

## **Agenda for Economic, Financial and other Reforms in Sub-Saharan Africa (SSA)**

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### **Abstract**

The objective of this paper is to set an agenda for economic, financial and other reforms for developing countries of the Sub-Saharan Africa (SSA), using Nigeria as example. The paper notes that most Sub-Saharan African (SSA) nations are over-dependent on low absolute rent from agriculture and other natural resources. It demonstrates the need for SSA countries to embark on reforms to ensure adequate mobilization and strategic deployment of their meagre earnings from agriculture and mineral resources to develop their economic and technological capacities, and thus earn technological rent.

The paper calls for sound economic, financial and institutional re-engineering programmes for developing countries, particularly in the SSA to help them overcome their balance of payment deficits. In such a re-engineering framework, the paper advocates the concentration of efforts on five main areas of economic, financial and institutional reforms.

Specifically, it calls for the creation of necessary enabling environment for economic and financial activities to thrive by removing institutional impediments to economic growth, and the provision of a government-led coordination that is necessary at the present stage of the economic development of most SSA economies. It suggests the liberalization of the financial sectors to boost foreign direct and portfolio investments while cautioning against unregulated liberalism, and the creation of value-added production operations. It advocates the reforms of domestic banks to adequately reposition them as development oriented banks that could make them serve as agents of economic and technological developments.

**Keywords:** Economic development, economic growth, national economies and technological rent.

**JEL Classification Code:** O16

### **1. Introduction**

The human development index which is a major indicator of well-being puts most African nations in the medium to low rungs of the well-being ladder compared to the nations of Europe, Russia, and many others countries (see table 1 below). In the same vein, the life expectancy at birth in most SSA countries is below sixty years compared to many nations of Europe that averaged eighty years (also, see table 1).

These indices are indicative of low standard of living and poor health conditions in many African nations in comparison with their counterparts in Europe and other parts of the world. This is in spite of the fact that Sub-Saharan African (SSA) nations have earned over 12 trillion US dollars as gross national income since the early years of independence, beginning from 1970 to 2009 (see table 2 below).

**Table 1:** Human Development Indices

COUNTRY	HDI	LIFE EXPECTANCY AT BIRTH	REMARKS
Norway	0.971	80.5 years	Very High Development
Sweden	0.963	80.8	” ” ”
France	0.961	81.0	” ” ”
Denmark	0.955	78.2	” ” ”
United Kingdom	0.947	79.3	” ” ”
Chile	0.878	78.5	High Human Development
Saudi Arabia	0.843	72.7	” ” ”
Russia Federation	0.817	66.2	” ” ”
South Africa	0.683	51.5	Medium Human Development
Kenya	0.541	53.6	” ” ”
Ghana	0.526	56.5	” ” ”
Cameroun	0.523	50.9	” ” ”
Nigeria	0.511	47.7	” ” ”
Cote d' Ivoire	0.484	56.8	Low Human Development

**Source:** Compiled from United Nations Statistics Division @ <http://unstats.un.org/unsd/databases>

**Table 2:** Gross National Income in US Dollars for Regions of Africa South of the Sahara

COUNTRY	GROSS NATIONAL IN COME IN US DOLLARS (\$ billion)
Eastern Africa	2,429.62
Middle (Central) Africa	1,394.34
Southern Africa	4,809.81
Western Africa	3,776.84
<b>TOTAL</b>	<b>12,410.60</b>

**Source:** Adapted from United Nations Statistics Division @ <http://unstats.un.org/unsd/databases>

This brings to the fore the issues of economic growth and national development in developing nations particularly in Sub-Saharan African (SSA) nations. The logical question that follows is - how can nations (particularly developing ones) develop their national economies through sound economic management and necessary institutional reforms with the attendant positive social and economic benefits for their citizens? This is an issue that involves setting medium to long term developmental goals and strategies that would require the concerted efforts of both the public and private sectors of national economies.

In many developing countries, particularly those SSA, in the early years of independence, the strategy of national development was based on import substitution (where goods that were hitherto manufactured were produced locally) and followed later by massive investment in physical capital and heavy extractive industries such as iron and steel, and cement (as was the case of Nigeria). Apart from the fact that these industrial strategies failed but they raised serious questions about providing the needed industrial bases and structural linkages for adequate and sustainable industrial growth (Igbinsosa, 2003).

Therefore, economic growth and national development should depend largely on the extent to which resources are sufficiently mobilized and applied; human activities and behaviours are transformed and prioritized; and institutional structures are reformed and stabilized to promote and sustain growth and development. In the case of SSA, this would involve a shift of emphasis from a monoculture and subsistence economic base to the promotion of basic activities such as raw material

processing and manufacturing, and ultimately to the reformation of economic, financial and institutional structures for economic development, financial stabilization and for scientific and technological take-off. The rate of economic development, the availability of finance in the industry and the extent to which national socio-political structures are reformed are crucial factors in this respect. Although finance is an important factor in economic development and financial stabilization, what is more crucial is the strategic use to which finance is put, its control and flow (Peaucelle, 2008).

Thus, without doubt, SSA countries have not done well in terms of their ability to promote the well being of their citizenry, and are therefore, in dire need of fundamental economic and financial reforms in order to transform their national economies and integrate them with the global one for the betterment of their citizens. The basic objectives of such transformation would include, among others, are to:

- increase the standard of living of their citizens,
- improve the health of the people,
- prevent over dependence on agricultural and mineral resources which are subject to vagaries in the world market price levels, and
- develop basic technical/technological capacities in agriculture and other fields through sufficient mobilization, deployment and control of financial resources and capital flows.

Therefore, the objective of this paper is to set an agenda for the attainment of the above goals of national development for Sub Sahara Africa (SSA), using Nigeria as an example. Such a strategic agenda is expected to take advantage of developments in the global economy to ensure proper use and strategic deployment of earnings from agriculture and mineral resources.

This paper is divided into five main sections - this introduction, the role of agriculture and mineral resources in the economies of Africa nations, and the role of science and technology in national development. The last two sections are - setting agenda for national economic growth and financial development of Sub-Saharan Africa (SSA) countries, and lastly, the summary and conclusion.

## **2. The Role of Agriculture and Mineral Resources in the Economies of African Nations**

Agriculture is the mainstay of most African economies. The contribution of agriculture (including hunting, forestry and fishing) to the GDP of some African economies in 2009 is 3.03% for South Africa, 27.15% for Kenya, 22.17% for Cameroon, 26.16% for Cote d'Ivoire, 35.67% for Ghana and 37.20% [(41.84%)] for Nigeria. Contrast these with 1.22% for Norway, 1.74% for France, 1.06% for Denmark, 1.74% Sweden and 4.70% for Russia in the same year (UN, 2010). Thus, while agriculture contributes over 25%, on average, to the GDP of most developing African nations, it only contributes an insignificant 2.09%, on average, to the GDP of most developed nations. This is an obvious case of high dependence on agriculture (that is, high absolute rent accruable to the agriculture industry in African nations). The implications of this are twofold: first, growth of African nations' economies is highly dependent on gross profits from agriculture (absolute rent) that is basically an extractive industry with very low technological intensity. Secondly, growths of African nations' economies (that are mostly agriculturally based) are subject to the vagaries of world agriculture market prices that are often outside the control of these nations.

Similarly, apart from agriculture, other natural resources such as coal, tin, ferrous and non-ferrous metals, oil and gas etc also contribute significantly but in various degrees to the GDP of most developing African states. A look at the components of the GDP of some African nations in 2009 shows that mining, manufacturing and utilities contributed 69.97% to the GDP of Angola, 27.94% to Cameroon's, 27.27 to South Africa's, 13.63% to Ghana's, 13.63% to Kenya's, 23.58% to Cote d'Ivoire's and 32.51% to Nigeria's GDP. For these countries, mining, manufacturing and utilities contributed on the average 30.34% to the nations' GDP in 2009. This figure contrast somewhat with an average GDP contribution of 21.17% for five selected European nations and Russia (see the table 3 below).

**Table 3:** The Contributions of Mining, Manufacturing & Utilities (At Current Prices) to Gdp/Value Added in 2009

COUNTRY	% CONTRIBUTION TO GDP	COUNTRY	% CONTRIBUTION TO GDP
Angola	69.97	Denmark	17.37
Cameroon	27.94	France	12.39
Cote D'Ivoire	23.58	Norway	35.16
Ghana	17.50	Russia	27.38
Kenya	13.63	Sweden	19.73
Nigeria	32.51	U. K.	15.00
South Africa	27.27	<b>AVERAGE</b>	21.17
<b>AVERAGE</b>	<b>30.34</b>		

Source: Compiled from the United Nations Statistics Division @ <http://unstats.un.org/unsd/databases>

Basically therefore, the economy of many African nations is dependent greatly on absolute rent from agriculture and natural resources of these nations. And as noted earlier, these industries (Agriculture and extractive) are of very low technological intensity, thus suggesting a very low level of differential rent to these nations' economic profits.

Unfortunately however, while differential rent or super-profit goes to owners and managers of the largely foreign owned natural resources extractive industrial firms, only the natural rent is retained in the economy while the super profits are invested in developed economies to the detriment of the national economies and their nationals. The little fractions of the natural rent earned from agricultural and natural resources supposedly retained in the national economy are often fizzled out through mismanagement of national finances. For instance, it is estimated that in the last eleven years (1999 – 2009), the Nigerian economy earned about 329.7 billion dollars in export of petroleum resources (including petroleum oils, oils of bitumen, minerals, crude, petroleum gases, liquefied natural gas and propane). Within the same period, a substantial portion of this earning was expended on the importation of consumer goods, for debt servicing and other outflows. For example, within the same period, while export of Nigerian goods and services raked in about 429.21 billion US dollars, the sum of 260.13 billion US dollars (UN, 2010) representing 60.6% of export earnings was expended on importation of goods and services. A sizeable portion of the balance 39.4% was represented by resident capital outflow that is often exacerbated by local residents who transfer huge sums of money abroad for social, political and personal financial reasons. Such huge capital flight is further compounded by inefficiencies in the management of the nation's finances. Other reasons for the nation's poor net capital flow include the high level of foreign contents in the nation's extractive industry which translates to about 90% of foreign inputs and thus amounting to similar ratio in the share of the natural rent (the Nigerian Petroleum Industry Bill is expected to address this imbalance).

The low rate of differential rent coupled with the vagaries in the prices of Africa's agriculture and other natural resources in the world market, the inadequate management of the nations' finances and the necessity to increase the level of technological intensity in national extractive and manufacturing industries call for proper management of the profits earned from oil and other natural resources. This can be achieved through a number of economic, financial and other reforms aimed at creating opportunities for generating technological rent and improving the living standard of citizens.

### 3. The Role of Science and Technology in National Development

Apart from differential rent which emanates from the absolute rent earned from agricultural and other extractive industrial activities, there is what is called technological rent in social economic relations. Technological rent is earned from the utilization of scientific and technological inventions made by the inhabitants of a country. Technological rent from this perspective is of two types – the first is what is often called technological rent type I and the second, also generally called technological rent type 2. Type 1 technological rent accrues from the scientific and technological activities of economic agents

engaged in high-level scientific and technological processing industries; and the other, type 2, is earned from the use of innovative business cycle activities that generate monopolistic profit for industries vis-à-vis their competitors (Frolov, 2004; Peaucelle, 2008). Thus, in an economy, industries that are highly technological driven would earn high rate of type 1 technological rent compared to those with low technological intensity. Similarly, highly creative, innovative and entrepreneurially driven industries would earn high technological rent type 2 whereas their less technologically endowed competitors who are less innovative would derive low rate of this type of rent.

Unlike, in many advanced economies like those of U.K., U.S. and Russia, the level of scientific and technological intensity in many African countries including Nigeria is abysmally low. The advanced economies of U.K., U.S., and Russia can be counted upon, in various degrees, to have high level of technological intensity in such industries as electrical/electronics, aviation, robotics, rocket-space engineering and petroleum engineering technology. Thus, where firms operating in such industries in those economies derive comparative advantages from technological rent type 1, whereas firms in many of such industries in Nigeria or other SSA economy would derive no such advantage because they are merely consumers of scientific and technological products of other advanced nations. Similarly, technological rent type 2 is earned by firms that are in the forefront in the acquisition of such technologies as computer and information technology, telecommunication, biotechnology, photo technology, nanotechnology, nuclear technology and the training and development of highly skilled human resources for them. Again, unlike countries such as U.S., Germany and U.K., Nigeria and most developing countries remain in the background in creating the necessary economic and social relations for technological rent type 2. However, this is one strategic goal (creating technological opportunities to generate rent type 2) that many developing countries can set to for themselves. The first step to achieving this is to carry out a number of reforms in the national economy including agricultural, economic, and financial reforms that would promote growth in other sectors including the technological sector.

#### **4. Setting Agenda for National Economic Growth and Financial Development of Ssa Countries**

To ensure that developing economies of SSA improve their economies, reduce poverty and overcome the challenges of development, deliberate priority targets must be set for agriculture, economic, financial, and technical/technology reforms. This is necessary so that judicious use is made of the meagre earnings from their agricultural and natural resources and to deliberately create necessary critical capacities in technically/technologically oriented industries to reduce balance of payments deficits. The objective is to reduce basic imports particularly the importation of raw materials and to promote growth in exports of basic commodities. In 2002, for example, the Russia federation defined such priority areas (Peaucelle, 2008) and a number of such target programmes have been successfully executed by that country. Thus, like Russia did, the SSA nations including Nigerian need to clearly focus on five main areas of fundamental reforms in order to transform their economies and enhance their capacities to promote and sustain growth and development. Using Nigeria as example, these main areas which require strategic and fundamental reforms should include (in order of priority) the following:

**4.1. Institutional and political reforms** -To ensure economic and financial activities thrive in SSA, institutional and political reforms that create conducive and stable social-political environment for local and multinational businesses to thrive cannot be over-emphasized. Institutional bottlenecks and drawbacks that make business activities risky and costly must be eliminated. Strengthening the regulatory and legal frameworks for quick and just adjudication of justice, and the establishment of alternative conflict resolution system would boost confidence in the judicial systems by both local and international investors. Corruption, political instability, policy inconsistencies, socio-political unrest and the likes make the conduct of local businesses not only risky but serve as disincentives for foreign direct and portfolio investments in local economies by foreign investors. Thus, there is the need to

strengthen the socio-cultural, economic and legal frameworks to curb the menace of corruption in both public and private lives including political reforms to make public offices not too attractive to politicians.

**4.2. Improved agricultural production and processing programmes** - This should involve deliberate and rapid transition from subsistence agriculture to mechanized and large farm holding system to boost food and raw material production for local and foreign markets. Deliberate policy that bans export of most primary agricultural and/or mineral resources without adding extra value through primary or secondary processing should be in place while programmes and infrastructures for storage, preservation and processing of agricultural products are deliberately pursued and ensured by governments.

**4.3. Economic and financial reforms** - Financial innovation must drive technological innovation and financial innovation cannot be sustained without macroeconomic stability and growth. Thus, economic and financial reforms must go hand-in-hand. Fiscal and monetary policies that reduce government deficits, effectively manage inflation below GDP growth rate, reduce the cost of governance, and increase per capital income should be implemented. These should also involve tax reforms that eliminate multiplicity of taxes, promote tax compliance, discourage tax evasion, and boost tax revenue.

The reforms should include the liberalization of the formal financial sector through interest rate deregulation to encourage savings and boost investments. The re-organization of banking institutions to make them supportive of growth and the promotion of development banking to provide credit for agricultural and development oriented projects should be a top priority. And the promotion of small enterprises oriented banks (microfinance banks) to provide credits for the small and medium scale industrial firms and the largely unorganized informal sectors through government intervention in terms of interest rate subsidy.

Other financial reforms to include strengthening the regulatory framework and dispute resolution systems in the capital market to promote capital market operations. Also, there should be purposeful regulation of foreign portfolio investments and speculative capital to minimize the destabilization effect of sudden withdrawal of funds in times of economic hiccups/crises in investors' home economy. In the same vein, foreign ownership of domestic banks to avoid dualism in banking operations and problems similar to multinational companies' transfer pricing abuses and capital flight should be discouraged.

However, provision of high incentives for foreign direct investments in long term investments in the production of capital goods and social development projects should be vigorously but wisely encouraged. This is necessary to balance the gains from such long term investments against the potential losses from unregulated tax holidays and other tax reliefs and waivers that may end up as drains in the nations' foreign reserves (see Todaro & Smith, 2009).

**4.4. Science and technological development programmes** - This should include the establishment of scientific and technological centres for the creation and development of basic scientific, technical and technological products in priority areas. For example, agricultural engineering programmes for the production of simple technological but affordable tools for uplifting the peasant standard of agriculture to mass oriented mechanized agriculture. The establishment of electrical and electronic infrastructural bases for the production of electrical and electronic components such electronic panels and computer motherboards should be a top priority project. Technological transfer programmes in the form of technological exchange programme and deliberate and purposeful policy of technological transfer through imitation and reproduction of products of scientific and technological inventions (like the Japanese strategy of the early 1970' and the Chinese approach of replication of renowned electronic products from the West) must be embarked upon. In this wise, realistic national scientific and technological investment policy that would provide regulatory framework for the provision of financial credits and the management of credit risk to technological intensive industries and other industries through private and public partnership should be formulated.

**4.5. Infrastructural development and social support programmes** - These should include the development of road, rail and water transportation; and the provision of regular and stable electricity to reduce cost of local production, boost domestic economic operations as well as promote export oriented activities. Others are socio- economic transformation of indigent persons through free qualitative, technical and vocational education; the provision of clean portable water and pursuit of solar and wind energy for provision of electricity to rural communities to boost rural economic activities.

The expected main outcomes of these reforms are threefold. One, it will ensure the creation of enabling environment for economic and financial activities to thrive through the removal of impediments to economic growth as well as the provision of a government-led coordination that is necessary at this stage of the economic development of most SSA nations. Secondly, the creation of value-added production operations and promotion of the right scientific, technical and technological orientation and focus for the nations to begin their march towards technological take-off – steps similar to those taken by Russia, China, Korea and Japan in recent decades would be attained. Lastly, these reforms would ultimately help SSA nations to overcome the challenge of over-dependence on the earnings from agriculture and other natural resources, and to embrace the prospects of earning technological rent from technical products and innovations, and by so doing reduce deficits in the nations' balance of payments accounts.

With these economic, financial and other reforms it is envisaged that the overall goal of increasing the standard of living of the citizens, prevention of over dependence on agriculture and mineral resources and the development of basic technical/technological capacities in agriculture and other fields for SSA nations would not be too far from been achieved.

## **5. Summary and Conclusion**

This paper examined the imperatives for economic, financial and technological reforms in Sub-Saharan African (SSA). It demonstrates that SSA economies are over dependent on agriculture and other natural resources thus resulting in low absolute and technological rent due to the low technological intensity in agriculture and manufacturing systems. It calls for economic, financial and institutional reforms that involve direct coordination of governments to provide the necessary conducive environment for local and international businesses to thrive. In particular, it suggests the liberalization of the financial sectors to boost foreign direct and portfolio investments while cautioning against unregulated liberalism to minimize the destabilizing and negative effects of foreign investments. It emphasized the necessity for the promotion of basic technical/technological capacities in agriculture and other fields to boost the nations' ability to earn some measure of technological rent and avoid over reliance on absolute rent from agriculture. This should be backed up with a realistic national scientific and technological investment policy involving public-private partnership. The paper advocates the reforms of national banks to adequately reposition them as development oriented banks that could serve as agents of economic and technological developments.

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