
THE AFRICAN TRANSFORMATION REPORT

Briefing Note

April 2013

African Center for Economic Transformation

The African Center for Economic Transformation (ACET) believes that the two mutually reinforcing goals of economic growth and transformation should be at the center of development policy in Africa.

In 2011 more than 30 African ministers, central bankers, business leaders and international development experts met at the Rockefeller Foundation's Bellagio conference facility to discuss the prospects and requirements for Africa's economic transformation. Given the region's untapped human and physical resources, those prospects were assessed as tremendous—as were the requirements. Convened by the African Center for Economic Transformation, much of the discussion centered on how the drive for transformation should be the focus for African governments, working with and supporting a revitalized private sector. Also covered was ACET's proposed *African Transformation Report* to review country transformation performance and to provide analysis and emerging practices as countries pursue their transformation agendas.

In January this year, the heads of the African Union Commission, African Development Bank, and Economic Commission for Africa met to see how their organizations could best pursue Africa Vision 2063—with a more comprehensive and coordinated approach to tackling Africa's transformative development goals for the next 50 years. They agreed that for the continent to be vibrant and modern, it would have to peacefully resolve conflict, strengthen governance, and make national institutions more effective and the private sector more efficient.

In March, African finance and economic development ministers met in Abidjan to make a unanimous call for commodity based-industrialization as an impetus to Africa's structural transformation, moving from primary products to manufacturing and services. Supporting this call, the ECA's 2013 Economic Report on Africa, *Making the most of Africa's commodities*,

highlighted Africa's imperative to use commodity-based industrialization as an engine of growth and structural transformation.

In April, the Board of the African Development Bank approved its strategy for the next 10 years, *At the center of Africa's transformation*. Sound policies and better infrastructure would drive that transformation by improving the conditions for private sector development—and by boosting investment and entrepreneurship. And transformation would diversity the sources of economic opportunity in ways that promote high productivity and sustain inclusive growth. At the heart of this, according the Bank president Donald Kaberuka, is reducing the risk and cost of doing business.

And in May the AU summit of African leaders is marking its 50th anniversary by unveiling an agenda for Africa's socioeconomic transformation. Indeed, several African countries, such as Ethiopia, Kenya, Nigeria, and Rwanda, are already formulating long-term visions emphasizing economic transformation.

It is not only African institutions pushing for transformation. The Japanese government's Tokyo International Conference on African Development in June 2013 (TICAD V), with dozens of African leaders expected to take part, will have transformation as its main theme. The theme for last year's World Economic Forum on Africa was "Shaping Africa's Transformation," and participants, including policymakers and business leaders, discussed how to transform Africa's growth story into shared opportunities for present and future generations.

Transformation is thus the new buzzword in development circles, but it means different things to different people. For those of us at ACET, economic transformation is growth through making the structural shifts from farming to manufacturing and services. But it is more than merely structural. It is growth through expanding the technical capabilities of people and institutions. It is growth through upgrading the technologies that people use on farms, in firms, and in government offices. It is growth through becoming internationally competitive and latching onto global chains. All these channels are mutually reinforcing.

To be kept in mind is that economic transformation is just a means. The end must be to create productive jobs and satisfying lives for all Africans. With good policies for the poor and vulnerable, those jobs can end extreme poverty on the continent, something unimaginable a decade ago but now within reach. And those jobs can narrow considerably the inevitable income gaps that open between rich and poor in rapidly developing economies.

Thus it is that a transforming economy—more than just a growing economy—can create good jobs and share the fruits of prosperity. Thus it is that a Ghana or Kenya can become a Korea.

THE AFRICAN TRANSFORMATION REPORT

ACET's comprehensive research program of country, sector, and thematic studies identifies some of key lessons for transforming Africa's economies and sets benchmarks against Asian and Latin American economies. Drawing on all these studies, ACET's flagship publication, the *African Transformation Report*, provides data and analysis for policymakers, private businesses, and civil society to spur economic transformation. To be launched in October 2013, the report introduces the African Transformation Index, an innovative tool to track how countries are performing over time and against each other (see annex 1 for the report's outline). A short preview of the full report will be released in May.

The report reviews how African countries are diversifying their economies, boosting productivity, upgrading technology, and increasing competitiveness. That country focus and detail distinguish the report in providing guidance and direction for its primary audience: national policymakers and business leaders. Moving beyond generalizations for the continent, it provides action plans to show how countries can transform their economies.

The report and the many research studies (see annex 2) will form the basis for national transformation dialogues and for ACET's advisory services to governments. Indeed, ACET's work will support the AU, AfDB, and ECA as they pursue Africa Vision 2063 and as individual countries formulate and tackle their transformation agendas.

PUSHING FOR TRANSFORMATION IN AFRICA

On all measures of economic transformation, Africa has been lagging behind East Asia—in large part because of state-led industrial policies in the first decades after independence and the market-led adjustment policies of the 1980s and 1990s. Since then, some African countries have been moving toward a middle course between the two policy extremes. Six of the 10 fastest growing economies in the 2000s were in Africa, and others were above or near the 7 percent threshold for economic takeoff, set to double their economies in 10 years. According IMF projections for the top 10 growers through 2015, 7 are again in Africa. All this, in a sluggish global economy.

Much of this growth has come from better macroeconomic policies and booming commodity markets. Needed now is to move to well-managed and robustly growing economies that are competitive in the global marketplace in a widening array of technologically sophisticated goods and services.

Here we describe the main elements of the *ATR* to engage broader audiences in forging a clear understanding of what transformation means, where African countries stand, what are their most promising pathways to transformation, and what they need to do to seize the opportunities.

ASSESSING COUNTRY PERFORMANCE

Country case studies are in-depth analyses of the economic environment in selected countries and their prospects for transformation. In collaboration with domestic think tanks, ACET analyzes country economic transformation performance, based on the key attributes and drivers of transformation. For the 2013 *ATR*, we examine an initial group of 15 countries. Together, these countries represent 85 percent of Sub-Saharan Africa's GDP. By using a shared methodology and in-country expertise the studies provide a unique balance of analytical rigor and local application. The headlines:

- **Botswana** – Growth without transformation
- **Burkina Faso** – Need for faster growth and structural change
- **Cameroon** – Manufacturing development but income stagnant
- **Ethiopia** – Diversifying commodity exports but still very poor
- **Ghana** – Regaining lost potential
- **Kenya** – Silicon Savannah?
- **Mauritius** – Rapid economic growth and structural transformation, but new challenges
- **Mozambique** – Good potential; will it be tapped effectively?
- **Nigeria** – Is the giant waking up?
- **Rwanda** – Remarkable recovery, strong transformation efforts, but still a way to go
- **Senegal** – Good structure, slow growth
- **South Africa** – Advanced economic structure but slow growth
- **Tanzania** – Quiet, steady performer
- **Uganda** – Good performance, but still far from transforming
- **Zambia** – Great potential yet to be tapped

MEASURING TRANSFORMATION

The African Transformation Index provides a common quantitative tool to measure the progress of countries on economic transformation. It comprises five main indicators:

1. Economic diversification
2. Technology
3. Productivity

4. Export competitiveness
5. Human dimension of transformation.

By ranking 50 African countries on this index, the *ATR* shows how countries are transforming over time and in relation to others.

DRIVING TRANSFORMATION

ACET research and country studies point to 10 policy and institutional drivers of economic transformation.

- State capacity for economic management
- Business environment
- Domestic saving and investment
- Public infrastructure
- Education and skills
- Technology upgrading
- Export promotion
- Foreign direct investment
- Labor-industry relations
- Targeted sectoral strategies.

The inaugural *ATR* highlights three of these drivers, so that government officials and business leaders can tailor policy measures and institutional mechanisms to suit their circumstances and transformation objectives.

- *Building state capacity.* Working with the private sector, African states have to formulate a national vision for transformation. They need to develop a planning and budgeting framework that translates that long-term vision into medium-term plans. Through effective macroeconomic management, they need to ensure prudent public expenditure management and monitoring. And to know how they are performing and where they have to change course, they need to strengthen the statistical capacity to provide timely economic statistics. The report also analyzes what states can do to actively support the private sector, going beyond providing a general good business environment to facilitate its access to new technologies and markets and to help raise its competitiveness in international markets. Importantly, the state should not try to do everything—it should build the minimum institutional capabilities to sustain strategic partnerships that support firms and farms.

- *Promoting exports.* The East Asian countries used a number of instruments to proactively promote exports. Some of these instruments are either no longer available or are restricted in today's global environment. But there still is enough scope for a determined government to skillfully use various instruments to promote exports—by lifting the most important constraints on private enterprise. The *ATR* provides insights on key elements of a viable export promotion strategy for Africa today. Offering perhaps the greatest potential is light manufacturing in agroprocessing, in adding value to extractives, and in assembling appliances and other consumer durables—first to meet domestic demand and then to supply regional and global markets. Streamlined regulations and better infrastructure will help reduce costs generally. But more focused efforts will include macroeconomic, exchange rate, and other horizontal measures, as well as vertical efforts to promote targeted exports—such as performance-based subsidies and other support to help exporters acquire and master technology, develop new products, and expand into new markets. The *ATR* argues that more must be done to increase access to developed and emerging world markets. Trade preferences can help, but too often they exclude precisely the products in which an African country would have a comparative advantage. Easing the rules of origin, which define how much processing must take place in the exporting country, could be a major boost.
- *Developing skills for economic transformation.* The East Asians also used their education and training systems to stimulate their economic and social transformations. Building on their success, the *ATR* shows how critical it is for countries to develop and implement comprehensive policies for skills and educational development within the frame of a broader transformation strategy. With guidance from private firms about what they really need, skills development should cut across several ministries and agencies of government, not be the sole preserve of education ministries, and high-level political support should ensure effective coordination. The *ATR* also proposes approaches to meet the financing challenges of skills development.

In each of these areas the state and the private sector have to work together to come up with smart solutions to reach their county-specific objectives—with parliaments, civil society, and the media ensuring that actions are transparent and in the interest of all. The *ATR* provides concrete examples of good practices for all countries to emulate and adapt to their special circumstances. Future *Africa Transformation Reports*, informed by ACET's ongoing research, will explore the remaining drivers.

IDENTIFYING PATHWAYS TO TRANSFORMATION

Each country has different endowments, different constraints, and different opportunities for transformation. The *ATR* explores potential pathways for countries to produce new exports or increase their competitiveness in existing exports and import substitutes. Based

on the endowments and comparative advantages of African countries, this year's *ATR* focuses on agroprocessing, extractives, garments, component assembly, and tourism.

- *Agroprocessing.* Drawing on studies of cocoa, coffee, cotton, soya, fruits, palm oil, sugar cane, and rice, the *ATR* presents a market and value chain analysis for each commodity to highlight global trends, identify the key policy constraints to be lifted, and specify the opportunities for adding value to exports. Much is under way in this sector. For example, Zambeef products, one of Zambia's biggest agribusinesses, covers the full value chain in producing, processing, distributing, and retailing beef, pork, fish, chickens, eggs, milk, flour, bread, and edible oils. Annual sales: more than \$160 million.
- *Oil, gas, and minerals.* The *ATR* shows how the continent can best leverage its enormous extractive resources to support economic transformation, with emphasis on fiscal policies, value addition, and local content. Because resources, once extracted, are gone forever, they should be seen as part of a portfolio of national assets that also includes human capital, physical capital, financial capital, and institutional capital. Countries can enjoy fast growth and fat revenues from extraction for a time, but they can end up worse off than before a boom if they don't use their share of the revenues to build those other assets—for this and future generations. Consider how Botswana is moving beyond extraction. This year, DeBeers is moving its sorting and trading operations to Gaborone, making the country the world's largest diamond trader.
- *Garments.* The *ATR* explores what it would take for Africa to capitalize on its abundant labor and cotton to produce garments, a traditional launching pad for light manufacturing. It draws on lessons from Mauritius's success, as well as the experiences of Korea, Taiwan, Bangladesh, Pakistan, India, and China, to show what governments can do to support foreign and domestic investors. With so much apparel trade now organized and controlled in global value chains, the *ATR* shows how African firms can insert their activities in wider networks—doing contract work for branded manufacturers in export processing zones, full-package production for global retailers, and generally moving from simple to sophisticated and from fiber to fashion based on price, quality, and punctuality.
- *Component assembly.* With wages rising in China and with the African consumer growing in number, component assembly offers an opportunity for African business to supply national and regional markets for bicycles, motorcycles, appliances, and other consumer durables. Assembly and packaging, the first links in the value chain, are very competitive and very demanding and thus difficult to break into. Firms have to rapidly deepen their skills and capabilities. Countries have to develop world class logistics: for customs, trade infrastructure, port infrastructure, and information and communications systems. On the World Bank's Logistics Performance Index, a measure of competitiveness, South Africa ranks 23, followed by Benin (67), Mauritius (72), and

Malawi (73)—and the rest of Africa farther down the list of 155, pulled down by poor tracking, tracing, and timeliness. Getting into components assembly manufacturing will thus require governments and businesses to work with global freight forwarders and express carriers to move goods across long distances in what's been characterized as the "physical internet."

- *Tourism.* Africa had 33 million international visitors in 2011, up from 31 million the year before, with receipts of \$33 billion. Half were leisure tourists, a quarter were visiting family and friends, and about a sixth were business and professional visitors. On current trends the arrivals are set to rise to 55 million over the 2010s, contributing US\$66 billion to the region's GDP by 2020, and 6.5 million jobs, up from 5.2 billion at decade's start. Adding indirect and induced spending, tourism's total contribution would almost triple to US\$172 billion and almost 16 million jobs. Given the continent's dynamism evident almost everywhere, those projections are likely to be low, even very low. The *ATR* shows what countries can do to move to next levels in leisure tourism and especially in business travel, so important for foreign investors and for foreign buyers of African products.

As with the chapters on drivers, those on pathways give examples of good practices to inform country efforts, spelling out in detail the actions they can take to advance on their own economic transformations.

ANNEX 1: OUTLINE FOR THE FIRST AFRICAN TRANSFORMATION REPORT

Overview: Opportunities and prospects for economic transformation in Africa

Part 1: Transforming Africa

1. The case for economic transformation
2. The state of transformation in Africa

Part 2: Policy and institutional drivers of transformation

3. Getting the state and the private sector to work together
4. Promoting exports
5. Developing skills

Part 3: Pathways to transformation

6. Agroprocessing
7. Oil, gas, and minerals
8. Textiles and apparel
9. Component assembly
10. Tourism

Annex 1: Methodology for the African Transformation Index

Annex 2: Summary of the 15 country transformation studies

Annex 3: African Transformation Indicators

ANNEX 2: SELECTED ACET STUDIES

COUNTRY STUDIES

- Botswana
- Burkina Faso
- Cameroon
- Ghana
- Ethiopia
- Kenya
- Mauritius
- Mozambique
- Nigeria
- Rwanda
- Senegal
- South Africa
- Tanzania
- Uganda
- Zambia

STUDIES OF TRANSFORMATION DRIVERS

- Promoting exports: what worked and its current relevance
- FDI inflows in Africa: trends, sources, and sector distribution
- Innovative financing for infrastructure in low income countries: how the G20 might help
- Lessons from the East Asian and European experience for skills development in African
- Skills development for economic transformation in Africa

SECTOR STUDIES

- Building a competitive textiles industry: what can African economies learn from Mauritius?
- Opportunities in the textile industry for transforming African economies
- Agricultural supply chains: market structure, farm constraints, and grassroot institutions
- Promoting sustainable development and transformation in rural Africa
- Value for money in financing agriculture
- Market competition in export cash crops and farm income in Africa
- Tourism in Africa

AGROPROCESSING

- Palm oil production and manufacturing opportunities in Africa: a policy discussion
- The cocoa agroprocessing opportunity in Africa
- The cotton agroprocessing opportunity in Africa
- The soybean agroprocessing opportunity in Africa
- The value capture opportunity in fruit
- Dairy production and processing opportunities in Africa
- Sugar as a driver for transformation: unlocking the potential for African countries

EXTRACTIVE INDUSTRIES

- Case study of Debswana's HR development policy: a De Beers and Botswana partnership

- Case study of Trinidad & Tobago's value-addition using gas resources
- Diagnostic study of Ghana's mineral sector
- Diagnostic study of Ghana's petroleum sector
- Diagnostic study of Uganda's petroleum sector
- The exceptionality of Botswana: economics, politics, and challenges
- The global economic crises, funding public services in Africa, and concessions in the mining sector: the case of Zambia
- Policy, legal, and institutional challenges of local content in Nigeria and South Africa

SPECIAL STUDIES

- Comparison of the Malaysian and South African domestic market
- Looking East: China's engagements with Africa—benefits and key challenges
- Looking East: Ghana–China case study
- Looking East: Rwanda–China case study
- Strategic lessons for Africa's economic transformation: an overview
- Toward economic transformation in Ghana: strategic learning from high-growth nations
- Turning inward? Or fighting the crises with further opening? Evidence from the Nigerian banking system