New pathways out of poverty for Africa

Equitable and sustainable structural economic transformation

A Christian Aid discussion paper
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Contents

List of Acronyms

DFID	Department for International Development
EPA	Economic Partnership Agreement
FDI	foreign direct investment
GDP	gross domestic product
HIPC	Highly Indebted Poor Countries
IFI	international financial institution
IMF	International Monetary Fund
SAP	Structural Adjustment Programme
SMEs	small and medium enterprises
UNECA	United Nations Economic Commission for Africa

Executive summary

After decades of socio-economic stagnation, a new optimism is sweeping across the African continent. Recent high levels of growth in gross domestic product (GDP), slowly improving social and poverty indicators, the opportunities presented by the youth bulge and rapid urbanisation have created a new momentum for change. Yet Africa is still the region with the highest poverty levels in the world.

Structural economic transformation, rather than GDP growth per se, is now widely seen as the most effective way to end poverty and sustain future economic development, including to provide the jobs that are so needed to support livelihoods across the continent. By 'structural economic transformation' we mean a shift from low- to high-productivity activities that enhances the overall productive capability of the economy. The United Nations Economic Commission for Africa (UNECA) has been developing a framework with broad policy agendas to provide a steer to individual African states as they decide on the strategic priorities for structural economic transformation in their respective contexts.

Christian Aid's interest in this agenda stems from our deep conviction that sustainability and socio-economic equity should be at the heart of any economic development strategy. Given that the continental economic transformation agenda is already shaping the discussion on national development strategies as well as the aid and finance strategies of bilateral and global development institutions, it is of the utmost importance that African citizens and civil society are aware of and able to influence the agenda. Many of our partners in Africa are at the forefront of the political and practical battle to support marginalised and vulnerable communities in their drive for more inclusive markets and climate resilient livelihoods, access to land, water, food and energy, and greater gender equality. Their insights, experiences and analyses are critical to ensuring the debate about Africa's transformation is participatory and people driven.

This discussion paper aims to introduce new audiences, including Christian Aid partner organisations in Africa and Europe, to the structural economic transformation agenda being discussed within pan-African institutions, and to Christian Aid's own critical analysis from the perspective of environmental sustainability and equity. We hope that this paper will provide a contribution to informing a greater civil society engagement in positively shaping this agenda and its outcomes.

While this paper cannot do justice to the diversity of countries and conditions across the continent, it attempts to review the salient contents of the pan-African transformation agenda and highlight the structural and policy challenges faced by most countries in sub-Saharan Africa. In particular, we focus on priority policy areas that we believe are critical for building socially just and environmentally sustainable economic development.

The paper gives a brief historical overview of Africa's post-independence development experience. It argues that the structural adjustment programmes imposed by international financial institutions (IFIs) since the early 1980s undermined the initial efforts of post-independence states to transform their economies and undermined the development of effective government institutions that were needed to engineer future transformation.

The paper argues that recent trends in international development policy continue to restrict the policy space of African countries, despite this being necessary if they are to determine their own development strategies and formulate policies for their contexts, and despite the commitments made by bilateral development agencies to support countries with their self-formulated development agendas, rather than dictate how these countries should spend aid money.

We then address the reasons why the remarkable economic growth Africa has experienced since the beginning of this century has not been accompanied by faster and deeper poverty reduction, but has instead gone alongside an increase in inequality and environmental degradation.

We examine some of the key opportunities and building blocks that we argue will be necessary for an equitable and sustainable economic transformation to take place. We focus on:

- The role of agriculture-based structural transformation. We argue that sustainable agriculture transformation is the foundation for the development of manufacturing and other sectors of the economy that can create better quality jobs for more people, essential for sustained poverty reduction.
- The potential for low-carbon transformation. We argue that economic transformation can only be decoupled from further environmental degradation on the basis of non-fossil fuel energy-driven industrial transformation. Huge opportunities exist to leapfrog to a low-carbon model of development based on clean and sustainable energy.
- The need for progressive fiscal policies to address inequality and finance provision of adequate public services and structural transformation. We argue that progressive tax systems, equitable public expenditure policy and adequate measures to curb all forms of resource leakages are prerequisites for a successful structural transformation that leads to sustainable and equitable development.
- The need to rethink trade and investment policies. We argue that prevailing trade and investment treaties and policies hamper rather than facilitate economic structural transformation and that trade and investment policies should be aligned to the transformation agenda to be able to stop leakages and promote linkages in the overall economy.
- The role of the state in the transformation process. We argue that strong, transparent and accountable states are essential to drive and regulate the transformation process. The 'developmental state', a concept that is now being promoted by UNECA and other pan-African institutions, can play this role. It is a departure from the minimal role given to the state as a facilitator, with the sole responsibility to correct market failures in the private sector-led economic growth model that prevailed during the structural adjustment era.

Our conclusion sets out some suggested areas for civil society to continue or step up engagement, in order to positively influence this agenda.

Christian Aid believes that the economic transformation agenda could signify a paradigm shift in Africa's development efforts. However, in order to ensure it evolves in a way that truly promotes a sustainable and equitable development pathway, an informed participation in the debate by African civil society organisations and citizens will be necessary. We hope this paper is a useful contribution towards making that happen.

Introduction

After two 'lost decades', characterised by economic stagnation and deteriorating socio-economic indicators, commentators are now talking about 'Africa rising'. The continent's macro-economic performance has improved markedly relative to the 1980s and 1990s, and access to basic social services has increased in a number of countries. Yet it remains the region with the highest proportion of people living in poverty and hunger. The failure of GDP growth to jumpstart faster and deeper poverty reduction has led to a rethinking of development strategies across the continent, with the aims of making economic growth more inclusive and catalysing a social and economic transformation for sustainable development.

The African Union and UNECA have been at the forefront of framing a transformation agenda for Africa. The pan-African discourse is significant in terms of reclaiming policy space and stimulating debate across the continent and in individual African countries. The start of a home-grown discourse and strategy is a welcome development when development strategy has been determined by IFIs and donor policy conditionalities for so long.

What has led to this shift? Recent global economic and geopolitical changes have challenged the neoliberal development paradigm that dominated the design of national economic policies during the 1980s and 1990s. Relatively more policy space has been created for heterodox regional and country level economic policies. The emerging socio-economic transformation agenda in Africa is partly an outcome of this changing policy environment. The Executive Secretary of UNECA put it defiantly: 'Africa needs structural transformation, not structural adjustment'.[1]

The rationale for the transformation agenda is derived from an analysis of African economic performance since independence as well as from economic history, in particular the relatively successful catch-up development experience in Southeast Asia and Latin America. The shift in the development vision and strategy of African countries is based on a number of premises:

- A lack of structural change has been the limiting factor in realising Africa's growth potential and a major cause of the continued vulnerability of African economies to external shocks and commodity price fluctuations.
- Africa's dependence on primary commodity exports, which was created under colonialism and prevails to this day, has perpetuated the productivity gap between the continent and developed countries.
- Sustainable economic transformation can only be achieved by enhancing the productive capability of national economies and industrialising. Industrialisation is deemed the major means by which to achieve transformation.
- Economic growth can be accompanied by, or exacerbate tension between, social and environmental outcomes. A failure to address these areas simultaneously can lead to scenarios where a 'one after the other' sequence promotes one area at the cost of another, so they must be integrated into the growth model.

Structural economic transformation is understood as economic development characterised by a shift from low- to high-productivity activities, a decline in the share of agriculture in output and employment, and an increase in the share of manufacturing and modern services in output. Its characteristics would not only enhance the overall productive capability of the economy, but also reduce productivity gaps between the different sectors of the economy.

Christian Aid has a long history of engagement with economic and development policies in Africa, including exposing the devastating consequences of the policies of liberalisation, privatisation and deregulation that came with the Structural Adjustment Programmes; campaigning against the international economic architecture that favoured predatory lending and facilitated resource transfers from poor to the rich countries; and the trade justice campaign against World Trade Organization rules and Economic Partnership Agreements (EPAs), which exposed that these could deprive millions of African smallholder farmers of their livelihoods and undermine the potential for African countries to industrialise.

Therefore, for Christian Aid, engagement with the African transformation agenda is a continuation of our ongoing work to challenge and change the structures that hinder the diversification of African economies. While the new development discourse in Africa is at an initial stage and its outcome is uncertain, engaging with the agenda and becoming involved in the formulation process could be the best way to develop our own clarity about 'the Africa we want'.

Chapter 1 gives a brief historical overview of Africa's post-independence development experience, the structural adjustment era, the World Bank's evolving policy thinking and the shifting role of Western donors and China. Chapter 2 moves on to examine the reasons why the remarkable economic growth Africa has experienced since the beginning of this century has not been accompanied by faster and deeper poverty reduction, but has instead gone alongside an increase in inequality and environmental degradation. Chapter 3 analyses some of the key opportunities and building blocks that we argue will be necessary for an inclusive and sustainable economic transformation to take place. We focus on:

- The role of **agriculture-based structural transformation** as a foundation for equitable and sustainable transformation.
- The potential for **low-carbon transformation**.
- The need for progressive **fiscal policies** to address inequality and finance adequate public services and structural transformation.
- The need to rethink **trade and investment policies, which** currently hamper rather than facilitate economic structural transformation.
- The **role of the state** in the transformation process.

1. Historical background

The immediate post-independence period

African political leaders inherited fragmented societies and weak states from colonial rule. Nation-state building, which took centuries to evolve in successful capitalist countries, was expected to be accomplished in a much shorter period of time.

Despite unfavourable starting conditions, the aspirations and political declarations of most African leaders at independence were about a structural transformation to overcome the 'rural backwardness' that the new nations were subjected to under colonialism.[2] Development strategies were formulated to catch up with developed countries by 'modernising' the economy and social and political institutions. Then, as now, promoting industrialisation was considered as the engine of economic growth and social development.[3]

It is debatable whether it was a false start, as René Dumont, the pioneering critic of African development, warned very early on.[4] It certainly was a promising start. African economic growth between 1960 and the late 1970s was comparable to other regions in the developing world at the time.[5] Industrialisation was expected to transform the base of African economies from agriculture to manufacturing and create skills-based employment, thereby raising incomes and living standards. Industrialisation was also expected to end dependency on primary commodity exports and vulnerability to external shocks such as commodity prices volatilities.

The ideological underpinning of the political agenda was self-reliance through African unity. The idea was to gradually reduce external dependence and strengthen the newly attained political independence through economic self-determination.

However, after more than a decade of economic growth and remarkable improvements in most social development indicators, fledgling growth nearly ground to a halt without laying the foundation for structural transformation or paving the way for improvements to Africa's status in the global division of labour. Analysing and understanding the causes of the failure of this first attempt at economic transformation can provide lessons for present efforts.

There were weaknesses in the implementation of post-independence development strategies, in particular the inadequacy of political and economic governance capacity. Governments' lack of technical and bureaucratic capacity to implement their lofty goals was a major shortcoming. In the absence of entrepreneurial classes and developed market institutions, overall state capability is crucial in leading and managing economic transformation.[6] Corruption and the misuse of the state for self-enrichment by the ruling elites are both a cause and a consequence of inadequate state capability.

External factors also played a major role – the triple crises of oil price shocks, debt burdens and falling commodity prices exacerbated the crisis. The initial productive capacity of the overall economy was too rudimentary and the size of the modern sector too small to be built up in a decade and a half to become the basis for a sustained industrialisation programme.

In terms of economic policy, there were no clear and realistic strategies to deal with the technological capability for economic transformation. In most cases, import substitution industrialisation was too inward-looking and dependent on imported capital goods and intermediary products.[7,8] Due to ever-deteriorating terms of trade, the traditional export sector was not in a position to earn enough foreign exchange to pay for these increased import needs. This led to more dependence on external financing, in particular, dependence on aid and concessionary loans. As a result, African countries virtually lost the policy space to determine their own development strategies.

During this era, agriculture was ascribed a secondary role of supplying raw materials and providing revenues to finance developments in other sectors.

In the view of the IFIs, the state-led self-reliance strategies of African countries were primarily responsible for the crisis and the failure to develop. In 1981, the World Bank concluded that inadequate domestic policies were at the root of the crisis, and recommended that a 'reordering of post-independence priorities is essential if economic growth is to accelerate'.[9] The bank's analysis came to serve as the justification for the Structural Adjustment Programmes (SAPs) imposed by the IFIs over the next two decades.

The Structural Adjustment Programmes

African governments soon became aware that the crisis confronting them was not only caused by temporary external shocks, but was rather a systemic crisis that called for a revamp of their development strategies and implementation. After a series of regional and ministerial consultations in the 1970s, the Lagos Plan of Action for the Economic Development of Africa 1980–2000 was agreed upon.[10]

It incorporated themes such as sustainable human development and democratisation of the development process. It aimed to bring about economic transformation through:

- Creation of industrial structures with a high degree of linkages and complementarity.
- Transformation of raw materials into semi-finished and finished goods.
- Production of goods for mass consumption.
- Expansion and restructuring of domestic markets by integrating the rural economy and the modern sector.
- Production and processing of all ranges of food products based on local raw materials.
- Production of capital and intermediate goods needed for promotion of intra-African trade.

However, the Lagos Plan lacked specific policy formulations and a concrete action plan, and did not adequately address how financing might be implemented.[11] There were other shortcomings that reflected the historical period, such as a lack of consideration as to how the development model would address gender and other inequalities.

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There was no opportunity to test the Lagos Plan in practice and overcome its shortcomings. Around the same time, the World Bank came up with its own Agenda for Action, which was initially unanimously rejected by African ministers. However, due to the deepening crisis, African countries were not in a position to resist pressure from the World Bank and the International Monetary Fund (IMF), and instead succumbed to what later came to be known as the Washington Consensus.[12]

In return for aid and concessionary loans, African governments were forced to phase out interventions in key economic sectors, with one of the major victims being the nascent industrial sector. Many state-led enterprises were dismantled and government-supported domestic firms went out of business or operated below capacity. Trade liberalisation and greater opening to foreign direct investment (FDI) was promoted. As a result, manufacturing's contribution to GDP started to fall, and physical infrastructure deteriorated due to poor maintenance. A continent aspiring to industrialise was forced into a process of de-industrialisation, and the vast majority of the population was pushed back into precarious subsistence economies.

In urban areas, the informal sector expanded to become the mainstay for survival and employment. In most countries, the structural economic change that did occur moved in the opposite direction – instead of labour moving into higher productivity activities from the agriculture sector, the share of agriculture in the economy diminished, but nonetheless continued to employ the majority of working adults who were then underemployed in a stagnant sector.[13]

Agricultural marketing boards, which at least guaranteed minimum prices to farmers, were dismantled and farmers exposed to global price volatility and exploitative local and international traders. Funds to agricultural extension services and agricultural research centres dried up, and subsidies to agricultural inputs were stopped. Agricultural output, particularly food production, was substantially reduced.

Public provision of essential services was discouraged, and user fees for schools and medical care were introduced. Social services and welfare, especially education, healthcare, sanitation, housing and potable water, rapidly deteriorated.[14] The impacts of reduced social expenditure fell disproportionately on women, both because they rely more than men on publicly funded essential services and because women typically absorb the adjustment costs by increasing their unpaid work to provide the social services no longer delivered by the state.

The two 'lost decades' under the SAPs led to the erosion of the state–society relationship and the very foundations of the nation state, the disintegration of the social fabric, and to increasing poverty. The drastic unpopular measures led to 'IMF riots' in a number of countries, and their suppression strengthened authoritarian rule and undermined the emergence of participatory and democratic decision making.[15]

The SAPs did not even achieve their short-term goals of macroeconomic stability. The rate of investment fell, and budget and balance of payments deficits tended to widen after some temporary relief, and debt service obligations remained stifling.

Whether the overall disappointing performance of the SAPs in Africa was due to incomplete and half-hearted implementation, inappropriate SAP policy components, or adverse external factors is still debated. While the IFIs point primarily at poor implementation, others say the inappropriateness of the SAPs themselves was the problem.[16] A review of the available studies suggests that in most cases it was a combination of all three factors.[17]

The arguments that the situation would have been even worse without the SAPs or that affairs would have been better because Africa would have overcome the shortcomings of its own making, are equally speculative. The flawed utopian social experiments in countries like Tanzania, the entrenched misuse of state power for self-enrichment, especially in resource-rich countries, and, more broadly, the dysfunctional state–society relationship aggravated by political rivalry between elite factions, were all internal challenges that needed to be addressed, with or without the SAPs.

The almost universal outcry against the SAPs led to some mitigating measures, such as the Poverty Reduction Strategy Papers and the Millennium Development Goals. In addition to participatory policy making and some institutional and governance reforms, these new approaches put welfare measures at the centre of development strategies, to be financed by increased aid, debt reduction and 'aid for trade' measures that entailed further domestic market opening. Transforming the economic structure to enable it to generate resources to sustainably finance development and public service provision was not part of the reform agenda.

FDI was still considered to be the main driver of economic growth, and African countries were encouraged to trade their way out of poverty. Liberalising rich country markets to enable developing countries to sell more of their traditional exports was offered in exchange for opening up developing country markets to a range of imports. However, premature trade liberalisation and a continued focus on primary commodities perpetuated the status quo and restricted further industrialisation and economic diversification, ultimately constraining the overall productive capability of the economy.

'FDI was still considered to be the main driver of economic growth, and African countries were encouraged to trade their way out of poverty.'

The post-SAPs period

Several factors prompted multilateral and bilateral development agencies to review their policy recommendations prescriptions.[18] Two decades of devastating experience showed beyond doubt that the SAPs did not solve – and arguably worsened – socio-economic problems in Africa, and contributed to de-industrialisation in most economies. Evidence was emerging that those countries that had ignored or rejected SAPs actually achieved better development outcomes.[19] Changes in the global economic and geopolitical context also led to greater economic policy space for the regional and country levels. The authority of the IFIs in policy making was being eroded, and they risked becoming irrelevant, particularly in emerging economies.

As a result, the World Bank set up the Spence Commission to revise its development strategy.[20] The Commission's 2008 report sums up the common characteristics of high growth economies as: integrating more into the world economy; ensuring macroeconomic stability;

achieving high saving and investment rates; relying on market-led allocation of resources; and having committed, credible and capable governments.

The Commission refrained from formulating explicit policy recommendations, but did so implicitly by listing ‘policy ingredients’ which enabled the case study countries to attain economic success: aiming to raise public and private investment to 25% of GDP; enhancing public investment in infrastructure; letting markets and institutions co-evolve so that they respond to the constraints and the demands one places upon the other; using structural change under competitive pressure to propel productivity growth; and ensuring the speed of job destruction did not outstrip the pace of job creation.[21]

These policy ingredients became mainstream policy components in subsequent World Bank literature and in the policy documents of most bilateral development agencies, including the UK’s Department for International Development (DFID). Justin Lin, former Chief Economist of the World Bank, developed these ingredients into his influential *New Structural Economics* (see box).[22]

This proposal endorses the prevailing global division of labour, in which developing countries ‘specialise’ in the production and export of primary commodities. While the World Bank’s thinking had evolved, its proposals continued to reinforce primary commodity dependency. Yet analysis of catch-up growth across the world confirms that economies with a revealed ‘comparative advantage’ in primary products are at a disadvantage in terms of moving towards structural change induced by overall productivity growth.[23]

New Structural Economics

Justin Lin’s main message is: ‘Developing countries that are still at the early phase of their development generally do not have the necessary human and physical capital to leapfrog into capital-intensive, high-tech industries. The more effective route for their learning and development is to exploit the advantages of backwardness and upgrade and diversify into new industries according to the changing comparative advantages determined by the changes in their endowment structure. The subsequent dynamics of growth, accumulation of human and physical capital, and industrial and technological upgrading eventually open up possibilities to enter and master capital- and knowledge-intensive industries at the global frontier.’

The shifting aid agenda

At present, while aid continues to be important to many African countries, in many contexts aid – whether channelled through the World Bank or bilaterally from traditional Western donors – has become relatively less significant, as emerging economies are taking on an increasingly important role and other sources of development finance have become more important.

This means multilateral and traditional bilateral donors have come to wield relatively less influence on African government policies than they did during the periods discussed above. Nevertheless, the role of bilateral development agencies in shaping international development policies and in influencing national level development strategy remains significant. In addition, there has been a shift in the approach of development institutions following their commitments in the Paris Declaration on Aid Effectiveness and the Accra Agenda for Action to shift their support behind ‘nationally owned’ development strategies, rather than dictating to governments what to do, as they have in the past.[24]

At the same time, overseas aid is increasingly being used to leverage private sector resources, which may result in more market-driven policy influencing. One example is DFID’s first Economic Development Strategy,[25] which is based on an earlier Economic Development Strategic Framework.[26] The strategy drew extensively from the 2008 World Bank report, but according to DFID, it is based on evidence suggesting that in order for growth to have the largest effect on sustained poverty reduction, development policy should be focusing on job-intensive activities and sectors; export sectors (goods and services) to create deep and durable markets; diversification of economies to create inclusive growth; institutional and political arrangements that facilitate growth; better management of natural assets in the long term interests of the population, limiting the effects of economic and climate shocks, and leveraging 'innovative private finance investment'. However, the term 'inclusive growth' is used ambiguously in the strategy and DFID's development policy has become more private sector-focused, both in terms of rhetoric and who and what it invests in.

The implicit focus of the strategy is on multinational companies and large domestic companies, but it fails to acknowledge their differing needs or the critical role of domestic small and medium enterprises (SMEs). DFID's strategy is unclear as to how the proposals will promote inclusive economic transformation. Two reports from the Independent Commission for Aid Impact were critical of DFID's private sector development work (rating it amber-red), highlighting DFID's lack of a clear strategy and any clear guidance for how business engagement would benefit the poor.[27]

China in Africa

In addition to the role of IFIs and traditional bilateral donors to Africa, what of the much-discussed role of China in Africa and the implications for Africa's structural transformation?

China's interest in Africa has been informed by a number of factors. As we explore further in the next chapter, the surge in demand for the continent's raw materials has been one of the driving factors for economic growth in Africa. A large part of this demand has come from China, which has needed to import huge quantities of resources in order to drive its own phenomenally successful economic growth strategy. In addition to China's targeting of Africa's resources, China's export-led economic growth strategy has necessitated finding new markets for the exports of Chinese state owned and subsidised multinational companies – hence Africa has also become a key export market. Furthermore, geopolitical considerations contributed to the China–Africa relationship, which was initially framed within the non-aligned movement that was challenging the hegemony of the two superpowers. Over time, with its rise in global economic and military power, China's Africa policy has become one of China's ways of asserting its global leadership.[28]

Regardless of the different context of China's relationship to Africa, the pattern of Chinese–African economic relations has not been fundamentally different to the relationship Africa has maintained with the former colonial powers and the US. It has still been based on Africa exporting primary products and importing finished products,[29] with no distinct contribution by China to fostering Africa's economic transformation.

However, there are some indications that the pattern of economic relations between Africa and China might have started to change. A recent official declaration from China committed to deepening economic and trade cooperation and to prioritising support for Africa's industrialisation as a key area in its cooperation with Africa.[30] China's own internal economic and policy changes are at the root of this. China's production structure and industrial capacity is shifting. It is moving up the technological value chain and also pursuing a more sustainable growth path. The World Bank estimates that more than 80 million lower-end Chinese manufacturing jobs will move offshore over the medium term, owing to rising labour and input costs.[31] Joseph Stiglitz concurs, predicting that the rising real wages in China will lead to significant parts of its manufacturing base moving elsewhere, with opportunities for a substantial part to shift to Africa. He states: 'If that were to happen, it would provide a significant boost to growth and employment. It would reverse the pattern of deindustrialization that began with the structural adjustment programs foisted on Africa in earlier decades.'[32]

It is too early to tell whether Chinese investments in Africa will open up possibilities for moving into higher value-added activities by facilitating technology transfer and overall enhancement of productive capabilities, or whether it will lock African countries into low value-added activities.

What can be said, however, is that the rise of Chinese interests in Africa, combined with those of other powers such as India and Brazil, has provided African states with more scope and potential to negotiate better terms for trade and investment relationships with these countries, as well the traditional Western, powers.[33] The extent to which this potential is realised depends on whether and how African leaders make use of their potentially greater negotiating power. If African states do not negotiate deals with trade and investment partners that are in African states' national interests, the extractive nature of these arrangements will continue, whether that be with China or any other Western or emerging power.

'China's embrace of Africa is strategic, long-term and still evolving… it is up to Africa's leaders to shape the relationship to serve their own ends.'

Deborah Brautigam, *The Dragon's Gift – The Real Story of China in Africa*[34]

2. Recent GDP growth – but not yet inclusive or environmentally sustainable

Growing rapidly, transforming slowly[35]

Towards the end of the 1990s, African economies started to come out of two decades of virtual stagnation. Since then, relatively high and steady growth has been taking place across the continent, at an average annual rate of 5.6%.[36] While growth rates in mineral- and oil-rich countries have been particularly high, countries with few mineral resources such as Ethiopia have also experienced remarkable growth, justifying the conclusion that this is a continent-wide occurrence.[37] There are now 14 lower middle-income countries and six upper middle-income countries in sub-Saharan Africa.[38]

This has led to changes in how the continent is perceived. *The Economist* now depicts Africa as the world's fastest growing continent, the hottest frontier and the hopeful continent.[39] A decade ago, the same publication carried a story headlined 'Hopeless Africa'.[40] International investment consultancies now portray sub-Saharan Africa as a region of growth and investment opportunities.[41]

Political factors have undoubtedly contributed to this continent-wide economic performance. Although still a perennial problem in some countries, tumultuous political instability, civil wars and armed conflicts have reduced. Improvements in economic policy management and implementation have also reduced instances of macroeconomic instability, crippling fiscal deficits and runaway inflation. The Highly Indebted Poor Countries (HIPC)[42] initiative has reduced the debt burden, especially in low-income African countries.[43]

Although internal factors such as demographic change and advancing urbanisation are contributing to current growth rates,[44] the major driver has been the increased demand for Africa's primary products and natural resources, driven to a large extent by the Chinese economic boom, with relatively sustained high prices.[45] However, while export volumes have increased, their composition has mostly remained concentrated on primary agricultural commodities, minerals and petroleum, with very little value added domestically. Diversification of export destinations has taken place, but it has not reduced the continent's vulnerability to external shocks and volatility of commodity prices. The consequences of the slowdown of the Chinese economy will soon be felt if it leads to a reduction in imports from Africa.[46]

Recovery from decades of stagnation and steady economic growth is a welcome development. It is also encouraging that this has not led to complacency. While acknowledging the positive trends, UNECA and other pan-African institutions reiterate that there are no indications that the recent GDP growth could be maintained in the long term and nor that the growth that has taken place has been accompanied by a structural transformation. The tentative conclusion of the Africa Centre for Economic Transformation reflects a wider consensus: the continent is '**growing rapidly, but transforming slowly'**.[47]

While sub-Saharan Africa has seen a dramatic rise in life expectancy achieved relatively quickly with little change in birth rates, this has in most cases not been accompanied by corresponding changes in the productive structure of the economy. In more advanced economies, similar demographic changes have corresponded to a movement of labour from lower to higher productive activities. In the many African countries in which the capital-intensive extractive sector has been the driver of growth, this has not generated linkages with the wider economy. Unlike manufacturing industries and related services, the extractive sector does not tend to induce the movement of abundant labour from sectors with less productivity to high productivity sectors, a process that ultimately brings about the enhancement of overall productive capability. This has meant that too few jobs, and low numbers of quality jobs, have been created. Women, in particular, have been stuck in informal sector jobs.

Compared to other regions, most African economies remain deeply fragmented, and the productivity gap between the global average and African economies is very big in all economic sectors. The share of manufacturing fell from 13% in 1990 to 12% in 2000 and 10% in 2011. This has been labelled 'premature deindustrialisation' by UNECA,[48] which notes that 'the continent is yet to reverse the de-industrialization that has defined its structural change in recent decades'. Private investment in modern industries, especially in non-resource dependent manufactured products, has not increased and remains too low to sustain structural transformation.

Even compared to recent latecomers such as Vietnam and Thailand, African economies face a bigger challenge to overcome marginalisation in the globalising economy. While they are still in the early stages of industrial development, they already face competition from international enterprises, and more successful recent late developers. Following the export-led growth strategy of East Asian economies targeting the international market is therefore problematic for Africa.

A further challenge is that development of the manufacturing industry is getting less labour intensive. As a 'late latecomer' and starting from a very rudimentary base, African industrial policy needs to pay particular attention to employment creation and distributive policies.[49] That said, short- to medium-term competitiveness of African manufacturing in external markets seems unrealistic. It is hoped that regional markets could offset this disadvantage to a certain extent. Producing for regional markets would allow for scaling up supply capacity and improving marketing and logistics in a relatively familiar environment, and could serve as a stepping stone to targeting the global market later.[50] Regional integration can also help sub-Saharan African countries overcome the combination of low incomes and small populations (38 of the region's countries have fewer than 20 million inhabitants each), which are an obstacle to viable inward-looking industrialisation.

Meanwhile, as much of the growth in many African countries has been driven by the extractive sector, agriculture remains the Achilles heel of Africa's recent GDP growth.[51] On average, the agriculture sector generates around 30% of GDP across low-income African countries. That share is shrinking, especially in mineral-rich economies, but primary agriculture production still provides full time or part time employment to about 60% of the population,[52] with women making up the majority of smallholder food producers. More than 70% of the continent's poor live in rural areas, and agriculture is their most important economic activity.[53] Growing population pressure, soil degradation and the low quality of work in the primary agriculture sector has contributed to rapid urbanisation in many African countries, and with that an expansion of the informal non-agricultural economy. In rural areas, there has also been an increase in non-farm economic activity, often by households who also farm part time, with a subsequent increase in the number of net food buyers. Yet, the returns from agricultural labour remain very low. Africa still has the lowest crop output per unit of land or labour in the world, and the average gap between actual and potential crop yield is more than 50%.

While two decades of economic growth has resulted in relatively high consumer demand and spending spurred by the rising African middle class, this has not led to increased investment in local manufacturing to boost production for the domestic market.[54] Neither has it been accompanied by adequate investment in agriculture production, value addition and marketing, which economic history has shown to be a key means to stimulate other commercial activities and economic sectors, and to create jobs. Indeed, Africa is the only continent where per capita food production has declined in recent decades, with the continent moving from being a net food exporter in the early 1980s to a net food importer by the turn of the century. In addition, a large proportion of simple consumer goods are still imported, and the mostly foreign-owned supermarkets that are mushrooming in African cities are often importing fresh food, rather than sourcing locally. Basic and intermediate inputs for the booming construction sector are also mostly imported.[55] The lack of support for local production and premature trade liberalisation under SAPs, coupled with the dumping of highly subsidised food imports, have contributed to an entrenchment of primary commodity dependency.[56]

As long as the share of natural resources and primary products in output and exports remains large, the scope for productivity-enhancing structural change in the wider economy remains smaller, undermining the creation of formal sector jobs. This is in a context where populations are growing and there is a youth bulge. An estimated 19 million youth joined the labour market in sub-Saharan Africa in 2015, and it is predicted that over the next 15 years, a further 370 million will join them. In the absence of adequate creation of decent jobs in all sectors, the majority of people, particularly women, will continue to be left to survive in vulnerable, informal sector jobs or subsistence agriculture, while the benefits of the growth accrue to a limited few.

In much of the pan-African literature and statements there is a clear recognition of the need for more focus on value-addition and growth models that are more job-creating, including through a focus on labour-intensive sectors. It is also important that all approaches are equally clear in terms of addressing inequality and environmental unsustainability, which seem to be perpetuated by the growth model that has been followed to date.

Growth with inequality

The African economic growth story has been accompanied by persistent and, in some cases, rising inequalities.

Many African countries have recently attained middle income status and many more are aspiring to do so, but in terms of income distribution Africa is still the second most inequitable region in the world after Latin America. The region is home to 7 of the 10 most unequal societies in the world, measured across dimensions including wealth, income and access to public services. Furthermore, income inequality is becoming more extreme in some African countries.

Economic development has been accompanied by perpetuation of some inequalities and creation of new ones. The historical and empirical evidence seems overwhelming – in almost every country rising per capita incomes is associated with increasing inequality unless governments prevent this by introducing major policies to promote employment creation, redistribution of income and wealth and control over resources, as occurred in South Korea and Taiwan before the liberalisation of the 1980s.[57]

It is also the case that different types of growth, including which sectors are primarily driving the growth, can have different impacts on poverty and inequality. For example, poverty reduction in China was mostly driven by growth in the agrarian sector, which in turn reduced inequality more than growth in other sectors.[58]

The World Bank has argued that growth in the smallholder agriculture sector brings some of the widest benefits, compared to other sectors. It has shown that every dollar of growth from agricultural products sold outside the local area in poor African countries leads to a second dollar of local rural growth from additional spending on services, local manufacturing, construction materials, and prepared foods. In contrast, growth driven by resource extraction – as has largely been the case in sub-Saharan Africa – tends to remain concentrated in the hands of a few, with limited spillover benefits to the wider economy.[59]

UNECA highlights in its 2015 report Industrialising through Trade, there is a low growth elasticity of poverty in Africa,[60] lower than any other regional average, highlighting the 'weak linkage between the commodity sector (in resource-rich African countries) and the wider economy in these countries', and revealing a 'structural imbalance between the capital-intensive growth sectors and the reduction of poverty through meaningful job creation'.[61]

East Asia has a growth elasticity of poverty twice as high as Africa, and Latin America's is three times as high. UNECA's statement that 'the low employment content and poor social outcomes of Africa's growth are the result of lack of meaningful economic diversification and continued heavy dependence on commodity production and exports' reflects a general consensus coming from pan-African bodies.[62] Income inequality also intersects with other deep-seated horizontal inequalities, based on geography, the rural-urban divide, and gender, cultural, and other group identity.

For example, there are significant spatial inequalities within African countries between regions that are favoured (or neglected) by political elites, as well as between capitals and other urban areas, and between coastal and landlocked areas of many countries. The characteristic spatial inequality in sub-Saharan Africa is most easily illustrated by the stark gaps between urban and rural areas. Poverty rates in rural areas are often much higher than urban areas. There is also evidence that rural poverty is only marginally declining (falling from 64.9% in 1998 to 61.6% in 2008).[63] High rural poverty rates are driving migration trends to cities where the poor often end up joining the informal economy. Overcoming rural-urban inequality is part of structural transformation – ie, the rural-urban gap narrows with diversification, higher productivity and better rural living standards.[64]

Inequality is also very high within cities. African cities have the highest global income inequalities, with an average Gini coefficient of 0.529 compared to a world average of below 0.4.[65] Although urbanisation is historically accompanied by improved human development and rising incomes, it is estimated that 40–85% of the African urban population lives in slums. Dramatic economic and social polarisation is a feature of most African cities.

Gender inequalities also remain a major feature across Africa. Women often lack control over income and assets, traditionally being excluded from land ownership and inheritance. While Sub Saharan African women represent 50% of the agricultural labour force they own only 15% of the land.[66] Women and girls across sub-Saharan Africa also shoulder the burden of unpaid household and care work, affecting their educational attainment and productive abilities, and perpetuating gender inequality, as well as having economic consequences.

Women are more likely to work in unpaid agricultural employment and their share of paid work outside of agriculture or the informal sector is rising extremely slowly. In the agriculture sector, in addition to their unequal access to secure land use tenure, women have less access than men to extension services, credit, appropriate tools, business training and membership of commercial associations. This, coupled with social norms which dictate how they use their time and labour, means that they are less likely than men to farm for the market.

Women occupy more insecure, unprotected and low paid jobs than men, overwhelmingly concentrated in the informal sector. In sub-Saharan Africa an estimated 80% of women in paid employment have precarious and vulnerable jobs.[67] While gender equality in education is improving at primary school level, progress at secondary school level is much slower. African women experience unacceptably high levels of maternal mortality, the prevalence of HIV,[68] gender-based violence, including female genital cutting and early and forced marriage,[69] and other retrogressive social cultural practices. As elsewhere, in Africa women remain under-represented in political decision making and in mainstream media. Women with disabilities, who are LGBT, elderly or young, or who live in marginalised geographies, face further vulnerabilities and reduced voice and power.

Environmentally unsustainable growth

The growth trajectory has failed to generate structural economic shifts, create jobs or address widening inequalities, and has also been accompanied by environmental degradation.

Activities in the extractive sector are usually accompanied by immediate environmental damage – deforestation, soil erosion, land degradation, air pollution and ecosystem disruption. The negative impacts of chemicals and toxic substances used in mining are far-reaching and irremediable.[70] Mining also causes high immediate and long-term negative social impacts through displacement of communities and disruption of livelihoods. The damage it causes to subsistence agriculture, often without the creation of adequate new job opportunities, leads to increased poverty.[71] Asymmetries in knowledge and power as well as the role of corruption in negotiating mining agreements tend to take into consideration the operational principles of multinational corporations 'lowering costs and maximising profits', rather than prevention and mitigation of negative environmental and social impacts.

In the agriculture sector, decades of drought, coupled with increasing population pressure contributing to unsustainable land management practices, has led to soil degradation in large areas of the continent. This is further compounded by the inappropriate use of synthetic fertilisers that cause water pollution and soil degradation in the long term.

African small-scale agricultural producers need to build resilience and adapt to the impacts of a changing climate. Higher temperatures, lower precipitation, new pests and diseases, increasing weather extremes, and changing growing seasons are compounding the impacts of existing soil degradation and water scarcity. Many farm and land management solutions already exist, and are being practised and adapted across the continent. These are often based on traditional knowledge and practices that make use of natural biological relationships, local natural resources and agro-biodiversity to build resilient production systems both on individual plots and the wider landscape level. However, radical changes in policies and prevailing attitudes are needed to deepen and widen the spread and adoption of these practices. Significant public support may be required to assist farmers in the transition from chemical-dependent to more sustainable methods of production. Most farmers cannot make the transition without risking a few years of reduced production because they are trapped in an agro-chemical dependent system.

Another key challenge is how to achieve economic transformation through sustainable, low-carbon energy solutions that also promote equitable outcomes. Africa still faces high levels of energy poverty, with an estimated 621 million Africans having no access to electricity. The continent has 13% of the world's population, but 48% of the global share of those without access to electricity.[72] Unequal access to energy continues to reinforce the wider inequalities linked to wealth, gender and the rural-urban divide that have accompanied the economic growth of the past 15 years.

Beyond the need to address energy poverty at the household and community levels, huge amounts of energy will be needed for the

The not-so-Green Revolution

The 'Green Revolution' transformed agricultural productivity in parts of Asia that were on a par with Africa in the 1960s, through massive public investment in hybrid seeds, inputs such as synthetic fertilisers, chemical pesticides and machinery, and improved transport, irrigation and marketing infrastructure. This came at a great environmental and social cost, yet an uncritical promotion and use of agro-chemicals to increase productivity is still the model most favoured by many African politicians and institutions supporting agricultural productivity increases.

continent to realise the economic transformation agenda. It is projected that sub-Saharan Africa will consume about 1,600 terawatt hours by 2040, four times the consumption in 2010.[73] This is attributed to a fivefold growth in GDP, a double-digit growth in the population and the resultant increase in urbanisation. The Africa Progress Panel argues that ‘overall power generation needs to increase at least 10-fold by 2040 if Africa’s energy systems are to support the growth in agriculture, manufacturing and services needed to create jobs and raise living standards’.[74]

If increased energy provision primarily relies on fossil fuels, an equitable and sustainable economic transformation will not be attainable and Africa’s environmental degradation will be aggravated. There are real risks that such a path could be pursued, because revenue from oil exports is a key contributor to high GDP per capita growth in key countries and many other countries with potential are currently engaged in exploration activities. Indeed, the continent is projected to remain an important producer of oil and natural gas, accounting for 10% of global oil and 9% of natural gas production in 2035.[75] In addition, according to the Africa Progress Panel, coal will continue to play a significant role in achieving universal access to energy by 2030.

The Africa Progress Panel notes that ‘the pace and sequencing of decarbonization has to take into account countries’ starting points and the policy choices available, along with considerations of fairness and equity related to climate justice… Prohibiting investment in coal before [2040] would limit power generation in countries that do not have readily available and affordable alternatives, and would produce modest benefits for climate change.[76]

The above notwithstanding, depending on which pathway is chosen, there are real opportunities for Africa to economically transform in ways that are environmentally sustainable and more equitable, which involve different approaches to agriculture and energy provision.

3. Economic transformation as a development imperative

The previous chapters argued that in the wake of SAPs, subsequent policy directions taken by African governments and encouraged by donors continued to entrench commodity dependency for most African countries – and as a result the growth over the last two decades has not been accompanied by a real transformation of the structure of economies. High growth rates have not translated into job creation and have been accompanied by severe inequalities. The current growth of many countries is at risk of setting the continent on a path of environmentally unsustainable development.

However, there are a number of opportunities and emerging policy directions, including those coming from pan-African institutions like UNECA, which could help to chart a more inclusive and sustainable economic transformation. In the following sections we look in particular at the ways in which agriculture could be a platform for inclusive and sustainable transformation; how low-carbon energy opportunities could power the transformation; the importance of progressive fiscal policies to finance the transformation; and the role that the state will need to play in driving a sustainable and equitable transformation.

Growth and transformation

Shifting economic structures and transforming economies along a sustainable and equitable path is about more than ensuring GDP growth. There is a widespread recognition – now reflected in the Sustainable Development Goals – that GDP growth does not even reflect the overall picture of the economy, let alone its sustainability and the overall impact on social progress. Also, the idea that growth or capital accumulation will automatically lead to increased inequality initially – and that this is a price worth paying – and then inequality will level off when a certain level of GDP growth has been attained, is no longer accepted.[77] However, de-prioritising economic growth and rejecting a 'growth first, welfare later' development agenda should not lead to ambiguity about the role of economic growth in socio-economic development. Economic growth remains a central concept in the transformation agenda, albeit not in the limited or limiting sense of annual increases in GDP per capita.

What makes and should make economic transformation different from simple economic growth is the pattern and quality of growth in the process. In addition to and beyond enhancing productivity of labour in all sectors of the economy, this should manifest itself in generating productive employment, ensuring fair distribution of income and wealth and providing adequate essential public goods and services to ensure decent lives in dignity for all members of society.[78] Furthermore, the pattern and quality of growth during structural transformation should decouple economic growth from environmental degradation and social displacement, which characterised development in the now industrialised and industrialising countries.

Agriculture-based structural transformation

Agriculture development is the foundation for economic transformation

The idea that agricultural development – driven by increasing agricultural productivity – is an integral component and catalyst of wider structural transformation is widely accepted by pan-African and international institutions. It is supported by evidence in the economic development literature from much of Asia and Latin America during the last 40 years.[79]

UNECA views agricultural transformation as the cornerstone of economic transformation, stating: 'Notwithstanding the growing interest in and commitments to industrialisation as a transformative driver, agriculture is central to national and rural economic transformation and will remain so for decades to come. This central role of agriculture, not least given the growth in the actual numbers of households dependent on the sector and as a contributor to poverty reduction in the region, cannot be overstated. Improvement in agricultural productivity is likely to deliver significant social dividends not least as agriculture employs by far the most individuals and because many workers will remain in the sector for a long time as agriculture is more labour intensive than other sectors, such as manufacturing and mining.'[81]

This view is supported by the high-level independent Africa Progress Panel, which stated: 'If Africa is to develop a more dynamic and inclusive pattern of growth, there is no alternative to a strengthened focus on agriculture'.[82]

'We cannot achieve development unless we industrialise. We are looking at agriculture as one of the important drivers for industrialisation. We have the land, the people and the products. But we need to process more of our products in order to create jobs for the young people.'

Nkosazana Dlamini-Zuma, head of the African Union Commission[80]

The challenges of leaving no one behind

Economic history has shown that agriculture-based economic transformation has almost always been accompanied by greater income inequality and environmental degradation. This trend poses a double challenge to African governments and agriculture investors, including smallholder farmers – not only to leapfrog the dirty technologies of past revolutions in industrial agriculture, but also develop the capacity, institutions and policies to create good quality job opportunities and protect the existing land and food rights and assets of smallholder producers and agriculture workers, both women and men, who might be left behind as a result of government-directed agriculture-based industrialisation strategies.

More than 90% of primary agricultural activity (raising livestock, cultivating crops, aquaculture and gathering wild products) is undertaken by small-scale units. These are mostly family farms, relying on the unpaid labour of family members, mainly women. For the foreseeable future, the vast majority of African farmers, producing most of the food consumed in Africa, will be female smallholder producers. On average, farming contributes between 60% and 80% of rural income. However, little of the region's cultivated land – around 5% – is irrigated, so most farmers depend on rainfall, which makes their farming risky and precarious.

There are important social, class and power differences within the smallholder sector.[83] Attempts to differentiate between smallholders have been made, mostly by donors and governments to help them channel resources for market-oriented farming. However, these differentiations are theoretical, and do not reflect the complex realities of rural households, whose members are often engaged in other forms of economic activity beyond primary production. Rural non-farm employment contributes an average of 40–50% of rural incomes across sub-Saharan Africa, and is major source of funds for on-farm investment, far exceeding what credit markets provide.

While there is some agreement on the challenges faced by farmers and, to some degree, the interventions needed by farmers who are less remote, less resource-poor and more land secure, the question remains how remote, disempowered farming households, especially those headed by women, will exit poverty. Options include welfare pay-outs (social safety net payments and basic income grants), moving away from remote areas to areas where on-farm and off-farm jobs are being created in the commercial/commodity sector, or for landless workers in more successful agricultural areas to find jobs on commercial farms or move to urban areas in search of low quality or vulnerable jobs. Another option is to invest in the public goods (such as infrastructure) and public services that are essential for secure, viable and sustainable smallholder farming livelihoods in remote areas, which in turn can create linkages to the rural economy and drive local transformation.

Leaving aside the poorest subsistence farming households, even small-scale land holders with a chance of making a better living from farming face a myriad of challenges. These include lack of safe rural feeder roads; lack of storage facilities; poor water management infrastructure (including water catchment areas); low levels of investment in research, technology and innovation; very little access to finance for farm investment; lack of trust and skills to self-organise commercially; very poor governance of land tenure arrangements (both customary and statutory); failure to address the cultural and legal challenges faced by women (who produce and market 70% of Africa's food); and a lack of government capacity and institutions to support production and facilitate market access.[84]

The degree to which each of these factors holds back agricultural transformation differs from country to country. However, in the past decade, a common challenge across the continent has been the increased competition for fertile land between local land users and external (including foreign) land-based investors. In the absence of clear, enforceable land rights and just land tenure governance systems, Africa's millions of small-scale land users, especially those governed by customary law, have been the losers in this competition. Without security of land use and tenure, farming households are generally not able to make risky investments in commodity production.

Yet African governments are the key facilitators of these investments, based on their vision of agricultural transformation driven by imported skills and technology and export market demand. They often market land assets to foreign investors by labelling the land as unused or idle, when in fact most land in Africa is used for productive, cultural or environmental purposes.

A recent NEPAD report acknowledges the limits of large-scale land based investments. It states that 'experience shows that large-scale land-based investment can be justified from an economic efficiency point of view only in a few situations, where land is truly available, which means it is not used, and is acquired in all transparency'.[85]

On a positive note, governments and development organisations are also starting to address the immediate obstacles driving the marginalisation faced by women working in the agricultural sector and in agri-enterprises. Many of the interventions, led by UN institutions and bilateral donors, focus on women's economic empowerment through building business skills, production knowledge, and their capacity for collective commercial organisation and savings. Yet the cultural and social norms and behaviours, which inform the continued legal obstacles women face in owning and accessing productive assets, such as land and finance, and their disproportionate share of reproductive and household labour are much slower to change.

The role of industrial policy and FDI in stimulating agricultural transformation

In terms of a positive agenda for promoting agriculture-based economic transformation, UNECA encourages governments to focus primarily on agricultural sectors for which there is a niche demand in export markets and to actively direct investment through local content requirements to create fiscal, production and consumption linkages in the economy – especially when relying on FDI. These local content policies need to be developed in conjunction with agricultural policies that boost production and marketing capacities.

Governments are also encouraged to boost processing industries and their suppliers through trade and investment policies that provide selective protection, and create a legal and regulatory environment that allow agri-enterprise to flourish. To this end, UNECA advises African governments to develop lead firms through state industrialisation policies such as those pursued by East Asian countries, and to develop local linkages through requiring local sourcing and content.

Selective industrial policies, including strategic subsidies and incentives, can help strengthen high-potential sectors,[86] as can investing in skills, clustering sectors, and supporting domestic producers and processors. Yet the current low levels of productivity trap millions of farmers in poverty, act as a brake on growth, and weaken links between the farm and non-farm economy – links that were crucial to development breakthroughs in Bangladesh, India and Vietnam.

While UNECA emphasises global value chain integration, it also acknowledges that a growing middle- and high-income urban consumer class and the spread of South African supermarkets across the region is creating local and regional demand. Many local value chains offer opportunities for local agro-processing and input production by small agro-enterprises, which will normally struggle to pay the cost of complying with consumer standards in export markets. In recent years, there has been a quiet revolution taking place in local agricultural market systems, especially in West Africa, with thousands of SMEs investing in trucking, wholesale, warehousing, cold storage, first and second stage processing, fast food production, and retailing of locally produced agricultural products for local markets. These rapidly emerging agri-food SMEs have previously been neglected in the African food and industrialisation debate.

A major challenge for Africa's 'latecomer' agriculture-based economies, however, is the dominant market presence of major global food and input companies. They can crowd out indigenous agri-enterprises, local brands and input providers. This is a major concern for UNECA, which cites various examples of the 'cannibalisation' of African brands.[87] These global companies control both product and input markets and can capture lucrative value chain segments. An example is the growing dominance of global seed companies such as Monsanto in formal seed markets, especially in eastern and southern Africa.

Food and agriculture global value chains are mostly buyer-driven, where small suppliers depend on a few lead buyers, who control marketing, brands, and design in export or domestic product markets, and they capture most of the value of the product. Corporate agri-business interests may have spillover benefits for the whole value chain, but these can only be guaranteed when governments actively direct their investment into strategic sectors and require them to source from local suppliers, create local jobs, build appropriate infrastructure and transfer appropriate skills. Focusing public investment to suit the priorities and interests of large agri-business, in the absence of an agriculture-based industrialisation strategy and the capacity to implement such a strategy, may crowd out investments in infrastructure or services that would be more useful to smallholder producers and could stimulate local food economies and wider economic development. Most agricultural production and marketing in Africa at present is not recorded, as it happens at an informal level. For example, most intra-regional trade is informal, and conducted by women.

More and better investment in local food and agriculture markets could make an important contribution to inclusive and sustainable economic transformation by lead to better nutrition, food diversity, and the emergence of local, sustainable food webs with shorter distribution chains, which are less vulnerable to global shocks, and create local jobs and enterprise opportunities.

The challenge of a sustainable agricultural transformation[88]

Unless African governments give top priority to soil health and sustainable farm, landscape and water management, agriculture-based industrialisation may lead to unsustainable models of development, which are currently plaguing advanced and newly industrialised countries such as Brazil. Addressing this issue needs both re-investment in and a re-orientation of agriculture extension services, more and better investment in research and development, and providing economic incentives and regulation for sustainable production practices.

The agricultural sector is the economic sector most affected by climate change. African farmers have always had to innovate and adapt to slow climatic changes and sudden onset crises, but the frequency and intensity of these changes require rethinking, not only on *how* to produce, but also *what* to produce – especially to develop agricultural systems that are more resilient to warmer and drier conditions, and more frequent extreme weather events. For example, in parts of southern and eastern Africa it no longer makes sense to rely on non-indigenous maize as a staple food crop, and more effort is needed to develop market systems for local crops such as millet and sorghum, which are better adapted to local climate conditions.

Low-carbon structural transformation

As highlighted previously, a key challenge for Africa's economic transformation agenda is to expand power generation while avoiding the high-carbon path that industrialised economies have followed. This challenge is recognised by prominent leaders such as former Nigerian President Olusegun Obasanjo.[89] There are real opportunities for the much-needed energy revolution to be powered by renewable and decentralised energy systems that avoid locking countries further into a dependence on high-carbon fuels and energy wasting centralised infrastructure.

While coal is currently the dominant primary energy resource for the region, accounting for 45% of total electricity supply, if South Africa is excluded, hydropower accounts for around 70% of power generation.[90] Even then, Africa currently only utilises a fraction of its hydropower potential, with annual potential capacity estimated at 1,844 terawatt hours, three times the current total electricity consumption for the region.[91] Hydropower will remain as the primary source of non-fossil fuel energy and major investments have already been put in place. In addition, there is significant potential to harness geothermal, solar and wind energy across the continent. The capacity from hydropower, geothermal, wind and solar power is estimated to be equal to between 90 million and 100 million tonnes of oil per annum.[92]

If well harnessed, this can make a significant contribution towards meeting the demand for centralised and distributed energy services while reducing dependency on unsustainable and unreliable energy. Like agriculture, the possibility exists to leapfrog straight to clean, non-fossil fuel, renewable energy sources. To achieve this, deliberate efforts would need to be put in place by governments, including development of policies and regulations that will encourage investments in low-carbon technologies.

Fortunately, there is a growing appreciation of the place for renewable energy in Africa. Some African countries are already providing leadership in ambitious low-carbon strategies, with South Africa having the fastest growing renewable energy procurement programme in the world. Ethiopia aims to be a net zero emitter by 2027, a more ambitious plan than any developed country.[93] Kenya is also seeking to pioneer a green development model.

Importantly, the COP21 Paris Agreement provided a mechanism for countries to commit their actions to cut emissions, with an opportunity to review the commitments upwards every five years.[94] For African countries to keep these commitments and contribute to fighting climate change, they will therefore have to pursue a clean energy pathway. However, local technical capacity to develop, procure, construct and operate renewable energy projects remains a huge barrier.

It is challenging to finance Africa's move towards cleaner energy and climate-smart economic transformation. Current investment in Africa's energy sector is $8 billion. It is estimated that the financing gap for meeting demand and achieving universal access to electricity is around $55 billion or 3.4% of Africa's GDP in 2013.[95] Financing this gap will require a realisation of the international climate financing commitments made under the UNFCCC. Developed countries will need to honour their pledge to raise $100 billion per annum by 2020 under the Green Climate Fund,[96] whose funding for mitigation interventions could prioritise energy investment in Africa. It will also require the mobilisation of resources from national budgets, which can be partly achieved by upgrading African tax systems and stemming illicit financial transfers.

Almost half of the gap could be covered by increasing sub-Saharan Africa's tax-to-GDP ratio by 1% of GDP.[97] Additional revenues could be mobilised by redirected fossil fuel subsidies. African governments spend $21 billion a year covering utility losses and subsidising oil-based products, which diverts resources from more productive energy investments.[98] Regional development banks could also contribute by effective use of climate finance that reaches them through international mechanisms and by innovative ways of raising finance for investing in low-carbon energy programmes.

Key sources of renewable energy have moved from being prohibitively expensive to being cost-competitive with fossil fuels in less than a decade. In particular, wind and solar energy are increasingly competitive with fossil fuels. A move towards a low-carbon model also requires improving transparency and accountability of governance in the energy sector, as well as strengthened technological and institutional capacities to procure, install and commission renewable energy projects.

Financing structural transformation

Spending for economic transformation

Fiscal policy is one of the key policy tools to address poverty and inequality, both through public spending on essential services and through investing in productivity enhancements that can drive equitable economic transformation.

Ensuring that citizens receive quality essential services is hardly a new aspiration, yet, despite some progress in certain areas sub-Saharan African countries continue to spend too little on social services, with the annual average being only 8.7% of GDP – the lowest of all the world's regions. Public spending on health also tends to be low, with most governments investing far below the 15% of overall expenditure committed to under the Abuja Declaration.[100] On average, spending on education has been better – average spending on education was around 4.8% of GDP between 1999 and 2011.

There has been progress across sub-Saharan Africa in relation to primary education over the last decade, with enrolment rates growing from 52% in 1990 to 78% in 2012. In absolute numbers, the region's enrolment more than doubled over this period, from 62 million children to 149 million.[101] However, this has not been enough to meet the Millennium Development Goal for primary

Vision 2063

The need to achieve better essential services outcomes is recognised across pan-African statements, such as Vision 2063, the Common Africa Position and various UNECA publications.

Vision 2063 recognises this at two levels: firstly, that achieving universal access to quality health and education are ends in themselves, being key elements of what would constitute the Vision 2063's aspiration for 'African people [to] have a high standard of living, and quality of life, sound health and well-being'.

At the same time, the Vision recognises that educated and healthy populations are needed to underpin the aspiration for 'economies [to be] structurally transformed to create shared growth, decent jobs and economic opportunities for all'. The Vision calls for an education and skills revolution, comprising investment in technical and vocational training as well as the expansion of universal access to quality early childhood, primary and secondary education and gender parity in education. It also refers to the need for investment in health and other basic services.[99]

education, and because Africa's population is growing fast, significant investment will be needed just to keep primary school enrolment rates constant.

Moreover, the progress that has been made in education and health has tended to leave the poorest and most marginalised behind, too often failing to narrow existing inequalities and sometimes exacerbating them. UNECA highlighted that 'human capital is central to innovation and industrialisation and structural change', but also recognised the uneven nature of progress and stresses that progress in primary education is 'permeated with inequities across income, gender and location'.[102] On health, it said: 'Potential productivity gains could be even greater if the issues of equity of access and utilisation of health services across income, gender and location are addressed. Health-related costs hit low-income groups disproportionately'.[103]

Beyond education and health, provision of key infrastructure such as energy, water and sanitation facilities, social protection and childcare are also all extremely important in addressing inequalities. The lack of provision of these kinds of public goods has a disproportionate impact on poor women and girls, especially those living in rural areas – who spend significant amounts of time collecting water and firewood – and because most women juggle income generation with unpaid care. Several countries have policies related to the provision of early childhood centres, but too often these are not funded or implemented.

Though there are multiple factors at play influencing access to essential services, including social norms, a very significant factor underpinning inadequate overall progress and inequalities in access to essential services is the insufficient and inequitable allocation of resources. Even where investments are made, all too often they target the easier to reach first and leave the poorest behind.

Governments need to ensure they invest in health, education and other essential services, while also putting in place targeted measures to ensure investment reaches the poorest regions, those on the lowest incomes and those who are marginalised because of gender or other identity-based inequalities. Gender responsive budgets need to be promoted, and fiscal measures to address spatial inequalities are also needed. Furthermore, investment in more and better resources in infrastructure and services has the potential to create linkages between smallholder farmers and the wider rural economy in ways that drive local transformation.

Enhancing public revenue through progressive taxation

Significant improvements in domestic resource mobilisation through taxation will also be needed to finance economic transformation, for which African governments will need to overcome a number of challenges.

Thirty years ago, many countries in sub-Saharan Africa were in fiscal crisis. In Ghana, for example, tax revenue amounted to less than 5% of GDP at the beginning of the 1980s. Over time, tax revenue has been increasing, but the increases are small, progress overall is slow and virtually the entire increase has been from revenue from natural resource taxes.[104]

To enhance public revenue in African countries in order to spend it progressively, there is a need to introduce reforms, close loopholes and improve regulation to plug the leakages that diminish public revenue.[105]

Some leakages cannot be plugged by the efforts of African countries alone. For example, stopping illicit capital flight driven by wealthy individuals and by tax evasion and aggressive avoidance by multinational companies would require international cooperation to stop the mechanisms which facilitate the resource flows to offshore jurisdictions. The leakages linked to generous tax incentives to attract investment constitute billions in forgone revenues, and can be plugged by reducing incentives and through regional cooperation to minimise a race to the bottom tax competition.

Some leakages are partly due to patronage systems within the political structures and corruption within government authorities. Plugging these is linked to the struggle for transparent and accountable tax systems. Enhancing the capacity of revenue authorities, both in terms of resources and expertise, is of vital importance. Taxing the informal economy is a more complex issue, but this does not mean the effort to bring the informal sector into the tax bracket should be ignored. Formalisation of economic activity gives the added advantage of legal protection to SMEs.

In addition, to put taxation at the centre of domestic resource mobilisation to finance structural transformation will require a shift in economic policy prioritisation to create a virtuous link between taxation and wealth creation. This means building productive capacity to promote value addition and employment creation as a major means of enhancing state revenue. In other words, the kind of tax policy required to make taxation a reliable and sustainable source of development finance should be an integral part of any economic policy which seeks to enhance linkages and stop leakages in national economies.

Moreover, in addition to enhancing overall tax revenues and spending these revenues in a way that underpins an equitable economic transformation, for equitable outcomes to be achieved tax revenues need to be raised progressively as well. The opposite is the case in most African countries, as the extent of corporate tax avoidance and the prevalence of tax exemptions benefiting those at the top means that a heavier tax burden falls on the poor, through VAT for example. Addressing the leakages outlined above will be necessary in order to create more progressive tax systems.

In addition, tax policies have the potential to address or exacerbate economic inequality between women and men. Direct taxes impact women differently from men because women largely earn less and provide unpaid labour and care in the home, the community and family businesses.[106] The over-reliance on indirect taxes such as VAT produces greater gender inequalities if taxes are levied on goods that are consumed disproportionately by female-headed households, as is often the case. Sometimes tax systems have inbuilt explicit differences between how women and men are taxed. Gender sensitive tax policies could reverse some of the current implicit or explicit biases against women.

Tax policy can also be a tool for addressing spatial inequalities. While many tax incentives currently offered by African governments bring no clear development benefits, more carefully designed tax incentives could be used to bring investment into economically deprived regions within countries.

Trade and investment policy

A trade policy which is able adequately contribute to and promote structural transformation is yet to be formulated, with statements and positions in the pan-African discourse having so far been contradictory. Agenda 2063's approach to trade could be interpreted as potentially undermining equity objectives, because it promotes the free movement of people, capital, goods and services underpinned by major infrastructure projects to connect major cities to each other and to ports for export.[107] This is despite wide-ranging literature from UN bodies, NGOs, academics and think tanks that demonstrates how trade liberalisation, when not done selectively and with careful sequencing, hits the most vulnerable hardest and tends to lock in existing comparative advantages, undermining the potential to build up infant industries.

On the other hand, UNECA notes that existing trade and investment agreements as well as those still being concluded (primarily EPAs) risk working against the very objectives of diversification and value addition. This is because existing preferential trade arrangements focus on perpetuating the current structure of African exports, while EPAs would force African countries to liberalise too rapidly in a way that may 'work against the strategic goals of promoting industrialisation, economic diversification and structural transformation in Africa'.[108]

UNECA's view has been reinforced by recent research on how the European Union is using EPAs to open up markets for its own agro-exporters, to the detriment of local agro-processing industries and producers.[109] UNECA argues for selective, well-directed and sequenced trade liberalisation that enables an appropriate balance between promoting matured sectors and protecting and supporting fragile sectors. It stresses – as many African civil society organisations and INGOs, including Christian Aid and our partners, have done – that 'African countries should stop negotiating agreements as if industrialization does not matter. African countries should stem the trend in policy-space erosion especially when negotiating any form of trade and investment agreements by insisting on the need to use such policy instruments to promote industrialization of their economies.'[110,111]

In this regard, the age-old 'infant industry protection' has become more imperative than before. Making indigenous industrialisation the engine of structural transformation requires protecting the domestic market to enable national firms to develop capabilities before they are exposed to external competition.

Attracting FDI has been a priority for most African countries for decades. However, the role of FDI in transformation is still being debated. It has become very important to distinguish between productive and speculative investment, because much investment reported as FDI does not involve additional capital and instead simply transfers the ownership of existing firms through mergers and acquisitions. In addition, the 'enclave' nature of FDI often fails to generate the necessary linkages within and between sectors. Yet, most of the Business Enabling Environment reforms to enhance economic growth in developing countries (almost invariably derived from the World Bank's Doing Business Index) have too much focus on FDI and tend to favour profit maximisation of FDI by multinational corporations and large domestic firms. Moreover, World Trade Organization rules increasingly favour multinational corporations, not only in their dispute resolution clauses but also in prohibiting host countries from making technology transfer a performance requirement for foreign investors.

However, as UNECA has highlighted, there is a significant policy space that African governments can use to be selective in the kinds of FDI they welcome and into which sectors, to ensure that their investment policies remain coherent with their industrialisation strategies. Governments can also use a range of measures such as local content requirements to promote linkages with SMEs and ensure that the reforms disproportionally benefit people living in poverty.[112] Attracting FDI only makes economic sense if it creates dynamic linkages with diverse sectors of national economies, generates employment and contributes to technological upgrading and productivity enhancement. If not done with a pro-poor and pro-development focus, reforms focusing on attracting FDI may bring some short-term benefits, but lead to worsening inequality and entrenched poverty in the longer term.

The role of the state in economic transformation

The good governance agenda

The intrinsic value of good governance cannot be questioned. The catastrophic impact of bad governance on economic development prospects is also not in doubt.

However, by making good governance a precondition for poverty reduction and economic growth has given rise to criticism by renowned non-mainstream development economists, who have highlighted the challenge of setting apparently plausible but unachievable good governance capabilities as the policy target, which is a goal they cannot possibly achieve and that is unlikely to help them to traverse developmental transformation any better.[113]

Mushtaq Khan, one of the critics of the mainstream governance agenda, states that: 'The historical evidence suggests that no country achieved significant "good governance" capabilities *before* they developed their economy. This is not surprising because good governance capabilities are actually capabilities for delivering expensive public goods (like a rule of law) and it is difficult if not impossible to make significant progress in poor economies with limited fiscal resources.'[114]

The 'developmental state': facilitator or leader of economic transformation?

Mainstream development policy has moved from limiting the role of the state in economic development to the basics, to the state playing a 'facilitator' role. A *facilitating* state is 'a state that facilitates the private sector's ability to exploit the country's areas of comparative advantage'.[115]

The concept of the developmental role now being promoted by UNECA and other pan-African institutions goes deeper and further than the role given to the state as facilitator or as an institution with responsibility to correct market failures or to solve 'coordination problems' in private sector-led economic growth.

The widening of the role of the state beyond correcting market failure and facilitating private sector-led development is positive in terms of building capable institutions to lead Africa's transformation. However, it needs further discussion and elaboration to determine the role of the state beyond that of an 'instrumental' institutional setup required to lead market confirming development. Although the role of the state in correcting market failures seems to be consensual, the belief that the market has self-regulating mechanisms is very entrenched. The role of the state to regulate (and at times to constrain or overrule) market forces to attain societal or development needs is not only deemed not to work but also counterproductive. The approach with best outcomes is still considered to be a market friendly role of the state that respects the laws of the market.

The degree of regulation differs depending on the influence of market forces, however there has never been and could never be an unregulated market. There is no economic development, in particular catch-up development, which has been market led. The role of the state is pivotal not only in regulating markets, but also in setting up the institutional framework (formal rules, laws and regulations) within which markets operate. Furthermore how the state carries out its direct economic activities through public investment in infrastructure and provision of public goods and services has a direct impact on how markets work.

Highlighting the role of the state in setting out a clear framework for economic transformation to achieve equitable and sustainable economic development growth is not to minimise the role of the private sector in development. It is to underline that only the state can establish and enforce policies, regulations and legal frameworks that promote a private sector whose potential is harnessed to contribute to sustainable and equitable development.

If the role of the state in correcting market failure is recognised, the question of which agency corrects state failure should be raised and answered. 'State failure' is essentially a result of a dysfunctional state–society relationship, which means that in the long term, fixing state failure involves transforming dysfunctional state–society relationships into rights holder–duty bearer relationships, in which empowered citizens hold capable states accountable.

The intrinsic value of democratic governance and accountability in shaping the role of the state is beyond doubt, and it is also an end in itself for which African citizens should fight. However, differences arise when this normative principle is made a functional prerequisite to socio-economic equality in the development process.[118]

Discussions around the concept of 'state capability', including its political capability, should be conducted to mobilise citizens to fight for political arrangements in which the state asserts its autonomy in

The developmental state

The definitions given to the developmental state can be standardised as: 'A state that has the capacity to deploy its authority, credibility and legitimacy in a binding manner to design and implement development policies and programmes for promoting transformation and growth, as well as for expanding human capabilities.'[116] This cannot be a facilitator's role. It is a role of a state which takes the overall responsibility of setting equitable socio-economic goals and leading the process of structural transformation to achieve these goals.

UNECA's description of the developmental state is: 'Advocating a stronger role for the state in development should neither be seen in terms of the old and tired debate of state versus the market nor should it be understood that the private sector should not remain the engine of economic growth. This is because the issue is not whether the state – like the market or the private sector for that matter – should play a role in economic transformation and development but rather how to construct developmental states in Africa and how to strengthen their capacity and accountability to design and implement more effective development strategies and policies.'[117]

relation to powerful interests. Only a state not captured by vested interests will have the capability to accommodate the interests of different societal groups and facilitate a binding compromise for legitimised implementation.

Conclusion

We have tried to give an account of the structural economic transformation discourse by presenting the historical background, an analysis of the developmental issues and challenges in Africa, and the policy options being discussed. We have looked at the issues through a lens of aspiration for equitable and environmentally sustainable development.

On a continent in which development priorities and the policies to implement them have been determined by multilateral and bilateral aid agencies since the 1980s, the shift in strategy is an encouraging development worth engaging with and supporting. The outcome of the strategy debate is still open. It is not yet clear whether it will result in a paradigm shift in individual country development strategies away from an imitative and unattainable growth path towards less carbon intensive and more environmentally sustainable and socially equitable development.

Therefore, engagement with the economic structural transformation agenda means working with our partners to enhance voice and participation of citizens in political and policy processes and to advocate for the emergence of national strategies and an international environment which will enable sustainable and equitable development in Africa.

Our hope is that ensuing conversations around this discussion paper will lead to a recognition of the importance for civil society in engaging with the economic structural transformation agenda. Such engagement should include highlighting both the strengths and the inconsistencies and shortcomings in the transformation discourse and critically engaging with its operationalisation to ensure specific policies adequately address equity and environmental sustainability.

In particular, African citizens and civil society organisations may need to engage with some of the following:

- The recognition by those driving the economic transformation agenda that there is no automatic link between economic growth and overcoming inequality is no guarantee that specific policies and overall implementation will lead to equitable outcomes. Careful economic and social policy design and implementation will be necessary to achieve this, for which civil society will need to strongly advocate.
- Sustainable agricultural transformation has considerable potential to provide the foundation for the development of manufacturing and other sectors. In turn, these can create better quality jobs for more people to sustain poverty reduction. African governments and donors will need to be persuaded to bring in the kinds of policies and public and private investment that can ensure this happens in a manner that is environmentally sustainable, builds resilience to the impacts of climate change and reduces rather than exacerbates inequalities.
- There are big opportunities across the continent to power economic transformation through a low-carbon model of development that not only leapfrogs fossil fuel dependency, but also provides the best means to address energy poverty. There are no guarantees that African governments will take the

necessary steps and avoid the temptations of their significant oil and gas reserves. African civil society networks that are already active on green energy will have to vociferously advocate for low-carbon development.

- Significant national reforms to fiscal policies, as well as global reforms to the international tax architecture, will be necessary to enhance resource mobilisation, provide investment to support infrastructure and markets, and to address inequalities through social spending. There may be a need to more strongly link existing tax and fiscal justice campaigns to the economic transformation agenda, as some civil society groups are starting to do.
- In addition to Africa's serious internal challenges to attaining its development objectives, external constraints will continue to aggravate these challenges if domestic efforts are not supported by an enabling international environment. The issue of policy space for African governments to pursue their development strategy continues to be of paramount importance in a context where new restricting arrangements are emerging in the form of bilateral trade, tax and investment agreements. Structural economic transformation will not be possible if African countries do not come out of, or renegotiate, these shackling agreements and replace them with trade and investment policies which enhance productive capabilities and linkages in the overall economy.

As we have emphasised in this paper, the economic transformation agenda could signify a paradigm shift in Africa's development efforts. An informed participation in the debate by African civil society organisations and citizens is necessary to ensure it moves from rhetoric to action and does so in a way that truly promotes a sustainable and equitable development pathway. We hope this paper provides the basis for further discussions to help support that process.

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