



Economic Commission for Africa



African Union

Economic Report on

Africa 2011

Governing development in Africa - the role
of the state in economic transformation



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Acronyms

AAF – SAP	African Alternative Framework for Structural Adjustment Programmes
ACP	African, Caribbean and Pacific countries
AEO	African Economic Outlook
AfDB	African Development Bank
AfT	Aid for Trade
AGOA	Africa Growth Opportunity Act
AIDS	Acquired Immune Deficiency Syndrome
AMC	Advanced Market Commitment
API	American Petroleum Institute
APRM	African Peer Review Mechanism
ART	Anti-Retroviral Treatment
AU	African Union
AUC	African Union Commission
CAR	Central African Republic
CDF	Comprehensive Development Framework
CDM	Clean Development Mechanism
CFA	African Financial Community
COMESA	Common Market for East and Southern Africa
CSSDCA	Conference on Security, Stability Development and Co-operation in Africa
DDR	Doha development Round
DFID	UK Department for International Development
DRC	Democratic Republic of Congo
DTIS	Diagnostic Trade Integration Study
EAC	East African Community
EAP	East Asia and Pacific
EBA	Everything But Arms
ECA	Economic Commission for Africa
ECB	European Central Bank
ECOWAS	Economic Community of West African States
EDB	Economic Development Board
EDF	European Development Fund
EIF	Enhanced Integrated Framework
EIU	Economic Intelligent Unit
EPA	Economic Partnership Agreement

EPADP	EPA Development Programme
EPB	Economic Planning Board
EPU	Economic Planning Unit
ERA	Economic Report on Africa
EU	European Union
EURO	The official currency of European Union members
FAO	Food and Agriculture Organization
FDI	Foreign Direct Investment
FIT	Feed – in Tariff
FSAP	Financial Sector Assessment Programme
FTA	Free Trade Agreement or Free Trade Area (3.1.1)
G-20	Group of Twenty Finance Ministers and Central Bank Governors
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GEF	Global Environment Facility
GERD	Gross Domestic Expenditure on R&D
GHG	Greenhouse Gas
GNESD	Global Network on Energy and Sustainable Development
GSP	Generalized System of Preferences
HDB	Housing Development Board
HIPC	Heavily Indebted Poor Countries Initiative
HIV	Human Immunodeficiency Virus
IBRD	International Bank for Reconstruction and Development
ICT	Information and Communication Technology
IDA	International Development Association
IFC	International Finance Corporation
ILO	International Labour Organization
IMF	International Monetary Fund
ISI	Import Substitution Industrialization
LAC	Latin America and the Caribbean
LDC	Least Developed Country
MDG	Millennium Development Goal
MDRI	Multilateral Debt Relief Initiative
MFA	Multi-fibre Agreement
MFN	Most Favoured Nation
MITI	Ministry of International Trade and Industry
NEPAD	New Partnership for Africa's Development
OAU	Organization of African Unity
ODA	Official Development Assistance
OECD	Organization for Economic Cooperation and Development
PFM	Public Finance Management
PPP	Purchasing Power Parity
PPPs	Public-Private Partnerships
PRS	Poverty Reduction Strategy
PRSP	Poverty Reduction Strategy Paper
R&D	Research and Development

RE	Renewable Energy
REC	Regional Economic Community
RMB	Renminbi
SACU	South African Customs Union
SADC	Southern African Development Community
SAP	Structural Adjustment Programme
SDGEA	Solemn Declaration on Gender Equality in Africa
SDR	Special Drawings Rights
SME	Small and Medium Enterprises
SNA	National Accounts Statistics of Japan
SPS	Sanitary and Phytosanitary
SSA	Sub-Saharan Africa
TFP	Total Factor Productivity
UN	United Nations
UNAIDS	Joint United Nations Programme on HIV and AIDS
UNCTAD	United Nations Conference on Trade and Development
UNDESA	United Nations Department of Economic and Social Development
UNECA	United Nations Economic Commission for Africa
UNEP	United Nations Environment Programme
UNESCO	United Nations Economic and Scientific Cultural Organization
UNITAID	International Drug Purchase Facility
US	United States
USA	United States of America
USAID	United States Agency for International Development
USD	US Dollar
WDI	World Development Indicators
WESP	World Economic Situation and Prospects
WRI	World Resources Institute
WTO	World Trade Organization

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Foreword

SUSTAINABLE ECONOMIC GROWTH and social development constitute the primary goals of economic policy in Africa. It is expected that solid advances towards these goals will not only result in rising living standards across the continent but will also lead to full employment of resources as well as reduced income inequality and poverty.

Some progress has been made, including continued improvement in macroeconomic management, the business environment and governance. However, many African countries have not experienced high economic growth rates over extended periods and reaching high levels of social development has been rare. This suggests the need for continuous appraisal of the continent's development strategies and, in particular, the changing role of the state in the development process. Such appraisal is expected to lead to a deeper understanding of the strengths and weaknesses of the continent's development efforts, which, in turn, should provide lessons to shape the future.

The Economic Report on Africa (ERA) series is a joint undertaking between the United Nations Economic Commission for Africa and the African Union Commission. Each year, the Report provides a broad assessment of recent global economic developments, economic and social conditions as well as emerging issues in Africa. It also provides in-depth analysis of selected thematic areas that affect Africa's progress towards its medium- to long-term economic growth and social development objectives.

The 2011 Report focuses on two fundamentals of Africa's development experience. First, ensuring sustainable and high economic growth rates, combined with high levels

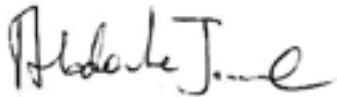
of social development in Africa, is unlikely to be achieved without widespread economic diversification and structural transformation. Second, achieving the desired degree of diversification and transformation in Africa requires the state to assume and play a pivotal role in the development process.

Through the prism of changing development strategies, the Report reviews Africa's economic growth and social development experience since the 1960s to establish the strengths and weaknesses of these strategies. It also examines the experiences of other developing regions where countries have achieved significant economic transformation and social development, and pays particular attention to the role of the state.

Based on the failure of earlier approaches to development in Africa—state-led and market-driven—the Report recommends that African countries adopt a developmental state approach that uses the market as an instrument rather than a sole mechanism for fostering long-term investment, rapid and sustained economic growth, equity and social development. It suggests these recommendations in the context of an inclusive, transparent and comprehensive national development framework. The developmental state approach as the core of the development strategy will enable Africa to transform its economies and to achieve its primary economic and social development goals.

The Report also proposes recommendations on related issues, including how to construct developmental states that take into consideration country-specific political, economic and social factors; what instruments the state

should use to promote economic transformation through good governance, as articulated by the New Partnership for Africa's Development and its African Peer Review Mechanism; how to guard against the potential risks of state intervention in economic decision-making; and the implications of this development strategy for Africa's integration efforts and its external economic relations.



Abdoulie Jannet
United Nations
Under-Secretary-General and
Executive Secretary of UNECA

It is our hope that this year's Report will stimulate discussion and debate among policymakers and other stakeholders, at national, regional and continental levels, on the important issues that it raises.



Jean Ping
Chairperson
African Union Commission

Overview

Developments in the world economy and implications for Africa

THE WORLD ECONOMY showed a moderate recovery from the effects of the global financial and economic crisis of 2008–2009. This recovery varied across countries as growth divergences continued to persist in 2010, especially between the developed economies on the one hand and developing and emerging countries on the other. Global gross domestic product (GDP) grew at 3.6 per cent in 2010, an impressive turnaround from the 2.1 per cent contraction of 2009.

Growth of the world economy is forecast to slow to 3.1 per cent in 2011. Expansion of developed economies is forecast at only 1.9 per cent in 2011, in contrast to developing economies' 6 per cent.

World trade has also rebounded strongly from the crisis. Its export value grew at an estimated 12.8 per cent in 2010, though it is projected to decelerate to about 8.5 per cent in 2011. The divergences in GDP performance are seen in trade growth as well. Thus, while exports of developed economies grew at 10.2 per cent in 2010 and projected to grow at 6.9 per cent in 2011, the export value of developing countries increased by 15.9 per cent in 2010, but is projected to slow to 10.9 per cent growth in 2011.

In addition, while imports of developed countries are contracting more than their exports, the opposite is the case for developing countries. The estimated ratio of current account balances to GDP for developed countries was a deficit of 0.3 per cent in 2010 and is forecast at a 0.1 per cent deficit in 2011, compared with the continued surplus of 1.5 per cent in 2010 and 1.4 per cent in 2011 for emerging and developing countries.

In an attempt to counteract the impact of the global crisis and to stabilize their financial systems, most developed countries have implemented loose monetary policies and maintained ultra-low interest rates, a policy thrust expected to continue in 2011. Developing-country interest rates are also expected to remain relatively low in 2011.

Global inflation, which increased slightly from 1.4 per cent in 2009 to 2.5 per cent in 2010, is expected to stay low, given the slow economic recovery worldwide. In developed countries, inflation picked up from 0.1 per cent in 2009 to 1.4 per cent in 2010, but is projected to stay at that rate in 2011. In developing economies, inflation is projected to fall back from 5.4 per cent in 2010 to 4.9 per cent in 2011.

Many countries also used fiscal stimulus packages to counter the effects of the crisis. The fiscal position of developed countries deteriorated sharply to a deficit of 8.8 per cent of GDP in 2009. This is projected to narrow to 8.0 per cent and 6.7 per cent in 2010 and 2011.

Global GDP grew at 3.6 per cent in 2010, an impressive turnaround from the 2.1 per cent contraction of 2009.

African economies have recovered from the global financial and economic crises better than expected.

As the crisis gradually abated, demand pressures pushed up most global commodity prices in 2010, though to different degrees. The crude oil price continued its strong rebound from the crisis-induced slump, and its steady upward trend is expected to continue in 2011. The food and beverage index and the agricultural raw materials price index did not fluctuate much in the first half of 2010, but increased sharply in the second half. The metal prices index also rose, with fluctuations, during the year.

These global developments have significant implications for African countries, though the direction and magnitude of impact naturally vary among countries. On the whole, African economies have recovered from the crisis better than expected. Their aggregate GDP growth is forecast to rise to 5.0 per cent in 2011, up from 4.7 per cent in 2010. The exports of African economies suffered in 2009, with

a decline of 32.4 per cent, but the rebound of commodity prices and strong demand from developing and emerging economies propelled a sharp upswing in their exports in 2010. However, the continent's narrow production and export structures are likely to maintain its historical vulnerability to external shocks.

The nominal increase in commodity prices has led to an improvement in the terms of trade for many African commodity-exporting countries. Most of its oil exporters are therefore expected to continue running current account surpluses in 2011. On the other side of the flow, Africa's oil-importing countries will see their current account deficits widen. Rising grain prices will also pose daunting challenges to efforts to eradicate hunger in the African countries that heavily depend on food imports.

The flow of remittances to Africa did not fall as much as expected, but its projected growth of 4.5 per cent over 2010–2011 is much lower than pre-crisis rates. For foreign direct investment, although total inflows declined in 2010, inflows to Africa's extractive industries increased. Official development assistance rose in 2010. Overall, external capital inflows continued their contribution to domestic investment and government spending in many of the continent's countries.

Growth and social development in Africa in 2010 and prospects for 2011

Economic performance

ECONOMIC ACTIVITY REBOUNDED across Africa in 2010. However, the pace of recovery was uneven among groups of countries and subregions. Oil-exporting countries generally expanded more strongly than oil-importing countries. West Africa and East Africa were the two best-performing subregions in 2010.

Africa's inflation trended downward in 2010, reflecting the increased supply of agricultural products, the strength of some currencies, excess capacity and competitive pressures. A few countries bucked the trend for specific reasons, including increased domestic demand (Republic of Congo, Libyan Arab Jamahiriya and Nigeria), robust public

spending (Algeria) and a depreciating domestic currency (Mozambique, Sierra Leone and Sudan).

Africa's fiscal deficit deteriorated marginally in 2010, from 5.7 per cent of GDP in 2009 to 5.8 per cent. Similarly, its aggregate current account balance worsened. In both cases, divergences across broad groups of countries reflected differences in economic structure and policy stance. In particular, most countries that witnessed improvements in their current account balances were oil exporters. Continued fiscal loosening, combined with an accommodative monetary policy, largely accounted for the deterioration of fiscal balances.

The prospects for improved economic performance in Africa during 2011 are quite favourable. Average growth rates in both oil-exporting and oil-importing countries are projected to be higher in 2011 than in 2010. West Africa and East Africa are set to be the fastest-growing subregions once more in 2011, followed by North Africa, Central Africa and Southern Africa. Although the projected growth rates for 2011 are markedly higher than those attained in 2009 and 2010 for most subregions, they are generally lower than pre-crisis rates. They also seem to be below the rates needed to significantly reduce the continent's unemployment and poverty.

The outlook for economic performance in 2011 is subject to several risks and uncertainties. Africa's growth performance will, as usual, be affected by the pace and duration

Social conditions

The improved economic performance achieved over the last decade has not been translated into commensurate reductions in unemployment and poverty, nor significant progress towards the Millennium Development Goals (MDGs) especially in sub-Saharan Africa. The continent is experiencing a jobless recovery, apparently perpetuating a fundamental feature of its previous growth spell. Employment creation has been limited in many countries as much of the economic recovery has been driven by capital-intensive extractive sectors that have few forward and backward linkages with the rest of the economy. But a few countries, such as Egypt and Mauritius, made marginal reductions in unemployment in 2010, due to their relatively strong expansion of the labour-intensive services sector.

Africa's progress towards the MDGs varies by subregion, by country and by goal. Although overall progress is in the right direction, its pace is largely inadequate for achieving all the goals by the 2015 deadline. Unequal opportunities and access due to gender, income and location biases

Africa's progress towards the MDGs is mixed and varies by subregion, country and by goal.

of growth in its major trading and development partners through the continent's exports and tourism receipts, as well as inflows of remittances, foreign direct investment and official development assistance. Other key factors include ongoing, as well as possible, political disturbances associated with elections as well as adverse weather conditions.

constitute major obstacles to achieving key MDGs such as universal primary education, reductions in the under-five child mortality rate and maternal mortality ratio, as well as improvements in access to safe drinking water and sanitation.

The varying progress may be related to resource constraints as well as to the quantity and quality of public service delivery in many African countries. Public expenditure on social spending is, for example, generally below the level needed to achieve the MDGs. Public sector resource constraints have induced increasing private sector provision of education and health services as well as other infrastructure and telecommunications services. However, weaknesses in regulatory frameworks for effective public-private partnerships for social and infrastructure services inhibit progress in many African countries. A larger state role appears necessary for social conditions in Africa to make substantial improvements.

Current and emerging development challenges in Africa

Trade performance and trade negotiations

AFRICA'S SHARE OF world merchandise trade rose to 3.2 per cent in 2009, despite the sharp fall in total trade

due to the global crisis. Similarly, the continent's share of world trade in commercial services increased to above

Africa's heavy dependence on natural resource exports poses difficult and persistent problems.

3 per cent for the first time. However, the structure of Africa's exports remains undiversified, focusing on primary commodities. In 2009, the major exports components were fuel and mining products (64 per cent), iron and steel (19.2 per cent) and agricultural products (10.2 per cent). As fuel and mining products were hit the hardest by the global recession (with a 36 per cent decline in value), Africa's exports fell by 32 per cent in 2009.

Africa's heavy dependence on natural resource exports poses difficult and persistent problems. These arise from the

Development financing

African countries have made little progress in mobilizing domestic resources for development since the Monterrey Consensus of 2002. Gross domestic savings as a proportion of GDP remain below 20 per cent and are therefore inadequate to finance the investment necessary for maintaining solid GDP growth. Boosting government revenue to fill the gap requires considerable reform in many African countries.

Some key green economy issues

Faced with the challenge of environmental sustainability, transformation entails the reconfiguration of the structures of production, distribution and consumption of goods and services in ways that can build a solid foundation for future growth and development. Achieving such change requires a departure from the previous approaches to economic growth and development that failed to take full account of the role of natural and social capital in wealth creation.

Africa has the potential for diversifying its economy while greening its agricultural, industrial and services sectors.

characteristics of natural resources such as exhaustibility, negative externalities associated with their extraction and consumption as well as price volatility. Effective management of the production and export of natural resources often requires a leading role for the state.

This role is also crucial in trade negotiations. The Doha Round does not have a specific remit for diversifying African exports. The existing non-reciprocal preferential trade arrangements focus on perpetuating the existing structure of African exports. In principle, neither completion of the Doha Round nor existing preferential trade arrangements will do much damage to Africa's future trade prospects. The real danger lies with the Economic Partnership Agreements that are being negotiated, since the reciprocity involved in them will force African countries to liberalize too rapidly, with a bias towards Europe and against continental integration. They may also work against the strategic goals of promoting industrialization, economic diversification and structural transformation in Africa.

The global crisis, too, put considerable strain on international resources for African development. External capital inflows and trade financing have generally declined after the crisis (but not official development assistance). It is expected, though, that sustained recovery of the global economy in 2011 and beyond will result in a strong rebound of capital inflows.

Greening agriculture must be a priority for many African countries, in view of its critical role: despite recent improvements, African agriculture still falls short of meeting the continent's food demand, yet evidence shows that green-farming practices can increase yields on small farms. Global markets for organic foods and drinks are substantial and increasing rapidly. They represent new opportunities to expand trade and raise the incomes of farmers. Africa also abounds in agricultural biodiversity resources, which can become significant sources of income as agriculture diversifies and develops.

The continent's transformation will require industrialization to be greened, including efficient use of resources and alternative energy sources. This will enable Africa to realize its potential for renewable energy power generation as a means of establishing and then sustaining its international competitiveness. Energy- and carbon-intensive industrialization would not only add costs but also lock Africa into inefficient and uncompetitive production modes. Greening industrialization will increase energy and material efficiency, thus yielding significant economic gains while reducing ecological and climate-change risks.

The state in Africa has a crucial role to play in facing various current and emerging development challenges.

The state and Africa's development challenges

THE STATE IN Africa has a crucial role to play in facing various current and emerging development challenges. Diversification of production and exports is an important element of transformation. Yet state leadership and vision are required for designing and pursuing policies to move Africa from its heavy dependence on primary commodity exports. Generating domestic sources of development finance calls for strong and effective states endowed with the legitimacy to raise the necessary revenue as well as the capacity for efficient delivery of public services. Attracting international development finance, too, requires states with such attributes.

Driving a green transformation will require a set of enabling conditions that demands the state to play an important role. In particular, engagement of the state, producers and consumers will enable African countries to take full part in shaping norms for environmentally sound agricultural and industrial goods and services. State leadership is also critical for accelerating and strengthening regional integration, to create larger markets for developing the continental manufacturing base for a wide variety of clean products and technologies. But what is "economic transformation" in more precise terms? And why has African not already gone through the process?

Economic transformation and its importance

Economic (or structural) transformation may be defined as the change over time in the sectoral composition of output (or GDP) and that of the sectoral pattern of the employment of labour as an economy develops. This represents the core feature of the development process, and it occurs over the long term. The stylized facts of transformation suggest broadly that, as the real per capita income of an economy increases over the long term, the shares of industry and its manufacturing subsector as well as services rise, as does the ratio of average labour productivity in non-agriculture to agriculture; at the same time, the share of agriculture in GDP and the employment share of agriculture in total employment decline.

A country is regarded as having achieved transformation when the respective GDP shares of the major economic

sectors and subsectors follow the above stylized facts. The importance of transformation lies primarily in the fact that structurally transformed economies tend to be associated with steady, sustained economic growth rates, relatively low growth volatility and higher capacity to create jobs. These attributes help significantly reduce an economy's vulnerability to external shocks, providing a stronger basis for maintaining macroeconomic stability and establishing enhanced capacity for smoother economic adjustment. Lower volatility also reduces uncertainty and makes macroeconomic management easier.

The case of Malaysia, among many others, shows the feasibility of economic transformation. This country's real per capita income grew at an annual average rate of 4.6 per cent during 1960–2007, and was associated with a

Malaysia's successful economic transformation was achieved by deliberate state intervention, based on a disciplined planning process.

low level of volatility. Malaysia's successful economic transformation was achieved by deliberate state intervention, based on a disciplined planning process. This included the formulation of relevant development policies, provision of the required investment and creation of appropriate institutions. The Malaysian experience demonstrates the vital role that a developmental state can play in transforming a developing country into a prosperous one in only a few decades.

Africa's transformation experience

Despite the diversity of country experiences on the continent, Africa's growth performance between the early 1960s and early 1970s was similar to that of other developing regions. After the oil price shock of 1973, however, its growth faltered and generally declined, until 2000–2007 when growth improved again. During 1960–2007, 16 African countries achieved average annual real per capita growth rates above 2 per cent, 26 countries recorded less than 2 per cent growth, and 11 countries contracted. None of these African countries enjoyed economic growth that

was associated with very low volatility (a coefficient of variation of less than one).

Africa's growth experience was not associated with full structural transformation. Incomplete transformation in some countries may be traced to the influence of abundant resource endowments and ineffective policies. Distorted economic transformation may have resulted from the failure of the modern industrial sector to absorb rural surplus labour and other resources. So what can Africa do?

State actions for transforming African economies

Africa's states have three major development tasks for achieving economic transformation: planning the process, formulating appropriate policies and implementing the plans and policies.

The development process has to be planned for several reasons. The changes required are substantial and therefore the decisions cannot be optimally made by free market forces—most developing economies are characterized by pervasive market failures. The interdependence of all elements of the process needs to be reconciled through comprehensive development frameworks rather than narrow, partial models.

The state has the responsibility for formulating appropriate development policies that are best carried out through constant dialogue with key social and economic agents on both the production and consumption sides. Maintaining macroeconomic stability is a basic requirement for promoting steady and sustained growth rates

with low volatility. However, transformation requires appropriate policies, incentives and penalties to ensure that public and private resources move in the direction in which they are optimally used. Many of the necessary policies result in wins and losses—generating winners and losers. 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.

The state has to have the capacity and competence to implement development plans and policies. It needs to set up (or 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.

In summary, economic transformation in Africa demands the state to play a central role—using a comprehensive development framework—in planning, articulating and implementing policies aimed at ensuring efficient allocation of resources. But the state must have the capacity to do this, as well as the institutions to link the bureaucracy with key stakeholders. Crucially, it must have the legitimacy to mobilize all stakeholders around a nationally owned development framework, including its vision and targets. In other words, transformation in Africa will require a developmental state.

A developmental state must have the legitimacy to mobilize all stakeholders around a nationally-owned development framework, including its vision and targets.

Africa's need for a developmental state

Definition

A DEVELOPMENTAL STATE can be defined as one that has the capacity to deploy its authority, credibility and legitimacy in a binding manner to design and implement development policies and programmes for promoting transformation and growth, as well as for expanding human capabilities. Such a state takes as its overall socio-economic goals the long-term growth and structural transformation of the economy, with equity.

Role

The primary goal of the African developmental state is to overcome the continent's inherent development challenges, focusing on high and sustainable economic growth rates through diversification and transformation. 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 impact of these policies will inevitably create winners and losers among various economic agents, both as producers and consumers, and indeed, all segments of society may be called on to make short-term, socio-economic sacrifices for society's long-term benefits.

Developmental states in Africa should be inclusive and operate through a democratic governance framework, which is necessary to ensure socio-political inclusiveness. This in turn enhances the legitimacy of the state and its institutions, giving the state greater authority in managing disputes stemming from transformation.

Hence 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.

Since free market forces will not drive economic transformation on their own, the developmental state must play a central role in resource allocation and in efficient coordination of crucial economic activities. This is particularly relevant to developing infrastructure, human capital, and the financial market and setting up production facilities in the agricultural and industrial sectors. Issues of market failure abound in this area, requiring the state's positive intervention.

Constructing an African developmental state

As seen, an effective developmental state requires—beyond a set of crucial institutions and mechanisms—a democratic socio-political environment that endows it with legitimacy and authority. This environment also provides stakeholders with the voice and representation that enable them to have a sense of ownership of the country’s national development programme.

The capacity of the developmental state for formulating and implementing such a programme has two component parts. The first consists of a political leadership that is committed to national development goals and that can motivate and guide the planning process. The second is a competent and professional bureaucracy that has the autonomy and power to implement the programme and respond swiftly to rapidly changing local and global conditions. Its personnel must be recruited solely on merit, well trained and adequately rewarded.

At the larger socio-political level, the developmental state needs to be assisted by strong developmentalist coalitions. These are made up of groups that share a common developmentalist vision and can sustain dialogue with the political leadership—a means of broadening the support base for designing and pursuing crucial policies. At the operational level are the consultative and deliberative institutions.

When they function well, these developmentalist coalitions and the institutions can help to enhance the efficiency—and equity—of resource allocation and promulgate citizens’ greater oversight of the state, thereby promoting greater accountability. The enhanced “ownership” of the development process contributes to its credibility and legitimacy. At a technical level, the exchange of information and perspectives enhances bureaucratic decision-making.

The way forward for African developmental states

Emergence

THE CASE FOR promoting developmental states in Africa largely rests on the inability of previous development

approaches to help Africa diversify and transform its economies, generate steady and sustained high growth rates or deliver adequate levels of social development. Developmental states are constructed around a government with the political will and legitimacy to perform specified developmental functions, a professional bureaucracy that implements established national development strategies and policies, and interactive mechanisms allowing stakeholder groups to be involved in designing and carrying out policy.

A developmental state’s effectiveness in promoting economic transformation derives from its ability to promote more equitable and efficient resource allocation, its capacity to design and carry out policy as well as its close coordination of institutions.

A developmental state’s effectiveness in pushing through economic transformation derives from its ability to promote more equitable and efficient resource allocation, its capacity to design and carry out policy as well as its close coordination of institutions. Although this approach is inherently vulnerable to risks running from state intervention, it also has some built-in institutional mechanisms for avoiding regulatory capture, corruption and rent-seeking, though these need to be nurtured.

Policy recommendations

The role of the African state in achieving rapid and sustained economic growth and social development combined with deep structural transformation should be based on a developmental state. This approach should be operationalized through disciplined planning, where social and economic policies are interwoven in a complementary and mutually reinforcing manner. In avoiding the pitfalls of state intervention, such as capture of parts of the state apparatus by elites, a developmental state in Africa must be able to administer such key elements as an autonomous and competent bureaucracy with responsibility for development planning and implementation and a developmentalist coalition among committed political leadership, bureaucracy, private sector and civil society.

African developmental states should also implement measures such as relating state assistance to performance targets

Further research

More knowledge needs to be acquired with respect to the form and operations of key institutional relationships that are key to the success of developmental states in Africa. National evaluation of the capacities of these institutional arrangements is needed to mark out gaps, as is research to isolate and explore the specific channels through which developmental states could enhance structural transformation. Similarly, new research should be conducted on the policy measures required to reduce the risks of state intervention. The issue of policy space also deserves research, given the potential for conflict between African countries and global organizations and donors, as developmental states move from being an approach to becoming a reality.

(and withdrawing assistance if necessary); empowering regulatory agencies to set and enforce product standards; and establishing and enforcing competition law.

Adoption of the developmental state approach by countries within Africa's regional economic communities requires tighter coordination and harmonization of national development strategies. This requires joint capacity building in key areas and use of peer review mechanisms for ensuring compliance with common governance standards.

Additionally, the policies typically used in the developmental state approach may well conflict with the policies of multilateral organizations (such as the World Trade Organization) and multilateral donors, requiring continent-wide renegotiation of unacceptable restrictions on policy space.

Adoption of the developmental state approach by countries within regional economic communities requires tighter coordination and harmonization of national development strategies.

Developments in the World Economy and Implications for Africa

1

CHAPTER

AFTER THE GLOBAL financial and economic crisis, the world economy demonstrated signs of recovery in 2010, although growth divergences persisted, particularly between the developed economies on the one hand, and emerging and developing countries on the other. Developed economies, in particular the United States (US), the European Union (EU) and Japan remained sluggish (IMF, 2010a). Unsustainable budget deficits and weakened fiscal positions caused by bail-outs of financial institutions led to a severe sovereign debt crisis in the EU in 2010. Some European countries responded by adopting stringent fiscal consolidation measures, which partly consisted of cutting back on public spending. Such consolidation took away many public service sector jobs, worsening the already high unemployment rate and acting as a drag on growth in the euro area and on the global economic recovery more widely. Developing and emerging economies, especially China and India, rebounded strongly, though their growth is slowing and the outlook is uncertain for 2011.

In an attempt to counteract the recession, governments in 2010 around the world intervened with a mix of monetary and fiscal policies. The US continued to pursue a

loose monetary policy and even adopted quantitative easing (which pumps more liquidity into the financial system through unconventional instruments), but lending did not fully recover there. The US dollar, however, generally depreciated in 2010 against other major and developing-country currencies. Low interest rates around the globe encouraged capital to move into real estate and commodities. Commodity prices also seemed to benefit from the robust growth in emerging countries, which posted relatively strong performance. Strong economic activity and concerns about overheating prompted some emerging economies, such as China and India, to tighten their monetary policies and raise interest rates in 2010.

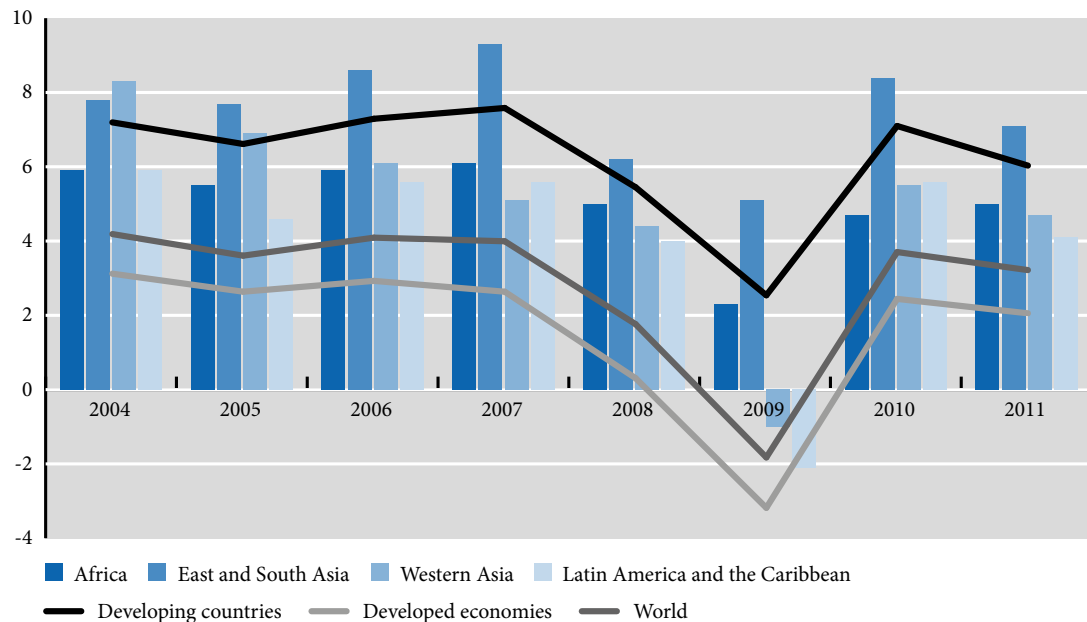
These developments in the global economy brought mixed—though on balance positive—fortunes for Africa. On the one hand, rising commodity prices, increased public spending and foreign direct investment (FDI) in extractive industries supported economic recovery across Africa. On the other hand, increasing commodity (especially food) prices heightened concern over food insecurity and the widening of current account deficits in some African food-importing countries.

1.1 A moderating global recovery in 2010

DESPITE MODERATION IN the second half of the year, the global economy grew at 3.6 per cent in 2010, a remarkable turnaround from the 2.1 per cent contraction of 2009. However, continued recovery relied mainly on fiscal stimuli

and strong monetary policy support, particularly in the US. With limited room for fiscal expansion, and a fragile international financial system and weak aggregate demand, global growth is forecast to be only 3.1 per cent in 2011 (figure 1.1).

Figure 1.1
GDP growth rates of major regions, 2004–2011



Source: UN-DESA (2011), estimates for 2010 and forecasts for 2011.

Structural adjustments will be the key issue that the majority of developed economies have to deal with in 2011 (EIU, 2010a). Recent bold fiscal stimuli severely deteriorated many of their fiscal balances. Medium-term fiscal sustainability considerations have caused most developed countries to pursue fiscal consolidation, despite increasing social and political pressures against such a move. At the same time, the effectiveness of further monetary loosening, including quantitative easing, is in doubt, as households continue to consolidate their balance sheets by increasing savings rates. Banks are also hesitant to lend money.

On the balance of these factors, developed economies' growth is forecast to be only 1.9 per cent in 2011 (figure 1.1). Growth for emerging and developing economies, although still strong, will decline to about 6 per cent in 2011, despite the recovery of their industrial production and its positive impact on the balance of payments. The recovery of the world economy is expected to be long and painful, with prospects for different economies and regions remaining uneven.

The US economy recovered from contraction in the first half of 2009 and grew at an annualized rate of 1.6 per cent

in the third quarter and 5 per cent in the fourth. A deceleration began in the first quarter of 2010, with GDP expanding by only 3.7 per cent. This trend continued in the second quarter, during which the economy advanced at a meagre 1.7 per cent (Bureau of Economic Analysis, 2011). Part of the reason for this slowdown was the tapering off of the stimulative effect of fiscal and monetary policies, as primarily reflected in the downturn of inventory investment, residential and non-residential fixed investment, and state and local government spending. The US unemployment rate remained high and the real estate market stayed sluggish in 2010. With weak private consumption expenditure, the US economy is most likely to demonstrate a subdued recovery. For the whole of 2010, US growth stood at 2.6 per cent, and is projected to decelerate to 2.2 per cent in 2011 (UN-DESA, 2011).

Japan's economy continued to rebound in 2010, owing to strong demand for capital goods from emerging and developing economies. In the first two quarters, GDP growth was estimated at 5.9 per cent and 3.5 per cent, respectively. The weak performance of the US economy contributed to this slow recovery of an economy that has been trapped in deflation since May 2009 (Japan SNA

statistics, 2011). In addition, the sharp appreciation of the yen constituted a serious threat to the country's world export share. The economy is projected to grow at 1.1 per cent in 2011 (UN-DESA, 2011).

The EU faces worse prospects than the US. The bloc's growth rate is expected to be 1.6 per cent in 2011, down from 1.8 per cent in 2010 (UN-DESA, 2011), partly attributable to weak household consumption expenditure. The euro area sovereign debt crisis in 2010 prompted many countries to adopt stringent fiscal consolidation and austerity measures.

Developing economies are expected to sustain their strong performance, with projected growth rates of 7.1 per cent in 2010 and 6 per cent in 2011 (figure 1.1). China and India are still among the leading performers. China is expected to grow by 8.9 per cent in 2011, down from 10.1 per cent in 2010, and India by 8.2 per cent in 2011, slightly up from 8.4 per cent in 2010 (UN-DESA, 2011). Confronted with weak external demand, China reverted to a more sustainable domestic-oriented growth plan; India's economy has benefited from rising capital inflows and supportive macroeconomic policies.

In Western Asia, recovery was partly driven by developments in oil demand and prices, which in turn depended on global economic prospects. The region as a whole grew by 5.5 per cent in 2010, but is set to decelerate to 4.7 per cent in 2011 (figure 1.1).

Similarly, the economies in Latin America and the Caribbean (LAC), expanded by 5.6 per cent in 2010 thanks to increasing demand for commodities from emerging and developing countries. The LAC economies are projected to expand at 4.1 per cent in 2011, as US GDP growth, a major factor in their growth, tapers off (figure 1.1).

1.2 World trade growth yet to stabilize

STARTING IN THE second half of 2009, world trade rebounded strongly from the global crisis, limiting the export downturn to 20 per cent for the year. In the first quarter of 2010, the volume of world trade in commodities increased by a stellar 17 per cent (EIU, 2010b). The

The global economy is expected to continue recovering slowly in 2011, with persistent concerns over high unemployment and weak consumer confidence, among others.

Africa's GDP growth is projected to rise slightly to 5.0 per cent in 2011, up from 4.7 per cent in 2010 (figure 1.1). Contributing to this are large-scale infrastructure investment, rapid development of industrial and service sectors, significant agricultural growth and the rebound of commodity prices. Most African economies seem to have recovered better than many other parts of the world, but they face uncertain sustainability and have narrow production and export structures (discussed further in chapter 4).

Looking forward, the global economy is expected to continue recovering slowly in 2011, with persistent concerns such as high unemployment, weak consumer confidence, uncertain business investment, resurgence of the EU sovereign debt crisis, and rising trade protectionism. The current recovery is still underpinned by stimulus policies, and the global economy has a long way to go to return to its potential growth path. In the face of such anxieties, the world economy now more than ever needs global policy coordination to steer growth onto a strong and sustainable path.

export value of world trade is estimated to have grown by 12.8 per cent in the whole of 2010, and is projected to return to about 8.5 per cent in 2011 (UN-DESA 2011). World trade growth prospects depend on the pace at which global recovery takes hold.

Developing countries' trade recovered in 2010, with exports growing by 15.9 per cent.

Developed economies' export growth is estimated at 10.2 per cent in 2010 (figure 1.2). Affected by the drying up of credit caused by the global recession, imports of the developed world declined considerably and are not expected to recover soon; its export volume grew slowly or remained unchanged. The sum of these two developments was that the trade deficit in developed economies narrowed.

One of the channels through which the global crisis affected developing countries was trade. The value of developing countries' exports contracted by 17.6 per cent in 2009. Their trade recovered in 2010, with exports growing

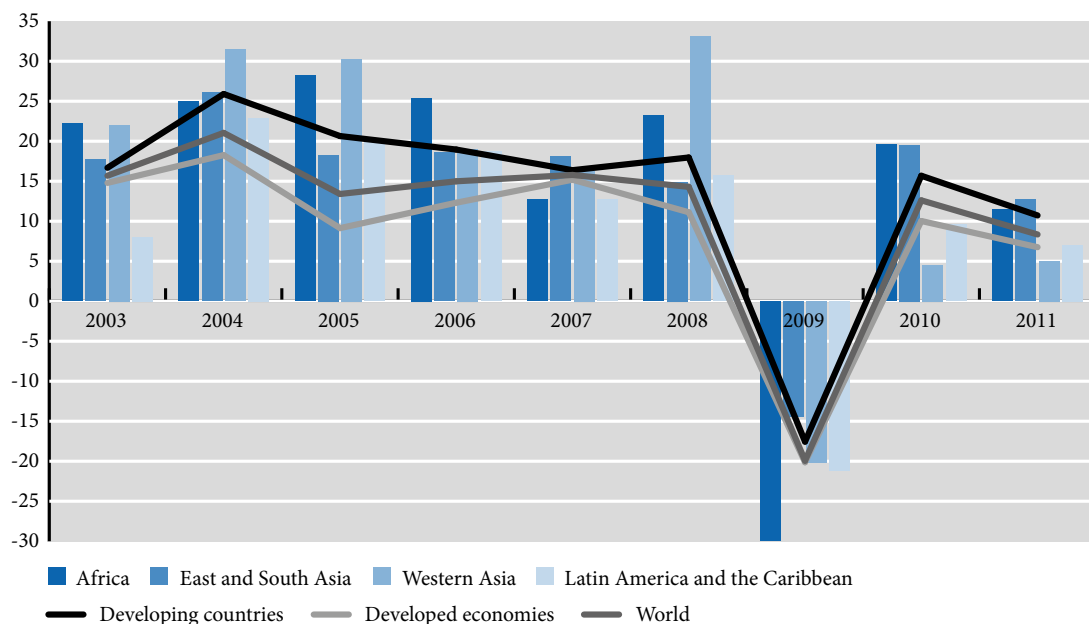
by 15.9 per cent. They are expected to post 10.9 per cent growth in 2011 (figure 1.2). With shrinking import demand from the developed world, developing countries are now facing increasing pressure to revert to a more balanced, domestic-demand driven and sustainable economic development model.

The exports of African economies suffered in 2009 from the crisis, with a fall of 30 per cent, although the continent's total export value constitutes only about 2.5 per cent of the global figure (figure 1.2; IMF, 2010b). With the rebound of commodity prices and strong demand from other developing and emerging economies, African exports saw a forceful upswing of 19.6 per cent in 2010, but this was still slower than 2008's 23.2 per cent.

African exports still rely mainly on primary products, and intraregional trade on the continent remains limited. Both factors contribute to the high volatility of African trade in response to global economic shocks. African imports are steadily increasing to support growing economies, resulting in increasing current account deficits for most countries (chapter 3).

Figure 1.2

Annual average growth rates of exports by region (%)



Source: UN-DESA (2011), estimates for 2010, and forecasts for 2011.

1.3 Global interest rates still low but inflation up in some regions

IN AN ATTEMPT to counteract the impact of the global crisis and to stabilize financial systems, economies around the globe cut their interest rates to record lows in 2009. Countries followed diverse interest rate and monetary policy routes in 2010, taking into account their own economic conditions. Most developed economies maintained their accommodative monetary policies and low interest rates to support their still fragile economic systems as they tried to repair their public and private balance sheets, though Australia began to raise its interest rate in the fourth quarter of 2009. India began raising its interest rate in March 2010, and China started reversing its low interest rate monetary policy in October that year. These were all efforts to control rising inflation and to counter asset bubbles, which were partly brought about by currency appreciation expectations and increasing domestic credit in some countries.

Global interest rates are expected to remain low in 2011 and accommodative monetary policy will continue in most cases. Developing countries, however, must pay close attention to asset bubbles and inflation. Most African countries are expected to keep interest rates low in 2011 in view of the moderate inflationary outlook for the continent.

Global inflation increased from 1.4 per cent in 2009 to 2.5 per cent in 2010 and is expected to remain relatively low in 2011, owing to the slow global economic recovery. Demand from developing economies is picking up some of the slack left by decreased household expenditure in developed countries, where inflation pressures are likely to be subdued because of excess capacity and fiscal consolidation, which limit demand pressures. Inflation is therefore unlikely to be a major concern for most economies in 2011.

For developed countries, inflation increased from 0.1 per cent in 2009 to 1.4 per cent in 2010, and is projected to level off at 1.4 per cent in 2011 (figure 1.3). Owing to increasing commodity prices, headline inflation in these economies increased. Nevertheless, underlying inflation is expected to remain low because of high unemployment and excess industrial production capacity. Considering

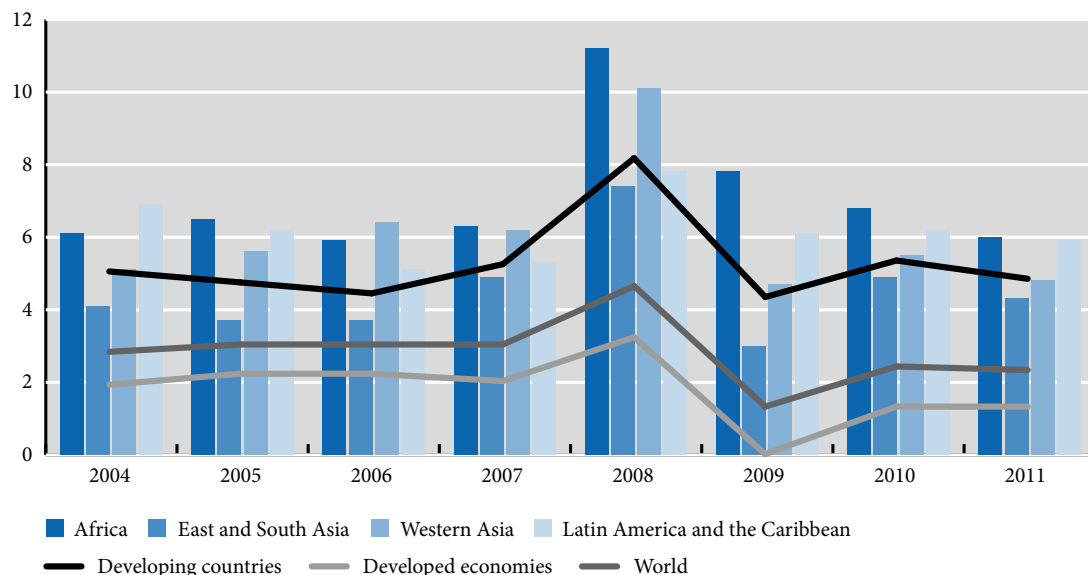
the mild inflation and weak growth prospects, most developed economies are likely to maintain their close-to-zero interest rates and may even pursue quantitative easing in 2011.

Inflation climbed to 5.4 per cent in developing economies in 2010, up from 4.4 per cent in 2009, but is expected to slide back to 4.9 per cent in 2011 (figure 1.3). With continued loose monetary policy and a relatively quick economic recovery, inflation remains a concern in many developing economies in 2011. In China, inflation increased throughout 2010, although it is still under control. India's inflation rate, which is captured by the wholesale price index, was in double-digit levels from the third quarter of 2009, prompting a series of interest rate increases by the Reserve Bank of India (OECD, 2010b).

In LAC, inflation reached 6.2 per cent in 2010, but is expected to decline to 5.9 per cent in 2011 (figure 1.3). Given the risk of overheating and balance-sheet vulnerability, unwinding fiscal and monetary stimulus policies is foreseeable for this region's economies.

Although declining, Africa's inflation remains relatively high compared with other regions, owing mainly to continued strong domestic demand and weak supply capacity. Inflation dropped from 7.8 per cent in 2009 to 6.8 per cent in 2010 and is projected to decline to 6.0 per cent in 2011 (figure 1.3).

Global inflation increased from 1.4 per cent in 2009 to 2.5 per cent in 2010 and is expected to remain relatively low in 2011.

Figure 1.3**Inflation rates in major regions and economies, 2004–2011**

Source: UN-DESA (2011), estimates for 2010 and forecasts for 2011.

With interest rates at an all-time low and recovery in the banking system under way, liquidity could surge, thereby posing a threat to price stability. One of the major

challenges for many economies across the world, including African countries, is determining the appropriate time for reversing loose monetary policies.

1.4 Trading in foreign exchange dominated by weak US dollar and fluctuating euro

OWING TO THE US Federal Reserve's sustained loose monetary policy and quantitative easing measures, the dollar continued to depreciate in 2010, despite a temporary appreciation in the first half of the year. With the emergence of the Greek and Irish sovereign debt crises, concerns over fiscal sustainability led to a rapid appreciation of the dollar against the euro. By end-May 2010, the dollar index was up by nearly 15 per cent compared with its most recent trough in 2009.

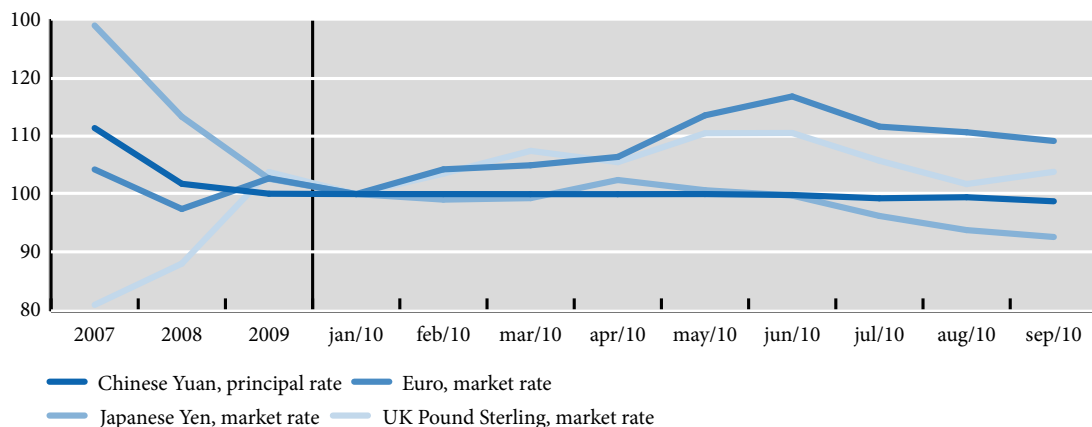
The persistent depreciation of the dollar had a strong influence on global economic competitiveness. In 2010, the yen appreciated considerably against the dollar and the euro, with a nominal appreciation of nearly 10 per cent against the dollar by end-September. Japan's exports saw a decline owing to the yen's appreciation, leading to intervention

by the Bank of Japan in the foreign exchange market in September 2010. China was under increasing pressure from the US and EU to let the yuan appreciate as well, given its consistent and sizeable trade surpluses with these trading partners. By end-September 2010, China's currency appreciated by about 1.86 per cent against the US dollar and about 2.53 per cent against the Special Drawing Rights (SDR).

One of the major implications of the US dollar's depreciation is a nominal increase in commodity prices, improving the terms of trade of many African commodity-exporting countries. The continent's relatively high growth rate is also attracting significant private FDI flows into certain sectors.

Figure 1.4

Trends in international foreign exchange markets (against US dollar, January 2010=100)



Source: IMF (2010b). UNECA calculated the indices.

1.5 Macroeconomic imbalances threatening global economic stability

DEVELOPED ECONOMIES SAW their trade deficits narrow in 2008 and 2009, as their imports contracted more than their exports. Current account deficits narrowed from 1.2 per cent of GDP in 2008 to 0.3 per cent of GDP in 2009. With prospects for recovery uncertain, it is likely that the ratio of current account balances to GDP for developed economies will remain relatively stable, with a deficit of 0.3 per cent in 2010 and 0.1 per cent in 2011 (IMF, 2010a). These forecasts, however, conceal differences among these countries.

The US trade deficit stood at 3.2 per cent in 2010 but is expected to narrow to 2.6 per cent in 2011 (figure 1.5). This partly reflects weak household spending. Given the economic uncertainty and their deteriorated balance sheets, US households are cutting their spending, which could reduce the trade deficit.

The euro area current account was in near balance in 2010 and is expected to remain around the same level in 2011, again masking divergence among countries. Germany continues to run a considerable surplus, while Greece and Portugal, which were at the centre of the euro area

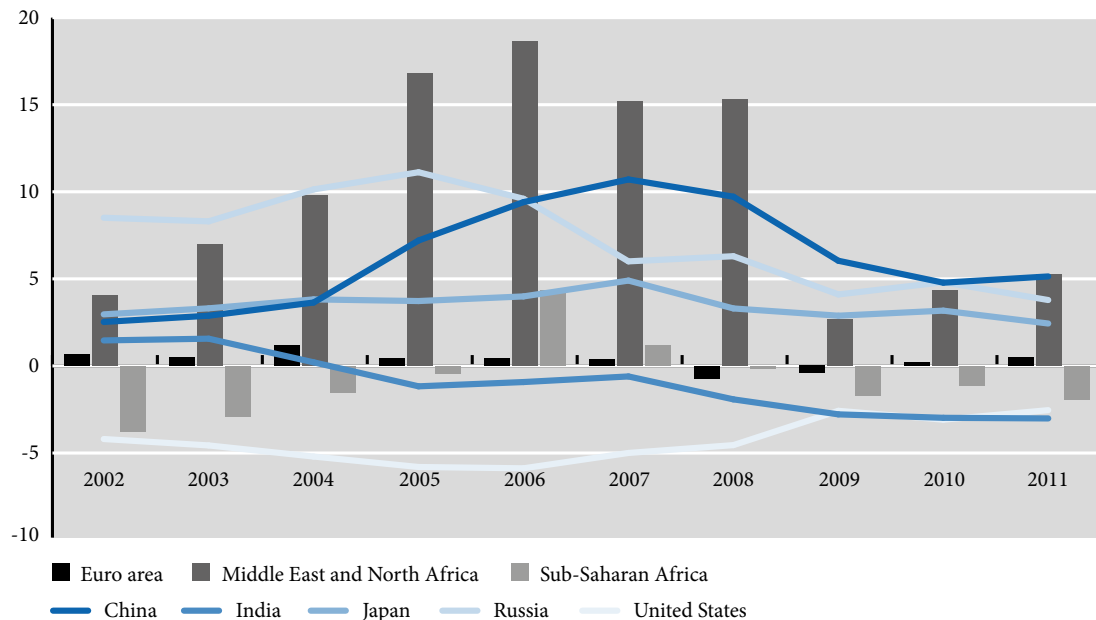
sovereign debt crisis, claimed almost double-digit deficits in 2010 (IMF, 2010a).

Average current account balance in emerging and developing countries remained positive in 2010, and the same trend is expected in 2011, despite the high growth of imports, fuelled by fiscal stimuli. This trend is driven mainly by large current account surpluses in some emerging developing economies such as China and oil-rich countries such as the Gulf States. China continued to post a current account surplus, of 4.7 per cent of GDP, in 2010, which is expected to rise to 5.1 per cent in 2011, although its size will be modest compared with the double-digit levels of before the global crisis (figure 1.5).

Current account movements diverged across Africa (chapter 2). Most oil exporters on the continent are expected to continue running surpluses in 2011, thanks in large part to strong oil prices. In contrast, the majority of oil-importing countries will see their current account balances worsen. This deterioration is likely to cause nominal depreciation in some national currencies, aggravating inflationary pressures.

Figure 1.5

Current account balances for selected regions and countries, 2002–2011(% of GDP)



Source: IMF (2010a); 2010 and 2011 estimates; India 2009 estimate.

Foreign reserves in emerging and developing economies grew by 12.3 per cent in 2010, exceeding US\$6.2 billion.

Foreign reserves in emerging and developing economies grew by around 11.3 per cent in 2009. Helped by the recovery in capital inflows (and despite widening trade deficits) they continued to expand, by 12.3 per cent in 2010, reaching over \$6.2 billion. China held the largest reserve, accounting for about 43.5 per cent of the stock of all emerging and developing economies (IMF, 2010a). High reserves and a multi-year trade surplus, coupled with foreign exchange control policies, are resulting in low domestic demand in China, as well as asset bubbles, high inflation and lower returns to capital.

Table 1.1**Foreign exchange reserves in selected regions and countries, total and months of imports, 2003–2011**

	2003	2004	2005	2006	2007	2008	2009	2010	2011
Foreign exchange reserves (\$ billion)									
Arabian Peninsula and the Gulf	86.2	109.0	259.1	364.3	542.8	670.1	632.3	691.3	742.3
China	408.2	614.5	821.5	1068.5	1530.3	1949.3	2416.0	2852.4	3227.8
Economies in Transition	211.6	289.1	368.3	536.9	764.9	718.2	764.7	883.8	931.1
India	98.9	126.6	131.9	170.7	267.0	247.4	265.2	275.4	307.6
Latin America	193.0	219.5	254.8	310.5	445.8	496.9	546.5	636.0	673.7
Russian Federation	73.2	120.8	175.9	295.6	466.8	411.8	416.6	483.3	519.8
Sub-Saharan Africa	31.1	50.9	69.9	99.2	125.7	133.7	132.5	138.3	149.2
Foreign exchange reserves (months of imports of goods and services)									
Arabian Peninsula and the Gulf	5.0	4.9	9.5	11.1	12.9	12.4	13.6	14.1	14.1
China	11.0	12.2	13.9	15.1	17.8	19.0	26.1	22.8	21.8
Economies in Transition	5.5	5.7	6.2	7.3	8.0	6.2	9.4	9.3	9.0
India	13.2	11.9	9.0	9.4	11.8	8.0	10.0	8.2	8.0
Latin America	5.8	5.5	5.4	5.5	6.7	6.1	8.7	8.0	7.7
Russian Federation	8.9	11.4	13.3	17.4	20.4	13.9	20.8	19.1	19.0
Sub-Saharan Africa	3.5	4.6	5.1	6.2	6.3	5.4	6.5	5.7	5.7

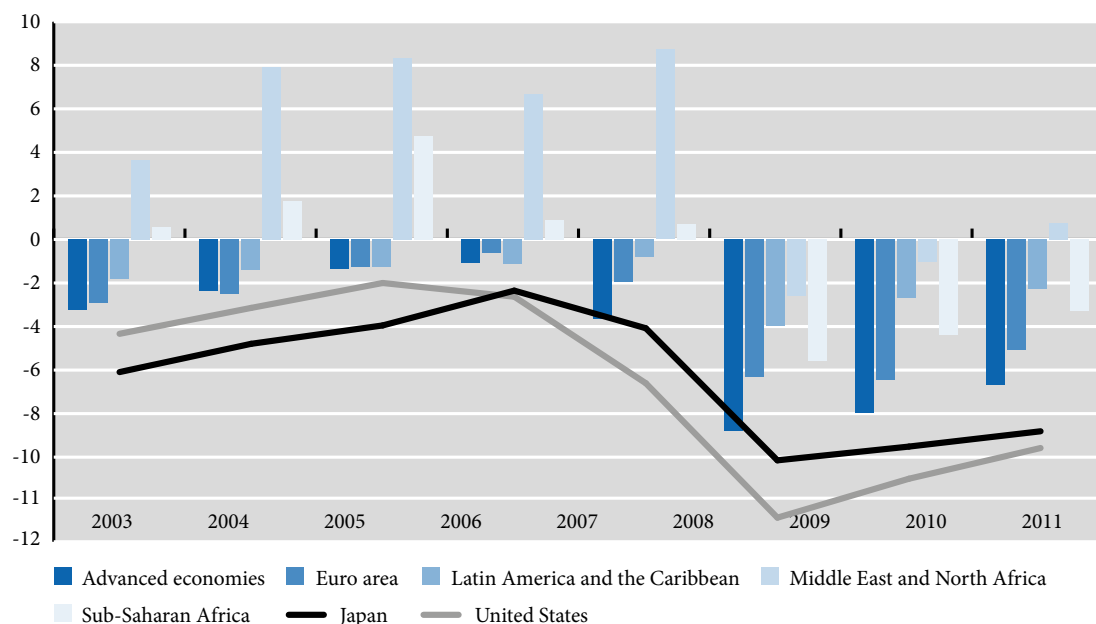
Source: EIU (2010c), estimates for 2010 and forecasts for 2011.

The fiscal positions of developed economies deteriorated severely in 2009, largely owing to increased fiscal expenditures to counter the global crisis along with reduced tax revenues that accompanied the recession. After more than doubling, from 3.6 per cent to 8.8 per cent of GDP in 2009, the net borrowing position of developed economies is projected to plateau at 8.0 per cent and 6.7 per cent of GDP in 2010 and 2011, respectively. In absolute terms, the US has the largest debt among developed countries, with gross debt of 92.7 per cent of its GDP in 2010 (IMF, 2010a).

Net borrowing by developed economies is expected to decline to 6.7 per cent of GDP in 2011.

Figure 1.6

Central government fiscal balances for selected regions and economies, 2004–2011 (% of GDP)



Source: IMF (2010a), estimates for 2010 and forecasts for 2011.

In 2010, the euro area's sovereign debt crisis and fiscal sustainability concerns almost led to a collapse of the euro. A massive fiscal stimulus was necessary in order to save failing financial institutions and counter the consequences of the recession. As public expenditures rose, fiscal positions deteriorated in many European countries, and their sovereign debt ratings were downgraded, leading to higher interest rate requirements for new government bond issues. The situation was temporarily eased by intervention from the International Monetary Fund (IMF), EU and European Central Bank. However, euro

area and other developed countries run the risk of another debt crisis unless they steer their public finances towards sustainable paths.

African economies have relied mainly on tax revenues and proceeds from official development assistance (ODA) to finance public expenditures. A modest recovery of the global economy and fiscal consolidation in donor countries have the potential to constrain government spending in Africa, therefore putting on hold many infrastructure projects and social development efforts across the continent.

1.6 World commodity prices and volatility both up

MOST WORLD COMMODITY prices have risen over the past 10 years, despite a significant decline during the recent global crisis. The upward price trend was largely instigated by increased demand from rapidly growing emerging and developing countries. During the crisis, decreased demand from developed economies caused the commodity price index to drop by 56 per cent from its highest point in July 2008. A rebound in commodity price indices began in February 2009. By end-September 2010, the indices had recovered nearly 53 per cent from

its lowest point in 2009 (figure 1.7). There was, however, a slight decrease from April to June 2010 during the euro area sovereign debt crisis.

Most commodity prices increased in 2010, but their extent and sensitivity to economic shocks varied. Food prices were the most stable, whereas metal prices fluctuated the most, followed by energy prices. Fluctuations in the prices of other commodities are highly correlated with oil prices.

Crude oil

In 2010, the price of crude oil continued its strong rebound from its crisis-related slump. By end-October 2010, the crude oil price index had increased 91.8 per cent from its 2009 low (IMF, 2010c).

A fundamental analysis of oil demand and supply explains 2010's strong price rise. In 2010, world oil demand was up by an estimated 2.2 per cent. From developed economies, demand was nearly the same as in 2009, with an estimated 0.4 per cent growth, but from emerging and developing countries, especially China, it increased rapidly. China's demand for oil in 2010 accounted for 10.5 per cent of total global demand, second only to the US at 22.3 per cent. During the last quarter of 2009 and the first quarter of 2010, China's oil demand grew at a double-digit rate, owing to booming infrastructure construction and greater domestic demand for vehicles (IMF, 2010a).

Food and beverages

Compared with other commodity indices, the food and beverage index did not fluctuate much in 2010. By end-September 2010, the food and beverage index was up by around 30 per cent from its 2008 low point. In the first two quarters of 2010, the index fluctuated mildly owing to financial market turmoil accompanying the euro area sovereign debt crisis. The index jumped after June 2010, reflecting the rising price of wheat. In fact, the wheat price has been increasing since the end of the second quarter of 2010, reflecting adverse weather that hit major wheat-producing countries and areas, including Russia, Ukraine and parts of North America.

Despite changes in the global economy, the prices of food and beverages remained relatively stable in 2009 and 2010 owing to their special supply and demand features. As basic necessities, demand for them tends to be inelastic. Against this, the productivity of food and beverages has been increasing consistently in recent years. Yet rising demand and energy costs may push the prices of food and beverages upward in 2011.

On the supply side, oil production is expected to be close to full capacity, allowing only limited increases in supply. On the balance of the two forces, oil prices are therefore expected to experience a steady upward trend in 2011, buttressed by continuing rapid expansion of demand from emerging and developing economies and relatively stable demand from the developed world. Speculative trading by hedge funds may contribute to increasing the volatility of the oil price.

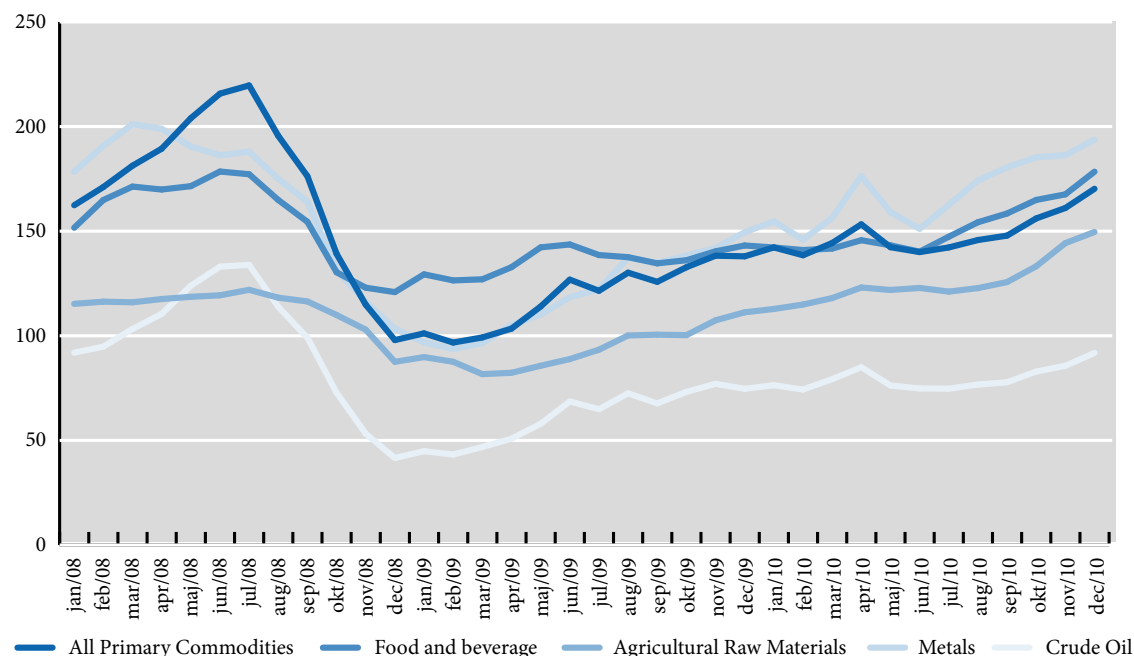
Africa has almost 10 per cent of global oil reserves and is attracting increased investment in the oil production sector. In 2009, investments rose by 4 per cent while other oil markets saw significant declines. African oil covers almost a fifth of US oil imports and a third of Chinese imports (Afrique Avenir, 2010). With oil prices steadily rising, African oil-exporting countries are expected to enjoy a firm and steady economic recovery in 2011.

The sharp increases in grain prices that were observed after July 2010 pushed current account balances of grain-importing African countries into deficit. Rising grain prices also posed daunting challenges to efforts to eradicate hunger in some of the continent's countries.

The sharp increases in grain prices that were observed after July 2010 pushed current account balances of grain-importing African countries into deficit.

Figure 1.7

Indices of primary commodity prices, January 2008–September 2010 (2005=100, \$)



Source: IMF (2010a).

Agricultural raw materials, minerals, ores and metals

The agricultural raw material price index maintained an upward trend in 2010, rising by about 34.5 per cent from the start of the year to December 2010. Cotton prices continued to increase in 2010, with some fluctuations: a slight decrease in June but from then up to September a sharp increase of over 24 per cent. Rubber prices rose during the first quarter of 2010, gradually declined during the second, then picked up again in the third, but did not recover all their lost ground.

Metal prices increased in 2010, also with fluctuations. The largest change in the metal price index was recorded in the second quarter, with a drop of nearly 15 per cent, driven in part by the euro area sovereign debt crisis. For specific metal prices, the aluminium, copper, lead and zinc price indices were highly correlated with each other in the first three quarters of 2010. They, too, were all severely affected by the crisis in the euro area, before maintaining an upward trend.

1.7 Remittances and foreign direct investment starting to pick up again

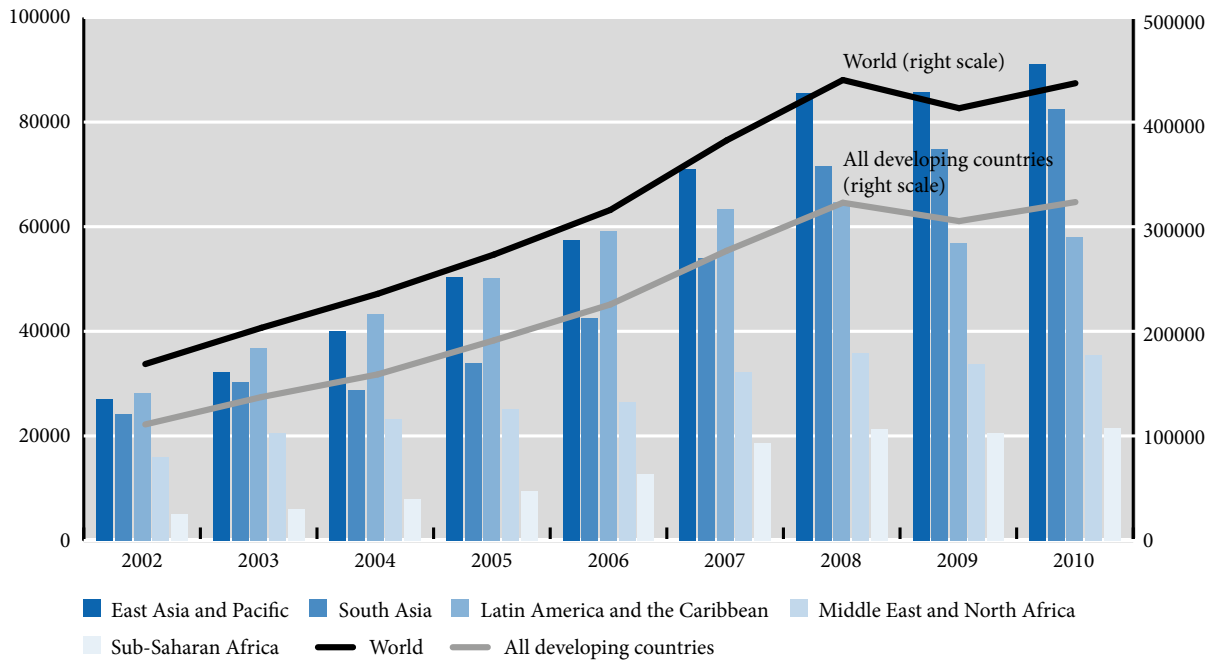
Remittances

REMITTANCE FLOWS REPRESENT only a small portion of total world private capital flows. Yet for a number of countries, remittances constitute a major source of resource inflows that significantly influence current account developments. World remittances are estimated to have been \$416 billion in 2009, representing a 6.1 per cent decline from 2008. They recovered somewhat in 2010,

growing by 5.8 per cent. The same trend is expected to continue in 2011, with growth of 5.4 per cent (World Bank, 2010). These growth rates compare unfavourably with the double-digit rates seen before the global crisis (figure 1.8).

Figure 1.8

Remittance inflows by major beneficiary regions, 2002–2010 (\$ billion)



Source: World Bank (2010), estimates for 2010.

The level of remittance flows in LAC in 2010 is estimated to be close to the 2009 level and to recover to pre-crisis levels in 2011. Remittance flows to East Asia and the Pacific are estimated to have expanded strongly in 2010, at 6.4 per cent (figure 1.8). Again, this is far below pre-crisis rates of growth.

The flow of remittances to sub-Saharan Africa did not drop as much as expected and remained at the same level in 2009 as in 2008. However, the growth of remittance flows to Africa over 2010–2011 is estimated at only 4.5 per cent, which is far lower than before the crisis (World Bank, 2010).

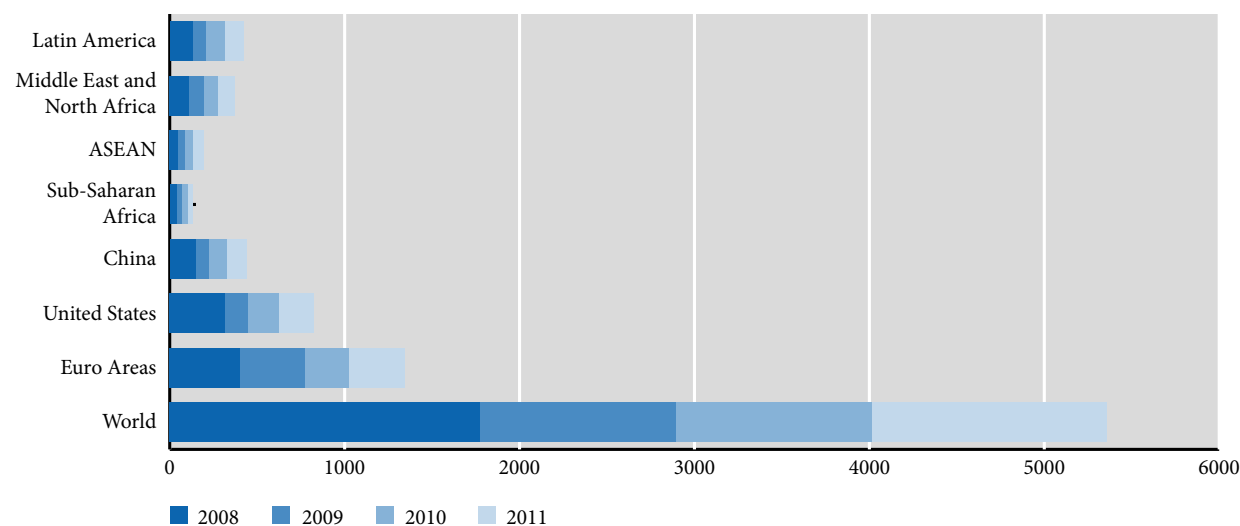
Foreign direct investment

FDI—a major source of international capital flows—saw substantial falls during the crisis. World FDI inflows dropped by 36.7 per cent to \$1,122 billion in 2009 (figure 1.9). With investors' returns declining, FDI inflows to developed economies dropped by 44 per cent that year. Inflows to developing economies declined by 24 per cent, owing to global risk aversion and higher requirements for investment returns (UNCTAD, 2010).

FDI—a major source of international capital flows—saw substantial falls during the crisis.

Figure 1.9

FDI inflows by region and for selected economies, 2008–2011 (\$ billion)



Source: EIU (2010c), estimates for 2010 and forecasts for 2011.

The UNCTAD FDI Global Quarterly Index in the first quarter of 2010 was a shade lower than in the second half of 2009. The index then fell sharply in the second quarter of 2010, suggesting that global FDI was still stagnant and sensitive to economic shocks, such as the euro area crisis. Latest estimates indicate that global FDI inflows were a little higher in full-year 2010 than in 2009, although still only about half the record reached in 2007 (UNCTAD, 2011).

Official development assistance

ODA constitutes an important source of development finance for low-income countries. Despite the adverse effects

Despite the adverse effects of the global crisis on the economies of donor countries, ODA to developing countries sustained its upward trend.

Against this backdrop, the pattern and nature of global FDI are changing. In 2009, FDI inflows to developing and transition economies accounted for over half the global total, the highest ever. This growing share reflected an improving investment environment and much higher expected returns than in developed economies. Also, a larger share of FDI went into services and primary commodities, rather than traditional manufacturing, mirroring weak global growth prospects and high expected inflation.

of the global crisis on the economies of donor countries, ODA to developing countries sustained its upward trend, increasing from \$126.7 billion in 2008 to \$127.5 billion in 2009 (chapter 3). In fact, nominal ODA flows to African countries were at an all-time high of \$47.6 billion in 2009 and are estimated to have grown by 4 per cent in 2010. In absolute terms, Africa topped the post-crisis receivers of ODA among developing regions. This reflected the global community's long-term commitment and support to the development and welfare of the continent.

1.8 The quest for reform of the global financial architecture

THE WORLD'S FINANCIAL architecture has gone through several changes in the last couple of decades, focusing on different issues, as the international community has sought to apply the lessons learned from the world's many crises, such as the Mexican crisis of 1995, the Asian crisis of 1997, the Russian crisis of 1998, the Brazilian and Ecuadorian crises of 1999 and the Turkish and Argentine crises of 2001–2002.

After the recent global crisis, it has come under renewed attack and faced many calls for reform. Policymakers have an urgent need to consider the changes needed in the policies and structures of international financial institutions, and to identify the main problems and challenges of the international payments system. They have voiced their concerns at G-20 summits (London, April 2009; Pittsburgh, September 2009; Toronto, June 2010; and Seoul, November 2010). To reform the international financial structure, the G-20 has sought to coordinate policy actions, addressing the immediate need for recovery arising from the crisis.

Further, under the auspices of the United Nations, a Commission of Experts chaired by Joseph Stiglitz was established to advise on the nature of necessary reforms in the international monetary and financial systems. Numerous events have also taken place within global civil society concerned with the attempts to redefine the international financial and economic order (Stiglitz et al., 2010).

As a result, the G-20 (among others) has made various proposals for addressing global imbalances and reserve accumulation: redefining the role of the US dollar as a reserve currency; connecting exchange rate regimes and financial crises; strengthening supervision and regulation of the international financial system; and improving governance of international financial institutions.

Africa's challenges with the current global financial architecture relate mainly to lack of voice and effective representation in decision-making bodies. With South Africa as the continent's only country in the G-20, most of Africa is preoccupied with the issue of better representation, particularly against the background of the continent's

diverse socio-economic realities. This concern has been partly addressed in the G-20 Seoul Declaration which called for further reforms by January 2013 "aimed at enhancing the voice and representation of emerging market and developing countries, including the poorest". Finance ministers and central bank governors are called upon "to continue to pursue all outstanding governance reform issues at the World Bank and the IMF" (The G20, 2010).

The Seoul Declaration emphasizes several approaches to help countries cope with financial volatility and sudden reversals of capital flows. The G-20 welcomed the creation of a new IMF Precautionary Credit Line to provide lending to countries facing potential financial difficulties, as well as enhanced collaboration between the IMF and regional financing institutions. It underlined an increased role for the IMF in anticipating systemic financial risks, particularly its recent decision "to make financial stability assessments under the Financial Sector Assessment Programme a regular and mandatory part of IMF Staff assessment of country performance for members with systemically important financial sectors".

As the debate on reforming the financial superstructure continues, African countries should quickly position themselves to develop a better understanding of the reform process and the opportunities such change offers. They also need to undertake their own structural reforms to address the inadequacies of their financial systems and to enhance Africa's financial integration, subregionally and regionally. These reforms require huge financial resources,

Africa's challenges with the current global financial architecture relate mainly to lack of voice and effective representation in decision-making bodies.

In the immediate term, African countries should hold the G-20 accountable for full implementation of the commitments made in three areas at the 2009 G-20 summits.

but in quantity and quality, this additional external financing is yet to materialize. This is partly because, owing to the global crisis, developed economies themselves are facing significant economic challenges, and have an increasing focus on reducing their budget deficits. It is too optimistic to expect developed-country governments to meet Africa's financing needs—and turning the coin, Africa has an opportunity to reduce its dependence on development aid.

In the immediate term, African countries should hold the G-20 accountable for full implementation of the commitments made in three areas at the 2009 G-20 summits. First, with regard to increased resources from international financial institutions, they should follow through on speedy implementation of the commitment to increase lending to multilateral development banks by \$100 billion with a commitment to increase this to \$300 billion over the following three years. They should also ensure rapid implementation of the IMF review of the restrictive Debt

1.9 Conclusions

THE RECOVERY OF the global economy was under way in 2010, following the most severe recession since the aftermath of the Second World War. Such a recovery is delicately poised owing to downside risks and uncertainties. Economies are recovering but at a much slower pace than expected.

Sustainability Framework of the IMF and World Bank. They need, as well, to seek clarification on the modalities of access for the \$50 billion set aside for low-income countries at the London 2009 Summit.

Second, on strengthening financial supervision and regulation, because the policy process leading to Basel-II and Basel-III largely excluded inputs from developing countries, Africa needs to make its voice heard as the modalities for implementing the Basel-II capital framework and other prudential regulations are finalized for implementation. Also, it needs to place the issue of access to financial services by the poor and small and medium-sized enterprises at the top of the agenda, and should therefore be represented on the proposed G-20 Financial Inclusion Experts Group.

Third, for resisting protectionism and promoting global trade and investment, although the significant new money (at least \$250 billion) for trade finance is welcome, Africa should press for clarification of the sources of funds and their rapid disbursement.

For many African countries, the issue in the trade arena is one of increasing their access to developed countries' markets. They can help to achieve this by, among other things, continuing their demands for relaxed rules-of-origin requirements and lower non-tariff barriers, and pursuing Aid for Trade initiative. African countries generally need to decide on their main priorities for the Doha Round negotiations, so that they can push through their main interests. They should also continue to press developed countries to open up their markets for trade and live up to their promise to make the Doha Round the "Development Round".

Developed economies were beset by persistent weak internal demand and high unemployment in 2010. The stability of the euro was challenged by large and unsustainable budget deficits, driven mainly by massive rescue packages. Austerity measures initiated in an attempt to put fiscal deficits on a sustainable path have constrained internal demand, dampening the prospects

for full economic recovery of euro area countries as well as the global economy.

Developing and emerging economies recovered strongly but are projected to show lower growth rates in 2011. Increased global liquidity fuelled asset bubbles, thereby causing rising inflationary pressures in these countries. In response, emerging economies such as China and India are tightening, or can be expected to tighten, their loose monetary policies.

Besides their economic measures, major global economies put reform of the international financial architecture on the agenda of the Seoul G-20 meeting. Their move stemmed from the distortion of the international financial architecture, among the most criticized of the many explanations for the global crisis.

The severe post-crisis recession presented African economies with both challenges and opportunities for economic growth and development. Rising international prices were positive for African oil and commodity exporters, but these countries must take effective measures to address the risk of price fluctuations. These include short-term

Developing and emerging economies recovered strongly but are projected to show lower growth rates in 2011.

measures aimed at improving the management of commodity revenue as well as medium- and long-term measures to diversify the economic base.

Overall FDI inflows to the continent declined in the aftermath of the crisis, but FDI increased in the extractive industry attracted by prospects of higher returns. Harnessing the full potential of FDI and other financial resources requires African economies to direct these inflows into infrastructure and manufacturing. African governments must play an active role in guiding development activity to ensure economic transformation as a means to achieving high-level, sustainable and shared growth.

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Economic and Social Conditions in Africa in 2010 and Prospects for 2011

2

CHAPTER

AFRICA HAS STRENGTHENED the recovery that started after the global financial and economic crisis, with GDP growth rising from 2.3 per cent in 2009 to 4.7 per cent in 2010. For the continent as a whole, per capita GDP also grew in 2010, by 2.4 per cent. Growth prospects remain optimistic (despite downside risks), and Africa is looking forward to growth of 5 per cent in 2011.

The recovery was underpinned by various factors, including the rebound of export demand and commodity prices; increased inflows of FDI in extractive industries and of aid; a return of tourists; higher infrastructure investment associated with the countercyclical policies adopted by many African countries; increased activity in the service sector, particularly telecommunications, on higher consumer demand; and good harvests in some subregions. Two distinguishing features of the current recovery have been its swiftness and strength.

Yet growth was uneven across the continent, even if oil-importing and oil-exporting countries showed robust signs of recovery. Inflation stayed low, with notable variations, and monetary policy was frequently accommodative or neutral. Budget deficits increased as a result of expansionary fiscal policies, prompting some countries more recently to tighten fiscal policy and consolidate their budgets. Overall, Africa's current account deficits widened moderately in 2010, partly owing to the robust import growth fuelled by bold public investment, increasing private demand, and rising food and energy prices.

Africa's unemployment remains high, however, and its economic rebound is yet to translate into meaningful reductions in unemployment, especially among the youth and vulnerable groups. Hunger was on the rise in 2010 owing mainly to rises in food prices and declines in subsidies.¹ The combination of steep unemployment and food prices has instigated political and social unrest in some African countries such as Algeria, Egypt, the Libyan Arab Jamahiriya and Tunisia. The low employment content and poor social outcomes of Africa's growth are the result of lack of meaningful economic diversification and continued heavy dependence on commodity production and exports. These outcomes highlight the daunting challenges of accelerating growth and promoting structural economic transformation for Africa to achieve its social development goals.

Africa has strengthened the recovery that started after the global financial and economic crisis, with GDP growth rising from 2.3 per cent in 2009 to 4.7 per cent in 2010.

The economic recovery of many African economies occurred against a backdrop of renewed continent-wide interest in the state's role in development. An important manifestation was the revival of development planning and countercyclical macroeconomic policies in numerous countries. Most national development plans in Africa give the state a prominent role in removing growth constraints, building productive capacity and

channelling private investment, both domestic and foreign, towards activities that could accelerate structural transformation and social development. To ensure that the envisaged policies and programmes in these plans are implemented, some governments made efforts to match planning with adequate budgeting in medium-term spending frameworks.

2.1 Economic performance in 2010

ECONOMIC ACTIVITY REBOUNDED across Africa in 2010. Although most economies regained some of the dynamism lost in 2009, the pace of recovery was uneven

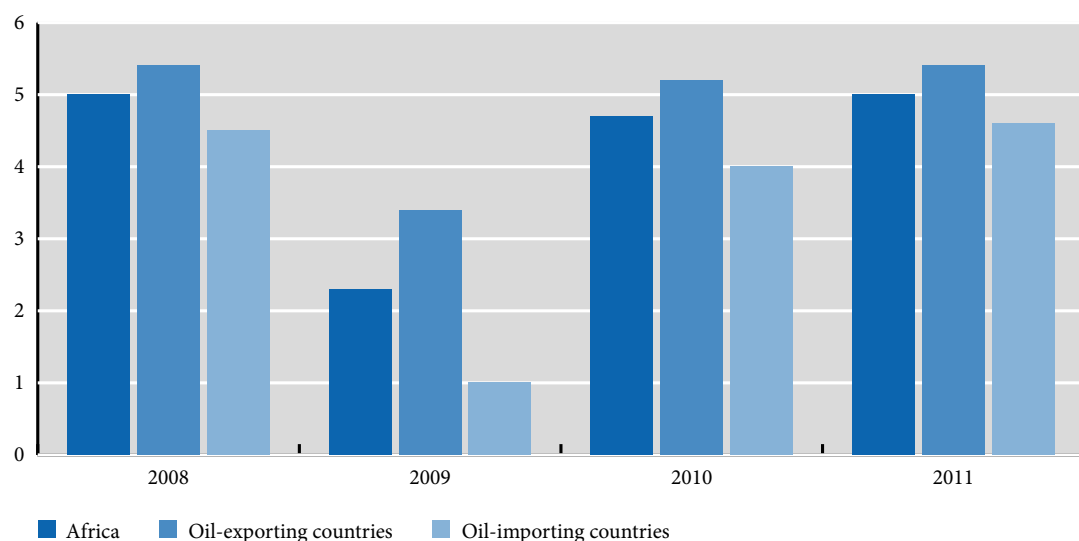
according to the economic structure of countries and subregions.

Uneven growth among countries ...

Oil-exporting countries (5.2 per cent) expanded more strongly than oil-importing countries (4 per cent) (figure 2.1), perpetuating the trend of the last decade.

Figure 2.1

Growth in Africa, oil-exporting versus oil-importing countries, 2008–2011 (%)



Source: UNECA calculations based on UNECA and UN-DESA databases, November 2010.

One important feature of the oil-exporting countries' growth is the growing prominence of their non-oil sector, with a sustained, increasing share in GDP growth over the

last few years. The strength of their non-oil sector reflects efforts in these countries to restructure their economies.

Africa's growth benefited most from rising commodity demand, especially from emerging economies such as India and China, and from higher commodity prices (chapter 1). However, although commodity revenue still represents over 50 per cent of sources of growth in Africa, other growth factors exist and vary in importance across countries. These factors include increasing inflows of FDI in extractive industries, ODA and debt relief, increased productivity, the return of tourists after the crisis, and a notable rise in revenue from trade services (chapter 3). Expansionary fiscal stances and accommodative monetary policies, among other factors, also lifted domestic demand and growth rates in many African countries. Improved macroeconomic management remains an important additional factor that both underpinned recent expansion and improved medium-term growth prospects.

Africa's recovery is associated with a notable increase in private capital flows (chapter 3). Although estimates show a decline in total FDI to Africa in 2010, FDI flows to the extractive sector increased, reflecting burgeoning mineral demand and prices (UN-DESA 2010). Remittances continued to represent the most important source of capital flows to Africa after FDI in 2010, equivalent to about 7 per cent of African GDP. Aid flows to Africa grew by 4 per cent in 2010 despite economic difficulties faced by many donor countries. In addition, some African countries continued to benefit from debt relief.

Productivity rates seem to be increasing across Africa, although they remain low by world standards. For example, analysis of growth accounting in the United Republic of Tanzania demonstrates that growth has been strongly driven by improvements in total factor productivity since the late 1990s. In the early 1990s, the contribution of total factor productivity to growth was negative (-0.7 per cent). The trend since reversed and the contribution grew significantly to 2.3 per cent in 1997–2003 and to an estimated 2.7 per cent in 2004–2009 (Atkinson and Lugo, 2010). The United Republic of Tanzania's average GDP growth rate increased from 2.4 per cent in the early 1990s to 4.9 per cent in 1997–2003 and at 5.2 per cent since in 2004–2009. This stronger growth reflects, among other factors, the impact of structural reforms that led to increased FDI and public investment, giving room

Africa's growth benefited most from rising commodity demand, especially from emerging economies such as India and China as well as from higher commodity prices

for possibly stronger growth in the future (Amor et al., 2004; Treichel, 2005).

Reflecting continued good economic management, many African countries maintained expansionary fiscal and monetary policies in 2010 while fostering sound and sustainable internal and external balances (discussed below). They had improved their macroeconomic management and outcomes, including budgetary allocations and exchange rate management, several years earlier. Over the last 10 years, these measures helped many African countries, including some with limited commodity dependence, to sustain high growth and significantly diversify their exports and production.

Export diversification covered both traditional and non-traditional products such as flowers and manufactures, trade services (chapter 3) and tourism. Africa was the only region to achieve a tourist growth rate of 9 per cent in 2010, thanks partly to the momentum created by worldwide publicity of the FIFA 2010 World Cup in South Africa and economic recovery in tourist-sending countries. The outlook for tourism growth in 2011 is positive (WTO, 2010).

Oil-producing and non-oil producing countries have registered rapid growth in the non-oil and mineral sector, and if this is sustained, Africa is poised to become the fastest-growing region in the 21st century. Kenya, an oil-importing country, provides a good example of an African country that experienced significant transformation and sustained growth rates without depending on commodities (box 2.1).

Box 2.1 Non-commodity-related factors underpinned growth and diversification in Kenya

Kenya's economy has moved from stagnation in the 1990s to broad-based robust growth in the last 10 years. Growth peaked at 7.1 per cent in 2007 before the economy was hit by the four crises of post-election violence, food, energy and drought. Even though these shocks significantly reduced growth in 2008 and 2009, relative to many countries, the Kenyan economy was able to turn around and is now back on the growth trajectory of before the four crises.

While the agriculture sector continues to dominate the economy—accounting for at least 22 per cent of GDP in 2000-2009—other sectors have been the main drivers of the broad growth. The information and communications technology (ICT) sector grew at an annual average rate of at least 20 per cent over the period 2000–2009. During this time the financial sector deepened, as financial institutions embraced innovations in ICT to drive expansion, boosting the sector's contribution to GDP from 3.5 per cent in 2005 to 5.7 per cent in 2010. Tourism grew by 8 per cent a year over 2005-2010.

Other sectors with above-average GDP growth during 2000–2009 were construction, transport and storage, wholesale and retail services, and water supply. Manufacturing and real estate-related services grew at about the same pace as the overall economy, at more than 4 per cent annually. According to UNCTAD, Kenya has increased the number of tariff lines that it is exporting by two thirds, driven mainly by manufacturing growth.

The Government has played an important role in these growth results. It prepared a robust strategy for reviving the economy in 2003–2007, which targeted investments in infrastructure, agriculture and social development in a stable macroeconomic environment and an expansionary fiscal policy. The last was enabled through greater fiscal space due to improved domestic resource mobilization. The Government also made significant monetary policy changes, including reducing banks' reserve requirements and liquidity ratios, which led to an injection of loanable funds into the economy that were accessible to both the Government and private sector.

The strategy has been succeeded by Vision 2030, also with a significant role for the state. It has three key pillars: economic, social and political. The state has set up an independent Vision 2030 Delivery Board under the State Ministry of Planning and Vision 2030, which works closely with the National Economic and Social Council. The board coordinates and monitors selected flagship projects' implementation, which is driving the current strong economic growth.

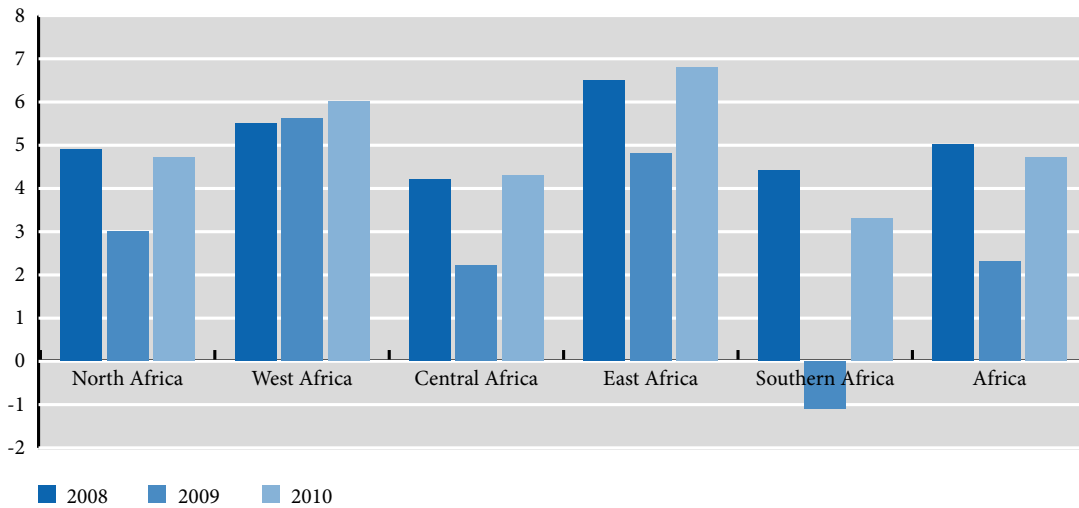
... and among subregions

In addition to differences between oil-exporting and oil-importing countries, Africa's aggregate GDP growth figures hide important variations among the continent's five subregions. East Africa (6.8 per cent) and West Africa (6 per cent) were the strongest performers in 2010. They

were followed by North Africa (4.7 per cent), the main oil-producing subregion; Central Africa (4.3 per cent); and Southern Africa (3.3 per cent) (figure 2.2). Reasons for this variability are now discussed, by subregion.

Figure 2.2

Subregional growth performance 2008–2010 (%)



Source: UNECA calculations based on UNECA and UN-DESA databases, November 2010.

West Africa

Economic performance improved in most West African countries in 2010. Important growth factors included high oil prices and revenue as well as increased non-oil activity (Nigeria), greater activity in the construction and services sector (Ghana), strong performance in agriculture and mining (Sierra Leone) and increased rubber export earnings (Liberia). Guinea and Niger recorded weak growth in view of continued political disturbances and insecurity. GDP growth slowed in the second-largest subregional economy, Côte d'Ivoire, in 2010, partly owing to power shortages and the political uncertainty before and after elections in November 2010. Disputed election results and political and security repercussions are likely to undermine growth in 2011 as well.

East Africa

East Africa sustained the same level of robust growth as in 2009 thanks to impressive growth of Ethiopia, Rwanda, the United Republic of Tanzania, and Uganda. These countries recorded notable expansion in their industrial services sectors, especially the telecommunication sub-sector and construction. Additional growth factors in the fastest growing economies in the subregion included increased agricultural output (Ethiopia), rising mining output (Tanzania) and continued robust investment in donor-funded infrastructure development (Ethiopia

and Tanzania). Elsewhere, such as Mauritius and Kenya, growth recovery also gathered momentum. A political stalemate continued to affect activity in Madagascar, though growth switched from a contraction of 3.7 per cent in 2009 to 0.9 per cent in 2010.

North Africa

Most countries in this subregion recovered strongly in 2010. GDP growth rebounded markedly in Libya and Mauritania, reflecting increased government spending and robust activity in agriculture and construction (as well as mining in Mauritania). The Egyptian economy kept its growth momentum of recent years, as the positive demand spill-over of expansionary fiscal policy continued to be felt. Similarly, growth accelerated in Sudan, partly owing to robust growth in services. GDP growth also picked up in Tunisia with rising industrial output and investment, although the rebound was limited by the modest recovery in its main trade partner, the EU.

Economic performance improved in most West African countries in 2010.

Overall, Southern Africa enjoyed strong growth in the first three quarters of 2010, thanks to its robust exports and increased activities in mining and manufacturing and the dividends of the 2010 FIFA World Cup held in South Africa.

Morocco's growth, although still relatively robust, tapered off, as agricultural production fell after the bumper 2008/09 harvest.

Central Africa

Growth rates were usually modest, with an average rate of 4.3 per cent in 2010, up from 2.2 per cent in 2009. All countries in the subregion, except Congo and Gabon, expanded by less than 5 per cent in 2010, mainly because

A largely jobless recovery

Anecdotal evidence and (albeit scant) recent unemployment data suggest that job creation was disappointing in 2010, especially in light of the strong output recovery. This maintains a prime feature of the recent growth spell across Africa (UNECA and AUC, 2010). The narrow base of its economic structure has contributed to Africa's high levels of unemployment. Job creation remains limited in countries where much of the economic upturn was driven by capital-intensive extractive sectors that have few forward and backward linkages with the rest of the economy.

In other countries it remains weak owing to modest recoveries, with the pace of economic growth far lower than what is required to make a significant dent in unemployment. South Africa is a case in point: thousands of the jobs lost when its economy dipped into recession in 2009 were not recovered in 2010 because of the modest growth.

of poor export diversification, a continued fragile political and security situation in Central African Republic (CAR) and declining oil production in Equatorial Guinea, Gabon and Cameroon. Oil output in these countries fell because of some oil fields' declining production capacity. However, they continued to strongly expand non-oil activity, including mining.

Southern Africa

Overall, Southern Africa enjoyed strong growth in the first three quarters of 2010, thanks to the FIFA World Cup dividends (South Africa), robust exports and increased activities in mining and manufacturing. Growth momentum lost some strength, however, during the fourth quarter of the year, as private consumption weakened in the subregion. Malawi, Mozambique and Zambia maintained growth rates of about 6 per cent or more, on rising mining output in all three countries and bumper harvests in Mozambique and Zambia. Economic activity fully recovered in Botswana and Namibia, where GDP growth rates reached pre-crisis levels, thanks mainly to global demand for minerals. Zimbabwe maintained its recovery momentum. Its growth benefited from an improved macroeconomic environment, with inflation at 4.7 per cent in 2010) as well as increased industrial capacity, manufacturing output and tourism.

All these factors, combined with poor educational quality, rapid population growth and labour-market imperfections, have kept Africa's growth rates consistently below those needed to create adequate employment and to reduce poverty (UNECA and AUC, 2010).

The unemployment rate did decline, however, in a few countries such as Egypt and Mauritius (though only moderately), owing to the strength of the growth recovery and the nature of the sectors involved (UN-DESA, 2010). A particular concern is that youth unemployment has remained at around a high 18 per cent for the last decade—young people continue to face severe hurdles in gaining decent employment. The recent wave of political instability in North Africa illustrates the severity of the situation.

Generally subdued inflation across the continent

Africa's consumer price inflation decreased from 8.3 per cent in 2009 to 7.2 per cent in 2010 and is expected to decline further to 6.4 per cent in 2011 (figure 2.3). This trend reflects increased supply of agricultural products in some countries, the strength of several currencies, excess capacity, and competitive pressures across the continent. Consumer prices declined most in East and Southern Africa (notably Uganda and Zambia) in 2010, partly owing to relatively stable food prices, helped by good weather conditions and abundant harvests. Elsewhere, intense competition in telecommunications led to steep reductions in prices in several countries. Against the prevailing trend, a few countries saw rising inflation, including Mozambique and Sierra Leone.

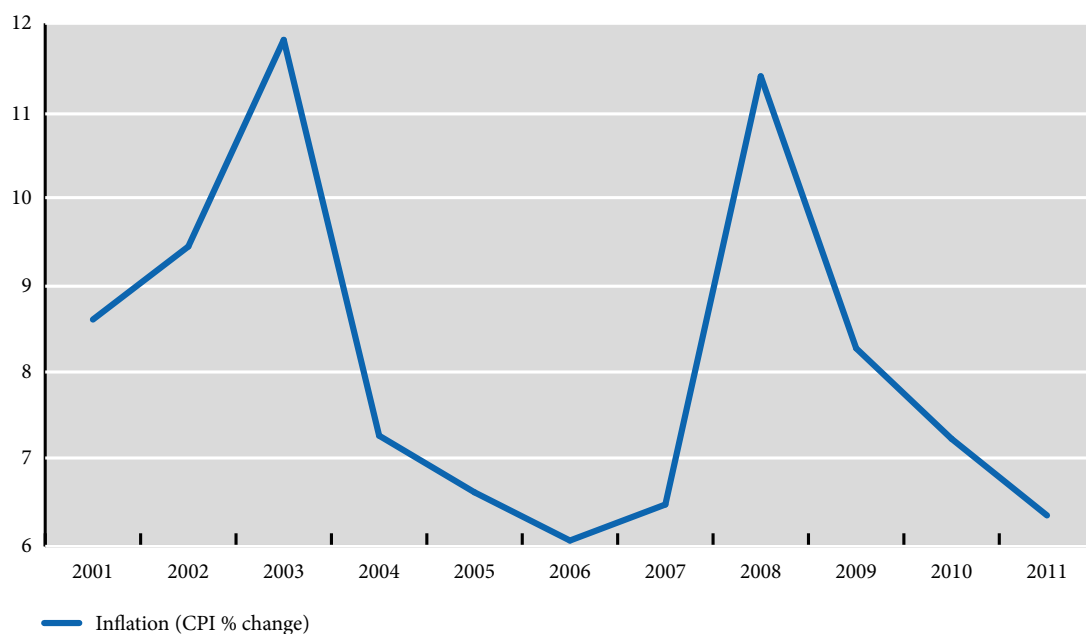
Inflation pressures in 2010 varied significantly across countries for different and sometimes country-specific reasons. These included increased domestic demand in

Congo, Libya and Nigeria; exchange rate depreciation in Mozambique and Sudan; robust public spending in Algeria; exchange rate stability in Ghana (which offset inflationary pressures linked to higher government spending); lagged effects of currency depreciation and a goods and services tax in Sierra Leone; and excess capacity in the productive sector in South Africa.

Food prices in Africa remained stable, and even declined, before the last quarter of 2010. This contrasts with the international market situation where food prices, especially rice and wheat, increased owing to higher demand and to supply shocks. Floods in Australia, Thailand and Vietnam reduced harvests and affected their quality. Increased agricultural output kept prices stable in most sub-Saharan African countries. North Africa is the only subregion where prices rose significantly, reflecting its dependence on imported wheat and many other food items.

Figure 2.3

The inflation trend over the past decade



Source: UNECA calculations based on UNECA and UN-DESA databases, November 2010.

Continued accommodative or neutral monetary policy stance in most economies

In view of the subdued inflation and the need to stimulate domestic demand and nurture the recovery, monetary policy stayed accommodative or neutral in the majority of African countries. For example, the benign inflation outlook provided enough leeway to the South African Reserve Bank to sustain monetary easing with the aim of supporting the recovery. The repurchase rate was reduced by 50 basis points to 6.0 per cent in September 2010. Also, in the Communauté Financière Africaine (West Africa) and Coopération Financière d'Afrique (Central Africa) Franc zones, the two central banks lowered interest rates and reserve-requirement ratios.

In contrast, monetary tightening was observed in the Democratic Republic of the Congo (DRC), Ethiopia and Nigeria. Central banks in the DRC and Ethiopia targeted limited growth of money supply to keep inflation in check. Ethiopia has adopted a money-targeting framework, pursuing a moderate expansion of the monetary base and phasing out the monetization of the government deficit. In Nigeria, as inflationary pressures mounted on account of the strong performance of the real sector and increased government spending, the central bank raised its key policy

rates in September 2010 and embarked on open-market operations to control liquidity.

One of the challenges of monetary policy, particularly in some countries with expansionary or neutral monetary policy stances, was the weak impact of reduced interest rates on the real sector. In addition, despite low interest rates, the volume of credit to the private sector stagnated as commercial banks adopted a cautious attitude amid the global economic uncertainty.

Although the banking sector remained generally well capitalized and adequately provisioned across the continent, frictions appeared here and there. The bankruptcy of several illegal deposit-taking institutions mirrored gaps in the regulatory and supervisory machinery. Commercial banks' overexposure to bad loans to the cotton sector in Benin, Burkina Faso, Chad and Mali was a substantial vulnerability, since domestic cotton prices have been low for many years. Elsewhere, non-bank institutions—such as pension funds, which account for a large share of total financial assets—are not always properly regulated and supervised, presenting serious risks to the financial system.

Still-deteriorating fiscal balances

Africa's overall fiscal balance marginally deteriorated in 2010, from a deficit of 5.7 per cent of GDP in 2009 to

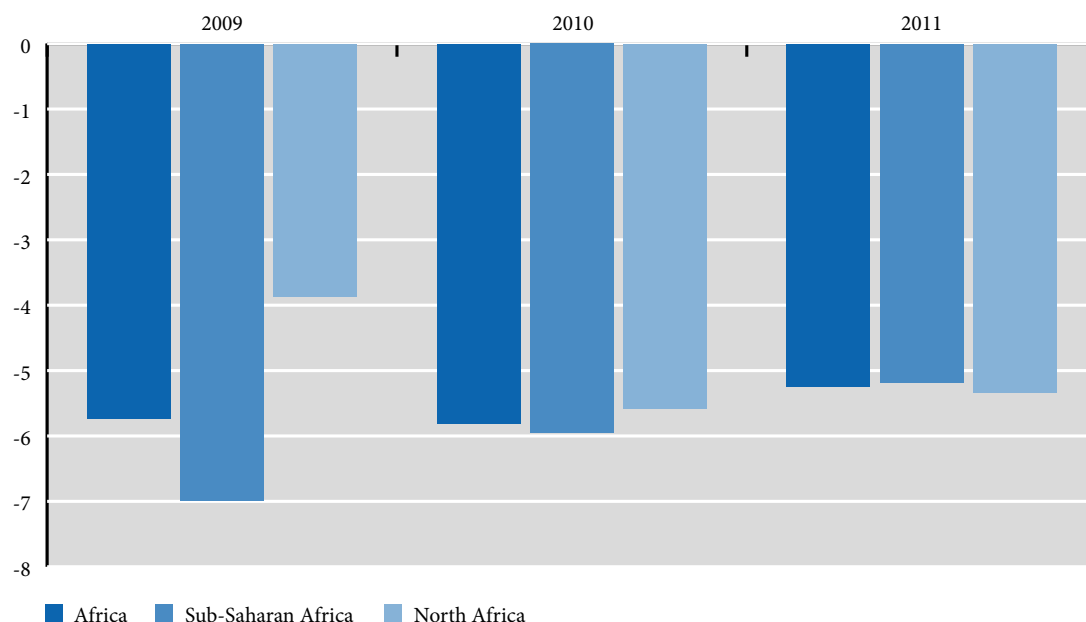
5.8 per cent, mirroring to some degree relatively high levels of public spending (figure 2.4). Governments maintained stimulus-related spending to cushion the lagged effects of the global crisis and to support the recovery. These public spending levels also reflected new and costly public sector pay regimes and election-related fiscal injections, as almost a dozen elections were conducted in 2010.

Africa's continued accommodative fiscal stance was also the manifestation of efforts to bridge the infrastructure gap, an essential pillar of several countries' medium-term development plans.

More important, the continued accommodative fiscal stance was also the manifestation of efforts to bridge the infrastructure gap, an essential pillar of several countries' medium-term development plans. Such efforts have gained traction amid a growing consensus on the important role of the state in steering African economies onto a sustainable development path, especially in helping to build and strengthen the nation's productive capacity.

Figure 2.4

Evolution of the fiscal position, 2009–2011



Source: UNECA calculations based on UNECA and IMF databases, November 2010.

Despite economic recovery and increased growth rates, most countries continued to face revenue shortfalls in 2010, largely because they maintained relatively high public spending. Countries belonging to the Southern African Customs Union (SACU), especially South Africa, were among those with the largest revenue shortfalls. SACU revenue, which accounted for much of the tax revenue in these countries, fell sharply. Although forecast to recover somewhat, it is unlikely to match previous levels. These expected chronic shortfalls, due partly to a reduction in the Common External Tariff rates, pose some risks for sustainability of fiscal deficits and public debts.

Similarly, worsening fiscal balances and concerns over debt sustainability prompted some countries to shift the objective of fiscal policy from short-term demand management to medium-term fiscal sustainability. Mauritania and Sudan, for example, limited the widening of their fiscal deficits through a combination of increased government revenue—achieved by strengthening customs and tax administration capacity—and reduced discretionary spending. South Africa's 2010/11 budget, unveiled in February 2010, aimed at fiscal consolidation, targeting real growth of government spending at around 2–3 per cent a year.

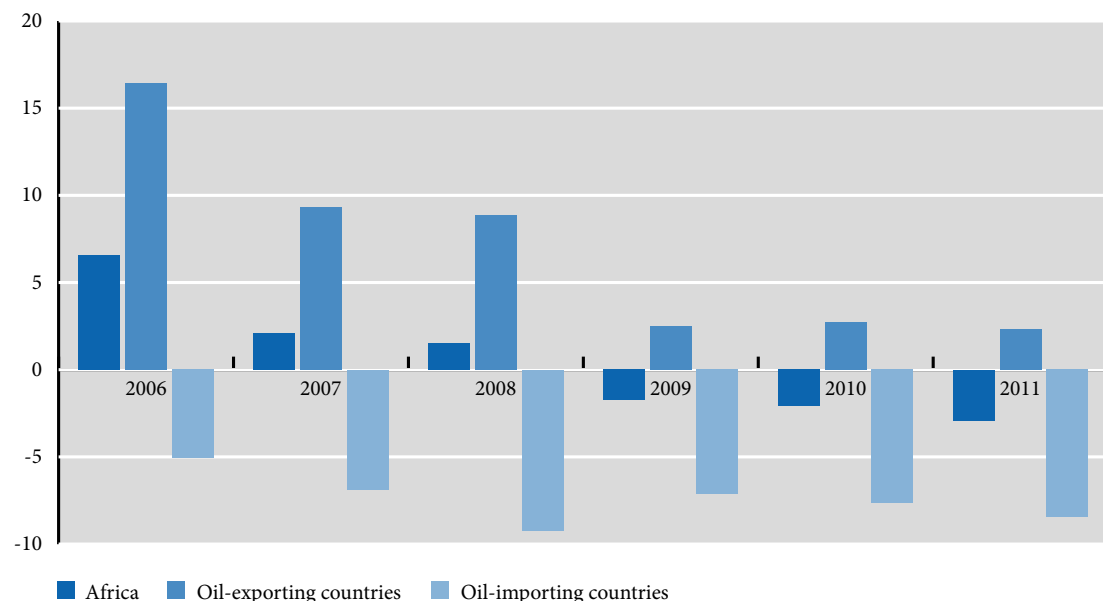
Marginally worse external positions despite thriving external sectors

Africa's current account deficit widened slightly in 2010, from 1.7 per cent of GDP in 2009 to 2.1 per cent in 2010 (figure 2.5). This change, however, concealed wide differences across the continent, particularly between oil-importing and oil-exporting countries.

Africa's current account deficit widened slightly in 2010, from 1.7 per cent of GDP in 2009 to 2.1 per cent in 2010.

Figure 2.5

Current account trends, 2006–2011



Source: UNECA calculations based on UNECA and IMF databases, November 2010.

Current account deficits widened significantly in some oil-importing countries owing largely to robust import growth fuelled by bold government-led investment programmes, rising private demand and increasing oil and energy prices. As recovery took hold in their major trading partners, these countries' export earnings rebounded,

although at a much slower pace than that of imports. Oil-importing countries emerging from conflict (Burundi, Liberia and the DRC) and those belonging to SACU posted the largest current deficits.

The key factors in these deficits included increased imports of capital goods and food, limited export capacity in post-conflict countries, and severe reductions in joint revenue transfers in SACU countries stemming from lower payments from its customs union. The average deficit for oil-importing countries is misleading in that it conceals the shrinking of deficits in some mineral-producing countries such as Burkina Faso, Mali and the United Republic of Tanzania. These countries benefited from improved terms of trade owing in part to the high price of gold, one of their main exports.

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Aside from these gold-producing countries, countries with improved current account balances were mainly oil exporters. The external position of this group strengthened in 2010, reflecting rising oil prices and a significant rebound in global oil demand. Rising inflows of current transfers (associated with IMF disbursements) also helped some countries' current account balances to move into surplus in 2010.

Africa's widening current account deficit was offset by multilateral disbursements and an upward trend of external capital flows in the aftermath of the crisis. These flows also helped keep gross international reserves at comfortable levels, particularly in countries with fixed or managed exchange rate regimes.

The recovery of private inflows to some of Africa's most advanced economies (e.g. Egypt, Nigeria and South Africa), partly driven by interest and growth differentials between these countries and the developed world, combined with relatively high inflation rates compared to those of their trading partners, led to varying nominal currency appreciations in 2010.

2.2 Recent trends in social development

DESPITE THE RECOVERY, progress in achieving Africa's social development goals remains slow and mixed (UNECA, 2010). Still, social development has undoubtedly benefited from the expansionary fiscal policy adopted by many countries, directed to cushion the lagged social effects of the recent global crisis and to sustain progress in meeting the Millennium Development Goals (MDGs) and in addressing gaps in human capital.

Progress towards the MDGs is closely linked to economic and social development in Africa and elsewhere. As normative objectives, they define long-term visions, built on forging the consensus on the common aims of the international community towards numerical targets. The basic set of human rights inherent in the MDGs creates a

minimum platform for an educated and healthy population that can participate in economic, social and political development. The MDGs are also instrumental targets in that they frame the priorities for policy direction and resource allocation.

The instrumental value has been highlighted since the *Outcome Document of the Global MDG Review* in 2005 that urged low-income countries to integrate overall national development plans and poverty reduction strategies with the MDGs (UN, 2010a). It has brought about a renewed interest in the centrality of the state in creating an enabling environment and in fostering MDG-focused economic and social development.

Slow progress towards human and social development

As has been well documented, the relatively strong economic performance in Africa since the turn of the 21st century has not resulted in satisfactory social development outcomes (UNECA and AUC, 2010, among others). For example, poverty rates have remained high in sub-Saharan Africa and the recent positive growth spells have not transformed into solid employment creation, one of the most important means to reduce poverty. Indeed, the employment-to-population ratio has largely stagnated since 1991 (UNECA, 2010). West Africa has even registered a decline in the employment-to-population ratio over the last decade, as aggregate output has remained heavily dependent on extractive industries.

The lack of employment creation—as said, partly due to the structural features of Africa's economies—is one of the main causes of persistent and chronic poverty. Narrow drivers of economic growth and their capital

intensity do not create jobs. Unemployed heads of poor households become risk adverse, failing to make investments in education and health, thereby reinforcing their household's marginalization from social, economic and political life. At the same time, recent increases in labour productivity augur well for long-term growth (UNECA, 2010). But to translate them into high, sustainable growth, strong measures are needed to promote the structural

Despite the recovery, progress in achieving Africa's social development goals remains slow and mixed.

Changes in women's representation in national parliaments from the baseline year of 1990 to 2009 have been impressive.

transformation that diversifies employment creation and ensures inclusion of vulnerable poor groups.

In health, many African countries have recorded declines in malnutrition, with the continent-wide proportion of the population below the minimum level of dietary energy consumption falling from 34 per cent to 30 per cent, excluding North Africa, where less than 5 per cent of the population is undernourished (UNECA, 2010). This positive trend may be threatened by high international food prices.

Important progress has also been made in education, as the primary school enrolment rate jumped from 54 per cent in 1990 to 76 per cent in 2008 (UN, 2010b). Further progress is, though, hampered by the cost of education, especially in the 27 African countries that have no legal guarantees for free schooling. Even when education is provided free, ancillary expenses, such as uniforms and transport and the opportunity cost of children not participating in farm work, hinder schooling of students from low-income backgrounds. Other leading obstacles are unequal opportunities and access, due to gender and geographical biases.

Many African countries also face the challenge of improving the quality of education. Completion rates of primary school and pupil-teacher ratios, both proxies for quality provision, are inadequate. Despite some improvements, the completion rates are around 60 per cent in most countries and class size has remained very large with consequent high drop-out rates. The teacher supply gap has been estimated at over 4 million, which has serious implications for increasing primary school attendance and for reducing class size (UNESCO, 2010).

The effect of economic growth on education is constrained by limited post-primary educational access. Human capital needed for successful structural transformation goes beyond the numeracy and literacy skills provided by primary school cycles. This is acknowledged by the African Union's Second Decade of Education for Africa (2006–2015), which emphasizes higher education as a key area for sustaining development.

Many African countries are making notable progress regarding improvements in some aspects of gender equality. While, as noted earlier employment and poverty rates remain high among women, the majority of African countries are on track to achieve the MDG target of gender parity in primary education but, at higher levels of education, the disparity increases significantly.

Changes in women's representation in national parliaments from the baseline year of 1990 to 2009 have been impressive. Of 37 African countries with available data, 31 have increased the proportion of seats held by women, though six show a reduction. This has instigated calls for a minimum quota for women so that the gains made in parliamentary gender parity during past elections are not lost.

A positive note on progress towards women's empowerment and the cross-cutting impact of gender on other MDGs is that four of the leading African countries in terms of increased women's representation in parliament have emerged from civil conflict. This confirms that gender mainstreaming is part of the peace-building process

Although major concerns remain, many African countries have shown some progress towards achieving the health-related MDGs. The aggregate under-five mortality rate dropped from 180 to 129 per 1,000 live births from 1990 to 2008 (UN, 2010b). Africa, at its current rate of progress, is unlikely to reach the child mortality MDG, which requires a reduction in the child mortality rate by two thirds, by 2015. Nevertheless, against steep odds, Eritrea, Ethiopia, Liberia, and Madagascar have all reduced their under-five mortality rates by 50 per cent or more. Ethiopia, Liberia, Madagascar, Malawi and Niger have seen absolute reductions of more than 100 per 1,000 live births since 1990.

All the 31 countries with under-five mortality rates exceeding 100 per 1,000 live births in 2009 are in sub-Saharan Africa. Diarrhoea, malaria and pneumonia cause more than half the under-five deaths there. There is increasing evidence that this MDG can be achieved given adequate public policy attention and budget allocations. A common feature of countries that have made the most substantial progress in reducing child mortality, especially in sub-Saharan Africa, has been rapid expansion of basic public health and nutrition interventions, such as immunization, breastfeeding, vitamin A supplementation and provision of safe drinking water (UN, 2010b).

Assessing the extent of progress towards the MDG target of reducing the maternal mortality ratio by three quarters, from 1990 to 2015, is a challenge. This relates mainly to the scarcity of reliable and accurate data. According to the latest estimates, maternal mortality dropped from 870 to 640 per 100,000 births from 1990 to 2008, indicating insufficient progress to achieve the target by 2015 (UN, 2010b). The proportion of women in the 15–49 age group that gave birth with trained health personnel present—an indicator of progress—was only 42 per cent in 2003–2008 (UN, 2010b).

Furthermore, similar to education equity, access to health services showed variations by income group and geographic location. For example, Ethiopia and Chad, which score poorly in providing delivery assistance by skilled health professionals, show wide disparities between the richest and the poorest quintiles. Only 3 per cent of the poorest quintile has access to delivery assistance compared with 50 per cent and 60 per cent of the richest quintile in these two countries, respectively (UNECA, 2009a).

Improvements in stemming the HIV/AIDS pandemic have been significant both in HIV incidence and treatment through antiretroviral therapy. In 22 sub-Saharan Africa countries, HIV incidence fell by 25 per cent from 2001 to 2009 (UNAIDS, 2010). Although the rate of new HIV infections has decreased, the total number of people living with HIV continues to rise. In 2009, that number reached 22.5 million, or 68 per cent of the global total. The majority of HIV victims are women. Pronounced progress is evident in reducing the incidence and impact of HIV among children younger than 15 years in Southern

Assessing the extent of progress towards the MDG target of reducing the maternal mortality rate by three quarters, from 1990 to 2015, is a challenge.

Africa, with 32 per cent fewer children newly infected and 26 per cent fewer AIDS-related deaths among children since 2001.

At end-2009, 37 per cent of adults and children eligible for antiretroviral therapy were receiving it in Africa (41 per cent in Eastern and Southern Africa and 25 per cent in Western and Central Africa), compared with only 2 per cent seven years earlier. AIDS-related deaths decreased by 18 per cent in Southern Africa over 2001–2009. An estimated 610 000 people died from AIDS-related illnesses in Southern Africa in 2009, compared with 740 000 five years earlier (UNAIDS, 2010).

Progress in access to safe drinking water and improved sanitation, which has a direct bearing on health status, has been steady across Africa. By 2008, nine countries showed an improvement in coverage of safe drinking water by over 90 per cent compared to 1990 coverage rates. For example, Uganda increased improved water supply coverage from approximately 40 per cent in 1990 to 80 per cent in 2008. Again, inequities in access and outcomes are determined by income quintile and geographical location. Evidence shows that average access to safe drinking water is 3.7 times high for urban households relative to their counterparts in rural areas (UNECA, 2010).

The benefits for social development of new technologies, especially ICT, are undeniable. Some are captured in MDG 8, which places cooperation with the private sector at the heart of access to ICT. The number of mobile subscribers in Africa has been consistently rising over the last decade. The number of Internet users has also greatly increased,

In sum, progress in social development is determined by economic growth and the extent to which this growth is shared.

with many African states having 10–20 internet users per 100 of the population in 2008 (UNECA, 2010).

In sum, progress in social development is determined by economic growth and the extent to which this growth is shared, as well as by the quantity and quality of public services delivery. The delivery of services to achieve the MDGs, previously a clear domain of the state, has had a recent paradigm shift from the centrality of the state in directing social and human development, with non-state actors now playing an increasingly important role in services provision across the continent.

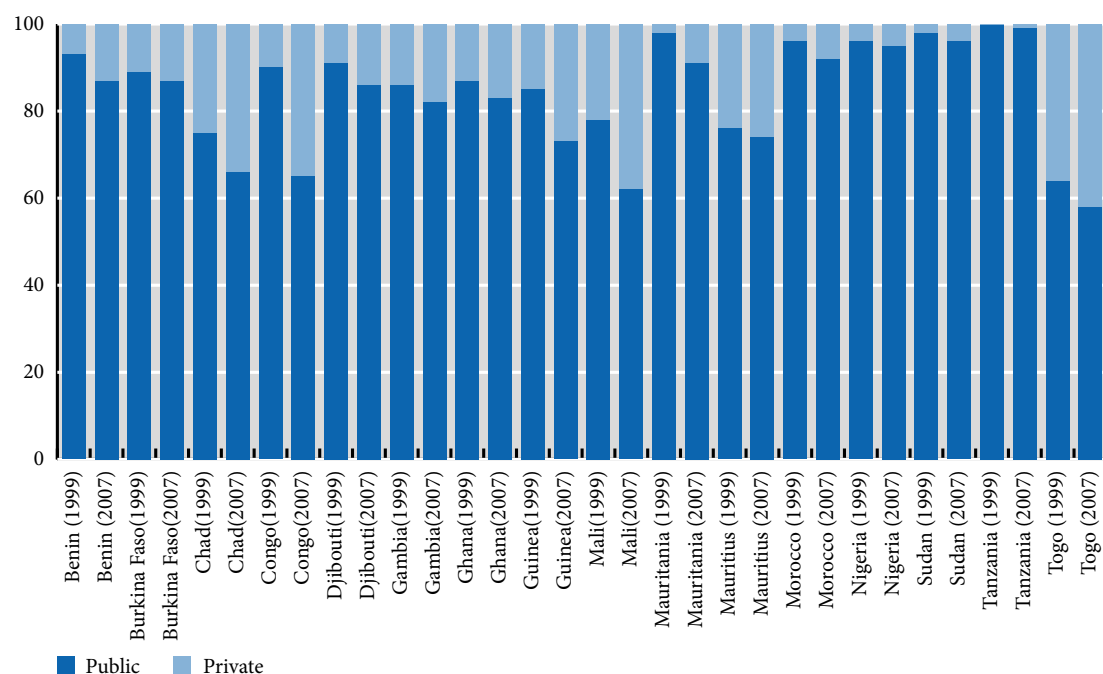
Switching balance in state and non-state provision of social services

Two main considerations have traditionally been used to justify the public provision of social services. First, that the market fails to deliver these services, given the externalities generated by education and health (and that market might be incomplete or absent). Second, scale economies, due to relatively large associated fixed costs, were best achieved publicly. However, these have become less important over time. Insufficient or poor public services delivery is one of the factors that have raised demand for non-state provision of social services, especially in education and health.

Private education provision has risen partly owing to the insufficient coverage of free primary schooling (figure 2.6). Also, the predominant concentration of public resource allocation at the primary level results in relatively high levels of primary enrolment, but leaves a high unmet demand for post-primary education. Provision at those levels by the private sector is therefore critical, as seen in the establishment of private institutions of tertiary education, which are vital in building a knowledge-based society (World Bank, 2005).

Figure 2.6

Public and private primary school enrolment, 1999 and 2007



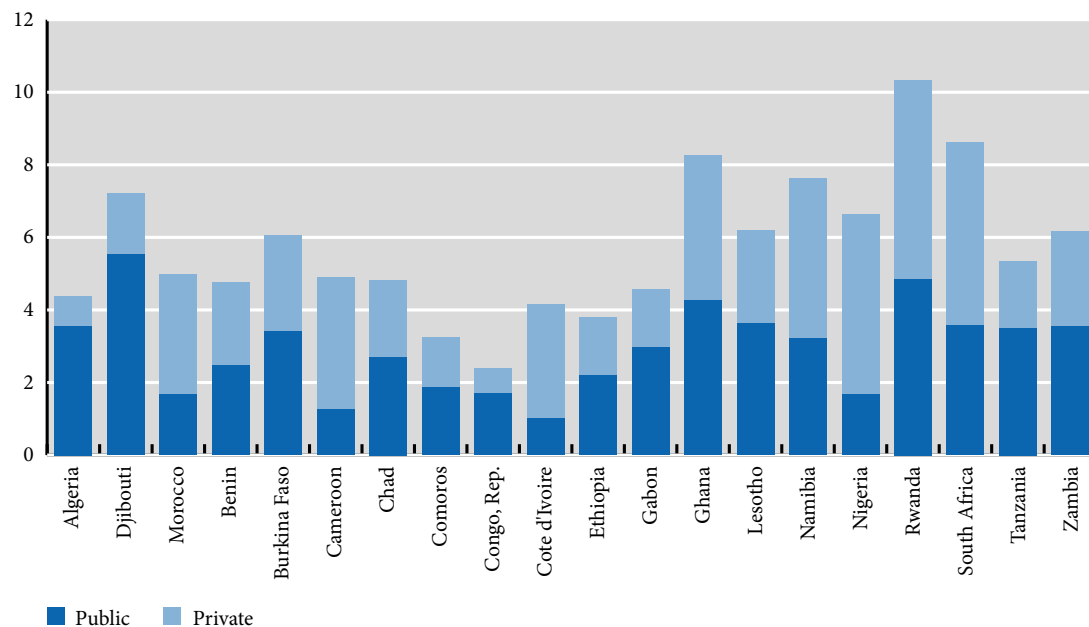
Source: UNECA calculations based on UNESCO data, 1999–2007.

Non-state actors are much more heavily involved in health than in education. The fairly limited public resources earmarked to health provision have given rise to private

financing (figure 2.7). In sub-Saharan Africa, private health provision is estimated at \$18.6 billion, or more than 50 per cent of the market.

Figure 2.7

Public and private health expenditure in selected African countries (% of GDP)



Source: UNECA calculations based on the World Bank's World Development Indicators 2010.

Non-state actors, particularly the private sector, are also involved in providing telecommunications and infrastructure services. In sub-Saharan Africa, the private sector, especially in mobile telephony, has been a crucial actor in telecommunications coverage. Part of its success is attributed to clear regulatory mechanisms and to the state's

ability to attract private investors. Water and sanitation sectors attract little private interest owing to high initial investment combined with low rates of return. Indeed, the rate of return in water and sanitation projects is just a third of that in telecommunications (AfDB, OECD and AUC, 2007).

Changing role of the state in Africa's social development

The participation of non-state actors has led to a shift in the role of the state in delivering public goods and services. That role has moved from sole provision to complementarity or competition with the private sector.

Reforms implemented from around the mid-1990s led to major changes in the state's role. These reforms focused on core government functions such as regulating the private sector, creating special agencies for specific functions (such as regulatory institutions for telecommunications), shifting service delivery down to the local level through

The participation of non-state actors has led to a shift in the role of the state in delivering public goods and services.

decentralization, and making efforts to reform public financial management systems and to strengthen audit institutions.

However, although the regulatory framework in telecommunications, for example, has spurred dynamism, the absence of such a framework (or their limited implementation) in education, health, water and sanitation have prevented governments from using the full potential associated with greater non-state involvement.

Reforms have added responsibilities to the state. One example is the accreditation of non-state institutions in education and health and quality assurance in a multi-stakeholder involvement. Yet these attributions occurred

against a backdrop of eroded and overstretched state capacity, caused by years of fiscal austerity and public sector retrenchment. The state's capacity needs therefore expanded and changed direction when it moved from provider to regulator (or both).

The involvement of non-state actors has had positive implications for supply and efficiency, but equity remains a concern: the state in Africa now faces the challenge of some trade-off between efficiency and equity in pursuing social development. The challenge is striking a balance between market-oriented policies and equity considerations, while providing a public service package responsive to the broader development agenda (box 2.2).

Box 2.2: State and non-state participation in fostering economic and social development in Zambia

Zambia's Poverty Reduction Strategies, besides promoting growth, aim to improve delivery of social services, foster appropriate policies for fighting HIV/AIDS, address gender inequality, and protect the environment. A new strategy was developed in 2005 alongside a new National Development Plan for 2006–2010.

Zambia's national development plans since the early 2000s have advocated a growth strategy that depends heavily on the private sector, with the state providing the necessary environment for market-led development. The Fifth National Development Plan (2006–2010) focused on improving the business climate; providing for the delivery of basic services; strengthening financial accountability systems; and developing the financial system.

Private sector and civil society involvement in policy development was strengthened through this period. The Zambia Business Council provides the platform for a more formalized consultative process in which key government institutions and the private sector engage in dialogue on key policy issues. The council was established as an apex body with four key cabinet ministers and the representatives of the Zambia Development Agency, business associations, and the Zambia International Advisory Council.

Some concerns remain. The involvement of non-state actors in policy development is not fully institutionalized, and other concerns relate to the capacity of civil society organizations and of the business community to engage with government in policy development, monitoring and implementation.

Source: Bwalya, Phiri and Mpembamoto, 2009.

2.3 Favourable outlook for 2011, barring exogenous shocks

AFRICAN ECONOMIES ARE expected to continue strengthening and broadening their economic performance in 2011, as the continent's GDP growth accelerates from 4.7 per cent in 2010 to 5 per cent in 2011 (figure 2.8). This upturn reflects a strong economic performance in those oil-exporting and oil-importing countries that will benefit from the growth factors discussed above. It is expected that GDP growth for oil-exporting countries will climb from 5.2 per cent in 2010 to 5.4 per cent in 2011, and that for oil-importing countries from 4.0 per cent to 4.6 per cent. Continued investment in infrastructure and in the production of metals and minerals for export is expected to underpin economic growth in some oil-importing countries.

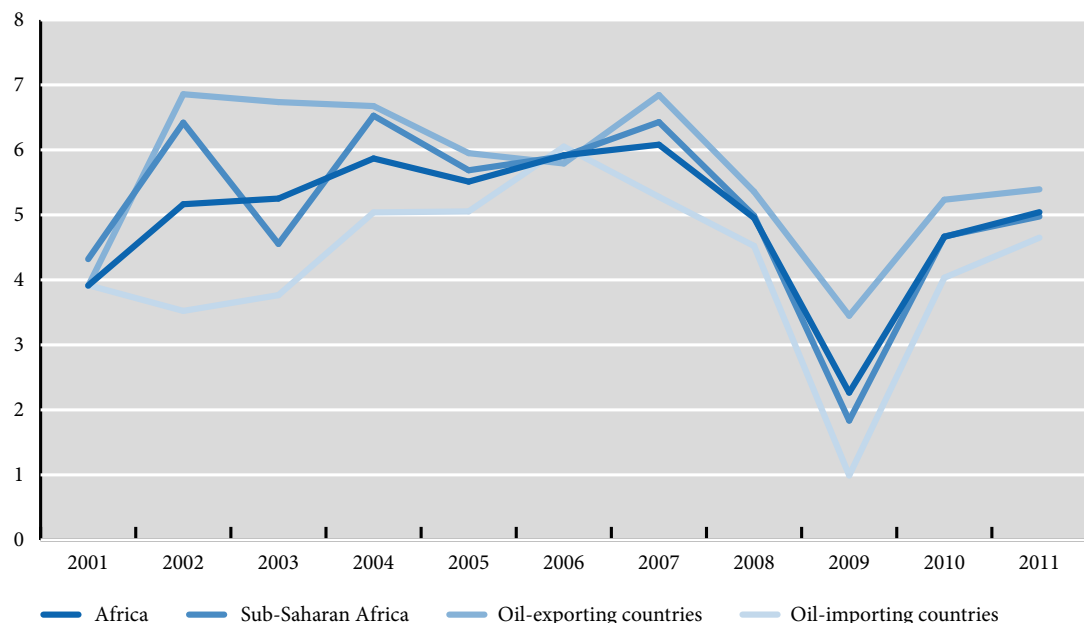
By subregion, East Africa and West Africa, each with 6.4 per cent growth, are set to remain the fastest growing

in 2011. In East Africa, GDP growth rates of Ethiopia and Uganda are forecast at about 7 per cent, while, Nigeria, the largest economy in West Africa, is forecast to grow at 6.5 per cent in 2010.

In West Africa, the strong performance will owe much to expected impressive growth in Ghana, Liberia and Nigeria, which are all likely to grow by more than 7 per cent. Growth factors include commercial exploitation of oil fields in Ghana, increasing mining FDI in Liberia and continued dynamism of the non-oil sector in Nigeria. However, subregional growth is likely to be affected by the political conflict in Côte d'Ivoire.

Growth rates in North Africa, Central Africa and Southern Africa will follow, with GDP expected to expand by 5.2 per cent, 4.0 per cent and 3.8 per cent, respectively.

Figure 2.8
GDP growth in Africa, 2001–2011



Source: UNECA calculations based on UNECA and UN-DESA databases, November 2010.

Political unrest or change in, for example, Egypt, the Libyan Arab Jamahiriya and Tunisia are likely to have notable effects on growth in North Africa in 2011.

Although the expected growth rates in various groups of countries and subregions are higher than those of 2009 (markedly) and 2010 (slightly), they are still somewhat lower than those seen before the global crisis. Further, these rates are still below the levels needed to have a significant impact on unemployment and poverty reduction across the continent.

The economic recovery is expected to take place in a context of moderate inflation. Inflationary pressures are seen receding or remaining flat in the majority of countries, as private demand pressures are likely to be moderate and as a number of countries scale down recourse to central bank borrowing to finance fiscal deficits.

The positive outlook for 2011 is subject to many potential downside risks and uncertainties. One risk relates to the pace and duration of growth in Africa's economic partners, particularly emerging economies such as China and India, which affect the demand and price for African

exports, but at the same time lead African countries to once again deepen their specialization in the primary sector. The strength of the recovery in Europe and the US will also influence the pace of African export growth, tourism receipts, remittances and ODA, and hence GDP growth prospects. With 17 presidential and parliamentary elections scheduled in 2011, another risk pertains to possible political disturbances and their ruinous impact on economic activity. Also political unrest or change in, for example, Egypt, the Libyan Arab Jamahiriya and Tunisia are likely to have notable effects on growth in North Africa in 2011. Adverse weather conditions could also depress agricultural output, increase food prices and slow activity in other sectors, constraining economic growth. Rising food prices and high unemployment are threats to food security as well as social and political stability in Africa as a whole.

Africa's medium-term growth prospects will probably be influenced by fiscal policy stances. In particular, premature and severe fiscal tightening will hamper domestic demand and compromise the chances of consolidating the nascent recovery. Fiscal policy needs to be redesigned to strengthen infrastructure and job creation as well as direct the structural transformation required for sustained economic and social development.

Another risk relates to the availability of financing, especially ODA. Although ODA flows to Africa remained stable during and after the crisis, the fragile recovery in developed countries and the possible threat of double-dip recession in some of them create considerable uncertainty about future ODA volumes (UN-DESA, 2011).

2.4 Conclusions

ECONOMIC ACTIVITY IN Africa recovered strongly in 2010, and the growth momentum is expected to continue, with GDP growth trending upward in 2011. Part of the economic revival now under way is attributed to continued supportive fiscal and monetary stances. Relatively robust public spending buoyed growth, but also sent countries' fiscal deficits soaring. The external position also weakened, although slightly.

The strong public spending and widening fiscal and current account deficits occurred as African governments felt compelled to mitigate the economic and social effects of the crisis. The crisis highlighted the continent's need for more effective policies for structural transformation, employment generation, food security and poverty reduction. Such policies—beyond short-term countercyclical

fiscal and monetary measures—must include incentives for investment in the non-commodity sectors.

The need for such policies partly explains why interest in development planning and the role of the state in economic and social development has resurged in Africa in recent years. The state now plays a more strategic development role, which involves not only building and strengthening productive capacity through the removal of growth-inhibiting factors (including infrastructure bottlenecks and a poor economic structure), but also effectively delivering public services to ensure that social objectives are achieved.

The role of the state in public service delivery has also been extended to embrace regulatory functions. Such functions were not always effectively discharged and sometimes were even missing in important social sectors. Regulatory frameworks should therefore be introduced or rendered more effective in spheres such as education, health, water and sanitation where non-state actors play an important role. These frameworks should help to establish not only criteria for competitiveness, but also for accreditation and quality assurance, while ensuring attention to equity and efficiency concerns. Some important resource implications flow from the state performing these functions, and can lead to a trade-off between the long-term development objective of structural transformation and the medium-term concern for sustainability of fiscal deficits and public debts.

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The need for effective economic transformation policies partly explains why interest in development planning and the role of the state in economic and social development has resurged in Africa in recent years.

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Notes

1 A number of African countries such as Egypt subsidize a variety of basic food items, fuel and electricity. Some countries (e.g. Sudan) reduced their subsidies in 2010 due to budgetary concerns while others (e.g. Ethiopia) implemented a range of new subsidies because of mounting living costs especially for the poor.

Selected Current and Emerging Development Issues in Africa in 2010

3

CHAPTER

THIS CHAPTER DISCUSSES selected current and emerging development challenges facing Africa in 2010, focusing on international trade, financing for development and the green economy. In trade, Africa experienced huge falls in 2009, largely parallel with that of global trade. There were signs of recovery in 2010 but they were slow and uncertain. Looking more closely into the micro structure of Africa's trade, trade in services demonstrated stronger resistance against external global shocks, in sharp contrast to vulnerable merchandise trade. Swiftly growing cooperation between Africa and the main emerging economies also helped offset some of the trade impact due to decreased global demand. These signs reflect the potential that international trade holds for Africa.

Apart from the significant drop in export income, the continent also experienced lower investment and growth rates as well as shrinking remittance and FDI flows in 2010. Thus, in financing development, governments and their development partners have an even more urgent need to proactively pursue implementation of the Monterrey Consensus of 2002. For domestic resource mobilization, policies aimed at expanding the tax base, improving tax legislation and administration, and transforming the tax structure appear compelling. Improving the domestic financial infrastructure is also a long-standing challenge that requires the combined efforts of the state and private sector.

In mobilizing external finance for Africa's development, given the shrinking of foreign inflows in the recent past,

the issue of securing a greater voice for Africa in the global economic governance structures appears inevitable. This is particularly urgent in international negotiations on debt relief and reform of the international financial architecture. Further, African States need a clearer strategy for mobilizing FDI and ODA to the right sectors for development.

The environmental challenges confronting Africa currently and in the long run appear fundamental. Agriculture, tourism and fisheries, which are among the largest sources of employment on the continent, have become vulnerable to climate change and other environmental risks. Africa's lack of energy security and self-sustainability are also a great impediment to sustainable development. Renewable energy generation, despite its significant potential, shows a dearth of development. All these challenges require Africa to make a transformation to the "green economy",

Some critical current and emerging development challenges in Africa in 2010 include international trade, financing for development and the green economy.

which enables economic growth and human development without exposing future generations to significant environmental risks and ecological scarcities, while creating new opportunities for green growth and employment

creation. The involvement of the state in green-market promotion, regulation and investment is crucial for this ultimate development objective.

3.1 Developments in international trade in 2010

Africa's trade performance

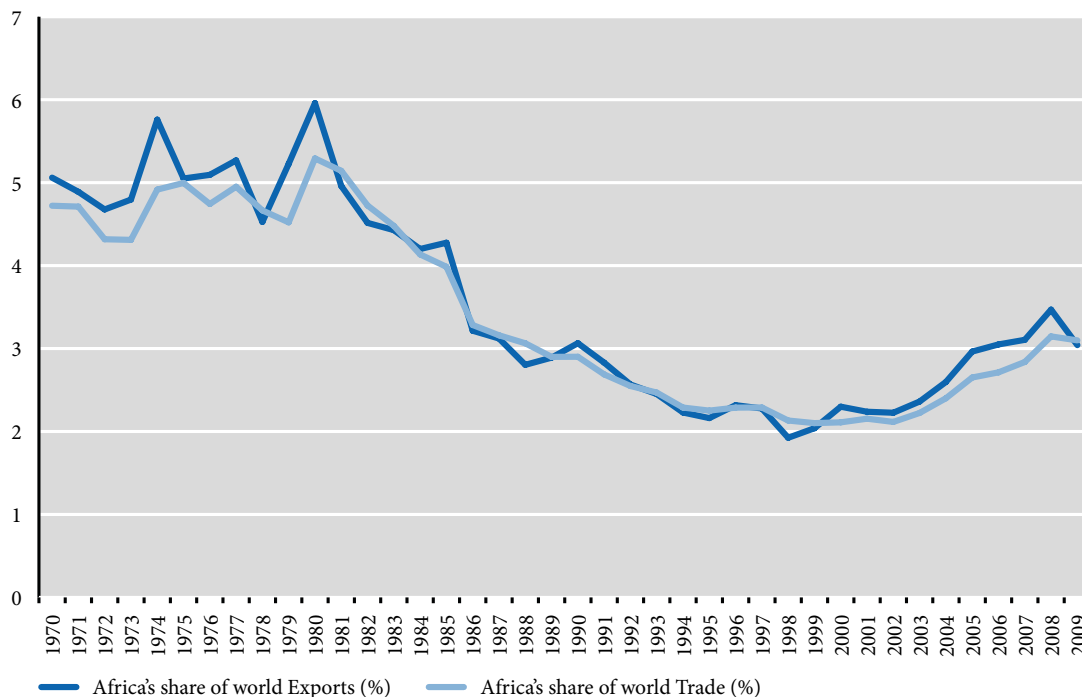
THE TOTAL VALUE of global merchandise trade fell by 22.7 per cent in 2009, the largest contraction since the Second World War. In Africa, the decline was marginally larger at 23.9 per cent, explaining the fall in the continent's share in global trade to 3.1 per cent (figure 3.1). Though rising commodity prices improved Africa's share in world exports over the past decade, the global economic downturn depressed international demand and, subsequently, commodity prices, knocking its share in world exports back to 2006 levels.

Reductions in exports account for a disproportionate share of the aggregate contraction in African trade. However, the

rate of export contraction (32 per cent) exceeded that of imports (14 per cent—figure 3.2), leading to a deficit in the merchandise trade position, with imports (\$399 billion) exceeding exports by \$20 billion. While some exporters of agricultural products actually benefited from more favourable terms of trade, the aggregate picture shows falling prices affecting trade values, particularly with respect to commodity exporters and, albeit to a lesser extent, export volumes. For example, the exports of Africa's oil exporters plummeted by 40 per cent in 2009 relative to a 17 per cent decrease for non-oil exporters. The overall export contraction of 32 per cent shown in figure 3.2 is only 5.6 per cent in terms of volume.

Figure 3.1

Africa's share in world merchandise trade (%)



Source: WTO Statistics Database, 2010 – 16/8/2010.

Figure 3.2
Africa's merchandise trade growth rates (%)



Source: WTO Statistics Database, 2010 – date accessed: 16/8/2010.

Reduced demand in the US (accentuated by depreciation of the US dollar) and the EU squeezed export volumes, underlining the advantages of diversifying export markets. Half of African exports go to US and European markets, a share declining steadily from 60 per cent at the turn of the century. China and India, in contrast, enjoy a growing share of Africa's exports, at 11.2 per cent and 4.4 per cent, respectively. The proportion of exports destined to African countries leapt from 9 per cent in 2008 to more than 11 per cent in 2009 as Africa capitalized on falling demand elsewhere.

Over the past decade, the African regional economic communities have also witnessed growing trade within

Africa's share in services trade

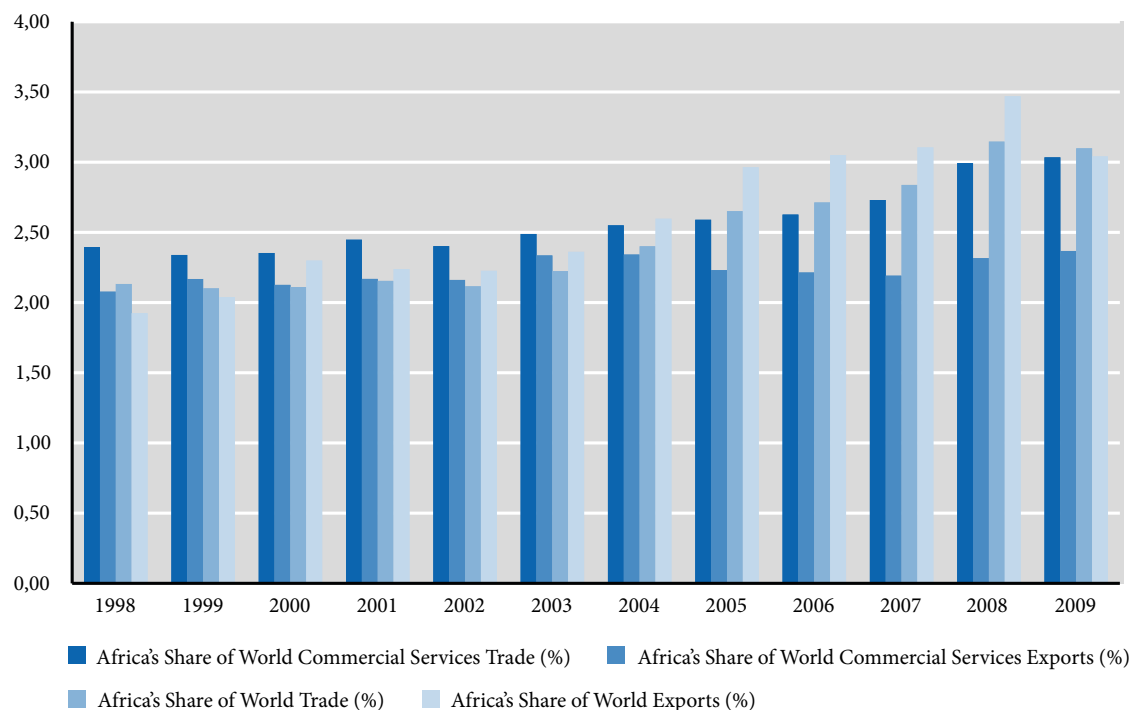
Africa's trade in commercial services has expanded rapidly, faster than that experienced globally since 2002. In 2009, although world trade in commercial services contracted by 12.4 per cent, the corresponding figure for Africa was 11.2 per cent, taking its share above 3 per cent of the global figure for the first time (figure 3.3). Furthermore, given the different rates of contraction between merchandise and services trade, the latter is now valued at more than a quarter of the former.

themselves. Trade within the Common Market for East and Southern Africa (COMESA), for example, has grown five-fold since the launch of its free trade area (FTA) in October 2000. Although trade within these communities remains small as a proportion of total trade, it is hoped that the recent tripartite agreement among COMESA, EAC and the Southern African Development Community (SADC) can accelerate its growth. This is likely to be boosted by the decision made in November 2010 by the African ministers of trade to fast-track the process towards an Africa-wide FTA.

Africa's trade in commercial services has expanded rapidly, faster than that experienced globally since 2002.

Figure 3.3

Africa's share of world trade in services (%)



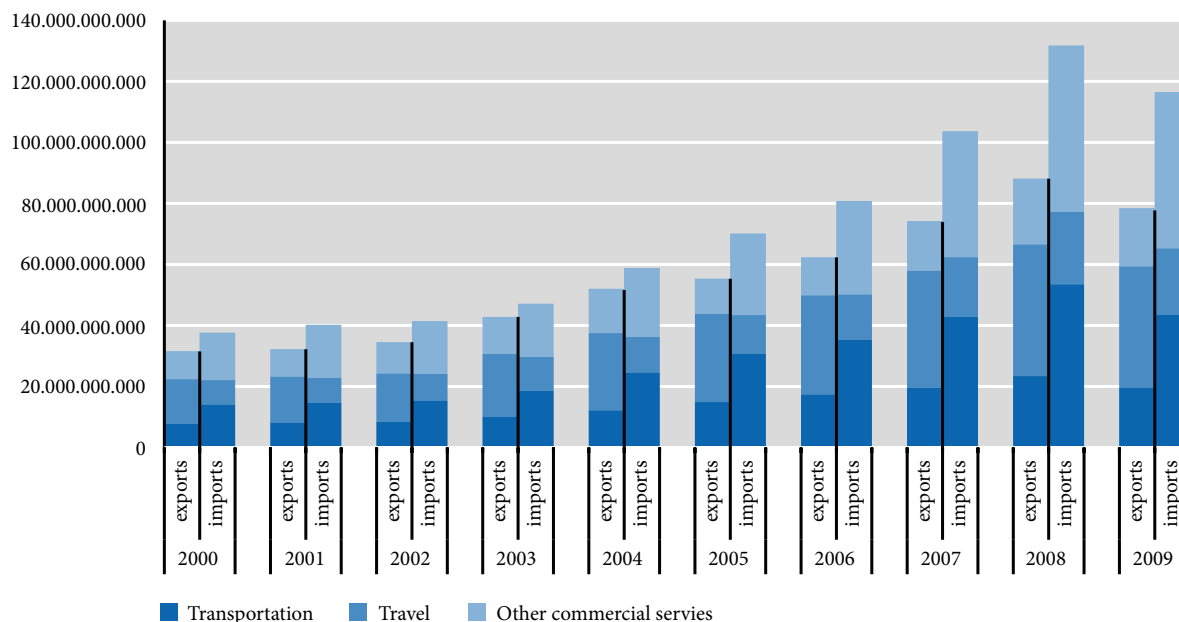
Source: WTO Statistics Database, 2010 – date accessed: 16/8/2010.

Travel accounts for more than half of Africa's commercial services exports (figure 3.4), and enjoys a healthy trade surplus. Contrasting the strong export performance of

travel services with the sensitivity of Africa's merchandise trade to commodity prices demonstrates the benefits of a diversified export portfolio, to provide insulation from commodity trade volatility. Increasing commitment by the regional economic communities to labour mobility is expected to further stimulate growth in trade in commercial services within these communities (UNECA, AfDB and AUC, 2010a).

Contrasting the strong export performance of travel services with the sensitivity of Africa's merchandise trade to commodity prices demonstrates the benefits of a diversified export portfolio, to provide insulation from commodity trade volatility.

Figure 3.4
Africa's commercial services trade by category



Source: WTO Statistics Database, 2010 – date accessed: 22/9/2010.

WTO negotiations in 2010: Addressing the development aspects of the Doha Round

The *Economic Report on Africa 2009* (UNECA and AUC, 2009) noted a lack of progress in the Doha Round of trade negotiations. Attempts to reactivate discussions on the substantive issues have led to a leaner negotiating agenda than the original work programme of 2001, when the round was launched.

The Doha Round was expected to be completed by December 2005 but, since 2008, discussions have focused on procedural rather than substantive issues. Consequently, in 2010, negotiations barely progressed beyond informal meetings focusing on the “cocktail approach”, which caused postponement of cross-sectoral negotiations based on the schedules of commitments. Nevertheless, the year saw some highlights such as the “banana deal”, progress on the cotton trade and non-tariff barriers negotiations, and notable engagement of the African Group.¹

This virtual halt to the negotiations begs the questions: what development gains are being foregone and what may realistically be achieved, especially given the fact that

no “early harvest” will be possible for least-developed countries (LDCs)?² In particular, how is the Doha Round addressing development concerns? Even more important is the question of what Africa may forgo if the Doha Round does not close with a “single undertaking”? If policy space is not sufficiently reflected in the negotiations’ final outcome—through appropriate flexibilities, special and differential treatment and deep market access

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commitments—the discretion of African WTO members to address structural economic transformation and

industrialization objectives on their trade agenda may be severely compromised.

Developments in the Economic Partnership Agreements negotiations in 2010

As with the WTO negotiations, little progress was made on Economic Partnership Agreement (EPA) negotiations in 2010. Discussions were held across all the EPA configurations but negotiations appeared stuck on the same contentious issues of the previous year.³ Concerning market access, no development-friendly rules of origin that allow for cumulation beyond those countries that are signatory to the interim EPAs have been negotiated. This is affecting even the LDCs, because non-signatory LDCs do not qualify for the cumulation provisions. The development component of EPAs also remains contentious as the EU refuses to commit additional funds beyond the European Development Fund. The EPA Development Programme of the Economic Community of West African States, for instance, has attracted less than the amounts required for the implementation of the EPAs.

As with the multilateral trade negotiations, how these contentious issues are addressed in the final agreement

will influence the viability of a developmental state⁴ in Africa that seeks to use strategic trade policies. For example, if export taxes are prohibited under the EPAs, African countries may have greater policy space to address the revenue and value-added concerns lying at the heart of their fiscal and industrial policy objectives. Equally, a narrow or strict definition of “substantially all trade” and “most favoured nation” may preclude the enactment of future trade agreements with third parties that could help structural transformation through converged government policies targeting export-led growth.

In the above light, hopes of agreeing on comprehensive EPAs in the near future are dissipating, three years after the original deadline. Moreover, EPAs as currently crafted may even stall the COMESA-EAC-SADC tripartite efforts for a single FTA. Further, EPA provisions might retard the planned acceleration of an African FTA as agreed by the African ministers of trade in late 2010.

Given these challenges and concerns, African countries have indicated through an EPA Position Paper (African Union, 2010b) that they are only willing to consider the viability of an EPA deal that offers the following alternatives: deferring and sequencing EPAs to regional integration processes; postponing EPA negotiations until after WTO negotiations on GATT Article XXIV are concluded; instead of EPAs, extending the Everything But Arms (EBA) regime to all African countries; improving the EU Generalized System of Preferences; or discontinuing EPAs and focusing on regional integration and South–South cooperation.

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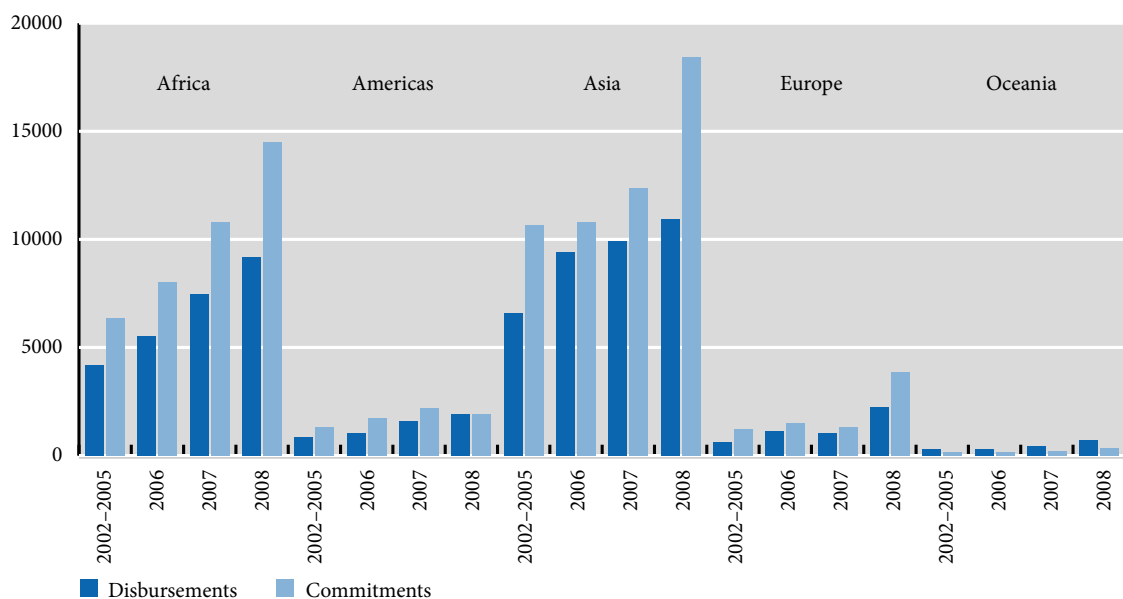
Aid for Trade initiative in Africa: Opportunities and challenges beyond 2010

Aid for Trade data show a 62 per cent increase in total 2008 Aid for Trade commitments than the 2002–2005 base period, with total commitments standing at \$41 billion globally. Disbursements grew less rapidly than commitments, but in each subregion disbursements in

2008 exceeded the commitments made by donors in 2006, that is, donors were delivering on their commitments. Asia and Africa were the main recipient regions, attracting 45 per cent and 35 per cent of commitments (figure 3.5).

Figure 3.5

Aid for Trade commitments and disbursements by region, current US\$ (million)



Source: OECD Creditor Reporting System, 2010 – date accessed: 9/9/2010.

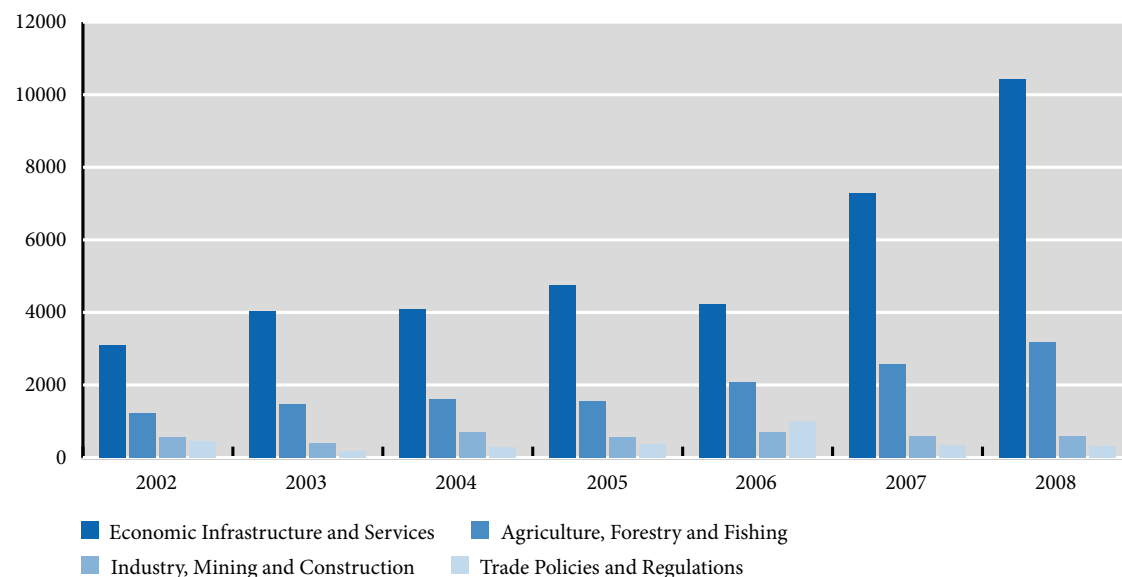
By sector, African Aid for Trade arrangements broadly conform to the global pattern, with more than 70 per cent of commitments directed to infrastructure and 26 per cent (of which three-quarters is in agriculture-related projects) to productive capacity-building; the remainder is committed to trade policy and regulation (figure 3.6).

Sub-Saharan Africa had a disproportionate share of increased Aid for Trade commitments in 2007, but the increases in 2008 were mainly to countries north of the Sahara, with economic infrastructure again dominating. Of the top 20 recipients of Aid for Trade globally, nine were African. These 20 nations accounted for more than 70 per cent of total flows, indicating that some are better than others in attracting Aid for Trade, as corroborated by the vast disparities in commitments seen among African countries.

By sector, African Aid for Trade arrangements broadly conform to the global pattern, with more than 70 per cent of commitments directed to infrastructure and 26 per cent to productive capacity-building.

Figure 3.6

Aid for Trade to Africa by broad category, current US\$ (million)



Source: OECD Creditor Reporting System, 2010 – date accessed: 9/9/2010.

The Enhanced Integrated Framework represents one channel through which LDCs can redress such disparities. Its diagnostic trade integration study allows LDCs to identify key needs for trade-related assistance and capacity building, including trade infrastructure, supply and productive

capacity. As of November 2010, 23 African nations had completed studies, in line with benefits from donor disbursement to the Enhanced Integrated Framework in excess of \$100 million.

Trade preferences and South–South cooperation

The African Growth and Opportunity Act ⁵

Ten years after its enactment in 2000, the African Growth and Opportunity Act (AGOA) has proved able to foster US–Africa trade. African exports to the US increased from \$23 billion in 2000 to \$81 billion in 2008. Even non-oil exports increased 230 per cent by 2008, despite exclusion

of key African exports such as sugar, peanuts, dairy and tobacco. FDI and employment have increased, with over 300,000 new jobs created in Africa in the first nine years.

Nonetheless, the benefits of AGOA have been unevenly distributed, and although AGOA has been extended to 2015, this time is insufficient for Africa to raise its productive capacity. Uncertainty about the future of AGOA has kept the required investments at bay, making it challenging to consolidate gains. Since the goal of AGOA is to promote lasting growth and development, it should be extended. A longer period would give investors the time to recoup returns on investments and thereby take full advantage of gains.

Uncertainty about the future of AGOA has kept the required investments at bay, making it challenging to consolidate gains.

Other challenges faced by AGOA beneficiaries include: accommodation of increased competition since the

elimination in 2005 of the Multi-Fibre Arrangement (MFA), which opened up the textile sector to market forces; the inability to diversify trade in agricultural products, which account for less than 1 per cent of AGOA exports, partly due to the quotas on sugar, peanuts, dairy and tobacco; and the failure of AGOA beneficiaries to take a regional approach, so that removal of African countries from the beneficiary list would create ripple effects on other regional trading partners. Use of AGOA is also hampered by infrastructure deficiencies, poor public institutions and lack of competition among service providers in beneficiary countries. In addition, the AGOA framework lacks mechanisms for promoting innovative ideas for public–private partnerships (PPPs) for infrastructure investment, improved operating efficiency and logistics market reforms, especially transport regulation.

In conclusion, although AGOA has had a positive impact on Africa–US trade relations over the past decade, there is room for improvement. AGOA should be revised to ensure more inclusiveness, accessibility and permanence, so that the benefits can extend beyond a few countries and products. It also needs to re-orientate FDI away from textiles and apparel and the oil sector toward agriculture, by assisting beneficiaries to comply with standards and sanitary and phytosanitary measures and to eliminate supply-side constraints. Targeted export diversification should also be part of this exercise.

Chinese–African Relations⁶

Chinese–African relations have three distinct channels of cooperation: trade, investment and aid. Still, these three elements are often interrelated and affect each other, reflecting either complementary or competitive relations (or both). For example, a major part of Chinese resource-seeking FDI in infrastructure has an aid component (minerals and oil to be exported to China).⁷ This calls for a careful balance between the risks of resource depletion and greater FDI. Policies targeting sustainable development and linking industrial activities with the local economy will contribute to this.

Another example of complementary/competitive relations is Chinese retail FDI through local presence and commercialization of Chinese products. The retail sector is critical to developing an economy, as the platform for

expansion into other domestic and foreign markets. In some countries, this has translated into a preference for Chinese manufactured and food products, crowding out local and regional products and resulting in a skewed trade balance in China’s favour. Clear rules that favour regional diversification and value chain creation and that safeguard any preference erosion among African countries could help maximize the benefits of Chinese–African trade relations.

Financial services are also becoming an important part of FDI, partly due to market seeking and learning–seeking. For example, China has become South Africa’s largest trading partner. Though only 4.2 per cent of Chinese FDI goes to South Africa, it has increased 17-fold in recent years. The country is benefiting from complementarities, because Chinese financial firms have large markets and capital but lack world-class skills in financial markets, which South Africa has. South African financial firms gain in their capital base from Chinese investment, enabling them to expand not only into Africa, but also globally, into Argentina and Russia, for example.

A major challenge of this South–South cooperation is to ensure that as trade and FDI come from China, Africa should strengthen their backward linkages to its economies. Also, particularly as Chinese aid flows, though still quite small, have been increasing considerably in recent years, it should request aid more aggressively by formulating projects that satisfy specific needs. It also needs to place further emphasis on building local capacity, so that its countries can consolidate the sustainable development process and impact. Finally, Africa’s economic space—a common market—could replicate Chinese market conditions. When taken as a common market, win-win trade opportunities between these two markets could

Chinese–African relations have three distinct channels of cooperation, namely: trade, investment and aid.

be identified. The viability of such opportunities greatly depends on the lead that African States take in envisioning their developmental role and their engagement in

3.2 Financing for development

MOBILIZING DOMESTIC AND external finance is critical to Africa's investment needs. In recent years, substantial progress has been made in debt relief and access to international resources, though much less in domestic resource mobilization, foreign aid and international trade. The global crisis threatened to reverse earlier advances, as African countries experienced weaker export revenues, lower investment and growth rates, and shrinking remittance and FDI flows.

Accordingly, there is an urgent need for African governments and their regional and international development partners to play a more proactive role in implementing

Mobilizing domestic resources

The issue of enhancing domestic resource mobilization attracted the attention of African policymakers long before the Monterrey Consensus. This is mainly because eventual dependence on domestic financial resources will help to achieve and sustain high growth rates, in addition to giving African countries greater policy space and ownership of their developmental agenda.

Nevertheless, the continent is still far from meeting its investment needs from domestic resources, though many

The main challenges to domestic resource mobilization remain the low levels of income, demographic factors and weak institutional capacity.

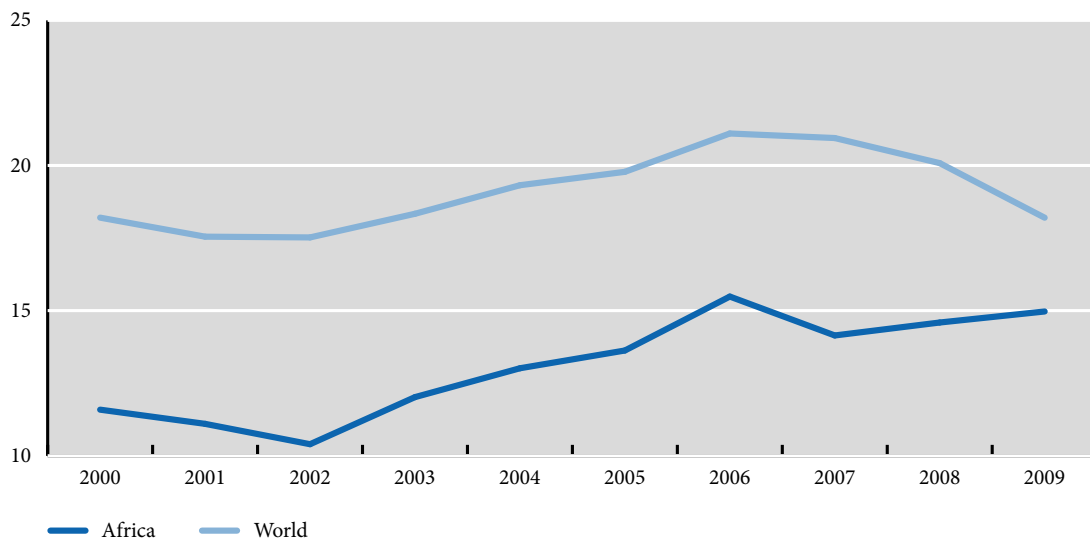
promoting this role in their dialogue with China, as well as in WTO and EPA negotiations with traditional partners.

the Monterrey Consensus recommendations on financing for development. In this context, priority areas for African countries include (a) strengthening the institutional framework including development of financial markets and micro-credit institutions; (b) stepping up technical support and training to strengthen national capacity in the area of resource mobilization and trade development; (c) increasing Africa's voice and representation in global financial and economic governance as well as seeking to harmonize and to bring national, regional and international efforts and initiatives together to ensure policy coherence.

countries, e.g. Ghana and Tanzania, have made notable progress in this direction since the Monterrey Consensus. The main challenges to domestic resource mobilization remain the low levels of income, demographic factors and weak institutional capacity. Moreover, the recent global economic crisis had severe adverse impacts on the already low levels of domestic resource mobilization. For instance, gross domestic savings in sub-Saharan Africa declined from 16.7 per cent of GDP in 2008 to 16.4 per cent in 2009 (figure 3.7). However, it is expected to increase to 17.4 per cent of GDP in 2010. Overall, domestic savings remain low in sub-Saharan Africa.

Government revenues also suffered a large contraction from 33 per cent of GDP in 2008 to 26.8 per cent in 2009, increasing slightly to 27.9 per cent of GDP in 2010 in line with the global and regional recovery.

Figure 3.7
Domestic savings (% of GDP)



Source: World Bank National Accounts data, 2010; OECD National Accounts data, 2010.

African countries have made both short- and long-term attempts to boost domestic resource mobilization through taxation, which is the main domestic financial resource for most of them. However, their attempts have been hampered by low taxable capacity, which depends on economic factors such as per capita income, trade levels, and the shares of agriculture and mining in the economy.

Countries that have already reached the limit of their taxable capacity have little short-run policy space for increasing tax revenue. A better strategy for them would be to focus on dealing with structural problems of tax policy and administration that cause economic distortion and inefficiency. Countries with inadequate tax efforts, however, may need to pay more attention to enhancing tax revenue and structural streamlining.

A fundamental tax difficulty in Africa is the trilemma between the demand for higher tax revenue to finance development; the unwillingness of those with political power and economic ability to pay additional tax; and the rest who have no assets to be taxed and who resist paying taxes. Under this pressure, African countries tend to “enforce easy taxes, particularly trade taxes, and impose high taxes on the formal sector or both” (Aryeetey, 2009). In many countries, ‘a high tax burden is imposed on a

limited number of taxpayers, and on medium-sized firms which already bear disproportionately high share of taxes’ (Gauthier and Reinikka, 2006). One example of distortion is the unusually heavy tax burden on the agriculture sector.

Over-complexity in the tax structure, alongside ambiguity in tax regulation and administration, are other key problems with tax systems in many African countries. These factors often lead to considerable discretionary powers for tax enforcers, which in turn create opportunity for corruption. They do not result only in a lower tax collection

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FDI in Africa remains largely concentrated in the extractive industries and more effort needs to be made to attract increased FDI in other sectors.

Mobilizing foreign capital

The significance of international capital flows, especially FDI, as a source of investment and growth in Africa is well recognized. Given the budget constraints and low levels of domestic savings facing most African governments and the need to bring in technology and skills, FDI is likely to remain a strategically important source of financing. Migrants' remittances to Africa are also set to become important in private financing flows.

FDI inflows to Africa declined from \$72 billion in 2008 to \$58.6 billion in 2009. To Southern Africa, for instance, FDI inflows decreased from about 3.5 per cent of GDP to about 2.1 per cent over this period, although Central Africa saw an increase from 16.9 per cent of GDP to 17.7 per cent (table 3.1). The decline was equivalent to 0.34 per cent of GDP for Africa as a whole.

Table 3.1
Foreign direct investment flows (% of GDP)

	2006	2007	2008	2009
East Africa	3.21	4.63	3.62	3.15
Central Africa	14.34	15.84	16.93	17.66
North Africa	5.45	4.94	3.87	3.13
Southern Africa	0.20	2.28	3.45	2.12
West Africa	7.37	3.80	3.50	3.59
Africa	6.11	6.30	6.27	5.93

Source: UnctadStat, 2010.

outcome but also reduce the willingness of domestic investors, who would otherwise expand the tax base.

Potential policy measures include broadening the effective tax base by eliminating economic distortions and encouraging investment; streamlining tax policy and tax administration procedures to reduce compliance costs; encouraging formality; rationalizing the rate structure; and providing incentive schemes to improve tax collection. Tax reforms should be country specific and policy design should be based on a "comprehensive analysis of the country's revenue potential, revenue performance, and political readiness" (Aryeetey, 2009).

FDI in Africa is largely concentrated in the extractive industries. This is what drives the impressive performance of countries such as Algeria, Chad, Equatorial Guinea, Nigeria and Sudan. But the level of FDI in the sector is particularly sensitive to changes in oil and mineral prices. Future developments in FDI flows therefore depend largely on commodity prices.

While Africa has generally benefited from FDI inflows, concerns remain over the distribution of benefits between the origin and host economy. African countries should therefore adopt a selective approach in accepting FDI to ensure coherence between boosting FDI and pursuing their national development strategies. Africa needs to make greater effort to attract investments that are linked to the rest of the economy, generate employment, transfer knowledge and build local capacity.

Remittances also constitute a major contributor to financing for development in Africa. Their worldwide level has jumped during the last decade and is at present amongst the three top financial flows to developing countries, alongside FDI and ODA. However, job losses due to the global economic crisis and more difficult working conditions for migrants in destination countries have altered the trend. Recent estimates indicate a fall in total remittance inflows to Africa, from \$41.1 billion in 2008 to \$38.5 billion in 2009.⁸ As with FDI, remittances are unevenly distributed across Africa. Six countries (Algeria, Egypt, Morocco, Nigeria, Sudan and Tunisia) accounted for more than 75 per cent of the continent's remittances.

International trade and official development assistance

Trade is both the main engine of Africa's growth and the key channel through which it suffered most from the global economic slowdown (as highlighted above). Many countries experienced a sharp decline in export revenue due to both lower volumes and prices in 2009, resulting from the fall in demand from major trading partners, protectionist measures and the drying up of trade finance. Further, whereas export earnings rebounded strongly in 2010, owing to increased commodity demand and prices, current account deficits widened for many non-oil exporting African countries, especially African LDCs. ODA has remained a critically important source of finance for this group of countries.

Indeed, for some African countries—in particular LDCs, landlocked countries and small islands—ODA is the

most important financial inflow and is therefore crucial for achieving the MDGs. ODA should be seen as complementary to (and a lever for) other sources of development finance.

Progress was made in scaling up aid to Africa before the crisis with a doubling of flows from 2002 to 2006 (table 3.2). In 2007, ODA flows fell, mainly because of a reduction of debt-relief initiatives from their peak in 2006. The latest data show a continued increase in nominal aid flows to Africa, with the 2009 figure at a historical high of \$47.6 billion, despite the global crisis. This reflects the multi-year nature of ODA planning and the continued commitment of many donor countries to assist African countries even when they encounter difficult economic conditions at home.

Table 3.2

Overseas development assistance, 2002–2009 (\$ billion)

	2002	2003	2004	2005	2006	2007	2008	2009
Developing countries, total	61.7	71.0	79.8	108.4	106.5	106.8	126.7	127.5
Africa, total	21.3	27.3	29.9	35.7	44.0	39.3	43.9	47.6

Source: Data extracted from OECDStat, 2010.

Indeed, while the economic downturn has raised legitimate concerns over the ability of donor countries to maintain their commitments on aid, to date only a few countries have decreased their previous commitments.

Whether current pressure on the budget of advanced economies will reduce aid flows is still uncertain and remains a concern.

External debt and debt relief

Africa's external debt fell before the global crisis due to the effect of the debt relief initiatives, but began to increase since 2009 both in absolute terms and relative to GDP. Regionally, sub-Saharan Africa's external debt has been increasing in recent years despite the international community's debt-relief initiatives. North Africa has a lower level (table 3.3).

Africa's external debt fell before the global crisis due to the effect of the debt relief initiatives, but began to increase since 2009.

Table 3.3**Africa's external debt, 2005–2010**

Country group	Subject descriptor	2005	2006	2007	2008	2009	2010
Africa	Total, \$ billion	290.96	252.93	283.32	286.82	300.58	324.70
Africa: Sub-Saharan		241.26	213.12	240.24	243.49	256.16	278.45
North Africa		49.70	39.81	43.09	43.33	44.43	46.24
Africa	Total, % of GDP	34.74	26.32	25.60	22.37	25.37	24.91
Africa: Sub-Saharan		37.34	28.51	27.92	24.52	27.85	27.61
North Africa		25.97	18.64	17.50	14.97	16.76	15.67
Africa	Total, % of exports	92.71	68.54	64.79	53.36	80.34	73.78
Africa: Sub-Saharan		104.14	77.74	73.54	61.27	91.86	84.56
North Africa		81.29	59.35	56.04	45.44	68.82	62.99
Africa	Total debt service, \$ billion	66.06	87.71	59.66	64.93	59.33	62.89
Africa: Sub-Saharan		48.51	62.56	46.41	50.77	45.15	49.07
North Africa		17.55	25.15	13.25	14.16	14.17	13.81
Africa	Total debt service, % of exports	21.05	23.77	13.64	12.08	15.86	14.29
Africa: Sub-Saharan		20.94	22.82	14.21	12.78	16.19	14.90
North Africa		21.16	24.72	13.08	11.38	15.52	13.68
Africa	Total debt service, interest % of exports	4.90	3.71	2.90	2.69	4.19	3.72
Africa: Sub-Saharan		3.97	2.60	2.45	2.21	3.49	3.21
North Africa		5.84	4.81	3.35	3.16	4.89	4.22
Africa	Total debt service, interest % of GDP	6.05	7.70	4.24	3.94	3.68	3.57
Africa: Sub-Saharan		6.09	7.41	4.46	4.23	3.85	3.82
North Africa		6.02	7.99	4.03	3.65	3.52	3.32

Source: IMF, World Economic Outlook Database, October 2010.

Note: Estimates for 2010.

Debt sustainability in Africa has generally improved in the last decade, but total external debt is still high relative to GDP and exports.

Debt sustainability in Africa has generally improved in the last decade. The overall debt-to-export ratio dropped from 182.9 per cent in 2001 to around 53.4 per cent in 2008, though it jumped to 80.3 per cent in 2009 partly as a result of the economic crisis. During the same period, the overall debt-service-to-export ratio also dropped from 27.7 per cent in 2001 to 12.1 per cent in 2008, and is projected to hover around this trend in 2010 and 2011 to about 14.3 per cent.

Major reasons for this improvement in debt sustainability are the debt-relief initiatives. Of the 40 countries globally eligible (or potentially eligible) for assistance under the heavily indebted poor countries initiative, 33 of them are in Africa.

Global financial and economic governance

Coherence of the international financial and trading systems—through a governance system that reflects modern realities—is critical in financing for the development framework (chapter 1). Africa is poorly represented in the international organizations, such as the IMF, World Bank, WTO, and the Bank for International Settlements, that make decisions with serious consequences for the region.

Some positive signs can be seen with the number of recent governance reforms undertaken by the World Bank, the most important of which is the reaffirmation of its Development Committee to an increase of at least 3 per cent of voting power for developing and transition countries in the International Bank for Reconstruction and Development (IBRD), in addition to the 1.46 per cent increase under the first phase of this important adjustment, to the benefit of under-represented countries. With this 3 per cent increase, developing and transition economies will have 47 per cent of the votes.

In his address to the Annual Meeting of October 2010, World Bank President Robert Zoellick proposed an even split between developed and developing countries, implying a shift of at least 6 per cent of the votes. He also promised to continue pushing ahead with voice reform and changes in the voting power in the International Development Association (IDA) and the International Finance Corporation (IFC).

The IMF has initiated a process designed to realign the voting power of members to enhance its legitimacy. Clearly the IMF institutional framework—through which members actually exercise their voting powers—requires reform, considering the significant global economic changes that have taken place in the more than six decades since the IMF was set up. The question is when would this reform be undertaken?

The G-20's November 2010 Seoul Declaration called for reforms by January 2013 "aimed at enhancing the voice and representation of emerging markets and developing countries, including the poorest". The declaration called on finance ministers and central bank governors "to continue to pursue all outstanding governance reform issues at the World Bank and the IMF".

Given the continent's diverse socio-economic realities, it might not be sufficient for South Africa to be the only African country in the G-20. The best approach is to give African countries a chance to speak for themselves; hence the necessity for redesign of the global financial architecture to address these concerns (chapter 1) and for Africa to have increased representation on the boards of both IMF and the World Bank.

3.3 A green economy: Implications for Africa's development

OVER THE LAST couple of years, the concept of a green economy has surfaced in policy discourse and became one of the two themes of the United Nations Conference on Sustainable Development taking place in 2012. The concept was taken up against the backdrop of recent food, fuel, climate change-related and economic crises, from which African countries were not immune.

These crises have again brought to the fore questions about the sustainability of current models of economic development, and have triggered new thinking on the need for transforming economic systems into green economies to

enhance sustainability and improve economic outcomes. Key questions arise as to what a green economy entails, what opportunities and challenges may exist for African countries, and how countries can achieve a "green economic transformation."

Such policy debate is also taking shape in Africa. African ministers of finance, economic planning, and environment recognized at the 2009 African Ministerial Conference on Financing Development the importance of placing the environment at the centre stage in Africa's development process (UNECA, 2009). In June 2010, the 13th Session of

the African Ministerial Conference on the Environment adopted the Bamako Declaration, which stressed the need to “take advantage of the opportunities provided by a growth and development trajectory that embraces the green economy model” (UNEP, 2010d). Delegates to the Seventh African Development Forum in October 2010 called on African governments to “prioritize and promote green economy as a vehicle for addressing the challenges of climate change impacts on ecosystem sustainability and harnessing the opportunities provided by its vast

and diverse ecosystems and natural resources” (UNECA, AfDB and AUC, 2010b).

Given the natural-resource dependence of most African economies and their desire to industrialize, a pathway to a green economy (tentatively defined in box 3.1) may be analysed through action on three fronts: capitalizing on Africa’s natural capital, embarking on green industrialization and creating enabling policies and institutions.

Box 3.1 Defining the green economy

A green economy may be defined as an economy that aims to improve human welfare and social equity, and concurrently reduce environmental risk and ecological scarcities. At its simplest, a green economy can be characterized by low carbon use, resource efficiency and social inclusion. It is driven by public and private investments that contribute to reducing carbon emissions and pollution, enhancing energy and resource efficiency, and preventing the loss of biodiversity and ecosystem services. Such investments are driven or supported by national policy reforms and international policy and market infrastructure.

Capitalizing on natural capital

The continent’s governments need to recognize the economic importance of natural capital in wealth creation, employment, livelihoods and poverty reduction. Africa’s natural resources support its social and economic systems. Natural capital assets, both renewable and non-renewable, are estimated to account for 24 per cent of total non-human wealth in sub-Saharan Africa (World Bank, 2006). They comprise sub-soil assets (39 per cent), cropland (36 per cent), timber resources (9 per cent), pastureland (8 per cent), non-timber forest (5 per cent) and protected areas (3 per cent). Some studies have underscored the large gains that could be achieved by expanding investments to enhance natural capital (such as Millennium Ecosystem Assessment, 2005; Economics of Ecosystems and Biodiversity, 2010).

Achieving a sustainable transition in agriculture

Agriculture is of particular relevance to a green economic transformation in Africa owing to its importance in sustaining livelihoods, reducing poverty, and contributing to

economic growth and development. Croplands that provide employment to 64 per cent of Africa’s active population and contribute on average 34 per cent of GDP (World Bank, 2008) are essential. The food crisis of 2008 underscored the urgent need to improve food and nutrition security worldwide. It also pointed to the importance of moving towards fully sustainable models of agricultural production and away from those that cause environmental damage (UN, 2008).

Enhancing natural capital in agriculture entails new approaches to production that reduce externalities such as water pollution and soil erosion, maximize the use of organic inputs and deliver high productivity and better incomes for farmers. The current characteristics of African agricultural production systems lean towards what could be a model for sustainable farming in the future. Small-scale ecological farming systems, limited use of chemical fertilizers and pesticides, and labour-intensive production systems could provide a basis for a green transformation of African agriculture.

Although more research is required to better understand the potential for such models, country experiences in Africa suggest that sustainable forms of agriculture—including low-tillage farming, organic fertilizers and natural pesticides, and re-use of farm water—are not only yielding environmental gains but also important financial benefits.

Through institutional support and improved access to finance, Uganda, for example, the African country with the largest area of land organically farmed, increased the number of certified organic producers from 45,000 in 2004 to 206,803 in 2008. The country's revenues from the export of certified organic agricultural products increased from \$3.7 million in 2003/04 to \$22.8 million in 2007/08 (UNEP, 2010b). Programmes supported by FAO on integrated production and pesticides management in the West African Sahel show that farmers have succeeded in cutting the use of toxic pesticides, increasing yields and incomes and diversifying farming systems.

Data from Mali and Senegal reveal a 90 per cent reduction in the use of chemical pesticides among farmers one to two years after training. In Mali, a survey conducted in 65 villages of cotton farmers showed a 400 per cent increase in the use of organic material such as compost and manure, substances that can reverse the decline in soil fertility. For 80 vegetable farmers in Senegal, crop net value increased by 61 per cent in two years, while a 92 per cent reduction in the use of conventional pesticides resulted in high cost-savings and income (FAO, 2009).

Exploiting the potential in biodiversity-based industries

Biodiversity-based industries can make a major contribution to expanding output by enhancing natural capital. The direct benefits from biodiversity are already significant in several African countries, particularly forest- and

Embarking on green industrialization

Africa's early stage of industrialization may offer avenues for industrial development supported by clean technologies that offer greater energy efficiency in using the continent's massive clean energy potential. Although the technological and financial requirements of green industrialization are considerable, opportunities for "leapfrogging" may exist.

tourism-related industries. Forestry contributes 6 per cent of GDP in Africa on average, and up to 13 per cent in tropical African countries (Gumbo, 2010). Forest resources are important export commodities, with timber products alone accounting for 60 per cent of export earnings for Gabon and about 50 per cent for the Central African Republic (Gumbo, 2010). In Eastern and Southern Africa, the average annual forest income is about 22 per cent of household income (Vedeld et al., 2004). Well-managed biodiversity and knowing how to use its vital supporting functions can therefore yield real economic benefits for Africa and knock-on effects on poverty.

Tourism, which relies primarily on the continent's natural and cultural wealth, directly and indirectly contributes an estimated 8.3 per cent to GDP and 5.9 per cent to employment in Africa (World Travel and Tourism Council, 2009). In the Great Lakes area, about \$20 million is generated annually from tourism based on gorilla viewing and other activities (Gumbo, 2010). As discussed above, travel represents a key component of Africa's trade in services, accounting for more than half of Africa's commercial services exports.

Governments are increasingly recognizing the importance of sustaining and possibly enhancing the natural and cultural assets from which new income, employment and growth opportunities are arising. Translating such recognition into action requires new investments in protected areas, reforestation efforts, and rehabilitation of valuable ecosystems. In Kenya, for example, resource valuation efforts that indicated a value to the economy of the Mau forest complex—including tourism, hydropower, agriculture and the tea industry—of possibly as much as \$1.5 billion a year (Nellemann and Corcoran, 2010), triggered a multi-million shilling restoration initiative to reverse the trend of decades of deforestation.

Enhancing energy efficiency

Despite an early stage of industrialization and relatively low levels of energy consumption and carbon emission in many African economies, high energy, material and carbon intensities are common. Energy- and carbon-intensive industrialization would not only add undue costs to the

Policies aimed at increasing energy efficiency are often the easiest and cheapest means to achieve greater energy security.

economies, but also lock countries into inefficient modes of production that could undermine future competitiveness. Policies aimed at increasing energy efficiency are often the easiest and cheapest means to achieve greater energy security, particularly in countries with diminishing marginal reserve capacity in the electricity generation, where short-term, demand-side management is often quicker and cheaper than investing in new energy supply capacity. Such policies include targets for reducing energy consumption, flexible financing mechanisms, energy labelling, performance standards, and awareness-raising campaigns among potential investors and consumers.

Technologies such as efficient lights offer significant potential to cut back energy consumption. Nigeria, for example, could lower its electricity consumption by over 15 per cent this way, while reducing carbon dioxide emissions (from fuel combustion) by close to 5 per cent. South Africa could save \$280 million a year and remove CO₂ emissions equal to 625,000 cars annually by following a similar path.⁹

Within industry, the use of outdated technology, smaller plants and deficient operating practices point to a large potential for improving efficiency in the production and use of energy. Industrial policies geared towards leapfrogging and modern, adapted, technologies could contribute to green industrialization. The experience in electricity-intensive industry, such as aluminium smelting, demonstrates the possibilities for efficiency gains. African aluminium smelters use on average 14,337 kilowatt-hours per ton (kWh/t) of aluminium produced, compared with 15,613 kWh/t in North America, or a world average of 15,268 kWh/t. Africa was found to have the most efficient smelters in the world, with production facilities that have the latest technologies in the field (IEA, 2007).

Increased energy and resource efficiency also helps reduce the carbon intensity, that is, the amount of carbon dioxide emitted for each unit of economic output. Since 1990, carbon intensity has decreased all over the world, and African countries have experienced declining carbon intensity on an almost continuous basis since 1995 (WRI, 2010). However, African carbon intensities remain high by world standards. Although in absolute terms Africa emits a small part of global carbon emissions, greater efficiency would enable African countries to generate new revenue from potential carbon trading and improve their competitiveness in a world that is increasingly moving towards low carbon intensities.

International technological cooperation, as through National Cleaner Production Centres, the Clean Development Mechanism (CDM) or private sector investment, could play a crucial role in moving to a low-carbon world. The CDM allows emission-reduction projects in developing countries to earn Certified Emission Reduction (CER) credits, each equivalent to one ton of CO₂. These CERs can be traded and sold and be used by industrialized countries to meet a part of their emission reduction targets under the Kyoto Protocol to the United Nations Framework Convention on Climate Change. Since April 2005, Africa has seen large increases in new CDM projects every month and in accumulated projects. However, the continent still only hosts 3 per cent of the world's total CDM projects. According to the CDM, this provides an opportunity for sub-Saharan Africa to develop 3,227 CDM projects, including 361 programmes of activities, which could reduce approximately 9.8 billion tons of greenhouse gas emissions (Timilsina et al., 2009).

Studies on the potential for transfer of clean technology through the CDM indicate that the rate of technology transfer through CDM projects is significantly higher than the average for several host countries, including Kenya and South Africa (Seres, 2008; Haites et al., 2006). They also reveal that technology transfer does not appear to be closely related to country size or per capita GDP, but a host country can influence the extent of technology transfer involved in its CDM projects through the criteria it establishes for approving such projects.

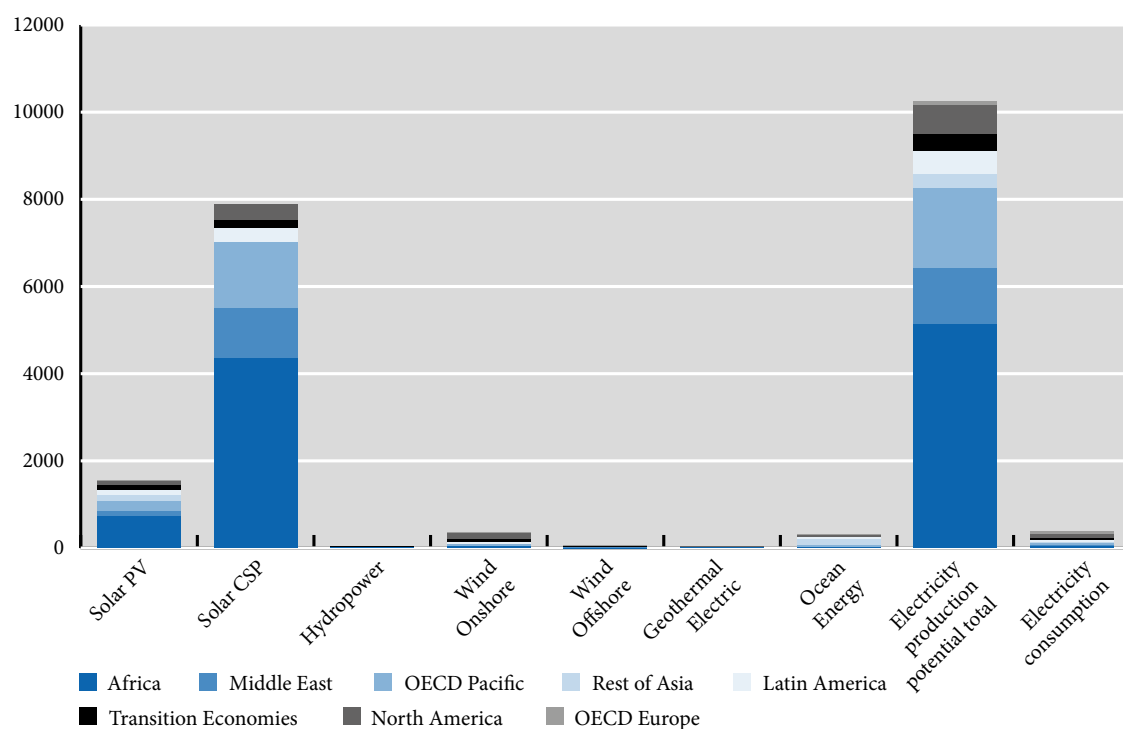
Harnessing clean energy potential

Limited access to energy or “energy poverty” is one of the greatest challenges to achieving the MDGs in Africa. African firms lose an estimated 5 per cent of their sales due to power outages, a figure that rises to 20 per cent for informal firms unable to afford backup generation. The aggregate economic costs of power shortages are 1–2 per cent

of GDP (Foster and Briceño-Garmendia, 2010). Yet Africa has the world’s largest technical potential for renewable energy power generation, through its vast solar, biomass and wind resources (figure 3.8). Realizing this potential would drive economic growth, with significant job creation and environmental gains.

Figure 3.8

Technical potential for renewable energy power generation and electricity markets by 2050 (exajoules a year)



Source: REN21, Figures from *Renewable Energy Potentials 2008*.

The barriers to expanding the supply of renewable energy are often the same across countries—principally a lack of financial subsidies or incentives and limited access to appropriate technologies. To encourage large and sustained private investment in Africa’s renewable energy resources, a combination of R&D-push and demand-pull measures are needed. Examples from studies conducted by the Global Network on Energy for Sustainable Development (GNESD) show that it is desirable for governments to establish dedicated and authorized agencies responsible for promoting, initiating and financing renewable energy projects and programmes (GNESD

2006). Clear, set government targets are fundamental for giving confidence to private investors seeking to develop such projects.

For example, governments around the world have adopted regulations on prices of renewable energy, including renewable energy feed-in tariffs. By guaranteeing the purchase of electricity from renewable energy sources at a predetermined price that is sufficiently attractive to stimulate new investment, feed-in tariffs are an effective policy instrument to stimulate investment in renewable energy generation. Feed-in tariffs have been implemented

with impressive results in Kenya and Mauritius, and have stimulated interest in renewable energy development in South Africa, the United Republic of Tanzania and Uganda (AFREPREN/FWD, 2009).

Triggered by these and other market instruments, several multi-million renewable energy projects are under way across Africa. They range from a \$490 million, 200 megawatt wind project in the Gulf of El Zayt in Egypt,

Creating enabling policies and institutions

A green economic transformation will require enabling policies and institutions, which entail a critical role for the state, through public investment; fiscal policies; regulations; government procurement; market creation at national, regional and international levels; and active participation of non-state actors.

At the height of the global economic crisis and during its aftermath, governments in the advanced industrialized countries—and pillars of the global market economy—intervened in their economies in an unprecedented manner, recognizing that market principles must go hand in hand with effective regulation and strong global institutions. In

In Africa, governments have stressed the importance of seizing opportunities provided by a growth and development model that embraces the green economy and the need to articulate conditions that will encourage greater public and private investment in green sectors.

to projects in East Africa's Rift Valley in Kenya as well as in Eritrea, Ethiopia, the United Republic of Tanzania, and Uganda. The Geothermal Energy Association noted in 2010 that 11 African countries were working to produce geothermal power (REN21, 2010). In relative terms, however, investments in clean energy remain negligible in Africa (SEFI, 2010), pointing to the need to enhance the capacity of institutions and people and to significantly leverage increased financing.

intervening, they recognized the need to not only restore growth and jobs, but also accelerate the transition to a green economy (G-20, 2009). The main areas targeted by the green stimulus packages were infrastructure, in particular railways and electricity grids; water and waste; energy efficiency; renewable energies and low-carbon vehicles.

But beyond these immediate responses to the economic crisis, governments increasingly recognize that free markets by themselves cannot deliver appropriate solutions to a number of societal goals and that they, in developed and developing countries alike, need to play a greater role in charting economic and social progress, both through public investment and through appropriate incentives and regulations. Several countries expanded their fiscal stimulus into broader and longer-term programmes to promote a low-carbon economy, and to reduce ecological scarcities and social vulnerability. Other countries, such as the Republic of Korea, developed full-fledged, medium-term plans to achieve green growth (UNEP, 2010c).

In Africa, governments have stressed the importance of seizing opportunities provided by a growth and development model that embraces the green economy and the need to articulate conditions that will encourage greater public and private investment in green sectors. Increasing government "good" subsidies for clean technologies and practices (while gradually eliminating "bad" subsidies supporting polluting industries), as well as strengthening regulatory reform, are all examples of the tools that governments can use to assist in the transition to a green economy. The central role of the state in this should

preclude neither effective partnership with the private sector nor active civil society participation (Uyigüe et al., 2008).

Encouraging green private investment and ensuring markets are open for clean products

To promote a green economy, governments need to play a more effective role in two main areas: encouraging green private investment through increased public spending on environment-friendly goods and services; and introducing policies that expand demand for clean products (besides regulations that promote standards and labels). Government expenditure on goods and services (such as building schools, hospitals and airports), rail and road infrastructure, even furniture and energy for offices should be geared towards incentives to boost domestic investment in environmentally preferred and equitably accessed goods and services. This way, governments can help to leverage domestic and international private resources.

In China, for example, a government-led policy of directly encouraging local wind turbine manufacturing, through joint ventures, technology transfers and use of locally made wind turbines, contributed to expanding the industry. The renewable energy sector of China as a whole generated output worth \$17 billion and employed an estimated 1.5 million people at the end of 2009 (UNEP, 2010a). It was estimated that every CNY 100 billion of public green investment in China would lead to an increase in household consumption of CNY 60 billion, and to CNY 1 billion in additional tax revenue (\$14 billion, \$8.6 billion and \$143 million), with 600,000 new jobs created.

Trade is a powerful connector between production and consumption to drive a transition to a green economy. A wide range of sustainable products and technologies are accessible through national, regional and international trade, making it critical for governments to ensure that markets are open for consumers to access such goods and technologies. Several African countries have showed competitive capabilities in areas such as sustainable agriculture, forestry, and bio-energy and environmental goods and services (Gueye, Sell and Strachan, 2009). This could open new opportunities to serve domestic, regional and international markets, given that 80 per cent of the world's organic agricultural producers are in Africa, Asia

Government regulations and standards will provide the overall policy framework to encourage a transition to a green economy.

and Latin America (UNEP, 2009). (The global market for organic foods and drinks, for example, reached \$50 billion in 2007.)

Accelerating and strengthening regional integration can enable African countries to create large markets for intra-African trade and provide incentives for investments to develop a local manufacturing base and spur trade for clean products and technologies. Internationally, African countries could benefit from greater engagement in areas that present potential trade interests in environmental goods and services under the Doha Round.

Government regulations and standards will provide the overall policy framework to encourage a transition to a green economy. A clear, predictable and stable policy environment can create the confidence required to stimulate private investment, as seen in feed-in tariffs earlier.

Standards and labels are likely to play an increasingly important role in stimulating sustainable forms of production and consumption, distribution and transport. A proactive engagement of government, industry and consumers would enable African countries to fully participate in shaping the norms for environmentally sound goods and services.

Reforming harmful policies and strengthening institutions and processes

Harmful government subsidies can induce unsustainable patterns of consumption and production—not only in rich, but also developing countries. When they are not properly designed, they can result in a high cost to the economy and society without necessarily achieving the desired policy objectives, including serving the poor. A

If green investments and growth are to become effective and promoted on a wide scale, the investment barriers must be identified and tackled.

few African countries have attempted, with varying degrees of success, to reform some categories of subsidies, such as fossil fuel subsidies, having realized that targeted groups were not always benefiting from them. For example, in 2005, the Government of Ghana initiated reforms to reduce petroleum subsidies after realizing that they were going predominantly to higher-income groups. It

3.4 Conclusions

AFRICA'S TRADE PERFORMANCE remains below potential. The need to continue diversifying production and exports persists. Diversification requires improvement of competitiveness by tackling supply-side constraints as well as improving infrastructure and productive capacities, among other things.

The onus remains on developed countries to show leadership towards rapidly concluding the Doha Round. This will not only give to Africa market-access opportunities but, if the flexibilities that the continent is seeking are granted as part of the development package, its nascent gains from diversification could be consolidated. The role of the state would be to reflect these negotiation outcomes in countries' trade policies and regulations, linking them with economic transformation objectives that target growth, industrialization, employment and poverty reduction.

African countries have demonstrated the political will to realize the full benefits of regional integration. An acceleration of harmonization efforts, such as the tripartite

also eliminated primary and junior-secondary school fees, and made extra funds available for primary health care and rural electrification programmes (IMF, 2008).

If green investments and growth are to become effective and promoted on a wide scale, barriers to them must be identified and tackled. Such constraints are prevalent in some African economies with poor governance regimes and weak institutional structures. New institutional forms that draw on participation, community-based local knowledge and collective forms of decision-making could spur wide support for a green economic transformation. For participation in green economic activities to become effective and transformative, it needs to be promoted as a form of active citizenship, alongside accountability (Mohan, 2007). The outcomes of participatory processes then have to be transformed into policies that are feasible to implement, so that public participation can be meaningful (Resnick and Birner, 2010).

COMESA-EAC-SADC agreement or, better still, fast-tracking the Africa-wide FTA, could enhance the benefits already being realized through regional integration.

To mobilize domestic resources for development, African governments should make greater efforts to strengthen their administrative and legislative tax frameworks, enhance the emergence of equitable and efficient tax systems and administration, tackle corruption, simplify tax laws and codes, and build tax administrative capacity. Governments should aim at transforming the tax structure, that is, close exemptions and loopholes, widen the tax base, and consider introducing property taxes. Also, improving domestic savings rates requires development of the domestic financial sector.

Concerns remain over the distribution of benefits from international financial resource inflows, between the origin and host economy; hence governments need to ensure coherence between increasing FDI inflows and pursuing development goals.

Africa needs to increase its voice in international economic governance and play its part in reforming the global financial architecture. While the recent reforms undertaken by the international financial institutions are quite encouraging, they and others need to take further steps to eliminate Africa's marginalization. In the G-20, for example—the premier global economic policy forum—South Africa is the continent's only representative.

Africa's future economic and development strategies should be based on a green economy model. This will help ensure that accelerating economic growth and making the structural transformation to achieve the MDGs and other social development goals remain consistent with environmental sustainability. Decision-makers and other stakeholders are beginning to comprehend that past models of development have not achieved the promises of sustainable growth and development, and have inflicted severe harm on the environment.

There are many opportunities for the continent to achieve an economic transformation that can build on its vast resource potential, fast-track a green industrialization and contribute to employment creation and poverty reduction. Such a transformation, however, requires a repositioning

Africa's future economic and development strategies should be based on a green economy model.

of the state in setting the course of social and economic progress through a reconfiguration of public investment, as well as adoption of regulations, standards and incentives that can motivate the private sector and civil society within the green economy model.

When the world embarked on the preparatory process for the United Nations Conference on Sustainable Development in 2012, one of the two themes of the conference focused on green economy in the context of sustainable development and poverty eradication. This was a historic opportunity for African countries, individually and collectively, to bring sustainability to centre stage and articulate a new path towards sustainable development, with a new approach to the role of the state in this process of green economic transformation.

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Notes

1 For a synopsis on these negotiations, see AEO, 2010, box 3.1; ICTSD, 2009, 2010; and Anania, 2010.

2 The trade ministerial negotiations under WTO follow the principle of a “single undertaking,” meaning, once negotiations on all the aspects have been concluded, countries are able to adopt and implement them. In other words, though some negotiation aspects have been successfully concluded, nothing can be done until agreement is also reached on the stickier issues. The “early harvest” was proposed as a means to enable LDCs to start benefiting from progress in liberalization, in recognition of the fact that the ‘Single Undertaking’ would take longer than expected. See ICTSD, 2010.

3 Including the development dimension of the EPAs, with definitions of “substantially all trade” and “most favoured nation”, export taxes, regional integration, quantitative restrictions, special agricultural safeguards, a rendezvous clause and rules of origin.

4 Defined in chapter 5.

5 This subsection borrows heavily from Páez, Karingi, Kimenyi and Paulos, 2010.

6 See AERC, 2010 for detailed information on country studies focusing on Africa-China relations.

7 This has been the case of Angola and Sudan. Similar considerations apply to other resource-endowed countries such as the Republic of Congo (timber) and Zambia (minerals).

8 Figures obtained from UNCTADstat.unctad.org. Date accessed 8/02/2011.

9 en.lighten is a UNEP initiative supported by the GEF Earth Fund, OSRAM GmbH, Phillips Lighting, and the French Environment Energy Management Efficiency Agency (ADEME).

The Role of the State in Economic Transformation in Africa

4

CHAPTER

AFRICA'S HIGH GROWTH rates have not translated into high levels of employment and reductions in poverty, as shown in chapter 2. They are also quite volatile, especially in sub-Saharan Africa. One of the main reasons for these two fundamental issues is the lack of structural economic transformation in many parts of Africa. Such transformation entails a change in an economy from subsistence, through industrialization, to an industrial or even post-industrial society. Transforming African economies from low-income agrarian economies to high-income industrialized economies remains a major development challenge.

To begin with, when most African countries became independent in the 1960s, the dominant approach to development in developing countries was permeated with the basic ideas and concepts proposed by development economists of the 1940s and 1950s. These were based on grand and visionary models of strategy that aimed at achieving structural transformation with a central role for the government in planning and programming. The policy content of these models was informed by the observation that “a less-developed economy was characterized by pervasive market failures”. To correct or avoid market failures, development economists advocated central coordination and allocation of resources (Meier, 2001: 14).

The role of the government was also justified by the belief that the supply of entrepreneurs was limited in these countries, and that major structural changes, rather than marginal adjustments, were needed to effect development.

Thus, the “government of a developmental state¹⁰ was to promote capital accumulation, utilize reserves of surplus labour, undertake policies of deliberate industrialization, relax the foreign exchange constraint through import substitution, and coordinate the allocation of resources through programming and planning”.²

The fundamental requirement of structural transformation in the development process is embodied in the “dual-economy” model and the extension of this model over the years (Lewis, 1954). As is well known, such a model looks at the typical economy of a developing country as composed of two broadly defined sectors: a large rural (traditional or agricultural) sector characterized by low productivity; and a relatively small urban (modern or industrial) sector characterized by high productivity. Among the highly aggregated descriptive features of such a model economy is an asymmetry in production techniques: that the low

Meaningful economic transformation remains a major development challenge in Africa despite increased GDP growth over the last decade.

A proper understanding of the development process of a typical dual economy of a developing country, backed by the accumulating historical evidence on modern growth processes, would show that structural transformation usually takes root in the context of a sustained increase in real per capita incomes over a fairly long period.

productivity sector is labour intensive, relying on an abundant supply of labour and land; while the high productivity sector is capital intensive, relying on labour and capital. The

supply of labour to the modern sector is infinitely elastic at an institutionally fixed wage. In the context of such an economy, development takes place in the form of capital accumulation in the high-productivity sector supported by the migration of labour from the low-productivity sector, implying structural economic transformation.³

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The following analysis looks at economic growth in Africa during 1960–2007, categorized into three sub-periods: 1960–1972, when 26 African countries posted real per capita growth rates equal to, or in excess of, 2 per cent a year (implying a doubling of real per capita in 35 years or less); 1973–2000, when growth collapsed in many African countries; and 2000–2007, when many African countries recorded a growth recovery. In the context of these growth processes, the record of structural transformation during 1970–2007⁴ is reviewed with special reference to the role of the state in promoting economic transformation on the continent. Finally, possible roles for the African state in achieving structural transformation are proposed.

4.1 Economic transformation and sustained economic growth

Stylized facts

AN ECONOMIC STRUCTURE reflects the relative contribution of the different sectors of the economy in terms of production and factor use. Thus, structural transformation can be looked at as the change in the sectoral composition of output (or GDP), and that of the sectoral pattern of the employment of labour, as the economy develops (that is, as real per capita GDP increases). The structural transformation process has been the subject of various empirical studies included in the specialized development literature on the patterns of economic and social development.⁵ In this literature, a structural transformation indicator, such as the GDP or employment share of a sector, is used as a dependent variable to be explained by the level of development (as proxied by real per capita GDP) and total population.

The relationship is usually posited as non-linear in income and population (for example, quadratic).⁶ Focusing on the share of the three production sectors (agriculture, industry and services) in addition to the manufacturing subsector, the results can be summarized in four stylized facts of structural economic transformation.

Over a long period as real per capita GDP increases, it is expected that the share of:

- ▶ agriculture in GDP will decline and reach a minimum when real per capita income reaches about \$9,080 in 1985 chained international prices;

- ▶ industry in GDP will increase and reach a maximum when real per capita income reaches about \$9,930 in 1985 chained international prices;
- ▶ services in GDP will increase and reach a maximum when real per capita income reaches about \$7,282 in 1985 chained international prices; and
- ▶ manufacturing in GDP will increase without necessarily reaching a turning point in terms of real per capita income.

Consider the case of Malaysia, a country that has frequently been compared to a number of African countries in terms of initial conditions, growth performance and development achievements. Malaysia gained independence in the second half of the 1950s with a total population of about 7 million, 75 per cent of whom lived in rural areas. The mainstay of the economy was the primary sector: natural resources (rubber and tin) and agriculture. Society was characterized by sharp cleavages in economic position, religion and languages (not dissimilar from the reality of many African countries). Yet, the “Malaysian growth story can be viewed as a narrative of the structural transformation of a predominant agricultural economy to a more industrialized economy, and then to attempts to transform it further in the latter part of the 1990s towards a knowledge-based economy” (Yusof and Bhattasali, 2008: 30). The story demonstrates, among other things, the vital role that a state can play in transforming a developing economy into a prosperous high middle-income one in a period of about three decades or less.

In 1960, Malaysia had a real per capita income of \$2,195 in 2005 purchasing power parity (PPP) dollars;⁷ by 2007, its real per capita income had reached \$17,891, an average annual rate of increase over the period of 4.6 per cent. The growth process was characterized by very low volatility as evidenced by a low standard deviation of 3.8 percentage points, implying a coefficient of variation of 0.8. Looking at the growth record of this country by sub-periods, the average annual growth rate was 4.9 per cent (with a standard deviation of 4.8 percentage points) during 1960–1972; 4.8 per cent (3.5 percentage points) during 1972–2000; and 3.8 per cent (2.4 percentage points) during

Over a long-term, as real per capita GDP increases, it is expected that the share of agriculture declines and the shares of industry and services increase, reaching turning points at certain levels of per capita income, but that of manufacturing increases without necessarily reaching a turning point.

2000–2007. Such a country is classified as having achieved sustained growth.⁸

The main lesson to be drawn from the Malaysian and other relevant development experiences – such as those of Japan, South Korea and Brazil – is that successful economic transformation was achieved by deliberate state involvement, based as it was on a disciplined planning process aimed at transforming the structure of the economy. The evidence shows that the involvement of the state in this process included not only formulation of relevant development policies, but also creation of the required institutions and provision of the required investment (Yusof and Bhattasali, 2008). Without getting involved in detailed historical accounts, suffice to say that Malaysia’s transformation process was a planned one involving three successive “outline perspective plans” for 1971–1990, 1991–2000 and 2001–2010. The last two were drafted under an overall “2020 Vision”. Each plan was implemented through medium-term plans, each covering five years and each subjected to a medium-term review.

All in all, the country implemented nine 5-year development plans, the last of which was for 2006–2010, when development planning was entrusted to an Economic

Planning Unit in the Prime Minister's Department. The unit also issued guidelines on privatization and later

formulated a master plan aimed at expanding the scope and accelerating the pace of privatization.

Growth and transformation in Africa

Notwithstanding Africa's diversity, it is generally recognized that growth performance in the region during the period since independence in the 1960s and up to the first oil price shock of 1973 was at par with that of other regions (Rodrik, 1999: 68). Using the latest version of per capita GDP in 2005 PPP dollars (Summers, Heston and Aten, 2009), during 1960–1972, 26 African countries registered average annual real per capita GDP growth rates in excess of 2 per cent a year, and 13 countries achieved fast growth in excess of 3.5 per cent a year. During this early period, only 10 countries experienced negative growth rates, while 16 countries recorded positive growth rates of less than 2 per cent.

During 1973–2000, however, economic growth faltered and then declined. Thus 13 countries saw average annual real per capita GDP growth rates in excess of 2 per cent,⁹ and the number of countries recording negative growth rates almost doubled to 18. The remainder of the 22 countries recorded positive growth rates of less than 2 per cent, and 16 of them less than 1 per cent.

African growth improved in 2000–2007. Twenty-five countries experienced average annual real per capita GDP growth rates in excess of 2 per cent, but 14 countries recorded negative growth rates; another 14 countries recorded positive growth rates of less than 2 per cent, and six of them less than 1 per cent.

Over the entire period 1960–2007, 16 African countries (accounting for about 18 per cent of Africa's population) had average annual real per capita GDP growth rates in excess of 2 per cent; 11 countries (accounting for 15 per cent of the continent's population) recorded negative growth rates; and 26 countries recorded positive growth rates of less than 2 per cent, and 12 of them less than 1 per cent.

Among the major features of the African growth processes, especially those of sub-Saharan Africa, is their relatively high volatility. Measuring volatility by the coefficient of variation (that is, the ratio of the standard deviation to the absolute value of the mean of the per capita GDP growth rates), and using a value of one or less as a benchmark for very low volatility (as in the case of Malaysia), it is found that none of the growth processes of the African countries was characterized by very low volatility over the entire period 1960–2007. Low volatility, which is defined as a coefficient of variation of greater than one but less than three, was recorded for 12 countries. The lowest volatility was recorded for Botswana, with a coefficient of variation of 1.1 (table 4.1).

Moderate volatility, defined as a coefficient of variation of three but less than six, was recorded for 16 countries; high volatility, defined as a coefficient of variation of six but less than ten, was recorded for 13 countries; and very high volatility, defined as a coefficient of variation of 10 and greater, was recorded for the remaining 12 countries, with the highest volatility recorded for Zambia with a coefficient of variation of about 70 (resulting from an average growth rate of real per capita GDP of 0.15 per cent a year and a standard deviation of 10.46).

Among the major features of the African growth processes, especially those of sub-Saharan Africa, is their relatively high volatility.

Table 4.1**Growth and volatility in Africa, 1960–2007**

Volatility (coefficient of variation)	Average annual real per capita GDP growth rates (%)			
	Less than 0	0–1	1–2	2+
Low (1–3)			Tanzania, United Rep. of (2.8; 1.5) South Africa (1.5; 1.5)	Botswana (1.1; 5.5) Cape Verde (2.0; 3.2) Egypt (1.6; 3.2) Equatorial Guinea (2.8; 8.4) Lesotho (2.5; 2.9) Mauritius (2.1; 3.2) Morocco; (2.1; 2.8) Seychelles (2.1; 4.0) Swaziland (2.8; 3.5) Tunisia (1.2; 3.4)
Moderate (3–6)	Central African Rep. (4.4; -1.0) Congo, Dem. Rep. of (3.4; -2.6) Somalia (4.7; -1.6)		Benin (3.7; 1.2) Burkina Faso (5.1; 1.2) Mali (4.9; 1.3) Mozambique (3.7; 1.7) Namibia (4.0; 1.1) Nigeria (4.9; 1.8) Sudan (4.3; 1.9)	Angola (5.3; 2.1) Congo (3.9; 2.8) Gabon (4.0; 2.2) Ghana (5.4; 2.9) Malawi (4.4; 2.0) Mauritania (4.2; 2.6)
High (6–10)	Djibouti (6.5; -1.5) Niger (7.8; -0.7) Senegal (9.7; -0.4)	Cameroon (6.6; 0.8) Comoros (6.5; 0.7) Côte d'Ivoire (7.5; 0.7) Kenya (9.7; 0.4) Uganda (8.2; 0.6).	Algeria (7; 1.2) Chad (8.0; 1.2) Eritrea (6.3; 1.3) Ethiopia (7.1; 1.0) Guinea-Bissau (7.9; 1.6)	
Very High (10+)	Liberia (13.8; -1.6) Libyan Arab Jamahiriya (10.7; -1.1) Madagascar (57.6; -0.2) Sao Tome and Principe (27.0; -0.3) Zimbabwe (20.6; -0.5)	Burundi (20.7; 0.3) Gambia (34.1; 0.2) Guinea (17.2; 0.2) Rwanda (26.0; 0.5) Sierra Leone (19.3; 0.4) Togo (24.1; 0.2) Zambia (69.7; 0.2).		

Source: Calculations by UNECA based on World Bank, *World Development Indicators* (2010)

Note: The first entry in parentheses is the coefficient of variation (the ratio of the standard deviation to the absolute value of the average annual growth rate); the second entry is the average annual per capita GDP growth rate as a percentage.

Based on table 4.1, a sustained growth process may be defined as one that requires an average annual real per capita GDP growth of 2 per cent or more over the period 1960–2007, maintained for each of the three sub-periods (1960–1972, 1973–2000 and 2000–2007), with low volatility for the entire period, where low volatility may be defined by a coefficient of variation for the growth rates of one to less than three. Using this definition of sustainability, only six African countries recorded sustained growth over the period in question: Botswana (with an average annual real per capita GDP growth rate of about 5.5 per cent and a standard deviation of about 6.2 percentage points); Cape Verde (3.2 per cent and 6.4 percentage points); Egypt (3.2 per cent and 5.2 percentage points); Equatorial Guinea (8.4 per cent and 23.6 percentage points); Lesotho (2.9 per cent and 7.4 percentage points); and Tunisia (3.4 per cent and 4.3 percentage points).

Combining the sustainability and volatility of the African growth processes, a sustained, low volatility growth country will be classified as having achieved a *classical structural transformation* of its economy during 1970–2007 if the respective GDP shares of the three sectors of agriculture, industry and services, and of the manufacturing subsector, obey the stylized paths of structural transformation as real per capita GDP increases. According to

Africa's average growth improved notably since the turn of the 21st century.

Two countries of the sustained growth group, Botswana and Egypt, suffered from an incomplete manufacturing transformation in the sense that, despite the classical trend in the GDP shares of the three major production sectors, they saw the share of the manufacturing subsector decline over the period in question.

the available information, only one African country, out of the six countries that achieved sustained growth over the period since 1960, was able to satisfy the requirements of a classical structural transformation during 1970–2007—Tunisia.

Two countries of the sustained growth group, Botswana and Egypt, suffered from an incomplete manufacturing transformation in the sense that, despite the classical trend in the GDP shares of the three major production sectors, they saw the share of the manufacturing subsector decline over the period in question. Egypt's experience is significant because in 1970 the share of the manufacturing subsector was about 22 per cent of GDP, which could have classified it as an industrialized country, but this declined to about 17 per cent of GDP in 2007. Lesotho also experienced an incomplete transformation in terms of the decline of the share of the services sector.

The experience of the remaining two countries in this group of sustained growth was more of distortion rather than incompleteness: Cape Verde's transformation saw

the domination of the services sector, which increased up to 73 per cent of GDP by 2007; while that of Equatorial Guinea saw the domination of the extractive, oil sector, which accounted for about 92 per cent of GDP by 2007.

A more relaxed definition of a sustained African growth process would require maintaining an average annual real per capita GDP growth rate of 2 per cent or more for the entire period, as well as for two sub-periods, and a positive annual rate of growth for the third sub-period; together with low volatility for the entire period. Such a relaxed definition adds four countries: Mauritius (with an average annual real per capita GDP growth rate of 0.46 per cent in 1960–1972); Morocco (1.54 per cent in 1972–2000); Seychelles (0.23 per cent in 2000–2007); and Swaziland (1.36 per cent in 2000–2007).

With the exception of Mauritius and Swaziland, it is clear that the sustained growth processes in Morocco and Seychelles were interrupted during the lost decades, 1972–2000. Over the period 1970–2007, the following transformation pattern was recorded for this additional group: Mauritius recorded a classical transformation pattern; Morocco recorded an incomplete manufacturing transformation in the sense that despite the classical trend in the GDP shares of the three major production sectors it saw the share of the manufacturing subsector decline; and Seychelles and Swaziland each recorded an incomplete transformation in terms of the decline of the share of the services sector.

Further analysis shows six countries that recorded average annual real per capita GDP growth in excess of 2 per cent a year, albeit with a record of moderate volatility. Four of the countries in this group (Angola, Republic of Congo, Gabon and Ghana) recorded a distorted pattern of transformation in which the trend in the shares of agriculture and industry conformed to the requirements of classical transformation but that of the services sector and the manufacturing subsector did not conform. The evidence shows that the increased share of industry in these countries was due to the extractive subsector (that is, a resource endowments effect) and that by 2007, the share of the manufacturing subsector had declined to less than 10 per cent of GDP. The record of transformation in Malawi and Mauritania was a distorted one where the

share of the industrial sector declined (albeit marginally) and where the share of the services sector increased notably (especially in Malawi).

In light of the preceding evidence, and excluding the 11 countries that recorded negative growth rates, the evidence shows that the story of economic transformation in the remaining 26 countries of the continent, which achieved positive, but less than 2 per cent, average annual real per capita GDP growth over the period since independence and up to 2007 was one of incomplete transformation (mainly due to the influence of resource endowments), and distorted transformation (mainly due to the failure of the modern industrial sector, and especially the manufacturing subsector, to play its expected role in creating employment).

Lack of meaningful structural transformation is linked to Africa's low level of exports and of overall economic diversification. UNECA (2007) shows that African economies exhibit very low levels of diversification, with very little change during 1980–2005. It discerns four phases.

The first phase appears to have ended around 1982 and was characterized by progress with diversification. Despite the adverse effects of the economic crises that African economies were experiencing at this time, the diversification efforts during the 1970s were beginning to yield positive results in the early 1980s. However, those positive diversification gains did not last. The escalation of the economic crises in the first half of the 1980s and the structural adjustment measures instituted to deal with them had negative impacts, leading to the second phase of 1982–1991. Over these 10 years, the diversification gains that had been achieved earlier were reversed (UNECA, 2007:116–117).

Key lessons

From independence to 2007 only a few African countries managed to structurally transform their economies in the classical manner. The specialized literature on Africa's development does not have much to say about the possible causes of the failure of the transformation process. One conjecture is that, soon after independence, the emerging, fragile African state was bombarded with a litany of development strategies. Nine such strategies have been

The African diversification experience has been volatile, with no discernible and general sustainable movements towards deepening diversification.

The third distinct phase of African efforts toward diversification started in 1992. The macroeconomic stabilization policies of the 1980s may have contributed to this positive development. Unfortunately, the gains registered were fragile as the improvement in the diversification index lasted only up to 1998. Since then, in a fourth phase, African economies have become more concentrated, considering the upward trend of the diversification index from 1998 to 2002. This trend needs to be reversed for the continent to trade its way out of the challenges it currently faces.

As the preceding analysis on economic transformation shows, the African diversification experience has been volatile, with no discernible distinct and general trend. African economies have been unable to register any sustainable movements towards deepening diversification. The periods when diversification deepened were quite fragile and short-lived, an indication that fundamentals to support such deepening were not in place.¹⁰

enumerated, some of them overlapping chronologically: commercialization through cash cropping (before independence and up to 1979); community development, integrated rural development and participatory development (1955–1973); regional integration for industry and national self-sufficiency for food (1970–1979); basic human needs (1970–1979); regional integration, food first (1973–1989); supply shifters in agriculture (1973–1989); first-generation

The proliferation of numerous development strategies derailed the structural transformation efforts of the post-independence African state.

structural adjustment on demand management (1980–1984); second-generation structural adjustment on equity with growth (1985–1999); and sustainable development (1990 to the present).¹¹

The proliferation of such strategies derailed the structural transformation efforts of the emerging African state. Significantly, “the basic design and mode of implementation of all these paradigms come from outside Africa, even though each paradigm undoubtedly has had genuine African adherents. It is hard to think of other significant regions of the world in modern times where outside influences on basic development strategy issues have been so pervasive” (Delgado, 1995: 4).

The result is that many African countries have failed to undergo an industrialization process. After independence,

they often attempted to reproduce the developed world’s advanced industries—when their per capita incomes were only a very small fraction of those in high-income countries—viewing them as a symbol of their freedom, a sign of strength and an international political statement. For the replicated model to have been successful, governments should have targeted mature industries in countries not too far ahead of their own per capita incomes.

Further, many countries failed to emphasize the importance of competitive advantage in the choice of target industries. Indeed, African countries are still mainly characterized by the abundance of labour, and by targeting industries from countries many times richer, they generally implemented a capital-intensive, heavily industry-oriented development strategy. They could not therefore build firms capable of surviving in open, competitive markets because of their high capital needs and their structurally high production costs. For these interventions to have been sustainable, governments should have carried out policies to help develop new industries in a way consistent with the country’s latent competitive advantage, as determined by the endowment structure.

The foregoing discussion raises a number of questions regarding how can African countries draw lessons from failures and successes in Africa and elsewhere? and what approaches are relevant for contemporary African governments as they redefine their role in pursuing structural economic transformation?

4.2 The role of the state in promoting economic transformation in Africa

THE EXPERIENCES OF successful countries in Asia, Latin America, Africa and elsewhere present two important aspects of effective economic transformation processes. The first is that there are discernible common characteristics in the patterns of structural change and economic development processes in general, and industrialization and diversification in particular. The second and overarching feature is that the state plays a central role in guiding and promoting successful economic transformation.

Developing infrastructure, attracting foreign resources, and increasing productivity are important elements of successful transformation, as are strong and functional institutions. However, many African countries suffer severe infrastructure deficiencies, especially energy infrastructure. The pre-crisis progress that some countries made in attracting foreign funds was largely led by capital accumulation due to raw commodity exports, development assistance and FDI, instead of factor productivity. The last point is crucial, because productivity differences

among countries are the dominant explanation for income differences, and not capital accumulation.

Although interventions varied among countries, past successful experiences show that the patterns of industrial development were similar. They all started from labour-intensive industries in the early stage of development, including garments, textiles, toys and electronics, and moved up the industrial ladder step by step to more capital-intensive industries, including ship-building and automobile manufacturing.

Institutions are important because of the key roles they play in facilitating private investment and capital flows and their impact on economic growth and the business environment generally, including the quality of public infrastructure, the policy environment, political stability, labour costs and stability of prices and the exchange rate (UNECA, 2006). Hence, as is well known, successful economic transformation requires such institutions as a good constitution, the rule of law, an independent judiciary, representative political institutions, effective central banks and other regulatory bodies, and effective laws, especially in enforcing property rights (Nnadozie, 2009).

There is strong and ample evidence that today's advanced economies relied on government intervention to "ignite and facilitate their take-off and catch-up process" (Lin and Monga, 2010:8). "All European countries trying to catch up with Britain devoted efforts to technology policy" and "in all advanced economies, government supported the acquisition of foreign technology..." (Lin and Monga, 2010:8-9).

The central role of the state in economic transformation may require a "developmental state" approach.¹² Evidence

Planning the development process

Development economists of the 1940s and 1950s noted that the state has a central role to play in the structural transformation of the economies of developing countries. The refrain often repeated over the past 70 years—to always recognize the changes in the global economic system—should not undermine this simple proposition.

Government policy to facilitate industrial upgrading and diversification must be anchored on industries with latent competitive advantage.

provided by numerous studies indicates that Japan, Korea, Malaysia and Singapore achieved deep structural economic transformation and sustained growth over three decades largely through a disciplined planning approach. Most African countries failed to achieve sustained economic growth, and as such, did not achieve significant structural transformation of their economies, and the challenge of meaningful development persists.

Governments have to be better at identifying good criteria to determine the industries appropriate to their endowment structure and level of development. The government's policy to facilitate industrial upgrading and diversification must be anchored on industries with latent competitive advantage so that, once the new industries are established, they can quickly become competitive domestically and internationally.

For African states to effectively transform their economies, they need to plan the process; formulating relevant economic and social development strategies and policies; and implement the plans and policies.

The accent on planning, though non-conventional in the context of recent years' focus on the efficacy of market mechanisms, is recognition that the whole world lives in "planned economies" (Chang, 2010:199-209). Indeed, it is easy to forget that the "planning" approach to structural transformation in developing countries was so demonized that it led to the dismantling of almost all ministries of

The “planning” approach to structural transformation in developing countries was so demonized that it led to the dismantling of almost all ministries of planning in developing countries.

planning in developing countries as part of the conditionality imposed on these countries under structural adjustment programmes (SAPs) of the 1980s and 1990s. To be sure, under SAPs the emphasis was on managing African countries from the perspective of achieving short-term financial balances, not on achieving long-term transformation and development.

Such emphasis, it was thought, would ensure the optimal allocation of resources and would thus result in economic growth. In the face of accumulating evidence of the failure of SAPs to achieve the promised growth by unleashing market forces in developing countries, especially African, both the language and substantive content of the planning approach to development have been reluctantly rehabilitated, as seen in three “encouraging signs”.

Development frameworks

A first encouraging sign is the increasing recognition that developing countries need development “frameworks” rather than narrow “models”. In 1999, the President of the World Bank at the time, James Wolfensohn, outlined an initiative called the Comprehensive Development Framework. This framework aims to enhance development partners’ effectiveness in bringing about desired development outcomes. It is “an approach by which countries can achieve more effective poverty reduction. It emphasizes the interdependence of all elements of development social, structural, human, governance, environmental, economic and financial” (World Bank 2000). The framework has four major principles: long-term, holistic development framework; country ownership of development programmes

and policies; country-led partnership among various stakeholders; and results orientation.

Ten years after the CDF, in June 2009, the Senior Vice President and Chief Economist of the World Bank, Justin Y. Lin, produced a “framework for rethinking development” (Lin, 2010) or “new structural economic framework”. The basic ideas are based on the results of the *Growth Report: Strategies for Sustainable Growth and Inclusive Development*, authored by the Commission on Growth and Development.¹³ The report looked at the experience of high-growth economies since 1950: a sample of 13 countries which achieved an average annual rate of GDP growth of 7 per cent or more for 25 years or longer.¹⁴ It identified four common features of the growth processes that had given rise to such success: strategic integration with the world economy; mobility of resources, particularly labour; high savings and investment rates; and capable governments committed to growth.¹⁵

As underlined in the Growth Report, the proposed “new structural economic framework” is neoclassical in nature, emphasizing that the development of countries depends on their competitive advantage along a continuum of development from “a low-income agrarian economy to a high-income industrialized economy”. Along this continuum, an economy’s structure of factor endowments evolves, requiring corresponding infrastructure to facilitate its operations and transactions. The evolution of the economic structure, in turn, depends on “industrial up-grading”. In this development evolution, the market is seen as the “basic mechanism for effective resource allocation; but, since industrial up-grading entails large externalities to a firm’s costs and returns to capital investment, there is a need for the government to play an active role in facilitating industrial up-grading and improvement in infrastructure”.¹⁶

Development strategies

A second encouraging sign is that the discourse on development is now full of frequent references to the need for countries to design development strategies. In December 1999, the World Bank and the IMF “introduced a new approach to their relations with low-income countries, centred on the development and implementation of poverty reduction strategies (PRS) by countries as a precondition

for access to debt relief and concessional financing from both institutions” (Development Committee, 2005:1). It argued that a poverty reduction strategy paper (PRSP) had to be prepared, in collaboration with external partners if the need arose, but it was owned by the countries.

The core elements of a PRSP may be summarized in the following: a documentation of the participatory process invoked by the country to solidify the ownership of the development programme; a detailed diagnosis of the state of poverty in the country including both money metric dimensions, broader capability deprivation dimensions and dimensions gleaned from participatory poverty assessments; a rigorous identification and setting of medium- and long-term goals for poverty reduction with relevant and realistic indicators of progress inclusive of annual and medium-term targets; and a clear specification of appropriate and feasible priorities for public actions.¹⁷

A close review of the poverty reduction strategies of African countries indicates that PRSPs are planning documents complete with an overarching objective to be achieved and a medium-term public expenditure framework. Thus the PRSP process could be taken as a recognition, albeit grudgingly and belatedly, of the need for formulation of relevant development plans for developing poor countries in general, and countries in Africa in particular.

Central to the PRSPs endorsed by many Africa countries are the stability of the macroeconomic framework; the appropriate choice of fiscal policies and the adequacy and credibility of the financing plan of the development programme; the suitability of the structural and sectoral policies and of the policies for social inclusion and equity; and the directions of improvements in governance and public sector management. All of these requirements are also central in the conventional planning approach.

The World Bank also devised a strategy for “creating shared growth in Africa” (World Bank, 2005). It took shared growth to mean growth that creates benefits throughout society, including the poor, those living in more remote rural areas, women and youth. This is not an automatic process of “trickle down. Indeed, evidence shows that in order for governments to effectively promote

A close review of the poverty reduction strategies of African countries indicates that PRSPs are planning documents complete with an overarching objective to be achieved and a medium-term public expenditure framework.

fast pro-poor growth, “it is not enough simply to assume that everyone will eventually gain if the economy continues to grow” (Nankani, 2005:2). More specific strategies and measures are needed to empower the poor and vulnerable groups in order to participate in the growth process and benefit from increased aggregate income through, for example, targeted employment measures and social protection programmes.

Development plans

A third encouraging sign is that these development frameworks and strategies imply the need for development plans in the conventional sense. Such a conclusion is confirmed by the observation that in September 2000 the world community at the United Nations Millennium Summit agreed on seven substantive MDGs and an eighth goal on a global partnership for development. Each goal has quantitative indicators to gauge progress.

Seven of the eight MDGs, it can be argued, revolve around the overarching development objective of poverty reduction. The first goal is formulated on the basis of the conventional money metric approach to poverty, the following six on the basis of the “capability approach” to defining poverty and deprivation.¹⁸ All goals are to be achieved over a long term of 25 years, with phased stages and a review of progress every five years.

The 37th Summit of the OAU, held in July 2001, formally adopted the strategic framework Document of the NEPAD programme of the African Union, which marked the beginning of an “autocentric” approach to development, in which Africans were to be in the driver’s seat.

In 2001, following the launch of the MDGs and several declarations on peace and security, democracy and good political and economic governance, African heads of state and government launched a New Partnership for Africa’s Development (NEPAD). NEPAD was initiated by the heads of state of Algeria, Egypt, Nigeria, Senegal and South Africa on a mandate from the Organization of African Unity (OAU). The 37th Summit of the OAU, held in July 2001, formally adopted the strategic framework document. NEPAD

Formulating relevant development policies

In the early years of the post-independence development experience of African countries, from about 1960 to the mid-1970s, development policy centred on social equity mechanisms, including public expenditure on health and education, food price subsidies, agricultural input price subsidies and other social transfers and public employment. From the mid-1970s to the end of the 1990s, SAPs labelled such policies “poor” economic policies. The principal components of the SAPs’ so-called “good” economic policies²⁰ included an anti-industrial policy stance; liberalization of agricultural markets; financial liberalization; opening-up of economies and the liberalization of trade

is now a programme of the African Union, the successor organization to the OAU. Its launch marked the beginning of an “autocentric” approach to development, in which Africans were to be in the driver’s seat.

NEPAD is a programme of partnership of the African Union, designed to eradicate poverty and underdevelopment in Africa, while uplifting the lives of African people, reducing their marginalization and increasing their role in the global community. The partnership programme calls for Africans to take ownership of and responsibility for Africa’s development through partnerships among various segments of the society and with the rest of the world. An important programme of NEPAD is the African Peer Review Mechanism, designed to strengthen political, economic and social institutions and good governance in participating countries.¹⁹

In support of the African Union and its NEPAD programme, UNECA, which has long advocated a more central role for the state in the development process, continued to provide technical support to these African development initiatives, working closely with the African Union Commission. UNECA was instrumental in creating the Lagos Plan of Action and prepared the African Alternative Framework to Structural Adjustment Programmes for Economic Recovery and Transformation, which emphasized the need for the state to play a leading role in economic transformation and exemplified Africa’s attempt to own and drive its development process.

regimes; allocation of budget resources to education on the basis of the rate of return; and administrative reforms to enable technocrats to initiate and implement market-based economic reforms.

After wasting two decades on experimentation with these “good” policies of the SAP variety, the donor community is now increasingly prepared to accept that what it dubbed “poor” economic policies do, after all, constitute relevant development policies for Africa (especially sub-Saharan Africa). One example of this is a remarkable observation by the Commission for Africa: the “decades in which

Asia was investing, the 1970s and 1980s, were the years of crisis when African governments were slashing the budgets of both clinics and schools at the behest of the International Monetary Fund. Evidence shows that IMF and World Bank economic policy in the 1980s and early 1990s took little account of how these policies would potentially impact on the poor in Africa” (Commission for Africa, 2005:20).

More important from a development policy perspective is that the Commission recommended, among other things, that primary school fees be abolished throughout Africa; donor countries and international financial institutions must change their policies to allow recurrent expenditure—including teachers’ salaries—to be paid for from aid; salaries of health workers should be increased to ensure staff are not wooed from their jobs; rich nations should support the removal of fees for basic healthcare and basic healthcare should be free for poor people; and African governments must take measures to give poor people, particularly women, access to land and secure property rights (Commission for Africa, 2005:20).

Another example of the donor community’s growing willingness to consider relevant development policies is provided by the World Bank (2006). After de-emphasizing the importance of equity issues in the development process, the World Development Report of 2006 addressed the issue of equity and development in a direct fashion. Its main message was that “equity is complementary, in some fundamental respects, to the pursuit of long-term prosperity. Greater equity is thus doubly good for poverty reduction: through potential beneficial effects on aggregate long-run development and through greater opportunities for poorer groups within any society” (World Bank, 2006:2).

The complementarity between equity and prosperity is explained in terms of the pervasive market failures (as for credit, insurance, land and human capital), in developing economies and the fact “that high levels of economic and political inequality tend to lead to economic institutions and social arrangements that systematically favour the interests of those with more influence” (World Bank, 2006:2).

The *World Development Report* also noted that an “equity lens adds three new—or at least often neglected—perspectives to development policy making: first, the best policies for poverty reduction could involve redistributions of influence, advantage, or subsidies away from dominant groups; second, while such equity-enhancing redistributions can often be efficiency-increasing, possible trade-offs need to be assessed in the design of policy; and third, the dichotomy between policies for growth and policies specifically aimed at equity is false” (World Bank, 2006:10).

The same World Bank publication identified three areas of public policy interventions from an equity focus: investment in human capacity (early childhood development; schooling; health, safety nets and taxes for equity); expanding access to justice (building equitable justice systems), land (greater equity in access to land), and infrastructure (equitable provision of infrastructure); and promoting fairness in markets (financial, labour and products). Despite this belated recognition of the role of the state in formulating relevant development policy, when discussing “greater equity in access to land”, the report was quick to note that broader “access to land does not necessarily have to come through ownership”, expressing a preference for working through the land market. Similarly, for the equitable provision of infrastructure, it is admitted that while “the public sector will in many cases remain the main source of funds for infrastructure investments aimed at broadening opportunities for those who have the fewest, the efficiency of the private sector can also be harnessed”.

Countries that have succeeded in unleashing high growth rates and social development are not the ones that implemented the prescriptions of the Washington Consensus.

A more telling example of the tolerance of the donor community of the role that the state can play in the formulation of relevant, albeit interventionist, development policies was the praise heaped by Africa's development partners on the 2005 Malawi subsidy policy for fertilizer and highyielding seeds.

A more telling example of the tolerance of the donor community of the role that the state can play in the formulation of relevant, albeit interventionist, development policies was the praise heaped by Africa's development partners on the 2005 Malawi subsidy policy for fertilizer and high-yielding seeds. The story as told by Fleshman (2008: 12) unfolds as follows: in "2005 the Government of Malawi began subsidizing fertilizers and high-yielding seeds for Malawi's smallholders. The action cut fertilizer prices by 80 per cent and slashed the cost of hybrid maize seeds from 600 kwacha per bag to 30". Fleshman (2008: 12) notes that the impact was dramatic: "the following year Malawi's maize harvest more than doubled, to 2.7 million tonnes. It rose again in 2007 to 3.4 million tonnes—enough to feed the nation and sell 400,000 tonnes to the UN's World Food Programme and hundreds of thousands of tonnes to neighbouring countries, generating \$120 million in sales". In technical terms, the subsidy scheme showed that, other things remaining the same, a reduction in the price of the fertilizer input of 80 per cent gave rise to an increase in output of more than hundred per cent meaning an elasticity of about 1.3 in one year, an impressive achievement by all standards.

Implementing plans and policies

It is evident that the state in various developing countries does have a role in implementing the development plans and policies aimed at structural transformation. Such a role is closely related to the capacity of the state to establish and enforce rules that guide or regulate societal behaviour; to manage its own personnel and resources to ensure accountability and efficiency in service delivery; to make technical decisions and implement them; and to raise the revenues needed for achievement of the development goals.²¹

At independence in the late 1950s and early 1960s, most African countries were born as nation states that had inherited colonial Western administrations. But for effecting development, and especially engineering a structural transformation, they and their institutions were soon discovered to have been born as weak structures. It is this colonial legacy that eventually triggered a huge literature on the history and circumstances of the birth of

weak African states unfit to discharge the responsibility of development.²²

The capacity of the African state was further weakened during the two lost development decades of the SAPs. Under the SAPs, the state was blamed for virtually all economic ills and public servants were often characterized as incompetent, lacking in capacity, and exhibiting proclivity for rent-seeking activities. The policy direction was massive retrenchment, combined with a large number of foreign advisers, consultants and representatives of multilateral agencies who took over key policy-analysis and policy-making institutions in many African states. The result, if anything, was further demoralization and disillusionment. "How anybody expected the remaining civil servants to be committed to implementing policies mostly designed in Washington beats the imagination" (Mkandawire and Soludo, 1999:135).

Despite the weakening of the capacity of the African state over time there is increasing recognition that the state is indispensable in matters of implementing development plans and policies. Such recognition is already alluded to in the context of the CDF: three of its four principles are “country ownership of development programmes and policies; country-led partnership among various stakeholders; and a results orientation” (World Bank, 2000).

One important instance of such recognition relates to the creation of a hospitable investment climate to attract private investment, a central policy component of SAPs. After listing the various actions undertaken under SAPs to reform the African governments, Ndulu (2007: 158), who was at the time a senior World Bank Economist, noted that what was “clear in hindsight is the lack of emphasis on the important enabling role the government can and must play in encouraging private investment. Given the African experience of weak public institutions, developing a strong positive role of government that will reduce market failures and avoid government failure will be a difficult, but necessary, task in most countries”.

Another important instance of the recognition of the role of the state in implementing plans and policies relates to the provision of funds for investment in infrastructure (noted in the preceding subsection). The *World Development Report* of 2006 admitted that “the public sector will in many cases remain the main source of funds for infrastructure investments”. Similarly, a recent study

The capacity of the African state was further weakened during the two lost development decades of the SAPs. Under the SAPs, the state was blamed for virtually all economic ills and public servants were often characterized as incompetent, lacking in capacity, and exhibiting proclivity for rent-seeking activities.

from the World Bank states that the “public sector has to play a much larger role in financing infrastructure than envisaged in the past two decades. Despite the changes that have taken place since the 1990s, the domestic public sector remains the most dominant source of financing for infrastructure in the developing world accounting for 70 per cent of current infrastructure spending” (Ndulu, 2007: 160).

4.3 Conclusions

HOW TO PROMOTE high-level, sustained, inclusive and clean economic growth has been a main focus of African countries for decades. Indeed, for Africa, one of the key lessons of the recent global crisis is the need to have a diversified economy that can create decent jobs, create wealth and reduce poverty—hence economic transformation. It will also enable African countries to withstand external shocks better and improve their trade position. But with few exceptions, African countries have not made a meaningful economic transformation, largely because state leadership has been lacking or ineffective.

The analysis in this chapter confirms earlier results in the specialized development literature: since independence, nearly all African countries failed to achieve sustained economic growth and meaningful structural economic transformation. An award-winning book has classified 39 African countries, all belonging to sub-Saharan Africa, as members of a bottom billion club of countries whose central problem is that “they have not grown”.²³

In a subsequent book, Collier (2009) described the societies of the bottom billion as structurally insecure and structurally unaccountable. Security and accountability

are understood as public goods that are not supplied optimally in such societies: they are undersupplied. Thus, the structural problem of these societies is then identified as that “they are too large to be nations and too small to be states. Too large, because they lack the cohesion needed for collective action. Too small, because they lack the scale needed to produce public goods efficiently” (Collier, 2009:229). The author then makes a controversial case for the international community to provide these basic needs, largely understood as the advanced countries.

The case for intervention by the international community to help the African poor should be contrasted with Africa’s own initiative for expressing similar concerns about development and governance. This initiative is NEPAD. NEPAD is a vision and a strategic framework for Africa’s renewal with the primary objectives of eradication of poverty; achievement of sustainable growth and development; and halting of the marginalization of the continent in the global economy. Alongside this is the emphasis by the African Union on the need to intensify regional integration in Africa through the regional economic communities as a way to address the problem of fragmentation and the issues related to economies of scale.

How to promote high-level, sustained, inclusive and clean economic growth has been a main focus of African countries for decades. Indeed, for Africa, one of the key lessons of the recent global crisis is the need to have a diversified economy that can create decent jobs, create wealth and reduce poverty.

Modern economic growth theories point out that a process of continuous technological innovation, industrial upgrading and diversification, and improvements in the various types of infrastructure and institutional arrangements constitute the context for business development and wealth creation—summed up as structural economic transformation. However, market mechanisms may not be sufficient and the government has a potential role to play in helping firms.

What is certain is that, as with the development experience of successful growth countries, the state has a key role to play in economic diversification and structural transformation in Africa. Indeed, the historical evidence shows that all countries that have successfully transformed from agrarian economies to modern advanced economies had governments that played a proactive role in assisting individual firms in the process of structural transformation.

It is therefore important for the state that is accountable and responsive to the needs of its population to assume its developmental responsibility and guide sustainable social and economic development in African countries. The key questions are: How can such a developmental state emerge? What are its characteristics and functions? How do we ensure that it can effectively guide economic transformation and development? How can we ensure that it is accountable and that it acts in the interest of its citizen? These questions are dealt with in the next chapter.

Yet state-guided transformation requires governments to identify good criteria for determining which industries are appropriate for a country’s endowment structure and level of development. Successful state-guided industrial policy often involves developing countries in targeting industries in countries with an endowment structure similar to theirs and with a level of development not much more advanced than theirs. These are industries in which they have competitive advantage and in which they can quickly become competitive domestically and internationally. Certainly, a whole range of conditions and factors, including knowledge and innovation, human capital, institutions, infrastructure and policies, including fiscal, monetary, exchange rate, capital flows and trade policies, are important for such policies to succeed.

Advocating a stronger role for the state in development should neither be seen in terms of the old and tired debate of state versus the market nor should it be understood that the private sector should not remain the engine of economic growth. This is because the issue is not whether the state—like the market or the private sector for that matter—should play a role in economic transformation and development but rather how to construct developmental states in Africa and how to strengthen their capacity and accountability to design and implement more effective development strategies and policies. To be sure, the experience of many emerging economies' success stories in Africa and elsewhere provides valuable lessons, but the experience of one country or region cannot simply be transplanted or replicated in another.

It is important for the state that is accountable and responsive to the needs of its population to assume its developmental responsibility and guide sustainable social and economic transformation in African countries.

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Notes

- 1 "Developmental state" is defined in chapter 5.
- 2 Meier (2001: 14-15). Classical examples of development ideas and concepts based on visionary models of development include the "vicious circle of poverty", the "big push" and the "critical minimum effort", and the "low-level equilibrium trap". Almost all of these are currently being rediscovered albeit in mathematical formulation.
- 3 For the most recent deployment of such a concept of structural transformation see UNCTAD (2010).
- 4 The data used for the GDP shares of the various sectors are from the National Accounts Main Aggregates Database of the UN-DESA Statistical Division (<http://unstats.un.org/unsd>) as compiled and reported by UNCTAD.
- 5 These results are from Ndulu and O'Connell (2000). Pioneering in this respect are Chenery and Syrquin (1975); Syrquin and Chenery (1989a and 1989b).
- 6 Other transformation indicators include a host of variables relating to trade (composition of exports and imports); labor employment (e.g. share of agricultural employment in total); labor productivity; final demand (e.g. consumption and investment); and, social indicators (e.g. fertility and life expectancy).
- 7 This is based on a new data set on real GDP per capita using 2005 PPP dollars, see Summers, Heston and Aten (2009).
- 8 The definition of sustained economic growth adopted by the Commission on Growth and Development (2008) is a real GDP growth rate of 7 per cent a year or more for 25 years or longer. Only 13 countries are identified as belonging to this high and sustained growth group.
- 9 Eritrea is not included in this list; it recorded a growth rate of 3.84 per cent.
- 10 This section is extracted from UNECA (2007:116).
- 11 Delgado (1995:4-15). Note that the list is meant to be that of "paradigms" which "symbolize the body of beliefs on how the process of agricultural development works and how it can best be promoted", in contrast to "strategies" which refer to programmatic approaches to achieving a set of goals (Delgado, 1995:1). However, in the discussion that ensued the distinction became less useful.
- 12 Discussed further in chapter 5.
- 13 Commission of Growth and Development (2008). The Commission on Growth and Development, composed of 21 members, was established by the World Bank and started its work in 2006. The Commission has 15 members from developing countries, three from advanced countries, two academics, and one member from the World Bank.
- 14 The 13 successful, high-growth economies included Botswana from sub-Saharan Africa, Oman from the Middle East, Brazil from Latin America, and Malta from Europe. The rest are from Asia including Japan and China.
- 15 For details see Commission on Growth and Development (2008:17-31)
- 16 Ibid.
- 17 See, for example, IMF and IDA (2001). Currently, 49 countries have prepared national PRSPs. Half of them are in sub-Saharan Africa.
- 18 A broader approach to development and deprivation pioneered by Sen (1999).
- 19 See, for instance, Nnadozie and Abdulmelik (2008) and Nnadozie (2009).
- 20 See, for example, Mkandawire and Soludo (1999); and Chang (2003).
- 21 See the extensive discussion of the African state in Mkandawire and Soludo (1999).
- 22 For a selection of references in such literature see Mkandawire and Soludo (1999:130); and for a perceptive account of the history and socio-political context of their birth see Mamdani (1996).
- 23 Collier (2007:11). The bottom billion countries are analysed as suffering from one of four development traps: conflict, natural resource, landlocked with bad neighbours and bad governance in a small country.

Africa's Need for a Developmental State: Opportunities and Challenges

5

CHAPTER

THE RECENT GLOBAL economic crisis (stemming from market failure), the rise of China, East Asia and some Latin American countries as newly industrialized nations, and Africa's solid decade-long economic performance have rekindled discussion on the role and nature of the state in the development process. The state has been pivotal in reviving the economies of many Western countries with bailout packages for banks, the automobile industry and other parts of manufacturing, massive investment in the social sector and expansion of social security for the unemployed.

Responding to the crisis in 2008, the United States Government under former President George Bush announced a \$700 billion bailout for the US financial market, and in the following year, the Obama Administration introduced a fiscal stimulus package of \$787 billion. In the UK, the state injected £37 billion to bail out its financial institutions. Similarly, governments across the world introduced stimulus packages, all attesting to the increasing role of the state in economic recovery and development.

In another vein, the state was central to the rise of China as a global economic power and aided the rapid transformation and economic development of the East Asian economies of the Republic of Korea, Malaysia, Singapore and Taiwan (China) as well as some Latin American countries such as Brazil and Chile.

With these global developments, the discourse has shifted from whether the state is germane to development or

not, to what kind of state should be set up to facilitate economic development especially in poor and underdeveloped countries. The emerging consensus is that a "developmental state" is central to the process of accelerated economic growth and social transformation of any country. A developmental state may be defined as "a state that puts economic development as the top priority of government policy, and is able to design effective instruments to promote such a goal. The instruments should include the forging of new formal institutions, the weaving of formal and informal networks of collaboration amongst citizens and officials and the utilization of new opportunities for trade and profitable production" (Bagchi, 2000:398).

A developmental state may be defined as "a state that puts economic development as the top priority of government policy, and is able to design effective instruments to promote such a goal."

Over the ages, developmental states have evolved, and they characterized the growth of the Netherlands in the 16th century, England in the 16th to the 19th century, and Germany in the mid-19th to the early 20th century.

It is the state that promotes macroeconomic stability and that establishes an institutional framework that provides law and order, effective administration of justice and peaceful resolution of conflicts. The state should also ensure property rights and invest in infrastructure and human development (Mkandawire, 1999 and 2010).

Although the notion of the developmental state is often associated with the first and second generation of the newly industrialized economies (NIEs) of East Asia,¹ the

idea of the developmental state in practice was born long before it was so labelled. Over the ages, developmental states have evolved, and they characterized the growth of the Netherlands in the 16th century, England in the 16th to the 19th century, and Germany in the mid-19th to the early 20th century. Some African countries in the immediate post-independence era are also seen as forms of developmental states (Bagchi, 2000; Mkandawire, 2001). As noted by Mkandawire, Africa has had “states that were developmental both in their aspirations and economic performance”. Regrettably, the adoption and implementation of the SAPs in the 1980s and 1990s discountenanced the role of the state in economic development in Africa, and negated the prospects for the growth and consolidation of developmental states on the continent.

This chapter supports the argument for a developmental state that can facilitate rapid economic, democratic and social transformation in the post-adjustment era in Africa. It outlines the key features of a developmental state; Africa’s early attempt at building developmental states and how it faltered; the comparative experience of other countries, especially the East Asian economies and how developmental states were key to their “economic miracle”, and the prospects and challenges of constructing developmental states in Africa.

5.1 Concept and features of a developmental state

IN ITS CONTEMPORARY usage, the concept of the developmental state came from Chalmers Johnson (1982) who used it to describe the phenomenal growth of the Japanese economy and its rapid industrialization after the Second World War. He argues that central to Japan’s “economic miracle” was a “planned rational state”—a developmental state that was able to stimulate, as well as proactively support and promote, economic development. This interventionist state, through a planned process, established clear economic and social objectives and influenced the direction and pace of economic development in the country.

It established institutions such as Japan’s Ministry of International Trade and Industry (MITI) and reinvigorated

its Ministry of Finance in supporting its corporate sector, providing it with fiscal incentives and nurturing it to the maturity of higher productivity and global competitiveness. The Japanese state also invested in technology and innovation as tools of economic progress. Other NIEs were to follow in Japan’s footsteps from the 1960s.

A developmental state may be perceived as one that “authoritatively, credibly, legitimately and in a binding manner is able to formulate and implement its policies and programmes. This entails possessing a developmentalist ideology that privileges industrialization, economic growth and expansion of human capabilities. Such a state also has to be able to construct and deploy the institutional architecture within the state and mobilize society

towards the realization of its developmentalist project” (Edigheji, 2010:4). A developmental state is therefore defined in political, ideological and institutional terms (Chang *et al*, 1998).

In conceptualizing developmental states, processes and institutions should not be confused with outcomes. Good economic performance and social transformation are outcomes, and developmental states may not generate them in all cases. Developmental states are about institutions, processes and their management. Externalities may confound or distort outcomes, but it is often expected that developmental states, given normal conditions, will generate positive development outcomes. “If a developmental state is not to be deified into some kind of omnipotent and omniscient leviathan that always gets what it wants, then the definition must include situations in which exogenous structural dynamic and unforeseen factors can torpedo genuine developmental commitments and efforts by the state, as happened recently in some of the most successful Asian developmental states” (Mkandawire, 2001:291).

Developmental states have differed in their evolution, context, trajectory and manifestations. There are therefore cultural and conjunctural peculiarities in the emergence and nature of developmental states around the world, and so “one size fits all” cannot apply to the engineering and modelling of developmental states in Africa, as elsewhere in the world. Developmental states have emerged largely through trial and error and learning by doing, which have no formally designed templates that aspiring countries

Developmental states have differed in their evolution, context, trajectory and manifestations.

can copy. However, while context may differ, the concept of the developmental state is a useful analytical tool in explaining the nature and character of states and the propensity for good economic performance by countries, deployed across time and space. It lends itself to a degree of comparative analysis because developmental states have discernible, common attributes that can be investigated across countries and over time, even against variations in context.

The literature on developmental states has largely identified two major features: a developmentalist ideology; and a structure that pertains to the requisite institutions, norms and standards that can support development processes (UNCTAD, 2007; Castells, 1998). This includes the building of political, administrative and technical capacity to support development projects. Some have characterized these two features as the “software” and “hardware” of developmental states (for example, Weiss, 2010).

The following features often characterize Developmental states.

Vision setting, capable leadership and a developmentalist ideology

Capable (but not necessarily authoritarian) leadership constitutes a primary agency in the construction of a developmental state. It must be a leadership that defines and articulates a clear developmentalist vision and an economic agenda for the country; outlines plans and strategies for achieving the goals; builds an elite coalition for support and ownership; builds the technical capacity to elaborate and sustain the agenda; and mobilizes popular support. Developmentalist leadership is often underpinned by a strong sense of nationalism—an unabashed commitment to transform the condition of the country, change the structure of production, promote capital accumulation

and fast-track the process of industrialization. However, the notion of a developmental leadership is not about building personality cults or strongmen but about leadership providing clear direction for social and economic change, creating a powerful pro-development constituency among the ruling and bureaucratic elites, and harnessing the critical economic and social forces in the country.

A coherent developmentalist coalition constitutes the social base and driving force of a developmental state. This coalition may vary from country to country, but it has to be driven by the need to transform the structure

State autonomy is about the capacity of the state to formulate policies independent of contending social forces, to serve the best interests of the country as perceived by the managers of state power.

of the economy and to industrialize, as well as to build human capacity. Such developmental coalitions, according to Johnson (1987:140), are “generated and come to the fore because of the desire to break out of the stagnation of dependency and underdevelopment; the truly successful ones understand that they need the market to maintain efficiency, motivate the people over the long term, and serve as a check on institutionalized corruption while battling against underdevelopment”. Such an elite developmental coalition, Johnson further observed, “is not committed first and foremost to the enhancement and perpetuation of its own elite privileges but to the economic progress of the country”. Consequently, rent-seeking will be minimized and where it exists, will be more geared towards productive activities rather than wasteful consumption.

Relative state autonomy, especially in formulating and implementing policy

State autonomy is about the capacity of the state to formulate policies independent of contending social forces, to serve the best interests of the country as perceived by the managers of state power. It implies that the state has a high degree of capacity to generate and analyse information, on the basis of which it can independently formulate and implement its policies without being captured by sectional interests. State autonomy is the antithesis of state capture. In reality, however, complete state autonomy is often unrealizable. The state is a product of and is embedded in society, and constitutes a site of interest articulation, aggregation and realization by social forces (Adejumobi, 2011). As such, the state cannot be “suspended” above society, but regulates and promotes group interests consistent with the national development agenda.

The concept of relative autonomy therefore becomes plausible in the context of a developmental state. While the

state promotes the capitalist class and is committed to capital accumulation, neither must it become captive to it. The thrust of state policy should have a broad national agenda but should be driven by a clear developmental ideology. The concept of “embedded state autonomy” has been articulated in the literature (Evans, 1995, for example) to describe a situation in which the state has relative independence but responds and coordinates with non-state actors and institutions, especially the private sector and civil society.

As the experience of Japan and Korea showed, rather than the complete state autonomy that existed in the industrialization phase, there was a dense network of ties among the state, the private sector and civil society, in which the state was the “guarantor” of the interests of those groups within the context of broad national objectives of economic development.

State institutional capacity, notably a strong and competent bureaucracy

The capacity of public institutions, especially the bureaucracy, is crucial to economic performance in a developmental state. The bureaucracy constitutes the “soft underbelly of the state”, which advises the political executive and formulates and implements public policies. Professionalism, discipline and technical skills are core issues in administrative competence and capability (UNECA,

2005:138). In the East Asian experience, the bureaucracy was responsible for the “actual planning, intervening and guiding of the economy” (Johnson, 1987:152). Although the East Asian economies were able to build strong bureaucracies that were neither gifts from the past nor easy outgrowths of surrounding social organization, but hard-won edifices constantly under construction (Evans, 1997).

The bureaucracy or the bureaucratic elites are not the only players in developmental governance. There are other relevant institutions and actors supportive of a developmental state, including the central bank, other financial regulatory authorities, and the judiciary. Their capacity is directly related to the capacity and performance of the state.

Development planning is an important feature of a developmental state.

Effective national development planning

Development planning is about identifying national priorities, setting targets, developing strategies, facilitating coordination among various sectors and stakeholders, and establishing monitoring and evaluation mechanisms for achieving short- to long-term development goals. Development planning is a key component of a developmental state as borne out by the experience of the East Asian economies. In Korea, for example, the Economic Planning Board—considered the “brain and engine of the Korean economic miracle” (Castells, 2000:201)—promulgated five-year economic plans. In Japan, through a strategic planning process, the state supported the private sector with financing, technology and an import licensing system (Castells, 2000). Taiwan (China) had four-year economic plans, which managed coordination and implementation

of economic development policies. The economy embarked on an import-substitution and export-oriented industrialization policy.

Development planning is not anathema to the African development process. In fact, it was the hallmark of the post-colonial development strategy, which was mistakenly attacked and rebuked under the SAPs. However, with the failure of SAPs acknowledged, and the rethinking about bringing the state “back in”, the era of development planning has gradually returned. One encouraging sign is the increasing recognition that developing countries need development frameworks, in contrast to narrow models (chapter 4).

Coordination of economic activities and resources

Some commentators have described this as governing the market or, as UNCTAD puts it, “development governance” (UNCTAD, 2009). Effective coordination of economic activities includes creation of a pro-investment macroeconomic environment, effective supervision and monitoring of financial institutions, fiscal policies that provide incentives to the private sector, domestic resource mobilization and an effective public financial management system.

Within a coordinated economic system, the developmental state may set performance targets for capital—foreign, local or both—to reduce inefficiency and waste. It may reward those that meet the targets and punish those who fail to meet them. In effect, a developmental state may use a carrot-and-stick approach to rent distribution, increased productivity and economic growth.

Support for a national entrepreneurial class

A national entrepreneurial or capitalist class, which in the literature is referred to as a national bourgeoisie, is a precondition for domestic capital accumulation and the development of a market economy. A developmental state must make conscious efforts to expand and nurture its bourgeoisie, as it will facilitate industrialization and private sector-led economic growth. The history of all developmental States has been

one of growing such a class. Although in many East Asian economies small-scale family businesses, commonly owned by heads of families, were the norm, active state support transformed some of them into global conglomerates and transnational corporations, through the emergence of a strong national bourgeoisie. The development of big corporations of the zaibatsu in Japan and chaebol in Korea are related to this.

*In the African experience,
the link between the state
and the local business class
has been weak.*

In the African experience, the link between the state and the local business class has been weak, with the state often

Commitment to expansion of human capacity

A developmental state often reinforces its human capacity and invests in social policy and programmes (box 5.1). These dimensions include investment in quality education, health-care services, economic and social infrastructure and, in some cases, land reform. In most East Asian economic models, “social policies are always important ingredients in the arsenal of developmental States. These policies revolved around non-state entities such as families and firms, with the state guaranteeing the implementation of social welfare programmes” (UNCTAD, 2007:64). The provision of basic services such as education, health

pandering to the dictates of foreign business interests in the name of attracting FDI (Mkandawire, 2001). This has stultified the development of a capitalist class and consolidated the role and interests of foreign multinational corporations. Attracting foreign investment must not exclude the promotion of local business interests, and national development plans should consciously aid the emergence of a national bourgeoisie, whose business concerns will grow, consolidate and diversify with time, to compete in the global economy.

care and housing are all measures to enhance human capabilities.

For example, over 90 per cent of Singaporeans live in owner-occupied public housing built and maintained by a public utility. Taiwan (China) now has subsidized health and education (Castells, 2000). In essence, a developmental state must prioritize human capacity and social welfare as the means of ensuring the required knowledge, skills and congenial social environment for development to take place and be sustained.

Box 5.1: Education as a major foundation of Japan’s economic miracle

The leaders of the Meiji restoration realized the supreme importance of education in their pursuit of civilization and enlightenment, and in their campaign of strengthening the state so as to be able to resist the Western intruders. Hence, in 1872, a law was passed that set out a programme of education from primary to university level, making primary education compulsory.

Enforcing the law was not smooth sailing (Taira, 1978:196-199), but eventually, resistance was overcome and money was found for funding the programme.

The results were dramatic: in 1873, only 28 per cent of the school age population attended school; by the end of the century, the figure was 98 per cent, making Japan one of the most literate countries in the world (Morishima, 1982:102). The close integration of government planning and business strategies also dates from the early days of the Meiji restoration.

Source: Bagchi 2000:416.

Peace, political stability, rule of law and predictability in government business

Without peace and political stability, investment risks increase, with serious challenges to doing business. The rule of law ensures that property rights are protected, and economic transactions are underlined by “market trust” and legitimate relations. In many of the East Asian economies in the period of economic take-off and consolidation,

capable political leadership and strong bureaucracy imposed predictability in dealings with government. In other words, a developmental state must be able to evoke confidence from different stakeholders and a broad section of society.

5.2 Africa's post-colonial efforts at building developmental States

THE ATTEMPT AT building developmental States is not alien to Africa, but it may not have produced the desired results. For many post-independence African leaders, development was a major preoccupation (Mkandawire, 2001:295) and they espoused various developmental ideologies. From Ghana came Kwame Nkrumah's philosophy of Pan-Africanism, centred on the need for political and economic liberation through the strategy of regional integration, designed to promote economic development on the African continent. For Julius Nyerere of the United Republic of Tanzania, the *ujamaa* philosophy was to be the basis of collectivization in agriculture, aimed at promoting rural transformation. In Zambia, Kenneth Kaunda adopted the development philosophy of humanism, while for Leopold Senghor, former President of Senegal, the anchor was on the philosophy of “négritude” (Adejumobi, 2004:30).

Many African countries sought to build the capacity of the state, through an indigenization policy in the state sector and considerable investment in training and human capacity in the state bureaucracy. Economic development planning was a major thrust of economic governance, of which industrialization constituted a major goal. The post-independence era saw a strategy of import substitution industrialization, as well as massive investment in infrastructure. Given the focus on development, the early post-colonial state in Africa was described by some as a “developmental state” (such as Gibbon, 1997).

Africa's development strategy spurred a reasonable level of economic growth similar to, if not better than, other parts of the world (Mkandawire and Soludo, 1999; Nabudere, 2006). No fewer than 10 African countries enjoyed a consistent GDP growth rate of about 6 per cent during

1967–1980, some of them ranking at times with the best-performing East Asian economies. The two oil shocks of the 1970s and early 1980s badly affected many African economies and decelerated their economic growth. Table 5.1 shows the average growth rates for the world's 27 best-performing countries during this period, of which 10 were African.

Development was a major preoccupation for many post-independence African leaders who espoused various developmental ideologies. From Ghana came Kwame Nkrumah's philosophy of Pan-Africanism, centred on the need for political and economic liberation through the strategy of regional integration, designed to promote economic development on the continent.

Table 5.1:
Average growth rates of the best performing developing countries 1967- 1980 (%)

Economy	Average growth rate
1 Botswana	14
2 Singapore	10
3 Korea, Rep. of	10
4 Brazil	9
5 Ecuador	8
6 Gabon	8
7 Hong Kong SAR	8
8 Dominican Republic	7
9 Paraguay	7
10 Lesotho	7
11 Thailand	7
12 Kenya	7
13 Malaysia	7
14 Côte d'Ivoire	7
15 Indonesia	7
16 Seychelles	7
17 China	7
18 Belize	7
19 Mexico	7
20 Swaziland	6
21 Fiji	6
22 Costa Rica	6
23 Congo Brazzaville	6
24 Rwanda	6
25 Guatemala	6
26 Columbia	6
27 Nigeria	6

Source: Calculated from World Bank Development Indicators, 1998 CD-ROM, cited in Mkandawire (2001:304).

Some African countries such as Botswana and Mauritius have continued on this growth path to the 21st century, for which they have been classified as developmental States (Taylor, 2003: 37-50). Most African countries, however, stepped into deep economic crisis in the 1980s and growth fell.

The post-colonial state also gave priority to the social sector, which expanded phenomenally in virtually all countries. In Côte d'Ivoire, for example, education and health were allocated 28.4 per cent of state current expenditure in 1965, then 30.2 per cent in 1970, and further to 33.4 per cent in 1975 (Adejumobi, 2004). Investment in tertiary education was also significant Côte d'Ivoire. Indeed, some have described the post-colonial universities as "development universities" (Nabudere, 2006), which had high expectations to facilitate technological innovation and scientific progress.

The plain fact, however, is that Africa's state-led development model often failed to construct developmental states and achieve sustained positive economic and social outcomes as most of the countries could not engineer economic take-off, ensure industrialization or diversify the economy. Internal factors included the rise of authoritarian military dictatorships and one-party regimes, which could not construct hegemonic development ideology and coalitions. They can be regarded mostly as anti-developmental regimes, lacking strategic partnership with the indigenous private and business sector, with the state assuming the role of economic entrepreneur rather than building a local corporate sector.

In such countries, the state played multiple roles as investor, banker, trader and primary employer, rather than carefully nurturing a local entrepreneurial class (UNECA, 2008). Other factors included low savings and investment rates; flawed industrialization strategies; poor performance of the agricultural sector; and low investment in focused research and technology development. Extreme dependence on external conditions and consequent shocks, including the rise of oil prices, as well as incipient economic crisis in many countries, were other factors (Mkandawire and Soludo, 1999; Nabudere, 2006).

SAPs exacerbated the crisis of the state in Africa (Mkandawire and Olukoshi, 1995; Adejumobi, 1995). The limited state capacity at their birth was weakened as the public sector and public bureaucracy became major targets for state budget cuts, often inspired by SAPs. The paradox of SAPs is that, while the state was expected to lead the process of economic reforms, stabilization and transformation, its capacity was dismembered, and it

became unable to pursue the reform measures effectively. SAPs frequently held back economic growth and social progress, negating the construction of developmental States.

The upshot is that Africa is the most underdeveloped region of the world today. The problems of poverty, hunger, basic infrastructure and economic development remain core challenges. In 2009, 22.5 million of all 33.3 worldwide living with HIV/AIDS were in the region. Of the 1.8 million AIDS-related deaths, 1.3 million were in sub-Saharan Africa, with the most affected subregion Southern Africa (UNAIDS, 2010). In 2005, it was estimated that about 73 per cent of the people in sub-Saharan Africa lived on less than two dollars a day, a stark contrast to the Middle East and North Africa region's 17 per cent (Africa Development Indicators online, 2010). UNCTAD has projected that Africa is the only region in the world that is unlikely to meet the MDG on halving poverty by 2015 (UNCTAD, 2007).

African economies remain heavily dependent on foreign investment and development aid. The region has the lowest level of fixed capital formation and has the lowest FDI flows, lowest saving rates and highest levels of public debt. UNCTAD estimated in 2000 that for Africa to achieve sustainable growth of 7 per cent, required for the continent to overcome its developmental deficits (see UNECA and AUC, 2008), it would need an investment rate of 22–25 per cent. Unfortunately, during 2000–2004, “sub-Saharan Africa averaged investment rates of 18.1 per cent, while the figure for all of Africa was 20.7 per cent” (UNCTAD, 2007:3).

In the absence of bold development plans, African economies remain for too long heavily dependent on foreign investment and development aid. The problems of poverty, hunger, basic infrastructure and economic development remain core challenges.

Another tragedy was that the average growth rate during 2000–2007 fell short of the projected 7–8 per cent required to meet the MDG goal of halving poverty by 2015. Although both savings and investment rates in Africa have increased in recent years, they have remained below the level necessary for the continent to achieve its development goals (UNECA and AUC, 2010). In 2008, sub-Saharan Africa had the highest poverty rate and lowest life expectancy at birth (52 years) in the world due in part to its inability to promote sustained and diversified pro-poor growth and the high prevalence of HIV/AIDS and other epidemics.

5.3 Comparative performance of developmental States in Asia and Latin America

MANY OF THE developmental States of Asia² have been able to transform their economies from agrarian to industrial and post-industrial economies, have witnessed high rates of industrialization resulting in near unprecedented economic growth, and made qualitative improvements in the living standards of their populations—coupled, remarkably, with egalitarianism, and lower relative and absolute poverty. These countries have transformed their

economies from relatively high reliance on the primary sector in the 1960s to the currently dominant share of manufacturing and services in GDP, with manufactures accounting for more than 50 per cent of their exports (UNECA 2008). They have also experienced substantial FDI inflows. While in the 1960s and 1970s average per capita income in sub-Saharan Africa was almost twice that of East Asia and Pacific countries, it was less than 70

In explaining the Asian economic “miracle”, some analysts stress the role of large investments in physical and human capital (public and private), the creation of a market-friendly environment and appropriate macroeconomic policy frameworks.

per cent of the later group of countries’ per capita income in the 1990s (UNECA, 2008).

To exemplify the contrast between Asian developmental States and African countries, during 1973–1992,³ the change in per capita GDP was 172 per cent and 107 per cent in Korea and Thailand, respectively, at a time when per capita GDP declined by 21 per cent in Nigeria. Bringing in South America, while 10 Asian economies in a 1995 sample had per capita GDP growth of 89 per cent during 1973–1992 (Madison 1995), 10 African countries saw their per capita GDP fall by 23 per cent, and seven Latin American countries saw theirs decline by 18 per cent (Castells, 1998).

The variations in economic performance are also noticeable in how various countries have transformed their economic base. For example, in 1980 and 1998 in Malaysia, agriculture accounted for 22 per cent and 12 per cent of GDP, respectively, compared with Nigeria’s 21 per cent and 32 per cent—divergent trends. Similarly with industry over the same period: in Malaysia its contribution to GDP increased from 38 per cent to 48 per cent, but in Nigeria it fell from 46 per cent to 41 per cent. Even then, most of industry’s contribution to GDP in Nigeria was in oil.

The contrast between Malaysia and Nigeria is even more evident from manufacturing and service sector

contributions to GDP. Again using 1980 and 1998 as reference years, in Malaysia manufacturing’s contribution rose from 21 per cent to 34 per cent with services constant at 40 per cent. In Nigeria manufacturing’s share shrank from 8 per cent to 5 per cent, while that of services declined from 34 per cent to 27 per cent (World Bank, 2000). What these comparisons show is how developmental States in East Asia have been able to transform the structures of their economies and have achieved their development objectives. They have moved from labour- to capital-intensive manufacturing—while the majority of Africa ekes out a living in the informal sector.

In explaining the Asian economic “miracle”, some analysts stress the role of large investments in physical and human capital (public and private), the creation of a market-friendly environment and appropriate macroeconomic policy frameworks (World Bank, 1993, for example). Others focus on strong institutions as the central factor (e.g. Mkanadwire, 2001). The major agency for all these factors is the developmental state (box 5.2). In East Asia it has played a fundamental role in efficient resource allocation, construction of infrastructure, development of an efficient school system and assurance of profitable investments through appropriate credit and interest rate policy. State policy interventions were in several directions—subsidized credits, public investments in research and technology, and development of export-marketing institutions (Evans, 2010).

It is important to add that a number of the Asian success stories benefited from considerable foreign financial flows, especially from the US due to its strategic interests in the geo-politics of the region. For example, in 1946–1978, economic and military aid to Korea totalled about \$13 billion (\$600 per capita), while aid to Taiwan (China) amounted to around \$5.6 billion (\$425 per capita) during the same period (UNTAD, 2007:81). Over the years, the US has provided significant aid to Africa mainly for emergency relief besides military assistance of more than one US dollar 1 billion per year to Egypt. However, as discussed in chapter 3, and in previous editions of the Economic Report on Africa (e.g. UNECA and AUC, 2010), the US has also provided considerable development support to some African countries (such as Lesotho and Swaziland) through the Africa Growth Initiative (AGOI), but none

Box. 5.2: The experience of developmental States in East Asia

The experience of the NIEs points to some common characteristics of developmental States. Active development strategies, in particular industrial policies, are at the heart of the success of these States in creating winners rather than picking winners. Clear policies and goals were set for the economy in terms of export promotion, investment in human capital and credit allocation via development banks. Issues of economic coordination were addressed through innovative measures, while efforts were directed at minimizing bureaucratic failure (Amsden, 1989).

Industrialization was driven by learning processes, borrowing of technology and an array of policies, including targeted taxation, protection, restrictions on foreign shareholding, financial sector policies that revolved around directed lending, a skilled and educated labour force (including training in the civil service and in technology at tertiary levels) and the development of infrastructure.

These factors converge to account for the differences between Asia and Africa in terms of gross domestic expenditure on research and development (R&D) and the intensity of that R&D (the ratio of gross domestic expenditure on R&D to GDP), which persist until today. Further, all of these are underscored by long-term relations between the political authorities and the private sector, and between the banks and public and private firms—in so-called “alliance capitalism”. Typically, heterodox economic policies, such as state intervention (targeted on growth) and political rent-seeking were subjected to market discipline.

Source: UNCTAD, 2007:61

of these countries has been able to achieve significant economic transformation.

While Malaysia is a classic example of developmental states in Asia (chapter 4), Brazil is a classic example of a developmental state in Latin America. From being a “banana republic” in the late 1970s and 1980s with huge foreign debts and a deep financial crisis, the country towards the end of the 20th century was able to promote macroeconomic stability, export-led industrialization, spiralling economic growth, huge expansion of its infrastructure and greater social welfare for its people. Under two democratic political regimes (from 1995 to 2010) Brazil cultivated a developmental state, which stabilized its economy and ensured steady economic progress and transformation. Brazil is now one of the fastest-growing economies in the world with an average growth rate of about 5 per cent from 2005 to 2009.

Brazil is predicted to have one of the world's five largest economies this century (Goldman Sachs, 2007). Through

investment in technology and promotion of intersectoral linkages, the country became a major exporter of agricultural products, and its manufacturing firms became multinationals with global production and marketing networks. Between August 2002 and August 2005, the market price of Brazil's semi-manufactured exports rose by 43 per cent and that of its basic products by 59 per cent (Cardoso and Teles, 2009). Since 2003, some 20 million Brazilians have been pulled out of poverty (*The Economist*, 2010:31).

An interventionist state has been crucial to Brazil's economic success. The national oil company, Petrobras, controls the bulk of the oil industry, with the state granting it extensive oil concessions. In 2010, the state invested over \$67 billion in Petrobras to raise its equity shares in the company from 40 per cent to 48 per cent. However, Brazil's former President contended that Brazil's strong interventionist state was a transitory measure to fast-track the country's progress. “I don't want the proprietorial state”, he said, “I respect the workings of the market” (*The Economist*, 2010: 32). Table 5.2 shows some progress in Brazil's social sector.

Table 5.2**A better Brazil**

	1993–1995 Average	2002	2009
Poverty, percentage of population with income under 144 reais per month (\$2.50 a day at PPP)	15.3	31.8	26.7
Income inequality, Gini coefficient	0.6	0.59	0.54
Average real monthly income per person, reais	457.3	507.7	630.3
Average years of schooling	5.4	6.6	7.6
Households' with washing machine, per cent of total	24.3	32.9	44.4
Population with sewage connection, per cent of total	36.5	43.8	51.0

Source: Centre for Social Policies, Fundação Getulio Vargas cited in The Economist (October, 2010:32).

It is evident that the difference between the relatively “good” performing economies of Asia and Latin America compared to the “poor” performing ones of Africa is the

role and nature of the state and the quality of its institutions. Developmental States have been central to good performance.

5.4 Towards the future: How to construct developmental States in Africa

AFRICAN COUNTRIES CLEARLY need developmental States to promote economic and social transformation. Five major elements are crucial in building them:

purposeful leadership and a developmentalist coalition; transformative institutions; focused industrial policy; investment in research; and enhanced social policy.

Purposeful leadership and a developmentalist coalition

Capable and farsighted democratic leadership will be central to constructing developmental states in Africa. Such leadership can foster hegemonic developmentalist ideology and the necessary coalition to underpin it. A powerful technical team will have to be assembled to support the political leadership in crafting and driving the developmental vision of the country. Forging such an alliance will not be easy, especially given competing

class interests. The composition of the developmental coalition will have to vary from country to country as often reflected in the process consultative process and deliberations of country reviews under the African Peer review Mechanism (APRM) of the New Partnership for Africa Development (box 5.3).

The need to overcome underdevelopment on the continent and dependency on external forces could unite these class forces around a common vision for Africa’s development. Towards this end, the developmentalist coalition has to be committed to Africa’s industrialization and to creation of more opportunities for productive and high-income activities in the formal sector.

Capable and farsighted democratic leadership will be central to constructing developmental states in Africa.

Central to this, the state needs to ensure that people have opportunities to acquire assets and sustainable employment. With respect to the former, land reforms for example will be critical, especially in Southern Africa. In other

subregions where subsistence agriculture is dominant, the state needs to promote cooperatives and to support small farmers with access to skills training, finance, markets, technology and so on. In effect, agrarian reforms are required for African countries to become developmental States.

The APRM provides a framework for African countries to create effective development coalitions.

Box 5.3: The African Peer Review Mechanism and development coalitions

In recognition of the imperatives of good governance for development, the Sixth Summit of the Heads of State and Government Implementation Committee (HSGIC) of the New Partnership for Africa's Development (NEPAD), held in March 2003 in Abuja, Nigeria, adopted the Memorandum of Understanding (MOU) on the African Peer Review Mechanism (APRM). The Mechanism is an instrument voluntarily acceded to by member states of the African Union (AU) as a self-monitoring initiative for good governance (see APRM Secretariat 2011).

The mandate of the APRM is to ensure that the policies and practices of participating countries conform to the values, principles, codes and standards enshrined in the Declaration on Democracy, Political, Economic and Corporate Governance. This commonly agreed-to instrument for self-monitoring advocates for the dissemination of best practices and the rectification of underlying deficiencies in governance and socio-economic development processes among AU member states. The framework aims at encouraging and building responsible leadership through a self-assessment process, constructive peer dialogue, and sharing of information and common experiences in order to reinforce successful and exemplary practices among African countries.

The APRM is open to all AU member states. Accession entails undertaking to submit to periodic peer reviews and to facilitate such reviews. It includes commitment to implementing the National Programme of Action (NPOA) arising from the peer review, and operationalising the agreed parameters for good governance across the four thematic areas: 1) Political Governance and democracy; 2) Economic Governance and Management; 3) Socio-economic Development; and 4) Corporate Governance. So far 29 countries have acceded to APRM and 12 country review reports were completed by end of 2010 (APRM Secretariat 2011).

The APRM offers the opportunity for building development coalitions in Africa. With a well-articulated developmental agenda by the political leadership, the APRM provides a governance deliberative platform between the state and the people to discuss, negotiate and agree on such a development agenda through country self assessment and peer review. Countries that accede to APRM and sign for country reviews prepare self assessment reports on the status of their political, economic and corporate governance institutions and performance. The self assessment preparation involves consultation among all stakeholders including national and subnational governments, parliament, the private sector and business associations, civil society, experts and other stakeholders. The country review report provides a national development framework through the national plan of action to follow up and implement the collectively agreed development priorities, and to monitor progress and ensure transparency and accountability of the state.

Transformative institutions

To become developmental states, African countries will have to build transformative institutions, and primarily a competent and professional bureaucracy. Recruitment and promotion in the bureaucracy have to be based on merit rather than political patronage, ethnic and religious considerations. Also, civil servants need to have predictable career paths. As in developmental States elsewhere, including Japan, changes in political leadership should not affect the positions of these civil servants, and the bureaucracy has to be insulated from the political elite and direct political and sectional group pressure. Moreover, the issue of training and re-training is essential for capacity enhancement, with adequate and competitive remuneration and modern ICT systems for operations and service delivery.

African countries will also have to re-establish ministries of planning or competent planning commissions charged with responsibility for overall development planning, alignment of the policies of line ministries, and ensuring complementarities between economic and social development. In effect, the need to revive the planning capacity of the African state is urgent through the establishment of ministries of planning, or of planning commissions, which will aim to ensure effective coordination and alignment of government policies and programmes. Such planning bodies are more effective when located in the office of the head of government (president or prime minister) as strongly suggested by the experience of Korea with its Economic Planning Board (before it was disbanded in the mid-1990s), the Economic Development Board of Singapore, the Economic Planning Unit (EPU) in Malaysia, and the celebrated MITI of Japan.

To become developmental States, African countries will have to build transformative institutions, and primarily a competent and professional bureaucracy.

The case of the Economic Planning Board is illustrative. It “...had a broad mandate over planning, budgetary and economic management” (Ohno and Shimamura, 2007). This enabled it to ensure that government policies, programmes and spending were synchronized, thereby avoiding overheating of the economy. Korea’s economic teams “were co-coordinated and led by clearly identified economic czars”, namely the deputy prime minister and the minister of the Economic Planning Board (Edigheji, 2007:133).

On the leadership role of planning bodies, the EPU in Malaysia is a good case study. According to Ohno and Shimamura, The Economic Planning Unit (EPU) in the Prime Minister’s Department, which is charged with preparations for the Government’s medium and long-term plans and mid-term plan reviews, has been the key institution for development planning. It is the deciding authority on critical issues surrounding economic activities, including those affecting investment selections and development budgeting. The EPU is regarded as the super-ministry, and has command over alignment of policies and resources with development priorities. The Ministry of Finance works closely with the EPU to realize the vision for long- and medium-term development plans. The EPU plays a central role in deciding the allocation of development expenditure, enforcing the aggregate and sectoral ceilings of development expenditures throughout the plan period, and selecting the priority public investment projects (Ohno and Shimamura, 2007:33,77).

It is not only the capacity of the bureaucracy and the planning ministry or commission that should be invigorated, but also that of all public institutions especially public financial institutions—the central bank, the ministry of finance, the stock exchange commission, the tax collection authorities (tax office, customs, immigration, etc), and the oversight institutions such as the offices of the accountant general, anti-corruption commission, and the ombudsman, among others. Transformation institutions are at the heart of state capacity. They should be inclusive and operate transparently and accountably (box 5.4).

Box 5.4: Relationship between the nature of political regimes and economic development

Evidence from the history of development suggests that the relationship between the nature of political regimes and economic development is mixed. There have been authoritarian States that achieved remarkable development success as well as some that have not. For example, when countries in East Asia began to build developmental States, some were democratic (Japan) and others were autocratic (Korea). To argue that developmental States are synonymous with authoritarianism is to misread the history of East Asia.

There is ample evidence of developmental States that emerged in the context of democratic governance, such as the Nordic countries and Brazil. The two most often cited examples in Africa are Botswana and Mauritius.

Developmental States, then, emerged in different political contexts. However, for development to be inclusive and sustainable, it must be grounded in a democratic context. Indeed, freedom, as Amartya Sen (1999) noted, is a form of development.

Focused industrial policy

To catch up and, more important, to meet its own development objectives, Africa needs to promote rapid industrialization that will promote innovation, technological adoption, entrepreneurship, high value added and employment-generating manufacturing. This will enable the continent to overcome the low contribution of industry and manufacturing to GDP and employment. The formulation and implementation of industrial policy will enable African governments to target particular activities or sectors for support. Each country will have to identify niche industries where it has competitive advantages or the capability to develop dynamic advantages. This in turn will contribute to Africa's industrial development. However, unlike most countries in post-independence Africa, which thwarted the emergence of a capitalist class, the 21st century African developmental state has to vigorously attempt to build an indigenous capitalist class.

Also, unlike the experiences of the 20th century developmental States elsewhere, industrialization in Africa in the 21st century will have to be sensitive to environmental sustainability (chapter 3). The development of renewable energy and a green economy as part of Africa's overall development strategy cannot be over-emphasized. Renewable energy in particular and the green economy in general

offer Africa a basis for transforming the structures of its economies and to create sustainable jobs and livelihoods.

The industrial strategy of the developmental States of East Asia suggests that creating industrial winners through fiscal incentives to facilitate enhanced productivity and some form of protectionism were critical for the growth of local manufacturing. While protectionism may be difficult and largely unfashionable in a globalized economy regulated by WTO, nonetheless, as part of their industrial policy, African States should ensure a phasing-out process to protect local industries, which is necessary for their growth and consolidation. This will enable them to compete, over time, in the global economy.

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Investment in research

In a knowledge-driven global economy, investment in research, science and technology for economic development is central to boosting production, enhancing human capacity and reinforcing the capability of the state. To promote sustainable growth and economic transformation, African countries would have to scale up their investment in R&D, which stood at 0.4 per cent of GDP in 2007; Asia had gross domestic expenditure on R&D (GERD) of 1.6 per cent as a share of GDP. Except for South Africa, which invested 0.9 per cent, GERD as a share of GDP of most sub-Saharan African countries was less than 0.3 per cent in 2007. In Asia, Korea, for example, spent 3.2 per cent, China 1.4 per cent and India 0.8 per cent (UNESCO Institute of Statistics dataset, 2010).

Given that Africa's R&D is very low, GERD should be increased to more than 1.6 per cent of GDP—Asia's rate. This should be accompanied by effective measures to improve the quality and relevance of educational outcomes to the needs of the job market. The tertiary education sector, especially the universities, which should constitute the site of advanced knowledge production and scientific research in Africa, is currently witnessing a severe crisis in terms of standards due to poor funding, a brain drain

Enhanced social policy

To become developmental States, African countries have to revise their social policies. As in Asian and Latin American developmental experiences, these should include

Heavy investment in skills, education, health care and infrastructure (including economic infrastructure) will be important tools for expanding human capabilities in Africa.

and massive commercialization in the sector (Akin Aina, 2010; Mamdani, 2007)

Major problems are also seen in health. In 25 African countries, more than 40 per cent of their medical doctors lived and practised overseas in 2000 (Clemens and Patterson, 2007). These included Mozambique (75 per cent), Angola (70 per cent), Malawi (59 per cent), Zambia (57 per cent), Ghana (56 per cent) and Kenya (51 per cent). These figures highlight the acute brain drain among African professionals. Reversing the trend and retaining those professionals who have not left would help Africa keep the skills needed for its development.

To boost science and technology, there must be a conscious policy to revive and sustain the quality and standard of university education in Africa. Some of the options may be to designate regional centres of excellence amongst African universities, which regional institutions such as the African Union, the regional economic communities and United Nations agencies such as UNESCO could support in specific areas of advanced knowledge production and scientific innovation. National governments would also have to scale up their budgets for education and scientific research.

measures to increase income support, gradually reduce income inequality and ensure access to the basic social goods of education, health care and decent livelihoods for people. In other words, social policy measures have to meet the basic goals of human existence as contained in the MDGs.

Heavy investment in skills, education, health care and infrastructure (including economic infrastructure) will be important tools for expanding human capabilities in Africa. They will also become important means of enhancing the productive base of African economies. Of course, a combination of development strategies that promotes investment in education and infrastructure, such as roads, water and electricity, would improve the environment for doing business in Africa, and attract greater volumes of FDI.

5.5 Conclusions

THE URGENT NEED for economic transformation and take-off by African countries underscores the importance of building developmental States on the continent. Developmental States, barring external shocks and adverse global conditions, can stimulate rapid economic growth and diversification, technological innovation, industrial development and social welfare in Africa.

Development States have no single model, however. They have emerged in history through many trials and much error; hence no easy template or “one-size-fits-all” formula may be used to construct them in Africa.

A developmental state is about state involvement in the economy and society, but not by a state-dominated economic development model. It is about seeking the right mix between the state and the market, governing and controlling the market and market forces to prevent market failure, and supporting private agents and entrepreneurs

to realize their full potential and to contribute to economic development. It is definitely not about a return to the state-dominated economic development model of the 1960s and 1970s.

Constructing developmental States in Africa will require a purpose-driven and nationalistic political leadership to chart a developmentalist vision and to build a powerful constituency in the state and society to support it; commit to the development of a strong entrepreneurial class; promote macroeconomic stability; invest in innovation, science and technology; build strong and capable institutions; and reform social policy—all while expanding the social (and economic) infrastructure. While they may not be able to attract adequate external capital inflows to fill their development financing gaps, nonetheless, effective mobilization and use of domestic resources would help Africa's developmental States to realize the major objectives of economic and social transformation of the continent.

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Notes

1 Japan is in the first generation of East Asian economies that can be termed a developmental State, while Korea, Singapore, Hong-Kong (China) and Taiwan (China) are in the second.

2 China, Hong Kong SAR, Japan, Korea, Malaysia, Singapore, and Taiwan (China).

3 The 1970s was when the variations of economic performance in developing countries started. Prior to that, most had similar developmental outcomes.

Governing Development in Africa: Needs and Responses

6

CHAPTER

AN ANALYSIS OF governing development in African economies may be focused along three axes: Africa's urgent need for economic diversification and structural transformation, the role of the state in structural transformation, and how the construction of developmental states might enhance and hasten the economic transformation process.

In this context, this chapter presents, and expounds on, the case for developmental states and economic

transformation in Africa along with the key conclusions and policy recommendations derived from the analysis in the preceding chapters. After making this analysis, this chapter then presents some policy recommendations that the developmental state can follow to ensure Africa's economic transformation, and to promote more rapid, sustained and inclusive economic growth and development.

6.1 The state, economic diversification and structural transformation in Africa

The need for diversification and transformation

HOW TO PROMOTE high-level, sustained, inclusive and clean economic growth has been a main focus of African countries for decades. Africa's high growth rates have not translated into high levels of employment and reductions in poverty. They are also quite volatile, especially in sub-Saharan Africa.

From about 1960 to the early 1970s, the continent's growth performance was similar to that of other developing regions. During 1973–2000, however, it faltered and then declined, while other regions achieved higher and less volatile economic growth rates. During the last decade, Africa experienced an upsurge in growth, and GDP rose twice as fast in this period as in the 1980s and 1990s. This improvement has been widespread, but the roots of

this improvement are traceable largely to the global commodity boom, not to transformation. Despite this high growth level, there is still high and rising unemployment, high poverty levels and a lack of social safety nets, which

How to promote high-level, sustained, inclusive and clean economic growth has been a main focus of African countries for decades.

In the absence of meaningful diversification and transformation many African countries continue to be vulnerable to external shocks and heavily dependent on informal sector employment and output.

imply that social development in many African countries has been limited.

The nature of the recent strong growth surge raises questions on sustainability and inclusiveness. One of the main reasons for these two fundamental issues is the lack of structural economic transformation in many parts of Africa. Up to the present, the extent of structural transformation and diversification in output, exports and employment has been limited in most African countries. This has contributed significantly to the apparent inability of African economies to achieve high and sustained economic growth rates and social development, as well as to their high growth volatility and unemployment rates.

In the absence of meaningful diversification and transformation many African countries continue to be vulnerable to external shocks and heavily dependent on informal sector employment and output. In other words, high and sustained employment-generating growth rates in Africa must be underpinned by substantial economic diversification and structural transformation. Indeed, the many African countries that have failed to promote notable economic transformation continued to heavily depend on the informal economy which employs more than 70 per cent of the population (UNECA and AUC, 2010). Informal sector employment is generally more vulnerable than formal employment and does not provide decent pay so that the majority of the informal sector's workers remain working poor. This further underpins

the argument for the state to champion economic transformation (see box 6.1).

An economic structure reflects the relative contribution of the different sectors of the economy in terms of production and factor use. Hence, transformation entails a change in an economy from subsistence, through industrialization, to an industrial or even post-industrial society. Thus, structural transformation can be looked at as the change in the sectoral composition of output (or GDP), and that of the sectoral pattern of the employment of labour, as the economy develops (that is, as real per capita GDP increases). Structural transformation usually takes root in the context of a sustained increase in real per capita incomes over a fairly long period.

Transforming African economies from low-income agrarian economies to high-income industrialized economies remains a major development challenge. Indeed, for Africa, one of the key lessons of the recent global crisis is the need to have a diversified economy that can create decent jobs, create wealth and reduce poverty—hence economic transformation. Structural transformation will also enable African countries to withstand external shocks better and improve their trade position. But with few exceptions, African countries have not made a meaningful economic transformation, largely because state leadership has been lacking or ineffective.

The experiences of successful countries present three important lessons. The first is that there are discernible common characteristics in the patterns of structural change and economic development processes in general, and industrialization and diversification in particular. The second is that countries that have succeeded in unleashing high growth rates in recent history are not the ones that implemented the prescriptions of the Washington Consensus. This is illustrated by the case of South Korea, Taiwan and China, whose growth policies exhibit significant departures from the Washington Consensus. The third and overarching lesson is that the state plays a central role in guiding and promoting successful economic transformation. Indeed, the historical evidence shows that all countries that have successfully transformed from agrarian economies to modern advanced economies had governments that played a proactive role in assisting individual firms in the process of structural transformation.

Box 6.1: Dealing with the challenges of the Informal Sector

Although the informal sector provides a gateway to employment and income for the poorest segments of society, informality should neither be ignored nor condoned because it has huge economic and social costs. The majority of workers and firms that operate informally are trapped in a low productivity environment. Besides restraining private sector development in general, informality imposes many direct and indirect economic and social costs.

These costs include lack of economies of scale due to inability of informal operators to expand their businesses and exploitation of vulnerable workers who often work for low wage under hazardous conditions, and with no health and social protection or access to training (see e.g. UNECA and AUC, 2010). Due to poor regulation and corruption, some firms can have access to state-owned resources, such as electricity, while remaining informal to evade taxes. This imposes a high economic cost in terms of efficiency of resource use and tax revenue. Also informally produced goods are usually poor in quality and do not meet safety and health standards.

The state needs to develop innovative and supportive policies and reforms to help more and more informal operators to enter the formal sector as part of its efforts to unleash the potential of the private sector. To be effective, reform measures should be part of an integrated policy framework and adapted to country-specific conditions, taking into account the concerns and initiatives of all stakeholders including business associations, labour organizations and women groups (Elhiraika and Nkurunziza, 2006).

Modern economic growth theories point out that structural economic transformation involves a process of continuous technological innovation, industrial upgrading and diversification, and improvements in the various types of infrastructure and institutional arrangements which constitute the context for business development and wealth creation. However, market mechanisms may not be sufficient and the government has a potential role to play in helping firms.

What is certain is that, as with the successful growth and development experience of many countries, the state has a key role to play in economic diversification and structural transformation in Africa. It is therefore important for the state that is accountable and responsive to the needs of its population to assume its developmental responsibility and guide sustainable social and economic development in African countries.

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The role of the state

Africa's experience with a range of development approaches has not led to genuine transformation. During the 1960s and 1970s, for instance, many African countries adopted development strategies in which governments played pivotal roles not only as facilitators and regulators but also as producers, traders and bankers. This approach became increasingly dysfunctional by the mid-1970s, since, instead of helping African countries to diversify and grow, it stimulated large macroeconomic imbalances—unsustainable fiscal and trade deficits, high inflation and heavy and unsustainable internal and external debt.

The need to eliminate these development-constraining structural imbalances forced many African countries to accept the SAPs, which were articulated and financially supported by the World Bank and the IMF. These programmes focused on stabilizing the macroeconomy, with trade liberalization and economic deregulation their main policy pillars. They implicitly assumed that freed market forces on their own would drive investment and economic growth, and therefore failed to pay adequate attention to such deficiencies as endemic market failures, weaknesses of economic and socio-political institutions, weakness of the private sector and inadequate physical infrastructure and human capital. But these were precisely the main supply-response constraints in many African countries.

Thus, although many African countries managed to achieve greater macroeconomic stability by the 1990s,

economic growth rates and social development indicators remained low and many countries became heavily dependent on external aid. Freeing markets and privatizing public enterprises did not generate enough investment to expand output, exports and employment, and the SAPs' focus on market mechanisms weakened African states' capacity to design and implement policies to restructure their economies. Further, the absence of social safety nets for vulnerable groups in a period of slow economic growth and high population pressure resulted in rising social and political unrest.

The response of the World Bank and IMF to some of the failures of the SAPs was a new development model—the Poverty Reduction Strategy Paper—in the late 1990s. Despite a tight focus on poverty reduction, it assumed that much of its objective would be achieved through overall economic growth. The more fundamental question of diversification and transformation was not directly addressed.

The above suggests that the development approaches deployed so far in many African countries have been inappropriate or inadequate for meeting their economic and social development needs. This observation, in turn, suggests the need to rethink the role of the state in Africa's economic transformation. The failure of earlier approaches, both state-led and market-driven, points to another.

Constructing developmental states in Africa

The case for adopting the developmental state approach is largely derived from the observed deficiencies of previous development strategies.

Before African governments 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. These are now discussed.

Characterization

In an analysis relying broadly on capability-based development theory,¹ 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. These policies must be derived from a widespread consultative process and organized public deliberations that are not manipulated by technocratic and socio-political elites. Among its key features as discussed in chapter 4 and 5 are:

- ▶ A government that has the political will and legitimate mandate to perform specific, required functions in the context of a nationally owned development framework;
- ▶ A competent, professional and neutral bureaucracy that ensures the effective and efficient implementation of strategies and policies in accordance with established national development goals;
- ▶ An interactive and institutionalized process in the context of which the political leadership and bureaucracy actively engage other societal actors (private sector, civil society, etc.) in development policy design, implementation, and monitoring and evaluation;
- ▶ 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;
- ▶ 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

Weak structural transformation has exposed many African economies to the fluctuations of international commodity markets, leading to significant volatility in economic growth (as seen in earlier chapters). This vulnerability to external shocks is due to several interacting factors. First, African development strategies have been ineffective in reallocating factors of production from less, to more, productive sectors as a means of diversifying their economies from primary commodities to high value-added industry and services. This has prevented many African countries from fostering the growth that creates decent jobs and reduces poverty.

Second, natural-resource abundance is often associated with distorted incentives to diversify, a problem compounded by the continent's challenging environment

Natural-resource abundance is often associated with distorted incentives to diversify, a problem compounded by the continent's challenging environment and climate change.

and climate change. Together, these issues curtail labour productivity, access to large markets, economies of scale and production efficiency, and raise production costs.

Third, Africa lags behind the rest of the world in the quality of its economic and political institutions and its business environment. This weakness feeds through to ineffective resource allocation systems as well as weak incentives for innovative long-term investment and private sector development. It also partly accounts for the continent's inadequate provision of public goods and social expenditure.

Finally, many African countries suffer from large deficits in terms of state capacity and ability to enhance their citizens' human capacity. Public participation and ownership of development programmes is therefore often patchy.

The developmental state approach tackles these weaknesses. The approach focuses on rebuilding and strengthening state capacity with a view to raising its ability to expand human capacity and promote equitable and efficient allocation of resources. State capacity comprises effective political, economic, and social institutions, the recruitment and retention of competent public servants as well as a framework that ensures wider stakeholder participation in policy making and implementation. 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

By addressing constraints, the developmental state can generate strong and sustainable economic and social development, in the context of rapid structural transformation, thereby significantly reducing Africa's vulnerability to external shocks.

economic and socio-political institutions, and coordinating them effectively.

In addition, the approach provides for macro- and micro-economic policies specifically targeted at diversification and transformation. Such policy instruments are also directed to override the potential negative impacts of Africa's endowment, environment and climate change on the continent's growth trajectory.

By addressing these factors, the developmental state can generate strong and sustainable economic and social development, in the context of rapid structural transformation, thereby significantly reducing Africa's vulnerability to external shocks.

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 intervention 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.

These risks are likely to vary in magnitude and intensity, and may be associated with the behaviour of regulators, producers and consumers (see box 6.2). In particular, the entire state apparatus may be captured by elites or powerful special interest groups so that the course no longer reflects those goals derived from democratically organized public deliberations. At a lower level, weak integrity and professionalism in the bureaucracy may lead to rent seeking, breeding waste and inefficiency.

Inappropriate behaviour of regulatory agencies—established to set product quality and safety standards and to ensure producers' compliance—may result in regulatory capture, as corrupt regulators are bought by those they are meant to regulate. Both public and private producers may also find it more profitable to invest resources in rent seeking rather than actual production. Similarly, consumers who receive subsidies may also resell their allocations for gain.

To avoid these 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.

Box 6.2: State ownership, internal control and efficiency concerns

When African leaders consider increasing the strength of their political and economic institutions, a quick study of their past can enlighten them on one common practice that led to incentives to weaken them. Research has shown that sub-Saharan African countries that featured majority state ownership (MSO) of most capital-intensive industries or of a significant oil- or mineral-exporting sector had worse economic policies, resulting in lower incomes (Quinn, 2002).

In a study of countries from around the world, research has shown that countries with such MSO had less efficient bureaucracies and more corruption, controlling for other important variables (wealth, democracy, and government spending) (Quinn, 2008). Other research has suggested that (majority) state-owned enterprises lost “political insulation” and were subject to demands from the broader body politic, undermining their viability (for example, Shafer, 1983).

Using a principal-agent argument, one can understand that political elites in control of major economic sectors would likely manage them to maximize short-term political power, at the expense of economic viability (Quinn, 2008). Not only do political elites have incentives to undermine the autonomy of the economic institutions they manage, but they also have the ability to do so. With MSO, they can win any contested vote on boards they run. Thus, they or their proxies can establish accounting procedures, place their people to head treasuries, establish hiring procedures to recruit their supporters and create other practices with little to no political or economic accountability (Quinn, 2000), aside from increasing their own power.

This enables them to better “raid” a firm’s economic resources for their party or themselves. Theory is consistent with past practice. As is known, many African leaders intentionally weakened the institutional capacity of their domestic state institutions or state-owned firms to increase their political power when able to do so (Bates, 1981; Clapham, 1996; Quinn, 2002; Tangri, 1999).

However, if political elites have 50 per cent ownership or less, better institutional capacity should be expected. They would still have incentives to raid, but those with private shares in these firms would have incentives to put institutions in place that limit their access to common resources, and they would have more power to do so through a combined majority or 50 per cent vote. This could lead to better institutional outcomes: the private owners would probably push for, and get, more institutions of internal control and efficiency, and the government would be able to monitor their practices as well as obtain revenues through ownership and taxation.

Where the government has seats on the board, it can monitor corporate practices. With exactly a 50 per cent share, the government can veto decisions, but it could no longer unilaterally determine economic policy priorities. Private owners as well would also be able to veto or vote down government-preferred policies, which might undermine the long-term profitability of these sectors in which the government has 50 per cent or less ownership.

Therefore, where governments have 50 per cent or less ownership, increased institutionalization and viability should be seen in the economic sectors that are so important for developing countries in their struggle for development. The case of Botswana features a 50 per cent state ownership of minerals, a sector in which development appears to be on the march (Quinn, 2002).

The developmental state approach requires that the articulation of national development goals draw from democratic public deliberations involving all stakeholders.

Role of stakeholders

Stakeholders are generally defined as including all interested economic agents and social actors. The developmental state is particularly demanding of the capacity to generate cooperation among various stakeholder groups. In broad terms, stakeholders have three key functions: decision-making, coordination of views and activities and oversight.

The developmental state approach requires that the articulation of national development goals draw from democratic public deliberations. The developmental state therefore has to forge fully encompassing relations that involve all stakeholders—public, private and civil society. The public sphere in many African countries typically covers national (federal) governments as well as state (provincial) and local governments. Similarly, the private sector is often grouped by sector (such as agriculture), size or formal/informal status. These groupings of both public and private stakeholders may be quite important for each of the three key functions.

The grouping of key private sector stakeholders helps establish institutionalized networks through which the state can interact in synergistic relationships with the various groups. In this way, state and non-state actors can share information about new technologies and new market opportunities, and how to provide public goods to citizens and businesses efficiently and effectively.

These arrangements enhance public participation and citizens' ownership of national development programmes.

They also improve the state's ability to work with the full range of economic agents and socio-political actors. 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.

The extent of integration in terms of both negotiated agreements on key policy issues and their effective implementation varies significantly across the regional economic communities. Adoption of the developmental state approach by all countries within a community would imply the need for greater coordination and harmonization of development strategies and policies among these countries. In particular, as barriers to trade and the movement of goods fall and ultimately disappear as integration deepens and larger markets form, national planning should give way to regional planning to ensure that resource-allocation decisions reflect the opportunities and challenges of the larger regional markets.

Fuller integration implies freer movement not only of goods but also of factors of production within the integrated regional markets. This will in turn require further coordination and harmonization of social policies across countries within a regional community as a means of preventing, or at least minimizing, the economic and socio-political adjustment costs of factor movements.

When the integration arrangements based on the regional economic communities eventually dissolve into the continental version, a similar shift must occur from a regional to a continental planning framework. But before full implementation of the AU-defined regional and continental integration agenda, regional economic communities should provide assistance for the joint capacity building required for more effective national implementation of the developmental state approach. They should also help to identify the main cross-border implications of national strategies, as the basis for discussion on areas to be coordinated and harmonized.

Recognition of the central role of the state in economic and social development is not new in Africa. Indeed, in support of the AU and its NEPAD programme, UNECA has long advocated a stronger role for the state in the development process and continues to do so in close partnership with the African Union Commission. This advocacy is exemplified by the Lagos Plan of Action and NEPAD, for both of which UNECA was instrumental. The UNECA African Alternative Framework to Structural Adjustment Programmes for Economic Recovery and Transformation has also emphasized the need for the state to play a leading role in economic transformation and to drive development.

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 multilateral 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.

For instance, virtually all African countries are linked to the EU through either the Lomé Convention (sub-Saharan Africa) or the Euro-Med agreements (North Africa). Similarly, many African countries are linked to the US through the African Growth and Opportunity

When the integration arrangements based on the regional economic communities eventually dissolve into the continental version, a similar shift must occur from a regional to a continental planning framework.

Act and other OECD countries through the Generalized System of Preferences. The non-reciprocal elements of these linkages do not directly impose serious economic policy restrictions on beneficiary African countries and can, to that extent, be ignored in the rest of this analysis.

However, the Lomé Convention has given way to the new Economic Partnership Agreements. These are reciprocal and are being negotiated by four regional groups in sub-Saharan Africa. It is not clear yet what the final agreements will look like, but it is certain that their reciprocal nature will impose additional obligations on African countries. Once the EPAs are signed, the US may well take steps to turn the African Growth and Opportunity Act into a reciprocal agreement as well.

Beyond these agreements, most African countries are already contracting parties in WTO, some of whose binding agreements outlaw certain trade-related investment measures. Thus, the membership of many African countries in WTO already narrows their policy space in ways that may conflict with the policy imperatives typical of the developmental state approach.

In addition, key international organizations such as the World Bank and IMF, and a number of bilateral donors such as the Department for International Development and the United States Agency for International Development have significant policy advisory roles backed with finance in many African countries. These organizations

Given the heavy dependence of many African countries on the support of donors, a decision to become developmental states may have significant implications for finding alternative financing sources, if the donors do not waive their—likely—objections.

support (to a greater or lesser degree) orthodox neo-liberal policies and may be reluctant to back some of the

more state-centred policies that the developmental state approach considers important.

Given the heavy dependence of many African countries on the support of these donors, a decision to become developmental states may have significant implications for finding alternative financing sources, if the donors do not waive their—likely—objections. In this context, the African Union New Partnership for Africa's comprehensive development framework and other declarations on Africa's development provide a useful framework for African countries to address issues of democratic developmentalism and governance.

Democracy, governance and development

The AU has demonstrated its commitment to strengthening governance for development through many instruments (some are shown in table 6.1 and box 6.3). These show that its policy orientation is situated within a wider commitment to sustainable development, and that democratic governance is not just a virtue—it is fundamental to the continent's development.

Table 6.1.

African Union instruments related to democracy, governance and development

Name	Date of adoption	Number of signatories	Number of ratifications
Constitutive Act of the African Union	July 2000	53	53
African Charter on Human and Peoples Rights	June 1981	42	53
Protocol to the African Charter on Human And Peoples' Rights on the Establishment of an African Court on Human and Peoples' Rights	June 1998	51	25
Protocol to the African Charter on Human and Peoples' Rights on the Rights of Women in Africa	July 2003	46	28
Protocol of the Court of Justice of the African Union	July 2003	42	16
African Union Convention on Preventing and Combating Corruption	July 2003	45	31
African Charter on Democracy, Elections and Governance	January 2007	37	9
Protocol on the Statute of the African Court of Justice and Human Rights	July 2008	22	3
African Public Service Charter	January 2011		

Box 6.3 African Union decisions and declarations on democracy, governance and development

1. Abuja Treaty, 1991
2. Declaration on the Political and Socio-Economic Situation in Africa and the Fundamental Changes Taking Place in the World, 1990, Addis Ababa, Ethiopia
3. Agenda for the Re-launch of Africa's Economic and Social Development, 1995, Cairo
4. Algiers Declaration on Unconstitutional Changes of Government, 1999, Algiers, Algeria
5. Grand Bay (Mauritius) Declaration and Plan of Action, 1999, Mauritius
6. Lomé Declaration for an OAU Response to Unconstitutional Changes of Government, 2000, Lomé, Togo
7. CSSDCA Solemn Declaration, 2000, Lomé, Togo
8. OAU/AU Declaration on Principles Governing Democratic Elections in Africa, 2002, Durban, South Africa
9. New Partnership for Africa's Development (NEPAD) Declaration on Democracy, Political, Economic and Corporate Governance, 2002, South Africa
10. Memorandum of Understanding on Security, Stability, Development and Cooperation in Africa, 2002, Durban, South Africa
11. Kigali Declaration on Human Rights in Africa, 2003, Kigali, Rwanda
12. Solemn Declaration on Gender Equality in Africa (SDGEA), 2004, Addis Ababa, Ethiopia
13. Decision of the 12th AU Assembly on the Resurgence of the Scourge of Coups d'état in Africa (Assembly/AU/Dec.220(XII), 2009, Addis Ababa, Ethiopia
14. Decision of the 14th AU Assembly on the Prevention of Unconstitutional Changes of Government and Strengthening the Capacities of the African Union to Manage such Situations (Assembly/AU/Dec.269(xiv)), 2010, Addis Ababa, Ethiopia

6.2 Policy recommendations

MANY OF THE key issues and debates regarding the adoption of developmental states in Africa as discussed

in this chapter lead to specific policy recommendations that African policymakers may wish to consider.

Enhancing the role of the state in Africa's economic transformation

It is generally recognized that the state has a central role to play in the structural transformation of the economies of developing countries. Modern economic growth theories and the experience of newly industrialized countries indicate that structural economic transformation involves innovation and upgrading of industrial processes and improvements in the various types of infrastructure and institutional arrangements for which the market mechanisms may not be sufficient and the government has a potential role to play in helping firms. This is especially relevant in the case of African countries, which face particularly daunting problems. It is also generally

acknowledged that what is needed for dealing with such challenges are comprehensive development frameworks rather than narrow and partial models.

Hence, the role of the African state in achieving rapid and sustained economic growth and development combined with deep structural transformation must be channelled through a disciplined planning approach based on a comprehensive development framework where social and economic policies interact in a complementary and mutually reinforcing manner.

Building African developmental states

The above role is best performed by states that are both developmental and democratic. African governments and stakeholders should build and operationalize these developmental states through the establishment of transformative institutions such as:

- ▶ A good constitution, the rule of law, independent judiciary, representative political institutions, effective central banks and other regulatory institutions, good laws and property rights enforcement;
- ▶ A competent and professional bureaucracy whose recruitment and advancement are based strictly on merit;
- ▶ An agency charged with the responsibility of overall development planning and implementation;
- ▶ A developmentalist coalition among committed political leadership, the bureaucracy, private sector and civil society around common national development goals.

The role of the African state in achieving rapid and sustained economic growth and development combined with deep structural transformation must be channeled through a disciplined planning approach based on a comprehensive development framework.

Ensuring the effectiveness of African developmental states

To ensure the effectiveness of African developmental states in diversifying and transforming themselves, it is vital to:

- ▶ Establish and sustain clear delineation between the roles of political leadership and bureaucracy such that the latter enjoys adequate autonomy in plan formulation and implementation;
- ▶ Empower the bureaucracy to transparently determine the extent and allocation of rents, and the terms and conditions for their allocation and elimination;
- ▶ Ensure that the bureaucracy has both the autonomy and capacity to respond quickly to changing local and global situations;
- ▶ Forge close, interactive and synergic relations between the bureaucracy and the private sector.

Avoiding the pitfalls of state intervention

While extensive state intervention through comprehensive planning may be required to deal effectively with certain market failures and other problems, this approach may also generate problems of bureaucratic failure. Hence, there is need to institute and implement corrective policy measures, and:

- ▶ Use a carrot and stick approach to rent distribution, which ensures that recipients of state assistance reciprocate by meeting established performance targets and quickly eliminating assistance when targets are not met;
- ▶ Use the market as a supplementary means of maintaining efficiency and motivating economic agents;
- ▶ Establish and empower regulatory agencies to set and enforce product quality standards for all public and private producers;
- ▶ Establish competition policy and enforce competition law against anti-competitive behaviour by public and private producers.

Enhancing stakeholder participation

A critical success factor in the developmental state approach is the active participation of the full range of stakeholders in the development and governance processes. In order to ensure this, it is necessary to:

- ▶ Establish democratic deliberative institutions, at all levels of decision-making, through which all categories of stakeholders can actively participate in the development and governance processes;
- ▶ Empower these institutions to promote stakeholder ownership of development programmes, enhanced citizen oversight over government activities for ensuring transparency, and sharing of information as a means of enhancing effectiveness and efficiency of plan formulation and implementation.

National development programmes typically have significant cross-border effects in other countries within a regionally integrated economic space.

Using intraregional and continental institutions more effectively

National development programmes typically have significant cross-border effects in other countries within a regionally integrated economic space. In order to leverage the positive and minimize the negative externalities of such cross-border effects, existing regional and continental integration institutions should support national development strategies and policies. Key features are to:

- ▶ Harmonize and coordinate key national-level policies, especially those with significant cross-border effects;

- ▶ Undertake joint capacity building, especially in the critical areas of plan formulation, implementation, and monitoring and evaluation;
- ▶ Use existing regional and continental peer review mechanisms for ensuring compliance with common standards, especially those relating to democratic governance, which are critical for the successful implementation of the national developmental state approach.

Confronting policy restrictions

When African countries adopt the developmental state approach, many of them will hit policy space issues in their relationship with major multilateral organizations and development partners. It will, therefore, be necessary at the continental level to:

- ▶ Negotiate or renegotiate the relaxation of the policy restrictions imposed on African countries through

various multilateral agreements (as through WTO); and

- ▶ Seek the elimination of policy restrictions imposed on African countries through various conditionalities, policies and practices of key bilateral and multilateral development partners.

6.3 Conclusions and areas for future research

Constructing and operationalizing the developmental state approach in Africa involves several capacity-building and institutional reform challenges as well as new areas of cooperation and collaboration among key elements of the public and private sector and civil society.

THE PERSISTENT PROBLEM of lack of economic diversification and transformation in many African countries and the volatility of growth induced by the continuing vulnerability to external shocks constitute powerful arguments for rethinking the continent's development strategy. The case for promotion of developmental states in Africa rests on the observed inability of previous development approaches to assist African countries in diversifying and transforming their economies.

Limited structural transformation and diversification in output, exports and employment has contributed significantly to the apparent inability of African economies to achieve high and sustained economic growth rates and social development, as well as to their high growth volatility. During the last decade, Africa experienced an upsurge in growth, and GDP rose twice as fast in this period as in the 1980s and 1990s. Rising unemployment, high poverty levels and lack of social safety nets imply that social

development in many African countries has not kept pace with the economic growth upsurge. In other words, high and sustained growth rates in Africa must be underpinned by substantial economic diversification and structural transformation. For Africa, one of the key lessons of the recent global crisis is the need to have a diversified economy that can create decent jobs, create wealth and reduce poverty—hence economic transformation.

Structural economic transformation involves innovation and industrial processes and improvements in the various types of infrastructure and institutional arrangements for which the market mechanisms may not be sufficient and the government has a potential role to play in helping firms.

Constructing and operationalizing the developmental state approach in Africa involves several capacity-building and institutional reform challenges as well as new areas of cooperation and collaboration among key elements of the public and private sector and civil society. In addition, given the various historical, cultural and political differences among African countries, it is unlikely that one size of the developmental state concept will fit all these countries. More specifically, the generic form of the developmental state in Africa will be constructed through a series of experiments with capacity and institution building. Similarly, the particular form of the developmental state that is operationalized in each African country may well exhibit some characteristics that reflect the specific circumstances of that country.

The basic components of the developmental state (listed under the Characterization subsection, above) are the key features of the developmental state approach. At the same time, African governments need to take measures to avoid various potential risks and pitfalls of state intervention.

As in other parts of the world where different forms of the developmental state have been successfully deployed, much learning-by-doing and experimentation is required. This approach is especially demanding of capacity and institution building, and in many African countries, the required capacities and institutions may need to be built or strengthened. In addition, African policy makers need to acquire more knowledge with respect to several of the

key institutional relationships in many African countries. Some of the required institutions have not existed before or have not been used to perform the functions assigned to them in this new approach.

Further research on the developmental state with particular reference to African contexts is required, and it may enhance adoption and implementation of the developmental state. African countries should include an inventory and evaluation of the capacities and institutional arrangements discussed above, which would help to identify existing gaps. Country research is also needed to isolate and explore the specific channels through which the developmental state approach can enhance economic diversification, transformation and socio-economic development. Similarly, new research by countries may help to determine the specific policy measures required to avoid or reduce the risks of state intervention.

Finally, further research may be useful with respect to three areas demanding a more regional and continental focus. One relates to the transition of the developmental approach from the national to the regional and continental level. A second is how relations between African countries and their development partners may need to be transformed as African countries adopt the developmental state approach. The third is examining how (and how much) common standards related to governance established by regional and continental institutions can be more effectively enforced at the national and local levels within African countries.

As in other parts of the world where different forms of the developmental state have been successfully deployed, much learning-by-doing and experimentation is required.

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Notes

- 1 See Sen (1999).



Economic Commission for Africa



African Union

The world economy grew by 3.6 per cent in 2010 up from -2.1 per cent in 2009, but its growth is expected to moderate to 3.1 per cent in 2011. Africa's rebound strengthened from the GDP growth rate of 2.4 per cent in 2009 to 4.7 per cent in 2010 and a forecast of 5 per cent for 2011. The recovery in Africa was underpinned by a number of factors, including the rebound of export demand and commodity prices; increased inflows of foreign direct investment in extractive industries and aid; return of tourism; investment in infrastructure associated with the countercyclical policies adopted by many African countries; increased activities in the service and especially telecommunication sectors; increased consumer demand; and good harvests in some subregions.

Despite progress in some countries, African economies are still characterized by heavy reliance on the primary commodity sector, high vulnerability to external shocks, jobless growth and slow progress towards social development goals. It is essential for African countries to promote economic diversification and structural transformation as a means to accelerate and sustain broad-based and shared high employment-generating growth. Failure of earlier state-led and market-driven approaches to promoting economic transformation points to the need for African developmental states that use the market as an instrument rather than as a sole "mechanism" for fostering long-term investment, rapid and sustained economic growth, equity and social development, in the context of inclusive, transparent and comprehensive national development frameworks.

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