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WIDER Annual Lecture | 22

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ERNEST ARYEETEY

THE POLITICAL ECONOMY OF STRUCTURAL TRANSFORMATION:

HAS DEMOCRACY FAILED AFRICAN ECONOMIES?

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United Nations University World Institute for Development Economics Research (UNU-WIDER) gratefully acknowledges the support of the governments of Finland, Sweden, and the United Kingdom to its 2019–23 work programme.

UNU-WIDER
Katajanokanlaituri 6 B
00160 Helsinki, Finland

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Typescript prepared by Lesley Ellen.
Printed at Grano Oy

The views expressed in this paper are those of the author(s), and do not necessarily reflect the views of the Institute or the United Nations University, nor the programme/project donors.

ISSN 1455-3082 (print)
ISSN 1564-8311 (online)

ISBN 978-92-9256-719-4 (print)
ISBN 978-92-9256-718-7 (online)

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Foreword

The field of development has since its beginnings wrestled with the linkages between economics and politics. Does economic development support political liberalization? Is democracy necessary for development, or development for democracy? What is the relationship between processes of economic and political change? Roughly sixty years since most sub-Saharan African countries gained independence – including seventeen in 1960, the 'Year of Africa' – it is fitting to consider these linkages in light of African experiences. We were delighted that Professor Ernest Aryeetey agreed to give the WIDER Annual Lecture 22, and then that he chose to address 'The Political Economy of Structural Transformation: Has Democracy Failed African Economies?'. A distinguished economist of development, Professor Aryeetey speaks with unique authority on this topic.

Each year the WIDER Annual Lecture is delivered by an eminent scholar or policy maker who has made a significant and widely recognized contribution in the field of development. The Lecture is a high point in the Institute's calendar. Professor Aryeetey is a fitting addition to the esteemed list of lecturers UNU-WIDER has presented since the series started in 1997. He is distinguished not only in his record of research on development – including and in particular his important work on informal finance and microfinance in Africa – but also in his contributions to higher education and to the strengthening of institutional capacity for high-quality research in and on Africa.

Since 2016, Professor Aryeetey has served as the first Secretary-General of the African Research Universities Alliance (ARUA), a network of sixteen of Africa's leading universities. With the goal of enhancing research and graduate training in member universities, ARUA has worked through various channels, including the set-up of 'Centres of Excellence' that bring together world-class researchers and graduate students to do cutting-edge collaborative research in core thematic areas. A professor of economics at the University of Ghana, Professor Aryeetey was previously Vice Chancellor of the University of Ghana (2010–16) and Director of the Institute of Statistical, Social and Economic Research – ISSER (2003–10), as well as the first Director of the Africa Growth Initiative at the Brookings Institution. Among his many contributions to the field, we also note with gratitude his leadership during two terms as Chair and Member of the UNU-WIDER Board (2003–15) and as a Member of the UNU Council (2016–19), the governing board of the United Nations University.

Professor Aryeetey's lecture speaks to big questions for sub-Saharan Africa and beyond, noting challenging tensions between electoral accountability and the economic policies needed for structural reform. It concludes with a strong recommendation that African countries reconsider their positions on long-term planning, including through the use of new technologies and the strengthening of institutions that can support such planning. Drawing on a wealth of research, it offers deep insight into African economies and economic trends over the last six decades, weaving together rich insights from multiple bodies of work. This includes many strands from our work at UNU-WIDER, including links with key arguments in other recent WIDER Annual Lectures – such as the work of Peter Timmer on structural transformation and Justin Lin on the new structural economics respectively. As we continue at UNU-WIDER to ask challenging questions in the political economy of development, Professor Aryeetey's lecture offers deep and important insight.

Rachel M. Gisselquist, Senior Research Fellow
UNU-WIDER, Helsinki

Abstract

Most African nations have been independent for more than six decades. In that period, they have tried different types of political regimes and economic policies—all intended to hasten the pace of economic development and the associated structural transformation. They have seen authoritarian regimes with less open economies, as indeed they have also come to embrace democracy and more open economic systems. Growing dissatisfaction with the outcomes of recent recent experiments with national economies, including unemployment and rising inequality, have tended to undermine confidence, and have led to questions about democratic institutions and structural transformation. Does democracy lead to the right economic choices in Africa? Why cannot governments devote more resources to structural reforms? What incentives do governments have for pursuing structural reform over electoral cycles? This lecture will argue that because structural reforms, such as modernization of agriculture and industrialization, are more difficult to conceptualize and market to an impatient populace, they seldom take place. As a result, macroeconomic and other policy reforms, including financial sector reforms and new social policies, do not achieve their full impact and begin to lose effectiveness. When economic policies are perceived to be self-serving, they lead to episodic experiences of growth, poverty reduction, and inequality, at worst. This lecture concludes that African nations have no choice but to go back to basics, relying on new technologies to pursue structural transformation.

Acknowledgements: I would like to thank Ishmael Ackah and Priscilla Twumasi-Baffour for very valuable assistance with this study.

About the author

Ernest Aryeetey is the inaugural Secretary-General of the African Research Universities Alliance (ARUA), a network of sixteen of Africa's flagship universities. He is a professor of economics and former Vice-Chancellor of University of Ghana (2010–16). He was also previously Director of the Institute of Statistical, Social and Economic Research (ISSER) (2003–10) at University of Ghana, and the first Director of the Africa Growth Initiative of Brookings Institution, Washington DC.

Professor Aryeetey studied economics at the University of Ghana and undertook graduate studies at Universitaet Dortmund, graduating in 1985. He has held academic appointments at the School of Oriental and African Studies in London, Yale University, and Swarthmore College in the US. He was appointed by the UN Secretary-General as member of the Council of the United Nations University in May 2016, and was previously Chair of the Board of UNU-WIDER in Helsinki. He is also a member of the Board of the Centre for Development Research at University in Bonn. He served as Resource Person and member of the Programme Committee of the African Economic Research Consortium (Nairobi) for many years. He is currently Chair of the Board of Stanbic Bank Ghana Ltd.

Ernest Aryeetey's research focuses on the economics of development with interest in institutions and their role in development, regional integration, economic reforms, financial systems in support of development and small enterprise development. He is well known for his work on informal finance and microfinance in Africa. He has consulted for and advises on a broad range of international agencies. He has published three books, nine edited volumes, and numerous journal articles. Among his publications are, *Financial Integration and Development in Sub-Saharan Africa*, and *Economic Reforms in Ghana: the Miracle and the Mirage*. His latest publication is the edited volume, March 2017. In 2018 he delivered the WIDER Annual Lecture in Helsinki, on 'The political economy of structural transformation – has democracy failed African economies?'

1

Introduction

“On 11 May 2000, The Economist (2000) declared Africa, the hopeless continent. It came to this conclusion in the midst of a combination of growth-inhibiting factors such as disease, floods, corruption, conflicts, and poor leadership that had manifested on the continent.

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The history of economic performance and development in sub-Saharan Africa (SSA) has not followed any known or established path. Economic performance has remained unpredictable for the best part of the period that countries have managed themselves, that is in the last six decades. At the same time, the process of structural transformation and development has remained predictably slow. Thus, on 11 May 2000, *The Economist* (2000) declared Africa, the hopeless continent. It came to this conclusion in the midst of a combination of growth-inhibiting factors such as disease, floods, corruption, conflicts, and poor leadership that had manifested on the continent. Eleven years later, on 3 December 2011, *The Economist* (2011a) had as its front-page headline ‘The Hopeful Continent’. The headline for the 2 March 2013 edition of *The Economist* (2013), declared Africa the world’s ‘fastest-growing continent’, which was in line with earlier statements from McKinsey (2010), who had declared African countries ‘lions on the move’.

The positive story

Indeed, in a working paper published by the African Development Bank (AfDB), McMillan and Harttgen (2014) supported these assessments. According to them, Africa’s hopelessness had turned into optimism. This conclusion was in line with the findings of Page and Shimeles (2014), who reported that the percentage of the population living on US$1.25 or less had been reduced from 58 per cent in 2000 to 48 per cent in 2010. Young (2012) termed Africa’s economic performance the ‘Growth Miracle’. He noted that real consumption had been growing at 3.4 per cent to 3.7 per cent per year. The annual growth rate of Africa between 2000 and 2010 was estimated at 5.2 per cent (Curtis and Todorova 2012).

“2 March 2013 edition of The Economist (2013), declared Africa the world’s ‘fastest-growing continent’

The prospects for growth have generally looked good in the last decade. For 2018/2019, the World Bank has revised upwards its growth estimates for a number of sub-Saharan countries – South Africa, Angola, Côte d’Ivoire, and Senegal – and has estimated that Africa will grow by 3.1 per cent in 2018 and 3.6 per cent in 2019 (World Bank 2018a). Figures from the World Development Indicators (World Bank 2018b) show that Côte d’Ivoire, Ethiopia, Kenya, Rwanda, Senegal, and Tanzania achieved growth rates of 8.8 per cent, 7.6 per cent, 5.5 per cent, 5.9 per cent, 6.6 per cent, and 7 per cent respectively in 2016. In 2017, countries like Côte d’Ivoire and Ghana achieved growth rates above 6 per cent (Aykut and Blaszkiewicz-Schwartzman 2018).

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Structural change occurs when labour is re-allocated from traditional to modern economic activities.

The not so positive story

These growth performances notwithstanding, the World Bank has projected that by 2030, most of the world's extreme poor will live in Africa (World Bank 2013). This is derived from the history of these economies and their inability to translate growth into sustainable development. The UN Economic Commission for Africa estimated in 2015 (UNECA 2015) that, during the 1980s and 1990s, Africa had the lowest human development indicators and highest poverty rate, and it is only in the last 10 to 15 years that this trend appears to be reversing, albeit slowly. Indeed, 32 of the 40 countries that ranked the lowest in the UN Human Development Index are in Africa, while 24 of the 25 worst performers in the 2013 inequality-adjusted Human Development Index are in Africa (UNDP 2013).

To compound the situation, Africa faces a myriad of challenges including an estimated US$93 billion per annum infrastructure gap, low energy access, inadequate human capital development, a weak technological base that is not sufficient to support modern manufacturing, and improving the low agricultural productivity (AfDB 2018). These are further made worse by the increased export of low-value primary products whose prices are highly volatile. This means that, though Africa achieves high gross domestic product (GDP) growth, there is little or no mechanism for translating that into inclusive development. socioeconomic environment is characterized by poor human development, low participation in global trade, corruption, commodity price volatility, lack of diversity, and frequent conflict. This observation was made in a meeting of development partners in Africa[1].

The AfDB reported in 2013 that Africa's social and economic structures mainly depend on the production and exports of low-value, diminishing-return goods. These factors tie Africa's fortunes to commodity price fluctuations. Corruption is woven deep into the fabric of everyday activities and costs about US$150 billion per annum (Blunt 2002). The New Partnership for African Development (NEPAD) adopted at the 37th session of the Organization of African Unity (OAU) Assembly of African Heads of State and Government in July 2001 in Lusaka called for the reversal of this abnormal situation.

[1] This meeting took place in Midrand, South Africa on 24–27 February 2013 and was jointly organized by the Pan African Parliament, the United Nations Millennium Campaign, United Nations Development Programme, ACORD, Tax Justice Network-Africa, Third World Network-Africa, and Christian Aid.

The structural transformation debates

According to McMillan et al. (2014), these negative trends could be reversed if Africa invested in processes and systems that facilitated structural transformation. In transforming structurally, the goal is to promote a highly productive agriculture sector, industrialization, urbanization, high health and education standards, and inclusive growth. As development theory postulates, structural change occurs when labour is reallocated from traditional to modern economic activities. Indeed, it has been argued that the speed with which the structural transformation takes place differentiates between successful and non-successful countries (McMillan et al. 2014). While labour has moved from non-productive rural agriculture, it has been absorbed in the services and informal production sectors that are generally less productive. Therefore, instead of enhancing growth, Africa's 'structural transformation' appears to be growth reducing and non-inclusive (Rodrik 2013; McMillan et al. 2014; Page 2017). A number of factors have been reported as contributing to the supposed 'reversed structural transformation', including conflicts, low factor productivity, poor political leadership, poor physical infrastructure such as energy, and unfavourable business environment, among several others (see Collier and Gunning 1999; Ndulu et al. 2008).

Africa's structural transformation challenges cannot be generalized, however. Since 2000, structural change is measured to have contributed positively to Africa's overall growth, and significantly to economies such as Ethiopia, Kenya, Rwanda, Malawi, Senegal, and Tanzania (McMillan et al. 2014).

In the 'old thinking', in order to correct the structural transformation anomaly, a country may adopt any of two theories. First, the 'urban pull' theory suggests that industrial technology advancement and deployment in urban areas have the ability to put unemployed labour or those in non-productive sectors in rural areas to more productive use in urban areas (Jedwab and Vollrath 2015). This calls for investment in urban infrastructure, research and development, and financial and human capital development that facilitates access to opportunities for existing and potential manufacturing firms to emerge and expand to absorb labour from the agriculture sector. On the other hand, on the 'rural push' theory, Barrett et al. (2017) suggest that the key to Africa's structural transformation depends on increased labour productivity in rural agriculture and releasing excess labour to other productive sectors for off-farm economic activities. This is in line with the recommendations of earlier studies, including Lewis (1954) who recommended reallocation of labour from a less productive agrarian sector and the adoption of modern technology to achieve higher levels of development. In order to achieve this, there should be transformation of the rural economy by introducing farmers to modern scientific methods of farming and investing in social and economic amenities.

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In the 'new thinking', Lin (2011) proposes three interrelated processes that must be followed to achieve structural development. He indicates, first, that an economy's structure of factor endowments evolves from one level of development to another and that each level of development requires investment in both hard and soft infrastructure. Second, each level of economic development is a point along a continuum from a low-income agrarian economy to a high-income industrialized economy, and therefore each country may have its own unique needs and characteristics. In a nutshell, the interventions that worked in developed countries may not necessarily be successful in developing countries. Finally, the market is the most efficient resource allocator at each level of development. The gap in both the 'urban pull' and 'rural push' theories is the assumption that the excess labour from agriculture will automatically find something that is productive to do through the market mechanism without examining Africa's peculiar characteristics. Indeed, the expectation that the manufacturing and other productive sectors will automatically absorb labour that is moving from agriculture and other non-productive sectors and the reality of limited spaces and growth in these sectors poses the biggest challenge to Africa, thus explaining most unemployment and underemployment.

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Structural adjustment and after

When most African countries undertook economic reforms in the 1980s and 1990s, the initial emphasis was on macroeconomic stability, after many years of instability, in preparation for more involving structural reforms. They undertook wide-ranging policy reforms and then moved on to some institutional reforms. The institutional reforms were generally seen as the precursor to the needed structural reforms and transformation. Operating democratic systems came highly recommended in the effort to strengthen institutions and improve governance. Whether these systems have led to strong and effective institutions for structural transformation is an open question. It is interesting that with the advent of the practice of democracy most challenges to the economy have tended to be blamed on 'democracy'.

Leadership and institutions

In the words of Barack Obama, 'Development depends upon good governance. That is the ingredient which has been missing in far too many places, for far too long' (*Sunday Times* 2009). Though Africa has experimented with different forms of leadership and governance systems, there are still challenges to making them effective in most places. The 2017 edition of the Natural Resource Governance Index (Natural Resource Governance Institute 2017) shows Ghana (oil and gas), Botswana, and Burkina Faso ranked in the top 20 countries in terms of natural resource governance. Also, seven out of the ten least-performing countries are from Africa. It is often mentioned that one of the most essential requirements for transformation in Africa is effective leadership with vision: leaders who have respect for institutions and policy rigour and consistency, respect for citizens, and commitment to accountability (Maathai 2011; Afegbua and Adejuwon 2012). What is not clear is how democratic institutions foster this kind of leadership and produce the governance arrangements that support transformation. Most of the recent studies of governance in Africa have tended to be interested in electoral cycles and term limits for office holders as the way to ensure that good leaders emerge. Indeed, a number of studies on Africa have recommended presidential term limits (Cheeseman 2015), respect for civil and political rights and credible elections (Lindberg 2006), and transparency and accountability (Gaventa and McGee 2013) as the way forward. They tend to argue that if their recommendations were implemented it would help create strong institutions that would work to reduce the tendency to create strong individuals who may not promote transformation and development.

What is not clear is how democratic institutions foster this kind of leadership and produce the governance arrangements that support transformation.

Structure of lecture

This lecture seeks to show that if the economic management efforts of the last several decades have not led to structural transformation, it is not simply a question of whether democracy and associated practices are good for Africa. The main argument is that African governments have not adopted democracy appropriately for the purpose of building institutions that generate the reforms that support

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structural transformation. Thus, even when governments express interest in long-term development, they manage this interest in a short-term framework and look for immediate outputs. The lecture argues that appropriate policy and institutional reforms for structural transformation must be anchored in long-term development frameworks and institutional structures.

The remainder of the lecture is divided into five sections. Section 2 is used to highlight the absence of structural transformation in the region. It provides an overview of economic performance and examines the sectoral composition of GDP and contributions to growth, dependency ratio, energy access, and employment statistics. Section 3 looks at some of the theories underpinning structural transformation and examines the new structural economics viewpoint in relation to Africa. In Section 4, the lecture examines the politics of economic decision-making. The section will throw more light on how decisions have been made for economic planning and budgeting purposes and the main actors in economic decision-making. In Section 5, the lecture sheds light on how recent political institutions have emerged in pursuit of democratic principles and have been used to manage development. The focus is on electoral cycles and how they have been abused to deny medium- to long-term planning and the consequences for structural transformation. Finally, Section 6 concludes.

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2

The unchanging structure of Africa's economies

According to Timmer (2012), four central, interrelated processes describe structural transformation in any economy. These are: a decline in the share of agriculture in employment and GDP; rural-urban migration underpinned by rural and urban development; the rise of modern industry and a service economy; and a demographic transition from high birth/death rates to low birth/death rates. This calls for growth that is inclusive and sustainable. The proceeds of such development should be shared fairly in terms of demographic (young and old, socially excluded, and the marginalized, gender), geographic (rural and urban), vertical (rich and poor), and sustainable (now and the future) profiles.

Growing literature

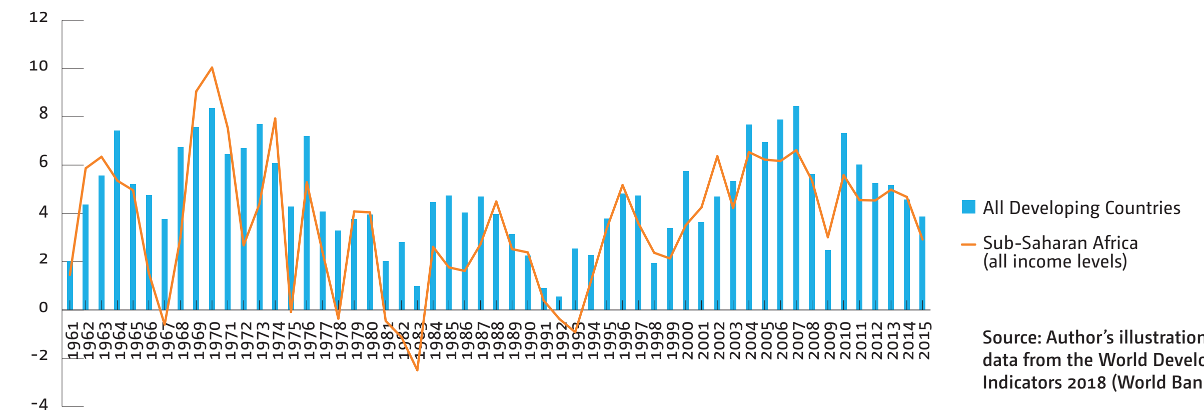
Indeed, there has been renewed interest in the study of structural transformation. Herrendorf et al. (2011) provide a useful review of this new literature. The literature reflects a growing realization of the relevance of dual economy models other than the Solow model for analysing the process of growth in developing countries (see Temple 2005). A number of the studies try to measure the size of the gap between labour productivity in agriculture and the rest of the economy. Caselli (2005), in a study using cross-sectional data for several countries, concludes that three key characteristics separate poor countries from rich ones:

1. labour productivity is much lower in poor countries;
2. labour productivity in manufacturing and services is much lower in poor countries compared to rich countries, but the size of these gaps is not as significant as those in agriculture; and
3. a larger share of the workforce in poor countries is concentrated in the least productive sector, agriculture.

Economic performance and commodity prices

Africa's economic growth trend has been positive and promising, amid fluctuations, since 1994. However, growth declined sharply from 2014 because of falling oil prices, among other factors (see Figure 1). In Figure 1, the annual growth rate averaged 4.5 per cent for all developing countries and 3.5 per cent for SSA from 1961 to 2016. In terms of GDP per capita, between 1960 and 2016 the average annual per capita economic growth for all developing countries was 6.2 per cent. However, the average per capita growth rate for SSA was 4.2 per cent.

Figure 1: GDP growth rate (1960–2016)



Source: Author's illustration based on data from the World Development Indicators 2018 (World Bank 2018b).

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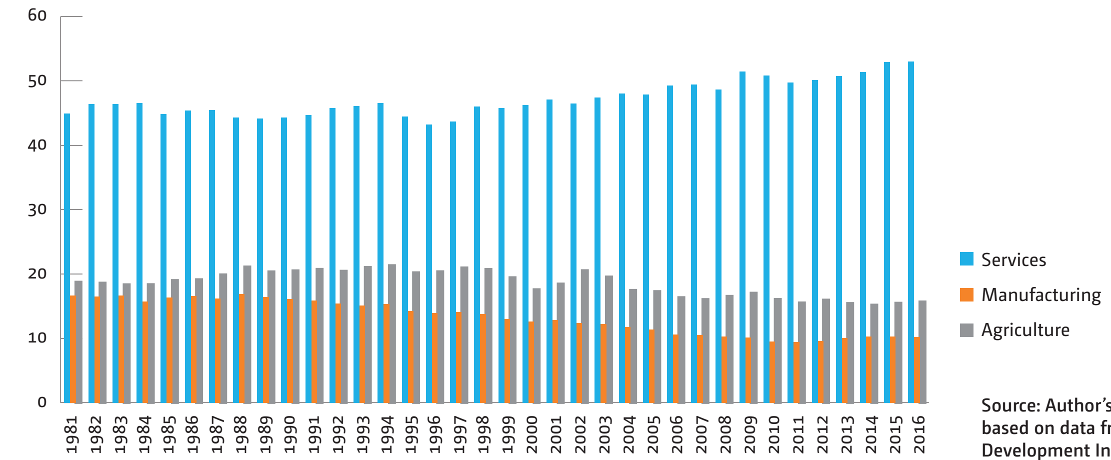
The sharp decline in growth from 2014 was primarily driven by the oil price fall, which had a significant impact on macroeconomic performance in many places. For instance: Nigeria, Africa's biggest economy, saw its currency depreciate by more than 20 per cent against the dollar between June and February 2015; Ghana cut its capital budget by about 52 per cent; and Angola depreciated its currency (Kambou 2015). Nigeria's case could be linked to Dutch Disease, leading to currency appreciation which made non-oil exports uncompetitive. The fact is that Africa's economic growth is generally tied to commodity exports. At the height of the high oil prices in 2011, at US$107.46[2] per barrel, natural resource rent contributed 18 per cent of GDP of SSA. In 2015, when the average oil price was US$49.49 per barrel, natural resources contributed only 8 per cent. The need for diversification from primary commodity-led growth to a manufacturing-based economy in line with the structural transformation hypothesis is obvious here.

[2] Statista (2019).

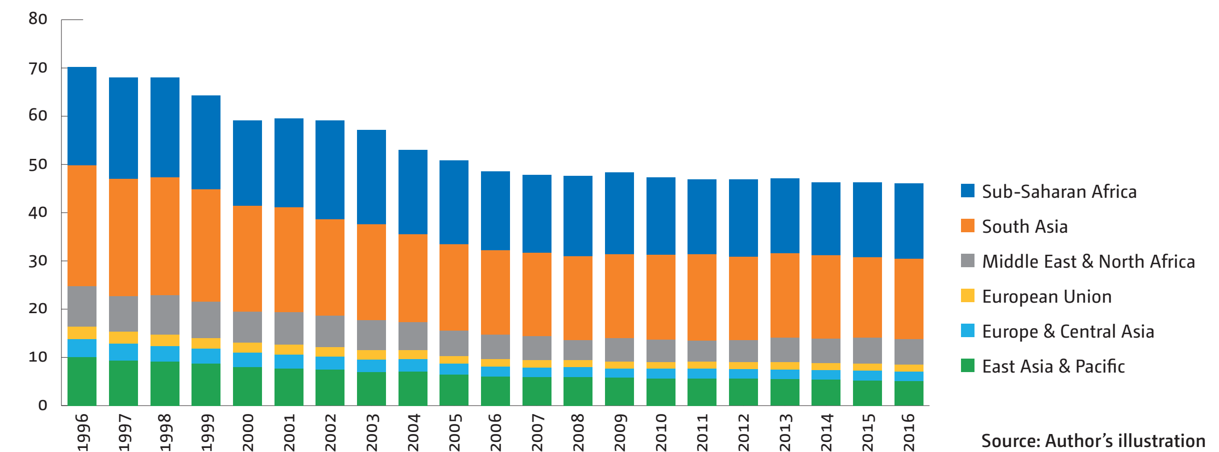
Sectoral contributions to growth
Following the structural transformation growth hypothesis, the contribution of the agriculture sector to GDP declined from 23.9 per cent in 1981 to 17.6 per cent in 2016. The contribution of the service sector to GDP increased from 42.1 per cent in 1981 to 58.3 per cent in the same period (see Figure 2). The manufacturing sector on the other hand had its share drop from 14.95 per cent to 10.49 per cent in that period. On a positive note, raw agriculture export as a percentage of merchandized export declined from 9.5 per cent in 1974 to 2.2 per cent in 2014. At the same time, manufacturing export as a percentage of merchandized export increased from 12.04 per cent in 1974 to 23.9 per cent in 2014. Figure 3 compares the sectoral contribution to GDP in selected African countries.

Figure 2: Sectoral contribution to GDP in Africa (1981–2016)



Source: Author's illustration based on data from the World Development Indicators 2018 (World Bank 2018b).

Figure 3: Agriculture, forestry, and fishing value added (% of GDP) across regions



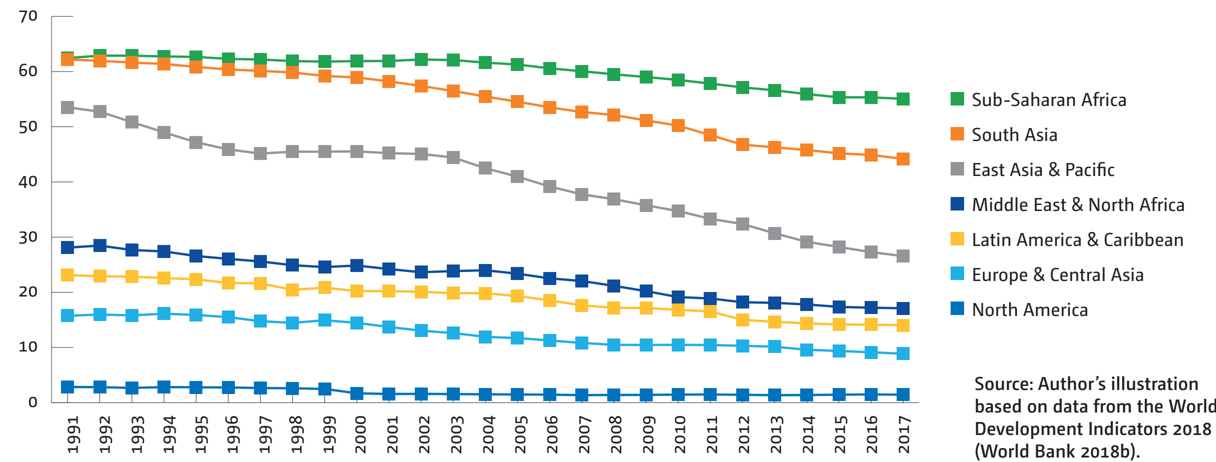
Source: Author's illustration based on data from the World Development Indicators 2018 (World Bank 2018b).

Figure 3 shows how important agriculture is to national output in SSA compared to other regions of the world.

Sectoral development and employment

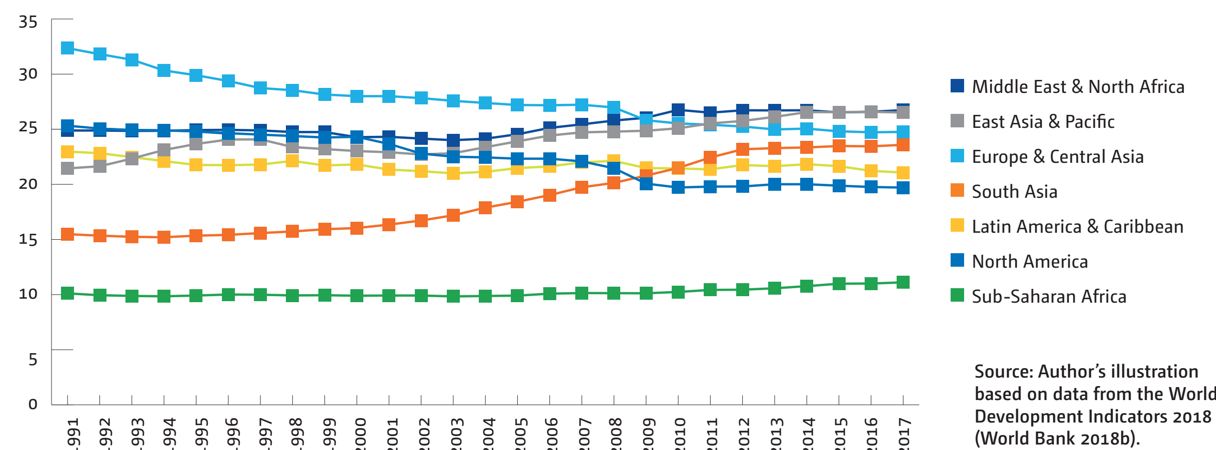
Whereas in a normal process of structural transformation, labour moves from rural agriculture to urban manufacturing, the case in SSA has been different. The proportion of the labour force in agriculture is as high as 80 per cent in some countries. Figure4 shows the dominance of agriculture as employer in SSA, while it is less so in the more developed parts of the world where it has steadily lost employment share in the process of transformation. Due to the large share of the labour force in agriculture in SSA, there appears to be enormous potential for structural change in Africa to lead to growth and poverty alleviation (McMillan and Headey 2014).

Figure 4: Contribution of agriculture to total employment (%)



Source: Author's illustration based on data from the World Development Indicators 2018 (World Bank 2018b).

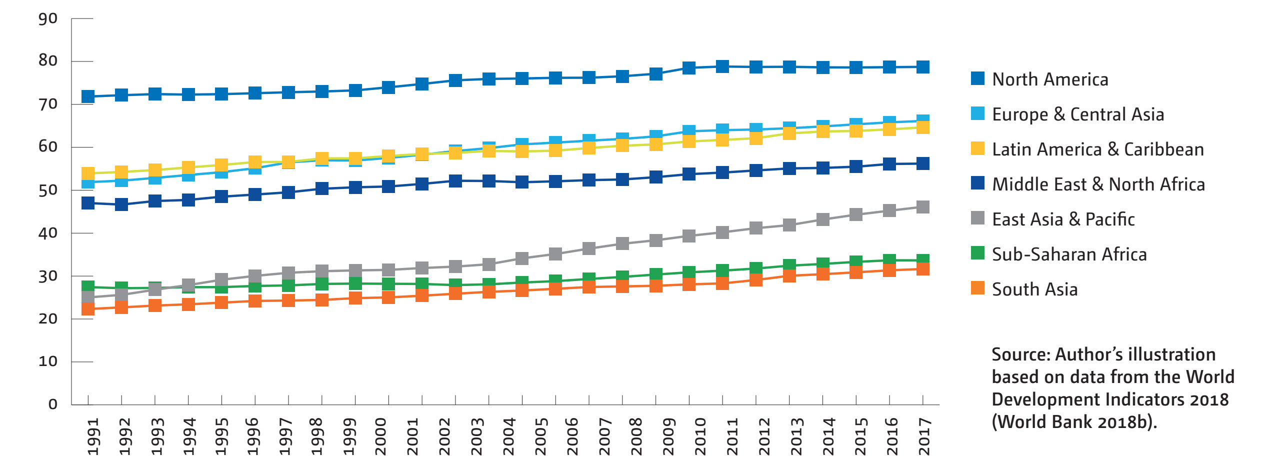
Figure 5: Contribution of industry to total employment (%)



Source: Author's illustration based on data from the World Development Indicators 2018 (World Bank 2018b).

Figure 5 shows the trajectory that industrial sector growth has taken around the world. Clearly, industry in Africa has never been a major source of employment in SSA. This pattern is consistent by observing the services sector's contribution to total employment across regions of the world in Figure 6. Interestingly, the contribution of the services sector to total employment in recent years has increased steadily unlike industry in the sub-region.

Figure 6: Contribution of services to total employment (%)



Source: Author's illustration based on data from the World Development Indicators 2018 (World Bank 2018b).

The above patterns suggest that the growth trajectory of SSA is missing the very important middle section of structural transformation. It is therefore not surprising that issues of high youth unemployment are very significant in the sub-region. The sector that is seen in all modern economies to have a high absorptive capacity in terms of labour appears to have been skipped in most of the region. Interestingly, as noted by McMillan and Headey (2014), the sectoral movements of people outside agriculture are not necessarily accompanied by urbanization and the growth of the urban labour markets. Subsequently, larger firms that utilize intermediate capital replace small family-run production units that are financed through household savings.

Agriculture and productivity

As already reflected by the data, in almost all African countries, agriculture's share of employment is significantly higher than its share of GDP. This raises questions about productivity within the agricultural sector via output per worker in the sector. In reality, large numbers of workers in agriculture in Africa use rudimentary methods with extremely low levels of relative productivity. Unfortunately, there is not much study of structural transformation in Africa to explain the situation. One of the best known is by McMillan et al. (2014), where they used data on employment and value added disaggregated into nine sectors. The use of disaggregated data makes this study important in understanding structural change in Africa, where manufacturing has lagged behind. The authors examined changes in sectoral allocation of labour to determine whether structural change in Africa actually raised overall productivity and increased economic growth. McMillan et al. (2014) found, contrary to expectations, that between 1990 and 2005, structural change was, on average, growth reducing in Africa, although with important exceptions. In effect, people did not move from agriculture to high-productivity sectors.

In almost all African countries, agriculture's share of employment is significantly higher than its share of GDP. This raises questions about productivity within the agricultural sector via output per worker in the sector.

There are two challenges related to the transition from low-productivity agriculture to high-productivity manufacturing. First, most of the labour that might move from the agricultural sector is absorbed by the services sector, which is relatively less productive compared to the manufacturing sector. It is a lot easier to enter services. Second, the few that move from the agricultural sector to the manufacturing sector find themselves in informal small- and medium-scale enterprises. The challenge with this trend is that, SSA may not be able to obtain the benefits of unconditional convergence. This is because convergence depends on technological advancement, access to financial credit, and access to market.

According to Rodrik (2013), the labour transition to both the services and the informal manufacturing sectors reverses transformational growth. In Ghana, for instance, it is estimated that 59.9 per cent of the total number of employed persons in 2015 were in the informal sector, and 10 per cent of the total employed were classified as under-employed (Ghana Statistical Service n.d.).

3

Explaining the absence of structural transformation

> Despite improvements in some economic development indicators, it has been found that labour is mainly moving into services (wholesale, retail) and that the share of manufacturing in total employment has remained the same or has probably been reducing for more than 40 years

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Following neoclassical growth theory, poor countries would be expected to grow faster than rich countries. By having a low capital–labour ratio, poor countries are expected to enjoy higher or increasing returns on investments. Rodrik (2013) stresses that, since developing countries have access to global markets, they can expand production of tradable goods that they have comparative advantage in quickly to spur growth. Based on these assumptions, some economists find it strange that Africa did not take off to catch up with more developed economies. The Solow model (Solow 1956) predicts convergence based on capital accumulation. This did not happen in Africa, and Hoeffler (2002) has explained the need to augment Solow's model to explain Africa's structural development pattern.

The different phases of growth in the region
Africa's difficult attempts to achieve structural transformation need to be seen within the context of the dominant economic development approaches employed in the region in four distinct eras. The first era spans 1960 to 1970. According to de Vries et al. (2013), this was the immediate post-independence period, which was characterized by the limited movement of labour from the agricultural sector to the manufacturing sector. Many countries including Ghana, Nigeria, Tanzania, and Zambia implemented import-substitution industrialization strategies which led to the establishment of a number of largely state-owned industries. Bryceson (1996) suggests that the import-substitution industries that were established only survived due to high rates of protection. When these protections were removed or reduced, many of the industries collapsed or operated below their capacity. In the second era, which spanned 1970 to 1990, there were two oil crises and widespread currency instability, which led to the introduction of structural adjustment programmes later. In the third era, between 1990 and 2000, many African countries, including Rwanda, Kenya, Ethiopia, Ghana, and Nigeria, among others, retraced their steps to the path of structural transformation by opening their markets and implementing wide-ranging policy reforms. However, instead of moving from the agricultural sector to the manufacturing and industrial sector, labour moved to the services and the informal sector, as seen earlier (de Vries et al. 2013). The post-2000 era has seen the implementation of the Millennium Development Goals and sustained growth in SSA.

While Africa has made some limited progress towards structural transformation in some countries, this has not been as fast as expected. Despite improvements in some economic development indicators, it has been found that labour is mainly moving into services (wholesale, retail) and that the share of manufacturing in total employment has remained the same or has probably been reducing for more than 40 years (Timmer 2012; de Vries et al. 2013). This is disturbing since the marginal productivity of labour in the services and the informal sectors is low and possibly negative.

Despite the predictions of convergence from mainstream economic theory, the divergence in growth performance between developed and developing countries has led to a controversy over policy prescriptions or expectations about their effectiveness. Other schools of thought have pointed out that growth researchers have paid limited attention to heterogeneity among countries. For example, in 2012, Justin Lin pointed out a number of questions about the growth agenda: Are development economists looking in the wrong place in their quest for the determinants of growth? Should the focus be on institutions (institutional outcomes), instead of or in addition to policies? And assuming that they are not reflecting other factors, how can good institutional outcomes be generated? (Lin 2012: 20)

Historical and modern contexts
Rostow (1960) and Gerschenkron (1962) are associated with the idea of structural change in the context of economic development. Rostow suggests that countries can be placed in one of five categories in the growth trajectory. Gerschenkron, on the other hand, questioned Rostow's theory that generalizing the growth trajectory of different countries is possible. According to the new structural economics, economic development from a low level to a high level occurs along a continuum.

Jones and Romer (2010) indicate that the development of industries in an economy that follows its comparative advantage results in competitiveness in both domestic and world markets. As such, the economy will generate potentially the largest income and surplus for savings, with capital investment also having the largest possible return. This leads to a higher savings propensity that causes faster upgrade of the country's endowment structure (Lin and Monga 2010).

Lin et al. (1994) were first to present the term 'new structural economics', this inspired the book The China Miracle: Development Strategy and Economic Reform and the theoretical framework for his 2007 Marshall Lectures. With structural rigidities, new structural economics takes the position that developing countries' failure to develop advanced capital-intensive industries is endogenously determined by their endowments. The relative scarcity in the countries' capital endowment and/or the low level of soft and hard infrastructure, make reallocations from the existing industries to the advanced industries unprofitable for firms in a competitive market (Lin 2011).

Trying to explain the failure raises a number of political economy issues relating to the incentive most governments have to pursue the long-term vision of structural transformation, particularly when operating in democratic dispensations. Electorates generally want results within short-term election cycles.

On import substitution, the new structural economics sees it as a natural phenomenon for a developing country moving up the industrial ladder in its development process, provided it is consistent with the shift in comparative advantage that results from changes in its endowment structure. The theory, however, rejects the conventional import substitution strategies that rely on the use of fiscal policy or other distortions in labour- or resource-abundant economies to develop high-cost, advanced capital-intensive industries, which are not consistent with the country's comparative advantage (Lin 2011).

Specifically on infrastructure, the new structural economics dictates the need for the state to assume its leadership role in the provision and improvement of hard and soft infrastructure in order to reduce transaction costs on individual firms and also facilitate the economy's industrial development process (Lin 2012).

Kuznets stated already in 1966 (Kuznets 1966) that sustained economic growth cannot happen without structural changes. Thus, why are African countries not pursuing structural transformation in the quest for development?

The state and transformation

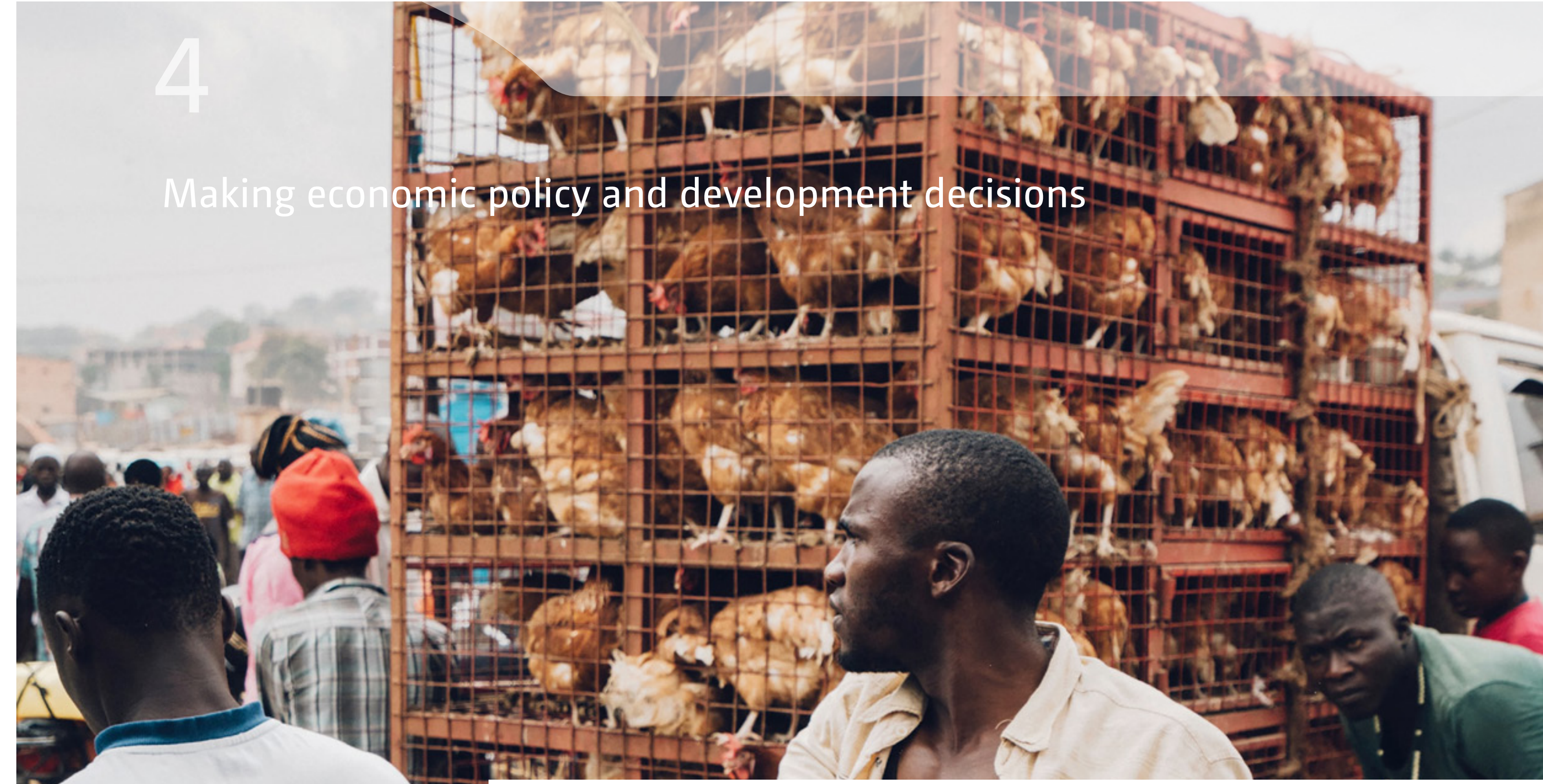
Historical evidence points to the fact that all the countries that have successfully transformed from agrarian to modern advanced economies have had governments that played a proactive role in assisting firms to surmount inevitable challenges (Lin 2012). As a matter of fact, governments in high-income countries continue to support their industries. Yet, almost all governments in the developing world have attempted to play this facilitation role at some point but have failed.

Lin and Monga (2010) propose a form of government intervention to broaden the scope of analysis of industrial policy by focusing on factors that facilitate structural change through the provision of information, compensation for externalities, and coordination to improve the 'hard' and 'soft' infrastructures that are needed for the growth of the private sector, consistent with the dynamic change in an economy's comparative advantage.

There appears to be consensus among economic historians on the relevance of the state facilitating structural change and helping to sustain it across time and across developed countries. However, except for a few successful cases, governments in most developing countries have failed to play that role successfully. Trying to explain the failure raises a number of political economy issues relating to the incentive most governments have to pursue the long-term vision of structural transformation, particularly when operating in democratic dispensations. Electorates generally want results within short-term election cycles.

4

Making economic policy and development decisions



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Africa has peculiar challenges, but also unique opportunities, to transform structurally. A major stepping stone will be to transform the production system and processes from primary exports, informal services, and manufacturing to value-added and productive agriculture, service, and industrial sectors. This calls for research and development, beneficiation policies, strong institutions, investment in technology, and human capital development.

Economic reforms

As noted earlier, when African governments undertook economic reforms in the 1980s and 1990s, the idea was that they would move into structural reforms after stabilization. Trade policy reforms, exchange rate reforms, financial sector liberalization, and public sector management reforms were all part of the package. Other reforms in many countries included education sector reforms and health reforms, as well as privatization of state enterprises. The rationale for the sectoral reforms was largely to achieve efficiency improvements and reduce public expenditures on them.

What was interesting about those economic reforms was that they came largely as part of the Washington Consensus and often had very limited local input. There were hardly any countries that shaped in a significant way the scope of their reforms. Thus, for more than a decade, most development initiatives were generally a reflection of what different sets of donors considered to be essential for any economy. Since structural transformation was not on the donor development agenda it did not get translated into the programmes of various countries pursuing reforms.

One of the interesting outcomes from those early reforms was how they could stabilize economies in the short to medium term, but with a lot of infusion of development assistance from bilateral and multilateral aid sources (Aryeetey and Moyo 2012). Governments were able to liberalize financial sectors with a view to generating greater lending to the private sectors. They expected interest rates to rise initially and then begin to fall as greater competition occurred in the sector. This hoped-for outcome did not happen anywhere in Africa as a result of structural bottlenecks inherent in the banking system (Aryeetey and Nissanke 1998). Recent widespread and severe bank failures in Ghana are a good illustration of the structural challenges.

When governments liberalized trade with the outside world as well as the market for foreign exchange, they expected the move to generate significant supply response that would provide the impetus for structural change. In Ghana, it was expected to boost cocoa exports significantly and also encourage what were called non-traditional exports. Unfortunately, diversification in the export market was not as significant as expected. Until the arrival of oil exports in 2010, the dependence on cocoa and gold remained.

One of the things that received considerable support from donors at the time, was a reform of the public financial management system in most countries. Considerable attention was paid to budgetary processes and the management of public finances. Very little effort went into linking budget preparation to structural transformation. It was generally assumed that once the processes improved, they would lead to greater transparency, which would eventually improve development policy decision-making.

Improving budget processes

Africa inherited its budget framework from the colonial era with little or no modification (Gollwitzer 2011). Indeed, Siebrits and Calitz (2007) found that many African countries inherited a fragile public finance system that was characterized by a narrow tax base. This is further worsened by deficiencies in plan formulation and implementation and an absence of reliable data (Tarp 2002). These challenges were compounded by high post-independence over-expenditures. Though some of the expenditures were on important public infrastructure, others were made on loss-making state enterprises and huge subsidies. The discussion here will show how improvements were recorded in the budget processes in the last decade, but not linked to any long-term development framework.

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The Organisation for Economic Co-operation and Development sees the budget as the single most important policy document of governments as it provides details of how policy objectives are reconciled and implemented (OECD 2002). Edame (2010) has argued that the budget is a major fiscal policy document of the government that relates projected government expenditure to revenue inflows. Due to its importance, governments such as Lesotho, Mozambique, and South Africa dedicate about 11 months each year to budget preparation, legislative approval, implementation, and evaluation. In most cases, the budget is approved two months before the beginning of a new fiscal year.[3]

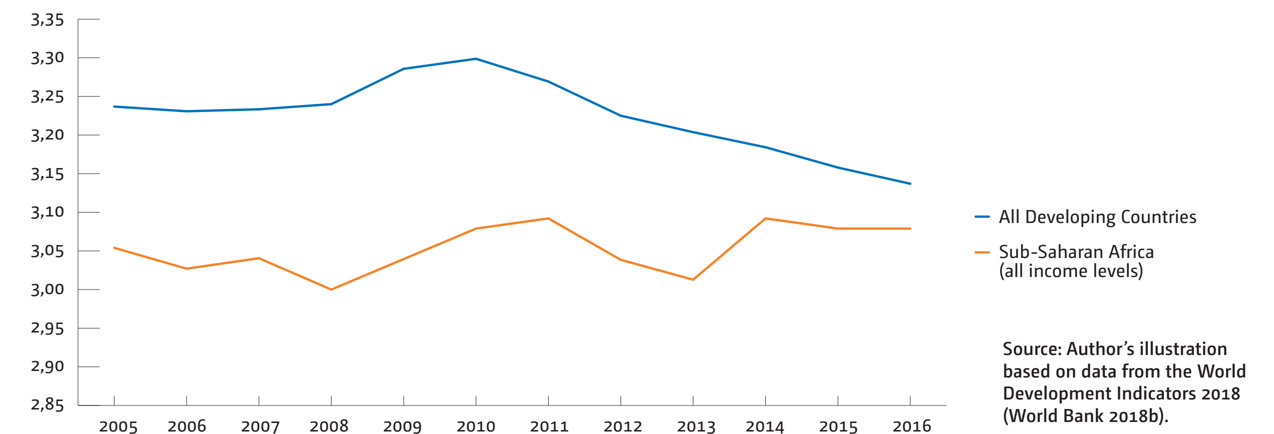
The budget is no more a document for a few elites, but a policy document produced through the interaction of the executives, the legislature, and citizens (Robinson 2006). Agency theory states that the principal (citizens) should be able to hold the agent (government) accountable. In a participatory budget process, citizens can be involved in debating fiscal priorities, and directly contribute to the budget formulation, implementation, and monitoring (Bräutigam 2004). However, this has not been the case in all SSA countries where some elected officials (president and parliamentary agents) have little incentives to involve citizens in the budget-making process (Ríos et al. 2016). Again, in a number of countries, finance ministers systematically withhold information about government revenues and expenditure from the legislature in an effort to prevent parliament from undertaking effective scrutiny.

A good legislative budgetary oversight is expected to have a positive influence on budget transparency.[4] According to Ríos et al. (2016), the principal role of the legislature is to review national budgets and approve them by authorizing governments to raise revenues and carry out expenditures. Wehner et al. (2007) have argued that parliaments engage in pre-budget debates on broad priorities and fiscal policy objectives for the medium term, review the budget by scrutinizing proposals from the executive, approve or amend, and engage in periodic monitoring of budget implementation. Indeed, when parliament plays the oversight role effectively, it becomes a public good which the citizens enjoy (Benito and Bastida 2009). In some African countries, including Ghana, Uganda, and South Africa, financial administration laws have been passed to give the legislature more authority in the budget formulation and post-implementation review. In countries such as Ghana and Nigeria, civil society organizations and the media have acquired the skill and confidence to make input into budgets and analyse budget outcomes.

[3] See AfDB (2018).

[4] International Budget Partnership (2010).

Figure 7: Quality of budgetary and financial management (1=Low to 6=High)

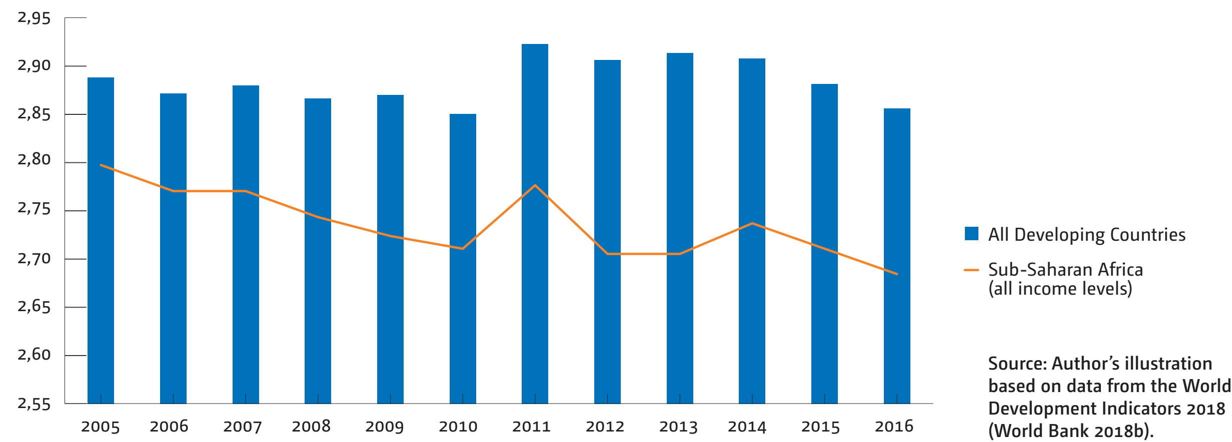


Source: Author's illustration based on data from the World Development Indicators 2018 (World Bank 2018b).

The World Development Indicators (2018b) suggest that the quality of the budgetary and financial management index measures the extent to which the budget is credible, comprehensive, and has an effective linkage with policy priorities, transparency measures, good financial management systems, and timely and accurate accounting and fiscal reporting, such as timely and audited public accounts. It is measured in numbers where 1 is low and 6 is high. Figure 7 shows that SSA reached its highest points in 2011 and 2014 and lowest point in 2008. SSA's budget has been improving since 2013 while that of developing countries has been falling since 2011. Transparency of the economic planning decision process is key to ensuring citizen participation in the budgeting process and a robust budget. Indeed, transparency of the economic decision-making process enhances better credit rating (Arbatli and Escolano 2012).

According to Hameed (2005), countries that have transparent public financial systems have greater financial discipline and have lower levels of corruption as well as better credit ratings. To make transparency of the economic decision-making process possible, Darbishire (2010) suggests that information such as that on government services should be free, relevant, comprehensible, and timely. De Renzio and Simson (2013) studied 26 SSA countries on budget transparency in a 2012 survey and concluded that only Uganda and South Africa published a full set of eight budget documents. Botswana, Kenya, Liberia, Mozambique, and Tanzania published six or seven, not publicizing a couple. At the bottom, Equatorial Guinea published none of their budget documents, while Benin, Rwanda, Chad, and Niger published only the approved budget. According to De Renzio and Simson (2013), only Angola, Botswana, Burkina Faso, Liberia, Mozambique, Namibia, Nigeria, Rwanda, Sierra Leone, South Africa, and Uganda, out of the 26 countries they studied, published the approved budget and post-budget implementation report on the expenditure and revenue (reconciliation report). Indeed, only seven countries presented information that was simple to understand, well organized, online, and accessible (Fölscher and Gay 2012). Figure 8 shows the performance of SSA on transparency, accountability, and corruption in the public sector from 2005 to 2016.

Figure 8: Transparency, sector accountability, and corruption in the public sector



Source: Author's illustration based on data from the World Development Indicators 2018 (World Bank 2018b).

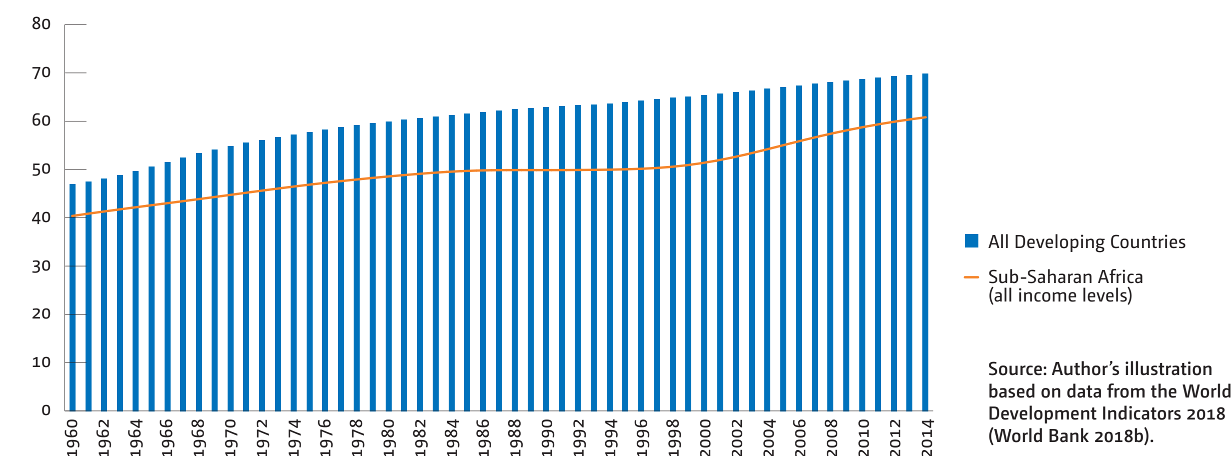
"In the absence of structural transformation, generally positive economic management attempts lead to generally positive outcomes, even if slower than required or in other developing regions.

The transparency, sector accountability, and corruption in the public sector indicators measure the extent to which public officials can be held responsible for their actions, including their usage of public funds. Figure 8 shows that the transparency and accountability index for SSA has been declining since 2011. Arbatli and Escolano (2012) conclude that, despite there being potential for transparency gains in SSA, the performance in most of the countries has either remained stagnant or deteriorated since 2006. According to them, francophone and lusophone countries perform at about one-fifth the level of anglophone countries when it comes to transparency, on average, while higher-income countries in SSA are more transparent than the lower-income ones (see Ackah et al. 2019).

In sum, the process of budget preparation has improved in several countries, but it is not necessarily associated with long-term planning and the strengthening of institutions that are designated for such planning.

Doing well without structural transformation?
In the absence of structural transformation, generally positive economic management attempts lead to generally positive outcomes, even if slower than required or in other developing regions. Reforms in health, education, agriculture, and financial management have started yielding fruit in many countries. Thus, for example, health indicators such as life expectancy at birth have been rising. Figure 9 shows the increasing trend of life expectancy at birth.

Figure 9: Life expectancy at birth, total (years)



Source: Author's illustration based on data from the World Development Indicators 2018 (World Bank 2018b).

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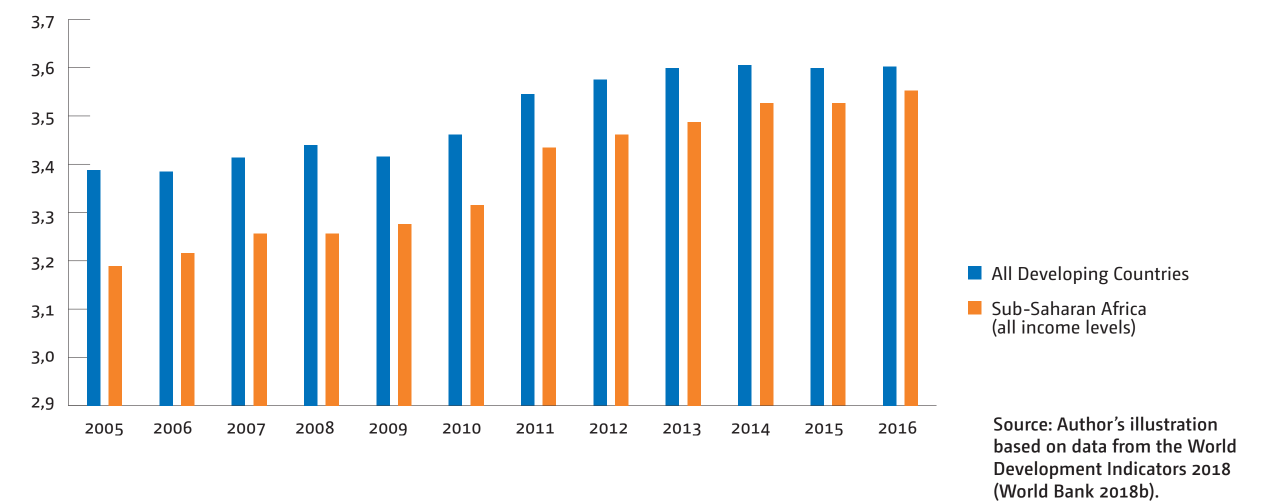
Average life expectancy increased from 40 years in 1960 to 59 years in 2015. Another important asset SSA has been developing is human resources, even if a little slowly. From the World Development Indicators (World Bank 2018b), 'building human resources' measures the national policies and public and private sector service delivery that promote access to and quality of health and education services. This is very important for SSA to prepare for the current and future demographic dividend. Indeed, Africa's population will continuously increase, which will lead to an expanded labour force. For SSA to reap maximum benefits from the demographic dividend, the level of education of young people must be good and more jobs must be created to avoid increased unemployment among the youth, which can lead to social unrest and other vices. Figure 10 shows the status of human resource development in SSA.

Figure 10: Building human resources

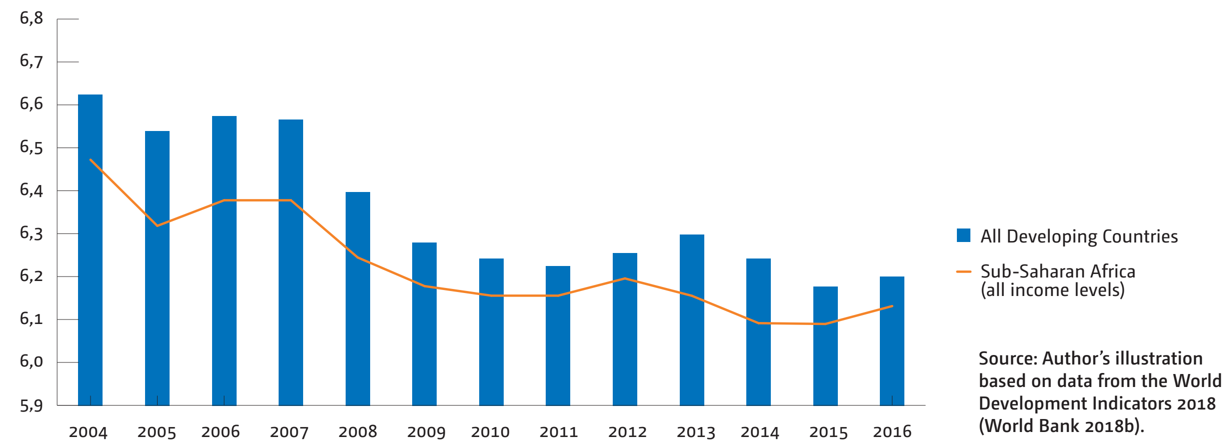


Source: Author's illustration based on data from the World Development Indicators 2018 (World Bank 2018b).

Taking cognisance of increased population and the potential to reap demographic dividends, governments in SSA have been investing in human capital development. According to Mills (2012), by 2025, one in four young people worldwide will be from SSA. Subsequently, 75 per cent of the youth will be living in the cities. This calls for investment in infrastructure and job creation over the next seven years to absorb them. If not, instead of becoming dividends, they may pose a big challenge to SSA. According to Bloom et al. (2016), by 2050, SSA will have a larger and younger workforce than China or India and can contribute substantially to economic growth if proper plans are put in place and implemented.

Already, efforts are being made to make SSA investor friendly. There have been 163 (World Bank n.d.) reforms in SSA to make it easier to start a business. Figure 11 shows a declining trend in the number of steps required to register a business.

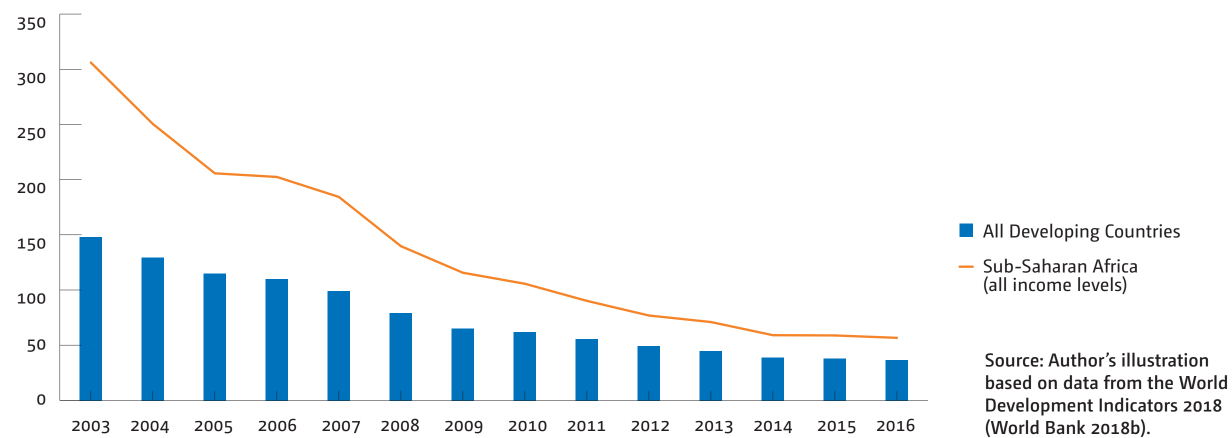
Figure 11: Number of procedures to register property



Source: Author's illustration based on data from the World Development Indicators 2018 (World Bank 2018b).

A major reform that has been undertaken is to reduce the number of procedures to register a business. Apart from reducing the frustration of investors, it also helps to reduce rent-seeking since the longer the process, the higher the likelihood that an official will demand a bribe to fast-track the process. In Figure 12, the cost of registering businesses has reduced significantly.

Figure 12: Cost of business start-up procedures (as a percentage of gross national income per capita)



Source: Author's illustration based on data from the World Development Indicators 2018 (World Bank 2018b).

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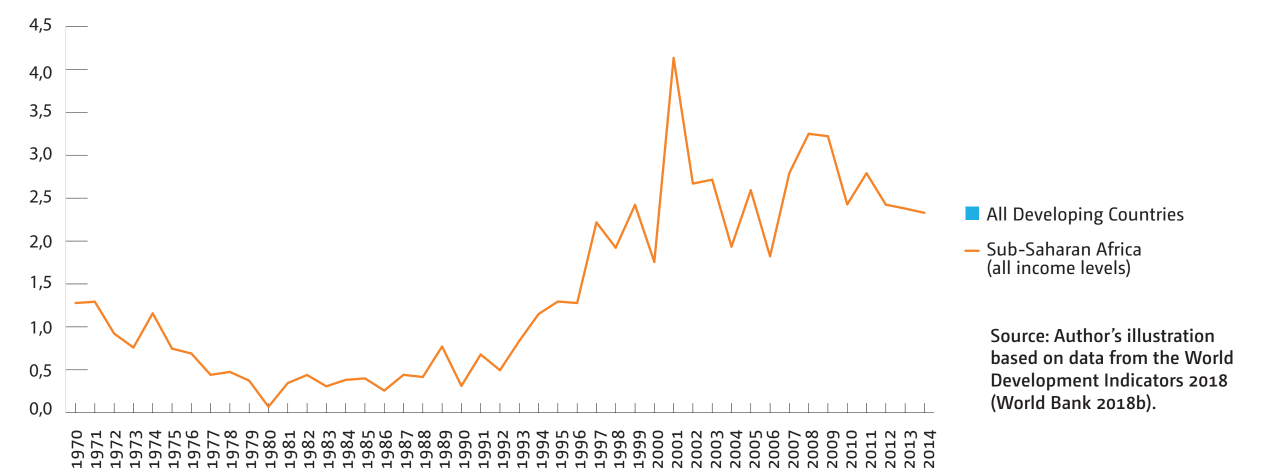
These interventions, among others, have increased the net foreign direct investment (FDI) inflows to SSA. Figure 13 shows a trend of net FDI inflows from 1970 to 2015. With a contribution of less than 1 per cent of GDP in 1980, net FDI inflows contributed to almost 3 per cent in 2015.

Figure 13: Foreign direct investment (net inflows) as a percentage of GDP



Source: Author's illustration based on data from the World Development Indicators 2018 (World Bank 2018b).

Nnadozie and Njuguna (2011) found evidence of a positive relationship between friendly business rules and regulations and FDI inflows to Africa. This finding counters the view that Africa attracts FDI solely because of its natural resources.

There is no doubt that considerable effort goes into making countries attractive, but these tend to focus largely on policy improvements that are not contentious.

5

Explaining the absence of structural transformation

"The one thing that is quite true in most African nations seeking to modernize agriculture is the difficulty in translating those aspirations into concrete actions.

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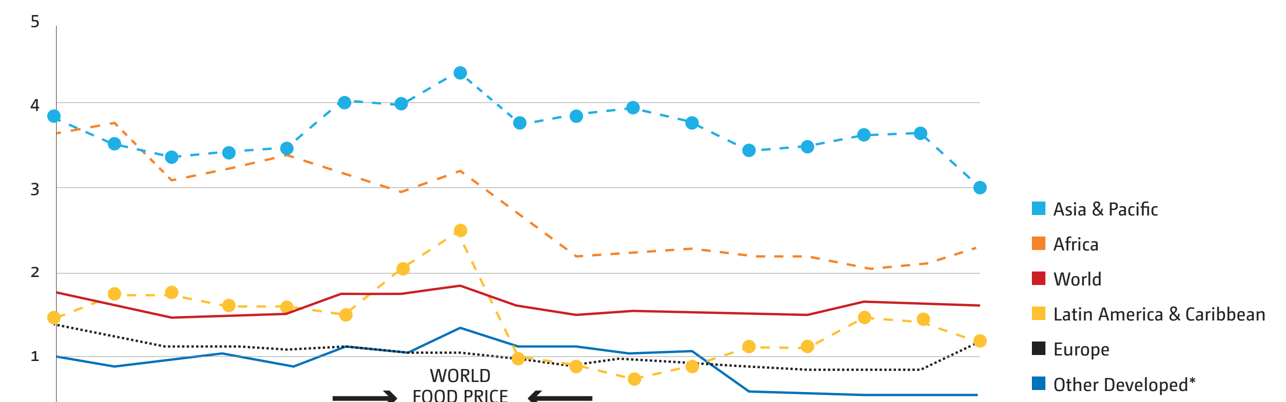
Having put the Washington Consensus behind them, what do African nations want to achieve now in terms of development? The African Union has set forth Agenda 2063 in which there is the aspiration towards a prosperous Africa based on inclusive growth and sustainable development. African countries are generally committed to the Sustainable Development Goals, just as they were with the Millennium Development Goals. It is also understood that the process of achieving the seventeen SDGs will necessarily require structural transformation. There are two things that most African nations emphasize in discussions of future development and the wellbeing of their peoples. The first is the modernization of agriculture (Aryeetey et al. 2011) and the second is industrialization (Aryeetey and Moyo 2012).

Modernizing African agriculture

Agricultural modernization generally refers to the process of significantly enhancing productivity through the introduction of new technologies. It is usually about how to use new technologies to boost the productivity of labour and land. For agricultural modernization, there are usually national documents that emphasize the tension between smallholder and large-scale commercial farming. Governments are seldom able to make firm decisions about their preferences as these have significant political implications. There is also a lot of debate over how far the state should intervene to make farming systems efficient. This usually leads to more debates over whether governments should subsidize the use of new technologies (including fertilizer) or not. They also lead to discussions of whether the state should invest significantly in irrigation and the type of irrigation that is likely to be most effective. Usually underlying all the discussions in the national documents is whether land tenure reform is needed in order to generate security of tenure for both smallholders and large commercial farmers. There is also often a lot of emphasis on the development of agricultural credit systems, education for farmers through improved extension services, construction of appropriate storage facilities, and rehabilitation of rural roads in order to improve access to farms and urban markets, etc. The list of subjects or issues to be tackled in national roadmaps for agricultural sector modernization is generally endless. And there is no doubt that they are all important to facilitate such modernization.

The one thing that is quite true in most African nations seeking to modernize agriculture is the difficulty in translating those aspirations into concrete actions. The first clear illustration of this difficulty is the fact that most of the national blueprints seldom provide any specific information on how governments intend to realize those aspirations beyond a list of planned projects that may not have a chance to make any difference to farmers. Another illustration of the difficulty in pursuing solutions to the challenges of agriculture is the fact that spending on agriculture continues to decline even as they make blueprints for transformation.

Figure 14: Agriculture share of government expenditures by region, 2001–15



Source: Food and Agriculture Organization of the UN, February 2019.

Whereas African governments committed themselves under the Comprehensive African Agriculture Development Programme (CAADP) to spend at least 10 per cent of annual national budgets on agriculture in pursuit of the Millennium Development Goals, very few of them managed that by 2015 (see Figure 14). According to the International Food Policy Research Institute (IFPRI 2015), Malawi was the only country in the region that committed more than 10 per cent of total national spending by 2015. It was devoting 15.8 per cent of total spending to agriculture. The general expectation had been that countries could devote resources to agriculture because the sector employed the most people in the labour force. Clearly this has not been a good

enough reason. There will thus always be questions about why governments are not able to do the things that they would like to do. Why are they not able to pursue land tenure reforms or irrigation projects in a significant way?

Industrializing Africa
In the case of industrialization, as in the case of agricultural modernization, most development blueprints in Africa emphasize a strong interest in manufacturing and value-added production processes. The national documents often mention the need to attract FDI into manufacturing and devote attention to the best incentives to achieve that. Most of the effort has often gone into an assortment of tax incentives and infrastructure at export-processing zones or other locations. Many governments provide some form of support without any clear industrial policy.

By industrial policy we mean the coordinated actions of government to reallocate resources to industrial development. The development of industrial policy has had several negative experiences over the post-independence period in Africa. In those early days it was associated with import substitution industrialization. Bigsten and Söderbom (2011) argued that without heavy protection many of them could not compete. They struggled in the 1960s and 1970s throughout Africa. Their non-competitiveness led to many of them being liquidated in the reforms of the 1980s and 1990s. With their liquidation came the end of industrial policy as the Washington Consensus had no interest in any form of intervention in market processes.

Most people who have written about industrial policy for development in Africa have argued on the basis of what has been referred to as horizontal and vertical policies. Horizontal industrial policies are those that aim at generally improving the environment for doing business in a country by correcting market failures. They include things like extensive support for research and development as well as general improvements in education and infrastructure. Also included are attempts at protecting property rights, etc. These forms of action benefit all. On the other hand, vertical or sectoral industrial policy targets specific areas for intervention. The interventions may include subsidies or other fiscal incentives. They are meant for specific sectors and are intended to draw in FDI to those sectors.

We have argued elsewhere that Africa does not need to be drawn into a debate on whether horizontal or vertical industrial policies are more desirable (Aryeetey and Moyo 2012). It is possible to have a mix of the two, as indeed a number of East Asian countries including Taiwan have shown. It is a matter of paying more attention to how to do proper targeting of sectors within a generally acceptable environment. It is clearly understood that, while improving the macroeconomic environment is essential for industrial development, it is not necessarily going to attract the industrial activity needed to create jobs on a large enough scale. Many countries have seen that in the last two decades. It calls for state interventions that target the removal of structural obstacles to operations in particular key sectors. What governments have not learned is how to combine the horizontal and vertical policy interventions. It can be expensive and also have significant political consequences. The absence of clear political commitment to agricultural modernization and industrialization is examined below in the context of effective decision-making within African democracies.

Democracy and economic decision-making
Przeworski and Limongi (1993) state that classical analyses often saw democracy as a threat to private property. The same argument was used in the early 1960s with a focus on growth. According to Przeworski and Limongi (1993), Walter Galenson and Karl De Schweinitz were first to argue in 1959 that democracy unleashes pressures for immediate consumption, which occurs at the cost of investment (i.e. growth). This statement was further fuelled by Samuel Huntington's book on political order in changing societies (Huntington 1968; see also Huntington and Dominguez 1975). The argument was that an explosion of demands for consumption generated by democracy threatened profits, reduced investment, and retarded growth.

Further, some proponents of this view concluded that, hence, dictatorships are better able to force savings and launch economic growth. In 1984, Vaman Rao wrote:

> Economic development is a process for which huge investments in personnel and material are required. Such investment programs imply cuts in current consumption that would be painful at the low levels of living that exist in almost all developing societies. Governments must resort to strong measures and they enforce them with an iron hand in order to marshal the surpluses needed for investment. If such measures were put to a popular vote, they would surely be defeated. No political party can hope to win a democratic election on a platform of current sacrifices for a bright future. (Rao 1984: 75)

Interestingly, many people looking at Rwanda today might suggest that this is the case there. But, is it?

Democracy and electoral cycles have been pursued in the region at different speeds and with varying scope and institutions (Olk 2003). Seeing countries like Angola, Cameroon, Equatorial Guinea, and Democratic Republic of Congo, among other oil producers, organize elections in the absence of a democratic culture is always viewed with scepticism. Gyimah-Boadi (2004) indicated that the total number of electoral democracies increased from a handful in 1989 to 18 by 2000. The challenge is that some African countries delink electoral democracy from political and civil rights. In the 2018[5] ranking of free countries by Freedom House, countries such as Angola, Cameroon, and Chad were ranked as not free. There is limited room for accountability in these countries. To them, democracy is equal to 'elections', which may also not be free and fair.

The literature on the link between democracy and economic growth is rather mixed. Sirowy and Inkeles (1990) have provided a good review of that literature, suggesting three possibilities for how democracy might affect growth and economic development. These are the 'conflict', the 'compatibility', and the 'sceptical' views.

The conflict view of democracy and development
The conflict view is the most pervasive and is usually associated with many poor nations. The idea here is that elected officials take short-term views about policy-making. Short-term outcomes and immediate consumption tend to overshadow all other considerations. Barro (1997) has perhaps the most interesting empirical study with a related finding, and where the suggestion is made that a possible reason for this is the increased likelihood of populist reforms, including land tenure reforms. The conflict scenario is characterized by political expediency over sustainable national development, high personal interest over collective goals, inadequate pre-feasibility studies, and no or limited linkage to existing policies (Toye 1992). While we see the presence of many populist programmes and initiatives in the region, there is hardly any form of major redistribution taking place in SSA. There is certainly no meaningful land tenure reform taking place in the region, not even in South Africa.

In many SSA countries that practice democracy the electoral cycle has come to be seen as often dictating the nature of plans and policies and how they are implemented. For instance, Babu and Sanyal (2007) recount that in the late 1990s, during the food security challenges of Malawi, the Starter Pack Programme was initiated by the government to provide farmers with free improved seeds and fertilizers. It is estimated that the programme covered 2.8 million hectares of land. However, the project did not achieve the expected results for a number of reasons. First, the private sector was not considered in the project initiation and implementation. With limited government funds, it became unsustainable. Further, there were reports of inefficiencies. The government of Malawi later reformed the Starter Pack Programme into the Targeted

[5] Freedom House (n.d.).

Inputs Programme (TIP) to address these concerns. Unfortunately, the additional maize output from the programme went down from 16 per cent during the Starter Pack project to 4 per cent during the TIP project (Devereux et al. 2006). This means that, though the intention was good, neither the Starter Packer nor its successor were situated in the broader agriculture-industrial policy of Malawi while consultations and prefeasibility studies were limited. Byerlee and Deininger (2013) suggest that most large-state agricultural interventions in Africa fall under the conflict scenario.

The compatibility view of democracy and development

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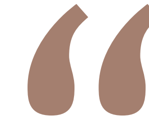
Under the compatibility scenario, there is an alignment between the long-term goals of the country and the short-term ones, and therefore development policies may be situated in the national context. In their review, Sirowy and Inkeles (1990) associate the compatibility view with democratic arrangements like 'political pluralism, institutional checks and balances, and freedom of the press providing safeguards against system abuse or predatory behaviour often associated with authoritarian regimes'. According to Reij and Smaling (2008), there are only a few countries in Africa with such compatible plans and arrangements. These include Rwanda, South Africa, and Botswana, which have had one party ruling the country for more than two decades. That obviously raises questions about the nature of the institutions. In 2016, Rwanda launched the Strategic Plan for the Transformation of Agriculture in Rwanda Phase III (PSTA III). While this plan calls for improved productivity, it has also been linked to Rwanda's human settlement, industrial, and land policies (Aubert 2018). In Lesotho, the Machobane farming system is seen to be leading to self-reliance, application of technology to agriculture, and high land productivity (Reij and Smalling 2008).

The idea of a stronger link under the compatibility view is that democracy is more likely to lead to the protection of the rights of individuals, including property rights, essential for investment and growth. According to Acemoglu et al. (2014), countries that fully adopted democracy obtained benefits of about a 20 per cent increase in GDP per capita over the past 30 years. Indeed, this translates to a 0.6 per cent increase in annual growth. Fosu (2008) studied institutions and African economies and found that countries that have democratic regimes enjoy agricultural productivity and overall growth. While the period between 1960 and 2000 saw SSA conventionally associated with conflicts, corruption, poverty, and wars, in the period between 2001 and 2010, six out of ten of the world's fastest-growing economies were in SSA (The Economist 2011b). According to the African Economic Outlook (AfDB 2018), the recent African performance is mainly driven by improved global economic conditions, better macroeconomic management, recovery in commodity prices (mainly oil and metals), sustained domestic demand mostly for imports, and improvements in agriculture production. There were, however, differences in regional performance in 2017. While the growth rate for East Africa was 5.9 per cent, West Africa grew by only 2.4 per cent, and Southern Africa and Central Africa had growth rates of 1.8 per cent and 0.9 per cent respectively.

The sceptical view of democracy and development

The sceptical view reflects what happens in countries that implement policies that are linked to national development plans, but which are not underpinned by any serious planning effort shown in careful analysis or prefeasibility studies. This means that, though such plans may be developed and launched, they often face severe funding challenges, have limited long-term impact, and may not be able to transcend the political cycle. Birner and Resnick (2010) studied policies in Burkina Faso and Senegal and concluded that even after well-conceived agricultural policies were adopted on paper, they often stalled at the implementation stage, due to both political manoeuvring and a lack of financial resources or lack of access to quality data. According to, Birner and Resnick (2010), in 1992, Burkina Faso adopted significant agricultural reforms which were not well implemented due to low institutional and human capacity. Indeed, this meant that a proper pre-feasibility study was not conducted.

The sceptical view of the relationship between economic growth and democracy is that 'no systematic relationship' can be found between them. Again, some of the Barro (1997) findings might provide strong arguments for those sceptical about what democracy does for economic growth. Esposto and Zaleski (1999) have suggested that the fact that there may be more economic freedom under a democracy does not provide any assurance that it will be fully utilized. Essentially, those who are powerful enough to capture state institutions are likely to use it to their advantage against the interest of others (Przeworski and Limongi 1993). Owusu-Sekyere and Jonas (2017) have studied five anglophone West African countries and join the sceptical group. One of the more analytical sceptical pieces for Africa has come from the work of Kisangani (2006) who utilizes a generalized method of moments (GMM) approach approach for a 37-country study. Unfortunately, the analyses here was for 1998. When Sirowy and Inkeles (1990) reviewed 13 studies, they found six that supported the sceptical view. There is a large and growing body of literature doing these reviews that find mixed results, and this is not surprising.



The fact that African countries are not easily placed in particular boxes on the democracy scale is an indication that these are still maturing democracies.

What happens where?

This lecture takes the position that it is possible to find all three scenarios of the relationship between democracy and economic growth and development in the region, and even possibly in a country at different points in time. The debate should not be about whether democracy is good or bad for economic growth and development. There are weak democracies that are easily subject to elite capture, as in the sceptical scenario, as a result of weak institutions. Here, many of the oil-exporting nations would easily fall into the category. Angola, Equatorial Guinea, Cameroon, Gabon, and even possibly Nigeria could be examples of that. The conflict scenario is also very widespread as elected governments take short-term views about most things. Ghana, Côte d'Ivoire, Uganda, Zambia, Tanzania, Kenya, and Nigeria show clear elements of this. In Ghana, while the government is clearly interested in industrialization through its 'one district, one factory' slogan, it shows no interest in developing an industrial policy with clear long-term structures and programmes. It is looking to build more than 200 factories within four years in the absence of a clear strategy. The government is interested in modernizing agriculture, but has no programme for irrigation, land tenure reform, and the use of new technologies. In furtherance of this, it promised 'one village, one dam' without any policy on irrigation. The compatible scenario in Africa allows governments to pursue programmes that achieve macroeconomic stability and lead to economic growth. Senegal is a good example of a democracy that achieves good results from time to time. Ghana and Nigeria have had good spells of macro stability and growth in the last two decades, arising from good policies and somewhat effective institutions. Kenya is a democracy that is able to attain macro stability but with unstable politics. A very interesting outlier in the African story is Rwanda. It is not generally seen as a democracy but has achieved considerable success in its economic development efforts. Most observers attribute the good performance to strong and visionary leadership. It is certainly not clear how it fits into the current mode of things.

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The fact that African countries are not easily placed in particular boxes on the democracy scale is an indication that these are still maturing democracies. The study by Olk (2003) on Benin, Mali, and Ghana confirms the view that democracy is not necessarily full-blown. What has emerged strongly in most countries is a new strong political culture that informs how decisions are made. In many countries, the civil service has been overshadowed by the new political class. It is fairly common to hear that 'everything is politicized' in many countries. Their varied economic performance reflects what they do with their democratic status and what institutions they have put in place. Where the 'politics' is under some control, it is possible to get some good results. In the extractives sector, for example, countries like Burkina Faso, Cameroon, Côte d'Ivoire, Ghana, Mali, Nigeria, Senegal, Sierra Leone, Zambia, and Tanzania have all signed on to the Extractive Industries Transparency Initiative (EITI). This global standard mandates all signatories to publish mineral and petroleum production and revenues received. These figures are cross-checked with companies that are undertaking the production. The results are then published online for all citizens to have access to. To a large extent, EITI is helping to reduce the corruption risk in the extractives sector.

6

Summary and conclusions

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This lecture has shown that even though many African governments have come to accept the need for sound macroeconomic policies, and have seen the benefits of such policies when they have pursued them, they and their people have not experienced structural transformation in the same manner that development economists would expect after so many years of reform. Clearly, the structural constraints to making the transition are immense and have not been confronted. African governments often know what to do to stabilize their economies after fiscal indiscipline throws their budgets and programmes out of line. Such indiscipline is generally associated with electoral cycles. They have generally not developed the capacity to move beyond that.

Unemployment and underemployment remain the largest challenges confronting African economies and societies, and this is largely explained by the relative absence of high-productivity activity, such as modernized agriculture and manufacturing. This is because they have not made the transition from low-productivity agriculture. The only change that has occurred in the last decade has been a movement into low-productivity informal activities, largely in the services sector.

Even though the governments generally express interest in structural transformation and often have programmes that express this desire, they are seldom properly anchored in policy and institutional development. Thus, they might increase expenditure on agriculture, but this might not necessarily be properly targeted at modernization. New technologies may be introduced, but these may come without adequate institutional support. Introducing new technologies to farmers without land tenure security is unlikely to see them investing in such technologies, nor is it going to attract investors who may not have easy access to land for large-scale commercial farming.

There has been considerable confusion and debate over whether African governments need industrial policies or not. In the era of the Washington Consensus it was certainly not fashionable to pursue industrial policy, and governments were strongly discouraged from pursuing them. In any case, even if they wanted to, they were not going to find the means to finance the programmes associated with such policies. Even though the antipathy towards industrial policy has declined somewhat in the last decade, there is still a lot of debate over what constitutes acceptable and meaningful industrial policy. There is often the suggestion that there should be no subsidies or tax rebates associated with the 'picking winners' concept. Unfortunately, because it is still not fashionable to 'pick winners' in the current dispensation, many governments do not consider other possibilities for assisting potential investors to go into manufacturing. The truth of the matter is that the 'infant industry' arguments of six decades ago remain valid in most countries even though there are new technologies that should facilitate leapfrogging and reduce the risks involved in manufacturing.

One area that has received considerable attention in the economic reforms of the last two decades has been the financial sector. After liberalizing financial markets in order to make them more efficient and competitive, many countries have seen the disappearance of development finance institutions, with no adequate arrangements for long-term finance of investments. Despite the growth of new banks and other financial institutions, there are hardly any institutions that finance agriculture and industry.

The question that obviously comes up is: why are African governments not showing much interest in radical steps to modernize agriculture and raise industrialization through manufacturing? Why are they not building the institutions and developing policies that support and promote long-term development? This study argues that it is because of the 'new politics', and not necessarily democracy. Some people might blame it on democracy, though. The truth of the matter is that governments have made no effort to build and strengthen democratic institutions in the last two decades as they have pursued 'good governance' in the wake of economic reforms. They equate democracy with having regular elections and so plan their policies and programmes along those lines. So, for example, they have not developed institutions for negotiating group interests in national development policies. They cannot undertake land tenure reform because it will affect different ethnic groups differently and be politically unpredictable.

All three views about the relationship between democracy and economic development, namely the conflict, the compatibility, and sceptical views, may be found at different times in several African countries.

The main recommendation that comes from this lecture is that African countries need to reconsider their positions on long-term planning as an essential extension to sound macroeconomic and other institutional and governance reforms. It requires using new technologies to pursue agricultural modernization and industrialization. It will mean developing or strengthening institutions that can make this possible.

The main recommendation that comes from this paper is that African countries need to reconsider their positions on long-term planning as an essential extension to sound macroeconomic and other institutional and governance reforms.

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