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Africa's Structural Transformation: From Strategy to Action

Conference Paper · December 2014

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Keynote Address by Ayodele Odusola, Chief Economist, UNDP Regional Bureau for Africa, on Africa's Structural Transformation on the occasion of TICAD Symposium on "Africa's Structural Transformation: From Strategy to Action", Elizabeth Rose Conference Hall, 5F, United Nations University, Tokyo, Japan 3 December 2014.

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A solid stewardship of Africa's future development requires a good understanding of the factors that shape the past and current growth processes.

Background

The resounding economic growth of the past one and a half decades and the bright prospects for the immediately future is changing the development landscape of Africa. Growth averaged 5.1 percent between 2000 and 2012 and doubled the continent's average growth rate in the 1990s. The rapid growth path has started to change the narrative of Africa's development from pessimism or a hopeless continent to an unprecedented optimism - an emerging growth pole and a vibrant frontier market. This emboldens many African countries to dream of "emerging" from the least and middle income developing countries groupings by aspiring to rapid and sturdy economic growth rates, large improvements in market and institutional efficiencies and also attracting large volumes of foreign direct investments (FDIs). The celebration of the 50 years anniversary of the African Union in 2013 rekindled this optimism which informed the preparation of the Common African Position on the post 2015 development agenda and the Agenda 2063.

Why should Japan or any important partner be interested in Africa's structural transformation? The implementation of the Tokyo International Conference on African Development's (TICAD) initiative has shown Japan as a trusted development partner in the continent. This includes the \$32.0 billion pledge in 2013 for the continent's development in the next five years. While appreciating this very significant contribution, many reasons still abound for partners' authorities and their private sectors to be fully engaged in Africa's transformation agenda:

- First, Africa's trade ties with the world are expanding. Its flows of goods, services, and finance rose from \$400 billion (about 60 percent of GDP) in 2000 to \$1.6 trillion (about 82 percent of GDP) in 2012 (McKinsey Global Institute, 2014). Being an active part of this process is critical to Japan or any other important partner.

- Second, as many as 200 million Africans will enter the consumer goods market by 2015. It therefore constitutes a formidable market. For instance, Africa is the largest importer of Japanese secondhand cars. About 80 percent of the imported used cars are Toyota, Nissan or Honda (Beforward, 2014). Maintaining this high market share, in the face of a dynamically evolving automobile market structure, calls for an active engagement in Africa's development process.
- Third, the rapid growth of banking, telecommunications and infrastructure sectors show they are important drivers of economic growth in the continent.
- Fourth, Africa's large natural resources hold the future for global value chains transformation. Particularly, Africa will produce 13 percent of global oil by 2015, up from 9 percent in 1998 (MGI, 2014). The growing trend of oil and natural gas between 1980 and 2012 is amazing: from 53.4 billion barrels to 130.3 billion barrels for oil and from six trillion cubic meters to 14.5 trillion cubic meters for natural gas (KPMG, 2013). It also controls 53.9 percent of the global diamond resources (898 million carats out of the global 1,663 million carats) as at 2012¹. Active investment in adding value to these commodities, among other extractive activities, will be a worthwhile venture for Japan and other interested partners. Fifth, the abundant cheap labour is one of the region's potential for labour-intensive industrialization and lower cost of production whose benefit outweighs the cost of other challenges of doing business in the continent.
- Finally, the emerging domestic and global developments lead credence to active engagement Africa's economic transformation agenda. Some of these include improved macroeconomic prudence, increasing primary commodity demand, changing global partnerships. Partnership for development is evolving in the continent. African leaders are saying in clear terms that ability to contribute to the continent's transformation agenda will shape partnership strategy in years ahead.

My speech addresses the key elements of structural economic transformations and the African emerging reality; provides rationale for promoting economic and structural transformation in Africa; examines the emerging opportunities for structural economic transformation; draws lessons from other regions of the world; and suggests how to move from a strategy to concrete transformation agenda outcomes.

¹ See Bain and Company and Antwerp World Diamond Centre (AWDC) (2013) for the contribution of African countries (South Africa, Angola, Botswana, Ghana, Namibia, Lesotho, Central African Republic and Guinea to the global resources.

What are the main features of structural economic transformation?

An economy is structurally transformed when it experiences a fundamental change in its structure (agriculture, industrial and services) and the drivers of growth and development. It is a process in which the relative importance of different sectors and activities change within a national economy in terms of resource allocation and factors utilization. In general, it is seen as a measure of relative decline in low-productivity agriculture and low value added extractives and a relative rise of manufacturing and high-productivity services. To this end, it is therefore seen as the cause and effect of economic growth.

Structural economic transformation could take several forms including (ECA, 2011; UNCTAD, 2012; and IFPRI, 2012):

- When upgrading within sectors takes place especially when production becomes more skill-, technology-, and capita-intensive;
- When factor accumulation, factor allocation and innovation take place, especially as resources are reallocated from less productive to more productive sectors and activities;
- When there is a continual process of creative destruction. This is when there is correspondingly an increase in the relative contribution of manufacturing and services to GDP (rise in modern industrial and services sectors) and a declining share of agricultural employment to total employment;
- When there is a shift in economic activity from rural to urban areas and where Pareto optimality holds for both rural and urban centres;
- When the country experiences a demographic transition from high rates of births and deaths to low rates of births and deaths;
- When countries experience rising trend of economic agglomeration with complementary strong urbanization and town planning policies and strategies – with a view to mitigating the cost of urbanization and maximizing its benefits; and
- When there are changes in the form of integration to the global economy.

The main outcome of any structural transformation is to ensure agriculture, as an economic activity, does not have any serious distinguishing factors from other sectors in terms of labour and capital productivity or location of poverty. Timmer (2012) actually posits that structural transformation accelerates rural productivity and that the labour intensive path of industrial and services sectors provides the opportunity for enhanced labour productivity. From development perspective, the nature and patterns of structural transformation matter.

From structural transformation perspective, therefore, focusing only on growth rate is inadequate to gauge economic performance. To this end, the extent to which an economy successfully moves labour and resources into sectors or activities with high and rising level of productivity should be an important lens of viewing future economic performance in Africa. Structural transformation should be seen as a means but not an end. The main policy challenge, and a necessary condition, is to transform economic structure and at the same time increase human well-being and environmental quality. This is structural transformation in the context of the Sustainable Development Goals.

What are the opportunities for structural transformation in Africa?

There is avalanche of opportunities for Africa to transform its rapid growth experience into meaningful structural transformation. Some of these include:

- Agriculture accounts for less than one-fifth of DGP and about 50 percent of the continent's exports, yet it employs more than six out of ten labour in Africa. Even if the structural transformation takes root, agricultural output is expected to continue to rise in absolute term. Any effort to substantially enhance the productivity of this sector will take a large proportion of Africans out of poverty as was the case in India and China. Agriculture still remains a key driver of structural transformation in Africa. The Maputo Declaration of 2003 (where African Heads of State and Government agreed to allocate 10 percent of national budget to agriculture) and the Comprehensive African Agricultural Development Programme (CAADP) (which as of March 2014 had been ratified by 40 African countries) provide opportunity for leveraging the sector's transformation. A structurally transformed agricultural sector offers substantial opportunity for higher farm profits, improved investments, enhanced technological adoption and better agro-industrial linkage². The rising urban food demand also offers opportunity for enhanced agricultural productivity and agro-based industrial transformation.
- The abundant cheap labour is one of the region's potentials for labour-intensive industrialization. Rodrik's (2013) example of an analogy between shoe manufacturers in China and Ethiopia is quite illuminating - a Chinese shoe manufacturer in Ethiopia pays its Ethiopian workers one-tenth of its workers back home. And with just a little in-house training, the Ethiopian workers' productivity could be raised to about one-half or more of the Chinese productivity. He also concludes that the savings from labour cost is more than offset the incremental cost of doing business in Africa.
- The adoption of the Plan of Action for the Accelerated Industrial Development of Africa (AIDA) also provides impetus to the continent's transformation agenda. The seven programmatic pillars of AIDA, which emphasize the main ingredients of structural transformation, are: (i) Industrial Policy and Institutional Direction; (ii) Upgrading Production and Trade Capacities; (iii) Infrastructure and Energy for Industrial Development; (iv) Human Resource Development for Industry; (v) Industrial Innovation Systems, R&D and Technology Development; (vi) Financing and Resource Mobilization; and (vii) Sustainable Development.
- The continent's vision of a new Africa as adopted by its leaders through its Pan Africanism solemn Declaration set the tones of the transformation agenda. This covers four pillars: (i) transformation into a stable, integrated and prosperous continent; (ii) competitive,

² See Binswanger-Mkhize (2012) for more opportunities provide by this sector for the continent's structural transformation.

diversified and growing economies; (iii) a full participant in global trade and investment, and (iv) the next emerging market and growth pole (AfDB, 2012). Most of these constitute the features of structurally transforming economies.

- Emerging domestic and global developments lead credence to Africa's economic transformation agenda. Improved macroeconomic management in Africa and increased demand for primary commodities from outside the continent have enhanced the conditions for private sector investment and expanded the fiscal space for public sector investment. The oil-for-infrastructure initiative in Angola and Nigeria and consequently 'sovereign wealth funds, are good examples of this. The sovereign wealth funds could be used to drive industrialization process. The emergence of the BRICS, which is giving prominence to South-South Cooperation and diluting the hegemony of traditional donors, access to ICT, and global development architecture is another factor.
- Sub-Saharan African (SSA) countries are turning to *Sukuk* bonds in financing infrastructure. This risk-sharing instrument with over \$120 billion in 2013, which was previously concentrated in the Gulf countries and Malaysia is now spreading to SSA – Senegal (\$208 million), Sudan (\$165 million), and South Africa (\$500 million)³ (World Bank, 2014).

What are the content and pattern of Africa's structural transformation?

Africa's development prospects have been renewed by its recent economic performance – the second fastest growing region between 2000 and 2010 after East Asia. Between 2000 and 2009, eleven African countries grew at an annual rate of 7 percent or more, which is considered sufficient to double their economies in ten years.⁴ Six of the ten fastest growing economies globally are from Africa between 2001 and 2010⁵. And in 2013, 16 of the 38 fastest growing countries globally (with 6.0 percent and above real GDP growth) are from Africa. Projection shows that between 2013 and 2017, 7 of the 15 fastest growing economies will be from Africa⁶. The good news is that this growth spans beyond resource-rich countries to resource poor countries like Ethiopia, Rwanda, Tanzania and Uganda. The prospect of continuous economic expansion for 20 years is bright. If complemented by improved distributive policies, this is going to set the continent on the path of inclusive and sustained human development. This puts the continent on a good stead to navigate the ship of post 2015 development agenda more reinforcingly and consistently.

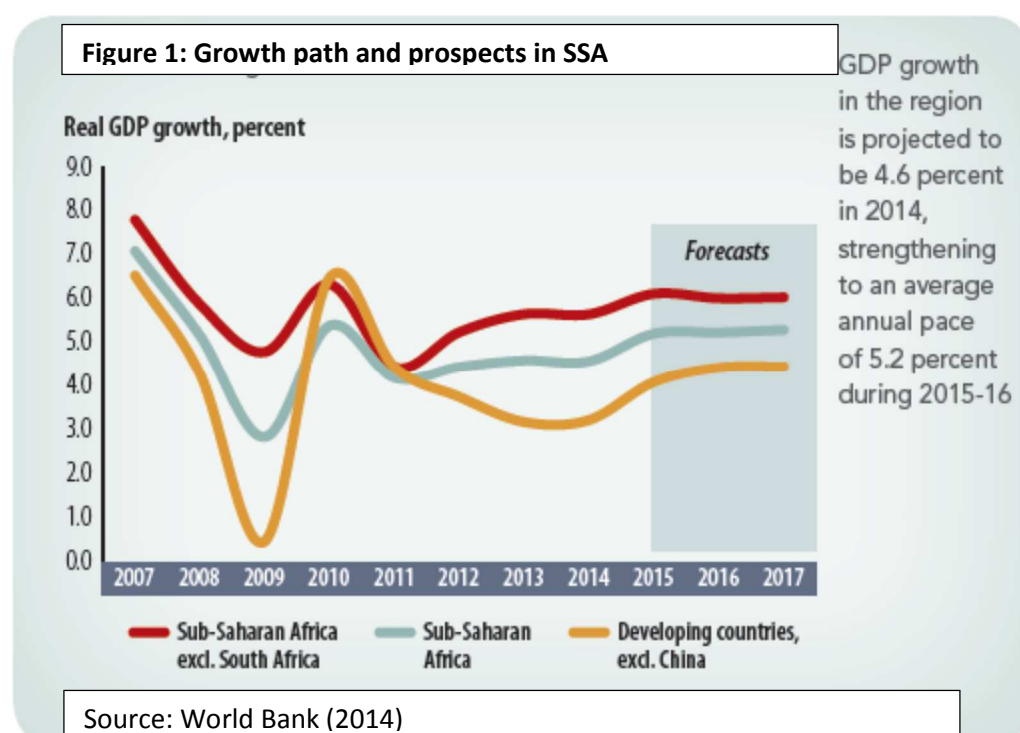
³ It is a risk sharing, low interest bearing and long term financing Islamic financial instrument mostly used to finance large public projects.

⁴ See David Nixon (2013) www.insidermonkey.com for fastest countries between 2013 and 2017; and ECA (2013) for growth between 2000 and 2009.

⁵ These are Angola (11.1%), Niger (10.3%), Ethiopia (8.4%), Chad (7.9%), Mozambique (7.9%) and Rwanda (7.6%). See AfDB, 2012.

⁶ The situation is not the same for some countries especially, previously continent's growth drivers. For instance, structural impediments, labour unrest and investors' confidence is slowing down growth in South Africa while decline in production as a result of matured oil fields coming off stream is affecting prospects in Angola.

Although the size of the African economy is still relatively small (about \$2.3 trillion, equivalent to the size of Brazil), yet the prospect for accelerated growth is quite bright. Despite weaker than expected global growth and stable or declining commodity prices, as well as downturn in Europe and decelerated demand in China (which are likely to reduce FDIs)⁷, African economies continue to expand at a moderately rapid pace, with its GDP growth projected to strengthen to 5.2 percent yearly in 2015-16 and it is expected to rise to 5.3 percent in 2017 from 4.6 percent in 2014 (Figure 1).⁸ Growth in per capita income is expected to follow the same pattern – rising from 2.1 percent in 2014 to 2.6 percent and 2.8 percent in 2015 and 2017, respectively. Significant public investment in infrastructure, increased agricultural production and expanding services in African retail, telecoms, transportation, and finance, would remain the drivers of growth in Africa. However, Ebola, terrorism, declining commodity prices and other risks are serious development challenges that should be managed with adroit skills and commitment.



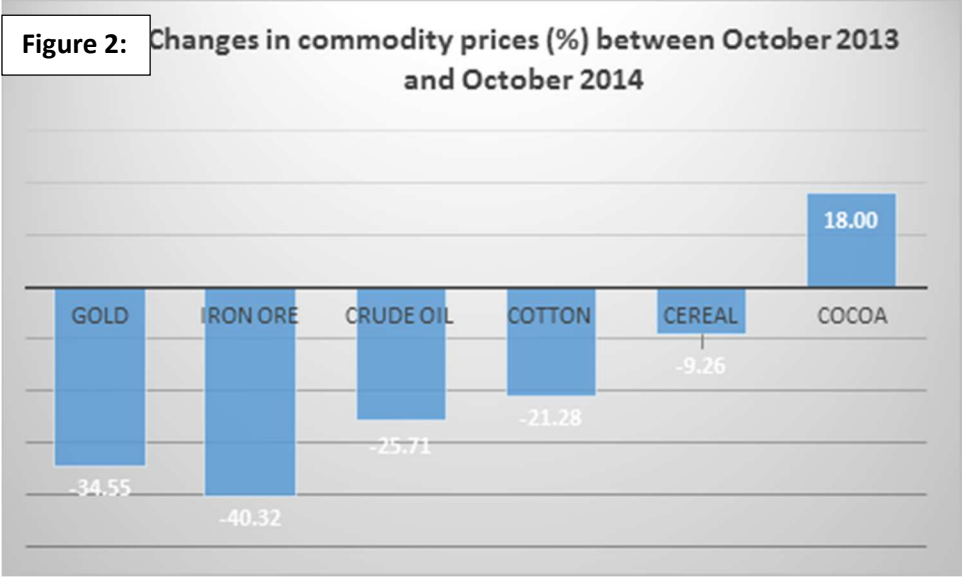
Key risks and challenges to watch for: Some emerging and perennial risks are likely to affect the continent’s growth prospects in the years ahead. Those from domestic side are: the outbreak of Ebola (Guinea, Liberia and Sierra Leone), deteriorating security threats in some countries (Nigeria,

⁷ FDI is expected to fall to \$29 billion in 2014 from \$32 billion in 2013 while overall investment flows is expected to drop to 4.3 percent of the region’s DGP from 5.1 percent in 2014 (See WB, 2014).

⁸ See World Bank’s Press Release “Africa: Growth May Exceed Five Per Cent in 2015-16, but Ebola, Terrorism and Other Risks Pose Concern”, October 7, 2014: <http://www.worldbank.org/en/news/press-release/2014/10/07/africa-growth-may-exceed-five-per-cent-in-2015-16-but-ebola-terrorism-and-other-risks-pose-concern>

South Sudan, and Somalia), and the rising fiscal and currency imbalances in some countries (e.g. Ghana and Zambia). For instance, fiscal imbalance is projected to widen to 3.6 percent in 2014 from 3.1 percent in 2013. Risks from the external side include: higher risk premiums and market volatility in the global market (already affecting South Africa and may affect other frontier markets like Angola, Ghana, Nigeria and Zambia); lower growth in emerging economies (e.g. China and Russia). All this is affecting Africa substantially.

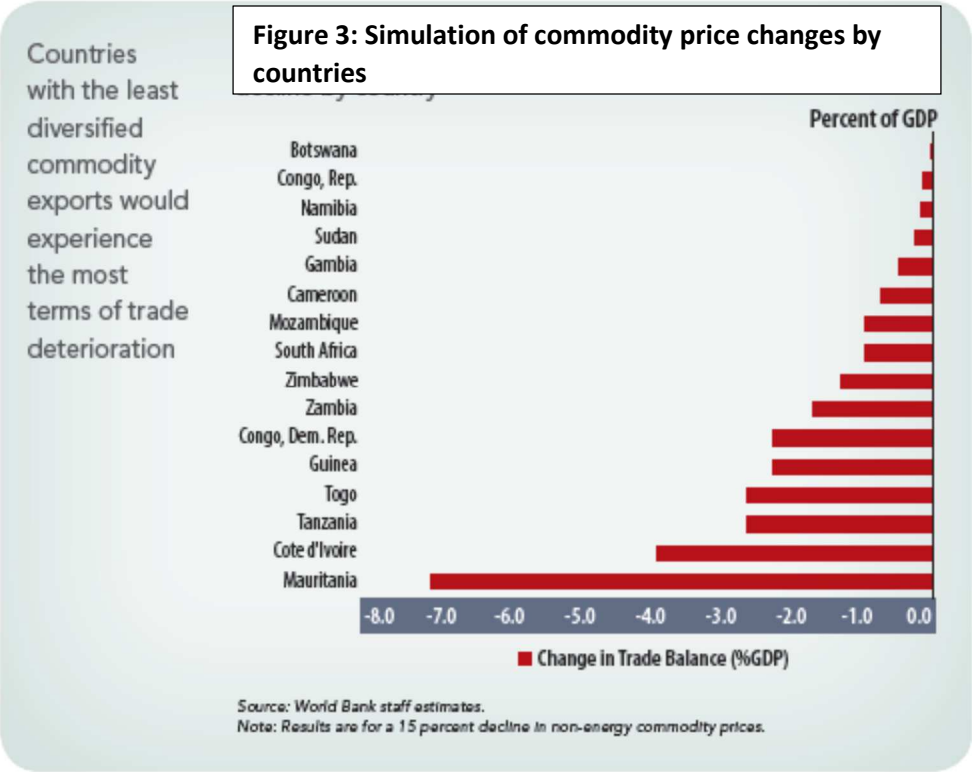
One of the major drivers of economic growth in Africa, over the past decade, is commodity boom. Most African countries experienced appreciable growth to the extent that sub-Saharan Africa was rated as the second fastest growing region globally between 2000 and 2010. Over the past one year, however, the rising trend of commodity prices is giving way to a declining trend. Most of the primary commodities such as gold, iron ore, crude oil, cotton and cereal that have been sustaining most countries have experienced tumbling prices between October 2013 and October 2014. The fall in prices ranges from about 9.3% in cereal to about 40.3% in iron ore – double tragedies for the three Ebola epicenter countries that rely heavily on iron ore. Cocoa is however one of the few exceptions with a rising trend over the same period – about 18%. Figure 2 provides some illustrations on this issue.



Source: Author’s computation.

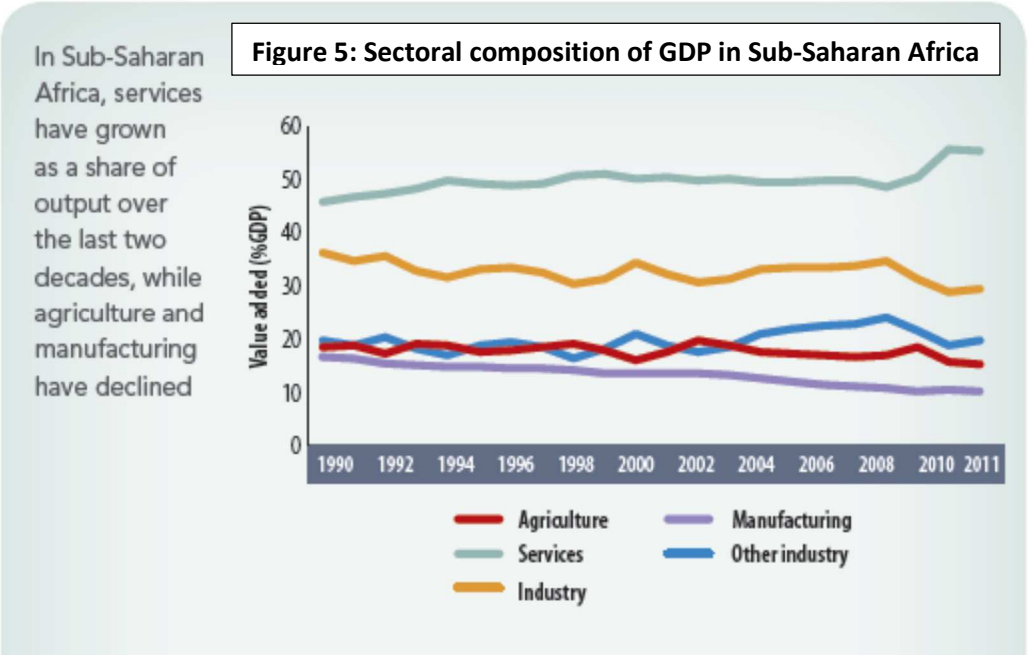
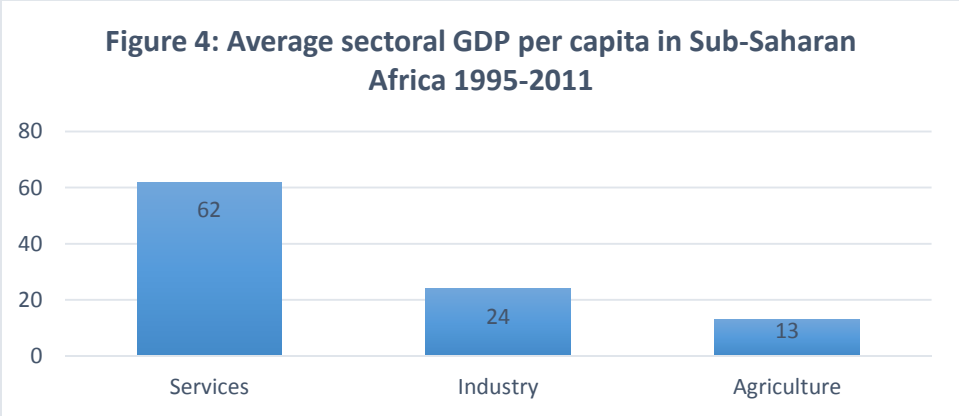
This declining trend in commodity prices has started to affect countries depending on metal exports such as Mauritania, Niger, Tanzania and Zambia – see figure 3). A structurally transformed economy, underpinned by diversification away from primary commodities, can forestall this impending crisis. The unfolding development is posing some challenges to national governments in terms of resources to fund development projects and running costs. In some countries, it has started to manifest in the form of macroeconomic imbalances such as declining external reserves,

depreciating national currencies, increasing budget deficits, and rising public debts, to mention a few. This could also affect capacity to sustain social protection programmes for the vulnerable and marginalized groups.



The African experience shows the continent has been growing rapidly but structurally transforming slowly and against conventional wisdom. Conventional wisdom posits that as economies develop, resources and labour are reallocated from traditional sector (often with low productivity labour) to the modern sector (often with high-productivity jobs). The creation of millions of higher-productivity, better paying jobs in labour intensive manufacturing explains transformation in Asia – which substantially dented poverty. The African narrative is different.

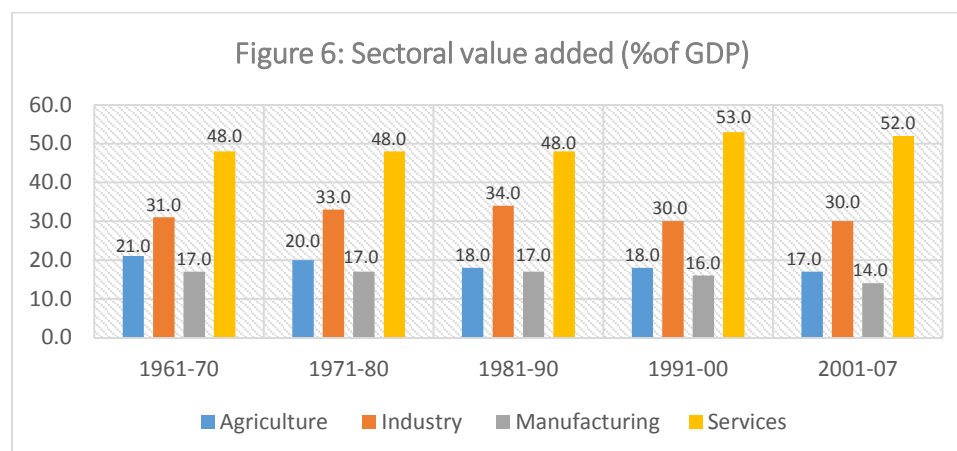
The overall sectoral share of GDP per capita, between 1995 and 2011, tends to suggest substantial transformation – 62 percent (services), industry (24 percent) and agriculture (13 percent) (Figure 4). It is instructive to note that despite the fantastic growth rate, African transformation has actually bypassed the industrial sector – with manufacturing actually declined between 1990 and 2011 while agriculture stagnated. See Figure 5 on performance of manufacturing and agriculture relative to other sectors.



Source: World Bank (2014)

There is a disproportionate share between agricultural value added and the sector's share of total labour force. For instance, the share of agriculture's value added declined from 21 percent in 1961-70 to 17 percent in 2000-07 while the share of agriculture labour force fell from 83 percent to 64 percent – which later fell to about 60 percent in 2013. It still accounts for about a half of the continent's exports. Agricultural expansion has not been due to technological change or intensive use of labour and land but by expansion of cultivable areas and labour supply. The fact that agriculture employment share is about four folds of its output share still shows the sector's dominance. Besides, Africa today is less industrialized than it was in the 1960s – the share of manufacturing fell from 17 percent to 14 percent during the same period (Figure 6). The extractive sector is the one sustaining the relatively high rate of the industrial sector. Both the agricultural and manufacturing sectors have been seriously decapitalized. *Industrialization-driven structural*

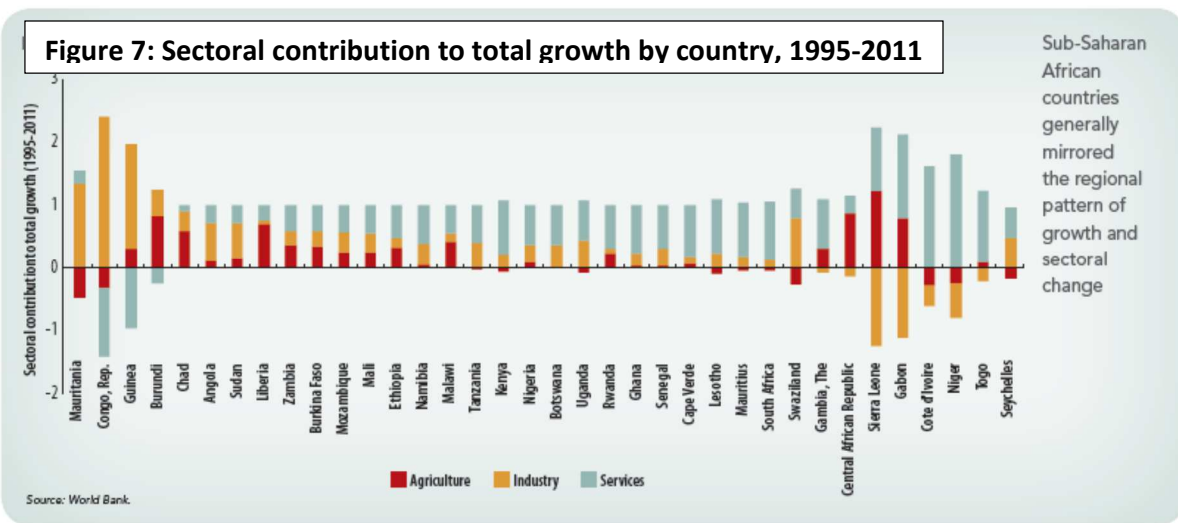
transformation broadens the drivers of growth, promotes resilience to commodity price shocks, and builds new backward and forward linkages across the economy. The facilitation of cross sectorial linkages promotes inclusive growth.



Besides, less than 10 percent of Africans find jobs in the manufacturing sector, particularly the modern sector that is skill-, technology- and innovation-based. Contrary to the experience in East Asia and Latin America, rural migrants that moved to the urban centres did not find any job in the manufacturing sector. Rather, the dominant informal sector continues to absorb the rural migrant labour. Many factors account for this. First, the surplus labour in the rural Africa does not have the right skills to be absorbed in the modern sector. Second, the proportion of educated unemployed is quite large, who is also ready to be underpaid. This makes the absorption of rural migrants difficult. And finally, the condition through which most modern businesses operate is not congenial for expansion – they provide alternative energy, water, security and communication facilities – which make production cost quite high and make them less globally competitive.

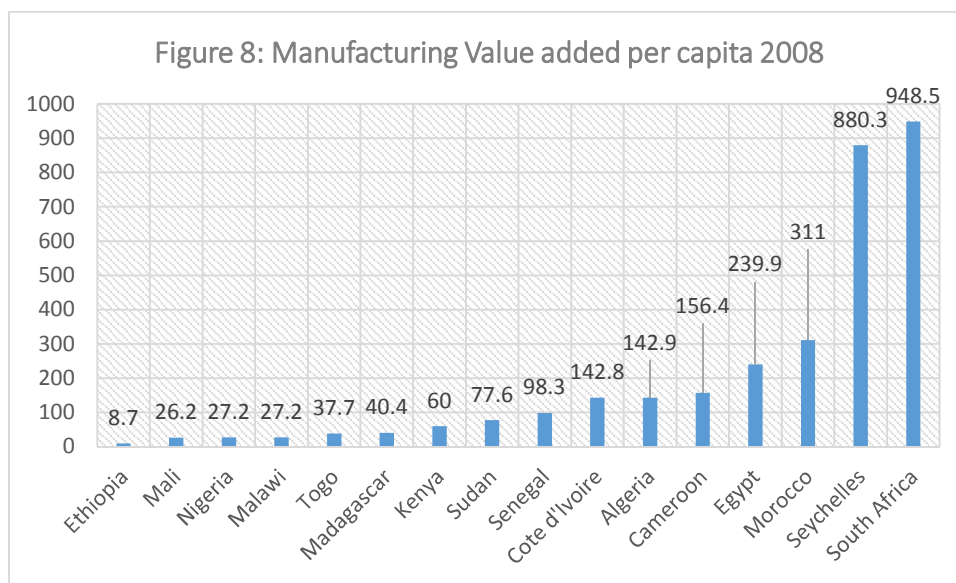
How did the countries fair on the sectoral contribution to growth? The rapid growth from countries such as Rwanda and Ethiopia over the past decade or so, is not from the modern, tradable industries that could energize domestic productivity growth (see Figure 7), but was powered by non-tradable services and public investment in construction. The productivity dynamism needed to spur structural transformation could not be ignited because of the absence of a modern industrial sector in most African countries. The continued economic expansion, over the past decade, that failed to generate the needed high quality jobs to the teeming youths has raised unnecessary expectations in many countries.

Services is driving the total growth across the continent. But the growth in services sector has been dominated by low productive activities. The Indian experience could be a good example to learn from. India’s transformation also bypassed the manufacturing sector by moving into high-productivity services such as software development, call centres and outsourced business processes (Ghani et al 2012). African transformation could learn from this. There is also a high potential to use agriculture-based high-value chain to drive transformation in Africa – cassava flour in Nigeria, cut flowers in Kenya and Ethiopia, and roasted coffee in Uganda.



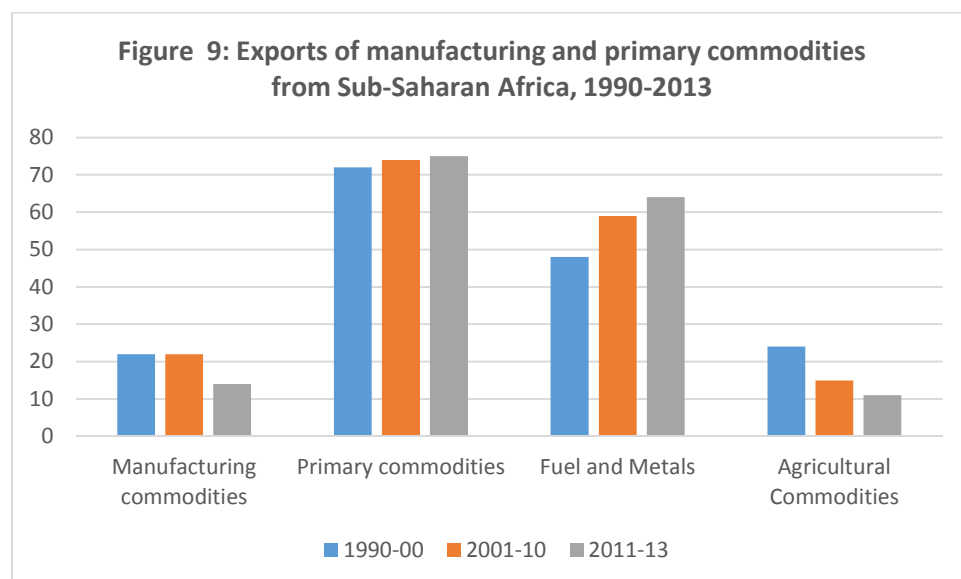
It is important to note that Morocco offers some good example in the case of auto parts industry. The country took advantage of its unique proximity to a large market of high-income earners in Europe to become an industrial automotive supplier for Europe. The creation of two free trade zones (The Tangier Automotive City and the Atlantic Free Zone). This sector employs more than 60,000 workers. This is further boosted by the establishment of Renault assembly plant (worth about EUR 1.00 billion and employing about 6,000 workers) (AfDB, 2012).

Manufacturing value added per capita shows some countries are doing quite well – South Africa, Seychelles and Morocco (Figure 8). Heavily populated countries like Ethiopia and Nigeria perform poorly on this index.



The ongoing transformation in Sub-Saharan Africa is bypassing the industrial sector. For instance, as shown in figure 9, both manufacturing and agricultural commodities fell by 8 and 13 percentage points respectively between 1995 and 2013. The rise in primary commodities has been driven largely by the extractive sector – gained 13 percentage points. Export concentration in the top five primary sector commodities (petroleum, iron ore, bitumen, gold, and natural gas) rose from 41 percent in 1995 to 60 percent in 2013 (World Bank, 2014).

Some countries substantially improved the share of manufacturing exports during this period. Uganda rose its share from 3 percent during 1990-2000 to 11 percent 2001-2012 (iron rods, plastic tubes and pipes). Senegal used chemicals and manufacturing products to raise its share from 16 percent to 33 percent during the same period. It is important to note that Kenya, Madagascar, Mauritius and Rwanda also improved their performance.



Successful structural transformation agenda has been undermined by internal and external factors (ECA, 2013; AfDB, OECD, UNDP and ECA, 2013). The internal factors include weak economic management capacities (particularly poor implementation capacities), weak institutions, inadequate investments in infrastructure, weak priority on technology and R&D and unstable political environments. Key external factors include: limited policy space⁹; barriers to trade that undermine export revenues and constrain exports of manufactured goods; the disproportionate concentration of ODA in the social sectors as opposed to the productive sectors (e.g. agriculture and industry); and the concentration of FDI in the extractive mineral sectors of the economy with limited investments in value added manufacturing.

⁹ This is partly due to conditionalities imposed by the Bretton Woods organizations and some development partners.

What are the emerging lessons?

Product sophistication matters. Countries' capacity to acquire greater capabilities to produce more sophisticated, higher-value goods for which demand expands globally as incomes rise is an important factor driving structural transformation. The prevalence of high-value goods in Africa's economic production and the portfolio of exported goods, between 1962 and 2000, has fluctuated between 20 and 40 percent of the value achieved by a sample group of nearly 100 countries. In fact, African countries have not shown further progress in product sophistication since the 1960s (Biadane, 2012). This has implications for the agricultural and industrial sectors in Africa. This makes it difficult to raise labor productivity and incomes in the agricultural sector and also to capture a greater share of the fast-growing demand for urban food in regional markets. It also weakens the ability to raise the number of entrepreneurs that can engage in the discovery process. Industrial policies should focus more attention on enterprise creation and growth in taking structural transformation to a higher level in Africa.

Agriculture is the linchpin of structural transformation: The high level of poverty is a price for not allowing agriculture to drive structural transformation in Africa. Although the share of agriculture is less than one-fifth of the continent's GDP value added, yet it generates not less than 50 percent of the continent's total value of exports and employs about 60 percent of its labour force. The non-transformation of this sector has not allowed: farm profits to rise, saving and investment to increase, technological adoption to improve and agro-industrial linkage to progress. A structurally transformed agricultural sector will enhance productivity, incomes and working conditions. This will help dent poverty and inequality and will also boost economic opportunities in rural areas.

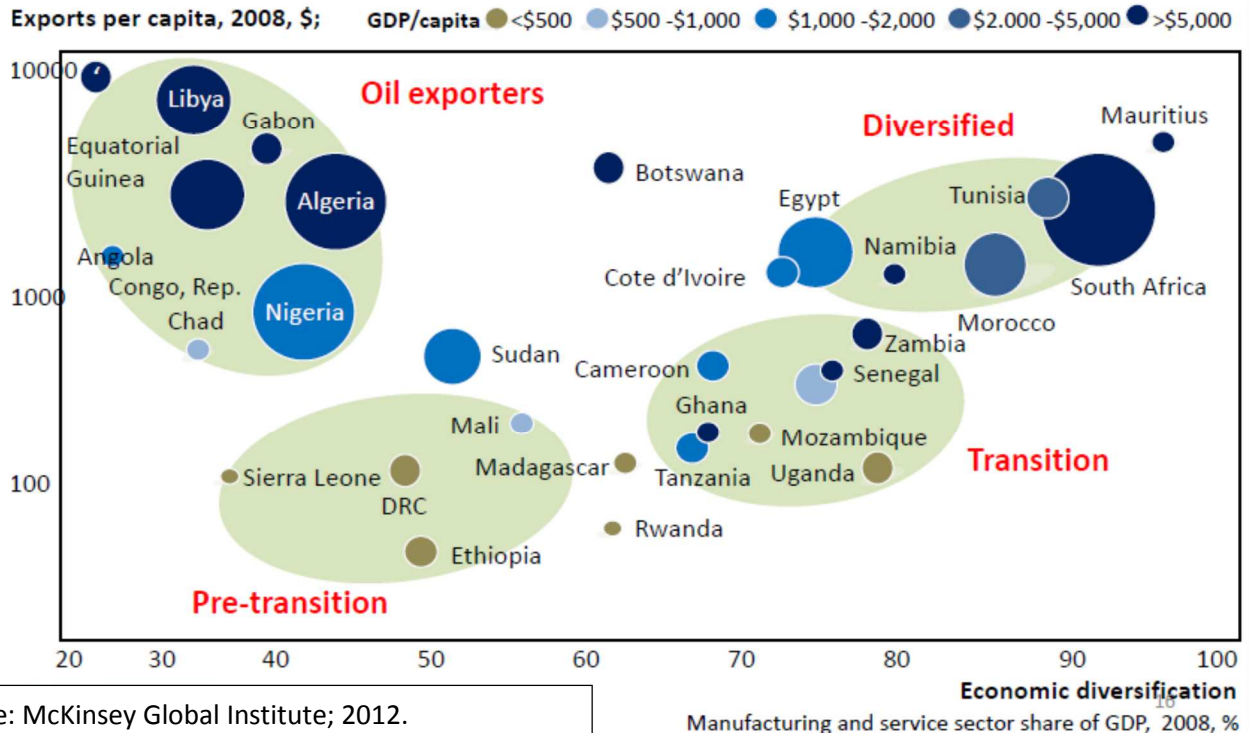
There is no homogeneous path to structural transformation. The pathways is rather heterogeneous. The common denominators are vision, flexibility and hard-work. The lessons from recent emerging economies makes this obvious. Brazil transformation agenda (based on high value-added in automobiles, petrochemicals, steel and consumer durables) was driven by macroeconomic prudence, commitment to economic diversification, investment in education and an efficient distribution of benefits of growth to the marginalized groups. China's transformation path is development state and agro-based industrialization while agricultural development anchored on strong democratic institutions defined India's path. A developmental state that nurtured industrialization through active support to private sector development (including the sponsorship of family-owned industrial conglomerates – chaebols) is the pathway for South Korea. The country's transformation from light to heavy industry in the 1980s made South Korea's incursion into the global market possible¹⁰. They all use their transformation agenda to generate growth, shape social change and promote human development. Yet, none of these approaches is perfect.¹¹ But each path chosen by these countries helped them achieved the set goal in spite of the associated challenges.

¹⁰ ECA (2013) provides some illumination on this heterogeneous pathways to industrialization in these countries.

¹¹ These countries especially Brazil, China and South Korea still faces the challenge of addressing inequality.

The initial development situation matters in shaping transformation pathways in Africa. There are at least four pathways for African countries to structurally transform their economies: pre-transition, transition, diversified and oil exporters' pathways (see Figure 10). This is a clear evidence that there is no silver bullet; rather the process is heterogeneous.

Figure 10: Transformation path will depend on the initial stage of development of each country



Source: McKinsey Global Institute; 2012.

Moving from a strategy to concrete transformation outcomes.

Africa needs to develop its capacity to produce sophisticated, higher-value goods for which its demands rise globally as income increases. The myriad opportunities in agro-industrial and extractive-value chain linkages, wide scope for economic diversification, rising urbanization, and emerging middle class make this more appealing. However, there is no one size fits all. Some of the avenues of translating this into concrete development results are enumerated below.

Nurturing and honing African entrepreneurial spirits: For the continent to transcend its historically imposed specialization – exporters of primary commodities – and move to cutting edge and high-value added commodities and services, it must give prominence to its private sector. Africa is home to most of the exciting and innovative entrepreneurial talents but with very limited

opportunities to perform at their optimal levels due to myriads of structural impediments to entrepreneurial spirits – infrastructure, access to finance and education. These talents must be nurtured and honed through behavioural, educational and institutional transformation. A new spirit of ‘Africapitalism’¹², a process of transforming private investment into social wealth, is emerging and must be groomed. It requires entrepreneurial-societal growth-continuum for both the private sector and the society to prosper simultaneously. Home grown businesses meet economic and social needs, create local jobs and general local wealth, including the African middle class. Home grown businesses often focus attention on public goods than others – because of willingness to listen and learn, the capacity to collaborate, rigor and discipline to evaluate themselves, and the spirit of giving back to the society. Entrepreneurial energy and inventiveness being galvanized by African business foundations¹³ is vital to the much awaited structural economic transformation. I will like to quote Reeta Roy (*President and CEO of [The MasterCard Foundation](#)*), “Today, Africa’s entrepreneurs and philanthropists have the resources, networks and opportunities to spur greater levels of social and economic change, beyond what cash-strapped governments or donors could do on their own.”¹⁴ African entrepreneurial talents must be discovered and the emerging entrepreneurs must be empowered and the honed ones must be willing to serve as role models to others.

Value-added based industrialization can propel the much awaited structural transformation. The opportunity for realizing this abounds in Africa. Industrializing through agricultural and natural resource-based value chains will extend the benefits to Africa’s growth performance to a larger spectrum of the society thereby helping to accelerate reduction in poverty and inequality as well as substantially reduce vulnerability associated to commodity prices volatility and unfavourable terms of trade. This calls for the promotion of an integrated economy that nurtures inter-sectoral synergies and linkages through export diversification, industrialization and value addition. This will also expand the fiscal space for development financing.

Investment in frontier shifting: African leaders and policymakers must think ahead in determining which sectors will be driving the economy and whence productivity gains will come from. Substantial investment needs to be focused on this. African stakeholders must think of what drives the economy after the honeymoon of commodity boom is over. The experience of the past one year where most African primary commodities exports have been declining is an important lesson.

¹² See Tony Elumelu, “The rise of Africapitalism”, <http://www.economist.com/news/21631956-entrepreneurs-will-transform-africa-says-tony-elumelu-chairman-heirs-holdings-and>

¹³ They include TY Danjuma Foundation, Aliko Dangote Foundation, Mergon Foundation (Francois Van Niekerk), Allen Gray Orbis Foundation, Donald Gordon Foundation, Mark Shuttleworth Foundation, Tony Elumelu Foundation, Dikembe Mutombo Foundation. See for instance <http://www.ventures-africa.com/2012/05/10-african-philanthropists-who-gave-over-10m/>

¹⁴ See Reeta Roy, “The Emergence of African Philanthropists”, <http://www.forbes.com/sites/skollworldforum/2014/02/21/the-emergence-of-african-philanthropists/>

The currency of structural transformation is innovation. Innovation is not only about new products or technological advancement, but also about improved process and systems organization. Rodrik (2012) identifies two major factors that weaken entrepreneurial drive in restructuring and diversifying low-income economies – discovering the cost structure of an economy and coordinating investment within the context of scale economies. This is about the limit of markets, which underscores the need to embed private initiatives in public actions. To this end, public and private sector partnership that seeks to identify underlying bottlenecks and emerging opportunities, and engage in their strategic coordination is key in this direction. *Promotion of regional cooperation and integration in the continent is also critical.*

Structural transformation and human capital development are mutually reinforcing. Heavy investment in human development is a common denominator for all countries that have experienced structural transformation. This includes investment in traditional educational system, skill and vocational development, and youth development.

Increasing productivity within sector is critical: This is particularly important for low-productivity sectors such as agriculture and services that accommodate 78.2 percent and 16.4 percent of the working poor in Sub-Saharan Africa. Labour productivity, for instance, can be improved through technological change, capital accumulation and shift in terms of trade. Improved business environment, socio-economic infrastructure and enterprise development are critical to enhancing productivity.

Effective and developmental state matters: A successful developmental state is needed to drive a long term range structural transformation. The imperatives of developmental states are: (i) developing a clear vision on structural transformation; (ii) promoting the emergence of selfless political elites; (iii) building technically competent bureaucracies; (iv) undertaking policy experimentation, policy learning, institutional adaptation and innovation; (v) tackling soft and hard aspect of governance; and (vi) building a legacy of development results that ensure benefits of development are widely shared¹⁵. The examples of Rwanda and Ethiopia has shown that developmental state is possible in the continent.

Africa must invest in data revolution: Some of the past and current narratives are not based on emerging reality and concrete facts – a few is based on perception. To capture Africa's successes, opportunities and challenges accurately, there must be regular, reliable and credible statistics. Building national and regional statistical capacities is vital to capturing Africa transformation effectively.

¹⁵ For more analysis of the central role of a developmental state in accelerating structural transformation see UNCTAD 2012.

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