

Background reading: *“Structural Economic Transformation in the context of the AU Vision 63 and the UN’s Sustainable Development Goals: What does equitable and sustainable economic transformation look like in Africa?”*

These notes are intended to provide some background reading and food for thought ahead of each of the sessions. These are not intended as a conclusive body of evidence, but rather a starter from where we can have further discussions when we meet together.

Session 1: Setting the scene.

INPUT 1: Africa’s structural transformation agenda: Paradigms, elements, challenges and opportunities.

Economic transformation brings change in a country’s economic structure, with a shift in resources from low to higher productive sectors or activities. This in turn leads to spatial transformation as well as changes to societal values, norms, beliefs and customs (social transformation). The term economic transformation also provides an analytical framework to understand and organize the complex and inter-related changes that occur as the material wealth of societies grows. “Economic growth” represents the narrowest conceptualization of this process, focusing almost entirely on measurement. The earliest development economists saw the development of countries’ “modern economic growth” happening in terms of three great transformations, in demography (slower population growth and average age rising), production (agriculture declining relatively to manufacturing) and social structure (for e.g. family and kinship based production and distribution to commercialised production and exchange).

In Sub-Saharan Africa (SSA), a dramatic rise in life expectancy has been achieved relatively quickly with little change in birth rates, and in most cases without corresponding change in the productive structure. This poses the question, given the incompleteness of the demographic transformation, is there a route to transforming the productive and social structure that 1) reduces poverty 2) avoids dysfunctional inequality, 3) enhances gender parity, and 4) sustains the environment for future generations?

An economy that is undergoing transformation may experience ‘islands of success’ rather than a broad distribution of benefits. Concepts such as ‘shared growth’ and ‘inclusive growth’ have emerged in response to the realisation that economic growth does not necessarily lead to poverty reduction or higher income and social equality.¹

Historically, economic transformation has been associated with labour migration from the agricultural sector into the urban-based industrial sector (the production transformation described above). Nevertheless, although the overall contribution of the agricultural sector has decreased in terms of its relative contribution of the economy, its overall size or contribution to the economy has not decreased. This shift has led to higher productivity in the economy and a convergence of incomes in the agricultural sector toward the level of incomes in the industrial sector. However, in some countries of sub-Saharan Africa labour has migrated from a stagnating agricultural sector into a similarly stagnant informal services sector with low productivity levels. Growth in the industrial sector has been zero to negative making the informal sector a reservoir of underutilized labour.

What should make economic transformation truly transformational, and different from simple economic growth, is the pattern and quality of growth in the process of structural transformation. In addition to enhancing the productivity of labour in all sectors of the economy, economic transformation should generate productive employment, ensure the fair distribution of income and wealth, and through taxation of more productive activity, lead to equal access to essential public goods and services to ensure a decent life for all members of society. Furthermore, the pattern and quality of growth during structural transformation should decouple economic growth from environmental degradation and social dislocation, which characterised capitalist development in the advanced and newly industrialised countries.

¹ See CAFOD’s policy discussion paper “what is inclusive growth” for a breakdown of this topic: <http://cafod.org.uk/content/download/17224/133626/version/1/file/Inclusive%20Growth%20-%20summary%20discussion%20paper.pdf>

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African economies started to come out of two decades of virtual stagnation towards the end of the 1990s. Since then, the average growth rate has been 5.6 per cent a year. While the average growth rate has been pulled up by oil-rich countries, growth rates in resource-scarce countries such as Ethiopia have also been remarkably high. As a result, many African countries have graduated to middle income country status – there are now 14 lower middle income and 6 upper middle income countries in SSA.

The major driver of the continent’s recent economic growth has been the increased demand for its primary products and natural resources, driven to a large extent by the Chinese economic boom, with relatively sustained high prices. However, while export volumes have undoubtedly increased, their composition has remained mostly concentrated on primary agricultural commodities, minerals, and petroleum, with very little value added domestically. While export destinations have diversified, this has not reduced the continent’s overall vulnerability to external shocks and volatility of commodity prices. For example, the slowdown of the Chinese economy will lead to lower growth rates if it results in reduced imports from Africa.

Nevertheless, the sustained economic growth rates over the past years have so far not put Africa on the path of structural transformation. The African Centre for Economic Transformation puts it succinctly: the continent is “growing rapidly, transforming slowly”. Reflecting these concerns, the ongoing discourse in pan-African institutions is not about economic growth per se but about economic growth which stimulates structural change. It also emphasises that beyond and above GDP growth, the pattern and quality of growth matters. As is being increasingly recognised, GDP growth does not even reflect the overall picture of the economy, let alone its sustainability and the overall impact on social progress.

Structural transformation in Africa faces a number of challenges. Firstly, as highlighted by UNECA² ‘pre-mature deindustrialization’ has taken place in the past two decades as evidenced by the fact that the share of manufacturing in total value added fell from 13 per cent in 1990 to 12 per cent in 2000 and 10 per cent in 2011’. Secondly, compared to recent “latecomers” such as Vietnam and Thailand African economies face a bigger challenge to overcome marginalisation in the globalizing economy. While they are still at early stages of industrial development, they already face competition from international enterprises, and more successful recent late developers. Thirdly, the manufacturing industry is getting less labour intensive. Given the high rate of un/underdevelopment, this trend poses a big challenge to the industrialisation agenda in Africa. African industrial policy thus needs to pay particular attention to employment creation and distributive policies more than other late developers. Fourthly, much of the economic transformation process in Africa has largely been coupled with less sustainability and more inequality as described above. This raises the question of whether there is a route to transforming economies while simultaneously achieving some of the priorities within the SDG’s (poverty alleviation, ‘leaving no-one behind’ and environmental sustainability are three key aspects here).

Session 1: Setting the scene.

INPUT 3: Globalisation, the global policy environment & Africa’s structural economic transformation” (including reflections on global trade, investment, finance and tax regimes)

The underpinning doctrine of the economic policies of development institutions has remained essentially embedded in the “Washington consensus” as shown by recent projects and processes including the World Bank’s [Enabling the Business of Agriculture](#) and the [AGOA](#) trade act. Within this doctrine foreign direct investment continues to be considered the main driver of economic growth; and “openness” to world trade continues to be

² UNECA, Economic Report on Africa 2013, Making the Most of Africa’s Commodities: Industrializing for Growth, Jobs and Economic Transformation , p. 7

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considered the “engine of growth” and as the key means to enable African countries to “trade their way out of poverty”. In international and regional trade agreements, rich countries have offered to liberalise their markets to enable developing countries to sell more of their traditional exports in exchange for opening up developing country markets to value added exports from industrialised countries. However, premature trade liberalisation and continued “specialisation” in the export of primary commodities could only perpetuate the status quo stunting further industrialisation and economic diversification; ultimately constraining the enhancement of overall productive capability of the economy.

Trade: Like most other policy issues, a trade policy which could adequately contribute and promote structural transformation is yet to be formulated. Trade policy related statements and positions in the pan-African discourse have so far been contradictory. What is more, rash trade liberalisation still driven by external “conditionality” and the WTO processes continue to undermine equitable transformation.

The Agenda 2063’s approach to trade could be interpreted as potentially undermining equity objectives, as it promotes, without caveats, the free movement of people, capital, goods and services underpinned by major infrastructure projects to connect major cities to each other and to ports for export³. This is despite wide-ranging evidence from studies conducted by UN bodies, NGOs, academics and think tanks that demonstrate how trade liberalisation, when not done selectively and with careful sequencing, hits the most vulnerable the most and tends to favour the expansion of those sectors that are already well capitalised – that is, it has a tendency to exacerbate inequalities, unless carefully directed.

UNECA appears to have a critical approach, noting that existing trade agreements as well as those still being concluded (primarily Economic Partnership Agreements (EPAs) risk working against the very objectives of diversification and value addition, which are part of the solution to economic inequalities. UNECA (2011) notes that existing preferential trade arrangements focus on perpetuating the existing structure of African exports, while EPAs would force African countries to liberalise too rapidly in a way that may ‘work against the strategic goals of promoting industrialisation, economic diversification and structural transformation in Africa’. UNECA (2015) further argues for selective and well directed and sequenced trade liberalisation that enables an ‘appropriate balancing between promotion of relatively mature sectors and simultaneous protection and support of fragile sectors’ and stresses - as many African CSOs and INGOs have done - that ‘African countries should stop negotiating agreements as if industrialization does not matter. African countries should stem the trend in policy-space erosion especially when negotiating any form of trade and investment agreements by insisting on the need to use such policy instruments to promote industrialization of their economies’.

Agriculture within this globalized agenda: Since 2008, a number of high-level UN, EU, G8, G20 and US-led initiatives have been launched, aimed at stimulating agriculture development in Africa and supporting national agriculture development policies. While many of these do aim to build the productivity and resilience of smallholder farmers, many initiatives are increasingly dominated by the principle of partnership between corporates and governments. Examples of these initiatives include the World Economic Forum's Grow Africa, the New Alliance on Food Security and Nutrition, and the Alliance for a Green Revolution in Africa. While they all have laudable, if slightly incoherent aims, in practice, they have given a disproportionate voice to multinational or large domestic agri-businesses in shaping land, seed, tax, and infrastructure policies and priorities of African governments. For example, the multinational seed and fertilizer companies participating in the New Alliance are mostly interested in regulations and laws that would allow them to grow their market share and income by trading more easily across borders, protecting their intellectual property rights, and distributing their products more easily. The enforcement of

³ The CAP also takes an uncritical approach to the role of an open, non-discriminatory trading system and trade liberalisation.

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intellectual property laws, however, violate the rights of farmers to save, exchange and use their farm-bred seeds through informal seed systems, which predominate across Africa.

A major challenge for Africa’s ‘latecomer’ agriculture-based economies is the dominant market presence of major global food companies. They are able to ‘crowd out’ indigenous agri-enterprises, local brands, and input providers. This is a major concern of UNECA, which cites various examples of the ‘cannibalisation’ of African brands. These global companies control both product and input markets and are able to capture lucrative value chain segments. An example is the growing dominance of global seed companies such as Monsanto in African formal seed markets, especially in eastern and southern Africa. They have used their power to influence regulations and legislation to protect their seed and facilitate seed trade across borders to increase their market share, at the expense of both local seed breeding enterprises as well as the majority of small-scale farmers who save, use and exchange farm-bred seed.

Corporate agri-business interests may have spill-over benefits for the whole value chain, but these can only be guaranteed when governments actively direct their investment into strategic sectors and require them to source from local suppliers, create local jobs, build appropriate infrastructure and transfer appropriate skills. Often, however, the policies and interventions they require are not in the interest of smallholders, or may actively work against their interests. Responsible land-based investors are interested in avoiding land conflicts and therefore have an interest in land registration and titling, which would help them to identify legitimate land owners and users with whom to negotiate for land leases. Yet, individual land titling does not necessarily protect customary land users, especially women.

Foreign Direct Investment, MNC’s vs domestic enterprises and SMEs: Attracting FDI has been a priority investment policy in most African countries for many decades. However, the contribution of FDI to overall development has been very limited, and in some cases, negative. Global agricultural value chains are often small ‘islands of success’, which do not spill over to the rest of the economy. Despite this chequered experience, UNECA and African governments assign a prominent or even a leading role to FDI in the transformation process⁴.

In this regard, the age old “infant industry protection” maxim has become more imperative than ever before. Making indigenous industrialisation the engine of structural transformation requires the protection of the domestic market to enable national firms to develop capabilities before they are exposed to external competition. It has also become very important to distinguish between productive and speculative investment. Much of foreign investment reported as FDI does not involve bringing in additional capital but is simply transfer of ownership of existing firms through mergers and acquisitions. Such “investments” may not serve productive purposes, they could simply be carried out for “asset stripping” purposes. Secondly, the “enclave” nature of FDI should end to ensure that FDI generates the necessary linkages within and between sectors. Only “greenfield” investments can provide the capital goods which contribute directly to real productive capacity enhancement.

WTO rules are increasingly becoming an instrument for MNCs to open up new markets or protect existing market share and profits, not only in their dispute resolution clauses but also in prohibiting host countries from placing technology transfer as a performance requirement on foreign investors. African countries should thus be prudent and selective in attracting FDI and ensure that their investment policy remains coherent with the industrialisation strategy. Attracting FDI will have an economic benefit only if it creates dynamic linkages with diverse sectors of

⁴ This is reminiscent of the saying attributed to Albert Einstein: “The definition of insanity is doing the **same thing** over and over again, but expecting **different results**”.

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national economies, if it generates employment and contributes to technological upgrading and productivity enhancement

The much vaunted “business enabling environment” reforms to enhance economic growth in developing countries (almost invariably derived from the World Bank’s annual flagship publication, the “Doing Business Index”) focuses disproportionately on promoting policies that will attract FDI and is embedded in the “market led economic growth” paradigm, which favours profit maximisation by MNCs and big domestic firms over building linkages to the local economy.

Reforms in the Business Enabling Environment (BEE), if they are to contribute to structural transformation for an equitable and sustainable development, should also promote the interests of domestic small and medium enterprises and ensure that that reforms to business policies benefit people living in poverty who are micro or small entrepreneurs or employees of larger businesses. If not done with a pro-poor and pro-development focus, reforms focussing on attracting FDI may bring some short term benefits but lead to worsening inequality and entrenched poverty in the longer term. The question is therefore how to encourage and support BEE reforms that lead to positive poverty impact – and how the reforms can bring on board the interests of .

Resource mobilisation: To enhance public revenue in African countries there is an urgent need to introduce reforms, close loopholes and to improve regulation to plug main leakages that diminish public revenue⁵. Some leakages could hardly be plugged by the efforts of developing countries alone. For example, plugging the leakages due to illicit capital flight driven by wealthy individuals and by tax evasion and aggressive avoidance by MNC would require international cooperation to stop institutions and mechanisms which facilitate the resource flows to offshore jurisdictions.

Session 2: Agriculture and Africa’s Economic Transformation.

INPUT 1: The role of agriculture in economic transformation

The notion that agricultural development is an integral component and catalyst of wider structural transformation is widely accepted, both by pan-African and international institutions. It is supported by evidence outlined in the economic development literature from much of Asia and Latin America during the last 40 years (HLPE, 2012). Agriculture productivity growth, that is an increase in the output per unit of capital and labour, is the foundation for broader structural transformation. The importance of agriculture development in economic transformation derives from its role as a major provider of livelihoods and employment for the majority of the population. Increased productivity in the agriculture sector also plays an important role in stimulating growth in the non-agricultural economy. Conversely, rural nonfarm employment, which contributes on average about 40 to 50 per cent of rural incomes across sub-Saharan Africa, is a major source of funds for on-farm investments, far exceeding what credit markets provide. Yet low levels of productivity trap millions of farmers in poverty, act as a brake on growth, and weaken links between the farm and non-farm economy – links that were crucial to development breakthroughs in Bangladesh, India and Vietnam.

The mechanisms by which agricultural growth promotes transformation in the wider economy includes: (a) higher agricultural productivity of labour releases labour from agriculture into employment in relatively well remunerated rural and urban non-agricultural sectors; (b) increased demand for agricultural inputs and services stimulates local production and marketing of inputs and local provision of services; (c) when smallholders supply agriculture commodity value chains it stimulates commercial distribution and processing activities at the local level; (d)

⁵ TJN, 2007: Closing the floodgates – Collecting tax to pay for development

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increased profits and exports from agricultural production finances imports of key technology and capital which can be invested in other sectors, particularly non-farm sectors; and (e) higher smallholder incomes raise demand for non-food consumer goods and services that boosts the diversification of the rural economy through a variety of multiplier effects.

The case for increasing agricultural productivity to accelerate economic transformation, investment and industrialization, is strongly supported by well-established conceptual frameworks and historical empirical evidence. Economic history shows that the transformation of the agriculture sector, from a subsistence to a commercial sector, enhances consumption and production linkages between the agricultural and non-agricultural sectors, and between rural and urban areas. These linkages or *multiplier effects*, have contributed significantly to employment creation and rising incomes in parts of Asia and Africa. The agricultural sector is more than a source of surplus labour to support the process of industrialisation. It can be a dynamic source of growth, employment creation and more equal income distribution. A number of country-level studies have confirmed these *multiplier effects* of growth in the agricultural sector on other sectors. However, the strength of the effect depends on the structure of the economy.

Both UNECA and the AUC recognise that agricultural productivity growth is the initial foundation for an all-round development. UNECA views agricultural transformation as the cornerstone of economic transformation. According to the 2012 UNECA Economic Report for Africa: ‘notwithstanding the growing interest in and commitments to industrialisation as a transformative driver, agriculture is central to national and rural economic transformation and will remain so for decades to come. When agricultural production increases, this creates demand for products and services from the non-farm sector, both “upstream” and “downstream”. Upstream production linkages “occur where growth in the farm sector induces the non-farm sector to invest in capacity or supply goods and services to the farm sector”. In the case of downstream production linkages, the nonfarm sector may be induced to invest in capacity to supply processing and distribution services, using farm products as inputs.

In addition to production linkages, consumption or expenditure linkages may occur when rising farm incomes lead to an increase in the demand for consumer goods and services provided by the non-farm sector. Rising non-farm household incomes, in turn, lead to an increase in the demand for food and other farm products. Numerous studies have estimated production and consumption multiplier effects of increased agricultural production. It appears the strongest multiplier effects occur through consumption linkages.

Many African governments already have clear plans in place to promote ‘strategic’ export crop production, in part through encouraging private foreign and domestic firms to invest in production, upgrading, processing, and input and service provision in these strategic sub-sectors. However, these plans lack detailed strategies for local content requirements to ensure backward linkages that catalyse the provision of local services and goods, and are generally not integrated with strategies to promote gender equality and environmental sustainability in the agriculture sector.

Given the strong relationship between agricultural productivity increases, economic transformation, and poverty reduction, there is a strong case for investing in the sector in order to stimulate broader structural change in the economy and promote inclusive growth. There is considerable debate, however, on whether such support or investment should be in small or large-scale commercial agriculture. There is evidence that when agricultural transformation is led by small-scale producers there are greater development and poverty impacts. Wiggins (2009) argues that smallholder farming systems in Africa south of the Sahara have a record of agricultural growth that suggests that more farm output per worker can be achieved if there is sufficient and appropriate investment in the development of the smallholder sector.

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Many African governments aim to promote both large-scale land investments and support measures to integrate smallholder farmers into global, regional or national value chains are an increasing focus of African governments’ agriculture transformation strategies. To help them channel resources for this strategy they, like most donors, are attempting to differentiate between smallholders that are market-oriented and those that are mostly subsistence-oriented. However, these differentiations are mostly theoretical, and ignore the necessity for dynamic intervention to transform the knowledge, power, political representation, and access to land, services and infrastructure of more remote and resource-poor communities. While there is some agreement on the challenges faced by and to some degree, the interventions needed by farmers who are stepping up, commercially oriented, less remote, less resource-poor and more land secure, the question remains how the majority of remote, powerless farming households will exit poverty? Options include welfare pay-outs through social safety net payments and basic income grants, moving away from remote areas to areas where on-farm and off-farm jobs are being created in the commercial/commodity sector, or for landless workers in more successful agricultural areas to find jobs on commercial farms, or move to urban areas in low quality/vulnerable jobs. Leaving aside the poorest subsistence farming households, even small-scale land holders who have a chance of making a better living from farming, continue to face a myriad challenges: lack of safe rural feeder roads, lack of storage facilities, poor infrastructure for water management, including of water catchment areas, low levels of investment in research, technology and innovation, hardly any access to finance for on-farm investment, lack of trust and skills to self-organise commercially, very poor governance of land tenure arrangements, both customary and statutory, failure to address the cultural and legal challenges faced by women, who produce and market 70 per cent of Africa’s food, and a lack of government capacity and institutions to support production and facilitate market access. Yet, smallholder agriculture in Africa has proven robust in the face of these adverse political, economic, and biophysical circumstances.

Increased political commitment to agriculture-based development is essential. Only seven African governments have achieved the 10 per cent Maputo target for agriculture spending. The quality of spending is even more problematic – it is inequitable, unsustainable, or too low⁶. If African countries were to upgrade agriculture value chains and infrastructure, they would need to spend at least between 20 and 40 per cent of the budget on agriculture. No African country is spending sufficiently on public research, innovation and science for agriculture development.

Session 2: Agriculture and Africa’s Economic Transformation.

INPUT 2: Agricultural transformation: tackling poverty, inequality and environmental degradation: reflections from Zambia

As the previous session (see speaker notes for input 1 of session 2) highlighted, agricultural transformation can play a key role in broader economic transformation within a country. The question is, can such transformation be done in a way that tackles critical issues of poverty, inequality and environmental degradation?

Evidence suggests that agricultural transformation can contribute to poverty reduction by reducing food prices relatively to household income, by creating employment, increasing real wages, and improving farm income. However, lower food prices alone may not reduce poverty for the obvious reason that these prices are the source of income for food producers. Lower prices for food will reduce poverty in urban areas they decline more or rise less than other prices. The same change in relative prices will reduce poverty in rural areas for farm employees, farm families whose food production is less than consumption, and non-farm households. For households that

⁶ For example, in Kenya, the government spends very little of its agriculture budget in arid and semi-arid areas, or on addressing the problems women faced in accessing agricultural services, skills, and land. In Malawi, the government spends most of its agriculture budget on imported synthetic fertiliser subsidies

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produce more food than they consume, lower food prices will reduce poverty only if the price fall is not accompanied by increases in productivity. In the latter case increased production may result in greater total farm income at lower food prices.

Results of studies conducted in several countries indicate that the “pro-poor” role of agricultural growth can be dramatic, and in some circumstances more effective than other sectors at reducing poverty and hunger in both urban and rural areas. According to a recent ODI study, improvements in labour productivity in agriculture have contributed to poverty reduction in seven African countries. This supports World Bank economic modelling which suggest that agricultural growth has strong and positive impact on poverty, often significantly greater than that of other economic sectors.

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A body of evidence shows that an increase in agricultural productivity, particularly in the smallholder sector, is a likely driver of economic transformation SSA. This session will reflect on the particular case of Zambia.

Session 3: Economic Transformation and Environmental Sustainability.

INPUT 1: Climate resilient economic transformation

While economic transformation is a widely promoted development priority, issues of environmental sustainability and climate resilience in structural transformation have not been fully integrated into the economic transformation discourse.

The historical evidence for the impact of social and economic transformation based on synthetic inputs on the sustainability of the environment is unambiguously negative. A serious awareness of the environmental impact of economic growth began about half a century ago with the path-breaking book *The Silent Spring* (Carson 1962), which exposed the deadly consequences of pollution from industrial chemicals. Over two hundred years of industrialization, including the industrialization of agriculture, suggests that environmental degradation is inherent in unregulated economic development.

How then do governments pursue the objectives of economic transformation while at the same time ensuring environmental sustainability – and particularly climate resilience in line with keeping global warming to below 1.5°C, which is seen as crucial by the most vulnerable countries and is now a central element of the Paris Agreement. In this regard it is particularly important to understand the [INDC's](#) (Intended Nationally Determined Contributions) around adaption and mitigation that governments submitted to the UNFCCC as part of the Paris Agreement. These plans form the basis for how governments will be implementing the Paris Agreement nationally and should be in line with their own national development planning (including economic development planning) processes.

The evidence is clear that threats to sustainable development from climate change and other forms of environmental degradation mean that economic transformation strategies need to incorporate measures to sustain the natural resource base on which future development depends. Policy makers must consider how to integrate environmental and economic development objectives. These considerations should go beyond identify costs to the environment and managing these. . Innovative thinking is essential to achieve a “green transformation”, defined

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by United Nations Environmental Programme as one with “improved human well-being and social equity, while significantly reducing environmental risks and ecological scarcities” (UNEP, no date).

While economic transformation lays the foundation for economic growth, it can also create future vulnerability to climate change unless governments take deliberate action to foster sustainability. . For example, and agriculture development strategy primarily based on industrial mono-crop or factory livestock farming will decrease on farm agro-biodiversity, which is essential for innovation of new climate resilient crops and animal breeds. UNCTAD concludes that countries should not follow the paths of currently industrialised countries, “...achieving sustainable development in Africa requires deliberate, concerted and proactive measures to promote structural transformation and the relative decoupling of natural resource use and environmental impact from the growth process” (UNCTAD 2012, 5). Current levels of resource depletion and ecosystem degradation have seriously negative impacts and are likely to accelerate in the future as populations increase, living standards rise and further economic transformation occurs.

The agriculture sector has so far been the most affected by climate change. Given that an average of about 70 per cent of economically active Africans earn most of their living from small-scale agriculture production and marketing in most SSA countries, climate change is a major threat to future agriculture transformation and economic development. While most small-scale farmers have traditionally adapted their growing practices and seed varieties to constantly changing weather patterns, the scale and scope of weather changes due to global warming are beyond their adaptation capability. These changes include earlier or later growing seasons, warmer temperatures, drier conditions, new pests and diseases, and more frequent extreme weather events such as floods and droughts. Much agriculture activity in Africa can remain feasible, if farmers receive sufficient adaptation support, within a 2 degree global warming scenario – although the IPCC analysis shows that maize production in the southern African dryland areas and pastoralism in eastern African dryland areas may not remain feasible, even with adaptation support. Adaption measures include innovative or new production technologies, breeding seed and livestock varieties adapted to new conditions, new infrastructure and services such as up to date location specific and accurate weather information. These measures will need to be incorporated into future agriculture transformation strategies.

Within the above in mind, 'green economy' and 'green growth' policymaking is moving to the center of many national development strategies. Green policies should enable countries to manage their natural resources more sustainably and efficiently, diversify into new green markets and secure the environmental foundations of development.

Extra reading on this topic:

- <http://cafod.org.uk/content/download/21761/152259/version/2/file/printFruitcoverGE.pdf>
- <http://www.greeneconomycoalition.org/know-how/we've-reached-new-tipping-point>
- <https://www.devex.com/news/manufacturing-climate-resilience-and-development-87414>
- <http://www.greeneconomycoalition.org/know-how/do-trade-deals-threaten-greener-future>

Session 3: Economic Transformation and Environmental Sustainability.

INPUT 2: Can renewable and decentralised energy fuel economic transformation and poverty reduction?

Despite almost two decades of steady economic growth, Africa still faces high levels of energy poverty. Access to electricity in Africa is the lowest in the world, with 13 per cent of the world’s population, but 48 per cent of the global share of those without access to electricity. Available statistics indicate that 621 million Africans have no access to electricity. Unequal access to energy continues to reinforce the wider inequalities linked to wealth, gender and the rural-urban divide that have accompanied the economic growth of the past 15 years.

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Huge amounts of energy will be needed for the African continent to realise the economic transformation agenda. It is projected that Sub-Saharan Africa will consume about 1,600 terawatt hours by 2040, 4 times what was consumed in 2010. This is attributed to a 5 fold growth in GDP, a double digit growth in the population and the resultant increase in urbanization, and a more than 70 per cent access to electricity supply in the continent. However, according to the Africa Progress Panel report, even these predictions are too conservative and would leave between 595 million and 635 million people without energy access in 2030, or between 43 per cent and 46 per cent of the region’s population. The APP argues that “overall power generation needs to increase at least 10-fold by 2040 if Africa’s energy systems are to support the growth in agriculture, manufacturing and services needed to create jobs and raise living standards”. Further, the issue can’t solely be about adding generating capacity as this doesn’t tackle important issues of transmission and distribution in terms of access to energy and distribution impacts.

As such, the prevailing challenge will therefore be to enable a just transition to a lower carbon economy that delivers poverty reduction, economic growth and climate resilience at the same time. To achieve this, there will be need for the continent to strike a balanced energy mix that will not lead to further destruction of the environment. However, does the continent have enough potential and capacity to generate its energy demands from renewable sources? Does it make economic sense to generate its energy needs from renewable sources as compared to fossil fuel sources of energy? These are some of the critical questions that should be addressed in the transformation debate to formulate policy options to invest in renewable sources of energy.

Africa is projected to remain an important producer of oil and natural gas, accounting for 10% of global oil and 9% of natural gas production in 2035. Further, coal is currently the dominant primary energy resource for the region, accounting for 45 per cent of total electricity supply. However, if South Africa is excluded, hydropower accounts for around 70 per cent of power generation. Even then, Africa currently only uses a fraction of the continent’s technical hydropower potential, with potential capacity estimated at 1,844TWh a year, three times the current total electricity consumption for the entire region. Hydropower will remain the primary source of non-fossil fuel energy and major investments have already been put in place. But in addition, there is significant potential to harness geothermal, solar and wind powered energy

The pace and sequencing of decarbonisation has to take into account countries’ starting points and the policy choices available, along with considerations of fairness and equity related to climate justice.” (APP) If current trends continue, the region’s share in energy-related CO₂ emissions will increase from 2 per cent to just 3 per cent by 2040. However, “this should not deflect attention from the global benefits of low-carbon development in Africa. As coal’s share of the region’s primary energy mix reduces, the carbon intensity of Africa’s power generation is declining. With the aggressive promotion of renewables, it would decline more rapidly”.

Fortunately, there is a growing appreciation of the place for renewable energy in Africa, with South Africa currently recognised as the nation with the fastest growing renewable energy procurement programme in the world. However, while some countries in the continent such as Kenya seeks to become a pioneer in developing a greener future, local technical capacity to develop, procure, construct and operate renewable-energy projects remains a challenge, thus hindering market penetration. This need to be encouraged and supported, both in terms of resources as well as technical capacity and finance.

Another challenge facing Africa in terms of moving towards less carbon development is how to finance this move towards cleaner energy and climate smart economic transformation. Africa Progress Panel estimates the investment financing gap for meeting demand and achieving universal access to electricity is around US\$55 billion or 3.4 per cent of Africa’s GDP in 2013. Almost half of the gap could be covered by increasing Sub-Saharan Africa’s

Background reading: “Structural Economic Transformation in the context of the AU Vision 63 and the UN’s Sustainable Development Goals: What does equitable and sustainable economic transformation look like in Africa?”

tax-to-GDP ratio by 1 per cent of GDP. Additional revenues could be mobilized by halting the wasteful subsidies currently directed to loss-making utilities. Governments spend US\$21 billion a year covering utility losses and subsidising oil-based products, diverting resources from more productive energy investments. Key sources of renewable energy have gone from being prohibitively expensive to being cost-competitive in less than a decade. Wind and solar e the continent will require an annual funding of US\$ 30 – 35 billion by 2030. The continent will require the resources to finance this gap. These will have to come from both the national budget (by enhancing the tax take; reducing wasteful subsidies to moribund utility providers and oil products), as well as under the international climate financing commitments under the UNFCCC. Regional development banks could also contribute by effective use of climate finance nergy in particular, is increasingly competitive with energy systems based on fossil fuels.

Like agriculture, the possibility exists to leapfrog straight to ‘clean’ non-fossil fuel based renewable energy sources, with countries such as Ethiopia already leading efforts to climate-proof their future energy supplies.

Further reading on this topic

- <http://www.odi.org/coal-and-poverty-faq-energy-access>
- <http://www.odi.org/FAQ-coal-poverty-development>

Session 3: Economic Transformation and Environmental Sustainability.

INPUT 3: Agricultural transformation and environmental sustainability

Agriculture transformation can cause severe environmental degradation, which will reduce future prospects for economic growth and development. In China, for example, the intensive synthetic-based agriculture revolution has, over three decades, led to severe soil degradation and food crop contamination, which in turn has jeopardized public health. UNCTAD (2012) therefore calls for African governments to "subsidise access to productivity-enhancing technologies and also improve the sustainable management of land and natural resources through reform of land tenure systems, better definition and enforcement of property rights, and restriction or regulation of imports of hazardous chemicals, pesticides and other pollutants."

In most sub-Saharan countries agricultural production can be increased without expansion of cultivated land, though Burundi and Rwanda are the exceptions. A number of existing agriculture production approaches have already shown significant potential to increase yields and incomes through building soil health and reducing the use of synthetics pesticides and fertilisers. These approaches include conservation agriculture, sustainable intensification, use of crop rotations and cover crops such as nitrate-fixing legumes, organic production, and integrated pest and soil fertility management practices. Reduction of post-harvest losses is a further obvious way to increase productivity sustainably. These measures reduce or avoid the use of synthetic pesticides and fertilisers, which were in part responsible for the water pollution and soil degradation accompanying agricultural transformation in Asian and Latin American countries.

Governments of sub-Saharan countries could learn from the experiences of the Asian Green Revolution. The transformation to monocrop production systems using synthetic fertilisers and pesticides and large-scale irrigation to increase yields have led to serious environmental damage, including soil degradation, water resource depletion, water pollution, and rising greenhouse gas emissions. According to IFPRI (2002), “excessive and inappropriate use of fertilizers and pesticides has polluted waterways, poisoned agricultural workers, and killed beneficial insects and other wildlife”. Furthermore, irrigation practices resulted in salt build-up in the soils and some of the agricultural land had to be abandoned. Groundwater levels decreased in some areas and heavy reliance on a few major cereal

Background reading: *“Structural Economic Transformation in the context of the AU Vision 63 and the UN’s Sustainable Development Goals: What does equitable and sustainable economic transformation look like in Africa?”*

varieties has led to loss of biodiversity, which is essential to sustain future agricultural production in the face of climate change.

According to UNEP, 40 million hectares or 43 per cent of farmland in India, Bangladesh, Nepal, Sri Lanka and Bhutan has been affected by soil degradation. Not all degradation was the result of arable farming. Other causes include deforestation, overgrazing and over-cutting of vegetation. Intensive farming practices have been the dominant cause of several aspects of land degradation in south Asia, including soil fertility decline, water-logging and the lowering of the water table. The steady erosion of soil health can have a dramatic economic impact. Today, many farmers constantly need to increase the amount of fertiliser used to maintain yields on increasingly degraded soils, explaining the year on year rises in fertiliser consumption seen across Asia, which is creating serious productivity challenges for future generations.

Environmental degradation has also carried economic costs for newly industrialising countries. A UN report assessed the economic costs of land degradation for eight south Asian countries. The study covered combined yield loss and the extra input costs used to maintain yields on degraded soils. It estimated the annual costs to south Asia’s farmers of three types of degradation directly linked to Green Revolution practices, water logging, soil fertility decline and salination to be almost US\$3bn (FAO, UNDP, UNEP 1994).

Punjab, for example, contributed a third of the rice, and half of the wheat procured by the Food Corporation of India in the early 2000s. Wheat yields fell from 4.7 tonnes per hectare in 1999 to 2000 to 4.2 tonnes per hectare in 2005/6. Rice yields have grown very slowly. A report studying the problem has shown that this trend “can be directly linked to the ecological consequences of intensive monoculture systems” (Sharma, 2007). In China, it has been estimated that the cost of pollution and ecological degradation amounted to 3.8 per cent of GDP in 2009 (Zhang, 2012). In Mexico economic damages due to environmental degradation of intensive monocrop agriculture were estimated at 10 per cent of GDP on an annual basis between 1985 and 1999, dwarfing the annual GDP growth of 2.6 per cent (Gallagher 2004).

In Northeast Thailand the successful transition to smallholder-led cassava mono-crop production for export has led to deforestation, soil erosion, declining soil fertility, degradation of wetlands, reduced water flows in river systems, leaching of agro-chemicals into river systems, soil salinity, and direct pesticide poisoning (World Bank 2009). In sub-Saharan countries experiments with a home-grown Green Revolution have also led to serious environmental damage. The heavy application of synthetic fertilisers to monocrop maize plots in Zambia from the 1960s into the 1990s generated serious soil acidification and a reduction in soil organic matter.

There is still some debate as to the causes of the environmental destruction brought about by the Asian Green Revolution. Some argue that it was not improved seeds, irrigation and synthetic fertilisers *per se* that caused environmental problems, but rather the policy environment that “promoted injudicious and overuse of inputs and expansion of cultivation into areas that could not sustain high levels of intensification”. A World Bank report (2009) argued that low productivity farmers, especially when converting virgin natural habitat into agricultural land, have also contributed to environmental degradation.

Overall, Asia’s Green Revolution shows that agricultural development that does not place priority on environmental sustainability can generate negative long term consequences that undermine a successful and sustained economic transformation, which is needed to sustain poverty reduction. For these reasons, coupled with the far greater diversity of African agro-ecological systems, the Asian Green Revolution model cannot be transplanted onto African economies and societies. However, many African politicians and institutions continue to support and actively promote increased use of synthetic fertilizers and pesticides as the primary means to increase agricultural

Background reading: *“Structural Economic Transformation in the context of the AU Vision 63 and the UN’s Sustainable Development Goals: What does equitable and sustainable economic transformation look like in Africa?”*

productivity, instead of focusing their scarce resources on the innovation, dissemination and adoption of more sustainable production technologies.

African soils are older than in most parts of the world, which affects their fertility. Decades of drought, coupled with increasing population pressure contributing to unsustainable land management practices (reduced fallow, soil disturbance, deforestation), has led to soil degradation in large areas of the continent. This is further compounded by the inappropriate use of synthetic fertilisers, especially nitrates, which cause water pollution and soil degradation over a long term.

Unless African governments give top priority to soil health and sustainable land and water management, agriculture-based industrialisation may lead to unsustainable models of development, which are currently plaguing those advanced industrial countries and newly industrialised countries such as Brazil, who depended on agriculture transformation for their own economic development. This cannot be done without extensive and direct state involvement in extension services that support the dissemination and adoption of sustainable production practices, agriculture research and development, hedging producers against price volatility in international commodity markets, and providing economic incentives and regulatory services (such as subsidies or payments for ecosystem services and organic certification services) for sustainable production practices.

The SDGs, UNEP Green Economy and climate smart agriculture agendas all offer opportunities to ‘leapfrog’ dirty and unsustainable agricultural technology, and create more sustainable, decentralised food and energy systems, based on linkages between farming and non-farm enterprises and the growth of small urban centres in Africa. This, however, depends on major scaling up of investment in sustainable agricultural knowledge, innovation and advisory systems and services, institutional capacity to direct a sustainable and equitable agricultural transformation with the full participation of small-scale producers and agri-enterprises, and investing in appropriate infrastructure and technologies. Economic history has shown that agriculture-based economic transformation has almost always been accompanied by greater income inequality and environmental degradation.

This trend poses a double challenge to African governments and agriculture investors, including smallholder farmers – not only to leapfrog the dirty technologies of past agriculture industrial revolutions, but also develop the capacity, institutions, and policies to create good quality job opportunities and protect the existing land and food rights and assets of smallholder producers and agriculture workers, both women and men, who might be left behind as a result of government-directed agriculture-based industrialisation strategies.

Session 4: Economic Transformation and Equity.

INPUT 1: Gender and equity in Africa’s transformation

The impact of market forces on gender parity depends on historically and culturally specific social relations in which they operate. Evidence shows that while market processes increase general income inequality across the population, they do not worsen existing gender inequalities, but neither do they reduce these inequalities.

Access to basic health and education services have had a significant positive impact on gender equity. What progress has been made in education and health in Africa has tended to leave the poorest and most marginalised behind, too often failing to narrow existing inequalities and sometimes exacerbating them. UNECA’s recent report (2015), “Industrialisation through Trade” while highlighting that ‘human capital is central to innovation and industrialization and structural change’ recognises the uneven nature of progress and stresses that progress in

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primary education is “permeated with inequities across income, gender and location⁷. On health, “potential productivity gains could be even greater if the issues of inequity of access and utilization of health services across income, gender and location are addressed. Health-related costs hit low-income groups disproportionately.”⁸

Beyond education and health, the provision of energy, water and sanitation facilities, social protection and childcare facilities to address the issue of unpaid care provided by women, have also contributed to reduce gender inequality. . The lack of provision of these ‘public goods’ has a disproportionate impact on poor women and girls, especially those living in rural areas who spend significant amounts of time collecting water and firewood and juggle income generation activities with providing unpaid child care. A number of countries do have policies related to the provision of early childhood centres, but too often these are not funded or implemented.

A further important factor in determining rural gender equity in SSA is women’s rights to land – both ownership and inheritance rights. Notwithstanding this, Rwanda is perhaps the only country in the region to grant by law women equal inheritance rights.

In light of these general gender equity issues, much remains to be explored around gender equity in the specific context of economic transformation. This is therefore the focus of this session.

Further reading

- <http://set.odi.org/gender-and-economic-transformation/>

Session 4: Economic Transformation and Equity.

INPUT 2: Economic transformation and income inequality

Market-based economic transformation is a dynamic process that generates its own sources of poverty as well as wealth through three inter-related mechanisms, landlessness, unemployment and inequality. Fundamental to the economic transformation of societies to market-regulation is reallocation of assets on the basis of private ownership. This creates new and expanded mechanisms for private income generation through the accumulation of productive capital.

Poverty falls when incomes rise in the process of commercialization of production for local and cross-border markets. In part they rise as a result of the movement of labour into newly expanding, usually urban activities such as manufacturing. An important aspect of economic transformation is precisely its transformative tendency to commercialise production and distribution. If during this process inequality of income and wealth increases, the poverty reducing potential of economic transformation is reduced. In principle, the more unequal the distribution of income in a given country, the larger will be the proportion of the population living under the poverty line. For example, in a country with an annual per capita income of \$600 and an annual poverty line of \$365 (\$1 a day) no-one will live below the poverty line if income is equally distributed. If all the annual income growth in the next year goes to households above the poverty line, it will have no poverty reducing impact. However, if the annual income growth in the next year is distributed exactly as it was the year before, inequality is unchanged but poverty goes down (benign trickle down).

⁷ In Central, Eastern, Southern and West Africa only 23 per cent of poor, rural girls complete their primary education (UN, 2014). In some countries, children in the poorest 20 per cent of the population are three times less likely to be enrolled in primary school than children from the wealthiest 20 per cent.”

⁸ In Ethiopia for instance, the cost of health care paid for by families is nearly 90 per cent of the total household health costs (...), putting a heavy burden on low-income families—and is one of the main causes of families falling into poverty.”

Background reading: *“Structural Economic Transformation in the context of the AU Vision 63 and the UN’s Sustainable Development Goals: What does equitable and sustainable economic transformation look like in Africa?”*

In summary, the process of economic transformation is ambiguous with regard to poverty reduction. If unemployment and loss of access to resources and assets overwhelm the “trickle down” income effects, inequality rises and transformational economic growth becomes less poverty reducing. The empirical evidence seems overwhelming that in almost every country rising per capita incomes is associated with increasing inequality unless governments introduce major policies to prevent this (Lubker 2002).

In general we should expect market processes to generate inequality in the sub-Saharan region in the absence of specific redistributive strategies. Each country’s structural characteristics will to a great extent determine the degree to which inequality worsens and poverty reduction slows down. The most obvious structural characteristic generating inequality is reliance upon natural resource production and export. All research shows that countries whose exports are based on minerals and hydrocarbons exhibit greater inequality than those with no or modest mineral endowments

The recent phenomenal economic growth and the graduation of several African countries in to the ‘middle income’ country category should not mask persistent and in some cases growing inequalities. According to World Bank data, economic growth has had less of a poverty-reducing effect in Africa than in the rest of the world.

In terms of income distribution, Africa is still the second most inequitable region in the world after Latin America. The region is home to seven out of the world’s 10 most unequal societies across many dimensions including wealth, income and access to public services. Furthermore, income inequality is actually getting more extreme in at least some African countries. The absolute number of income poor actually increased from 330 to 399 million due to population growth. Income inequality also intersects with other deep-seated horizontal inequalities, based on geography, on the rural-urban divide and identity-based inequalities including, but not limited to, gender.

Session 4: Economic Transformation and Equity.

INPUT 3: Economic transformation and spatial inequality

There are significant spatial inequalities within African countries between regions that are more or less favoured (or neglected) by political elites, as well as between capitals and other urban areas and between coastal and landlocked areas of many countries. The characteristic spatial inequality in sub-Saharan Africa is most easily illustrated by the stark gaps between urban and rural areas. Poverty rates in rural areas are often much higher than urban areas. There is also evidence that rural poverty is only marginally declining (falling from 64.9% in 1998 to 61.6% in 2008). According to the Multidimensional Poverty Index (MPI), a composite measure of poverty headcount and poverty intensity consisting of ten indicators that estimate household hardship level, the average aggregated MPI is 0.11 in urban areas against 0.39 in rural areas, based on comparable data for urban and rural poverty in 42 African countries. High rural poverty rates are driving by migration trends to cities where the poor often end up joining the informal economy.

Inequality is also very high within cities. According to UNECA African cities have the highest global income inequalities, with an average Gini coefficient of 0.529 compared to a world average of below 0.4. Although urbanization is historically accompanied by improved human development and rising incomes, in the African case it is estimated that 40–85 per cent of Africa’s urban population lives in slums. Dramatic economic and social polarization is a feature of most African cities.

Given this spatial inequality there is a need to consider what the implications are for economic transformation- especially how we can ensure more equitable outcomes.

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Session 4: Economic Transformation and Equity.

INPUT 4: Economic transformation and inequality of access to land

Market-led economic transformation produces poverty resulting from loss or lack of access to productive assets. Prior to the development of land markets, agricultural households would not lose access to land via economic forces. The same economic process that generates rising agricultural productivity and private ownership of land also creates the possibility of households losing their land. Once this has occurred, the newly landless derive their livelihoods by working for those owning land. As should be obvious, working for an employer rather than as an independent farmer creates the possibility of unemployment. The poverty resulting from unemployment and landlessness might be labelled ‘market generated’ poverty.

How a strategy impacts on land tenure and rights to land is the central factor influencing rural inequality in the sub-Saharan region. A frequent recommendation from international agencies such as the World Bank is to privatise common land in the sub-Saharan region whose access is via “traditional rights”. The use of privatized land as collateral for loans, frequently given as a justification for privatization, can and has resulted in loss of land by rural households.

Land policy, legislation, and implementation arrangements, more than any other factor, determine the pattern and distributional consequences of agricultural growth. This is particularly pertinent in African countries or sub-regions where existing land users are not adequately protected by the formal legal system or customary rules and institutions against the claims of domestic or foreign investors, who are favoured by governments and traditional leaders. Most women do not have the same tenure rights to land as men under customary or formal legal systems, and without this protection face considerable challenges especially when they turn the land to productive use. Providing secure and transferable land rights is critical to protecting the interests of local populations while permitting entrepreneurial farmers to acquire unused land – however, individual land titling is not necessarily the best means to provide these rights, especially in the case of women producers or customary land users.

Session 5: The State, democratic governance and structural transformation in Africa

During Africa’s two ‘lost decades’ under structural adjustment programmes (SAPs), the role of the state was severely cut back in line with the neo-liberal policy objectives of the World Bank and donor countries. In addition to failing to achieve their declared short term goals of macro-economic stability, SAPs also led to the erosion of the state-society relationship and the very foundations of the nation-state, the disintegration of the social fabric, and an increase in poverty. Furthermore, the drastic austerity measures imposed by the IMF and World Bank have led to ‘IMF riots’ in a number of countries during the 1980s and 1990s. Their suppression strengthened authoritarian rule and undermined the emergence of participatory and democratic decision making.

The issue of whether the overall disappointing performance of SAPs in Africa is due to incomplete and half-hearted implementation, inappropriate policy components of the SAPs, or adverse external factors lies at the heart of the debate. A review of the available studies suggests that in most cases a combination of these three factors has been at work.⁹

Mainstream development policy has however now moved from limiting the role of the state in economic development to the state “doing the basics”. It is now “allowed” to play a “facilitator” role. The “facilitator role”

⁹ http://ageconsearch.umn.edu/bitstream/155490/2/4_Heidhues.pdf

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also absorbs some functions beyond “correcting market failures” – it also ‘facilitates the private sector’s ability to exploit the country’s areas of comparative advantage’.

The concept of the “developmental role” now being promoted by UNECA and other Pan-African institutions goes deeper and further than the role given to the state as “facilitator” or as an institution with responsibility to “correct” market failures” or to solve “coordination problems” in the private sector led economic growth. It’s about state agency in “collective action problems” in the overall economy and wider society as well as about state capability in promoting equitable and sustainable socio-economic development.

The different definitions given to the developmental state could be standardised as follows: “A developmental state can be defined as one that has the capacity to deploy its authority, credibility and legitimacy in a binding manner to design and implement development policies and programmes for promoting transformation and growth, as well as for expanding human capabilities”. This is not a mere facilitator role, but taking the overall responsibility of setting equitable socio-economic goals and leading the process of structural transformation to achieve these goals.

UNECA’s own description of “developmental state” is as follows:

“Advocating a stronger role for the state in development should neither be seen in terms of the old and tired debate of state versus the market nor should it be understood that the private sector should not remain the engine of economic growth. This is because the issue is not whether the state—like the market or the private sector for that matter—should play a role in economic transformation and development but rather how to construct developmental states in Africa and how to strengthen their capacity and accountability to design and implement more effective development strategies and policies”

The widening of the role of the state beyond correcting “market failure” and facilitating private sector led development is a positive advance in terms of building capable institutions to lead Africa’s transformation agenda. However, it is not yet clear what role the state could play beyond that of an “instrumental” institutional setup required to lead “market confirming” development. Although there seems to be consensus about the role of the state in correcting “market failures”, the belief that the market has self-regulating mechanisms is very entrenched. The role of the state to regulate (and at times to constrain or overrule) market forces to attain societal or development needs is not only deemed not to work but also to be counterproductive. The approach with best outcomes is still considered to be a market friendly role of the state that respects the “laws of the market”.

Critical social scientists have warned repeatedly that if the state is not recognised as collective agency to spearhead structural transformation and equitable and sustainable development, this would “set in motion an adverse dynamic that makes “the pursuit of short-sighted, narrow” private sector interest a dominating strategy to the detriment of long term societal and development outcomes. The binary approach to the role of the state and the market in development often gives rise to a misconception that both institutions are autonomous entities above society, unaffected by class interests and power relationships in society.

Highlighting the role of the state in setting out a clear framework for economic transformation to achieve equitable and environmentally sustainable economic development is not to minimise the role of the private sector in development. The criticism against the “market failure” approach should not be interpreted as a denial of state failure, which is equally, if not more, devastating to development and societal wellbeing. However, “state failure” is usually caused by disproportional influence of “market forces” on the commissions and omissions of the state – a phenomenon widely known as ‘state capture’. To highlight the role of the state is to underline that only the state can establish and enforce policies, regulations and legal frameworks that promote a private sector whose potential is harnessed to contribute to the a sustainable and equitable development.

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If the role of the state in “correcting” market failure is recognised, the question of which agency corrects “state failure” should be raised and answered. This leads to the significance of the political sphere in structural transformation. “State failure” is essentially a result of a dysfunctional state-society relationship. In the long term, “fixing state failure” involves transforming dysfunctional state-society relationship into a right holder-duty bearer relationship, in which empowered citizens hold capable states accountable.

The intrinsic value of democratic governance and accountability in shaping and “controlling” the role of the state is beyond doubt. It is also an end in itself for which African citizens should continue to fight. However, many institutions promote “good governance” only in an instrumental way to facilitate market-led development, which is not the same as democratic accountability. The good the good governance agenda can be misleading on the prerequisites for economic transformation in Africa and may only promote “*isomorphic mimicry*” - that is the ability of organisations to sustain legitimacy through the imitation of the forms of modern institutions without necessarily achieving real functionality.

It is also not justified to claim that the achievement of “good governance” would resolve problems related to socio-economic inequality in the development process.¹⁰ There is no formula or easy solution to this conundrum. Khan rightly remarks that the process of transformation itself throws up “intense social contestations” which are difficult to regulate through formalisms listed in the “good governance” agenda. Discussions around the concept of “state capability” including its political capability should be conducted to mobilise citizens to fight for political arrangements in which the state asserts its “autonomy” in relation to powerful particular interests. Only a state not captured by vested interests will have the capability to accommodate and aggregate the interests of different societal groups and facilitate a binding compromise for legitimised implementation.

¹⁰The achievement of “good governance” in industrialised countries has not gone beyond ensuring the “peaceful coexistence of political equality with socio-economic inequality”; i.e. “one dollar, one vote” principle of “market democracy” with “one person, one vote” of political democracy.