Book Reviews

Marcel Fafchamps. *Market Institutions in Sub-Saharan Africa: Theory and Evidence*. Cambridge, MA: MIT Press, 2004. Pp. xx+520. $55.00 (cloth).

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Marcel Fafchamps's *Market Institutions in Sub-Saharan Africa: Theory and Evidence* is a valuable collection of research findings and a fascinating read overall. Fafchamps summarizes his past decade of research on African trade, manufacturing, and institutions in a volume that will be of interest to scholars of institutions and economic development.

Market Institutions's contribution lies primarily in its novel description of how African markets and firms work—not how they are supposed to work in theory or based on limited anecdotal evidence or bad national accounts data, but how they actually work, as discovered from the analysis of original surveys of private sector firms conducted in over a dozen African countries during the 1990s. This book provides new insights into the reality on the ground for the private sector in Africa, filling a major gap in the existing literature. Nearly all of the data are from the author's own recent research, but in the book Fafchamps extends some previous findings and more comprehensively ties them together. The book contains literally dozens of interesting descriptive tables about African firms. In addition to this innovative empirical work, *Market Institutions* contains summaries of recent advances in contract theory and institutional economics and discusses how these apply in the African context.

Of course, particular readers will have their own favorites, but the tables that I found most exciting are those that document the everyday difficulties that African firms face in conducting business. For two examples, see table 4.3 (documenting the pervasiveness of delays and nondelivery among firms' suppliers) and table 6.2 (documenting the extreme lengths owners go to in order to avoid theft). In both cases, the bottom line is the same: African entrepreneurs face an exceedingly uncertain business environment in which major supplier delays and theft are to be expected and where formal legal institutions are unable to do anything about them. Firms cope with these problems through myriad ingenious—and clearly second-best—informal arrangements. This pattern holds basically across all countries in the sample, in the anglophone and francophone countries and across the eastern, southern, and western parts of the continent. This general point has been made before for sub-Saharan Africa but never based on so much solid empirical evidence.

Market Institutions employs a no-nonsense empirical approach. The author is generally modest about what these data can and cannot definitively say about policy prescriptions, recognizing that documenting pathologies is one thing but that formulating appropriate policy prescriptions is another. For instance, when discussing how judicial reform should be structured in order to address problems of contract enforcement and theft, he writes, "Speculation should not, however, hide the fact that our limited data do not clearly establish what kind of judicial reform Africa needs most" (135).

At the same time, I often found myself wishing the author would throw caution aside a bit more and weigh in directly on the ongoing debates about African underdevelopment. Fafchamps is truly an expert on African economic development and is well qualified to contribute to the debate, but the text is more often pitched toward researchers of institutional economics and applied contract theory rather than specifically toward development economists or Africanists. My disappointment here surely reflects my own research interests, of course.

Some examples illustrate the book's limited contact with other recent empirical economic development research. First, the firm-level evidence is rarely placed in a comparative perspective across less-developed regions. How do contract enforcement and theft rank as concerns for firms in poor but rapidly growing countries like China and India, relative to Africa?

Second, the author finds that the fear of theft (of products and inventories) leads to major inefficiencies, including many entrepreneurs being forced to sleep in the same room as their stocks, or hiring fewer employees than they would like, in order to limit theft. How do these findings relate to broader claims about the role of crime and violence in African underdevelopment? A number of development researchers and organizations (see, e.g., the 2003 World Bank report *Breaking the Conflict Trap*) have recently claimed that crime and violence are major impediments to economic development.

Similarly, the author writes persuasively about the important role that ethnicity plays in supplier networks, contract enforcement, and information sharing in many African countries, either for entrepreneurial minorities (Asians in East Africa and Lebanese in West Africa being the canonical examples) or among African ethnic or regional groups. However, he never links these findings directly back to the recent debate over the role that ethnic divisions play in African underdevelopment; the famous Easterly and Levine *Quarterly Journal of Economics* article (1997) is not even cited. Are these strong, ethnically fragmented business ties a (partial) cause of the well-known negative cross-country empirical relationship between ethnic diversity and economic growth, or are they largely orthogonal to underdevelopment? Many rapidly growing southeast Asian countries have large ethnic Chinese minorities prominent in business, not unlike the Asians in East Africa, for instance, but this has clearly not prevented Asian countries from rapid economic growth. These comparative issues deserve far more comment given the central role that ethnic divisions have played in both the academic and popular discourse about African development.

Finally, for a book that focuses on African institutions, it is very surprising indeed that the most heavily cited economic development article of recent years, and one that focuses on the origins and consequences of institutions—the famous Acemoglu, Johnson, and Robinson (2001) *American Economic Review* piece—is never mentioned or cited. *Market Institutions* was published in 2004, three years after the Acemoglu, Johnson, and Robinson article was published and at least four years after it appeared as a working paper, so timing is not the cause. The main themes discussed by the author—property rights protection and contract enforcement—are exactly those that Acemoglu, Johnson, and Robinson study, and the detailed microsurvey evidence across a dozen African countries in *Market Institutions* clearly speaks to macroeconomic claims of Acemoglu and his coauthors. In detailing all of the imperfections of African market institutions, is Fafchamps siding with those who claim that institutional problems, grounded in history, are the key underlying cause of current African poverty, or does he take a different view? The reader is left to wonder.

Overall, these limitations are greatly outweighed by the book's contributions. I very much enjoyed reading this book, learned a lot from it, and plan to utilize some of its material in my courses (especially the excellent chap. 6). But students of economic development will have to draw their own conclusions about what exactly this exciting research program means for the raging debates in our field regarding the causes of Africa's growth tragedy.

References

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