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Governing development in Africa: The role of the State in economic transformation

Issues paper

I. Introduction

1. Africa has sustained a relatively high growth rate since the turn of the century, averaging more than 5 per cent per year. This performance improvement, widely shared across countries, but raised hopes of a possible turnaround, compared to the stagnation of the previous two decades. Yet this growth did not result in significant creation of employment or wealth or improved welfare for ordinary Africans. One of the key explanations for this non-inclusive growth pattern is Africa's heavy dependence on primary commodity production and exports and limited economic transformation.¹ African economies are still dominated by agriculture and extractive sectors. Heavy dependence on primary commodity sectors increases exposure to economic volatility and enhances vulnerability to external shocks. It has also contributed to Africa's sustained high unemployment and the prevalence of vulnerable, predominantly informal-sector employment.

2. The persistence of primary commodity dependence in Africa is not the result of a lack of efforts by governments to remedy the situation. However, Africa's previous experiences with a range of alternative development approaches have so far failed to successfully address these structural problems. For instance, in the 1960s and 1970s, many African countries adopted State-led development strategies whereby governments played a pivotal role not only as facilitators and regulators but also as producers, traders and bankers. Although GDP growth rates as well as employment rates increased initially as a result of government interventions, these strategies became increasingly dysfunctional by the mid-1970s. Rather than help African countries to achieve economic diversification and rapid and sustained growth, they led to unsustainable macroeconomic instability (manifested in unsustainable fiscal and trade deficits and high inflation rates) and a high and unsustainable internal and external debt burden, which led to a vicious cycle of debt accumulation.

3. These structural imbalances forced many African countries to accept structural adjustment programmes (SAPs). The SAPs focused their primary attention on securing macroeconomic stabilization and used trade liberalization and economic deregulation as their main policy pillars. They implicitly assumed that free market forces would drive investment and overall economic growth, and failed to pay adequate attention to formidable supply constraints and endemic market failures, including weaknesses in economic and socio-political institutions and inadequate physical infrastructure and human capital.

4. Although many African countries managed to achieve greater macroeconomic stability by the late 1990s, economic growth rates and social development indicators remained low, and a significant number of countries remained heavily dependent on commodity production and exports and/or external aid. Freeing markets and privatizing public enterprises did not generate adequate investment to expand output, exports and employment. More importantly, SAPs weakened the capacity of the States to design and implement appropriate policies to alter the structure of their economies and accelerate progress towards achieving Africa's social development goals.

¹ The stylized facts of economic transformation suggest broadly that, as the real per capita income of an economy increases over the long term, the share of agriculture in GDP and total employment will decline; the share of the industrial sector in GDP will rise; the share of manufacturing subsector in GDP will rise; the share of the services sector will increase; the employment share of the agricultural sector in total employment will decline; and the ratio of average labour productivity outside agriculture to that in agriculture will increase.

5. The response of the World Bank and International Monetary Fund (IMF) to some of the observed failures of SAPs was to introduce poverty reduction strategies based on poverty reduction strategy papers (PRSP) in the late 1990s. Although this model had a primary focus on poverty reduction, it assumed that many of its objectives would again be achieved through overall economic growth. The more fundamental question of economic diversification and structural transformation was not directly addressed.

6. The persistent lack of meaningful transformation from agrarian and commodity-dependent economies to manufacturing, industrial and service-based economies is an important issue for growth, employment, poverty reduction and wealth creation in the continent, especially in the light of the recent unemployment-related social unrest and political instability in some countries. Furthermore, the experience of newly industrialized countries all over the world as well as modern growth theories underscore the fact that market mechanisms may not be sufficient, and that the government has a potential role to play in helping firms overcome the various problems of information, coordination and externality which arise inevitably in the process of modern economic growth.

7. Clearly, there is a need to rethink the role of the State in Africa's economic transformation and development. The central role of the State in the economic success of the Asian tigers and some Latin American countries reinforces the call for a more effective role for the State in governing Africa's development. The failure of earlier approaches, both State-led and market-driven, points in the direction of a developmental State that uses the market as an instrument rather than a "mechanism" for fostering long-term investment, rapid and sustained economic growth, equity and social development, and does this in the context of a democratic, inclusive and comprehensive national development framework.

8. This issues paper provides an opportunity for discussing the role of the State in African development in order to identify an appropriate set of interventions to enhance the role of the State and other stakeholders in performing the key tasks necessary for economic transformation in Africa. The discussion will provide an opportunity for policymakers to examine the historical record on the role of the State in Africa in promoting development, share best practices and lessons from Africa and elsewhere on the challenges of building a capable and dynamic developmental State, and recommend concrete actions for effectively governing development and promoting economic transformation in Africa.

II. The central role of the State in governing development

(a) The central role of the State in economic growth and structural transformation

9. Modern economic growth theories point out that growth is a process of continuous technological innovation, industrial upgrading and diversification and improvements in the various types of infrastructure and institutional arrangements that constitute the context for business development and wealth creation, which can be summed up as economic structural transformation. The theories also underscore the fact that market mechanisms may not be sufficient and that the government has a potential role to play in helping firms overcome the various problems of information, coordination and externality which arise inevitably in the process of modern economic growth. What is certain is that the development experience of other successful developing countries, particularly the

recently emerging economies, demonstrates that the State in Africa has a potentially key role to play in economic diversification and structural transformation. Indeed, historical evidence shows that all countries that have been successfully transformed from agrarian economies to modern advanced economies had governments that played a proactive role in assisting individual firms in overcoming the coordination and externality problems in the process of their structural transformation. State-guided economic transformation requires governments to come up with good criteria for determining which industries are appropriate for a country's endowment structure and level of development.

10. Successful state-guided industrial policy has often involved targeting industries in countries with an endowment structure similar to theirs and with a level of development not much more advanced than theirs, in which they have comparative 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 and physical infrastructure, as well as fiscal, monetary, exchange-rate, capital-flow, trade and other policies, are important for such policies to succeed.

11. Hence, the central role of the State does not depend on how much it is involved in the economic transformation process, but more importantly on how it is able to govern development with a decisive ideological orientation and effective institutions and policies underpinned by adequate bureaucratic and organizational capacity and political will.

(b) Effectiveness of the State in structural transformation in Africa

12. The reality in many African countries is that the State has not succeeded in achieving meaningful economic structural transformation. Indeed, it is well established that limited structural transformation has exposed many African countries to the inherent fluctuations of international commodity markets, leading to significant growth volatility. This vulnerability to external shocks is due to several interacting factors. First, African development strategies have been ineffective in the reallocation of factors of production from less productive to more productive sectors as a means of diversifying their economies away from primary commodity sectors to high-value-added industry and services.

13. Second, natural resource abundance in some African countries has often been associated with the distortion of incentives for economic diversification and transformation. Third, economic transformation in Africa has, to varying degrees, been adversely affected by the continent's unfavourable environment and geography, which constitute significant handicaps to the attainment of higher labour productivity, constrain access to large markets, limit economies of scale, raise production costs and lead to low production efficiency. Fourth, Africa lags behind the rest of the world in terms of the quality of its human capital, infrastructure, economic and political institutions and business environment. This weakness is associated with ineffective resource allocation systems and 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.

14. Finally, many African countries suffer from large deficits in terms of States' capacity to enhance the human capacity of their citizens. As a result, there has been limited public participation and ownership of development programmes in many African countries. At the same time, the

weakened capacity of the State to promote the equitable and efficient allocation of resources has hindered the provision of adequate incentives for economic transformation.

(c) Lessons from successful developmental States

15. One can look at several countries to learn lessons from their successful transformation experiences. Malaysia is the classic example of the State playing a central role in economic transformation in a developing country. Malaysia's real per capita income increased dramatically from 1970 to 2007, and this was accompanied by a decline in the share of agriculture in GDP and an increase in the share of industry and manufacturing. This successful economic transformation was achieved by deliberate State involvement, based on a disciplined planning process aimed at transforming the structure of its dual economy. The evidence shows that the involvement of the State in this process included not only the formulation of relevant development policies, but also its active involvement in creating the required institutions and in providing the required investment.

16. Looking beyond East Asia, one can also find examples of successful developmental States in Africa. In Mauritius, annual growth rates were about 4.61 per cent from 1970 to 2007, with agriculture declining from approximately 24 per cent of GDP to less than 4 per cent and services increasing from 51 per cent to almost 70 per cent during the same time period. This successful economic transformation is attributed to government policies that have provided a conducive environment for the private sector. The restructuring of the economy, including reform programmes to reduce export taxes, also contributed to the transformation. Social progress has also been a remarkable achievement in Mauritius. Through national development plans, the government has been able to provide social services to most of the population, such as education, health facilities, housing and other social benefits and safety nets.

17. The case of Botswana demonstrates some characteristics of a developmental state, but also illustrates the challenges facing Africa in implementing such regimes. Botswana has indeed built a professional and competent bureaucracy, and has been able to attract foreign direct investment, especially to the mineral sector. Botswana also has one of the world's highest rates of economic growth, surpassing that of Mauritius, Malaysia and other East Asian countries. However, the developmental coalition has not been able to diversify the economy; mining revenues account for about 50 per cent of GDP, while poverty rates and inequality remain very high.

18. The foremost lesson derived from these development experiences is that the "minimal State" approach of neo-liberal economics widely adopted since the late 1970s does not seem to have served Africa well. The success stories of continental Europe and Japan after the Second World War, and, more recently, the success of East Asian countries has been largely implemented under an active industrial policy. Spontaneous order in the market is only a part of economic order, and constructed order, associated with consciously designed or deliberately modified organizations, networks and State intervention, plays an equally important role.

19. Successful experiences of recent economic transformation in East Asia and Latin America were initially based on effective integration into the world economy, which helped sustain diversification of production and exports. These experiences confirm that competing in international markets needs trained and qualified labour as well as products of a high standard. Indigenous technological capabilities

seem vital for industrialization, a process which is carried out through learning and calls for various new skills from the education system to meet the demands of the labour market.

20. The “catch-up” nature of experience in emerging economies, especially in East Asia, highlights the fact that markets, particularly those involving advanced-technology-based products, involve more than the exchange of existing resources. There is a prime emphasis on creating incentives for production and investment. This links the study of economic organizations to the institutions surrounding them, such as government agencies, financial institutions and universities supporting R&D in industry. Ensuring the effective role of institutions in development, requires conscious decision-making by the State.

21. Committed, credible and capable governments in these economies contributed to their macroeconomic stability and their successful economic development. In the context of the long-term vision of these governments, inflation was kept at a relatively moderate level and public financing sustained their growth. There were of course errors and failures in their development, but these countries were able to recognize problems and learn from them.

22. The effectiveness of the developmental role of the State depends to a large extent on its ability to work with other social actors to achieve development outcomes. For example, in Japan and the Republic of Korea there has been a close cooperation between the State and the private sector under the leadership of State planning authorities such as MITI in Japan and the Republic of Korea’s Economic Planning Board. In these countries the development strategy is nurtured through institutional frameworks organized within the framework of a systematic State-guided industrial policy, using government investment to develop infrastructure, provide cheap finance and facilitate tariff protection when needed.

23. This illustrates the fallacy of the forced separation between the State and the market. The vital question here is not whether the State should or should not intervene. Rather, what are the types of State intervention which can increase the response rate of agents (firms, households, workers) to a dynamic market environment and equip them with “capabilities” allowing them to respond more flexibly to market signals?

(d) The role of the State in Africa’s economic transformation

24. There are three major tasks that the State has to undertake as a means of achieving economic transformation in Africa: the planning of the development process, the formulation of appropriate development policies, and the implementation of development plans and policies.

25. The development process has to be planned for several reasons. The changes required are not marginal, and hence the decision-making involved cannot be optimally done by free-market forces, which often suffer from information and coordination gaps. The interdependence of all elements of the development process can be dealt with effectively in the context of comprehensive development frameworks rather than narrow partial models. Most developing-country economies are characterized by pervasive market failures. In addition, the information and coordination externalities involved in the development process can be most effectively taken account of in the context of planning.

26. The responsibility for articulating appropriate development strategies and policies clearly belongs to the State, but it is best carried out in the context of constant dialogue with key social and economic agents on the production, supply and consumption sides. The maintenance of macroeconomic stability is a basic requirement for promoting steady and sustained growth rates with low volatility. However, economic transformation requires the use of appropriate policies, incentives and sanctions to ensure that both public and private resources move in the direction where they will be optimally used. Many of the necessary policies result in gains and losses, and thus have gainers and losers. The State therefore has a responsibility to negotiate the associated conflicts between social groups and, over time, to articulate development policies which promote economic growth and transformation without unduly sacrificing important equity and social considerations.

27. The implementation of development plans and policies requires that the State should have the capacity and competence to carry out this task. For this purpose, key planning institutions need to be established and given the power and autonomy to do their work effectively and efficiently. In addition, however, consultative and deliberative mechanisms need to be established and institutionalized. These should provide the necessary linkages through which the bureaucracy can interact with all key stakeholders. In this context, the design and implementation of plans and policies will involve monitoring and evaluation, as well as assessment and review of the plans and policies under implementation, with broad stakeholder participation and involvement.

28. In summary, economic transformation in Africa demands that the State should play a central role, using a comprehensive development framework, in articulating and implementing policies aimed at ensuring that resources move in the desired direction. To play this role, the State must have the necessary capacity for carrying out the three major tasks described above. It must have the institutions for effectively linking the bureaucracy with the key stakeholders. Furthermore, it must have the legitimacy required to mobilize all stakeholders around a nationally-owned development framework, goals and targets and the capacity to monitor and evaluate the effectiveness of its plans in order to bring about the necessary structural transformation.

29. Advocating a stronger role for the State in development should not be seen as an extension of the old and tired debate of the State versus the market, nor should it be understood to mean that the private sector should not remain the engine of economic growth. The issue is not whether or not the State - like the market or the private sector - should play a role in economic transformation and development, but rather how the State can play its role more effectively in guiding development and how to strengthen the State's capacity to play this important role, and its accountability. To be sure, the experience of many emerging economies provides valuable lessons for African countries. However, care must be exercised to avoid the "one size fits all" syndrome. Also, although important lessons can be learned from success stories in Africa and elsewhere, one should not think that the experience of one country or one region can be transplanted into or replicated in another.

30. Based on the foregoing, achieving economic transformation for sustained, clean and shared growth in Africa may require a developmental State to guide the process. But 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 citizens? How can it effectively foster active

stakeholder engagement in the planning process? These are important questions that are dealt with in the next section.

Issues for discussion

1. What explains the slow process of economic transformation in Africa?
2. How and by what means must prevailing governance systems in Africa change in the direction of structural transformation?
3. How do you establish credible, strong, autonomous and effective planning institutions that will underpin the developmental State?
4. Is there a lesson in the East Asian and Latin American experience for Africa? Could African countries try this prescription and attempt to govern their markets in a broadly similar way?
5. What are the main challenges and opportunities with which the developmental State has been presented by globalization, and what is the role of global governance institutions in these processes?

III. Constructing the developmental State to boost economic transformation in Africa

(a) The developmental State: what is it?

31. The developmental State is one that acts "authoritatively, credibly, legitimately" in promoting "industrialization, economic growth and expansion of human capabilities..." and is "able to construct and deploy the institutional architecture within the State and mobilize society towards the realization of its developmentalist project".² In other words, this is "a State that puts economic development as the top priority of government policy, and is able to design effective instruments to promote such a goal." These instruments would include the "forging of new formal institutions, the weaving of formal and informal networks of collaboration amongst citizens and officials and the utilization of new opportunities for trade and profitable production".³

32. Although the notion of the "developmental State" is often associated with the first and second generation of newly industrialized countries in East Asia,⁴ the idea of the "developmental State" in practice was born long before it was so labelled. Developmental States have evolved over the ages, and some have characterized the growth of the Netherlands in the sixteenth century, England in the sixteenth to the nineteenth centuries, Germany in the mid-nineteenth to early twentieth centuries and some African countries in the immediate post-independence era as forms of developmental State.^{3,5} As noted by Mkandawire, Africa has had "States that were developmental both in their aspirations and

² Edigheji, O. (ed.), 2010. *Constructing a Democratic Developmental State in South Africa: Potentials and Challenge*, HSRC Press, Cape Town.

³ Bagchi, Amiya Kumar, 2000. "The Past and Future of the Developmental State", *Journal of World Systems Research*, vol. 11, no. 2, Summer/Fall, pp.398- 442.

⁴ Japan is in the first generation of East Asian countries of a 'developmental State', while South Korea, Taiwan and Singapore are in the second generation.

⁵ Mkandawire, T., 2001. "Thinking about the Developmental States in Africa", *Cambridge Journal of Economics*.

economic performance”. Regrettably, the adoption and implementation of SAPs in the 1980s and 1990s led to a downgrading of the role of the State in economic development in Africa, and harmed prospects for the growth and consolidation of developmental States on the continent.

33. Developmental States have differed in their evolution, context, trajectory and manifestations. There are therefore cultural and conjunctural peculiarities in the emergence and nature of developmental States around the world. There cannot be a “single model” in engineering and modelling developmental states in Africa, as elsewhere in the world. Nevertheless, developmental States have common attributes that can be investigated across countries and time so as to draw lessons that can be used to facilitate rapid economic and social transformation in the African context.

34. In order for these criteria to be met, several strategies may be employed. To have inclusive economic development at the centre of its agenda, a government must appeal to civil servants and the elite class as well as the general public. This can be done by creating incentives, such as political competition and improvements in personal welfare. Without this, the government alone will not be able to promote economic transformation. To build bureaucratic and organizational capacity, the developmental State may wish to employ skilled technocrats at the governmental level and effectively harness their abilities to assist in the development process. There must also be a competitive domestic market to promote economic growth from within the country. At the political level, the country must reform the political system to ensure inclusiveness, efficiency, transparency and accountability.

(b) Constructing the developmental State

(i) Characteristics

35. The construction and promotion of such developmental States in Africa requires a good understanding of the characteristics of an effective developmental State and the role of stakeholders in its design and operationalization. In addition, it requires an understanding of the potential implications for regional integration and for Africa’s external economic relations. Finally, there is a need to pay attention to eliminating and minimizing potential pitfalls related to State intervention.

36. Relying broadly on the capability-based development theory, an effective developmental State in Africa can be conceived as one which has the political will and the capacity to articulate and implement capacity-expanding, transformative and distributive economic and social development policies derived from democratically-organized public deliberations and not manipulated by technocratic and socio-political elites. Among the key features of such a developmental State are the following:

- (a) A government that has the political will and legitimate mandate to perform specific required functions in the context of a nationally-owned development vision;
- (b) A good constitution, the rule of law, an independent judiciary, representative political institutions, an effective central bank and other regulatory institutions, good laws and property rights enforcement;
- (c) A competent, professional and neutral bureaucracy which ensures the effective and efficient implementation of its strategies and policies in accordance with established national development goals;

- (d) 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, monitoring and evaluation;
- (e) A comprehensive development framework in the context of which national development goals are established and the complementarities among social and economic policies are explicitly embedded; and
- (f) A governance system which 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.

37. The developmental State approach could help address development challenges by focusing on rebuilding and strengthening State capacity with a view to raising its ability to expand human capabilities and promote an equitable and efficient allocation of resources which, in turn, should generate appropriate incentives for economic diversification and transformation. The approach should also prioritize the building and strengthening of economic and socio-political institutions and their effective coordination to produce the desired socio-economic development outcomes. In addition, it should provide for the articulation and implementation of macroeconomic, industrial and sectoral policies that are specifically targeted at promoting economic transformation and overcoming the potential negative impacts of endowment, environment and geography on the continent's growth pattern.

(ii) The role of key stakeholders

38. A broad range of factors, both internal and external, interact to shape the economic and social development of a country. These include the extent to which certain development principles are applied, the level of participation of various stakeholders in the process, and institutional arrangements at national, subregional, regional and global levels. In this context, it is important to recognize the role of leadership, the private sector and civil- society organizations in the success of the developmental State. Likewise, there is a need to recognize the potential benefits of regional integration and external relations for national development and to pay particular attention to the role of the State in optimizing the contributions of these forces in the development process.

The role of leadership

39. To build a developmental State, African countries need to build transformative and democratic institutions. A crucial component of such institutions is leadership. Leadership in the developmental State aims at defining an agenda that meets the needs of the people and puts national interests above personal interests. In this vein, leaders should own a development strategy, expressed in a vision to overcome underdevelopment. This vision in turn will be developed and implemented by an appropriate organizational unit such as a Ministry of Economic Planning. Towards this end, the leadership needs to be committed to Africa's industrialization and the creation of more productive and high-income opportunities in the formal sector, but must also be inclusive. Central to inclusiveness is that the State needs to ensure that people have opportunities to acquire assets and have access to sustainable employment. For instance, land reform will be critical, especially in Southern Africa. And in other subregions where subsistence agriculture is dominant, the State will need to promote cooperatives and to support small farmers with access to skills training, finance, markets, technology, business

knowledge and so on. Agrarian reform may be required for some African countries to become democratic developmental States. Furthermore, the developmentalist coalition needs to be committed to environmental sustainability, including the promotion of a green economy with clean technologies and renewable energy.

40. It is important to promote leadership capacity at various levels. In this context, the State must build a competent and professional bureaucracy and ensure that recruitment and promotion in the bureaucracy is based on merit rather than political patronage, ethnic or religious considerations. It is also important to have an attitudinal change in the public service through leadership training that will make all public servants leaders and ensure that they give their very best towards the achievement of the State's developmental goals, as well as a bureaucracy that fosters professional development and rewards achievements.

The role of the private sector and civil society

41. The developmental State in Africa requires that the articulation of national development goals should draw on democratic public deliberations. In the process of achieving this, a developmental State has to forge relations that encompass all national and regional public and private-sector stakeholders, the private sector and civil society. These stakeholders have three key functions to perform: coordination of views and activities, participation in decision-making, public monitoring, implementation and provision of oversight. The participatory and consultative dimensions of the developmental State should enable people's organizations, including social movements and civil society, to take part in the development and governance processes.

42. Indeed, local and national deliberative mechanisms and processes need to be institutionalized, either through an act of parliament that makes it mandatory for the State to consult with non-State actors, or by ensuring that there is an informal but institutionalized process of consultation. African leaders should enhance ownership of national development programmes by citizens. This in turn should increase the legitimacy of economic policies and transparency in governance. The African Peer Review Mechanism currently being embraced voluntarily by a number of African countries has the potential to make an enormous contribution towards building such a democratic developmental State, by making systematic the contribution of other actors, especially the private sector and civil society.

The private sector

43. The private sector is the engine of economic growth and largest employer, and will remain so in a developmental State. As is recognized in the NEPAD framework, and as the development experiences of Asian countries over the last four decades have shown, domestic and foreign private enterprise and capital have a crucial role to play in driving sustained economic growth and development in Africa. A flourishing and appropriately regulated private sector will create decent jobs that will take people out of poverty and provide the government with taxes to finance the necessary investment in education, health, water and sanitation. The private sector can also play a significant role and become an essential element in the effort of African governments to increase intraregional trade. Given the great importance of infrastructure and the tight constraints on their resources, governments have increasingly sought to tap private sources of finance. Although most investment in infrastructure

is still public, the private sector has increased in importance as governments have gained experience in regulation.

44. African countries have taken a number of steps in the last decade to strengthen the private sector and make it the engine of accelerated growth and structural transformation. The principal measures employed have been to create an enabling environment for the development of the private sector by promoting competition in the economy, reducing the burdens of doing business, adopting special measures for the development of the informal sector and small and medium-sized enterprises, enforcement of business contracts, creating special economic zones and protecting property rights.

45. However, despite these reforms, African countries are lagging behind other regions in terms of the ease of doing business, and the private sector in Africa continues to face enormous challenges. In Africa it takes longer and is costlier to start a business and obtain licences, the labour market tends to be more rigid than elsewhere, taxes on businesses tend to be higher as a proportion of profits, and it is relatively costly to export and import goods. Small firms are unable to grow and become more efficient as a consequence of insufficient savings, low availability of credit information necessary for ascertaining the creditworthiness of potential borrowers, and a general lack of suitable collateral as a pledge for loans. The developmental State has to support private-sector development by helping to address these and other supply constraints, including weak infrastructure and inadequate human capital.

Civil society

46. Participation by civil society in building and sustaining the developmental State will ensure the buy-in of key sectoral stakeholders towards the effective implementation of development strategies, in the framework of building a social compact based on partnership within a broad consensus. In Southern Africa, for example, the importance of civil society has been acknowledged to the extent that the PRSP processes are conditioned on civil-society participation. Typical areas prioritized by civil-society organizations in PRSP processes in the subregion were education, health care, agriculture, water and sanitation and economic infrastructure. These are essential sectoral developments that underpin the success of the developmental State in promoting economic transformation and in governing development.

47. It must also be recognized that, to have credibility and legitimacy, non-State actors, including civil-society organizations, should be professional and have sound internal governance and leadership structures that ensure accountability, transparency and good performance. The State is more likely to consider the private sector and civil-society organizations as viable partners in development if they are well organized and have the ability to effectively advocate for and articulate sound policy recommendations.

Issues for discussion

1. How could different African countries create a developmental State that is consistent with their realities and development goals and puts economic development at the centre of the agenda?
2. Is democracy a precondition for developmental States, or an objective and natural result?
3. What should be the key strategies and policies of the African developmental State? How should they be implemented? What linkages should be made between national development planning and municipal development planning?
4. What factors prevent the private sector and civil-society organizations from playing their full roles in the development process?
5. What institutions and mechanisms should governments put in place to foster the participation of private-sector and other non-State stakeholders in the development process? What are the experiences of African countries and developmental States in other continents in this regard?
6. How do governments or States mobilize the elite class to support or cooperate in creating and implementing an inclusive model of economic development?
7. What incentives can the State create to ensure a meritocratic bureaucratic state insulated from ethnic competition and rivalry and patron-client relations?

IV. Regional and international dimensions

(a) Regional and continental integration and development

48. The role that regional integration can play in the development of African countries, especially in terms of trade and foreign direct investment, is well known and well documented. Aspects include addressing the constraints arising from small domestic goods markets and financial markets and high trade costs associated with border regulations. Likewise, regional integration will enable African countries to increase their bargaining power and visibility, devise common solutions and use resources more efficiently, coordinate policies and regulations, deepen reforms and prevent and resolve conflicts.

49. The developmental State has a crucial role to play in ensuring that countries harness regional integration to promote their economic and social development, as defined in the African Peer Review Mechanism framework. In this regard, the developmental State needs to commit to regional and continental integration efforts, namely regional economic communities and the African Union. To that end, the State is expected to put in place strong regional and continental integration institutions with appropriate mechanisms to coordinate implement and monitor integration policies and programmes and powers to enforce compliance and hold States accountable for actions that deviate from the agreed common goals, policies and programmes.

50. Yet, regional integration must go beyond the signing of treaties. The State must ensure that the goals of regional economic communities and the African Union (namely the Abuja Treaty and the Minimum Integration Programme) are translated into national plans and budgets. Similarly, being a primary stakeholder, the State has the important role of ensuring that commonly agreed policies are implemented at the national level. Furthermore, States have to fulfill their financial obligations to

regional and continental economic communities, encourage creative and alternative sources of financing away from aid dependence and create an enabling environment for effective private-sector participation in regional and continental integration efforts.

(b) International economic arrangements and partnerships

51. Many African countries maintain a complex web of economic relations with a range of countries and regions outside the continent. They are also members of a number of regional and multilateral institutions whose mandates cover economic issues. These relationships directly or indirectly impose certain restrictions on the ability of African countries to deploy policy instruments as part of their development strategies. This may constitute a potential area of conflict when African countries adopt the developmental State approach, which regards the use of such policy instruments as fully legitimate.

52. For instance, virtually all African countries are linked to the European Union through either the Lomé Convention (in the case of sub-Saharan Africa) or the Euro-Mediterranean Association Agreements (in the case of North Africa). Similarly, many African countries are linked to the United States through the African Growth and Opportunity Act; and to several other OECD countries through the Generalized System of Preferences. The non-reciprocal elements of these linkages do not directly impose serious economic policy space restrictions on beneficiary African countries.

53. However, the Lomé Convention has given way to the new Economic Partnership Agreements. These are reciprocal and are being negotiated by four subregional groups in sub-Saharan Africa. It is not clear yet what the final agreements will look like. It is certain, however, that their reciprocal nature will impose additional obligations on African countries and possibly affect regional integration arrangements. It should also be expected that once they are agreed and signed, there will be moves from the United States to turn the African Growth and Opportunity Act into a reciprocal agreement as well.

54. In any case, most African countries are already members of the World Trade Organization, some of whose binding agreements outlaw certain trade-related investment measures. Thus, their membership already has impacts on their policy space which may conflict in certain respects with the policy imperatives typically associated with the adoption of the developmental State approach.

55. In addition, key international organizations such as the World Bank and IMF, and a number of bilateral donors such as the United Kingdom 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 more or less support neo-liberal orthodox policies and may be reluctant to support some of the more State-centred policies that the developmental State approach may consider important. Given the heavy dependence of many African countries on the support of these donors, a decision to adopt the developmental State approach may have significant implications in terms of finding alternative financing sources, in the event that the donors cannot be persuaded to waive their objections. This also calls for improved coordination among African countries to enhance the development effectiveness of international economic arrangements and institutions for the continent as well as to foster diversified and mutually beneficial South-South cooperation.

(c) Avoiding potential pitfalls associated with State intervention

56. 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 in influencing the behaviour of economic agents. This intervention typically extends beyond what may be needed to correct for standard “market failure” problems, and may thus include instances where markets are supplemented or even supplanted for strategic reasons. It may therefore be inevitable that the use of the developmental State approach will be vulnerable to a number of risks that are associated with State intervention.

57. The potential risks are likely to vary in magnitude and intensity, and may be associated with the behaviour of regulators, producers and consumers. In particular, the entire State apparatus may be captured by the elites or powerful special interest groups in such a way that the national development goals being pursued no longer reflect those derived from democratically-organized public deliberations. At a lower level, failure in the integrity and professionalism of the bureaucracy may lead to inefficient decision-making with regard to the allocation of rents. Corruption at this level could breed waste and inefficiency. Inappropriate behaviour by regulatory agencies established to set product quality and safety standards and ensure compliance by producers may result in “regulatory capture”, as corrupt regulators are “bought” by those they were empowered to regulate. Both public and private-sector producers may also find it more profitable to invest resources in rent-seeking rather than in actual production. Similarly, consumers who receive subsidies may also resell their allocations for gain.

58. To avoid these potential pitfalls, the developmental State approach typically relies on a set of instruments. First, a committed political leadership has an important oversight responsibility to ensure disciplined and transparent behaviour by all decision makers and economic agents. Second, there is a need for strong and functional political, economic and social and other regulatory institutions, good laws and property rights enforcement. Third, an autonomous and professional bureaucracy is expected to maintain its integrity even in the face of strong temptations. Fourth, key stakeholders, particularly civil society and the media, also have an oversight responsibility for avoiding these potential risks.

59. In addition to these institutional arrangements, the developmental State approach has an arsenal of policy instruments that can be used to eliminate or at least limit exposure to these potential risks. Thus, rents can be allocated transparently and tied to agreed performance targets. Such rents can also be extinguished quickly when objectively determined circumstances no longer justify their existence. Stiff penalties can be imposed for the misuse or diversion of subsidies. Ultimately, the market can be used as a supplementary means of maintaining efficiency and motivating economic agents over the longer term, and thus serve as a check on institutionalized corruption.

Issues for discussion

1. What are the key roles of non-State stakeholders in the design, implementation and monitoring of national development strategies?
2. How can African countries maintain autonomy and independence from external interference and donor-driven agendas in the establishment of functional developmental States.
3. What should African countries do to ensure that regional and continental integration effectively supports the role of the State in economic transformation?
4. How could the international community and development partners assist Africa's developmental States?
5. What effect could international trading agreements such as Economic Partnership Agreements and institutions such as WTO have on the policy space of a development State in Africa?
6. What mechanism should be put in place to prevent State capture by special interests and ensure that the rules of the game favour productive investment instead of rent-seeking activities?
7. How can governments maintain the integrity and professionalism of bureaucrats and regulators so as to ensure that they act in the interest of the people in supporting the developmental State?