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 state[10] 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.

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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 1970–2007[4] 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.

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.

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 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.

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

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).

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).

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]

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 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 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.

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

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.

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.

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

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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 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.

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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 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.

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 policies[20] included an anti-industrial policy stance; liberalization of agricultural markets; financial liberalization; opening-up of economies and the liberalization of trade 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 kwasha 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).

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.

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 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.