AGRICULTURAL GROWTH RECOVERY AND ECONOMIC TRANSFORMATION IN AFRICA

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FROM GROWTH RECOVERY TO ECONOMIC TRANSFORMATION IN AFRICA

MAIN TOPICS

1. KEY MESSAGES

2. GROWTH PROCESS AND BRIEF OVERVIEW OF RECENT PERFORMANCE IN AFRICA

3. PACE AND PATTERNS OF STRUCTURAL TRANSFORMATION IN AFRICA

4. STRUCTURAL TRANSFORMATION AND SECTORAL IMBALANCE

5. IMPLICATIONS FOR FUTURE GROWTH STRATEGIES
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WHERE ARE WE AND WHY?

- **Structural Change in Africa** has been **productivity-reducing**

- **Negative diversification** moved labor
  - From underperforming higher-productivity agriculture
  - Into oversized lower-productivity services sector

- **Lack of effective industrialization policy**
  - Impeded growth in manufacturing sector
  - Forced specialization in low value primary goods

- **Delayed structural transformation**
  - Strongly linked to high levels of poverty
  - Informal services sector now largest pool of low productivity labor
  - Sectoral growth challenge no longer dual but three-dimensional
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5. STRUCTURAL TRANSFORMATION, COMPARATIVE ADVANTAGE, AND POVERTY
THE ECONOMIC GROWTH PROCESS

- COUNTRIES BECOME RICH BY PRODUCING MORE OUTPUT PER GIVEN WORKER
  - THIS INVOLVES PRODUCING MORE OF THE SAME GOOD
  - AND MORE IMPORTANTLY, PRODUCING A LARGER BASKET OF HIGHER VALUE GOODS

- COUNTRIES ALSO BECOME RICH OVER TIME
  - STARTING FROM AN AGRICULTURAL AND RURAL BASE
  - MOVING TO AN URBAN AND INDUSTRIAL BASE
THE ECONOMIC GROWTH PROCESS

○ THE DOUBLE CHALLENGE OF MANAGING THE GROWTH PROCESS
  ➔ RAISING PRODUCTIVITY AGRICULTURE AND THE RURAL ECONOMY
  ➔ WHILE DIVERSIFYING INTO HIGHER VALUE GOODS OUTSIDE OF AGRICULTURE

○ DETERMINING FACTORS
  ➔ HUMAN AND PHYSICAL ASSETS
  ➔ INSTITUTIONAL AND TECHNOLOGICAL RESOURCES
  ➔ POLICY AND COORDINATION CAPACITIES
THE GROWTH IS ACCELERATING AS WELL AS SPREADING GEOGRAPHICALLY

SOURCE: IFPRI / Badiane and Ulimwengu

IFPRI / Badiane
AGRICULTURE IN THE ECONOMIC TRANSFORMATION PROCESS

Based on Timmer (2009)
AGRICULTURE IN THE ECONOMIC TRANSFORMATION PROCESS

- Share of agriculture in total labor force
- Share of agriculture in total GDP

Time Axis

Ag GDP Share = Ag labor share
Ag incomes = Non Ag incomes
AGRICULTURE IN THE ECONOMIC TRANSFORMATION PROCESS

CONVERGENCE: \([\text{Ag GDP Share} - \text{Ag labor share}] \Rightarrow 0\)
LABOR PRODUCTIVITY HAS STAGNATED IN AGRICULTURE AND DECLINED SHARPLY IN NON AGRICULTURAL SECTOR, DRIVEN PRIMARILY BY LOW-PRODUCTIVITY SERVICES

EMPLOYMENT HAS FALLEN SLIGHTLY IN AGRICULTURE AND INCREASED RAPIDLY IN NON AGRICULTURAL SECTOR, AGAIN DRIVEN BY SERVICES AND LESS BY INDUSTRY

Source: FAOSTAT 2011
CONCLUSION NO. 1

STRUCTURAL CHANGE OVER THE LAST 5 DECADES HAS CONTRIBUTED NEGATIVELY TO PRODUCTIVITY GROWTH AMONG AFRICAN COUNTRIES, WITH EXCEPTION OF WEST AFRICA

Source: FAOSTAT, 2011 and WDI, 2009
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AGRICULTURAL SECTOR UNDERPERFORMANCE AND STRUCTURAL CHANGE

THE SHARE OF THE AGRICULTURAL SECTOR IN OVERALL GDP IS LOWER IN NEARLY ALL AFRICAN COUNTRIES THAN WOULD HAVE BEEN EXPECTED BASED ON THE LEVEL OF PER CAPITA

OBSERVED AVERAGE SHARES OVER THE LAST 30 YEARS ARE AROUND 30%, NEARLY 20 PERCENTAGE POINTS BELOW WHAT WOULD BE EXPECTED BASED ON COUNTRIES’ LEVEL OF DEVELOPMENT
CONCLUSION NO. 2

RAPIDLY DOWNSIZED HIGHER-PRODUCTIVITY AGRICULTURAL SECTOR HAS IMPACTED NEGATIVELY ON TRANSFORMATION BY RELEASING LABOR TOO FAST

Average Share of Agriculture in GDP

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<td>East Asia &amp; Pacific</td>
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**Pc GDP in 2008**

**SOURCE:** IFPRI/Badiane & Makombe based on data from WDI, 2009
ON THE OTHER HAND, THE SHARE OF THE SERVICES SECTOR IN GDP IS MUCH LARGER IN THE MAJORITY OF COUNTRIES COMPARED WHAT WOULD HAVE BEEN EXPECTED BASED ON THE LEVEL PER CAPITA INCOMES

THE RELATIVELY BIGGER SERVICES SECTOR IS LINKED TO THE UNDERSIZED AGRICULTURAL SECTOR

IT IS A REFLECTION OF “NEGATIVE DIVERSIFICATION” WITH LABOR LEAVING THE UNDERPERFOMING AGRICULTURAL SECTOR TO MOVE INTO THE EQUALLY UNPRODUCTIVE OR LESS PRODUCTIVE SERVICES SECTOR
CONCLUSION NO. 3

RELATIVELY OVERSIZED LOWER-PRODUCTIVITY SERVICES SECTOR HAS IMPACTED NEGATIVELY ON TRANSFORMATION BY PULLING LABOR TOO FAST

Average Share of Services in GDP

SOURCE: IFPRI/Badiane & Makombe
Data from WDI, 2009
CONCLUSION NO. 4

THE UNDERPERFORMING AGRICULTURAL SECTOR IS NOT JUST DELAYING TRANSFORMATION IT IS ALSO CONTRIBUTING TO HIGHER POVERTY RATES AMONG AFRICAN COUNTRIES

Note: \( y_{\hat{}} = 43.363 \times -0.534 \times x \), over 1990-2005

Graph showing the relationship between poverty rates and observed-expected Ag GDP share.
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CONCLUSION NO. 5

HISTORICAL PATTERNS OF STRUCTURAL TRANSFORMATION HAVE CHANGED THE NATURE OF FUTURE GROWTH CHALLENGE IN AFRICA

INFORMAL SERVICE SECTOR NOW LARGEST POOL OF LOW PRODUCTIVITY LABOR

AGRICULTURE – INDUSTRY DUALITY MODEL NO LONGER APPLICABLE

THREE DIMENSIONAL NATURE OF SECTORAL GROWTH CHALLENGE

INDUSTRIALIZATION STRATEGY NEEDS TO ADDRESS THE INFORMAL SECTOR

PROTO-INDUSTRIAL HANDICRAFT ACTIVITIES: eg, METAL, LEATHER, WOOD WORKS

GROWING DOMESTIC MARKETS FOR IMPROVED ARTISANAL GOODS

PROMOTE ENTERPRISE MATURATION AND GRADUATION IN INFORMAL SECTOR

WHAT DOES THAT MEAN FOR AGRICULTURAL SECTOR STRATEGIES?
MAIN AG. SECTOR POLICY PRIORITY 1

MAXIMIZING GROWTH IMPACT OF AG SECTOR EXPENDITURES

Actual Poverty Rate in 1990

Target Poverty Rate in 2015

Projected 2015 Poverty Rate under CAADP 6% Growth Rate

Projected Required Spending Growth to Achieve CAADP 6% Growth Rate

Badiane and Ulimwengu (2010)
MAIN AG. SECTOR POLICY PRIORITY 2
MAXIMIZING IMPACT OF SOCIAL SERVICES ON AG PRODUCTIVITY

EXEMPLE OF HEALTH SECTOR EXPENDITURES

Trends in public sector expenditures (1980 = 100%)

- Agriculture
- Education
- Health
- Social Security

Badiane and Ulungu Wengu (2010)
Efficiency effects of a 10% change in different types of health expenditures in Uganda: All diseases

Badiane and Ulimwengu (2012)
IMPACT OF SOCIAL SERVICES ON AG PRODUCTIVITY

EXEMPLE OF HEALTH SECTOR EXPENDITURES

Effects of a 10% change in consultation expenditures on farm output (Burkina Faso)