ReSAKSS
Regional Strategic Analysis and Knowledge Support System
Facilitated by IFPRI

Annual Trends and Outlook Report 2014

EXECUTIVE SUMMARY

BEYOND A MIDDLE INCOME AFRICA:
Transforming African Economies for Sustained Growth with Rising Employment and Incomes

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Established in 2006 under the Comprehensive Africa Agriculture Development Programme (CAADP), the Regional Strategic Analysis and Knowledge Support System (ReSAKSS) supports efforts to promote evidence and outcome-based policy planning and implementation. In particular, ReSAKSS provides data and related analytical and knowledge products to facilitate benchmarking, review, and mutual learning processes. The International Food Policy Research Institute (IFPRI) facilitates the overall work of ReSAKSS in partnership with the African Union Commission, the NEPAD Planning and Coordinating Agency (NPCA), leading regional economic communities (RECs), and Africa-based CGIAR centers. The Africa-based CGIAR centers and the RECs include: the International Institute of Tropical Agriculture (IITA) and the Economic Community of West African States (ECOWAS) for ReSAKSS–WA; the International Livestock Research Institute (ILRI) and the Common Market for Eastern and Southern Africa (COMESA) for ReSAKSS–ECA; and the International Water Management Institute (IWMI) and the Southern African Development Community (SADC) for ReSAKSS–SA.

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Today, Africa is the second-fastest-growing region of the world, second only to Asia. The continent has managed to sustain strong economic growth since the mid-1990s to early 2000s. In particular, growth in gross domestic product (GDP) for the continent as a whole increased from 3.9 percent in 1995–2003 to 5.2 percent in 2003–2012 (ReSAKSS 2015). Meanwhile, gross national income per capita for Africa, south of the Sahara (SSA), averaged 2.3 percent during 2004–2014 compared with 1.3 percent in the prior decade (World Bank 2015). The improved growth has been attributed to general improvements in macroeconomic management, increased investments, and favorable agricultural commodity and oil prices, which enabled strong export growth, particularly in low-income and oil-exporting countries (IMF 2013).

Despite the recent strong growth, challenges remain. The growth has not been sufficiently broad based or lasted long enough so as to lift the majority of the poor out of poverty, raise their incomes, and provide them with adequate employment opportunities. Thus, Africa as a whole will not meet the first millennium development goal of halving poverty and hunger by 2015, as declines in poverty and hunger have been slow. And although about half of African countries is classified as middle income, a large proportion of the poor lives in these countries. Therefore, it is imperative to not only sustain but also accelerate the current growth process. More important is the urgent need that, while doing so, policies and programs be crafted so as to ensure that countries do not fall into a middle-income trap characterized by faster growth but with low employment creation and lingering poverty. Therefore, the goal should be to aim beyond achieving middle-income status and to create the necessary conditions to significantly improve the economic well-being of all segments of the population.

The strategic choices facing African countries are important and complex, in light of the major developments occurring across the continent. These developments present both challenges and opportunities and include rapid urbanization, a growing middle class, the rapid rise in the young population entering the labor force, the effects of climate change, and the increased volatility of global food and energy prices.

In this context, the 2014 Annual Trends and Outlook Report examines both current and future trends that are likely to shape the trajectory of African economies and the factors driving Africa's recent growth performance. The report examines the drivers behind the recent growth recovery, the nature and patterns of structural transformation among African economies, past strategies and future outlook for industrialization, the changes occurring in agrifood systems, and the role of major infrastructure sectors in the continent's past and future growth. The report also analyzes major global- and continental-level trends that may shape future growth across the continent and affect the region's integration into global value chains.

Major Findings and Recommendations

SSA will experience more sustained economic growth in GDP per capita between now and 2030 and 2050. In addition, most African countries that are currently low income will graduate to middle income by 2030, and all but Eritrea will achieve middle-income status by 2050. At present, all of northern Africa and half of southern African countries are middle income, while the majority of countries in western, central, and eastern Africa are low income.

Production of fruit and vegetables, oilseeds, pulses, and roots and tubers in Africa is each projected to more than double between now and 2050, while cereals will increase by 91 percent. Cereal production, in particular, is projected to continue growing strongly at about 2 percent per year until 2030, and slowing to just more than 1 percent per year in the last half of the projection period to 2050. However, climate change will reduce total production by 6–12 percent by 2050 in all major subregions, except East Africa.

Demand for cereals, oilseeds, and roots and tubers is projected to more than double by 2050, while total consumption of pulses, fruits, and vegetables is projected to triple by 2050. These projected increases are in line with projected increases in per capita incomes and population. In terms of net trade, local production in Africa will be insufficient to meet the growing food demand, which will need to be met through net imports. By 2050, SSA is projected to be a net importer of half of all available net global exports, especially cereals. Nonetheless, in a few cases due to its comparative advantage, North Africa is projected to be a consistent net exporter of fruits and vegetables. Climate change will have a minimal impact on Africa's net trade.

Climate change will make cereal prices 25 percent higher in 2050, compared with a no climate change scenario. This represents a price level of 50 percent higher than current prices of 2010. Fruits and vegetables, pulses, and roots and tubers are projected to encounter a 9–12 percent increases in global commodity prices compared with a no climate change scenario, representing prices that about 26–38 percent higher than 2010 prices. While price increases will represent an opportunity for net suppliers of agricultural products who can supply global markets, they will be a huge challenge for net consumers.

Drivers of change or megatrends that are likely to influence the trajectory of African economies include more volatile food and energy prices; rapid urbanization, increasing incomes, and the rise of a middle class; rapid increase in a young population entering the labor force; greater climate variability; and agriculture as the largest source of employment. Many of these trends are highly dependent on other underlying processes that may or may not occur. Some of the key trends currently shaping African food systems many continue only for a limited period. This is because these trends are part of a system that co-evolves with related processes that may take on new trajectories, and some can be changed by policy action. The creation of new jobs in the nonfarm economy is unlikely to grow fast enough to absorb the rapidly growing young population. Thus, agriculture remaining the single largest source of employment, despite the rise in nonfarm jobs, is a megatrend likely to be seen for decades to come.

The speed and intensity of the megatrends are highly reliant on policy and public investments, and thus can be altered through public action. For instance, countries can (1) invest in the education value chain to upgrade the skills of those entering the labor force; (2) implement policies to promote broad-based agricultural growth, including investments in research and development; (3) invest in physical infrastructure to reduce the costs of production in both industry and agriculture, and thus promote competitiveness and employment opportunities; (4) introduce an industrial policy that promotes synergies between the nonfarm sector and agrifood systems; (5) invest in urban planning in anticipation of an increasing proportion of Africa's population that will live in urban areas in the coming decades; and (6) mobilize adequate funding to finance these various investments and leverage complementary private sector-investments.

African diets are changing in response to rapid urbanization and the rise of a middle class. The share of population living in urban areas in Africa has caught up to that of other developing regions, and continues to increase rapidly; 50 percent of Africa's population is projected to live in urban areas by 2020. The middle class is also growing rapidly, more than doubling between 1990 and 2010. The emergence of a middle class, increasing incomes, and the changes in employment profiles of both men and women are contributing to changes in diets. Survey results from countries in eastern and southern Africa show that processed food now represents a significant share of food purchases, even for the rural poor. Diets have also diversified beyond grains into horticulture, dairy, livestock, fish, and pulses. Much of the dietary change occurs early in the income distribution, as poor people experience rising incomes and become less poor—not just when they move up to the middle class. Domestically produced food, rather than imports, accounts for the bulk of diets in both urban and rural areas.

Dietary changes are leading to rapid changes in the midstream segments of food supply chains. Accompanying these changes has been the emergence of a "quiet revolution in African food supply chains," led mainly by small- and medium-scale enterprises operating in midstream and downstream segments of food processing, wholesale, retail, and transport. The midstream and downstream segments account for 40–70 percent of food costs of urban consumers, suggesting that these segments can play important roles in ensuring food security. Food supply chains have vastly increased in volume: it is estimated that the volume of marketed food has increased by around six times over the past 40 years, and particularly in the last 20 years. Examples of these food supply chains include the proliferation of small mills and retail outlets selling teff flour in Addis Ababa, Ethiopia; the expansion of domestic firms producing branded maize meal in Dar es Salaam, Tanzania; the rapid transformation of the chicken supply chain in Nigeria; and the rise of processed millet-based products in Dakar, Senegal. These changes are increasing opportunities for rural nonfarm employment and allowing farmers to increase their incomes. However, many of these new midstream agribusiness enterprises are not yet performing up to their potential. Improving their performance and the business climate will require investments in infrastructure, including markets, energy, roads, and policy reforms.

Africa's growth recovery represents a remarkable achievement, but has not been sufficient to make up for the stagnation and decline of earlier decades. In the last decade and a half, Africa has experienced much faster growth than in previous decades, during which GDP per capita grew slowly or even declined. Similar patterns are seen in the growth rates of labor productivity and agricultural labor productivity, each of which grew more rapidly during the 2000s than during any previous decade since the period of independence. However, the recent growth has not been enough to allow African countries to make up for the "lost decades" of the 1970s–1990s. At the current pace of growth, it would take many more decades for countries to reach the levels they would have achieved if they had maintained their growth rates of the 1960s. More needs to be done to sustain and deepen the current recovery, to allow Africa to catch up to its own potential and the rest of the world, and to quicken its pace of poverty reduction.

The drivers of growth during Africa's recent recovery include macroeconomic stability, improvements in governance and human capital, and increased financing. The factors responsible for Africa's recent growth include more moderate inflation; improvements in the rule of law and control of corruption; increases in life expectancy and schooling; and increases in foreign direct investment, savings, and development assistance. In the past, shifting and inconsistent policy regimes were not successful in achieving development aims. However, more recently, widespread reforms across the continent that created more open political systems and more private-sector-friendly economic policies have contributed to the turnaround in growth. During the recovery period, in contrast to previous decades, countries rich in natural resources seem to have managed resource revenues adequately to avoid negative macroeconomic consequences; however, continued attention to prudent management is needed. African countries must continue their efforts to maintain macroeconomic stability and further improve institutions and governance to sustain the growth recovery.

Despite being delayed over the last several decades, structural change in Africa has made a turnaround and is now contributing to productivity growth. Structural change is a common feature of the development process, in which labor migrates from lower- to higher-productivity sectors, thereby increasing average productivity. However, in Africa, structural change reduced productivity in the decades following independence until about the turn of the century, as labor exited the agriculture sector for even lower-productivity sectors. During this period, the negative transformation experienced was the result of labor migrating out of a slow-growing agriculture sector into a rapidly expanding services sector dominated by an informal subsector with declining productivity levels. However, during the first half of the 2000s, structural change began to operate in Africa as in other regions, contributing positively to economywide productivity growth. For example, structural change contributed positively to overall labor productivity growth in 17 out of a sample of 19 African countries for which data are available. The positive transformation process is a reflection of the recent strong economic growth Africa has been witnessing, which needs to be sustained and accelerated.

Africa's informal goods and services sector is increasingly prominent, and must play a major role in future growth strategies. Much of the labor exiting agriculture is entering the rapidly growing informal goods and services, or «in-between,» sector. The in-between sector and the domestic demand it serves contributed significantly to the recent recovery, as demonstrated by the fact that the majority of countries with positive growth in the past decade experienced even faster growth in the services sector, much of it informal, than in overall GDP. Therefore, industrial development strategies must go beyond traditional manufacturing to target growth and modernization in the in-between sector. Unlike the experience of other major developing regions, Africa's informal goods and services sector will play a major role in future growth and industrialization. The sector is currently dominated by small enterprises producing a large number of low-quality domestic goods. Throughout Africa, enterprises in the informal sector have tended to invest less than similar firms in other regions in physical and human capital, and the majority of them have been unable to increase their productivity and profitability and to expand in size. A number of strategies, including management training and other targeted capacity building for firms, as well as investments in infrastructure and policy actions to address constraints related to access to finance and property rights, will be called for to allow informal enterprises to expand employment, create wealth, and contribute to poverty reduction.

Industrialization in Africa has been weak, and has contributed little to Africa's recent growth. Despite some progress, as pointed out earlier, Africa's recent growth has not been accompanied by significant structural transformation, nor has it been inclusive enough to generate remunerative employment opportunities for the continent's rapidly growing young population. Furthermore, past industrial policies and strategies have been weak and inconsistent for several reasons, including inadequate and poor infrastructure, weak institutional capacity, a shortage of skills (managerial and technical), and poor investment in supportive key sectors, such as agriculture.

A new industrial strategy is fundamental to deepening Africa's structural transformation and inclusive growth development. Most cases of high and sustained economic growth in modern times have been associated with industrialization, especially manufacturing. A new industrial strategy will need to focus on investing in infrastructure (especially energy, transport, and water supply); creating an enabling business environment where the state plays a facilitating role and ensures sound policies and regulations that promote private-sector development and participation; and safeguarding macroeconomic and political stability, sound institutions, and secure property rights. To actively participate in the production of high-value-chain goods, Africa will need to invest in science, technology, and industrial training, including research and development. This will need to be supplemented by policies and strategies that support development of skills in manufacturing and promote science and technology and innovation, which are so critical for enhancing productivity. Moreover, an enabling business environment will go a long way in helping to create industrial partnerships—through, for example, South–South trade—that can help to finance industrialization.

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