Executive summary

Africa's growing markets show great potential for transforming their production systems. Africa's gross domestic product (GDP) has grown by 4.6% annually since 2000, the second fastest rate in the world. Its domestic demand accounts for 69% of this growth performance and has shifted towards more processed goods. The African Continental Free Trade Area raises new hopes of creating a pan-African market for the continent's industrialisation.

Many local firms are seizing these opportunities to grow in size and productivity. Africa's private sector is diverse: it includes dynamic "champions", stable corporations, small growing businesses, and livelihood-sustaining and informal firms. Many pan-African "champions" such as the *Office chérifien des phosphates* from Morocco or MTN from South Africa are diversifying their product and market bases to operate across the continent. Start-ups such as Jumia (based in Nigeria) and M-KOPA (based in Kenya) are using new technologies and business models to tap the rising local demand and attract large investments. African tech start-ups raised a record USD 1.2 billion in equity in 2018 compared to USD 560 million in 2017.

But productive transformation is not spreading, especially where needed in employment-intensive sectors. The Africa-to-Asia labour productivity ratio has decreased from 67% in 2000 to 50% today. Africa's production is not yet meeting the domestic demand: African exports of consumption goods to African markets decreased from USD 12.9 billion in 2009 to USD 11.8 billion in 2016, or from 0.8% of Africa's GDP in 2009 to 0.5% in 2016. Without a strong and co-ordinated policy push, African firms risk losing out to new global competitors.

Africa needs to accelerate its productive transformation to create quality jobs for the 29 million Africans reaching working age each year from now until 2030. Quality jobs remain an exception for Africa's youth and women: about 42% of Africa's working youth live on less than USD 1.90 a day (at purchasing power parity), and only 12% of Africa's working-age women were in waged employment in 2016. While African people are the most entrepreneurial globally, many entrepreneurs lack basic capabilities. Most youth entrepreneurs in Côte d'Ivoire and Madagascar lack the capabilities necessary to do basic bookkeeping, lay out a plant, use tools to plan over a multiyear horizon, identify a relevant technological advance and cultivate human resources.

A systemic approach to productive transformation in Africa entails focusing on three sets of policies:

1. **Developing strategic clusters of firms.** Governments can use clusters strategically to develop an economy's comparative advantages. The success of such policy depends on choosing the right location, attracting the right capabilities and providing business services to ensure linkages inside clusters. While African governments have made considerable progress in the first two areas, targeted support for local firms can help develop a stronger supplier base.
2. **Facilitating regional production networks.** Policies must strengthen regional production networks. Regional sourcing remains under 15%. Regional norms help smallholders integrate into regional value chains, particularly in agriculture, which accounts for 50% of all employment. Co-ordinating strategies for foreign direct investment will attract investors, develop regional capabilities and avoid undercutting taxes.
3. **Enhancing firms' abilities to thrive in new markets.** Policies must help African exporters thrive by tailoring to the destination markets. Removing non-tariff barriers reduces uncertainties for exporters and may increase fivefold the gains from tariff removal. Exporters need simpler administrative procedures and better connectivity and infrastructure, especially flights, roads and ports. Exporters must meet quality standards: African firms file three times more ISO certifications today compared to 2000. Still, Malaysian firms alone filed as many certifications as all African firms in 2015.

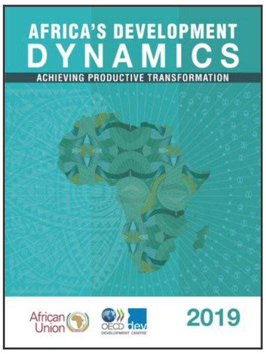
The pace of productive transformation and governments' policies to transform their production systems vary across African regions. **Southern African economies face concerns over pre-mature de-industrialisation**. The shares of manufacturing value added in total GDP has declined since 2000. The Southern African Development Community's Industrialization Strategy aims to shift the region's economies from the current commodity-dependent growth path to value-adding, knowledge-intensive and industrialised economies. Its action plan prioritises six key clusters for regional value chain development: agro-processing, minerals and beneficiation, pharmaceuticals, consumer goods, automobiles, and modern services. Such a strategy can piggy-back on South Africa's participation in global value chains (GVCs) and leverage the presence of multinational enterprises to bring small and medium-sized enterprises into GVCs. Developing regional public goods, especially in energy and transport infrastructure, and harmonising customs procedures and payments systems will be key.

Central Africa is experiencing a slow productive transformation. The region is highly dependent on raw materials, which represented 85% of its total exports in 2017, compared with an average of 51% for Africa. Oil alone accounts for almost half of all foreign receipts. In order to diversify its economic base and increase resilience, Central Africa's governments aim to add more value from commodities such as wood, stone and glass that have a revealed comparative advantage. Three main actions are recommended: strengthening regional integration and synergies, promoting sectoral business groupings in special economic zones and making diversification strategies work.

East African economies have steadily moved away from subsistence agriculture into services, higher value-added agribusinesses and labour-intensive manufacturing. The services sector is the largest contributor to value added in the region. Competitiveness indicators show progress but remain below global standards. Countries need to address binding constraints to growth at national and regional levels by: i) increasing investment in human capital formation, in continuous improvements to the business environment and in targeted support to firms in strategic value chains; ii) collaborating at a regional level to unlock opportunities for increased competitiveness; and iii) promoting "industries of the future" such as financial services, the digital economy and tourism.

Several economies in North Africa are diversifying towards more technology-intensive activities, while others rely on exporting natural resources, in particular oil and gas. Exports with latent comparative advantage are more diversified in Egypt, Morocco and Tunisia than in Algeria, Libya and Mauritania. Policymakers can promote quality upgrading in parallel with product diversification inside existing clusters. Public policies can support research and development and boost innovation through financing and technology transfer. Removing barriers to the free movement of goods and services (particularly non-tariff barriers) and harmonising technical standards is essential to raise the currently insufficient levels of intra-regional trade. Finally, better regulating labour market and anti-trust policies, protecting intellectual property and simplifying administrative procedures can improve the business environment.

West Africa depends on the export of unprocessed goods in extractive and agricultural sectors. The region's 15 countries – large exporters of unprocessed raw materials – lag behind in terms of industrialisation, competitiveness and moving up the value chain. Despite having made progress in financial and economic integration, results in terms of innovation and overall competitiveness remain muted or even negative in many countries. Five strategic policies could accelerate the productive transformation of raw materials ***in situ***: i) strengthening regional complementarities, ii) improving entrepreneurial innovation, iii) facilitating access to markets, iv) rationalising tax policy (national and regional) and v) increasing access to energy and land.



From:

Africa's Development Dynamics 2019

Achieving Productive Transformation

Access the complete publication at:

https://doi.org/10.1787/c1cd7de0-en

Please cite this chapter as:

African Union Commission/OECD (2019), “Executive summary”, in *Africa's Development Dynamics 2019: Achieving Productive Transformation*, OECD Publishing, Paris/African Union Commission, Addis Ababa.

DOI: https://doi.org/10.1787/70d2e3bb-en