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Governing development in Africa- the role of the State in economic transformation*

Africa's economic progress - modest improvements in social welfare

In the past decade, Africa recorded strong economic growth rates, both in terms of its own historical record and relative to other regions. While the continental growth rate did not reach the 7 per cent required to halve the poverty rate by 2015, it averaged a remarkable 5.6 per cent each year during 2000-2008, second only to developing East and South Asia. What is more, although growth across Africa slowed since then due to the knock-on effects of the 2008-2009 global economic and financial crises, it quickly rebounded in many countries to pre-crisis levels, demonstrating the continent's resilience.

This impressive economic progress reflects hard-earned efforts. Deep restructuring and commitment to sound policy implementation since the mid-1990s has produced a steadily improving political and socio-economic environment. Improved economic management and microeconomic reforms have created a better business climate. These improvements have helped the continent to attract increased domestic and foreign investment. Most important, the domestic consumer market is becoming as important a source of economic growth as the traditional export market, thanks to rising domestic demand because of strong public spending on major infrastructure projects, better harvest, and growing disposable incomes and urbanization. Favourable external conditions have also supported Africa's growth surge. These include higher commodity prices and rising export demand, debt relief and external capital flows from emerging and traditional partners.

Yet Africa faces a broad and complex development challenge. Translating high economic growth rates into improved standards of living and overall economic and social development has proven challenging. Economic growth is creating too few decent jobs to lift millions of Africans out

of poverty. Instead, despite some progress, extreme poverty rates remain high and widespread (projected to stand at 35.8 per cent of people in Africa excluding North Africa living on less than \$1.25 a day by 2015)¹, while inequality in incomes, assets, and social services is on the rise. Unemployment remains high² (10.9 per cent in North Africa³; 8.2 per cent in the rest of Africa, as at 2011)⁴, especially among the youth, only 17 per cent of whom have full-time wage employment in low-income African countries, compared with 39 per cent in lower-middle income and 52 per cent in upper middle-income countries, respectively⁵. Moreover, the majority of those employed are in vulnerable work (76 per cent in 2011)⁶, mostly in low-productive informal activities. All this suggests a pattern of growth that is non-inclusive with a narrow production base.

Limited economic transformation

A major reason for the limited impact of growth on economic and social development is Africa's limited economic transformation. Lack of economic transformation is reflected in the structure of the African economy, which continues to remain largely undiversified – dependent on production and export of primary commodities in agricultural and extractive industries, mainly minerals and oil. Excluding North Africa, South Africa, and Nigeria, the share of industrial activities in GDP has increased only marginally, from 25 per cent during 1980-89 to 30 per cent in 2000-09. Almost all of this increase is due to expansion in

1 ECA, AUC, Economic Report on Africa 2013.

2 Formal unemployment rates understate the scale of the problem because much of the employment is in low-paying informal activities that are not accounted for under the ILO pioneered definition of employment. As a result, while recorded unemployment rates are low, vulnerable employment and the working poor rates are very high in the majority of countries.

3 The problem is most acute in North Africa.

4 International Labour Organisation (ILO), 2012, *Global Employment Trends 2012*, Geneva.

5 ECA, AUC, Economic Report on Africa 2013.

6 ILO, op.cit.

the extracting industries. Equally, agriculture value added as a share of GDP has remained unchanged, at 30 per cent between 1980 and 2009. By contrast, the share of manufacturing activities in GDP has fallen, down to 9.8 per cent during 2000-09, from 16 per cent in the 1980s (World Bank, 2011⁷). This lack of economic transformation and heavy dependence on primary commodity sectors has increased vulnerability of African economies to crises due to commodity price volatility, external shocks, natural resource exhaustibility, and climate change.

African countries have since independence implemented various strategies to transform and diversify their economies, but so far these have not been as effective as desirable. In the 1960s and 1970s, many countries implemented state-led import substitution industrialisation strategies, in which the State sought to replace imported goods with domestically produced goods, and, overtime, achieve self reliance in those goods. These strategies largely failed, as they led to severe macroeconomic instability, epitomised with huge fiscal deficits and external debt crises, arising from accumulated effects of growing import needs of domestic industries. In response, many African countries adopted Structural Adjustment Programs (SAPs) in the 1980s, primarily aimed at restoring macroeconomic stability through disengaging governments from the economy and freeing markets. Although, by the early 1990s, these programmes succeeded in restoring macroeconomic stability in many countries, Africa's economic structure did not change. Instead, they weakened the capacity of States to design and implement policies that could alter the structure of their economies and accelerate progress towards achieving social development goals.

A proactive role for the State to address the challenge of economic transformation

There is clearly need to rethink the role of the State in governing development and the nature of the economic governance that is needed to achieve a diversified economic structure in Africa. To be sure, the State needs to play a central role in the development process if meaningful economic transformation is to be achieved. This is because structural economic transformation requires expanding productive capacities in the African economy to transform from low-income to high-income industrial and service based economic activities. This requires a strategy for continuous technological innovation, industrial upgrading and diversification, and improvements in the various types of infrastructure and institutional arrangements which constitute the context for development and wealth creation. Thus, to be successful, economic transformation

in Africa requires planning and an industrialization process that pays attention to the issue of competitive advantage in the choice of target industries, those in which firms can build competitive advantages. This is a process that calls for state intervention - the market mechanism alone may not be sufficient.

The State needs to carry out three important tasks to achieve economic transformation. One is planning the process of development. The development process has to be planned because the changes required are substantial and must be coordinated. The interdependence of all elements of the process needs to be reconciled through comprehensive development frameworks rather than narrow and partial models.

Also, the State has the responsibility to formulate development policies that are best carried out through constant dialogue with key social and economic agents on both the production and consumption sides. Economic transformation requires appropriate policies, incentives and penalties to ensure that public and private resources move in the direction in which they are optimally used. The State therefore has the responsibility for negotiating the associated conflicts between social groups as a means of establishing policies that promote economic growth and transformation, without sacrificing equity. Evidence shows that countries that have successfully transformed from agrarian economies to modern advanced ones had governments that played a proactive role in assisting the private sector in the process of structural transformation.

Finally, the State has to have the capacity and competence to implement development plans and policies. It needs to set up, or, in cases where they exist, revive key planning institutions and give them the power and autonomy to do their work. It also needs to establish and institutionalize consultative and deliberative mechanisms as the necessary links through which the bureaucracy can interact with all key stakeholders. Monitoring and evaluation, as well as assessment and review, should feature strongly during implementation.

Advocacy for a stronger State should not be seen as arguing for a return to central planning. Nor should it be understood to mean that the market mechanism is irrelevant. Rather, the issue is how the State can play its developmental role effectively to address market failures and promote structural transformation.

Africa needs developmental States

A developmental State puts economic development as the top priority of government policy, and is able to design effective instruments to promote such a goal. The State must have the ability to promote and sustain development through high level, sustained and shared growth, human capabilities expansion and structural transformation to increase employment, incomes and wealth, and improve

⁷ World Bank, 2011, *Africa Development Indicators*, Washington DC

overall human and social development. In this sense, successful economic transformation requires a good constitution, the rule of law, an independent and effective judiciary, and representative political and economic institutions.

Developmental States have evolved over the years, and have differed in several aspects, including context, trajectory, and manifestations. Therefore, there cannot be a single model to building developmental States in Africa, as is elsewhere. Countries need to construct their own models, taking into account their own history, political structure, and economic endowments. Nevertheless, developmental States have common attributes that can be investigated across countries and time to draw lessons on which attributes can facilitate rapid economic transformation.

These include the following attributes: (i) purposeful leadership and a development oriented coalition (capable and farsighted democratic leadership will be central); (ii) transformative institutions composed by a bureaucracy recruited based on their capabilities and merit rather than on political patronage, ethnic or religious considerations; (iii) focused industrial policy - each country needs to identify niche industries where it has competitive advantages or the capability to develop dynamic advantages; (iv) investment in research; and (v) enhanced social policy revising strategies aiming at increasing income support, reducing income inequality and ensuring access to services such as education, health care and decent livelihoods.

Constructing developmental States in Africa

The case for adopting the developmental State approach is largely derived from the observed deficiencies of previous development models. Therefore, before African countries can begin constructing developmental States, they need to address several issues, primarily the characterization of an effective developmental State in the African context, the effectiveness of the approach, the potential pitfalls of state intervention, the role of stakeholders, as well as implications for intraregional and continental integration and the continent's external economic relations.

Characterisation: In an analysis relying broadly on capability-based development theory, an effective developmental State in Africa can be conceived as one that has the political will and the necessary capacity to articulate and implement policies to expand human capabilities, enhance equity and promote economic and social transformation. Implementing these policies requires an inclusive development framework characterised by: (i) a government that has the political will and legitimate mandate to perform specific, required functions in the context of a nationally owned development framework; (ii) a competent, professional and neutral bureaucracy that ensures the effective and efficient implementation of strategies and policies in accordance with established national devel-

opment goals; (iii) a comprehensive development framework in the context of which national development goals are established and the complementarities among social and economic policies are explicitly embedded; and (v) a governance system that ensures that the focus, context, contents and implementation modalities of the national development programme are fully deliberated upon and agreed by the full range of stakeholders and societal actors.

Effectiveness of the developmental State approach: The developmental State approach tackles primary commodity dependence as it shifts focus to rebuild and strengthen State capacity with a view to raising its ability to expand human capacity and promote equitable and efficient allocation of resources. Such a capable State, in turn, should generate appropriate incentives, including incentives to spur informal businesses to enter the formal sector, for economic diversification and transformation. The developmental State approach also targets building and strengthening economic and socio-political institutions, and coordinating them effectively.

Role of the State – development planning: The key mechanism is a comprehensive development framework that steers social and economic policies to work in a complementary manner. The developmental State provides guidance in constructing this framework, in defining the overall national development goals and in implementing the relevant macroeconomic, sectoral, microeconomic and social policies. The development framework must contain incentives and sanctions, so that economic agents who meet targets are rewarded and those who fail are penalized. This system accords the State a large role in designing and implementing appropriate conflict-management arrangements.

Role of other stakeholders: The developmental State has to forge fully encompassing relations that involve all stakeholders—public, private and civil society. These arrangements enhance public participation and citizens' ownership of national development programmes. The interactions that the arrangements permit and encourage could result in more efficient allocation of resources, and greater citizen oversight of government, which should increase both legitimacy of projects and transparency in governance.

Implications for intraregional and continental integration: African countries have long regarded regional and continental integration as an integral part of their collective vision of the continent's future. Most African countries currently belong to one (or more) of the eight regional economic communities officially recognized by Africa's premier continental organization, the African Union (AU). These communities are the building blocks of the continental African Economic Community. Clearly, therefore, any Africa-wide development strategy to achieve rapid economic growth, diversification and transformation of the continent's national economies will have significant

implications for the existing regional and continental integration arrangements.

Implications for Africa's external economic relations: Many African countries maintain a complex web of economic relations with countries and regions outside the continent. They are also members of regional and multi-lateral institutions whose mandates cover economic issues. These relationships directly or indirectly impose restrictions on the right of African countries to deploy some of the traditional policy instruments in their development strategies. These constraints will make for significant conflict when African countries adopt the developmental State approach, which regards the use of such policy instruments as legitimate.

Avoiding the pitfalls of State intervention

The developmental State approach and its associated development strategies and policies place considerable weight on direct and indirect state intervention in economic decision-making as well as on influencing the behaviour of economic agents. If unchecked, this in-

tervention might extend beyond what may be needed to correct for standard market failures and may thus include instances where markets are supplemented or even supplanted for strategic reasons. The developmental State approach will therefore be vulnerable to the risks associated with state intervention.

To avoid potential pitfalls, the developmental State can turn to three main groups: a committed political leadership, which has an important oversight responsibility to ensure disciplined and transparent behaviour of all decision-makers and economic agents; an autonomous and professional bureaucracy, which is expected to maintain its integrity even in the face of strong temptation; and key stakeholders, particularly civil society and the media, which have oversight responsibility.

The developmental State also has an arsenal of policy instruments to eliminate, or at least limit, exposure to these risks. It can allocate rents transparently and tie them to agreed performance targets, extinguishing them according to objectively determined criteria. It can impose stiff penalties for misuse or diversion of subsidies. And it can turn to the market as a supplementary means of maintaining efficiency and motivating economic agents over the longer term.

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