period of civil war and extreme authoritarianism (Harrison 2005:250). The best (often textbook) models have not only proved costly but often simply are impossible to implement in the real world. And thus by the end of the 1990s, these experiments were being quietly shelved as their unviability became clear. The focus of the reforms on “efficiency” ignored other vital political considerations that have structured civil societies in ethnically diverse countries (Bangura 2006).

To “signal” to private investors that policy changes were serious, it was also important to shrink the state, not only for budgetary reasons, but also as a clear indicator that the market would reign supreme in the economic sphere. Significantly, both the IMF and World Bank produced data suggesting that after years of retrenchment, Africa was the least governed region with the lowest number of public sector employees in proportion to the number of citizens. According to a World Bank study (Schiavo-Campo 1996:10):

In many countries in sub-Saharan Africa, the civil service has sharply deteriorated in almost every way since the 1970s. (Botswana is one of the few exceptions.) Beginning in the 1980s, a succession of fiscal stabilization programs has reduced government employment in Africa to the lowest level of any developing region. Thus, although additional downsizing may be necessary in some countries, most do not need to shrink the workforce but to overhaul the entire civil service system.<sup>25</sup>

The United Nations Economic Commission for Africa (UNECA 2003:11) observed, with respect to Ghana and Egypt:

Egypt and Ghana demonstrate the predicament. Despite 20 years of institutional reforms in the public sector, there is little to show for it. These reforms, like those in many African countries, focused on quantitative issues – wage and hiring freezes, downsizings, and retrenchments. They paid little attention to more subtle and challenging issues of bureaucratic quality. In Egypt, state capacity needs badly to be reinvigorated to improve export

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<sup>25</sup> One should note here that the “overhauling of the entire system” has meant a licence to carry out reckless experimentation with African institutions.

competitiveness and propel the economy to a higher stage of development. But the reform of institutions faces political and administrative constraints. In Ghana the situation has deteriorated so much that the current government now faces a crisis in the public service.

Donors themselves have become keenly aware of the incoherence and instability they have brought to development policies, and there has been a large volume of literature and an outpouring of mea culpas on problems of incoherence of aid and its debilitating effects on the institutions of recipient countries (see, for instance, Forster and Stokke 1999).

### ***Restraining versus transformative institutions***

For latecomers the “developmental role” of institutions is central. After years of touting the Asian economies as evidence of the effectiveness of policies pushed by the BWIs, in 1993 the World Bank finally accepted the overwhelming evidence of the importance of the state’s role in the developmental experiences of these countries and credit rationing (the allocation of rents) (World Bank 1993). However, this concession to the Asian experience was immediately set aside, at least insofar as Africa was concerned. First, it was argued that “the fact that interventions were an element of some Asian economies’ success does not mean that they should be attempted everywhere, nor should they be used as an excuse to resist needed market-reform” (World Bank 1993:26). This view was buttressed by a number of academic publications that suggested the impossibility of a developmental state in Africa.<sup>26</sup> In addition, the 1997 Asian financial crisis severely tested the robustness of the Asian developmental state and reinforced the view that institutions matter, but that only specific sets of institutions were appropriate. It was argued that the Asian crisis was the consequence of bad institutions—relationship banking, weak corporate governance structures and lack of competition—all excrescences of the developmental state. In such an insider-dominated system, there was no transparency, and it resulted in poor information that exacerbated the crisis. Thus in one stroke, institutions that had accounted for the remarkable 30-year growth were dismissed as dysfunctional “crony capitalism”.

One of the unfortunate consequences of this interpretation of both African capacities and the Asian experience was the downplaying of agency in the process of development. In addition, the merging of the literatures on rent seeking and institutions has further reinforced the view of institutions merely as constraining mechanisms. The former literature was largely preoccupied with problems of the capture of the state by rent-seeking local groups. Because of the way institutions have been acknowledged, they have also tended to be presented largely as constraints and not as transformative instruments, even by those new institutional economists who have contributed significantly to the understanding of the broader role of institutions.<sup>27</sup> A great deal of technical assistance has taken the form of strengthening watchdogs over the “spending ministries” which are crucial for development of human capital and infrastructure. Institutions are also enabling devices and are constitutive in the sense that they shape agency (for example, by inculcating certain values) (Chang and Evans 2000). The institutions that are being called for are not ones likely to come up with policy options or capacities to meet the specific needs of individual countries. They are definitely not up to the urgent task of edifying stable, developmental, democratic and socially inclusive social orders that have thus far remained illusive in Africa.

Perhaps even more damaging is that these reforms have simply led to the creation of institutions that undermine development efforts. Indeed, students of developmental states have argued that many of the institutions currently being promoted by the proponents of the good governance framework may not be necessary for development (see, for instance, Chang 2003).

<sup>26</sup> For a review of this literature, see Mkandawire (2001).

<sup>27</sup> Douglas North (1984:204) states that “institutions consist of a set of constraints on behaviour in the form of rules and regulations; a set of moral, ethical behavioural norms which define the contours that constrain the way in which the rules and regulations are specified and enforcement is carried out.”

Through monotasking, many institutions that have served the broad development agenda have been rendered impotent as developmental institutions. Institutions for strategically allocating rents, such as development banks and others that make up a nation's innovation systems and extension services, have often been paralysed or closed down.

The standard set of new institutions is tethered to a minimalist economic agenda that facilitates open capital accounts, deregulated labour markets and arms-length finance—and is hostile to industrial policies and financial arrangements that clearly facilitated rapid growth and industrialization elsewhere. In many ways, these new institutions were actually designed for the wrong type of investment. The literature on foreign investment is quite consistent in arguing that what developing countries need is foreign direct investment which not only brings in finance for new “greenfield” investments (rather than merely acquisitions and mergers) but also technology and access to foreign markets. The incentives and institutions appropriate to these types of investment are not the same as those required by portfolio investments around which much of the institution building in Africa has evolved. The incentives for foreign direct investment will tend to be sector- and location-specific and may require a much more interventionist state policy.

### ***Foreign ownership***

Historical record suggests that the capability to learn and adapt is a major determinant of the appropriateness and efficacy of institutions. This is best facilitated by ownership of the process of learning and adoption. Berkowitz et al. (2001) illustrate this proposition when they argue that the way law is initially transplanted and received is a more important determinant than its origins (for example, English, French, German or Scandinavian).<sup>28</sup> Furthermore, recent history clearly suggests that experimentation, “muddling through”, deviations from the beaten path and attention to local contexts and histories have played an important role in the cases of successful development. The literature on institutions is replete with worlds like “context specificity”, path dependence and history, all of which would suggest a concrete analysis of concrete situations. Woo succinctly reminds us of Gershenkron's message:

Forty years ago Alexander Gershenkron...argued that originality and creativity in development came not from copying, followership, or ‘one-size-fits-all’ dictums based on western experience, but from inventive and iconoclastic deviations—sudden industrial leaps forward, skipping over Rostovian ‘stages’, carving out new sequences, reinventing the role of states and markets, or transforming apparent developmental disadvantages into ‘advantages of backwardness’ (Woo 2007:2).

However, the initial logic informing institutional reform militated against local ownership. The negative perception of the capacity and cultural foundations of the African states, adherence to the “negative politics” of rational choice<sup>29</sup> and the cavalier dismissal of the defining characteristics of Asian developmental states led to the view that local elites could not be trusted to run, let alone create, developmental institutions. The self-imposed conundrum then was how was the criminalized leviathan to be the political instrument for such a property regime? Why would the state, which is presumably dominated by interest groups, create institutions that favoured the common good or that curtailed the power of interest groups? Furthermore there was the paradox (for the public choice school) that states that were deemed incapable of adopting policies of liberalization did, in fact, adopt such policies.<sup>30</sup>

<sup>28</sup> They note “that countries that have developed legal orders internally, adapted the transplanted law to local conditions, and/or had a population that was already familiar with basic legal principles of the transplanted law have more effective legality than ‘transplant effect’ countries that received foreign law without any similar pre-dispositions” (Berkowitz et al. 2001:165).

<sup>29</sup> Harrison 2005; Toye 1995; Williams and Young 1994.

<sup>30</sup> Some of the more resolute members of the school simply denied that African countries had in fact carried out major reforms, since such a behaviour was excluded by their theoretical constructs (Van de Walle 1994).

Although an often-stressed aspect of new institutions is about “autonomy” from societal pressures, in practice the dominant view has been that “the credibility of the autonomous institutions does not inhere in their legal status but often in the belief either that these institutions are sufficiently under the tutelage of multilateral financial agents or that their managers belong to an epistemic community that shares a common body of knowledge and understanding of what are ‘fundamentals’ as these agencies” (Grabel 2000:11-12). This would explain the pre-eminence of the peripatetic foreign consultant and constant retraining of staff by the IMF, the impositions of individuals on national institutions (through secondment or topping-up of salaries of selected individuals) and so on. Were these autonomous institutions to pursue policies that conflicted with those of the IMF, their autonomy would cease to signal credibility. In other words the credibility of institutions is endogenous.<sup>31</sup> Since the analysis precluded the endogenous creation of good institutions, the solution has been to appeal to *deus ex machina* in the form of authoritarian leadership, with the political will to crash rent-seekers (Lal 1983) or to “external agents of restraint” (Collier 1996).

What was ignored in all this was the implication of the capture by foreign institutions of key decision-making instruments of the state.<sup>32</sup> Only later did the BWIs begin to recognize the negative results of their presence. The discussion about ownership—although couched in populist language such as participation and transparency—was really an admission that the alienation of the state from key domestic actors was counterproductive. The single most important argument has been the realization that if property rights were to be protected and if institutions mattered for the functioning of the markets, then it was important to find local actors—state bureaucrats, capitalists, lawyers, non-governmental organizations (NGOs) and so on—who would give life to these institutions. African policy makers had become so obsequious that it had become an embarrassment even to the donors.

### ***Aid and institutional incoherence***

One of the most conspicuous institutions in African development is the aid juggernaut, which has added to the already confused state of things. Aid in Africa is no longer a question of money to fill resource “gaps” but of ways of doing things, implementation of objectives (national, bilateral and international), standard setting and conditionalities. It often comes with an overwhelming foreign presence in African institutions. By this I am not referring to the recruitment of foreigners by African governments or borrowing from foreign institutional arrangements, but the assumption by foreigners of key decision-making activities. It would be difficult enough if the foreigners in question came from one institutional culture with one coherent set of practices or norms. However in the case of Africa, the striking feature is the array of institutional idiosyncrasies that recipient countries must live with, the diversity of foreign actors within African institutions and the parcelization of African institutions among different donors. In some cases, donors are explicitly opposed to the imposition of the Anglo-Saxon model and propose their own way. Thus the German government states :

The German Government is quite explicit about the differences between its agenda on legal reform and that of the Anglo-Saxon model: This specific vision of the rule of law has to do with the *German legal system*, which follows the continental European legal tradition and differs fundamentally from the Anglo-American legal system. These differences are also reflected in our cooperation countries’ systems (Federal Ministry for Economic Cooperation and Development 2002:81). (Emphasis in original.)

<sup>31</sup> Or as Grabel (2003:42) states, “These institutions and the policies they implement, are not inherently credible—their credibility results from the response of investors and multilateral agents whose actions provide important ideological and material capital to those who advocate the neoliberal agenda”.

<sup>32</sup> One reason for the failure to address this issue was what David Green and Ian Shapiro call arbitrary “domain restriction” (on who can be self-interested or not self-interested). By the logic of rational choice, rent-seeking could also be extended to international bureaucracies. It could thus be argued that the international bureaucracies favour institutional reforms which extend their own interest and that their disparagement of their local counterparts is often self-serving.

The German government is convinced that its model makes the most sense in developing countries: “Due to the lack of stable public institutions in many cooperation countries, an approach based on civil law and hence the German codification tradition serves the purpose better” (Federal Ministry for Economic Cooperation and Development 2002:8). The Nordics, in turn, have been pushing to institute an ombudsman’s office. However, the chaos caused in recipient countries by donors’ insistence on their own models and experiences seems not to have affected the current wave of judicial reform. Not surprisingly, some research suggests that higher levels of aid are associated with larger declines in the quality of governance (Brautigam and Knack 2004).<sup>33</sup>

Foreign presence and pre-eminence in institution building has had considerable effect on the morale and *esprit du corps* of local bureaucracies (Mkandawire 2002). The sense of autonomy and national purpose among local technocrats depends to a large extent on the posture of the political leadership. To the extent that national leadership has yielded too much of national sovereignty to external forces, it is unrealistic to expect technocrats to be assertive about national objectives and priorities. Time and again local experts are overruled by foreign experts who can always count on the support of the head of state or ministry. This has not only undermined “learning” but also wasted institutional memory, contributing to the endless “re-invention of the wheel” in institution building in Africa and the sense of *déjà vu* that characterizes every encounter with foreign expertise.

### ***Mismatch between institutions and tasks***

One of the great contradictions of the new reform was that the conceptual framework—the marriage of the new institutional economics and new growth theories through econometric modelling—used to justify both monocropping and monotasking also suggested an endless list of variables as determinants of growth. One effect of the state of disarray in development thinking has been the production of a laundry list of what needs to be done by states to create an environment for private investment. The eclectic list of determinants of economic growth has increased the tasks that states must carry out without the means with which to do so, which has led to an overload in institutional reform. In addition, for aid-dependent economies “aid creates an incentive to expand operations to include all the initiatives donors want to fund” (Brautigam and Knack 2004:263). New Public Management insisted on creating new institutions to manage to further privatize sections of the state apparatus or functions. But as Hague (1996:14) observes:

the process of privatization itself creates the need for a different set of governmental activities—such as regulation (currency, prices, banking, licensing), administration (law, property rights), enforcement (police, surveillance), distribution (transfers, gifts), extraction (taxation, information gathering), and distribution (transfers, insurance)—that requires a large public sector.<sup>34</sup>

Even as donors insisted on monotasking institutions around the issue of attracting investment, they also pushed for a whole range of other things getting done. Richard Sandbrook captures this mismatch between tasks and capabilities in Africa:

[I]nitially, structural adjustment involved an effort to remould the economies of developing countries in the idealized Western image of self-regulating markets. As this project met with political and administrative obstacles, the donor agencies recommended further social engineering. Capacity-building

<sup>33</sup> The view that law could play an important role in development is, of course, not new. The guiding assumption of the law and development movement was that law was central to the development process. A related belief was that law could be used as an instrument to reform society, and that lawyers and judges could serve as social engineers. Huge amounts of money were spent by aid donors and foundations in law and development programmes. After little more than a decade, these programmes were declared a failure, and support quickly evaporated (Messick 1999).

<sup>34</sup> This paradox was clearly recognized by Gramsci when he argued: “It must be made clear that *laissez faire* too is a form of State regulation introduced and maintained by the legislative and coercive means. It is a deliberate policy, conscious of its own ends, and not the spontaneous, automatic expression of economic facts. Consequently *laissez-faire* liberalism is a political programme” (Gramsci 1971:160).

initiatives have sought to restructure Third World administrations into Weberian-style bureaucracies. Programmes to promote better governance and the political capacity of reformist regimes have led the agencies even further afield. Almost unnoticed, the agencies have taken on responsibilities that surpass those assumed even by the original colonial powers (Sandbrook 1996:69).

The World Bank, which had initially applauded the retrenchment of the civil service that came with SAPs and the general retreat of the state from active developmental policies, began to realize that its new post-Washington consensus agenda called for a much broader repertoire of skills and capacities. While monotasking fitted in well with the agenda of the IMF, whose reforms could be carried out by a few individuals in one or two institutions (such as the ministry of finance and the central bank), the new agenda relied heavily on the “spending ministries” and required a much broader array of institutions for its implementation. The obvious solution should have been the active involvement of planning units in several ministries, led by a coordinating body. This would, of course, involve a revival of the ideologically unpalatable institutions that the new orthodoxy had helped destroy.

And so while the new institutional approaches have placed politicians and bureaucrats at the centre of analysis, this has been a time when resources and the relative weight of the state has been being drastically reduced and its leverage diminished to its lowest. Essentially what we are witnessing is the violation of Tinbergen’s principle that the number of policy instruments must, at least, be as many as the policy objectives.

## Conclusion

That economic development requires good institutions is a rather banal observation. The issue is not whether or not one has institutions. Outside the rarefied world of neoclassical economics, it has always been common knowledge that markets are embedded in complex social relations. The unresolved question is: which institutions are appropriate in a particular context to achieve a certain goal and perform a particular function? After nearly three decades of adjustment and the evisceration of developmentalist arguments for state intervention, the return to institutions must indeed be a major shift. African economies have moved from “getting prices right”, through “getting institutions right” to a state of policy disarray in which “getting everything right” is now the goal, even as the effectiveness of institutions has been severely narrowed. Much of this has taken place through processes of imposition sustained by aid and conditionalities. The attitude toward institutions has been essentially faith-based: “We know the ‘good policies’ just give us the institutions, or better still, accept our package of institutions”. What we have witnessed in Africa is the dismantling of institutions that might have conceivably played a developmental role, and the strengthening of institutions which, at best, are good for “stabilization” rather than development. For all the Spartan certainty about what institutions African countries should have and the monocropping this results in, history and experience elsewhere suggest that institutions do not monotonically map onto any one set of policies nor do certain policies require a specific set of institutions. There is no standard “market economy” model. Instead, market economies are compatible with a diverse range of institutional arrangements, products of path dependence, serendipity, luck and the force of unintended consequences of the actions of many agents.

It is also important to recognize that the remits of institutions go well beyond the narrow needs of the market. Institutions play many roles in the development processes, and seemingly identical institutions can take on different roles in different times from country to country, or even within a single country. The fact that an institution may be necessary for a particular function does not mean that is the only one that that particular institution can serve.

In addition, even when institutions are designed to serve a single purpose, they have multiple effects, not all of which may be intended. Because institutional reforms are demanded and

supplied by the aid establishment and designed to empower groups favoured by external actors, there is little consideration of the distributive outcomes of institutional reform. Thus the main issues covered by the literature on institutional reform—process, collective action, the relationships and asymmetries of power, the problems of vested interests—are simply sidestepped. This effectively means that a whole range of issues related to institutions—social equity, legitimacy of power, and, especially, their role in enhancing that which societies may have reason to value—are not taken into account (Santiso 2001).

Many of the issues that developing countries were preoccupied with—autonomy, nation building, social cohesion, poverty and underdevelopment—are still on the agenda. However, the solutions being proffered have simply avoided these concerns and addressed an entirely different agenda—“market friendliness”—ignoring the fact that in real life, institutions tend to do much more. Similar formal institutions perform differently with respect to growth in different circumstances. This is partly because institutions perform many different tasks, and in one context, an institution can be burdened with issues related to economic growth while in other it may be used for entirely different purposes.

One costly feature of “lost decades” was the reduction in the space for experimentation within Africa and the one-size-fits-all approach to institution-building, which has produced a size that seems to fit no one. The institutional reform process has denied African countries the challenges and opportunities to experiment with different institutional arrangements.

There has also been a loss in legitimacy. Legitimacy is a useful attribute for any institution and may accrue from factors such as custom and habit; the legitimacy of the process or other institutions that set it up; and from its demonstrated efficacy. This legitimacy can be undermined by external imposition or excessive restriction. Institutions that are perceived as merely adjuncts of foreign institutions and whose authority and “independence” derive from these foreign institutions, or whose agenda is narrowly set to meet externally imposed conditionalities, are unlikely to enhance their standing in the eyes of a public that expects every major institution to be involved in the developmental project.

The focus on institutional design that places a premium on creating “enabling environments” of stability and predictability for global investors is not necessarily desirable from a developmental point of view. The single-minded subjugation of institutional reform to one set of policies has denied local institutions the capacity for learning from the wide range of experiences from other parts of the world. It has also led to the marginalization of the many concerns that Africans have sought to address with their own or borrowed institutions. Worse still, this practice has blunted the effectiveness of institutions by denying them context specificity and flexibility.

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