# 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

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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 and climate change. Together, these issues curtail labour productivity, access to large markets, economies of scale and production efficiency, and raise production costs.

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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

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economic and socio-political institutions, and coordinating them effectively.

In addition, the approach provides for macro- and microeconomic 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 though 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).

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## 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.

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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 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

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support (to a greater or lesser degree) orthodox neoliberal 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:

*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.*

- 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.

## 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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