

A decorative graphic featuring a white circle with a thick orange border containing the number '2'. A horizontal orange line extends from the left side of the circle. To the right of the circle, a large orange triangle with a fine horizontal-line texture points towards the right, its base connected to the right side of the circle.

**2**

# Sustaining Domestic Growth:

Structural Transformation  
Depends on Jobs, Industry,  
and SMEs

>> **ISSUE BRIEF** from the **AUTHOR**

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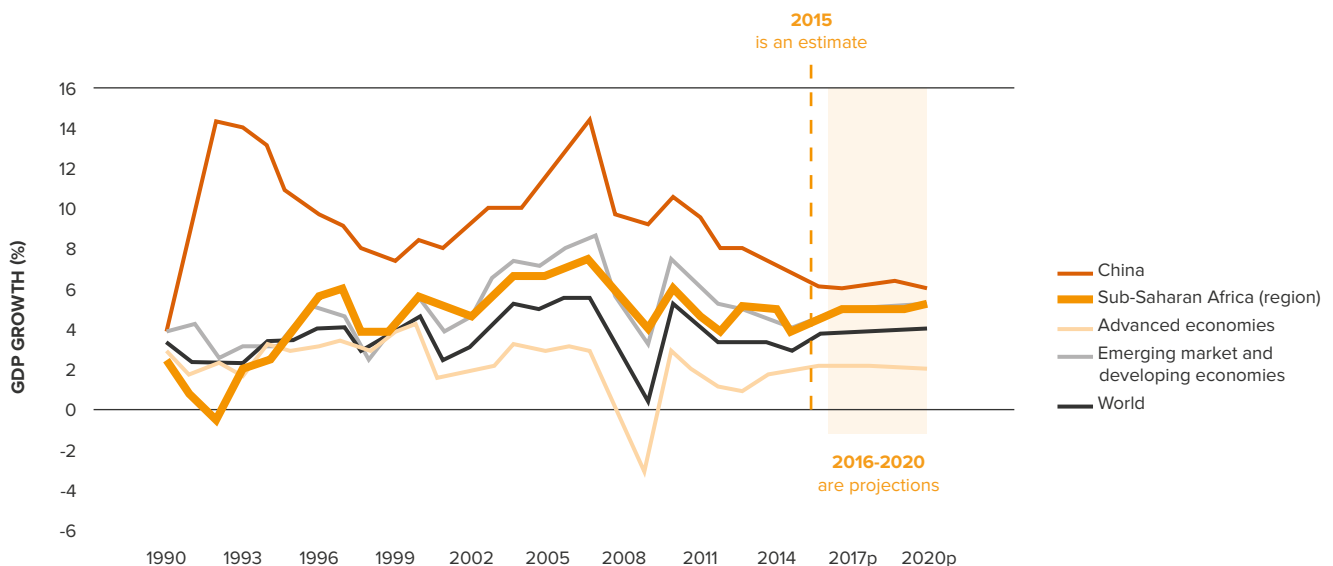
# Meeting Africa's Aspirations: The Sustainable Development Goals in 2016

John Page

The international community has a new set of development goals for 2016 and beyond, and no one seems to be happy about them. Indeed, *The Economist* even declared, “Moses brought ten commandments down from Mount Sinai. If only the U.N.’s proposed list of Sustainable Development Goals (SDGs) were as concise.” Aid critic Bill Easterly refers to them as “senseless, dreamy [and] garbled.” Even former United Nations Development Program Administrator Mark Malloch-Brown has called them “higgledy-piggledy.” Everyone’s point seems to be the same: In W.S. Gilbert’s immortal phrase: “If everyone is somebody, then no one’s anybody.”

## FIGURE 2.1. SUB-SAHARAN AFRICA MUST LOOK INWARD MORE THAN EVER FOR ECONOMIC GROWTH

Sub-Saharan Africa has achieved fast economic growth over the past few years. However, the external environment is becoming less supportive as China—its largest bilateral trading partner—is experiencing a slowdown, which contributes to lowering commodity prices, an important sources of revenues for the region. A deteriorating external environment also illustrates the importance of continuing to implement of the structural transformation agenda in sub-Saharan Africa so as to reduce external dependence.



Source: IMF Data Mapper, World Economic Outlook (October 2015).

Well, it is very likely that 1.1 billion Africans would disagree. For the first time, Africa’s “development partners,” the aid industry, let African governments into the room when they were deciding what Africa’s—and the world’s—development goals should be. The result, while sprawling, unfocused, and difficult to monitor, reflects much more closely the aspirations of the average African than the Millennium Development Goals (MDGs). Now, it is more important to focus on what has been included in the SDGs than to complain that there are too many.

The single most important contribution the SDGs make to Africa is that they explicitly recognize that sustainable development means creating good jobs—jobs that pay living wages, offer dignity of work, and create a chance to develop new skills (Goal 8). Today, Africans from Cairo to the Cape are in search of better employment opportunities. In Africa only one in five workers find employment in the wage economy. The rest are forced to settle for low-paying work, often through self-employment in the services sector where output per person is only about twice that in agriculture. This focus on jobs is not unique to Africa. The U.N.’s My World survey of over 5.7 million people in developing countries found that in respondents’ views of what contributed most to their families’ welfare, “better job opportunities” ranked third globally, after good education and health care.

**TABLE 2.1. 2016 CREDIT RATINGS FOR SOME OF AFRICA’S LARGEST ECONOMIES PREDICTED TO REMAIN STABLE**

In December 2015, notable rating actions were the downgrade of South Africa to BBB- by Fitch and the change of its rating outlook from stable to negative by both Moody’s and S&P. In 2016, these agencies will be reviewing their ratings on African external debt to reflect the changing economic environment, and negative rating actions can increase the cost of borrowing. Policies to manage external shocks and strengthen the domestic economy will help avoid such actions.

Country	S&P		Fitch		Moody’s	
	Credit Rating	Outlook	Credit Rating	Outlook	Credit Rating	Outlook
Ethiopia	B	Stable	B	Stable	B1	Stable
Gabon	B+	Negative	B+	Stable	Ba3	Stable
Ghana	B-	Stable	B	Negative	B3	Negative
Kenya	B+	Negative	B+	Negative	B1	Stable
Namibia	Not rated	Not rated	BBB-	Stable	Not rated	Stable
Nigeria	B+	Stable	BB-	Negative	Ba3	Stable
Senegal	B+	Stable	Not rated	Not Rated	B1	Positive
South Africa	BBB-	Negative	BBB-	Stable	Baa2	Negative
Zambia	B	Stable	B	Stable	B2	Stable

Sources: Bloomberg L.P., S&P, Fitch, and Moody’s.

## VIEWPOINT

# WHY I'M HOPEFUL ABOUT AFRICA IN 2016

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According to the World Bank, six of the world's fastest growing economies over the period 2014-2017 are predicted to be in sub-Saharan Africa. These countries are Ethiopia, the Democratic Republic of the Congo, Côte d'Ivoire, Mozambique, Tanzania, and Rwanda—countries so diverse that generalizations about their experiences with growth and structural change would seem to be absurd. But they all have one thing in common. They are filled with people who aren't waiting for the government to provide them with a better future. People are finding ways to survive through their own hard work and ingenuity. They are opening small businesses in cities and towns in rural and urban areas, and the government is no longer standing in their way.

This might not seem like a big improvement, but things weren't always this way. I am old enough to have Tanzanian friends who were put in jail for "conspicuous consumption" during Tanzania's socialist years. And it wasn't that long ago that another one of my Tanzanian friends told me that profits are "dirty." Today, he is the successful owner of a tourism business. Tanzania isn't the only country in which business was looked upon with suspicion. The Derg regime is famous for

having brought the Ethiopian economy to its knees not so long ago.

So, when I find in my research that much of Africa's recent growth has been accompanied by an expansion in small business activity (Diao, Kweka, McMillan and Quereshi, forthcoming), I get excited. True, these activities tend to have higher average productivity than agriculture so on average they have contributed to productivity growth. But that is not why I am excited. It is because African people are taking hold of their destiny. There are no more colonialists to forbid them from going to school. Nobody is locking them up for doing business. And some governments are even trying to make things better for small businesses.

Of course, there are difficult challenges to overcome. Climate change and the youth bulge are just a few. My advice to Africa's leaders and policymakers in 2016 is this: Trust your own citizens' ability to come up with creative "home grown" strategies for growth and poverty reduction. Get out there and talk to folks in the private sector. Find out what they need. A strong public-private partnership is what is needed to further the transformation agenda in Africa.

<sup>1</sup> *Global Economic Prospects: The Global Economy in Transition*. Washington, D.C.: World Bank, 2015.

<sup>2</sup> McMillan, Margaret S., and Kenneth Hartegen. *What is Driving the African Growth Miracle*. Cambridge, M.A.: National Bureau of Economic Research, n.d.

**TABLE 2.2 . TOP AFRICAN ECONOMIC GROWTH PERFORMERS OF 2015-2016**

Despite lowered growth experienced in and expected across the continent in 2015 and 2016, several countries still register high growth predictions. For example, a combination of domestic policies and large financial flows in investment projects hint at growth rates above 8 percent in Mozambique and Ethiopia.

Top performers based on 2015 growth estimates	
Country	GDP growth for 2015
Ethiopia	8.7
Democratic Republic of the Congo	8.4
Côte d'Ivoire	8.2
Mozambique	7.0
Tanzania	6.9
Chad	6.9
Rwanda	6.5
Kenya	6.5
Benin	5.5
Central African Republic	5.5
Togo	5.4
Cameroon	5.3

Note: The highlighted countries will exit the top 10 in 2016.

Top performers based on 2016 growth estimates	
Country	GDP growth for 2016
Mozambique	8.2
Ethiopia	8.1
Côte d'Ivoire	7.6
Democratic Republic of the Congo	7.3
Tanzania	7.0
Rwanda	7.0
Kenya	6.8
Republic of the Congo	6.5
Burkina Faso	6.0
Senegal	5.9
Central African Republic	5.7
Ghana	5.7

Note: The highlighted countries will enter the top 10 in 2016.

Source: IMF Regional Economic Outlook, October 2015.

The SDGs themselves also suggest how to grow good jobs. Goal 9.2 sets the objective: “By 2030, significantly raise industry’s share of employment and gross domestic product, in line with national circumstances, and double its share in least developed countries.” Industry is important because it is a high-productivity sector capable of absorbing large numbers of moderately skilled workers. In Africa manufacturing output per worker is six times that of agriculture. After 15 years of the MDGs, the international community has finally recognized the link between industry, jobs, and well-being. So, rather than carping about the new goals, critics and proponents alike should be thinking hard about how to achieve them.

**Sub-Saharan Africa’s share of industry in GDP today is the same as it was in the 1970s.**

To create the jobs envisaged in the SDGs, Africa will need more industry, but for more than 40 years industrial development in Africa has stalled. The share of industry in GDP today is the same as it was in the 1970s. Responding to that challenge, the African Development Bank, Brookings, and UNU-WIDER (United Nations University – World Institute for Development Economics Research) jointly sponsored a multi-year, multi-country research project designed to answer three questions: Why is there so little industry in Africa? Does it matter? And, what can be done about it? It brought national and international teams of researchers together to deepen our understanding



of what makes firms in low-income countries more competitive and what makes countries more attractive to competitive firms. Our book, *Made in Africa: Learning to Compete in Industry*, forthcoming in 2016 (Brookings Institution Press), offers some new thinking on how Africa can industrialize.

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**Around one-quarter of official development assistance (some \$21 billion per year) currently supports the investment climate; yet, after 15 years of investment climate reform, industry has failed to take off. Clearly, something more is needed.**

Most of the heavy lifting in terms of public action will need to be done by African governments themselves. That is appropriate. Much more than the MDGs, the SDGs embody the aspirations of Africa's governments, so it is important that they own the policy solutions for achieving their goals. To industrialize successfully, Africa will need to part company with the policy orthodoxy of the aid community and break new ground. One of the key insights of *Made in Africa* is that the "investment climate reforms," beloved of the World Bank and some bilateral donors, including the United States, have not and will not bring industry to Africa. While industrialization cannot succeed without the "basics" that make up the investment climate—infrastructure, skills, and institutions—these alone are not enough. Since 2000 investment climate reform programs have become widespread in Africa, often as key components of budget support. According to the OECD, around one-quarter of official development assistance (some \$21 billion per year) currently supports the investment climate; yet, after 15 years of investment climate reform, industry has failed to take off. Clearly, something more is needed.

Having placed job creation and industrialization on the global agenda, Africans will need to show leadership in designing and implementing the policies to achieve them. To compete in the global market for manufactures, African governments need to develop new policies to promote exports, build the capabilities of domestic firms, and foster industrial clusters. These are areas where financial support and new ideas from the aid industry have been lacking, but they are also areas where African governments have failed to implement policies that have succeeded elsewhere.

Policies and institutions similar to the "export push" strategies adopted by countries in Asia since the 1970s are essential for breaking into global markets. Several African countries—Ethiopia, Ghana, and Kenya among them—have recently emphasized manufactured exports, but there is little evidence that they have implemented the coherent set of policies that characterize an export push. To move from aspiration to implementation governments across the region need to focus on three critical areas, policy and institutional reforms affecting exports, trade logistics, and regional integration.

Over the past decade many sub-Saharan African countries have created or reformed institutions intended to attract foreign direct investment (FDI), a key source of new firm-level capabilities. Implementation, however, has fallen short. The vast majority of Africa's FDI agencies lack high-level

political attention and support, limiting their ability to coordinate across government. Personnel practices and compensation policies are not sufficiently attractive to make it possible to recruit high caliber staff, and the agencies are frequently burdened with multiple objectives, diluting focus. These institutional problems must be solved.

Since the 1970s, East Asia has shown that governments can foster industrial clusters by concentrating investments in high-quality institutions, skills, and infrastructure in a limited physical area such as special economic zone (SEZs). Several countries, including Ghana, Nigeria, and Tanzania, have recently announced a commitment to improve the performance of their SEZs, but to turn these commitments from rhetoric into reality will require major changes. A World Bank review concluded that their SEZs had failed to reach the levels of physical, institutional, and human capital needed to attract global investors. Not surprisingly, the SEZs all had low levels of investment, exports, and job creation. It remains essential to upgrade the performance of Africa's SEZs to international standards.

The new focus on industry and jobs also has important implications for donors. First among them, as *Made in Africa* argues, is the need to re-examine the aid industry's approach to the investment climate, let go of the soft target of regulatory reform, and ramp up support for infrastructure and skills. While the SDGs make more infrastructure and better skills global goals, they are very short on the specifics of how to meet them. Given fiscal and political realities in the donor countries, a massive increase in official development assistance is unlikely. Some financial engineering, then, is needed to help reduce the risks to private investors. The international financial institutions need to do some creative thinking about how to use their non-concessionary capital to offer new financial instruments to support long-term investments in infrastructure and post-primary education in African countries not currently eligible for non-concessionary finance. These innovations are particularly relevant to the continent's emerging natural resources exporters, such as Ghana, Mozambique, Uganda, and Tanzania, which are under considerable domestic pressure to borrow on private capital markets to finance infrastructure before resource revenues come on stream.

International support for export-led industrialization should act on two fronts—aid to improve trade logistics and policies to increase preferential market access. Trade-related infrastructure is critical to export success, and Africa suffers deficits in almost every respect. Although Aid for Trade commitments have increased, donors are not fulfilling the promise made at the World Trade Organization's 2005 ministerial conference in Hong Kong to make Aid for Trade additional to existing aid budgets. Higher-income countries should also develop a common, time-bound system of

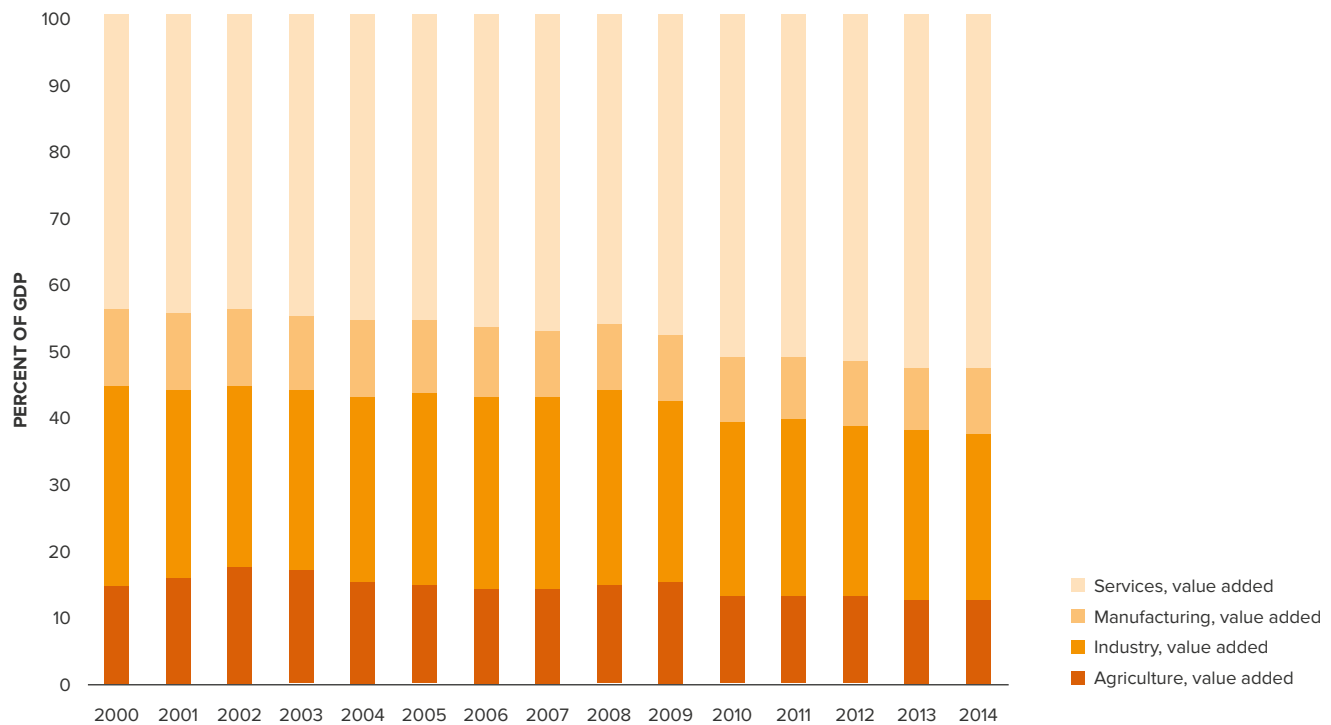


preferences for Africa’s nontraditional exports. At present, different OECD countries have different trade preference schemes, and most of them are not well designed or effective. In addition, donors can do more to support regional integration and the formation of special economic zones.

The SDGs have made it respectable once more to talk about creating jobs and industry in Africa. To create them, Africans and their “development partners” will need to do more than talk.

**FIGURE 2.2. WILL THE SERVICES SECTOR CONTINUE ITS TREND AS THE DRIVER OF GROWTH IN SUB-SAHARAN AFRICA?**

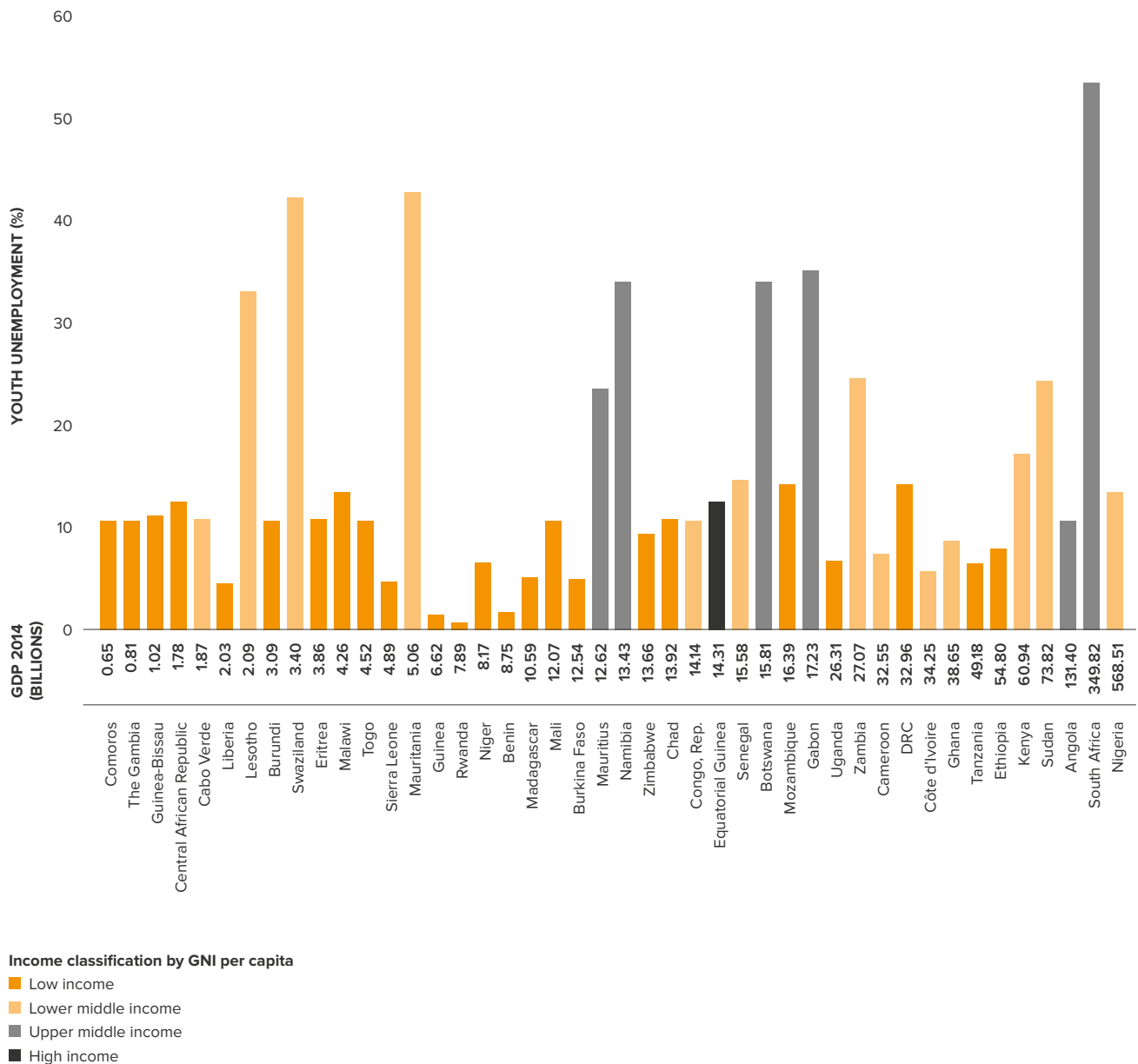
Unlike the structural transformation seen in other regions, the shift away from agriculture hasn’t been towards manufacturing and industry, but rather services. This shift is controversial: Many experts see this newer trend at odds with the successful development models in Asia as well as potentially hurting Africa by skipping over opportunities such as technological innovation, and policy experimentation and learning. Other experts disagree.



Source: The World Bank: Development Indicators: World Bank national accounts data, and OECD National Accounts data files.

**FIGURE 2.3. YOUTH UNEMPLOYMENT WILL CONTINUE TO BE A GROWING CHALLENGE IN 2016**

Interestingly, GDP and income classification have little correlation with youth unemployment rates. For example, South Africa, which has the second-largest economy on the continent and is considered an upper-middle-income country based on its GNI per capita, has the highest youth unemployment rate at nearly 54 percent. Meanwhile, the Liberian economy, which is nearly 200 times smaller than South Africa's, has a youth unemployment rate 10 times smaller. Youth unemployment is measured as the share of the labor force (ages 15-24) without work but available for and seeking employment. Estimates may be low in some low-income countries like Liberia because many young people cannot afford not to work to seek employment and as a result, end up in low-paying jobs.



Source: Youth unemployment figures from World Development Indicators and GDP data from the World Bank databank.

# PRIORITIES FOR SUSTAINABLE INDUSTRIAL DEVELOPMENT IN AFRICA

Eyerusalem Siba

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Industrial development is an integral part of sustainable development for many reasons (as noted in target 9.2 of the new Sustainable Development Goals (SDGs), which aims to double industry's share of employment and GDP in least developed countries by 2030). First, industrialization requires long-term investments in human and physical capital formation and technological innovation, as well as in supportive policy institutions and incentives to safeguard property rights of the private sector, create business enabling environments, and incentivize technological spillovers. Second, industrial policies that promote the intensive use of a country's comparative-advantage resources increase the success of achieving pro-poor growth and job creation. Third, industrial clusters facilitate the diffusion of technological innovations and cost-effective delivery of public services such as trade facilities and transport infrastructure. Finally, industrial development reduces the vulnerability of the economy to climate and market shocks through linkages with other sectors of the economy.

**Competition, openness, inclusive growth, and policy experimentation constitute the building blocks of sustainable industrial policies.**

The industrial sector in Africa, however, faces numerous constraints. Shortages of skilled labor, lack of access to affordable credit, and investment uncertainties discourage industrial firms from growing. Poor infrastructure and high trade and transport costs further constrain Africa's global competitiveness and its ability to attract FDI (World Bank 2009, Harrison, Lin and Xu, 2014). The small size of domestic markets and the limited capacity of firms to compete in international markets have also kept the share of Africa's industrial sector in GDP and global exports small (Table 1). In contrast, the share of agriculture in total output is declining in a number of African countries, and much of it is being taken over by the service sector. Such a trend is worrying for many development economists and policymakers as it potentially denies Africa the opportunity to pass through channels of technological innovation, institution building, and policy experimentation and learning as countries aspire to achieve industrial development.

Working toward achieving target 9.2 of the SDGs in 2016 requires deliberate effort in improving the competitiveness and capability of domestic firms, upgrading skills formation in the labor force, and improving the business environment to achieve the much-needed structural transformation of African economies. In my opinion, competition, openness, inclusive growth, and policy experimentation constitute the building blocks of sustainable industrial policies. Enhancing the competitive environment in which the private sector operates ensures productivity growth and knowledge spillovers. According to the literature, cluster-based industrial development and export promotion efforts where governments provide public infrastructure and various incentives, conditional on good performance and continued engagement in the exports market, are found

to improve productivity. These mechanisms, coupled with increased flows of FDI, also expose domestic firms to marketing, managerial, and technological best practices allowing them to learn how to compete better in the international market.

Importantly, sustainable industrial policies also need to be inclusive and promote industries with job creation potential. Africa's industrial sector is dominated by micro, small, and medium enterprises (MSMEs) that very often lack affordable credit and access to dependable markets. Improving the growth prospects of these operators through market development trainings and strengthening linkages between MSMEs and large formal enterprises will have significant implications for job creation and poverty reduction.

**TABLE 2.3. SUB-SAHARAN AFRICA'S EXPORTS OF MANUFACTURED GOODS REMAIN CONSTANT**

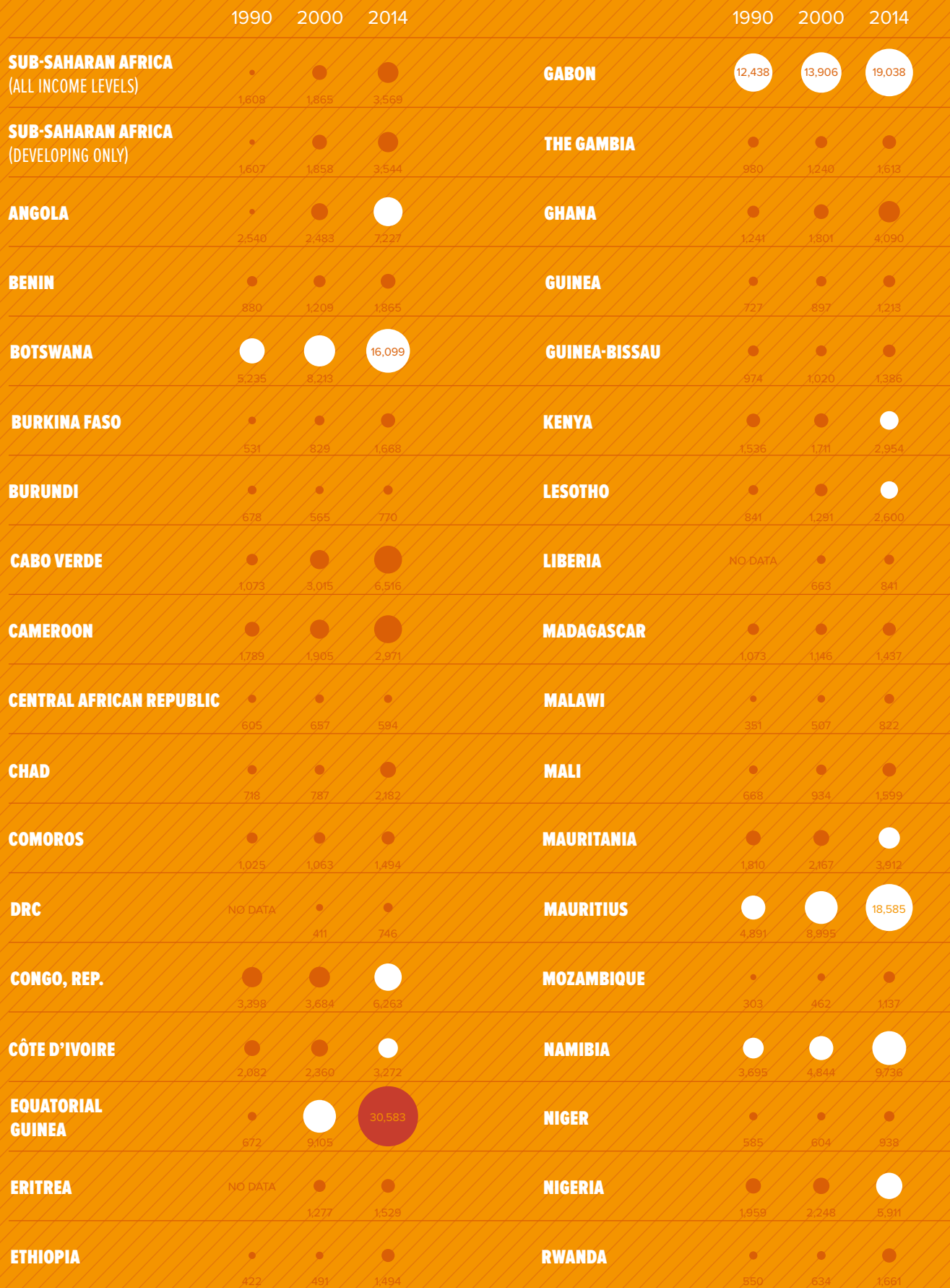
Sub-Saharan Africa's exports of goods and services (as a percent of GDP) have remained relatively constant since 1990. Over the same period, the share of manufactures exports (as a percent of the region's merchandise exports) has seen minimal growth as well, reflecting the region's still limited capacity to compete internationally with its manufacturing exports.

Exports	1990	1995	2000	2005	2010	2014
Exports of goods and services (% of GDP)	25.9	26.7	33.5	31.1	29.7	28.8
SSA's share of world merchandise exports	0.02	0.01	0.01	0.02	0.02	0.02
Manufactures exports in SSA (% of merchandise exports)			26.9		27.8	
World manufactures exports (% of merchandise exports)	71.1	74.7	72.4	72	67.4	70.6

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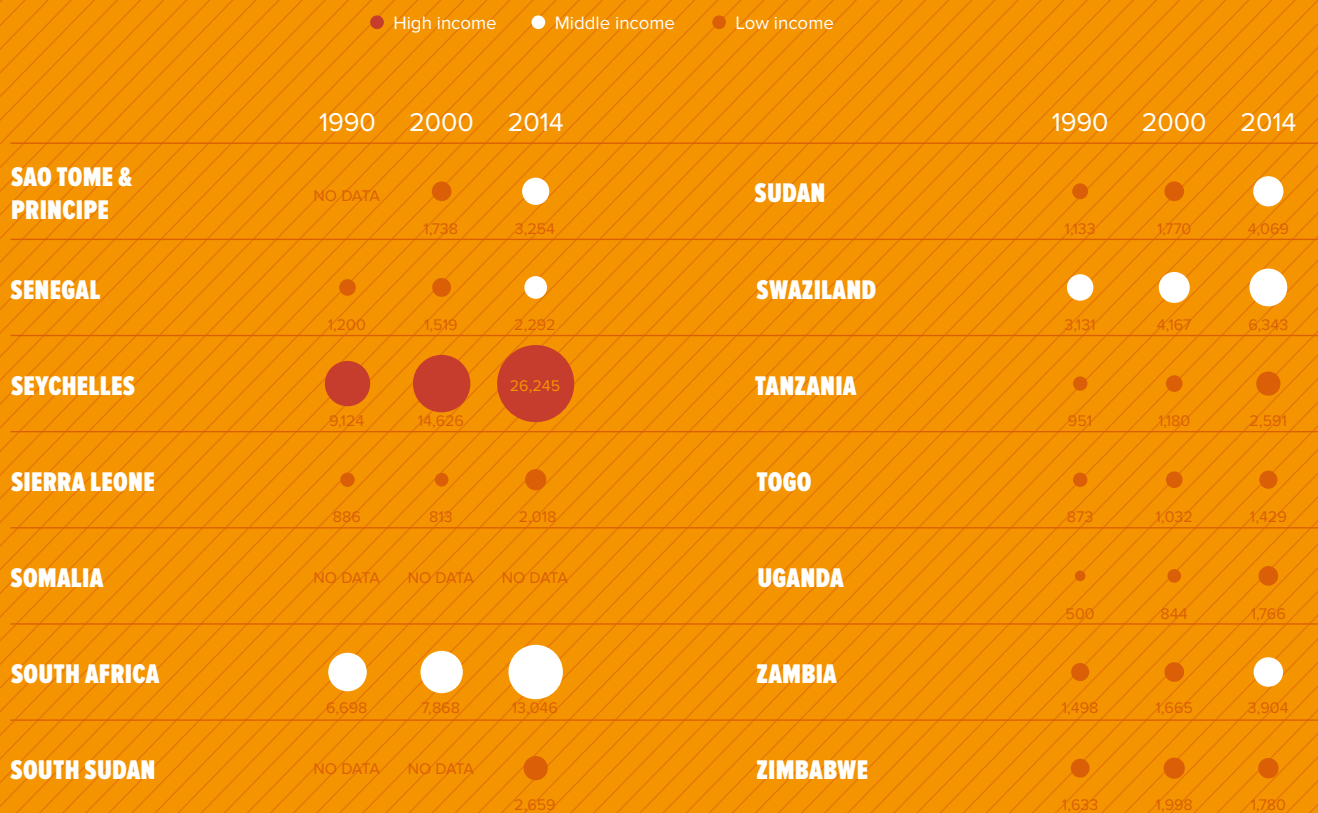
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 Teravaninthorn, Supee, and Gaél Raballand. *Transport Prices and Costs in Africa*. Washington D.C.: World Bank, 2009.

Table source: World Development Indicators, 2015.



# Snapshots of GDP per capita hint at (slowly) rising growth

GDP per capita across the region has been on the rise, but it continues to lag behind other regions, being just two-thirds of the GDP per capita of South Asia. This trend has, however, accounted for a large share of global poverty reduction over the past 15 years. Some of the largest increases have been made in Equatorial Guinea, Seychelles, Mauritius, and Botswana. Not all is rosy though: GDP per capita growth in the economically unsteady Zimbabwe and the conflict-ridden Central African Republic has actually dropped since 2000, and the region's slowing growth rates will likely hurt the people at the bottom in 2016.



Source: The World Bank: Development Indicators: World Bank national accounts data, and OECD National Accounts data files.

Note: GDP per capita measured in PPP (current international \$)