BUSINESSDAY

WEFA and the imperatives of a developmental state

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The World Economic Forum in Africa (WEFA) held in Abuja had come and gone. The convening power of WEFA was amply demonstrated in Abuja. Over 1,000 participants descended on the political capital city of Nigeria from 7 to 9 May, 2014. There were Presidents (17 Heads of Government and State) and Ministers, Captains of Industries and Bankers, rich billionaires and young entrepreneurs, academicians and civil societies, and global media moderators.

Many participants and observers may see the WEFA in Abuja as a Forum simply for networking, wheeling and dealings; after all, $68 billion of worth of deals were announced. From the prism of an economist, however, the most significant insight of the various sessions, themes, and discussions is that the WEFA in Abuja actually reinforces the importance and role of a developmental state in Nigeria and the rest of Africa. The developmental state imperatives gleaned from WEFA can be summed up in six Is: Inequality, Insecurity, Incentives, Institutions, and Investment.

The first imperative is securing people and property now and in future. Insecurity remains a challenge without which peaceful and sustainable development would be elusive. Africa has witnessed its own share of instability and insecurity in countries such as Somalia, Rwanda, South Sudan, Mali, Liberia, and Sierra Leone. While interstate and civil wars of the 1970s and 1980s have receded, non-state conflicts and terrorism have been on the rise in Africa. The most important backdrop to WEFA in Abuja, both nationally and internationally, is arguably the abduction of over 230 Chibok school girls under the guise of terrorism. “Bring back our girls” tag that echoed throughout the WEFA provides a rallying point for strong condemnation of the abduction of innocent children. The economic costs of insecurity include lost outputs, loss of human capital, rising share of security expenditures relative to social services expenditures, and economic damages to infrastructure. Thus, security for the protection of lives and property remains a public good that only a developmental state can provide effectively and widely with positive externalities for all. It is, therefore, not out of place that WEFA devoted two sessions to themes of Securing the Future; and Fragility Today, Prosperity Tomorrow.

The second imperative is reducing inequality. Inequality was the most significant theme of WEFA in Abuja. The issue of inequality is also coming against the backdrop of the influential new book on Capital in the21st Century by Thomas Picketty, a French Economist. The book, first published in French in 2013, was released in English in April, 2014. The book articulates the phenomenon of rising within-country inequality and declining Labour’s share of GDP since the 1970s, globally.

Why this devotion to inequality at WEFA in Abuja. The reason is not difficult to understand. Inequality statistics in Nigeria are stark: a rising Gini Coefficient of nearly 50, poverty rate of more than 50%, youth unemployment of 54% in an economy growing at 7%, and coinciding with the rise of the ultra-rich oligarchs. Reducing the relative share of income to the ultra-rich by tackling inequality remains a key developmental role of the state. In the long term, inequality is inimical to economic growth, and fuelled instability and insecurity. It is imperative that best practices to improve income distribution in an efficient manner as suggested during the WEFA Sessions are addressed. This can be viewed from the title of the Forum, Forging Inclusive Growth, Creating Jobs to specific inequality related sessions of Unlocking Job-

Creating Growth, From Skills Gap to Lifelong Learning, Investing in Health, Young and the Restless, and Africa's Got Talent: Why is Education Failing Youth?

The third imperative is ensuring appropriate, equitable, and efficient incentives not only to grow income, but to also improve income distribution and reduce inequality. Incentives are indeed in place for private sector-led growth in various sectors of the economy. However, too often, incentives have been provided within the context of a captured state, where a few oligarchs have emerged with accumulated, concentrated and consumable wealth in commanding heights of the economy—oil, energy, banking, telecom, real estate, and other services. In a captured state, economic oligarchs become self-perpetuating. The concentration of economic power reinforced special interests, with undue influence in politics, governmental appointments in strategic places, and which, in turn, ensure the adoption of policies, including licences, waivers, and concessions, to favour their class.

Nigeria's rebased GDP is very revealing of the perverse structural change underway in an economy where incentives have long favoured not the majority, but a few. The rebased economy has been fuelled by commodity boom leading to expansion of services and consumption sector. Economic development usually occurs when workers and farmers move from rural-based agriculture to urban-based manufacturing factories, which should have the capacities to employ more labour. On the other hand, what has been happening is the flock of youth to low-paying informal services sector in cities, as the manufacturing factories to absorb them have not grown as expected. Nigeria is indeed rising, but for whom? It is imperative that a developmental state provides incentives that ensure that the rising tide can lift all boats. The WEFA theme on Metrics that Matter had one of the objectives as identifying institutional framework to shift incentives. Indeed, incentives need to be shifted in favour of all, and not just a few.

The fourth imperative is building capable institutions. Institutions matter for development; and capable institutions matter even more for a developmental state. One of the common threads in the comparative economic analysis of Western countries, exemplified by the USA on the one hand, and the East Asian countries, typified by China on the other, is the role that institutions play in the economic development process. Although the western economies placed relatively more importance on democratic and market forces, the role of public sector institutions as facilitators and regulators was not in doubt. In China, the formulation and execution of development plans to guide economic development process at different stages have been led by strong public sector institutions . While most African countries have embraced western-style democracies, and are simultaneously looking to the East, especially to China, for a model of rapid economic development, what is lagging behind is an accountable and effective governing public sector institutions. In this context, a very apt topic at WEFA is Governance in Africa: who is accountable?