Economic Transformation for a Prosperous Africa

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Abstract
Economic transformation is a change which is attracting considerable focus and attention from economists, policy makers and development practitioners. There is no doubt that since independence, African countries have struggled to free the continent from ignorance, poverty and diseases. Economic growth acceleration in Africa may herald a new development era of the future success of African transformation. In an effort to promote the future success of Africa, this paper provides an extensive review on developmental economics and empirical observation from successful transformed countries. In the course of this research, it was found out that as other regions of the world embarked on economic transformation, many African countries were addressing three policy syndromes; the economic incentive structures promoted in the 1960s which were counter productive emphasizing government ownership and control, little discipline in the public finances leading to boom and bust scenarios, and elite capture of state resources. This paper therefore recommends that government of African countries should encourage economic transformation through deregulation, discourage the neglect of agriculture in order to eradicate abject poverty and continually diversify their economies. They should also intervene in the economic activities where private individuals do not have sufficient knowledge and financial capability, and support will be required to create business-promoting environment to offer incentives for African entrepreneurs.

Introduction
For many years, sustainable reduction is the overreaching objective of development in many countries in Africa. There have been several attempts in examining the global and African experience in the last few years by researchers in order to develop a framework in which this objective can be pursued. Among the attempts is the transformation of economies of African countries for prosperity which can be sustained for a very long period of time. This effort has led to the equitable growth accompanied by broad-based investment in many sectors of African economies. In order to encourage transformation and growth, macroeconomic stability is necessary as well as agricultural development and private sector. Environmental sustainability and the population dimension also deserve priority (Jighan 2006).

These elements constitute the broad development agenda. It should be stressed that while there is consensus on the above priorities, the development agenda is not the same for all countries, it varies depending on the country’s characteristics and its place on the development path.

Encouraging signs of growth acceleration in Africa’s may herald a new development era of rapid transformation. In an attempt to promote the future success of African transformation there is need to examine the past, present and future performances of different sectors in African economies. These sectors include agriculture, education, health, etc. It is also pertinent to scrutinize the provision and maintenance of infrastructure and security and the natural resources endowed in them.

An extensive literature review on macro economic policy and prospect will also be discussed to enrich this paper.

However, there are rising inequalities during transformation, Adams (2002) asserted that success and growth in any economy vitally depends on agricultural development, he opined that withdrawal of public support without agricultural development slow down transformation and the resulting inequalities are recognized as a persistent development challenge.

Transformation also depends on industrialization strategies, but it was discovered that winner-picking industrialization negatively affects other aspects of development, whereas home-grown, export-oriented industrialization led by private entrepreneurs open up broader opportunities for sustainable growth. Also government support will be required to create a business promoting environment and offers incentives for African entrepreneurs.

African Continent in Transition
In the past decade the present situation on ground, Hadjimichael (2004) identified four feature that can be seen to stand out in Africa. First, political liberalization which was partial and fragile, second, progress on certain key items of macroeconomic reform such as exchange rates but with fragility in other areas such as fiscal balance. Third, relatively low productivity on human development, institutional development and private sector development but with very interesting specific examples can be achieved. Forth and most important, a growing
differentiation among African countries along the three dimensions specified above. Africa in the mid 2000 represents a mosaic of different degrees of

1. Political liberalization  
(ii) economic performance and  
(iii) progress along the development.

Three groups with different characteristics and challenges can be discerned. These are those countries mired in civil strife and social unrest. For these countries, the first priority is clearly peace making and peace keeping. Even when peace comes, the most pressing need perhaps over a long period will simply be reconstruction and rehabilitation of a war-torn nation. There is also a category of countries mainly Eastern and southern Africa) which have moved some ways towards reversing the macroeconomic errors of the past, have established mechanisms for determining realistic exchange rates, and have generally reduced the extent of price controls. The fragility of these advances notwithstanding, these countries seem to have undergone a ‘silent revolution and to have moved ahead. For this group, the challenge is not only to maintain macro-economic stability, but to move systematically to the rest of the development agenda, especially in areas such as fiscal stability.

Another category of countries consist of those where macroeconomic reforms have only just commenced (e.g. the CFA countries) or not commenced at all (or even, as in the case of Nigeria, suffered recent reverses) the challenge for these is to accomplish the macroeconomic transition swiftly.

Regarding human, institutional and private sector development, Hadjimichael (2004) stated that there is wide range differentiation across Africa. But unlike the case with microeconomic reform, there is no systematic pattern, and no easy classification of countries is possible. Generally, countries that have advanced further on macroeconomic reform have also begun to attend to some parts of the remaining agenda, although there is no simple relationship between the two. What is interesting about the record on human, instructional and private sector development is that, despite less progress in these areas, compared to macroeconomic reform, there are a large numbers of specific examples of innovation and progress in each of them. Moreover, these clear instances of lack of progress or even retrogression in the same sector in the same country or across different sectors in the same country.

Different Agenda in Africa.

As the conditions, constraints and progress of African countries vary, so do their agenda. It may nevertheless be useful to illustrate the nature of agenda for the continent as a whole in the form of priorities by policy area. According to Dean, Judith and James (1994) The following reveal the conspicuous agenda in Africa.

- **Macroeconomic policy:** Maintain realistic exchange rates and continue trade for reform. Restore fiscal balance and prudence through revenue mobilization and expenditure control. Establish and implement priorities for public expenditure consistent with the development agenda.

- **Gender-Responsive Human Development:** Major expansion of basic education, health and family planning services, using public reserves as well as private and community level initiatives, focus on gender inequalities, prudent attention to secondary and tertiary education in the context of capacity building and special attention to the problem of HIV/AIDS

- **Agriculture:** Remunerative prices for famous and encouragement of private sector development in processing and marketing. Effective agriculture agricultural extension and research services, and expansion of rural infrastructure, education and health.

- **Environment:** Pricing reforms to ensure that environmental costs are incorporated into private calculations. Development and implantation of National Environmental Action Plans in collaboration with local communities.

- **Private sector development:** Reduce the cost of doing business through legal and regulatory reform. Improve the financial sector through instructional reform and capacity building, increasing competition within a sound regulatory framework. Send clear signals of support for private sector, and obtain relief for the budget through divestiture or appropriate reforms of public enterprises. Pursue regional integration in pragmatic fashion and in a manner consistent with outward looking export oriented strategy.

- **Infrastructure services:** Move aggressively towards bringing in the private sector to deliver some services (such as urban water supply and telecommunications) and towards community level initiatives.

- **Capacity Building:** Define better the role of government in delivering services, contract out activities such as construction and consider privatizing area such as construction, and consider privatizing area such as agricultural marketing and input supply. Decentralize decision making and service provision to the local level including traditional authority. Strengthen the core functions of government in particular the civil services, while reducing reliance one long-term expatriate technical assistance.

Although all of the above items are crucial but two elements stand out from a scrutiny of African experience over the last five years. First is human development in its broader sense. Not only is this an area
where progress has been particularly slow, it is also one that cuts across a number of the other items on the agenda. Second is the fiscal management which also cuts across the agenda. Public expenditure affects macroeconomic stability and private sector development.

San (2002) enunciated that the task of accelerating growth is specifically difficult in the current political, economic and aid environment surrounding Sub-Saharan African. The ongoing political transition is positive, but the new democracies are still fragile and the process is reversible. One reason is that in many countries, the transition took place in a context of weak institution. The role of the state should change and has been changing in a number of cases, the priority is to avoid the collapse of the state during the transition. This calls for (a) priority attention to the rehabilitation of the state where a collapse has occurred, (b) care to reform the state without killing it, and (c) proceeding with a clear vision of the role of the state which has been lacking in many countries.

Constraints of Growth in African Countries
Adams (2002) highlighted different areas in which growth is retarded in many countries in Africa. He argued that there was much constraints on macroeconomic policies, agriculture, health, education, politics and social distortions.

1. Macroeconomic policy:-
It is widely recognized that the adoption of a stable and undistorted macroeconomic framework is the foundation of a strategy for sustained growth with equity. In the short-run, some gains might be made by living beyond one’s means. But soon, the consequences of this are manifested in high inflation, low investment and low growth all with the dire consequences for the poor.

Key Policy Indicators of Macroeconomics
Indicators can be gauged in several ways: foreign exchange market, monetary policy stance, fiscal balance, and trade restrictions. Building on the work of the recent World Bank report, “Adjustment in Africa Reforms Rescues and the Road Ahead; The conclusion of this section is that there has been progress on the macroeconomic front, however, most countries are still far from the “policy frontier” so efforts need to be sustained, and because of the different country circumstances, the measures to be taken will vary (Jighan 2006).

a. Foreign Exchange Market
Ademola (1999) explained that foreign exchange market where currencies are exchanged has been jeopardized by the existence of black market premium. Dustan (2004) recognized the active black market in foreign exchange and a large black market premium, this leads to inefficiencies and rent seeking behaviour. When the black market premium in the official exchange rate is high, trading in this market generates a higher return than any productive investment. The presence of the black market gives rise to endemic corruption and loss to government in terms of low revenue. Since profit made is illegal, they will not be declared for tax purposes. And this is revenue that supposed to be used in building schools, financing health clinics and provision of other needed infrastructures in the country.

Nashashib (2004) declares that the turn around in foreign exchange controls has been quite remarkable in a range of countries. In Zimbabwe, Uganda, Tanzania, Mozambique and Ghana, the black market premium has decline in some cases to virtually zero- since the mid 1980, as market-based exchange rate determination als been gradually introduced. Considerable progress is also being made in countries such as Kenya, and Nigeria. Recognizing the Nigeria setback, the fact cannot be denied that massive change has swept through countries like Tanzania, Uganda and Kenya. They are striving significantly towards market-determined exchange rate policy.

b) Monetary Policy:-
Ademola (1999) wrote that monetary policy is the process by which the monetary authority of a country controls the supply of money, often targeting rate of interest for the purpose of promoting economic growth and stability. The official goals usually include relatively stable prices and low unemployment.

The international monetary fund places great importance on monetary policy in its programmes for developing countries in sub-Saharan Africa. It regards such policy as crucial to holding down inflation and stabilizing the real exchange rate. But such an approach is absurdly inappropriate since the vast majority of government of sub-Saharan countries lack the instruments to make monetary policy effective. Implementing monetary policy can use two channels (1) trying to influence the creation of private credit through open market operations (2) seeking to reduce the interest rates for the private sector and the rate at which commercial banks can borrow from the central bank. Hence, the effectiveness of monetary policy relies on a viable domestic market for trading public securities and commercial banks willing and able to lend to the private sector. However, with the exception of South Africa, no country in the sub Saharan region has these necessary conditions.

c) Fiscal Balance:
According to Jighan (2006), fiscal balance is an accrued measure that shows whether the government
has to borrow from financial market to cover its activities. The purpose of this measure is to meet the central fiscal objective to ensure that the government over the economic cycle, is saving enough to cover its own investment need and not drawing on private sector savings. It is calculated as revenue net of expenses from operations, plus revaluation adjustments (to remove items that do not impact on the fiscal balance), plus net capital investment (net investment in non-financial assets) as such investment is integral to the operation of government. Most African countries face major challenges to raise growth and reduce-poverty, and to integrate themselves into the world economy. Economy growth rates are still not high enough to make a real dent in the pervasive poverty and enable these countries to catch up with other developing nations. What is needed is a primary school based management which ensures efficient use of resources, will encourage parents to send their children to school because of low expenditure or low efficiency. For instance, if there are not enough textbooks for Kofi to have his own copy, how much can be learnt in a day? If budgetary constraints mean that expenditure is not sufficient, whether the quality of education provided, and its cost make it worthwhile for his parents to take the child away from work or other chores. But they certainly will do so if the quality of education is poor.

Building the primary school, paying the teachers and providing the necessary teaching materials have usually been considered primarily the responsibility of government and the government of Ghana has certainly been increasing its spending on building schools. The quality of education provided would thus depend on the efficiency of its use. But even with lavish expenditure in the sector, parents may still choose not to send their children to schools, for economic or cultural reasons. (This is the case of Aku, Kofi’s sister, who stayed at home to look after her younger brothers and sisters) But they certainly will do so if the quality of education provided is poor because of low expenditure or low efficiency. For instance, if there are not enough textbooks for Kofi to have his own copy, how much can be learnt in a day? If budgetary constraints mean that expenditure is not sufficient, would the parents be willing to pay some of the costs of schooling, for example, for textbooks? Thus, locally based management which ensures efficient use of resources, will encourage parents to send their children to primary school.

3) Agriculture

Oladeji, (1982) stressed that Agriculture in Africa is in crisis and is getting worse. Africa is the only region in the world where poverty and hunger are on the increase. The number of undernourished African has increased by one million a year from 2000 to 2002, though the proportion of people undernourished reduced from 36% to 33% over the previous ten years. On current projections, Africa will be the only continent that will...
fail to meet the international community’s target to reduce poverty, hunger and diseases in the millennium Development Goals (MDGS) by 2015. Nearly 80% of the population in Sub-Saharan Africa live in rural areas and 70% of this rural population are dependent on food production through farming or livestock keeping for most of their livelihood. Agriculture constitutes the backbone of most African foreign exchange, and the main generating tool of saving and tax revenues.

However, agricultural productivity is dropping in Sub-Saharan Africa. For example, per capital agricultural production fell about 5% over the last 20 years while it is increasing in other developing countries. As the focus of development assistance shifts towards export-led growth and state support for agriculture is progressively withdrawn, the productivity of small farmers has declined due to;

a) the lack of access to land and resources
b) degradation
c) poor access to markets
d) low investment in agricultural research, training and extension services
e) lack of private sector services to fill the vacuum left behind

Added to these are two further problems.

i. HIV/AIDS is reducing life expectancy and the productive capacity of farming households. In the past two decades, 7 million farmers and agricultural workers have died of AIDS in the most affected countries

ii. Climate change, in the form of increased extreme weather patterns, particularly more frequent and prolonged droughts, is expected to have a further detrimental effect on Africa’s agriculture.

Farmers in Africa are struggling to adapt to these crises but support is declining. Whilst total aid to sub Saharan Africa remained stable, during the 1990s, the proportion allocated to agriculture declined yearly. For instance, aid to agriculture in Sub-Saharan African Country members state declined as a proportion of total aid from 20%. In the early 1980s to 8% by 2000. if poverty in Africa is to be reduced, aids to agriculture must be increased substantially and made to work more effectively.

4. Political distortions:

There are several problems in Africa today which have a political route. Africa is a big place made up of 61 countries and not all share the same problems. Some countries are very sorted and some have very serious problems. The most striking problems that wave political solutions include war, debt and corruption. This has a knock on effect to things like stability, food production health and education that many countries consider as basic human right.

Among problems in countries in Africa is insecurity, lack of infrastructure and improper maintenance of the existing ones, for funding of health and education sector, etc.

Recent African Economic Outlook

Macroeconomic Prospect

The economic outlook of Africa remains favourably despite headwinds, from the global economy. Growth has remained relatively broad-based, without production, mining agriculture services and domestic demand as the main drivers, mitigating the adverse effects from global turbulence. But growth has remained subdued in several countries due to poor export performances, political and social tensions. Africa’s economic growth was 4.2% in 2012, 4.5% in 2013 and is projected to accelerate to 5.2% in 2014. This forecast assumes a gradual improvement of global economic conditions (World Bank 2013).

Africa’s economy continues to show a high degree of resilience against global economic distortions. However, the growth momentum has eased in countries with strong links to global market and also year political unrest has decreased. With a gradual recovery of the global economy, Lall (2010) opined that the continent’s average growth of gross domestic product GDP, is likely to amount to 5.3 at the end of 2014. In 2012, Africa’s growth was higher at 6.6%. But this was due to the rebound of oil production in Libya.

Resource-rich countries continue to benefit from relatively higher commodity price since global demand has reduced price levels. Good harvest have boosted agricultural production in many countries and also helped to mitigate adverse effects of high international food prices on consumers. Africa’s oil exports increased significantly as Libya resumed production.

The outlook is subjected to risks due to the fragile international environment and country-specific problems. Two years after the Arab revolutions political and social tensions continued in Egypt, Libya and Tunisia while output is gradually recovering in Egypt and Tunisia, and in Libya, oil production is close to pre-revolution level, unemployment remains high in the region and political transition is slow and contentious. Some countries in northern and western Africa have also been adversely affected by the political and military conflict in Mali.
In South Africa, growth was dampened by the global slowdown and labour unrest. 

_Africa’s Economic outlook._

![Growth rate graph]

**Source: Info Institute for Economic Research (2013)**

The weakness of the international environment also constrained African economies, although a short term prospect was favourable. The assessment of the economic situation by African participants in an international poll has deteriorated during 2011 and 2012. However in the first quarter of 2013, the assessment of the current situation and prospects projections improved.

**Africa’s Growth Performance**

In spite of the projected growth rate of 5.3% at the end of 2014, Africa’s growth performance may continue to remain below average growth of around 6% in the three years preceding the 2009 global recession. However, this projected growth rate is slightly higher than the estimated lying trend growth of 4.5% but still lower than 7% growth rate, which is widely regarded as sufficient to reduce poverty. With annual population growth of more than 2%, reducing poverty would require sustainable per capital growth of almost 5%. The average growth of per capital income is projected for 2013/2014 to be less than 3%. However, the relationship between economic growth and poverty is complex and the quality of growth and income distribution is equally pertinent. GDP per capital also neglects terms of trade effects. When a country reaps terms of trade gains, i.e if export prices rise faster than import prices, real disposable income is higher than measured by GDP. In contrast, when a country suffers terms of trade losses as its import prices rise faster than its export prices, real disposable income is lower than measured by GDP. Over the past ten years, Africa has on the average achieved terms of trade gains mainly due to higher commodity prices. But some countries suffered significant terms of trade losses. If terms of trade effects are included, Africa’s oil-exporting countries achieved 7% growth on average over the past ten years, which in theory–should have been sufficient to significantly reduce poverty.

Anyanwu (2010) contended that despite some improvements in living conditions of these countries, poverty has often remained high, the benefits of high growth rate have not trickled down to the whole population. In other words, growth has not been conspicuous – hence need for economic transformation.

**Africa’s underlying Transformation**

Anyanwu (2010) stated that there was a significant growth in 1980s and early 1990s. According to him, form 1996 – 2013, Africa’s average annual GDP growth amounted to about 5% and per capital GDP increased year by year by an average of 2.5%. As a result, in 2010, Africa’s level of per capital income surpassed its 1995 level by 40%. The catching-up of African economies has been under spread with, the exception of few countries. But adverse external shocks, such as the global recession in 2009 and political events such as the “Arab spring” in 2011, adversely affected the continent’s average growth. In order to correctly assess Africa’s underlying growth performance, it is therefore necessary to calculate trend growth by eliminating short term effects from annual growth. Using the Hodrick-prescott filter approach, Leibfritz and Flaig (2013) found out that from 1980 to the early 1990s Africa’s trend growth rate was only 2.5%. From 1993 to 2006, there was a steady increase in the trend growth rate to about 5.25% and since then, a slight decreases triggered by relatively low growth rate in 2009 and 2011.

Leibfritz and Flaig (2013) also discovered that Africa’s transformation need to include changes in terms of trade. It was stated that given the past terms of trade gains, many African countries, notably those with resource wealth, had more scope for improving living standards of their populations than suggested by output growth.
Recommendations
Given the volatility of commodity prices and the terms of trade, policies which mitigate their effects on the African economies needs to be strengthened.

- Diversifying the economy by broadening the export portfolio and reducing fuel and food import dependency will make African countries more resilient against abrupt commodity price changes and adverse terms of trade shocks. This will go a long way in improving conditions for sustainable growth in the long-run.
- Most African countries also need to deregulate their economies to allow private investors take active part in economic activities. There will be efficiency enhancement in sectors that are deregulated as there will be absence of bureaucracy, corruption, negligence of duty, non challant attitudes on the part of government employees which generally lead to low productivity.
- The activities of private investors whether foreign or indigenous must be properly monitored and managed to check rise of macro economic problems such as persistent rise in prices without any due cause, through price mechanism) low productivity and also to maintain balance in the demand and supply of goods and services.
- Black market operations should be totally eradicated in the foreign exchange market of most African countries. This will increase governments’ revenue as the legal foreign exchange markets will pay into governments’ purses
- There is need for continued substantial assistance to Africa to increase resource mobilization and assist the institutions involved in it. Aids needs to be accompanied by debt relief, geared towards individual country circumstances, and a recognition that the international economic environment itself is a major determinant of Africa’s prospects.
- Increase food production through standard mechanized farming to feed the teeming population in each African country and export large output for greater earnings.
- Macro-economics objectives should be allowed to take its due course through policy implementation, Monetary instruments should be employed appropriately and in the right proportions to combat existing macroeconomic problem in an economy. For example, adoption and excessive use of a monetary instrument e.g. fiscal policy which is the reduction in government spending and increase in taxation without corresponding measures to ensure increase and growth of money stock in the economy may engender another macroeconomic problem such as unemployment and stagnancy in the economy.
- The laid down rules and regulations stipulated for political leaders must be adhered to in order to curb political crisis in African countries.

Conclusion
Diversity, promise, volatility and uncertainty were the characteristics of most African countries in the mid-1995. A simultaneous political and economic transition began in the new millennium starting from mid 2000, presenting opportunities and challenges that were missing in the years past. Nevertheless, Africa’s development will have to traverse many risks as well as tantalizing promises lying ahead. The nature of external assistance will also have to change over this present decade. A dynamic partnership between the African people, African governments and donors is needed to realize the potential of Africa in the coming years.

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