AGENDA

• Why Transformation?

• The Transformation Record
  • SSA v. Transformers
  • Transformation within SSA

• Key Messages
  • Drivers
  • Pathways

• Regional Dimension
Africa is growing rapidly; but will it last?

Will the growth make our countries internationally competitive and resilient?

Will the growth expand formal employment to bring about shared prosperity?
The rapid growth was followed by two decades of economic collapse.

How do we ensure that this time the growth continues?
WHAT IS ECONOMIC TRANSFORMATION?

Transformation = Growth + DEPTH

D - Diversification of economic production and exports
E - Export Competitiveness
P - Productivity increases
T - Technological upgrading
H - Human well-being improvements
Each of the **DEPTH** indicators is constructed as an index, in most cases by aggregating sub-indicators.

The resulting five indexes are combined to form the **Africa Transformation Index (ATI)**.
African countries have not transformed in more than 40+ yrs.
Whether we look at the period of State-led import-substitution or the subsequent period of “structural adjustment” with liberalizations, privatizations, and “rolling-back” of the state.
Top 10 exports in Comparators have evolved gradually from Primary Commodities and Low-Tech to Medium- and High-Tech.

In Africa, we are still waiting for this type of transformation.

Top 10 Exports in 1976 vs. 2010

<table>
<thead>
<tr>
<th>PP</th>
<th>RB</th>
<th>LT</th>
<th>MT</th>
<th>HT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
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<tr>
<td>Chile</td>
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<tr>
<td>Malaysia</td>
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<tr>
<td>Rep. of Korea</td>
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<tr>
<td>Singapore</td>
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<td>Thailand</td>
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<tr>
<td>Burkina Faso</td>
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<td>Cameroon</td>
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<td>Kenya</td>
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<td>Mauritius</td>
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<td>Senegal</td>
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<tr>
<td>Zambia</td>
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</tbody>
</table>

*PP* = Primary Products; *RB* = Resource-based; *LT* = Low Tech; *MT* = Medium Tech; and *HT* = High Tech

SOURCE: UN Comtrade, STICERD Database (Notes: AGEP’s re-classification based on the UN’s Classification of Commodities Exported)

NOTES: For countries where commodity values for 1976 or 2010 were not reported, commodity values were replaced with the nearest lagged or forward value, but no more than 4 years away from the reporting year.
### Figure 1.4  How 21 African countries rank on transformation and depth

#### a  African Transformation Index 2010

<table>
<thead>
<tr>
<th>Country</th>
<th>Index</th>
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<tbody>
<tr>
<td>MAURITIUS</td>
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</tr>
<tr>
<td>SOUTH AFRICA</td>
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</tr>
<tr>
<td>CÔTE D’IVOIRE</td>
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</tr>
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<tr>
<td>CAMEROON</td>
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</tr>
<tr>
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<tr>
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</tr>
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<tr>
<td>NIGERIA</td>
<td>0</td>
</tr>
<tr>
<td>BURUNDI</td>
<td>0</td>
</tr>
<tr>
<td>BURKINA FASO</td>
<td>−4</td>
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#### b  Diversification

<table>
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<tr>
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<td>SOUTH AFRICA</td>
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<td>MADAGASCAR</td>
<td>0</td>
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<tr>
<td>CAMEROON</td>
<td>+1</td>
</tr>
<tr>
<td>SENEGAL</td>
<td>−1</td>
</tr>
<tr>
<td>KENYA</td>
<td>+1</td>
</tr>
<tr>
<td>CÔTE D’IVOIRE</td>
<td>−1</td>
</tr>
<tr>
<td>UGANDA</td>
<td>+3</td>
</tr>
<tr>
<td>TANZANIA</td>
<td>0</td>
</tr>
<tr>
<td>MOZAMBIQUE</td>
<td>0</td>
</tr>
<tr>
<td>BURUNDI</td>
<td>+3</td>
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<tr>
<td>BENIN</td>
<td>+4</td>
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<td>RWANDA</td>
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<tr>
<td>GHANA</td>
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<tr>
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<tr>
<td>GABON</td>
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<tr>
<td>BOTSWANA</td>
<td>−1</td>
</tr>
<tr>
<td>NIGERIA</td>
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</table>
e  Technological upgrading

SOUTH AFRICA 0
SENEGAL 0
UGANDA +6
NIGERIA -1
BOTSWANA -1
ZAMBIA -1
KENYA -1
CÔTE D’IVOIRE -1
CAMEROON +4
MOZAMBIQUE 0
MADAGASCAR +8
ETHIOPIA +2
RWANDA +7
MAURITIUS +1
TANZANIA -7
BENIN +2
MALAWI -5
BURUNDI +3
GABON -3
GHANA -9
BURKINA FASO -4

f  Human well-being

MAURITIUS 0
BOTSWANA +1
SOUTH AFRICA +1
GABON -2
KENYA 0
CAMEROON +1
CÔTE D’IVOIRE -1
GHANA +1
SENEGAL -1
UGANDA +3
ZAMBIA -1
MALAWI 0
TANZANIA +4
MADAGASCAR -3
BENIN -1
NIGERIA 0
MOZAMBIQUE -2
BURKINA FASO +2
RWANDA 0
ETHIOPIA -2
BURUNDI 0
It’s time to explore **pragmatic approaches** to promoting economic transformation in Africa, and to learn from past successes and failures on the continent and elsewhere.
Drivers

- State and Private Sector
- Export Promotion
- Technical Knowledge and Skills
Role of the State in Driving Transformation
DRIVERS: The State and the Private Sector as Partners in Transformation

- **Private Sector:**
  - Leads in production and marketing of goods and services
  - Creates employment
  - Expands exports

- **State:**
  - Managing the economy to enable business to flourish
  - Guide transformation by setting national vision and strategy
  - Coordinate plan implementation
  - Build centers of excellence
  - Provides a business-friendly environment – foster state-business collaboration
  - Embark on governance reforms
Drivers:
Managing the economy to enable businesses to flourish

- Macroeconomic and exchange rate management
- Planning and managing public spending
- Making public procurement deliver value for money by reducing corruption
- Administering ports and customs and controlling corruption
- Streamlining regulation
- Beefing up statistics
A national vision and strategy can inspire citizens
- Mobilize their support for sacrifices in the early stages of economic transformation.
- Clarify the interrelationships among government branches and between relevant government and private activities
- Improve information, understanding, and coordination among key actors in the economy.
- Targets in the strategy can make it possible for citizens and businesses to hold government accountable for results.
High level authority accepted by ministers & agencies can ensure this takes place.

A minister of planning, finance, or trade and industry,

An office directly under the president, vice president, or prime minister.

- Top-class professional staff to earn respect and authority
- Archetypes: South Korea’s Econ. Planning Board, Taiwan’s (China) Council for Econ Planning and Dev’t, Singapore’s Econ. Development Board, Malaysia’s Econ. Planning Unit (PM’s Office), Thailand National Economic and Social Development Board (PM’s Office), India’s Planning Commission, chaired by the prime minister and run by a vice chair with a cabinet rank.
Central bank
- Ministry of finance
- National planning agency (where different from the ministry of finance)
- Ministry of trade and industry
- Ministry of land and agriculture
- Ministry of education and skills development
- National statistical service,
- Investment and export promotion agencies,
- National development bank, the export finance facility (if different from the national development bank),
- Administration of customs, and the management of seaports and international airports.
DRIVERS:
Strengthening State Institutional Capacity For Economic Management

PUBLIC FINANCE

EFFECTIVE MANAGEMENT OF ECONOMIC TRANSFORMATION

DEVELOPMENT PLANNING

ECONOMIC MANAGEMENT
**Drivers:**

Strengthening State Institutional Capacity
Economic Management

**Public Finance**
- Budget formulation & execution
- Expenditure management
- Revenue and Tax Policy
- Intergovernmental Fiscal Coordination

**Economic Management**
- Economic Policy
- Macroeconomic & Financial Policy
- External Resource & Debt Management

**Development Planning**
- Plan Coordination
- Regional & Sectorial Planning
- Monitoring & Evaluation
- Public Investment Management
Public-Private partnership requires:

- Establish regular contact with the business community to achieve 3 objectives
  - Get inputs on medium to long-term plans
  - Seek input from business on how government policies and programs affect them
  - Design and monitor specific transformation initiatives

- Specific transformation initiatives and institutions (examples: Export/Investment (FDI) Promotion, SEZs/Industrial Parks, Transformational Development Banks—9-point Plan)
- An Entrepreneurial Nation making bold and informed bets

DRIVERS:
Fostering State-Business collaboration
• Exports can be critical; they were for East Asia.

• Global environment has changed, but export promotion can still help—but the strategy and instruments must adapt:
  
  • (a) products—must be based on SSA’s current comparative advantage of abundant cheap labor and natural resources
  
  • (b) markets—OECD, yes; but also emerging markets (China, India, Brazil, etc.) and regional markets in Africa
  
  • (c) instruments of export promotion—have to be different, particularly because of WTO.
• Need clear **Export Promotion Strategy**—complement of National Transformation Plan—in collaboration with business; “whole-of-government” approach.

• **SEZs** / Industrial Parks (infrastructure—short term)

• Improved **market access** support

• **Skills for exports** being promoted.
• SSA has a large and growing youth population; by 2050, it will be larger than China’s or India’s. Will it be a dividend for transformation or a social and political ticking bomb?

• Progress made on enrolment at primary school level; still lagging at secondary and tertiary levels.
Even the small secondary and tertiary graduates cannot be employed.

Countries must:

- Increase supply, and also create demand—re-orient the nature of training, and promote employment-generating transformation.
- Emphasize TVET; raise image; link closely to economic transformation strategy
- Emphasize STEM
- Involve business
Develop “mission-oriented” training system focused on sectors and products being promoted; bring in business as partner

- Explore regional solutions, particularly in STEM at tertiary level
- Pursue other innovative solutions—teachers, ICT, textbooks, etc.

**Figure 4.3** Few technical and vocational enrollments in secondary school

*Source: Calculated using data from World Development Indicators (database).*
Four Pathways to Transformation

- Labor-intensive manufacturing
- Agro-processing
- Managing oil, gas, and minerals
- Tourism
Use current advantage of **cheap and abundant labor**, but over time raise productivity through skills development and cost reduction (through improved infrastructure and regulatory/governance environment). Wages can rise while competitiveness is preserved.

- **Garments**—case studies of six African countries; China, WTO; Global-value chains (GVCs) and “triangle manufacturing”

- **Component Assembly**—e.g. electronics—again GVCs, particularly FDI
For the ACET 15 we further classified "Star Categories," awarding five stars to countries that had 100 or more plants; four stars for countries with 51–100 plants, and so on. Gold Star Achievement Awards, used to recognize rising stars in almost every industry, can be a powerful symbol of recognition and motivation.

<table>
<thead>
<tr>
<th>★★★★★ (100+ plants)</th>
<th>★★ (5–10 plants)</th>
<th>★ (0–4 plants)</th>
<th>Burkina Faso (1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Africa (61)</td>
<td>Cameroon (5)</td>
<td>Tanzania (3)</td>
<td>Ethiopia (1)</td>
</tr>
<tr>
<td>★★★★ (51–100 plants)</td>
<td>Ghana (5)</td>
<td>Zambia (3)</td>
<td>Mauritius (1)</td>
</tr>
<tr>
<td>Kenya (11)</td>
<td></td>
<td>Senegal (2)</td>
<td>Mozambique (1)</td>
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<tr>
<td>Nigeria (11)</td>
<td></td>
<td>Botswana (1)</td>
<td>Rwanda (1)</td>
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<td></td>
<td></td>
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<td>Uganda (1)</td>
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</tbody>
</table>

Source: ACET research.
PATHWAYS TO TRANSFORMATION: Agro-processing

• **Traditional exports (coffee, cocoa, etc.):** Move up value chain, add value, process, increase employment

• **Non-traditional exports (fruits, horticulture, etc.):** Strengthen the whole value chain—farm, processing, exports

• **Food import-substitution:** Take advantage of urbanization and growing middle class; save foreign exchange; create agricultural, manufacturing, and service sector jobs
• **Get what you deserve:** Know what you have (Geological survey); negotiate for a fair deal (taxes, royalties, equity stakes—each has pluses and minus); be aware of your capacity to track revenue flows.

• Extractives are exhaustible: **Transform them into other assets**—human capital, physical capital, financial capital, and institutional capital

• Use the capital to **promote technological upgrading**, higher productivity, and growth in other sectors

• Promote **upward and downward linkages**

• Be efficient in **public expenditures**

• Watch the **macroeconomics** and the exchange rate—avoid “Dutch Disease”
• Africa has fantastic landscapes and wildlife; sunny beaches; diverse cultures and history, etc. Great potential.

• Tourism can provide foreign exchange and government revenue to finance necessary imports of machinery, technology, and inputs for transformation

• Creates employment

• Advertises African countries for increased FDI

• Promotes regional integration and information sharing through greater regional travel by Africans
Regional Integration

- Integrated goods and factor (e.g. skills, capital, power) markets will accelerate economic transformation
- Will widen markets; make countries attractive location for large manufacturing plants, particularly through FDI
- Will provide some degree of natural protection for domestic firms and strengthen their competitive position
- Can increase competitive development of some industries with high potential—e.g. textiles and garments
Propelling Economic Transformation in Africa
Ten key Drivers

1. Increasing state capacity for macroeconomic management, public expenditure management, and guiding economic transformation
2. Creating a business friendly environment to foster effective state-business consultation and collaboration
3. Developing people’s skills for modern economy
4. Boosting domestic private savings and investment
5. Attracting private foreign investment
6. Building and maintaining physical infrastructure
7. Promoting Exports
8. Facilitating technology acquisition and diffusion
9. Fostering smooth labor-management relations
10. Identifying and supporting particular sectors, products, and economic activities in each country’s potential comparative advantage.
Recent growth provides hope and foundation

We can transform our economies to make growth durable, become competitive in a widening array of sophisticated goods and services, and expand employment opportunities for our youth to produce widely shared prosperity.

But we have to act to transform hope into reality:
- Governments must put transformation at the top of their agendas, implement policies, and exercise the discipline (including efficient management of resources) necessary to promote transformation.
- Governments should support and collaborate with the private sector.
- Citizens should demand and monitor progress on economic transformation.

The ATR and ATI will continue to support and inform the push for economic transformation.