



ACET African Center
for Economic
Transformation

Transforming and Building Resilient Economies in Africa:
Resetting Priorities for the Policy Agenda
in the Post-COVID-19 Era

TICAD 8 Side Event

August 23, 2022

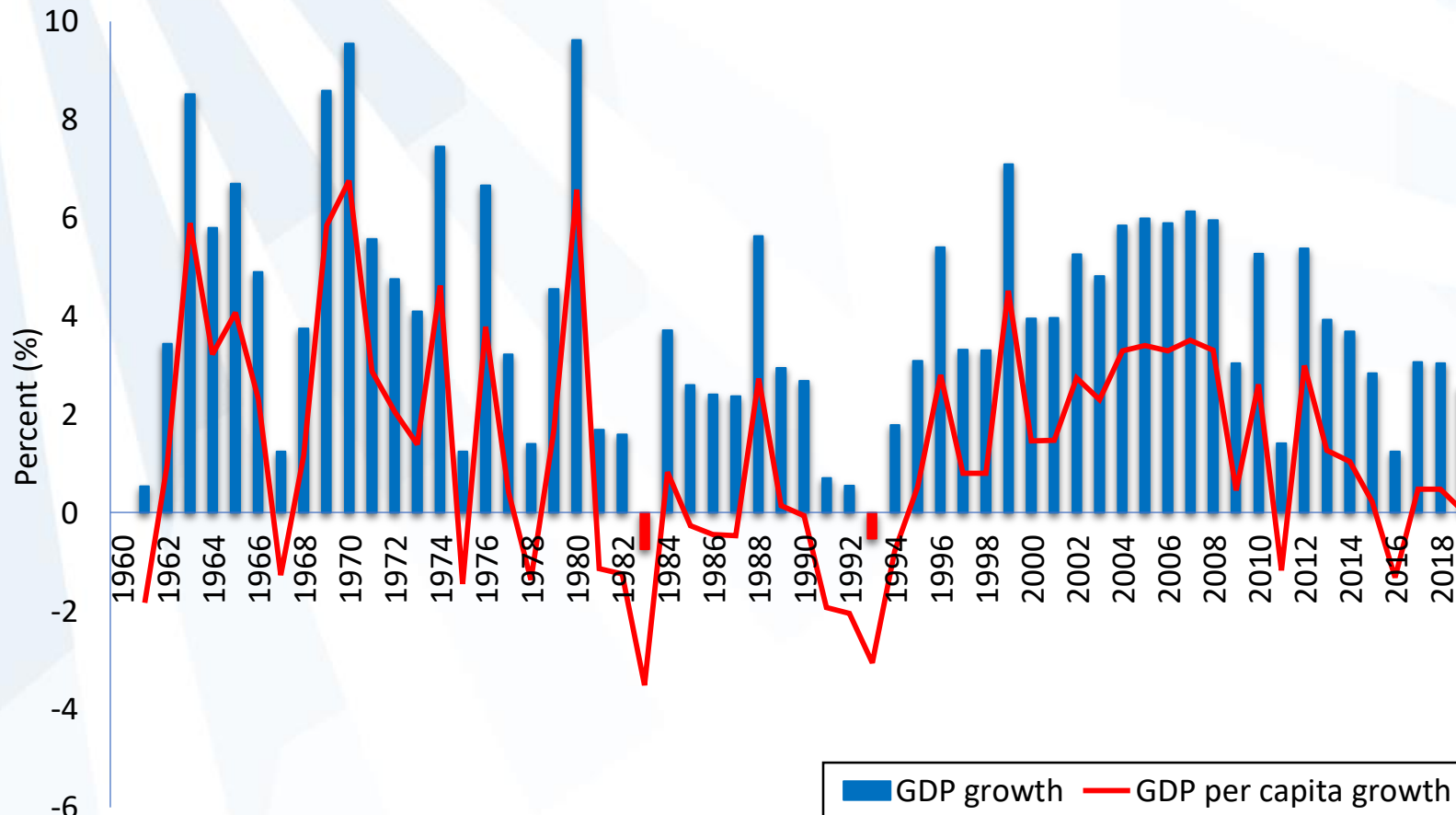
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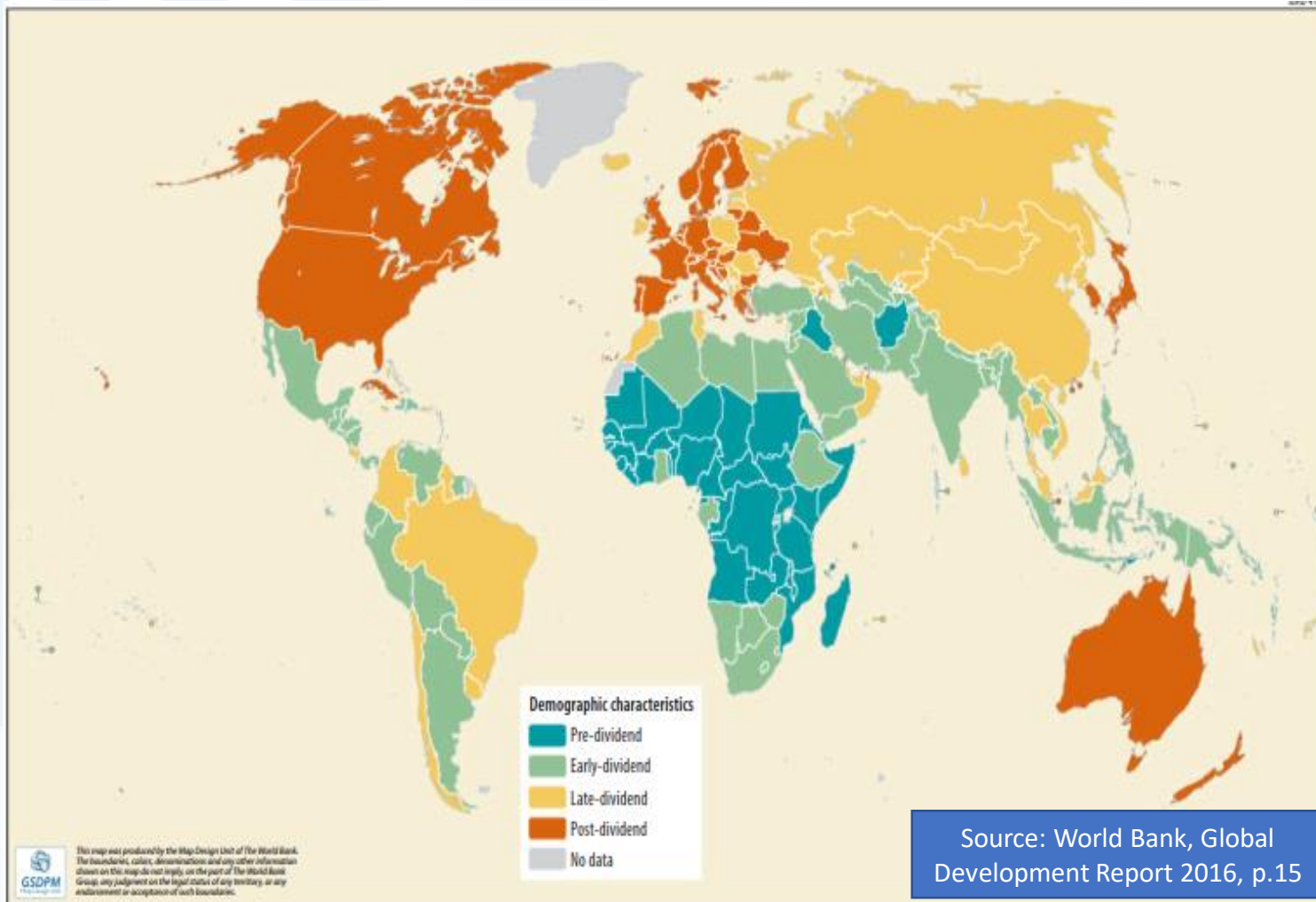
Background

Africa's most recent growth acceleration period (1994-2008) lasted longer than any previous one. However it ended for similar reasons as in the past.



- Global business and growth cycles + idiosyncratic market shocks →
 - ↓ Global demand & investment
 - ↓ Terms of trade
- Other factors:
 - Climate change
 - Wars
 - Civil unrest

Population growth and early demographic transition (dividend) strain African labor markets



- High, volatile, accelerating population growth
- Bulging population age pyramids
 - High dependency ratios
 - Large cohort of young poorly educated youth
 - Youth unemployment and underemployment

Investments in physical and human capital struggle to outpace the growing population.

Framework

ACET's DEPTH Framework and the ATI

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**African Transformation Index
(Growth + DEPTH)**

**Diversification in
production and export**

- Manufacturing value added (% of GDP)
- Services value added (% of GDP)
- % Share of Manufact & Services in Total Exports of Goods & Service
- Inverse share of % of Top 5 Country's Total Commodity Exports (100-% top 5')

**Export
Competitiveness**

% of exports in GDP
relative to world average

**Productivity
increases**

- MVA per Manufacturing Worker
- Agricultural value added per worker.
- Services value added per worker.

**Technology
upgrading**

- % Share of Med. & High Tech. in Total Production Activities
- % Share of Medium and High Technology Exports in Total Commodity Exports

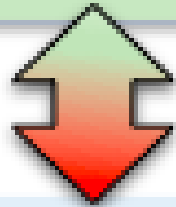
Human Well-being

- GDP Per Capita
- Waged and salaried females (% of female employment)
- Inverse of Gini coefficient
- Ratio of Formal Employment in Labor force

The Growth-Transformation-Resilience Relationship

Economic transformation

Economic and social outcomes from policies that can reduce or exacerbate vulnerability and weaken or strengthen resilience.



Economic vulnerability

Natural and man-made conditions that expose a country to shocks.



Policies

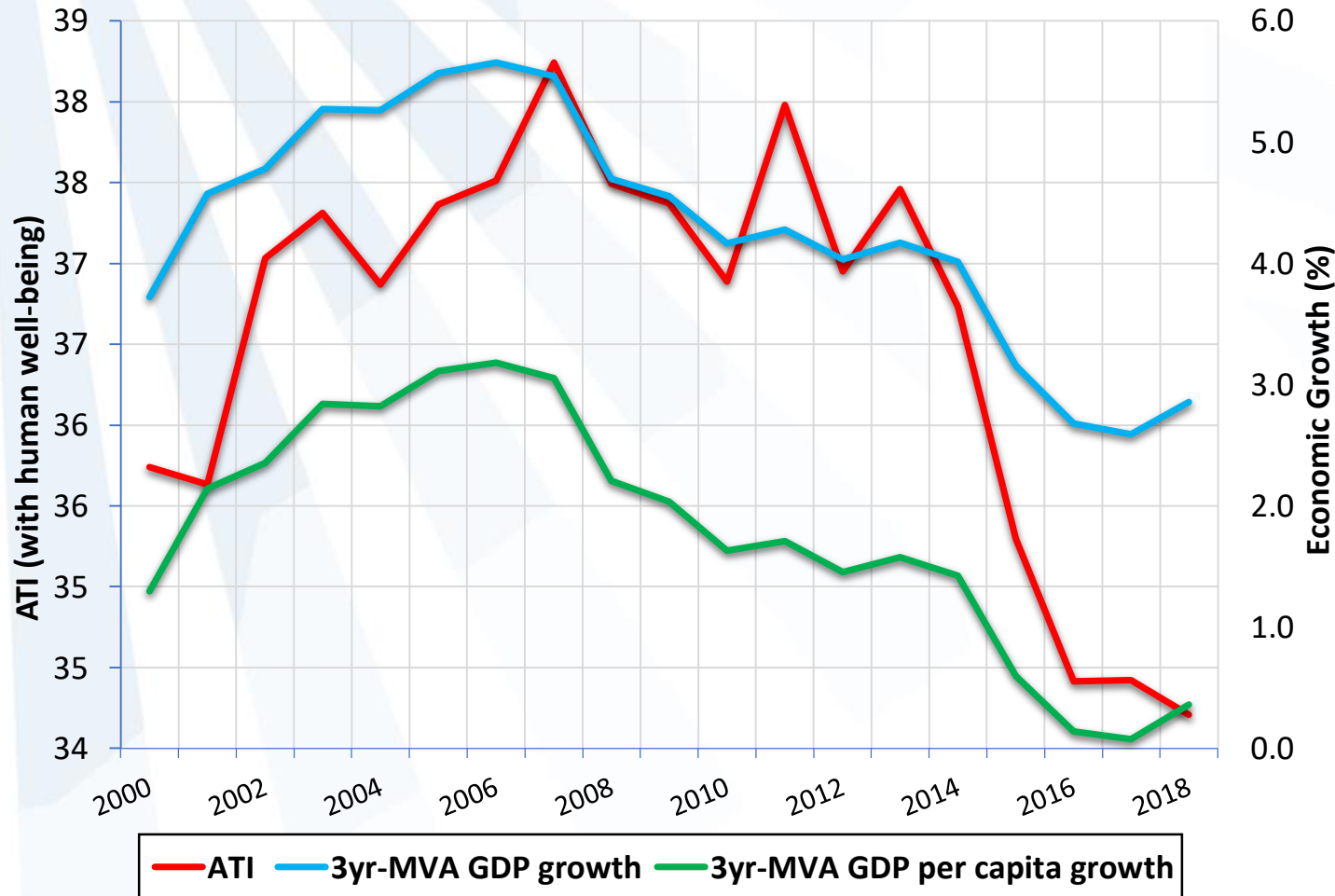
Economic resilience

The ability of an economy to withstand, and to quickly and strongly recover from, shocks.

Key Findings

Africa's Growth and Economic Transformation 2000-2019

Though growing, African economies were not transforming enough.

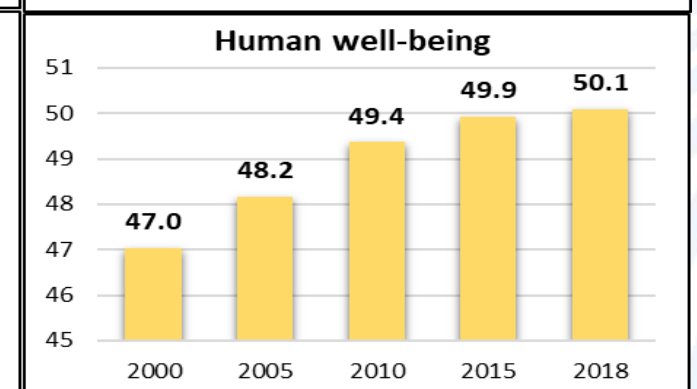
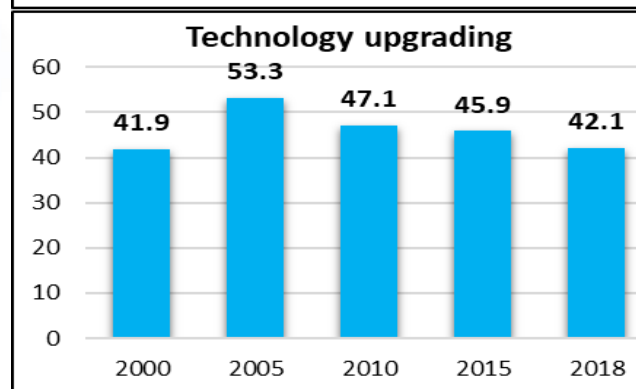
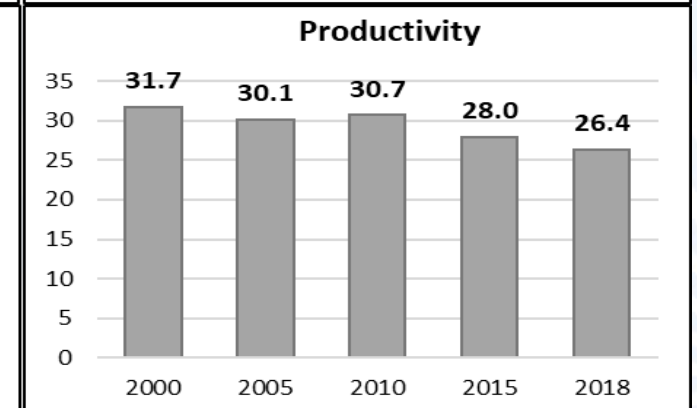
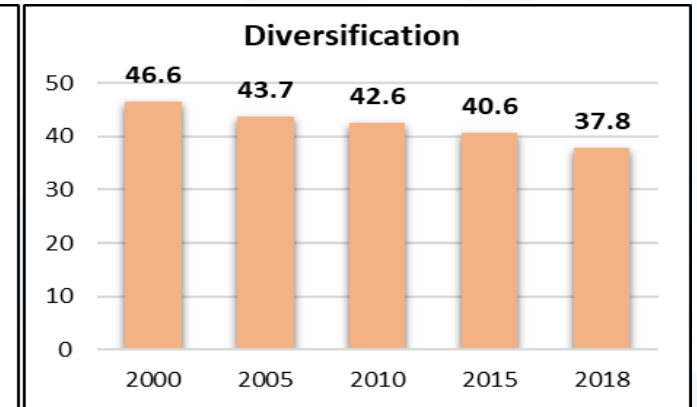
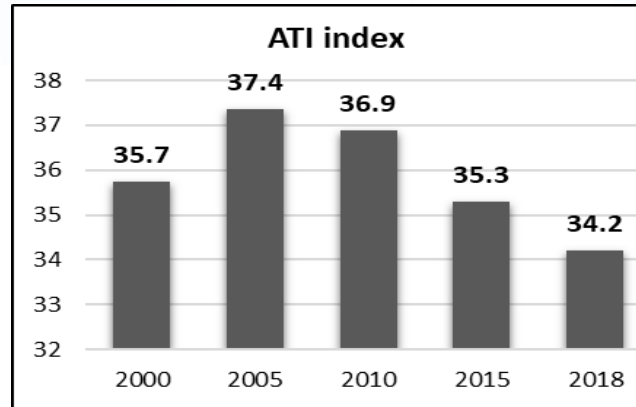


Data sources: WDI, UNIDO, ILO, COMTRADE

- Overall progress of economic transformation in Africa has been weak – below 40 on a scale of 0 to 100.
- The peak performance (2006-2008) was **38.24**.
- The lowest performance (2017-2019) was **34.21**.

Africa's economic transformation performance on DEPTH dimensions, 2000-2018

- Deteriorating outcomes in product and export diversification **(-8.8)**
- Stagnant export competitiveness after early gains **(+3.1)**
- Steady productivity decline **(-5.3)**
- Declining progress in technological upgrading since 2005 **(-11.2)**
- Steady progress in human well-being **(+3.1)**



Is Africa's progress on human economic well-being sustainable?

- Progress in the first decade was broad-based across all components, but the second decade saw stagnating income levels and inequality.
- Deteriorating outcomes in other dimensions of economic transformation risk to future human economic well-being.

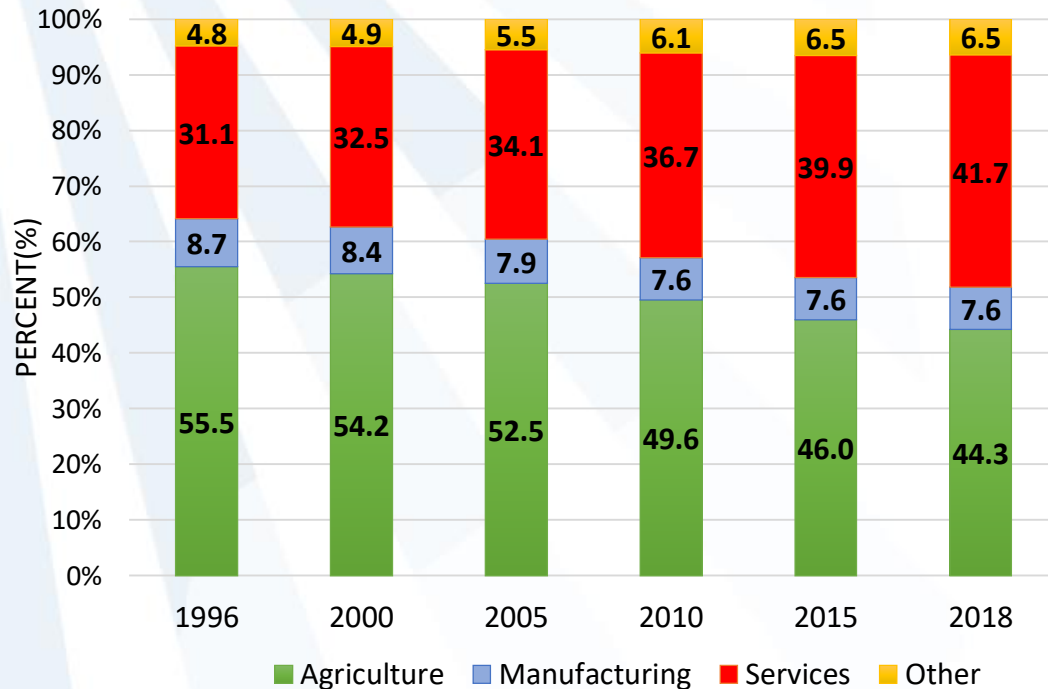


Data source: World Development Indicators

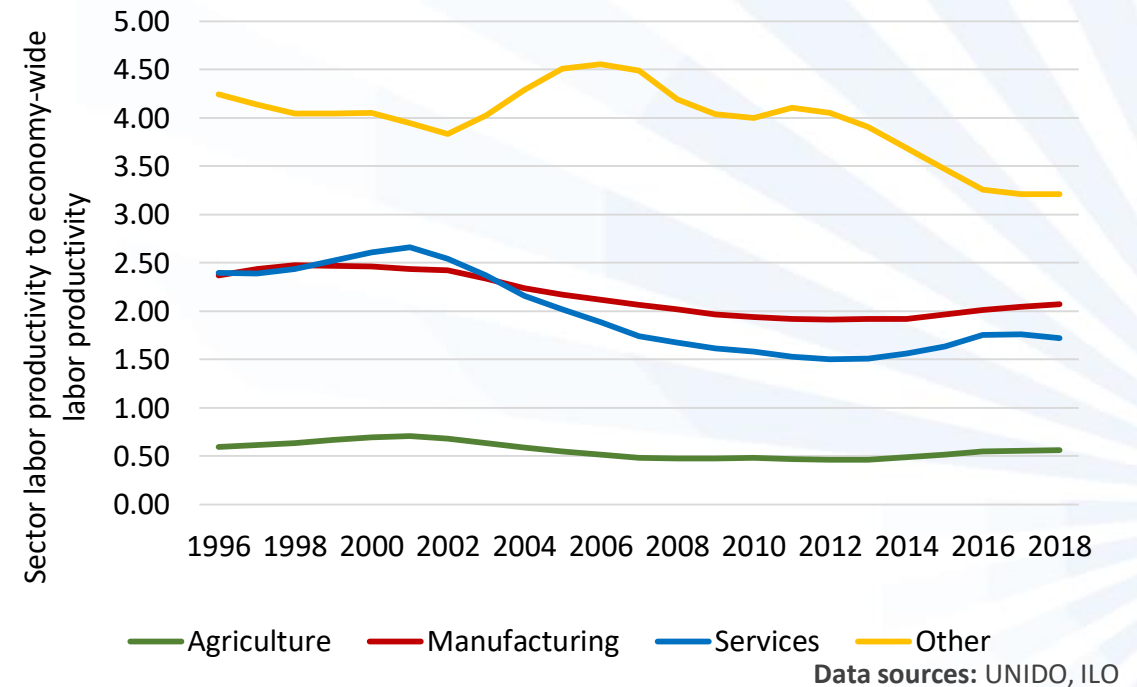
Unpacking Africa's Labor Productivity Growth and Technology Challenges

In Africa, on average, over the last two decades, sector labor reallocations away from agriculture favored services, and relative labor productivities favored manufacturing

Sector labor shares in Africa, 1996-2018



Relative sector labor productivities, 1996-2018



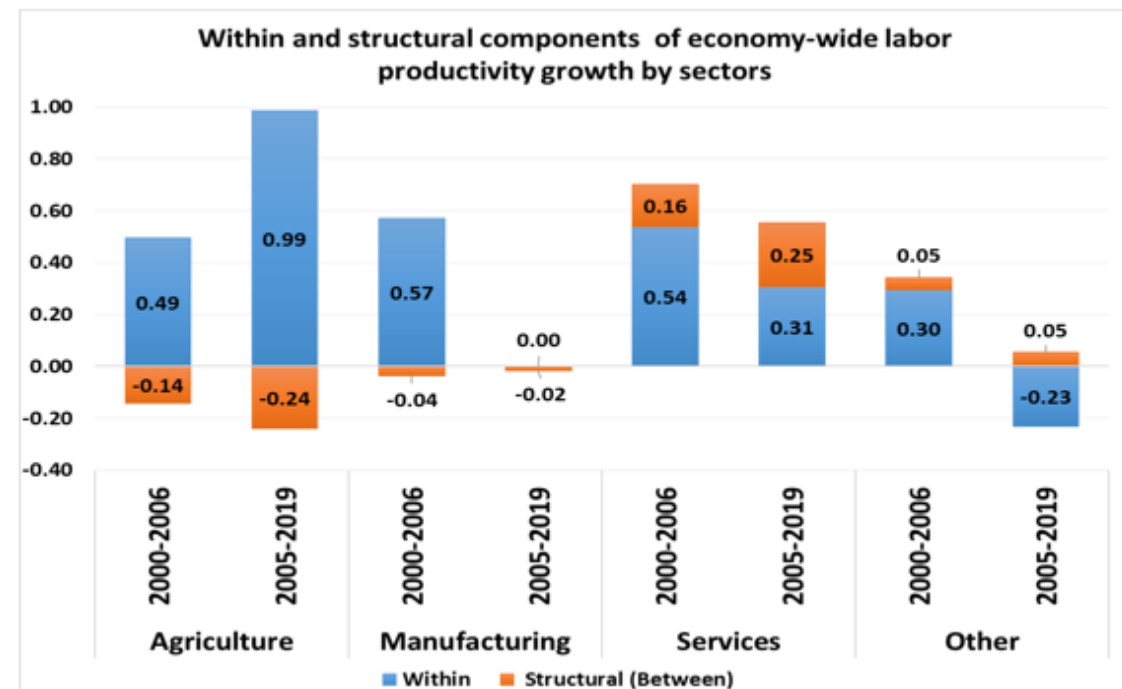
Labor is reallocating from agriculture (-11.2) and manufacturing (-1.1) towards services (+10.6) and other sectors (+1.7), but *relative* labor productivity in services is below manufacturing and other sectors, and it is falling substantially – and unlikely to translate into substantial aggregate labor productivity growth.

Disaggregation of contributions to economy-wide labor productivity growth

- Within-sector productivity growth remains the predominant overall contributor to economy-wide productivity growth, but it is uneven across sectors
- The structural (“between sectors”) component played a very negligible role in the aggregate. The modest gains in structural component came from services.
- Little (if any) contribution of manufacturing to economy-wide labor productivity growth

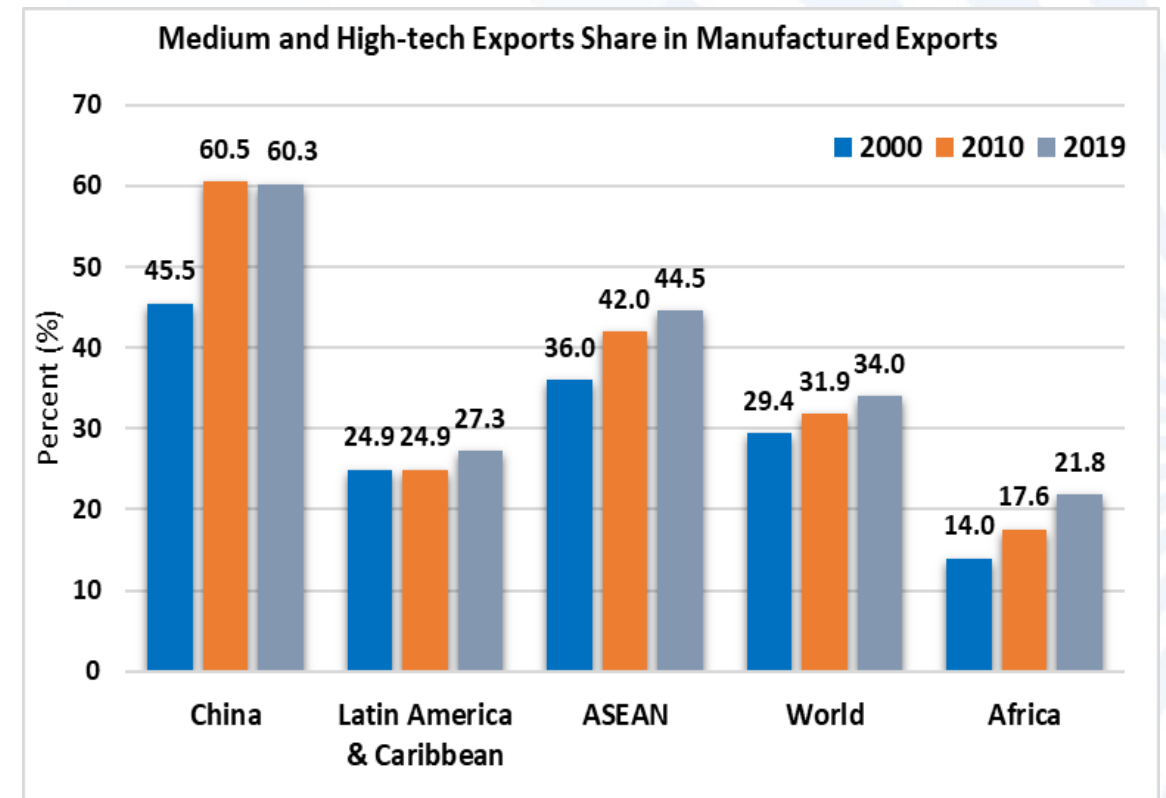
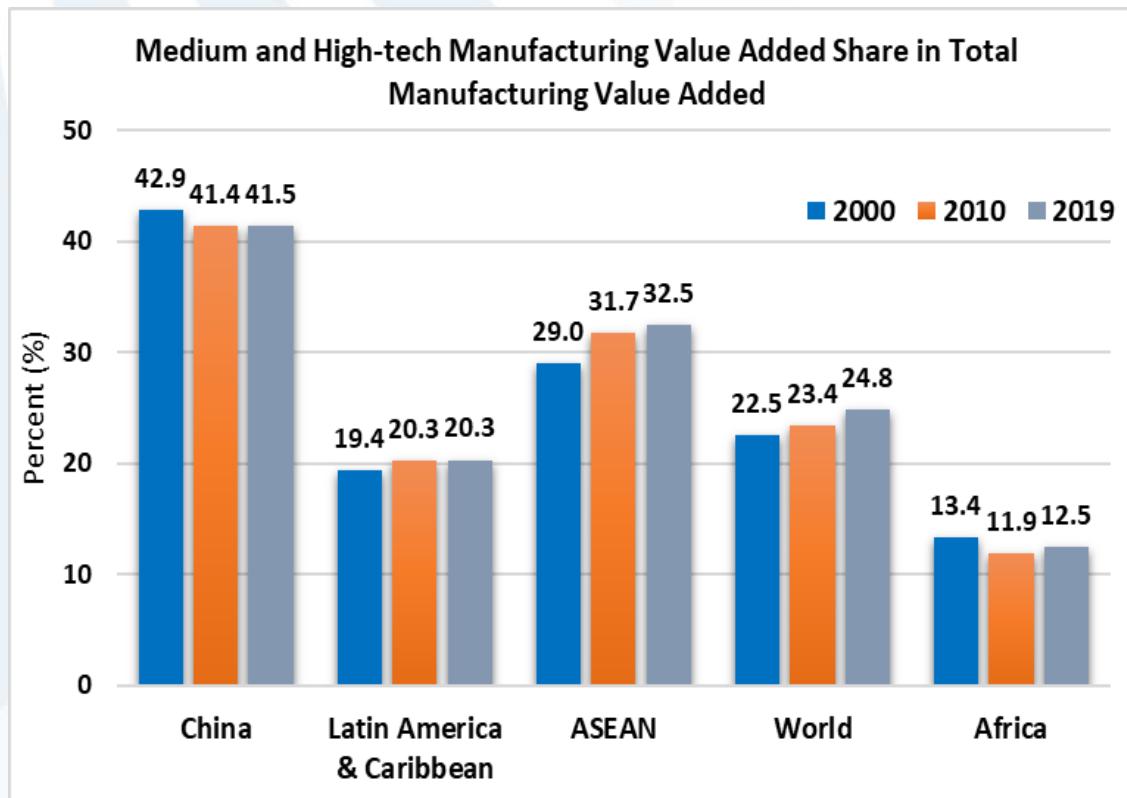


Data sources: UNIDO, ILO



Africa's technology dilemma

Africa lags behind other developing regions in the technology content of its manufactured and exported value added, but it is making progress on exports.

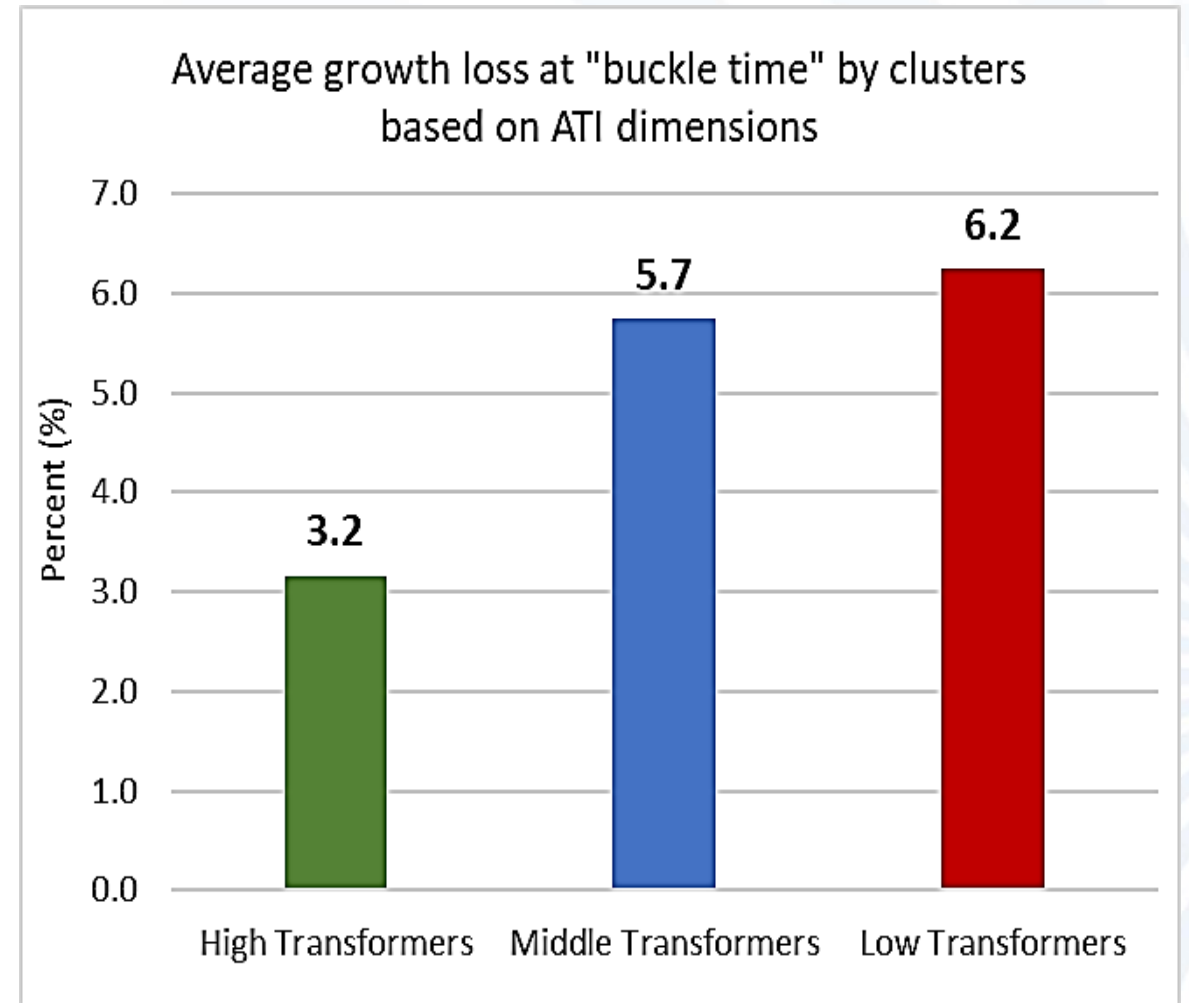


Data source: UNIDO

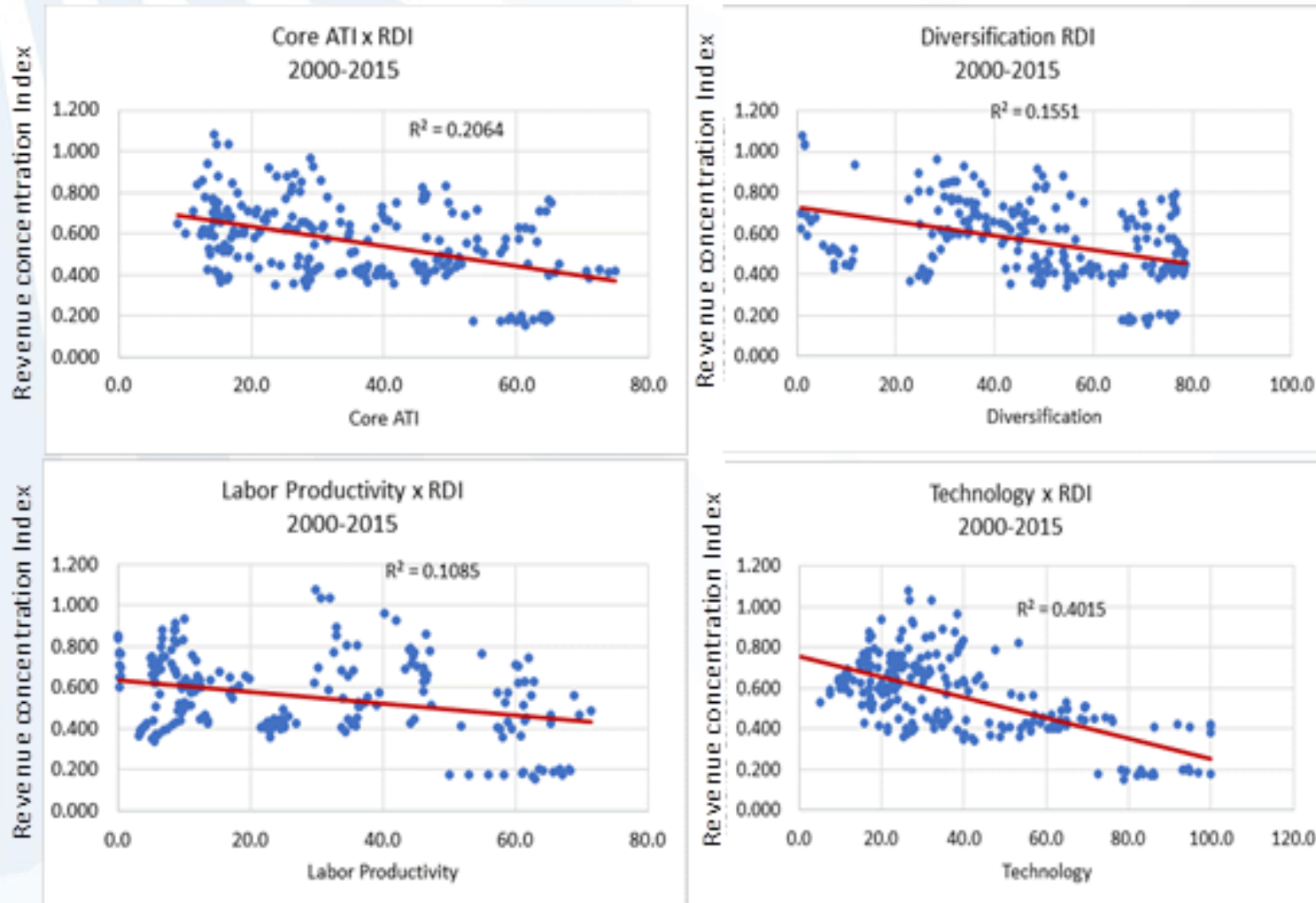
Findings on Transformation and Resilience

Growth Resilience and Economic Transformation

- **The extent of loss in growth that occurs as a result of the shock (Growth Resilience).**
- Global Financial Crisis (2007-2008) used as a “natural” experiment for a non-country-specific negative exogenous shock.
- **High transformer countries suffered less growth loss from the shock of the Global Financial Crisis than low and middle transformers**



Data source: World Development Indicators



Relationship between good economic transformation outcomes and fiscal resilience

- Countries with better economic transformation outcomes tend to exhibit good fiscal resilience (have lower revenue concentration).
- Such countries typically are less dependent on resource-based revenues.

Insights from country classifications

Country classifications based on ATI DEPTH dimensions

- **High economic transformers:** Tunisia, Eswatini, Morocco, South Africa, Mauritius, Lesotho, Namibia
 - *Perform above average in all DEPTH dimensions except Human well-being*

- **Middle economic transformers:** Egypt, Gabon, Botswana, Sudan, Algeria
 - *Perform worse than the other two clusters in Diversification and Export competitiveness*
 - *Technology upgrading is very far below average of the high transformers*
 - *Perform better on Human well-being than the other two clusters*

- **Low economic transformers:** Central African Republic, Zambia, Nigeria, Kenya, Côte d'Ivoire, Uganda, Cameroon, Tanzania, Madagascar, Niger, Ghana, Ethiopia, Mozambique, Rwanda, Malawi, Benin, Gambia, Burundi, Burkina Faso
 - *Weaker in Productivity and Export competitiveness*
 - *Score very low on Human well-being*

Policy Priorities for Building Economic Resilience

General recommendations

1. Prioritize economic transformation.

- Focus on initiatives to promote economic diversification, productivity increases, export competitiveness, technological upgrading, and human well-being (Growth with DEPTH).
- Invest in skills development, productive jobs creation, and capacity retention.
- Ensure conducive settings for institutional and economic governance.

2. Have a coherent industrial policy.

- Cast industrial policy in a modern perspective to promote structural transformation.
- Adopt systematic approaches and methods of policy design and coordination, including learning from other countries.
- Develop industrial policy organizations – such as banks, capacity building groups, training institutions, SME support units, and more – that are well managed and well financed.

3. Coordinate with the private sector.

- Create strong systems to steer government policy implementation in partnership with business, to promote mutual accountability, and to address key market failures.
- Establish apex bodies to foster public-private dialogue and provision of public goods.
- Establish inter-industry bodies to address self-selection externalities and parallel investments.

4. Invest more in digital technology and innovation.

- Develop and implement digital transformation strategies to improve inclusive development.
- Invest in digital skills development, digital entrepreneurship, and digitizing financial services.

5. Fix the political economy of development.

- Commit to leadership that will identify common interests and build coalitions.
- Invest in building competent and less corrupt bureaucracies.
- Set goals for implementing strategies, monitoring processes, and evaluating outcomes.

Recommendations based on ATI and growth resilience

High economic transformers

- Improve human economic well-being and productivity growth by promoting structural shifts to higher productivity sectors.
- Enhance proximity to external markets through regional integration and alignment of national policies to AfCFTA policies to lower trade and nontrade barriers and to enhance competitiveness.
- Promote product diversification within subsectors to improve export competitiveness.

Middle economic transformers

- Improve economic diversification of production and exports.
- Invest in technology upgrading and skills development for structural change in labor productivity growth.
- Increase nonextractive exports to improve export competitiveness.

Low economic transformers

- Diversify economies from their narrow production base and promote nonextractive and nontraditional exports to improve competitiveness and build growth resilience.
- Improve human economic well-being by expanding formal sector employment, increasing female labor market participation in paid employment, and increasing shared economic prosperity.
- Reduce the vulnerabilities intrinsic to the agriculture sector.



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