

Addison, Tony

**Working Paper**

## Thirty years in Africa's development: From structural adjustment to structural transformation?

WIDER Working Paper, No. 2015/119

**Provided in Cooperation with:**

United Nations University (UNU), World Institute for Development Economics Research (WIDER)

*Suggested Citation:* Addison, Tony (2015) : Thirty years in Africa's development: From structural adjustment to structural transformation?, WIDER Working Paper, No. 2015/119, ISBN 978-92-9256-008-9, The United Nations University World Institute for Development Economics Research (UNU-WIDER), Helsinki,  
<https://doi.org/10.35188/UNU-WIDER/2015/008-9>

This Version is available at:

<https://hdl.handle.net/10419/129472>

**Standard-Nutzungsbedingungen:**

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

**Terms of use:**

*Documents in EconStor may be saved and copied for your personal and scholarly purposes.*

*You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.*

*If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.*

UNU-WIDER

30 YEARS OF RESEARCH  
FOR DEVELOPMENT

WIDER Working Paper 2015/119

## **Thirty years in Africa's development**

From structural adjustment to structural transformation?

Tony Addison\*

December 2015

**Abstract:** Africa has come a long way since the economic turmoil of the 1980s, the decade of ‘structural adjustment’. Growth has been strong, yet poverty remains high. Underlying the shortage of good livelihoods and high social inequality is the lack of diversification in Africa’s economies—in contrast to Asia’s success stories. Structural adjustment did not change the basic structure of economies. Many countries became mired in war in the 1980s and 1990s. This also brought about structural change, often of the worst kind. Today, structural transformation remains on the policy table, but many of the constraints, notably infrastructure and enterprise finance, have yet to be resolved. Agricultural productivity remains low. And without new manufacturing and service clusters, Africa is yet to follow East Asia in integrating with the global economy in ways that add value and good jobs. Instead, integration continues via Africa’s traditional primary exports, making the region vulnerable to commodity price shocks. Today’s policy agenda is subtle, and one in which the challenges have no easy answers.

**Keywords:** Africa, economic transformation, poverty, inequality, aid

**JEL classification:** E0, O1, O2, O4

**Acknowledgements:** Paper prepared for a conference on ‘From Post to Present to Future. The Post 2015 Development Agenda and Inequality in Perspective’, held in honour of Professor Rolph van der Hoeven at the International Institute of Social Studies, The Hague, 8 October 2015. The author thanks conference participants for their comments, especially S. Mansoob Murshed.

---

\* UNU-WIDER, Helsinki, Finland; [addison@wider.unu.edu](mailto:addison@wider.unu.edu)

This study has been prepared within the UNU-WIDER project ‘[Macro-Economic Management \(M-EM\)](#)’.

Copyright © UNU-WIDER 2015

ISSN 1798-7237 ISBN 978-92-9256-008-9

Typescript prepared by Lesley Ellen for UNU-WIDER.

UNU-WIDER gratefully acknowledges the financial contributions to the research programme from the governments of Denmark, Finland, Sweden, and the United Kingdom.

The World Institute for Development Economics Research (WIDER) was established by the United Nations University (UNU) as its first research and training centre and started work in Helsinki, Finland in 1985. The Institute undertakes applied research and policy analysis on structural changes affecting the developing and transitional economies, provides a forum for the advocacy of policies leading to robust, equitable and environmentally sustainable growth, and promotes capacity strengthening and training in the field of economic and social policy-making. Work is carried out by staff researchers and visiting scholars in Helsinki and through networks of collaborating scholars and institutions around the world.

UNU-WIDER, Katajanokanlaituri 6 B, 00160 Helsinki, Finland, [wider.unu.edu](http://wider.unu.edu)

The views expressed in this publication are those of the author(s). Publication does not imply endorsement by the Institute or the United Nations University, nor by the programme/project sponsors, of any of the views expressed.

## 1 Introduction

Africa has come a long way since the economic turmoil of the 1980s, the decade of ‘structural adjustment’. The term was first coined by the World Bank to describe its programme lending, made in support of economic reform (Please 1984; World Bank 1981).<sup>1</sup> At the time most of Africa’s economies were in deep distress. Subsequently, the African lions have roared again. GDP growth has averaged more than 4 per cent over the last decade (peaking at 6.4 per cent during 2002–08), with per capita growth just under 2 per cent (World Bank 2015a). And a number of countries have moved from low-income to middle-income status, notably Ghana (which in the 1980s was the epitome of a once-promising country turned economic disaster). Human development indicators have also improved, with child and maternal mortality down, and school enrolment significantly up.

Yet poverty measured by household income and expenditures presents a mixed picture. The incidence of poverty is down, from about half of all Africans in 1990 to about one-third today (World Bank 2015b).<sup>2</sup> Yet the number of Africans in poverty is expected to remain high; 392–416 million in 2011 to 317–344 million in 2030—which are higher absolute numbers than in 1990 (Jolliffe and Prydz 2015).<sup>3</sup> Millions are grouped just above and below national poverty lines, with insecure employment, and highly vulnerable to shocks. On current World Bank estimates, poverty will be concentrated in the sub-Saharan Africa (SSA) region by 2030, when more than 85 per cent of the global poor will be Africans (Jolliffe and Prydz 2015).

The economies of the region have yet to show the diversification that underpinned Asia’s success stories (on the latter see: Nayyar (2013); Rodrik (2007)). This is why East Asia accounted for half of the world’s poor in 1990, and SSA 15 per cent, while today the numbers are reversed: SSA now accounts for half the world’s poor, and East Asia’s share has dropped to 12 per cent (Cruz et al. 2015). Lack of diversification makes the economies as vulnerable to global shocks as in the 1970s and 1980s. Africa’s continued dependence on unprocessed commodity exports has been exposed by the price downturn of 2014–15. The terms of trade deterioration was 18 per cent and more up to early 2015, with declines of over 40 per cent for oil producers (World Bank 2015). Labour productivity remains below other developing regions—especially in agriculture, where Africa’s yields are low and mostly stagnant—resulting in low earnings and deep rural poverty. The good news on Africa’s human development is not matched by good news on livelihoods and income.

At the root of the poverty problem is disappointing progress in transforming Africa’s economies. The central argument of this paper is that while Africa has shown sustained growth, structural transformation has not, by and large, taken place on the required scale. In consequence, the creation of ‘good’ jobs—remunerative employment in decent working conditions—is failing to match the growth-rate of new labour-force entrants. While Africa’s middle-class has expanded, and top income-earners are doing very well, social inequality is widening given the lack of opportunity for those at the bottom. If unchecked this trend will threaten social stability.

---

<sup>1</sup> Unless otherwise stated, ‘Africa’ refers to sub-Saharan Africa (SSA) in this paper.

<sup>2</sup> On the basis of the World Bank’s new poverty line of USD1.90 per day. The Bank’s new poverty estimates are controversial in the extent to which they show a drop in poverty incidence over the last two decades.

<sup>3</sup> Poverty estimates vary depending on the poverty line chosen, and assumptions regarding Purchasing Power Parity (PPP) (Jolliffe and Prydz 2015).

Structural transformation, which is intimately linked to the goal of inclusive growth, remains on the policy table—as it did 30 or more years ago in the era of structural adjustment.

This paper is organized as follows: section 2 revisits the 1980s and early 1990s, to assess the successes and failures of structural adjustment. Economic reform was far from being the only significant event at the time. Many countries became mired in war. This also brought about structural change, often of the worst kind, and war's impact interacted with the economic liberalization of the time, often producing worse social inequality; this is the topic of section 3. Section 4 discusses today's agenda of structural transformation, and where the region now stands. Section 5 concludes that today's policy agenda is subtle, and one in which the challenges have no easy answers.

## 2 Structural adjustment

Back in the early 1980s, the IMF and the World Bank (the 'Bretton Woods Institutions') had a relatively clear idea of what economic reform should consist of. The message to governments was straightforward: devalue currencies when overvalued; strip out rent-seeking from external trade; undertake sector reforms (to restore agricultural price incentives, in particular); reduce the fiscal deficit to eliminate the crowding-out of private-sector investment; and generally reduce public-spending relative to GDP via the privatization of loss-making state enterprises. Underlying the policy detail was the aim of rebalancing economies towards the export sectors, and shifting the balance of public- and private-sector activity to the advantage of the latter.

Nominal devaluation was intended to shift incentives towards the production of tradables (exportables and import-substitutes). Trade liberalization—the shift from quantitative import restrictions to (simplified and lower) tariffs—was intended to raise further the incentive to produce exportables, and to displace (inefficiently) produced domestic-goods by imports to improve economic efficiency. This of course cut against the dominant post-independence strategy of import-substitution.

The package was intended to adjust the economy towards a structure that was more open to the world economy and its opportunities, and more focused on the private sector as a development driver. Structural adjustment was expected to impose losses on capital and labour in activities losing protection; but their reduced profits and wages were expected to be relatively short-lived and offset by new opportunities once growth picked up (World Bank 1990). Adjustment's social costs were accordingly thought to be limited; little mitigation was undertaken until the later 1980s when it became evident that adjustment would be a more protracted affair than initially thought (Jolly 1991; van der Hoeven 1991).

For economies that were already in deep recession, structural adjustment programmes (SAPs) eventually led to growth. In part this was due to the removal of disincentives to the production of traditional exports (Ghana's cocoa producers had been locked into an ineffective state-marketing system prior to liberalization, for example). As important to growth was the injection of foreign-exchange (via supporting concessionary loans) into economies where capacity utilization had been curtailed by lack of essential imports. To take one example, in Ghana prior to the start reform, per capita output had fallen by one-third over 1974–83 as the foreign-exchange constraint dug deeper into output; Ghana then registered a positive and stable rate of per capita growth every year after the mid-1980s (Fosu 2009).

Yet there were major problems with structural adjustment too. Fixed exchange rates were maintained far too long, thereby depressing output and investment as deflation (via fiscal

contraction) took on the burden of the adjustment process. This was especially evident in the CFA Franc Zone, which maintained a fixed peg to the (then) French Franc, at the insistence of the French Treasury. This hindered the ability of the region to respond to external shocks and induced severe recession, including in Cote d'Ivoire, once a star West African performer (Devarajan and de Mello 1987; Tchatchouang 2015). Devaluation, when it eventually came, inflicted a large and sudden adjustment to these economies.

Africa's aid donors were over-optimistic about the supply-side response that could be expected from devaluation, import liberalization, and sector reform. At the time, economists of a 'structuralist' persuasion warned that large relative price changes would do little to improve economies that were characterized by the kinds of structural rigidities that define 'underdevelopment' (Stiglitz et al. 2006). In agriculture, smallholders switched between crops in response to changing incentives, but were often unable to raise their *total* output (and hence income), as structural constraints (of low farm-productivity, little input use, and the time burdens of women farmers) held back the supply-side. Import liberalization decimated large parts of industry, without delivering a commensurate rise of new industries.

There was a mismatch between the structural reform and stabilization agendas, advanced respectively by the World Bank and the IMF. Problems in reform sequencing were not confined to Africa, but the region was especially vulnerable to policy mismatch, given its inherent economic weakness. Zimbabwe is an illustrative case. Premature financial liberalization led to a jump in interest rates that contributed to a surge in the cost of servicing public debt. This compounded the problem of restoring fiscal sustainability, and crowded out development spending (Addison and Laakso 2003). Rising interest rates combined with rapid import liberalization then hammered Zimbabwean industry: the once thriving clothing and textiles industry contracted to a point from which it has never recovered. The IMF's own Independent Evaluation Office later concluded that the overall adjustment had been badly designed (IMF 1998).

Did SAPs achieve their objective of transforming the structures of Africa's economies? By and large, the answer is no. By the 1990s Africa excluding South Africa had less manufacturing than it did in the 1970s; manufacturing's GDP share in 2005 was still only one-third of the developing country average, and falling (Page 2011). Africa's share of global manufacturing output and exports is today less than it was in the early 1980s. In agriculture, in which two-thirds of Africans work, the region has not achieved a large-scale transformation towards higher labour productivity and yields, thereby raising farm income and off-farm employment (via rising rural demand for rural good and services).

Meanwhile, East Asian economies such as Vietnam—which had also been in dire straits in the 1980s—recovered and then grew spectacularly via a careful phasing of liberalization that enabled the national economy to integrate successfully with the global economy. This stimulated new investments and activities in sectors of increasing value-added. Such structural transformation in East Asia enabled rapid poverty reduction via a rising agricultural productivity; this released labour for jobs (and higher earnings) in new industrial (export) clusters (Thoburn 2009). In turn such dynamism helped contain social inequality. Paradoxically, donors who backed rapid market liberalization for Africa—which failed to transform economies—financed more sequenced reform in Vietnam, which did achieve this.

There are parallels between what happened in Africa and events in the former Soviet Union (FSU) and Eastern-Europe (EE) as they went through transition. When politics is fluid—either in periods of political transition from autocracy to 'democracy' and/or during violent conflict—those with access to capital and political connections (or as members of the ruling elite

themselves) are able to drive the liberalization process in ways that shift assets and opportunities into their own hands. This is evident in, for example, the restructuring of financial systems: state banks in default are often recapitalized with private money, including international investment, and then often left to operate in weak regulatory environments (Addison et al. 2005). While policy economists (such as myself) typically work with a conceptual separation between the state and the private sector, with the former supposedly regulating the latter in the ‘public interest’, economic reform shows the ‘straddling’ that can occur as state and private sector actors work together for mutual gain—especially in wartime and post-war economies (see discussion later).

As in FSU-EE, the IMF, the World Bank, and the bilateral donors took a naïve view of what market-liberalization could accomplish for Africa. And they recognized too late how its outcomes can be manipulated when regulatory institutions are broken or still under construction (while liberalization can be done at the ‘stroke of a pen’, institutional construction is time- and resource-intensive) (Noman and Stiglitz 2015). The dynamics of wealth accumulation by elite insiders favour halting reform after the first stage of privatization—once the assets (banks, utilities, mineral rights, etc.) are in their hands—and before regulatory mechanisms are in place. (Hoff and Stiglitz 2001) The resulting ‘partial reform equilibrium’ (a term used in the transition-economics literature) then favours the private over the public interest, blocking subsequent institutional development (including increased transparency around ownership), which is necessary to protect the public interest against misuse of economic power (Hellman 1998; Frye 2010). Taking reform fast to encourage actors to take the ‘low-hanging fruit’ of reform—in the hope that this would consolidate support and make reform irreversible—enabled the well-connected groups to gather the fruit for themselves.

Africa’s national efforts at adjustment took place in the context of a global economic system that was far from supportive. This was pointed out at the time (see Helleiner 1983). Supplying more exportables meant supplying more primary commodities (mostly unprocessed), the traditional means of foreign-exchange generation. But this took place when world commodity prices were weak and declining.

Moreover, the small scale of the domestic market in most countries has made import substitution much less viable than in Asia’s more populous countries. Import substitution in Africa requires levels of protection that are a gift to rent-seekers, with little prospect of achieving international competitiveness. At independence, pan-Africanists recognized these limitations and pressed for regional cooperation. This agenda is still to be realized. To take one example, the collapse of the East African trade area added to Tanzania’s woes in the 1980s, as industries that had been established on the assumption of a larger regional market were reduced to supplying (declining) domestic markets. This is still a problem: the share of intra-African exports in total merchandise exports in Africa stands at 11 per cent, way below the 50 per cent of developing Asia (UNCTAD 2013).

With weak export earnings, and concessional loans rather than grants making up the bulk of official finance provided to support SAPs, Africa’s debt-to-GDP and debt-to-export ratios went skyward (Addison 2006). Africa found itself trying to service debts on the basis of earnings from a very narrow, very traditional, export base. This was eventually resolved via a transactions-heavy process that constituted the various HIPC (Heavily Indebted Poor Countries) initiatives; these lasted well over a decade (Addison et al. 2004). Underlying Africa’s debt problem were the over-optimistic—verging on the reckless—assumptions made in the 1980s regarding the region’s ability to drive up its export earnings in the face of structural supply constraints and (then) depressed world commodity prices.

Structural adjustment's legacy was stronger macro-economic policy, and more robust fiscal and monetary institutions. Much improved management of the public finances, better tax policy, and stronger central banks were real achievements (though achieved with unnecessary pain). This helped avoid a repeat of the catastrophic policy mistakes that led to the growth collapses of the 1970s and 1980s. But structural transformation—the movement of economies into activities with higher value-added—was not part of the legacy. Countries adjusted in the 1980s, but without big changes in structure. When growth returned it was on a narrow and traditional economic base.

Moreover, the era of structural adjustment showed that price incentives alone are insufficient to accelerate growth in ways that really reduce poverty and inequality (Cornia et al. 1992). During structural adjustment, poverty reduction was at best an 'add-on' to the growth agenda rather than the central goal it was starting to become with the launch of the 'Basic Needs' approach in the late 1970s (Hopkins and van der Hoeven 1983).

Growth returned to Africa in the 1990s, but growth is, by and large, delivering a disappointing amount of poverty reduction (Arndt et al. 2015). To take one example, Tanzania saw per capita income rise by 30 per cent over 2000–10; but per capita consumption in poor households barely improved over the same period, and the poverty rate in 2010 was the same as at the start of the Millennium (and the MDGs) (Atkinson and Lugo 2010).

### **3 Structural damage**

It is not just deliberate policy change that causes structural change in economies: social conflict and political breakdown (often degenerating into violence) has profound effects too. The era of structural adjustment overlapped and interacted with an era of rising conflict in Africa. The cold war was winding down by the mid-1980s, but the decade saw the continuation and intensification of fighting that began at independence in the 1970s in Angola (the war ending in 2002) and Mozambique (ending in 1992). Ethiopia's Derg was overthrown by 1991, Ethiopia and newly independent Eritrea began reconstruction, but then went to war with each other over 1998–2000. After backing dictators for years, the West suddenly awoke to the virtues of democratization as competition with the Soviet Union ended. The client states of both superpowers slid into chaos and conflict as state power fragmented and then collapsed in Liberia, Somalia, and Zaire (DRC). Longstanding grievances and histories of political instability resulted in conflict in Sierra Leone, Uganda, and Sudan as well as genocide in Rwanda.

Mass violence creates changes in economic structure, but of a perverse and regressive kind. Uncertainty and conflict work against long-term investment by communities and entrepreneurs, unless they are protected from predation (Addison and Murshed 2005). Rural communities retreat into subsistence and away from producing for the market. Traditional exports contract, although extractive industries in protected enclaves may continue unhindered (offshore oil in Angola is an example), and indeed wartime economies can register high growth but of a very distorted kind (including the export of conflict commodities, such as blood diamonds, from Angola and Sierra Leone).

These processes of accumulation continue to this day in economies such as South Sudan and Somalia, undergoing periodic outbursts of conflict, interspersed with periods without much large-scale fighting ('peace'). The commodity 'super-cycle', which lifted world prices over the last decade (until their recent slump) raised the stakes in the control of the revenue streams around natural resource wealth. Such control is one of the principal drivers of the region's social inequality, given the fortunes to be made, both legitimately and illegitimately. The straddling of



private and public sectors reaches its pinnacle in the petro states of Africa (Soares de Oliveira 2007). The nexus between conflict, resource dependence, and poverty is evident in the statistic that 37 per cent of the world's poor live in countries that have economies dominated by natural resource activities, and at least 12 per cent live in countries that the World Bank classifies as fragile and conflict-affected—most of which are natural-resource based economies, many in Africa (Cruz et al. 2015).

One outcome of war is higher inequality. The assets of the rural poor, few as they are, are more vulnerable to predation and loss. High-income groups have more opportunity to protect their living standards, and indeed can profit from wartime parallel-markets in scarce commodities, leading to much greater social differentiation in the rural economy (Wuyts 2003). Conflict leads to unplanned liberalization as the state simply loses control over territory, as well as 'spontaneous' privatization of state assets once insiders take control (Castel-Branco et al. 2003).

War-to-peace transition also provides ample opportunity to profit from new commercial opportunities. Peace raises the returns from access to land, mineral rights, and other valuable resources, as do reforms in sector policy, especially in agriculture, investment laws, etc. The period in which societies move from war to peace can be times of chaos when property rights are ill-defined, offering powerful actors an ability to gain control over assets and to mould the political settlement in ways that benefit their wealth accumulation. Using resources accumulated in war to buy influence, warlords can convert themselves into highly successful peacetime politicians and businessmen. Of course, such actors also have the means to ensure that economic reform goes down a path that secures their private interest, by means of the 'partial reform equilibrium' discussed earlier. Again, there are parallels with those transition countries of Central Asia and the Balkans where economic transition was accompanied by civil war.

#### **4 Structural transformation**

Africa has not diversified its economies to the extent expected. Overall, it is more dependent on primary commodity exports than it was 30 years ago (AfDB/OECD/UNDP/UN-ECA 2013). Manufacturing development is especially disappointing. While there are some bright spots, notably Ethiopia's new light-manufacturing cluster, manufacturing contributes a smaller share of GDP than in the 1980s. Excluding South Africa, SSA's shares of global manufacturing output and exports in 2005 were 0.3 per cent and 0.2 per cent respectively, both less than in 1980 (Page 2011 using UNIDO data). In consequence, the share of labour in the low-productivity sectors of subsistence agriculture and unskilled informal livelihoods is rising. This is the reverse of what should be happening if structural transformation was successfully underway.

SSA's population will grow from 900 million today to 2.1 billion by 2050 (UN-DESA 2013). This is a potential demographic dividend, as some 10 million young people enter SSA's workforce annually (World Bank 2012a). Yet this flow far exceeds the availability of good jobs. One comparison is illustrative: the annual *flow* of new labour is about equal to the total *stock* of manufacturing employment across the region (Lin 2011).

Africa's demographic dividend is only realizable if young people can be productively employed at ever-rising levels of skill so that incomes grow. This is not presently happening on anything like the scale necessary. While the rise of the African middle-class is much lauded, the growth in the numbers at the bottom of the social ladder grows inexorably, and many are increasingly urban dwellers—either born in towns and cities, or leaving the stagnant rural areas. More young people and little in the way of good jobs is a dangerous combination, often leading to social conflict, as North Africa has shown. Not surprisingly, issues around wages and working conditions were the

two top drivers of public protests in Africa in 2014 and 2015 (AfDB/OECD/UNDP/UN-ECA, 2015).

In Africa, overall social inequality is closely associated with high spatial inequality, itself a product of the colonial economic inheritance, sparse transport infrastructure, and environmental stress that limits livelihood possibilities in many areas (often compounded by their remoteness from the main poles of economic activity). Infrastructure investment can partly overcome this, if the presently disconnected area has good economic potential (in cash crops, for example). But low-income countries (LICs) in SSA lag at least 20 percentage points behind the LIC average on nearly all measures of infrastructure (Page and Söderbom 2012). Reducing the indirect costs of business can stimulate internationally competitive manufacturing and services in Africa, since low wages as a competitive ‘advantage’ are at present more than offset by the very high costs of power, water, and transport in the cost structure of firms (Eifert et al. 2008). Africa’s exports are 16 per cent lower than what we can expect given the standard determinants of trade (Freund and Rocha 2011). In the 1980s, export taxes and import protection were top constraints on Africa’s international trade: now it is often transport infrastructure and cumbersome border processes.

Funding large-scale infrastructure requires a level of finance that exceeds domestic revenues (the main funding source at present) and official development assistance (ODA). Despite the benefits of infrastructure for growth, jobs, and poverty reduction, infrastructure has shown a strong relative decline in aid allocations over the last 30 years as donors have shifted towards the social sectors instead. Increasingly, infrastructure requires co-financing with private investors, and the Africa50 fund of the African Development Bank (AfDB) shows one way ahead. Equally important is sound project preparation, including environmental and social assessment, and a good understanding of the development and livelihood impact of the construction of infrastructure and its subsequent use.<sup>4</sup> Many countries lack a good pipeline of projects, ready to start once finance becomes available.

ODA’s contribution to growth, has been larger than many critics allow (see UNU-WIDER 2014 for a comprehensive picture). Moreover, private finance (foreign direct investment, portfolio flows, and remittances, which are all on the rise) cannot entirely substitute for official flows. The donor community focuses mostly on human development these days—especially since the start of the MDGs era in 2000—having cut back on support to the productive sectors (what remains is small-scale and fragmented). The rise in school enrolment rates (if not always school quality and outcomes), and reduced child and maternal mortality are a tribute to national efforts supported by aid (official and philanthropic). Yet more educated and healthy young people need good livelihoods, either informal or formal, if poverty is to be reduced further.

Donor understanding of what creates new and better livelihoods is quite shallow. There is a fixation on the ‘Doing Business’ index of the World Bank, which emphasizes ad hoc regulatory reform. But the evidence shows that infrastructure and enterprise finance are far more important as constraints on starting and growing a business in Africa (UNU-WIDER 2014). Over-regulation of the labour market is not a constraint cited as in the top ten of problems by surveys of Africa’s businessmen. And cheapening further the cost of labour by moving yet more people into jobs with poor working conditions is not a viable solution to Africa’s employment challenge).

---

<sup>4</sup> Some of this infrastructure can be built using labour-intensive methods, and one of Africa’s largest social protection programmes, Ethiopia’s Productive Safety Net Programme (PSNP), which reaches nearly 10 per cent of the population, is doing just that (World Bank 2012b).

Donors also favour small- and medium-scale enterprises for their labour-intensity, but there is no evidence that these are any better at *net* job creation than larger enterprises (Page and Söderbom 2012). It was establishing and nourishing enterprises that eventually grew large, each creating thousands of good jobs not just tens or hundreds that drove East Asia's spectacular success. Wages rose, and poverty fell, as firms linked themselves into the value-chains of the global economy, thereby steadily improving productivity and labour earnings. It is not surprising that African governments seek collaboration with Asia's donors—Japan, South Korea, and China—with their ideas of industrial policy, and their own track record of success (Addison and Tarp 2015).

Employment as a goal had a shaky relationship with the process around the MDGs (van der Hoeven 2014). It received more attention in the process around the Sustainable Development Goals (SDGs) but this is true about almost *every* dimension of development; hence the number of SDG goals and targets (van der Hoeven 2015). The distribution of aid reveals the preferences of donors: and shows that helping create more livelihoods is way down their priority list. Thus the rhetoric of the SDG process—which called for a 'quantum leap' in livelihoods (UN 2013)—is not matched by the level and distribution of aid (Addison et al. 2015).

This is shown by the relative neglect of aid to agriculture over the last 30 years, a sector which is still the backbone of many African economies and vital to the extreme poor. Donor support to agriculture fell precipitously in the era of structural adjustment, and well into the 1990s, before a small upturn in recent years. The share of agriculture in total aid fell from 23 per cent in the mid-1980s to 6 per cent in the late 1990s and then rose to 9 per cent by 2010 (OECD 2012). The fall in support was especially evident in the World Bank, which was traditionally a large provider of finance to agricultural development. In the 1980s the Bank turned to the view that agricultural price liberalization could do most of the heavy lifting to get African agriculture out of its low-productivity trap. Accordingly, it cut back on its own expertise as well as technical assistance to the sector.

For sure, by the 1980s many countries were over-taxing agriculture, which was bad for output and bad for the rural poor (although the scale of agricultural taxation was overestimated at the time of reform: see Jensen et al. 2010). Reducing taxation via reform of agricultural marketing helped to move agriculture back towards its production-possibility frontier. But that frontier was, and still is, at a level so low that it keeps many people trapped in rural poverty. This is caused by low farm-productivity linked to the structural constraints of low input-use and weak infrastructure and marketing. Indeed some of the 'distortions' that the donors sought to remove in the past benefited rural food-security and poverty reduction, notably Malawi's fertilizer subsidy that, although expensive, has done a good job over the last decade in raising productivity and income (Arndt et al. 2014).

In this era of 'evidence-led policy', it is a paradox that many of Africa's governments as well as its donors have failed to absorb the plentiful and longstanding evidence that strong agricultural growth contributes to strong overall poverty reduction. This is especially so when agricultural research and project interventions help break the constraints on poorer small farms. Across the developing world as a whole a 1 per cent (annual) increase in agricultural growth delivers between 2 and 3 per cent of income growth for the poor (de Janvry and Sadoulet 2009; World Bank 2007). Yet despite the occasional high-profile initiative, agricultural research remains the Cinderella that it has always been, especially in the creation of strong national research facilities for crops and technologies benefitting poor people.

If higher and sustained agricultural productivity growth cannot be achieved then non-farm employment must take up the burden of ending Africa's poverty (McArthur 2015). While some

increase in off-farm livelihoods is possible, the demand for products and services remains limited by slow farm-income growth. This leaves migration to the cities, a route many young people are already taking, adding to the natural population growth of urban centres. Africa's cities are vibrant with buoyant economies; but their infrastructure is generally unable to cope, and coastal cities are vulnerable to flooding as sea levels rise with climate change. Managing the process of structural transformation and all its attendant spatial dimensions requires careful planning and financing, and the region is way behind in this.

Africa's natural-resource wealth is immense, a driver of development, and a substantial provider of revenue. But two cautionary points should be made. First, there is the present sell-off in global commodity markets. This is receiving much attention, as the fiscal impact is quite urgent for governments dependent on resource revenues; most of the region's oil economies did not build sufficiently large fiscal buffers in boom times. Angola and Nigeria are examples. For sure, some like Rwanda are benefiting from a lower oil import bill and their growth projections are rising. But many countries are seeing their export commodities falling too even while their oil import bill drops (notably copper and iron ore, a headache for Zambia and South Africa). Many are trying to patch up their financing gap with sovereign bond issues at very high yields (over 11 per cent in Ghana's case, with the country now back in the hands of the IMF having over-borrowed on the basis of its new oil wealth). This stores up debt trouble for the future.

But less recognized, yet fundamentally more important, is the consequence of international agreement on measures to contain the rise in the average global temperature to below 2C. This inevitably implies that large amounts of fossil fuels (oil, gas, and coal) will become unusable. On some estimates, only 20 per cent of the fossil fuels available to exploit globally can be utilized if carbon emissions are to remain at a level that secures the chances of global warming below 2C.

African policymakers may feel that international climate action denies them a driver of growth. The slowdown in foreign investment into the fossil fuels sector that has already started with the halving of world oil prices over 2014–15 will increase as international oil companies (and their public financial regulators), absorb the implications of climate change agreements for their business model. Climate finance must amply compensate Africa, but discussions around climate finance have not thought through clearly what exactly the finance will be used for. The renewable energy agenda remains a vast one for Africa.

## 5 Conclusions

A common thread runs through this paper: the importance of 'structure'. The era of structural adjustment advanced a very simple theory of structural change: the main driver was relative price incentives guiding the market to efficient outcomes. The role of the state was to stand back, lightly regulate (if at all), protect private property rights, and provide public goods including infrastructure. In this model, inequality might show a modest rise in the middle-stage of development but was ultimately contained as economies moved from low- to middle-income status, thereby providing more opportunity for all. Inclusive growth would follow almost automatically and poverty reduction with it.

But we have arrived at a point, in the year of the SDGs, at which it is clear that Africa has yet to achieve the level and speed of structural transformation that is required. The last decade's super-cycle in commodities seems to be over, dangerously exposing the weakness of the 'African lions' and their undiversified growth model. Moreover, African policymakers have yet to absorb the implications for investment in their extractive industries of what real progress on international

climate change agreements will mean for the demand for Africa's exports of fossil fuels (oil and coal). The roar of Africa's lions is now weaker.

To conclude, in the 1980s achieving structural change appeared to be a straightforward process, and one to be largely driven by market mechanisms. That structural change has not occurred as expected, illustrates the weakness of relying on market mechanisms alone (despite their importance), and the need for better models of state and enterprise cooperation suitable for Africa's economies. Such cooperation is inherently political, and to be effective, as well as transparent, it must mesh with the democratic politics of each country.

The old forms of state and enterprise cooperation that characterized the one-party systems of post-independence Africa, and which degraded into unproductive rent-seeking (and which sometimes fed into violent conflict), are not viable for today's democracies. Nor are they capable of delivering integration with the global economy in ways that facilitate national structural transformation.

Today's policy agenda is subtle. Raising farm productivity; creating clusters of high value-added manufacturing and services; managing natural resource wealth in the public interest; making the right infrastructure choices; constructing financial systems that facilitate diversified economies; achieving inclusive urbanization; and adapting to climate change are challenges that have no easy (ideological) answers.

## References

- Addison, T. (2006). 'Debt Relief: The Development and Poverty Impact'. *Swedish Economic Policy Review*, 13: 205–30.
- Addison, T., A. Geda, P. Le Billon, and S. Murshed (2005). 'Reconstructing and Reforming the Financial System in Conflict and "Post-Conflict" Economies'. *Journal of Development Studies*, 41(4): 703–18.
- Addison, T., H. Hansen, and F. Tarp (eds) (2004). *Debt Relief for Poor Countries*. Basingstoke: Palgrave Macmillan for UNU-WIDER.
- Addison, T., and L. Laakso (2003). 'The Political Economy of Zimbabwe's Descent into Conflict'. *Journal of International Development*, 15: 457–70.
- Addison, T., and S.M. Murshed (2005). 'Post-Conflict Reconstruction in Africa: Some Analytical Issues'. In A.K. Fosu and P. Collier (eds), *Post-Conflict Economies in Africa*. Basingstoke: Palgrave Macmillan.
- Addison, T., and F. Tarp (2015). 'Lessons for Japanese Foreign Aid from Research on Aid's Impact'. WIDER Working Paper 2015/058. Helsinki: UNU-WIDER.
- Addison, T., S. Singhal, and F. Tarp. (2015). 'Aid to Africa: The Changing Context'. In J.Y. Lin and C. Monga (eds), *The Oxford Handbook of Africa and Economics: Volume 2—Policies and Practices*. Oxford: Oxford University Press.
- AfDB/OECD/UNDP/UN-ECA (2013). *African Economic Outlook 2013: Structural Transformation and Natural Resources*. Tunis: African Development Bank, Organization for Economic Cooperation and Development, United Nations Development Programme, UN Economic Commission for Africa.
- AfDB/OECD/UNDP/UN-ECA (2015). *Africa Economic Outlook 2015; Regional Development & Spatial Inclusion*. Abidjan: African Development Bank, Organization for Economic

Cooperation and Development, United Nations Development Programme, UN Economic Commission for Africa.

- Arndt, C., L. Demery, A. McKay, and F. Tarp (2015). 'Growth and Poverty Reduction in Tanzania'. WIDER Working Paper 2015/051. Helsinki: UNU-WIDER.
- Arndt, C., K. Pauw, and J. Thurlow (2014). 'The Economywide Impacts and Risks of Malawi's Farm Input Subsidy Programme'. WIDER Working Paper 2014/099. Helsinki: UNU-WIDER.
- Atkinson, A.B., and M. Lugo (2010). 'Growth, Poverty and Distribution in Tanzania'. IGC Working Paper 10/0831. London: International Growth Centre.
- Castel-Branco, C., C. Cramer, and D. Hailu (2003). 'Privatization in Economic Strategy'. In T. Addison (ed.), *From Conflict to Recovery in Africa*. Oxford: Oxford University Press for UNU-WIDER.
- Cornia, A., R. van der Hoeven, and T. Mkandawire (eds) (1992). *Africa's Recovery in the 1990s: From Stagnation and Adjustment to Human Development: Policy Conflicts and Alternatives*. London, Macmillan.
- Cruz, M., J. Foster, B. Quillin, and P. Schellekens (2015). 'Ending Extreme Poverty and Sharing Prosperity: Progress and Policies'. Policy Research Note 15/03. Washington, DC: World Bank, Development Economics Group.
- de Janvry, A., and E. Sadoulet (2009). 'Agricultural Growth and Poverty Reduction: Additional Evidence'. *World Research Observer*, 25(1): 1–20.
- Devarajan, S., and J. de Mello (1987). 'Evaluating Participation in African Monetary Union: A Statistical Analysis of the CFA Zones'. *World Development*, 15(4): 483–96.
- Eifert, B., A. Gelb, and V. Ramachandran (2008). 'The Cost of Doing Business in Africa: Evidence from Enterprise Survey Data'. *World Development*, 36(9): 1531–46.
- Fosu, A. (2009). 'Country Role Models for Development Success: the Ghana Case'. WIDER Working Paper 2009/42. Helsinki: UNU-WIDER.
- Freund, C., and N. Rocha (2011). 'What Constrains Africa's Exports?'. *World Bank Economic Review*, 25(3): 361–86.
- Frye, T. (2010). *Building States and Markets after Communism: The Perils of Polarized Democracy*. Cambridge: Cambridge University Press.
- Helleiner, G.K. (1983). 'Africa and the IMF in the 1980s'. Essays in International Finance 152. Princeton, NJ: Department of Economics, Princeton University.
- Hellman, J. (1998). 'Winners Take All: The Politics of Partial Reform in Post-Communist Transitions'. *World Politics*, 50(2): 203–34.
- Hoff, K., and J.E. Stiglitz (2001). 'Modern Economic Theory and Development'. In G.M. Meier and J.E. Stiglitz (eds), *Frontiers of Development Economics: The Future in Perspective*. New York: Oxford University Press for the World Bank.
- Hopkins, M., and R. van der Hoeven (1983). *Basic Needs in Development Planning*. Aldershot: Gower, for the International Labour Office, World Employment Programme.
- IMF (1998). *External Evaluation of the Zimbabwe ESAF: Report by a Group of Independent Experts*. Washington, DC: International Monetary Fund.

- Jensen, H.T., S. Robinson, and F. Tarp (2010). 'Measuring Agricultural Policy Bias: General Equilibrium Analysis of Fifteen Developing Countries'. *American Journal of Agricultural Economics*, 92(4): 1136–48.
- Jolliffe, D., and E.B. Prydz (2015). 'Global Poverty Goals and Prices: How Purchasing Power Parity Matters'. Policy Research Working Paper 7256. Washington, DC: World Bank, Development Research Group.
- Jolly, R. (1991). 'Adjustment with a Human Face: A UNICEF Record and Perspective on the 1980s'. *World Development*, 19(12): 1807–21.
- Lin, J.Y. (2011). 'From Flying Geese to Leading Dragons: New Opportunities and Strategies for Structural Transformation in Developing Countries'. WIDER Annual Lecture 15, Helsinki: UNU-WIDER.
- McArthur, J.W. (2015). 'Agriculture's Role in Ending Extreme Poverty'. In L. Chandy, H. Kato, and H. Kharas (eds), *The Last Mile in Ending Extreme Poverty*. Washington, DC: Brookings Institution Press.
- Nayyar, D. (2013). *Catch Up, Developing Countries in the World Economy*. Oxford: Oxford University Press.
- Noman, A., and J. Stiglitz (2015). 'Economics and Policy: Some Lessons from Africa's Experience'. In J.Y. Lin and C. Monga (eds), *The Oxford Handbook of Africa and Economics: Volume 2—Policies and Practices*. Oxford: Oxford University Press.
- OECD (2012). 'Statistics on Resource Flows to Developing Countries'. Paris: OECD.
- Page, J. (2011). 'Should Africa Industrialize?'. WIDER Working Paper 2011/47. Helsinki: UNU-WIDER.
- Page, J., and M. Söderbom (2012). 'Is Small Beautiful? Small Enterprise, Aid and Employment in Africa'. WIDER Working Paper 2012/94. Helsinki: UNU-WIDER.
- Please, S. (1984). *The Hobbled Giant: Essays on the World Bank*. Boulder, CO: Westview Press.
- Rodrik, D. (2007). *One Economics, Many Recipes: Globalization, Institutions and Economic Growth*. Princeton, NJ: Princeton University Press.
- Soares de Oliveira, R. (2007). *Oil and Politics in the Gulf of Guinea*. London: Hurst.
- Stiglitz, J.E., J.A. Ocampo, S. Spiegel, R. Ffrench-Davis, and D. Nayyar (2006). *Stability with Growth: Macroeconomics, Liberalization and Development*. New York: Oxford University Press.
- Tchatchouang, J-C. (2015). 'The CFA Franc Zone: A Biography'. In J.Y. Lin and C. Monga (eds), *The Oxford Handbook of Africa and Economics: Volume 2—Policies and Practices*. Oxford: Oxford University Press.
- Thorburn, J. (2009). 'Vietnam as a Role Model for Development'. WIDER Working Paper 2009/30. Helsinki: UNU-WIDER.
- UN (2013). *A New Global Partnership: Eradicate Poverty and Transform Economies Through Sustainable Development*. New York: United Nations.
- UNCTAD (2013). *Economic Development in Africa Report 2013: Intra-African Trade – Unlocking Private Sector Dynamism*. Geneva: United Nations Conference on Trade and Development.
- UN-DESA (2013). *World Population 2012*. New York: United Nations Department of Economic and Social Affairs (Population Division).

- UNU-WIDER (2014). 'Aid, Growth and Employment'. ReCom Position Paper. Helsinki: UNU-WIDER. Available at:  
<http://recom.wider.unu.edu/sites/default/files/Position%20paper%20on%20Aid,%20Growth%20and%20Employment.pdf> (accessed on 30 November 2015).
- van der Hoeven, R.E. (1991). 'Adjustment with a Human Face: Still Relevant or Overtaken by Events?'. *World Development*, 19(12): 1835–45.
- van der Hoeven, R.E. (2014). 'Full Employment Target: What Lessons for a Post-2015 Development Agenda?'. *Journal of Human Development and Capabilities*, 15(1–2): 161–75.
- van der Hoeven, R.E. (2015). 'Can the Sustainable Development Goals Stem Rising Income Inequality in the World?'. Valedictory Lecture, 8 October 2015, International Institute of Social Studies, Erasmus University Rotterdam, The Hague.
- World Bank (1981). *Accelerated Development in Sub-Saharan Africa*. Washington, DC: World Bank.
- World Bank (1990). *Making Adjustment Work for the Poor: A Framework for Policy Reform in Africa*. Washington, DC: World Bank.
- World Bank (2007). *World Bank Assistance to Agriculture in Africa: An IEG Review*. Washington, DC: World Bank Independent Evaluation Group.
- World Bank (2012a). *World Development Report 2013: Jobs*. Washington, DC: World Bank.
- World Bank (2012b). *Ethiopia: Additional Financing for the Third Productive Safety Nets Program (APLIII) Project*. Washington, DC: World Bank.
- World Bank (2015a). *Africa Pulse*, Vol 11 (April). Washington DC: World Bank.
- World Bank (2015b) 'World Bank Forecasts Global Poverty to Fall Below 10% for First Time; Major Hurdles Remain in Goal to End Poverty by 2030'. Press Release, 4 October. Washington, DC: World Bank.
- Wuyts, M. (2003). 'The Agrarian Question in Mozambique's Transition and Reconstruction'. In T. Addison (ed.), *From Conflict to Recovery in Africa*. Oxford: Oxford University Press for UNU-WIDER.