



Concept Note

Specialized Technical Committee on Finance, Monetary Affairs, Economic Planning and Integration

“Public policies for productive transformation”

Yaoundé, Cameroon

4-8 March 2019

I. BACKGROUND

1. Implementing effective public policies that facilitate productive transformation is essential for reviving economies. The 2019 African Union Specialized Technical Committee (STC) on Finance, Monetary Affairs, Economic Planning and Integration will be held under the theme **“Public Policies for Productive Transformation”**. Productive transformation is defined as the diversification into new products and higher value-added activities as well as in technological upgrading, the creation of more productive and better jobs and employment patterns that result in rising wages and poverty reduction (Nübler, 2014). It is imperative as it translates into economic diversification and sophistication by creating new products and higher value-added activities, improving productivity and creating decent jobs.

2. Despite two decades of increase in Africa’s economic growth, the continent is still facing low productivity as it relies mostly on exporting primary products. In addition, this growth did not translate into employment creation and poverty and inequality reduction. African economies must diversify away from primary production (resource extraction and agricultural commodity production) to improve their economic position vis-à-vis the rest of the world. Economies overly focused on primary production are risky because they tend to lack diversity and are vulnerable to fluctuations in global commodity prices.

3. In a bid to ensure that efforts are being made to transform the continent, each year the African Union Commission organizes the Specialized Technical Committee (STC) on Finance, Monetary Affairs, Economic Planning and Integration as per Decision Assembly/AU/Dec.227 (XII), reconfiguring the Specialized Technical Committees (STCs) and Decision Assembly/AU/Dec.365(XVII) requesting the Commission to operationalize the STCs from January 2013 and to abolish sectoral Ministerial Conferences.

4. The 2018 STC was held under the theme, *Domestic resource mobilization: fighting against corruption and illicit financial flows*. The Member States noted that these issues have been the major obstacles for growth on the continent as annually an amount of US\$ 50 billion that could contribute towards Africa’s development is being lost through tax evasions, corruption, financing of criminal activities, smuggling and trafficking in minerals, wildlife, among other issues. In this regard, Member States agreed to build strong institutions and promote good governance to reduce illicit financial flows so as to channel these resources towards continental development programmes.

5. Building on previous STC Meeting, the theme for the 2019 STC aims to offer a platform to deliberate about the right mix of public policies which have the potential to transform African countries into productive economies. This will include defining the relevant capacities that will be required for the effective designing and implementation of the policies so they can accelerate inclusive growth and sustainable development.

6. The 2019 STC Meeting will be co-organized by the African Union Commission (AUC), the African Capacity Building Foundation (ACBF) and other partners.

II. THEME: Public Policies for Productive transformation

7. Africa is rich with many natural resources and yet considered as one of the poorest regions in the world. The African continent is endowed with numerous natural resources (such as gold, diamonds, oil, cotton, bauxite, uranium, and iron ore) and young and entrepreneurial population (AUC/OECD, 2018) – hence the potential for transformation. More effort is required towards productive transformation in Africa as most countries tend to produce and export unprocessed raw products.

8. Product diversification is of paramount importance as measures of diversity make strong predictions about future GDP growth (Hausmann and Hidalgo, 2011). It is also widely recognized that increased productivity is achieved in countries that were able to modernize their activities and create advanced export goods (Rodrik, 2009). March 21, 2018 marked the beginning of a new era for the African continent when most of the Heads of State and Government of the African Union signed the historical African Continental Free Trade Area (AfCFTA), which aims to remove or reduce the barriers and constraints associated with trade. This agreement offers a huge opportunity for Africa to diversify its production and exports.

9. Many megatrends may shape Africa's development dynamics and must be considered in devising the development strategies aimed at transforming the economies. The prospects include the stronger role of emerging countries, the new production revolution, the youth bulge and the demographic dividend, the urban transition and the expansion of the middle class, and climate change (AUC/OECD, 2018).

10. Africa's emerging digital transformation with the availability of technologies such as robotics, cloud computing, artificial intelligence, high speed internet, offers tremendous opportunities for African firms to create new services, improve their productivity and growth and diversify their business activities. However, the new industrial structures can also exclude African firms if they lack the appropriate technological and social infrastructure as well as human resources. There is lack of capacity in governments to mobilize resources or tap into the capital markets for financing infrastructure as well as lack of competent human resources to structure financing to meet issuers' needs (ACBF, 2016). Capacity enhancement in these areas is therefore required to push the structural transformation agenda.

11. Africa is a very youthful continent with 19% of the global population totaling 226 million and these figures are expected to double by 2030 (UNDESA, 2015). This youth bulge can be a huge asset, and offer an opportunity towards driving the economic, technological and social transformation if appropriate policies are implemented in order to harness their potential. Africa is churning out more than 80 percent of graduates from the humanities and social sciences to go into today's world, which demands critical technical skills in science, technology, engineering, and mathematics. Africa needs an estimated 1.6 million agricultural scientists and 4.3 million engineers to be able to meet the first 10-year implementation plan of the African Union's Agenda 2063 (AUC/ACBF, 2016).

12. Private firms should be the major drivers of Africa's productive transformation as they are essential in creating jobs, mobilizing domestic resources, driving

innovation and accelerating productivity growth. Innovation and technological progress are important drivers of economic development. However, for most African countries, the major proportion of domestic contribution to R&D activities is provided by the government, with little from the private sector (ACBF, 2017). Despite African governments' reiterated commitment to fulfill the promise made almost a decade ago to invest 1 percent of gross domestic product (GDP) in R&D, they are the weakest R&D investors worldwide (ACBF, 2017).

13. The African Union Agenda 2063 calls for African countries to transform the structure of their economies through promoting quality growth that generates decent jobs and reduces poverty, supporting anti-inequality and diversifying economies to make them more resilient to shocks. Public policies for productive transformation are fundamental aspects for economic development and are key to realizing the African Union Agenda 2063.

14. African Union through Agenda 2063 envisions African countries with transformed economies capable of creating strong, robust and inclusive growth generating jobs and opportunities for all. Several pan-African initiatives emphasize the importance of industrialization for sustainable economic transformation. In all this, change and transformative leadership capacity is recognized as one of the most critical enablers for Africa to achieve its productive transformation.

15. Bearing all that in mind, it is feasible to create public policies that enable productive transformation on the African continent. It is in this context that the STC will facilitate a dialogue among Member States that will guide the continent towards economic and productive transformation. The participants will examine the nature, pattern and constraints of productive transformation in African countries, identify the successful policies and good country-case studies for productive transformation, the capacity requirements for productive transformation and the prospects for industrialization as well as the role of the private sector and regional integration.

III. Sub-Themes

A. Overview of the state of productive transformation in Africa

16. Productive transformation translates into economic diversification by creating new products and higher value-added activities, improving productivity and creating decent jobs. Understanding of the factors shaping the economic structure in African countries, drivers of exports and dynamics of employment, is essential in achieving successful productive transformation. Globally, the African continent is still experiencing low levels of productive transformation as it heavily relies on producing and exporting raw products. The level of industrialization is still low. African countries have shown no progress in product sophistication since the end of the 1960s as the prevalence of high-value goods in the production and export portfolio is still low compared to other regions. The productive structure is the key element for realizing the African Union development agenda and inclusiveness. In comparison with other regions, Africa is still lagging behind as it lacks innovation that is required for diversification and sophistication.

17. The globalisation of economic activity is leading to integration into fragmented systems of production with the value chains offering huge opportunities for diversification. Nevertheless, this form of specialization might not always reflect the real process of productive transformation as it might exhibit divergence between the export of manufactured goods and the level of value addition creation in the local economies. Efforts are required to develop the capability of economies to increase competitiveness of their exports, seize opportunities offered by FDIs and integration into the global value chains. The phenomenon of *immiserizing specialisation* due to the fragmentation process should be avoided as in this case the participation of countries in the global production systems will not have strong impacts on productivity, intensification of high-skilled labour, wages and ultimately growth dynamics.

18. The bottlenecks of productive transformation success include; weak productive capacities such as physical and institutional infrastructure, capital and technical skills to produce more high-value goods, financial constraints and unfavourable business environment. Another issue lies in the need for visionary and transformative leadership and mind-set change which are key to driving the industrialization agenda for African countries. Therefore, much more needs to be done in order to tackle all these issues. More diversification of the production structure and larger product sophistication would permit African countries to raise their exports to the global and regional markets as well as increase their market share in the context of fast-growing demand for modern products led by the raising middle class consumers.

B. Strategies for productive transformation in Africa

19. Public policies are vital for achieving the transformation agenda in Africa. Effective public policies that promote quality of exports and investments in physical and technological infrastructure development should be at the core of the transformation process for the African continent. In addition, skills development through capacity building in Science, Technology and Innovation, improvements in the enforcement of property rights and reinforcement of the regulatory framework, strong institutions, assistance to local firms and private sector development should be at the core of the transformation process for the African continent. Lack of entrepreneurial skills, access to finance, high costs of inputs, weak infrastructure development are amongst other factors constraining the competitiveness and development of local firms.

20. Policies for industrialization should take profit from the innovation potential of local entrepreneurs. The number of entrepreneurs that can be stimulated to engage in cost discovery in modern sectors of the economy determines the range of goods that an economy ends up producing and exporting (Hausmann, Hwang, and Rodrik 2007). In this regard, private initiatives need to be inserted in comprehensive frameworks of public actions.

21. Productive transformations leads to movements of people within and between mega-sectors, but also within and between countries as people are in search of new or better employment opportunities. Hence, governments should not only focus on implementing efficient policies for manufacturing but also support the development of both the agricultural and agribusiness sector, and the non-farm informal economy in urban and rural areas. Promoting agro-industrial development would create more

productive jobs as it will shift the surplus of labour from low-productivity agriculture and informal sectors into activities with higher productivity.

22. For productive transformation to be efficient, the under-developed agricultural sector needs also to be addressed, especially by supporting the sectors with strong comparative advantages. Specializing in some products will generate higher growth and decent jobs than specializing in others. These promising products and sectors need to be identified and supported. African countries should continue to tap into international good practice models and learn from countries which have successfully transformed their economies along an industrial trajectory. It is however important to note that having policies for productive transformation is not enough. There is need to effectively increase implementation capacity at national, regional and continental levels.

C. Role of regional integration and the private sector

23. The African Continent has made remarkable progress in terms of regional integration as supported by the recent historical signing of the African Continental Free Trade Area (AfCFTA) which offers an important stepping-stone for policy action. As this Agreement will enable free trade and movement of the people within the continent, countries will need to diversify and produce more sophisticated products. In order to make the agreement operational and revive industries more investment is required to support the transformation.

24. Regional and global markets offer new opportunities for Africa, if governments adapt their development strategies. The refocusing upon regional trade integration offers investment opportunities in building high quality infrastructure required for a successful productive transformation (roads, railways, maritime transport, airports, water and energy regional projects, construction, etc.). Regional value chains can boost Africa's industrialization. However, for regional integration to provide the expected benefits in trade, peace, security, investment, and above all economic transformation and sustainable development, African countries, the RECs and continental bodies need to understand the key issues and constraints, formulate and coordinate appropriate strategies and policies, and implement successfully the different regional development projects and plans.

25. The state provides an enabling environment for private sector economic activities by implementing appropriate economic policy reforms and providing the necessary legal and regulatory framework. It is also expected to provide some of the social and physical infrastructure, sometimes in partnership with the private sector. When this is in place, the private sector can mobilize resources, create jobs, innovate and advance technological progress.

26. Africa's business opportunities are now attracting international investors and there is optimism about prospects for doing business in Africa for the coming years. Simplified administrative procedures and reduced start-up and operational costs have made the business environment more attractive. 29.5% of foreign investors cite this improvement among the main motivations to invest in Africa, compared to 12% in 2003-07. External financial inflows must better benefit diversification of the economies and productivity, and create more jobs. Inflows into Africa reached 8.8% of GDP between 2009 and 2016, significantly higher than in Asia (3.8%) and LAC (5.2%). But

36% of total FDI between 2003 and 2014 was concentrated in the extractive industry. Opportunities abound now in many other sectors such as infrastructure, agriculture, financial services, consumer products and ICT.

27. Fostering stronger linkages between FDI firms and the local economy is essential to create more jobs, better transfer of knowledge and technology, contribute to addressing the lack of capabilities and technological sophistication required to transform the structures of production and exports. It is important to move towards a form of specialization that result in greater value addition creation and development of local economies. In fact, the way countries participate in the global value chains and the real origin of their economic diversification and sophistication is significant to a sustainable and inclusive productive transformation. The industrial development policies should be anchored to the global value chains that offer tremendous opportunities for transformation but also should pay attention to the large participation of local operators, particularly youth and women.

28. An all-inclusive response taking into account all existing trade-offs have to be clearly set by governments in order to reach efficiency, ensure complementarity and avoid competition between economic sectors and activities, Regional Economic Communities, private and public spheres, development targets, nullification of impacts produced by incentives and policies, market failures with externalities, and ultimately waste of resources. In fact, policies for productive transformation are composite bundles of various types of interventions that have different impacts on growth and socio-economic outcomes. Coherent, resilient and sustainable strategies at national, regional and continental are needed in the way policies are designed in order to achieve an effective transformation that is crucial in shaping Africa's future.

D. Transformative leadership and Africa's productive transformation

29. Social and economic transformation as depicted in Agenda 2063 and the Sustainable Development Goals (SDGs) requires radical change, including a transformative leadership. Agenda 2063 and the Ten-Year Implementation Plan recognize the critical role in Africa's transformation of leadership that is visionary, recognizes and nurtures talent, creates space for individual expression, and motivates and brings out the best in people. Historical evidence, too, indicates that successful transformation has occurred mostly in countries that were governed over long periods by a capable, credible, and committed government under strong political leadership that is skilled in devising public policies that advance socio-economic growth.

30. Transformative leadership could play a strategic role by supporting initiatives aimed at accelerating the successful implementation of Agenda 2063 and the SDGs, industrializing the African economies, promoting the creation of innovative technical solutions to the challenges faced by countries, modernizing the agriculture sector and developing global value chains for African products. In realisation of the importance of transformative leadership, ACBF's most recent flagship publication (the 2019 Africa Capacity Report), is on 'fostering transformative leadership for Africa's sustainable development.'

31. Some progress has been made toward transformative leadership for productive transformation in Africa. For instance, there is evidence that development of policies

that have driven long-term socioeconomic performance are correlated with transformative leadership, even though it is difficult to directly establish a causal connection from transformative leadership to socioeconomic development. Further, the framework for transformative leadership is being improved in a number of countries through constitutional changes aimed at institutionalizing the values and ethics of transformative leadership, on human rights, transparency, accountability, and codes of conduct for public officials. And most countries have established institutions to train transformative leaders.

32. Today, the key question remains as to how leadership in Africa can be associated with productive transformation via, for instance, the generation of economic and social opportunities, the acceleration of rural development, and the development of smart cities. Moreover, it is crucial to see how far transformative leadership has been able to promote productive transformation by building a strong and entrepreneurial human capital that takes responsibility for its own destiny. Issues worth being examined include the role of transformative leadership in strengthening entrepreneurship, advancing economic freedom, promoting business performance and business climate for more FDI and technology upgrading, supporting budget efficiency and mutual accountability as well as participatory policy process in shifting production and export structures, ensuring coherence in long-term development plans and vision, and building human and institutional capacities. Unless capacities are built for a transformative leadership in Africa, that can spearhead effective public policies for the productive transformation envisaged in Agenda 2063 and the internationally agreed SDGs, Africa will largely remain stagnant.

IV. Objectives

33. The main objective of the STC meetings will be to appraise the Ministers of the implementation status of make new recommendations especially around the current theme. More specifically, the meetings will:

- i. Update ministers on progress with implementation of recommendations of the previous STC meeting;
- ii. Provide a platform for dialogue among the ministers and key stakeholders around how to achieve productive transformation using effective public policies;
- iii. Examine the role of transformative leadership in Africa's productive transformation; and
- iv. Determine the policy implications and capacity requirements for achieving productive transformation moving forward.

V. EXPECTED OUTCOMES

34. The STC will provide concrete policy actions and measures required for productive transformation for consideration and approval by the African Union Summit in June/July 2019. The meeting is hence expected to have the following outcomes:

- i. Ministers that are well appraised of progress with implementation of recommendations of the previous STC meeting;

- ii. Ministers and key stakeholders that are more knowledgeable of the imperatives for developing and implementing effective public policies for the continent's productive transformation;
- iii. A well understood role of transformative leadership in Africa's productive transformation including launch of the 2019 Africa Capacity Report;
- iv. Clearly defined policy implications and capacity requirements for achieving productive transformation on the continent to be submitted to the June/July Summit.

VI. FORMAT

35. The meeting will be divided into two (2) sections: (1) Experts' Meeting and (2) Ministers' Meeting.

VII. EXPECTED OUTCOMES

36. The STC on Finance, Monetary Affairs, Economic Planning and Integration is expected to deliberate on items on the agenda and propose recommendations for approval by the African Union Summit in June/July 2019. The independent experts' meeting will make proposals for consideration and deliberation by the Senior Officials' meeting. The STC will provide concrete policy actions and measures required for productive transformation.

VIII. PARTICIPATION

37. Participants to the Conference will be from the Ministries of Finance, Economic Planning, and Integration and Central Banks of AU Member States. Other participants will be from the Regional Economic Communities, African Development Bank, African Capacity Building Foundation, United Nations Economic Commission for Africa and other partners.

IX. ORGANIZATIONAL ARRANGEMENTS

A. Working languages

38. The working languages of the meeting will be Arabic, English, French and Portuguese.

B. Documentation

39. The Commission will send the documents (draft agenda, draft programme of work, relevant background documents) to participants by electronic mail as soon as the latter have confirmed their participation. Documents will also be made available on the AU website. A separate information note for participants shall be sent to all confirmed participants.

C. Contact Information

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