

Economic Transformation and Diversification in Africa

African Caucus meeting
Luanda, 27 August 2015

Abdalla Hamdok
Deputy Executive Secretary and Chief Economist
United Nations Economic Commission for Africa
ahamdok@uneca.org



United Nations
Economic Commission for Africa

Economic transformation

definition and key elements

Economic transformation is associated with a fundamental change in the structure of the economy and its drivers of growth and development.

- a reallocation of resources from less productive to more productive sectors and activities;
 - an increase in the relative contribution of manufacturing to GDP;
 - a declining share of agricultural employment to total employment; a shift in economic activity from rural to urban areas;
 - the rise of a modern industrial and service economy;
 - a demographic transition from high rates of births and deaths (common in underdeveloped and rural areas) to low rates of births and deaths (associated with better health standards in developed and urban areas);
- and a rise in urbanization.



Economic transformation fundamentals

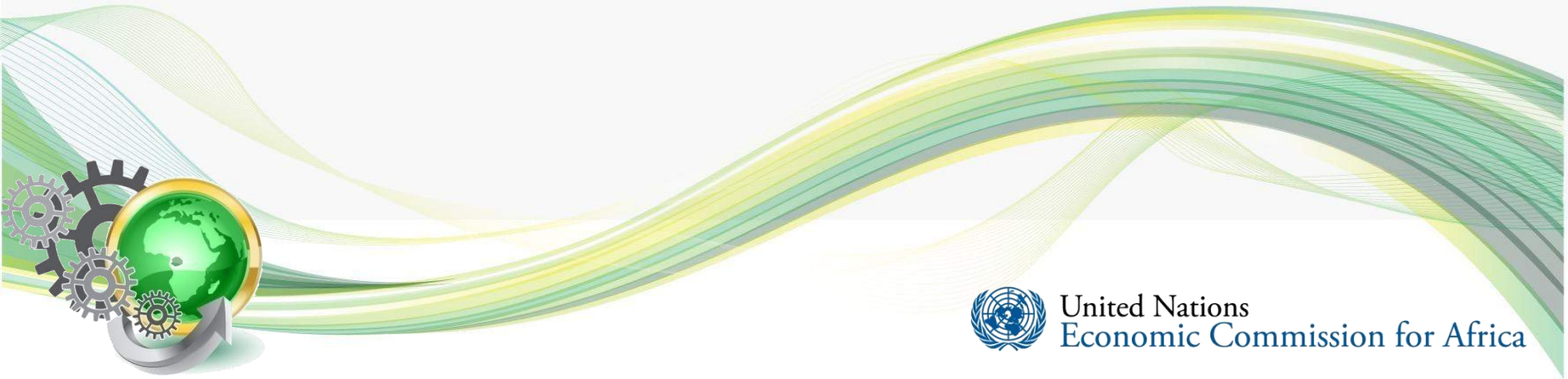
In other words, economic transformation involves:

- improvements in the productive capacities in all the three aggregate sectors [sectoral transformations];
- improvements in human capabilities, in terms of education, decent jobs, harnessing of the youth, and constructive demographics, etc. [social transformations];
- and should be green by reducing environmental degradation and protecting the environmental life support system (air, water, nutrients/soils) [environmental transformation]



Key Messages (I)

- Africa has experienced unprecedented economic growth in the past decade.
- But this have not been associated with corresponding reductions in poverty, inequality and social services delivery.
- Sustaining Africa's growth requires structural economic transformation underpinned by industrialization and intra-regional and global trade.
- Industrialization, specifically manufacturing is a multiplier that spurs innovation and creates jobs within and outside the industrial sector.

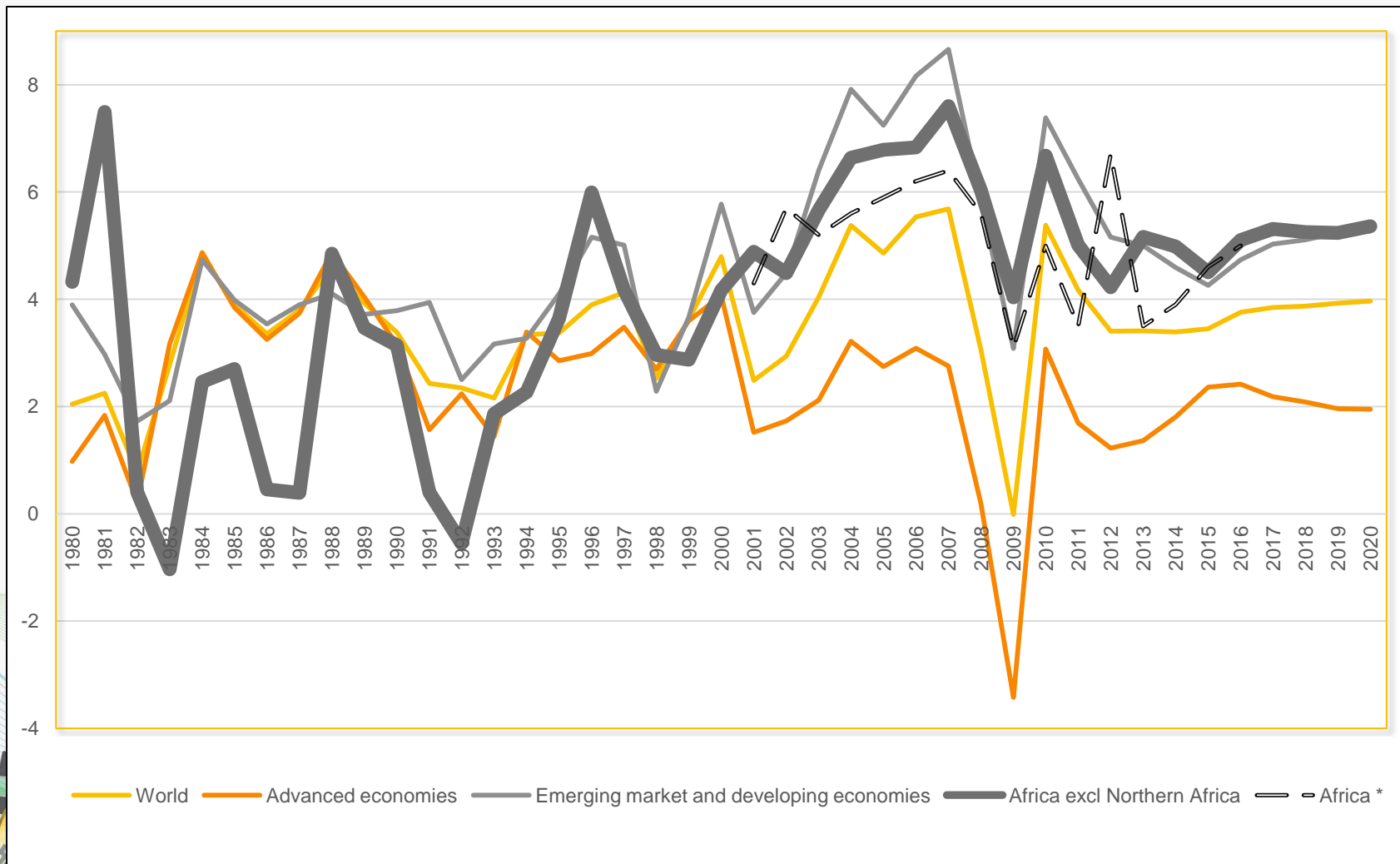


Key Messages (II)

- Structural transformation is however, not automatic, it must be orchestrated and guided by the “visible hand” of a developmental state. This includes the design and implementation of development plans.
- Green economic policies are vital in ensuring sustainable usage of natural resources, while contributing to climate change mitigation.
- Private sector development is crucial in order to utilize other potential developments, including human capital development, political and social stability.
- Finally, the economic and political elite must develop at least a reasonable amount of empathy for the population at large in order to trigger meaningful economic transformations.



Africa's growth exceeds, and is expected to exceed the average of all developing economies



Recent growth trends and forecasts

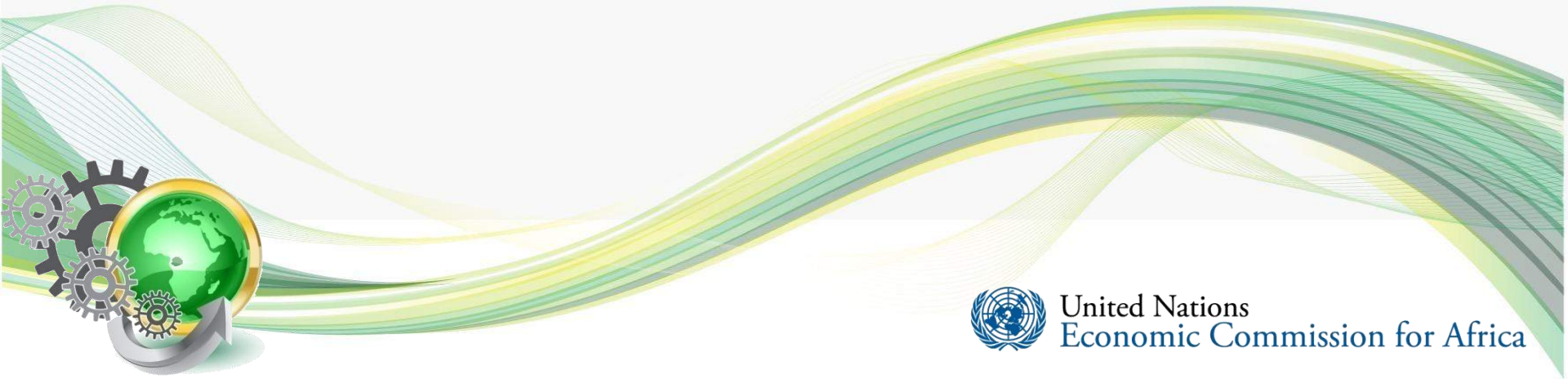
The rates above the global average are expected to be sustained.

	2013	2014	2015	2016	2017	2018	2019	2020
World	3.4	3.4	3.5	3.8	3.8	3.9	3.9	4.0
Advanced economies	1.4	1.8	2.4	2.4	2.2	2.1	2.0	1.9
Emerging market and developing economies	5.0	4.6	4.3	4.7	5.0	5.1	5.2	5.3
Africa excl Northern Africa	5.2	5.0	4.5	5.1	5.3	5.3	5.2	5.4



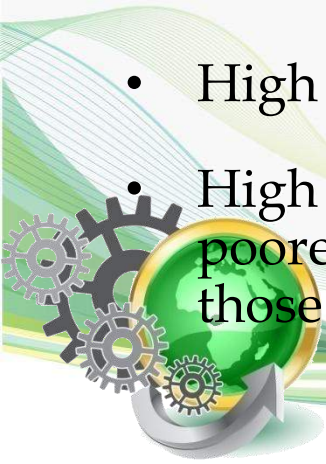
Impediments to structural transformation

- unexpected adverse developments in the global economy, e.g. slow growth in Europe;
- external shocks due to climate changes (weather);
- political instability and civil unrest in some African countries, but also around the world;
- downturn of commodity prices
- an expensive dollar, e.g. higher debt levels



Challenges to transformation

- Sustaining the positive trends while getting rid of the negative ones.
- Governance (public and private sector) are improving too slowly, and not in sufficiently high number of countries.
- Unemployment/underemployment, e.g. 91 million people were added to the labour force in Africa, but only 37 million jobs were created in wage earning sectors over the past 10 years.
- Declining but high ratio of extreme poverty - 47 percent of the African population lived under \$1.25 per day in 2011.
- Rising number of people in extreme poverty - 416 million in 2011, while being 386 in 1999. looming
- High economic inequality, especially in Southern Africa.
- High inequality in access to social services, e.g. children from the poorest households are 3 times more likely to be out of school than those from the richest households.

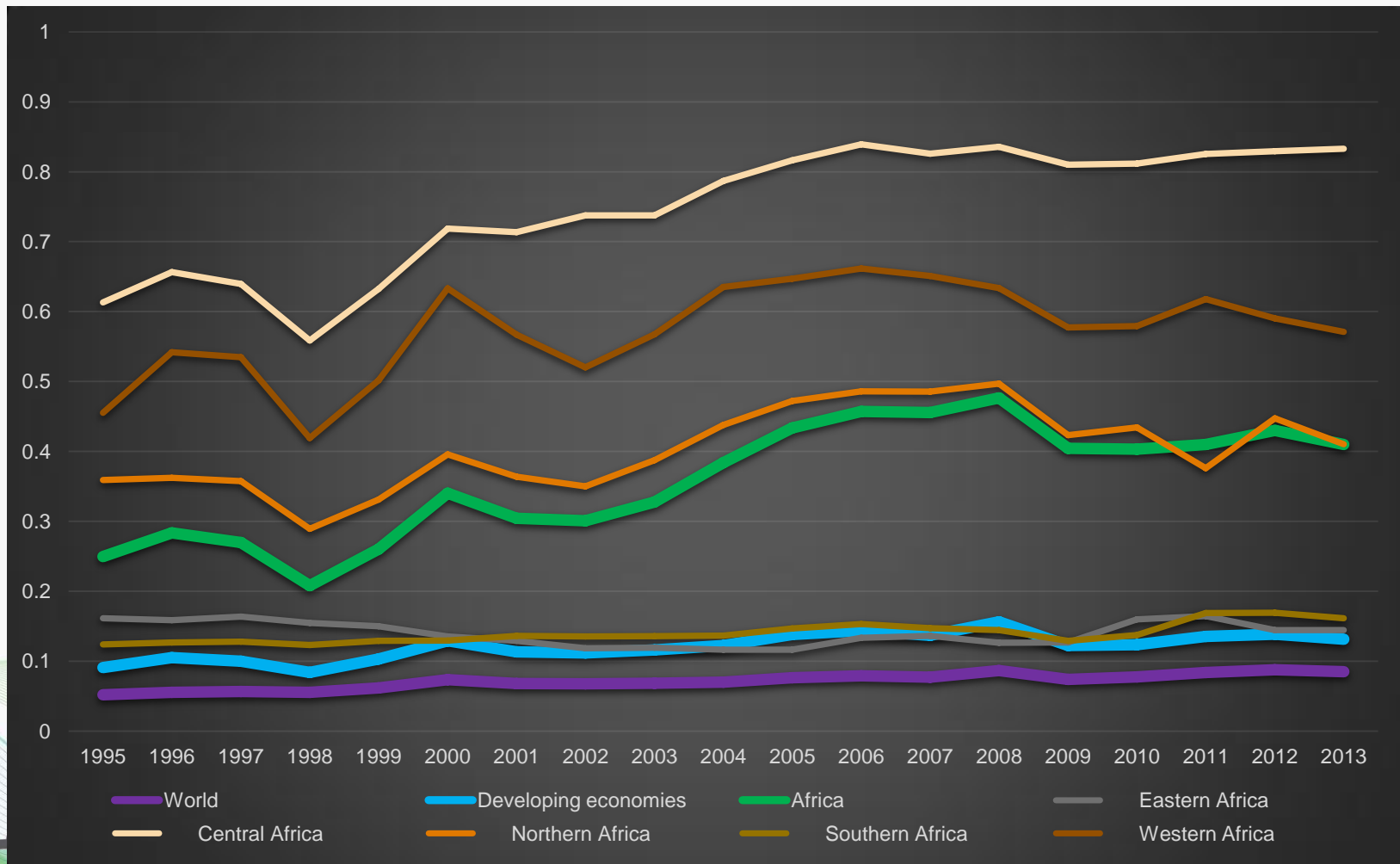


Obstruction to transformation: primary commodity dependence

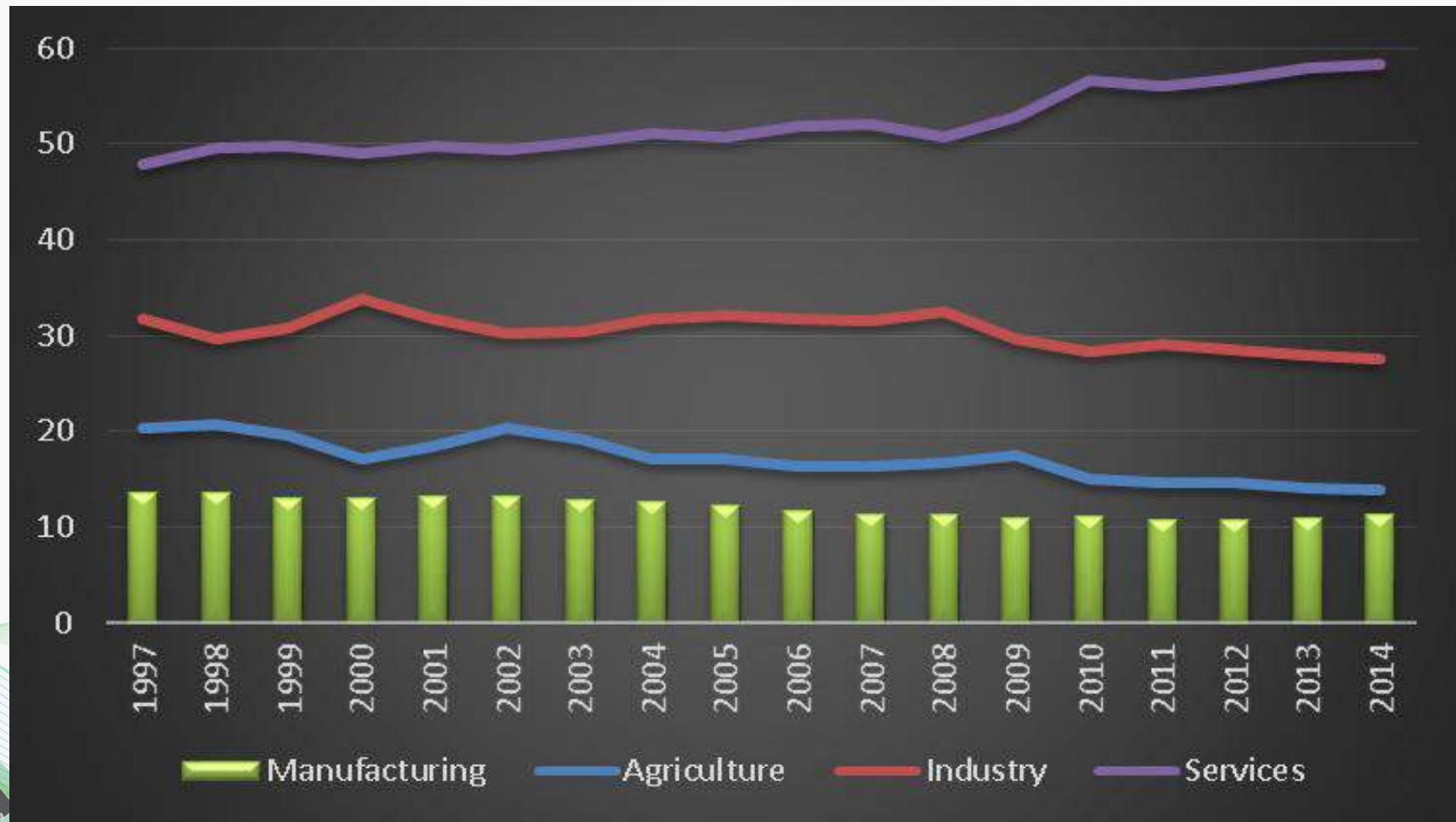
- The share of primary commodities in Africa's total exports ranged between 75% and 80% over 2005-2014.
- Between 2005 and 2014, primary commodities except fuels accounted for 22% of Africa's export growth, while fuels alone accounted for 54%.
- Crude oil alone accounted for as much as 60% of Africa's merchandise exports in 2012, but down to 50% in 2014.
- The global price on crude oil has been more than halved between July 2014 and July 2015 - from \$110 to \$47 a barrel.



Africa's export concentration is still very high...



Sectoral value added – the dominance of services Africa excluding Northern Africa



Primary commodity dependence weakens growth-poverty nexus

- Growth elasticities of poverty have improved but remain relatively higher than other regions.
- Growth elasticities of poverty are lower for resource rich countries (where resource rents to GDP are 15% or higher).

Relatively low growth elasticities of poverty attributable to:

- Dependence on primary commodities with limited linkages with other sectors of the economy
- Dependence on capital intensive extractive industries with limited employment and spillover effects
- Lack of effective social protection schemes and or redistributive mechanisms to cushion the vulnerable from shocks or which help to uplift them from poverty
- The result: weak job creation and limited inclusiveness of the growth process and high poverty



Relatively weak impact of growth on poverty in Africa

	Growth (1)	Inequality (2)
North Africa	-2.93	4.34
Sub-Saharan Africa	-1.51	1.56
Africa	-1.82	2.16
East Asia and Pacific	-2.48	3.49
Eastern Europe and Western Asia	-4.22	6.85
Latin America and Caribbean	-3.08	5.00



Lessons from emerging economies

Pluralistic policy mix appropriate for the national context

Active and engaged state leading the way

Innovative financing for various initiatives and investments

Broadening the social sectors, especially for education.

Create conducive environment for the private sector

Focus on employment creation, and less on inflation

Development planning to steer direction & collective efforts

Acceleration of intra-regional trade & co-operation.



Options for better support by International Financial Institutions

- Match conditionality of development finance (most of which are in credits) to good governance and positive development outcomes, rather than conditionality on specific policies to be pursued.
- Allow much broader policy space and options that are much more grounded in individual country contexts.
- Be open to and support the constructive role the state is able to play in development.
- Work more closely with various Pan-African institutions (including regional commissions) in designing support packages for African countries.
- Support Africa's transformation agenda as expressed in CAP and Agenda

2063



Requirements for Transformation (I)

- Institutional development
- Skills development
- Infrastructure
- Technology and innovation
- Financing: a judicious balance between domestic and external resources, for private and public investments
- A resource-based industrialization strategy, which facilitates insertion in global value chains
- Expansion of the intra-African trade
- Engagement and commitment to development ambitions such as the post-2015 development agenda, Agenda 2063, Istanbul Programme of Action



Requirements for Transformation (II)

A developmental state –

Has the capacity to articulate and implement policies;

Expands human capabilities;

Promotes equity and structurally transforms economies

Requirements of a developmental state

Legitimacy

Competent, professional and neutral bureaucracy

Institutionalized process for active citizens engagement

A functional development planning framework

A governance system that ensures credible consultation in the design, implementation and monitoring of national development plans



The way forward - policy recommendations

- × Strengthen labor productivity: invest in & promote education, training, skills development, science, and technology to accelerate productivity.
- × Match education efforts to labor market needs through closer cooperation with the private sector
- × Embed industrial policies within development planning frameworks
- × Develop and enforce local content laws
- × Ramp up domestic demand to grow the middle class;
- × Diversify exports through industrialization and value additions
- × Improve agricultural productivity
- × Develop fiscally sustainable social protection programmes
- × Promote industrial parks to address infrastructure deficits



Thank you for your kind attention.

