AGRICULTURE AND STRUCTURAL TRANSFORMATION IN AFRICA

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International Food Policy Research Institute
AGRICULTURE AND STRUCTURAL 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. STRATEGIES FOR THE AGRICULTURAL SECTOR

5. STRATEGIES FOR THE INDUSTRIAL SECTOR
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4. FUTURE STRATEGIES IN AND OUTSIDE OF AGRICULTURE

5. STRATEGIES FOR THE INDUSTRIAL SECTOR
KEY MESSAGES

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
KEY MESSAGES

WHAT IS THE WAY FORWARD?

- **SUSTAIN AND ACCELERATE CURRENT ECONOMIC RECOVERY PROCESS** THRU
  - EVIDENCE-BASED AND INCLUSIVE AGRICULTURAL POLICIES
  - RENEWED INDUSTRIALIZATION POLICIES TO DEVELOP COMPARATIVE ADVANTAGE IN HIGHER VALUE GOODS

- **ALIGN POLICIES IN SOCIAL AND PRODUCTIVE SECTORS** TO
  - OVERCOME TIGHT BUDGETARY CONSTRAINTS
  - MAXIMIZE LABOR PRODUCTIVITY IMPACT OF SOCIAL SERVICES
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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 IN THE AGRICULTURAL AND 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
AFRICA IS UNDERGOING ITS LONGEST PERIOD OF SUSTAINED GROWTH SINCE THE 1960S

SOURCE: Badiane 2008: IFPRI Policy Brief No. 9
THE GROWTH IS ACCELERATING AS WELL AS SPREADING GEOGRAPHICALLY

SOURCE: IFPRI / Badiane and Ulimwengu
Data from national account s / UN database: http://data.un.org/Explorer.aspx?d=SNAAMA

IFPRI/Badiane
THE RECENT RECOVERY COULD NOT COMPENSATE FOR DECADES OF DECLINE AND STAGNATION

Progress in Cutting Poverty Rates

- Current
- MDG target

Poverty head count at $1/day

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<tr>
<th>Year</th>
<th>Percent (%)</th>
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<tr>
<td>1990</td>
<td>50</td>
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AGRICULTURE IN THE ECONOMIC TRANSFORMATION PROCESS

Based on Timmer (2009)
THE STRUCTURAL TRANSFORMATION PROCESS HAS BEEN EXTREMELY SLOW IN AFRICA

THE DIFFERENCE BETWEEN THE GDP AND LABOR SHARE OF AGRICULTURE HAS BARELY CHANGED OVER THE LAST 30 YEARS

NOTICEABLE EXCEPTION HAS BEEN OBSERVED AMONG NORTH AFRICAN COUNTRIES

AND TO A LESSER EXTENT AMONG CENTRAL AFRICAN COUNTRIES (NEXT SLIDE)
TRENDS IN STRUCTURAL CHANGE AMONG AFRICAN COUNTRIES 1960 - 2008

SOUTHERN AFRICA

CENTRAL AFRICA

WEST AFRICA

EAST AFRICA

Ag Emp. Share

Ag GDP Share

Difference
LABOR PRODUCTIVITY HAS STAGNATED IN AGRICULTURE AND DECLINED SHARPLY IN THE NON AGRICULTURAL SECTOR, DRIVEN PRIMARILY BY LOW-PRODUCTIVITY SERVICES

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

Source: FAOSTAT 2011
SECTORAL CONTRIBUTION TO PRODUCTIVITY GROWTH BY MAJOR AFRICAN REGIONS

AS A RESULT THE NON AGRICULTURAL SECTOR HAS CONTRIBUTED NEGATIVELY TO PRODUCTIVITY GROWTH ACROSS ALL MAJOR REGIONS DURING THE EIGHTIES AND UP TO MID 1990S


Source: FAOSTAT, 2011 and WDI, 2009
THE CONTRIBUTION OF STRUCTURAL CHANGE TO PRODUCTIVITY GROWTH HAS BEEN HOWEVER MAINLY NEGATIVE IN ALL MAJOR AFRICAN REGIONS WITH EXCEPTION OF WEST AFRICA AND TO A LESSER EXTENT EAST AFRICA.

Source: FAOSTAT, 2011 and WDI, 2009

- Structural Change 1980-1995
- Structural Change 1995-2005
THE CONTRIBUTION OF STRUCTURAL CHANGE TO PRODUCTIVITY GROWTH WAS NEGATIVE IN MORE THAN 40% AFRICAN COUNTRIES IN THE 1980S

Source: IFPRI/Badiane & Makombe based on data from FAOSTAT, 2011 and WDI, 2009
THE CONTRIBUTION OF STRUCTURAL CHANGE TO PRODUCTIVITY GROWTH HAS IMPROVED SINCE THE LATE 1990S AND IS SIGNIFICANTLY NEGATIVE IN SLIGHTLY MORE THAN 20% OF COUNTRIES

Source: IFPRI / Badiane & Makombe based on data from FAOSTAT, 2011 and WDI, 2009
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.
OVERSIZED SERVICE SECTOR AND STRUCTURAL CHANGE IN AFRICA

ON THE OTHER HAND, THE SHARE OF THE SERVICES SECTOR IN GDP IS MUCH LARGER IN THE MAJORITY OF COUNTRIES COMPARED TO 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 UNDERPERFORMING AGRICULTURAL SECTOR TO MOVE INTO THE EQUALLY UNPRODUCTIVE OR LESS PRODUCTIVE SERVICES SECTOR
CONCLUSION 1
RELATIVELY UNDERSIZED HIGHER-PRODUCTIVITY AGRICULTURAL SECTOR IMPACTS NEGATIVELY ON TRANSFORMATION

Average Share of Agriculture in GDP

Source: IFPRI/Badiane & Makombe based on data from WDI, 2009
CONCLUSION 2
RELATIVELY OVERSIZED LOWER-PRODUCTIVITY SERVICES SECTOR
IMPACTS NEGATIVELY ON TRANSFORMATION

Average Share of Services in GDP

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<tr>
<td>Sub-Saharan Africa</td>
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SOURCE: IFPRI/Badiane & Makombe
Data from WDI, 2009
CONCLUSION 3

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

Note: $y_{\text{hat}} = 43.363 - 0.534x$, over 1990-2005
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DELAYED STRUCTURAL TRANSFORMATION IN AFRICA

1. LABOR IS NOT MOVING OUT OF AGRICULTURE FAST ENOUGH
2. AGRICULTURAL GDP SHARE IS DECLINING TOO FAST

- Rising or slowly declining share of low-productivity agricultural labor
- Accelerated decline of Agricultural GDP share
- Share of agriculture in labor force
- Share of agriculture in GDP
NEED TO FOSTER AGRICULTURAL GROWTH AND ITS CONTRIBUTION TO ECONOMIC TRANSFORMATION

AGR. GROWTH AND INDUSTRIAL GROWTH

AGRIC. GROWTH

1% Growth

INDUST. GROWTH

1% To 1.32%

IFPRI/Badiane
NEED TO RAISE AGRICULTURAL TRADE COMPETITIVENESS AND ITS CONTRIBUTION TO ECONOMIC TRANSFORMATION

- AGR. EXPORT AND DOMESTIC GROWTH
  - EXPORT GROWTH
    - 1% Growth
  - INDUST. GROWTH
    - 0.04% To 1.83%

IFPRI/Badiane
NEED TO BOOST COMMERCIALIZATION OF AGRICULTURE AND RAISE ITS CONTRIBUTION TO NON FARM RURAL GROWTH

Incremental income from 1$ additional revenue from agricultural tradables
NEED TO BUILD ON LONG TERM TRENDS IN LOCAL FOOD DEMAND TO STIMULATE SMALLHOLDER AGRICULTURAL GROWTH

Increase in Demand and Incomes in Billion US$

- High value exports: 3 (2000), 10 (2030)
- Commodities: 8 (2000), 10.5 (2030)
- Urban food: 50 (2000), 150 (2030)

Potential Increased farmer income in 2030: 30

IFPRI/Badiane
GETTING THERE
THE COMPREHENSIVE
AFRICA AGRICULTURE DEVELOPMENT PROGRAM [CAADP]

A PLATFORM FOR POLICY RENEWAL IN AFRICA

• DECLARED AGRICULTURAL LED GROWTH STRATEGY

• COMMON FRAMEWORK: FOUR INVESTMENT PILLARS

• SHARED TARGETS: 6% GROWTH AND 10% BUDGET SHARE

• AFRICAN GROWN AND LED AS PART OF NEPAD PROCESS: UNLIKE SAP

• INWARD LOOKING: UNLIKE LAGOS PLAN OF ACTION

• FOCUS ON GOVERNANCE, REVIEW, DIALOGUE: BUSINESS UNUSUAL

IFPRI/Badiane
MOVING TO EVIDENCE-BASED POLICY PLANNING AND IMPLEMENTATION

THE CAAPD ROUND TABLE AND CAADP COMPACT

OBJECTIVE OF ROUND TABLES

1. Make sure that the country is on track to achieve the CAADP growth and budgetary objectives, if not

2. Identify eventual gaps in terms of sector policy, budgetary, and investment measures

OUTCOMES OF ROUND TABLES: CAADP COMPACT

Elaboration of a country CAADP compact to guide the implementation of CAADP in the long term, including:

1. Commitments in terms of sector policies, public expenditures, and development assistance

2. Establishment of partnerships and alliances for successful implementation of CAADP

3. Creation of a mechanism for peer review and dialogue to track implementation performance and the progress in meeting the agreed on commitments

IFPRI/Badiane
REVIEW, BENCHMARKING AND LEARNING TOOLS

Africa Wide

Select an Indicator: GDP Growth

Overview

At the continental level, agricultural GDP growth and overall GDP growth have increased substantially over the past two decades. Both agriculture and overall GDP growth rates were higher in 2008 than their averages in the 1990s and 2000s. Poverty rates have also slightly declined in Africa over the same period, from 46.7 percent in 1990 to 40.9 percent in 2007. Both child malnutrition rates and the proportion of the population that is undernourished have remained at about 30 percent over the same period.
MORE COUNTRIES ARE MEETING THE CAADP GROWTH TARGET

Source: ReSAKSS (www.resakss.org)
MORE COUNTRIES ARE MEETING THE CAADP BUDGET TARGET

AGRICULTURE EXPENDITURE SHARES AGAINST THE CAADP 10% TARGET, 2008

Source: ReSAKSS (www.resakss.org)
MORE COUNTRIES ARE MEETING THE CAADP BUDGET TARGET

CHANGES IN COUNTRY SHARES OF AGRICULTURAL BUDGETS

Source: ReSAKSS (www.resakss.org)
1. THE DEVELOPMENT COMMUNITY IS INVESTING AGAIN IN AGRICULTURE

2. THE LEVEL AND SHARE OF ODA TO AGRICULTURE HAVE REVERSED THEIR DECLINING TRENDS

3. AGRICULTURAL ODA HAS KEPT UPWARD TREND DESPITE FALLING OVERALL ODA

Source: ReSAKSS (www.resakss.org)
EVEN IF ALL AFRICAN COUNTRIES MEET THE MDG POVERTY TARGET, POVERTY LEVELS WILL STILL BE RELATIVELY HIGH AT AVERAGE RATE OF 30% 

SUSTAINING AN AGRICULTURAL GROWTH RATE OF 6% WILL NOT BE ENOUGH FOR MANY COUNTRIES TO ACHIEVE THAT OUTCOME

MANY AFRICAN COUNTRIES WILL BE UNDER GROWING PRESSURE TO MEET THE SHORT TERM SOCIAL NEEDS OF LARGE POOLS OF POOR PEOPLE
LONG TERM CHALLENGE FACING AGRICULTURE #2:
BRIDGING THE EXPENDITURE GAP TO ACCELERATE GROWTH

THE FUNDING REQUIREMENTS TO ACHIEVE A 6% GROWTH IN THE AGRICULTURAL SECTOR WOULD IMPLY DOUBLE DIGIT BUDGET GROWTH RATES

AFRICAN COUNTRIES WILL THEREFORE FIND THEMSELVES IN SEVERE BUDGETARY TRADE OFFS:

1. HAVING TO FINANCE THE GROWING SHORT TERM SOCIAL NEEDS OF LARGE POOLS OF POOR PEOPLE

2. WHILE INVESTING MORE IN LONG TERM GROWTH

Source: Dollar a Day Poverty Rates from World Bank, PovCal Net, 2008 [poverty line $1.25]; Projected CAADP Poverty Rates from various IFPRI country CAADP Growth Simulation Studies
COUNTRIES WILL THEREFORE NEED TO FIND WAYS OF MAXIMIZING THE GROWTH IMPACT OF THE LARGE AND GROWING POOL OF RESOURCES BEING SPENT ON SOCIAL SERVICE

THEY WILL HAVE TO LOOK BEYOND THE ENTITLEMENT ASPECT OF SERVICES AND EMPHASIZE THEIR PRODUCTIVE ROLE

Sources: Government spending: Global database on public spending, DSGD, IFPRI, 2009; and ODA: OECD, 2008

IFPRI/Badiane
PUBLIC EXPENDITURE CONVERGENCE
EFFECT OF 10% INCREASE IN EDUCATION EXPENDITURE ON OUTCOMES,
AGRICULTURAL EFFICIENCY, AND POVERTY*

EDUCATION SERVICES ARE COMPOSITES CONSISTING OF A MIXTURE OF SUBTYPES OF SERVICES: TERTIARY, SECONDARY, AND VOCATIONAL

THE MIX OF SUBCATEGORIES IS NOT GROWTH-NEUTRAL

MAXIMIZING THE GROWTH IMPACT OF EDUCATION SERVICES REQUIRES OPTIMIZATION OF EXPENDITURES ACROSS DIFFERENT SUBTYPES OF EDUCATION SERVICES BASED ON THEIR IMPACT ON LABOR PRODUCTIVITY IN THE AGRICULTURAL AND RURAL SECTOR

Note: * Based on data from Vietnam. Data collection ongoing in 3 African countries.
PUBLIC EXPENDITURE CONVERGENCE
EFFECT OF 10% INCREASE IN SERVICES EXPENDITURE ON SOCIAL OUTCOMES, AGRICULTURAL EFFICIENCY, AND POVERTY*

HEALTH SERVICES ARE COMPOUNDS CONSISTING OF A MIXTURE OF SUBTYPES OF SERVICES TO TARGET A VARIETY OF DISEASES WITH DIFFERENT IMPACT ON LABOR PRODUCTIVITY IN RURAL AREAS.

THE MIX OF SUBCATEGORIES HEALTH SERVICES IS THEREFORE NOT GROWTH NEUTRAL.

MAXIMIZING THE GROWTH IMPACT OF HEALTH SERVICES REQUIRES OPTIMIZATION OF EXPENDITURES ACROSS DIFFERENT SUBTYPES OF SERVICES BASED ON THEIR IMPACT ON LABOR PRODUCTIVITY.

Note: * Based on data from Uganda. Data collection ongoing in 3 African countries.
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SUCCESSFUL STRUCTURAL CHANGE LEADS TO GREATER ECONOMIC SOPHISTICATION REFLECTED IN GROWING SHARE HIGHER VALUE GOODS IN GDP AND EXPORTS

- Share of agriculture in labor force
- Share of agriculture in GDP
- Sophistication of production and export basket
- Increase in per-capita GDP
TRENDS IN ECONOMIC SOPHISTICATION AMONG AFRICAN COUNTRIES

*EXPY* MEASURES THE EXTENT TO WHICH A COUNTRY HAS REVEALED COMPARATIVE ADVANTAGE IN SOPHISTICATED / HIGHER VALUE PRODUCTS

THE HIGHER THE VALUE THE MORE THE COUNTRY IS EXPORTING PRODUCTS THAT TEND TO BE ASSOCIATED WITH MORE MATURE ECONOMIES AND HIGHER PER CAPITA INCOMES

THE LOWER THE VALUE THE MORE THE COUNTRY TENDS TO EXPORT PRIMARY, UNSOPHISTICATED PRODUCTS

Source: IFPRI/Ulimwengu & Badibanga
* See Hausmann, Hwang, Rodrik (2006)
TRENDS IN ECONOMIC SOPHISTICATION AMONG AFRICAN COUNTRIES

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CONCLUSION 4:
AFRICAN COUNTRIES HAVE FAILED TO DEVELOP COMPARATIVE ADVANTAGE AND DIVERSIFY OUTSIDE OF PRIMARY PRODUCTS (RAW MATERIALS, MINING, OIL)

AFRICA NEEDS INDUSTRIAL STRATEGY-RENEWAL

THE INDUSTRIAL DEVELOPMENT PROCESS

INDUSTRIAL DEVELOPMENT IS A SELF-DISCOVERY PROCESS

- INDUSTRIALIZATION HAPPENS THROUGH THE PRODUCTION OF NEW GOODS
- ADAPTION OF NEW TECHNOLOGIES AND PRODUCTION PROCESSES
  UNCERTAINTY IN FINDING WHAT GOOD CAN BE PRODUCED PROFITABLY
- SUCCESSFUL INVESTORS FAIL TO CAPTURE FULL BENEFITS DUE TO IMITATION AND EASY ENTRY
- SOCIAL RETURNS EXCEED PRIVATE RETURNS
- NUMBER OF ENTREPRENEURS AND LEVEL OF INVESTMENT LOWER THAN SOCIALLY DESIRABLE
KEY ELEMENTS OF RENEWED INDUSTRIAL STRATEGIES IN AFRICA

OBJECTIVE

TO DEVELOP COMPARATIVE ADVANTAGE IN THE PRODUCTION OF A CRITICAL MASS OF HIGHER PRODUCTIVITY GOODS
KEY ELEMENTS
OF RENEWED INDUSTRIAL STRATEGIES IN AFRICA*

POLITICAL LEADERSHIP AT THE TOP

PUBLIC PRIVATE PARTNERSHIP FOR COORDINATION AND DIALOGUE

PEER REVIEW, BENCHMARKING, AND ACCOUNTABILITY PLATFORMS

* See also Rodrik (2004)

IFPRI/Badiane
KEY ELEMENTS
OF RENEWED INDUSTRIAL STRATEGIES IN AFRICA

PRINCIPLES

- Focus incentives on new products and technologies to remove information and coordination externalities and reduce discovery cost

- Target activities with spill over and demonstration effects

- Define exit strategy, including:
  - Clear benchmarks for success and failure
  - Built-in sunset clauses

IFPRI/Badiane
KEY ELEMENTS
OF RENEWED INDUSTRIAL STRATEGIES IN AFRICA

INSTRUMENTS

- **SUBSIDIZE COST OF SELF-DISCOVERY**
  - FEASIBILITY STUDIES
  - TECHNOLOGY TRIALS
  - MARKET INTELLIGENCE

- **FACILITATE ACCESS TO LONG TERM, HIGHER RISK FINANCE**
  - DEVELOPMENT BANKS
  - VENTURE FUNDS
  - LONG TERM COMMERCIAL LOAN GUARANTEE

- **PROVIDE PUBLIC R&D AND VOCATIONAL TRAINING**
- **IMPROVE EDUCATION AND HEALTH OUTCOMES**

IFPRI/Badiane
Expenditures data are from IFPRI (2010) and include Ethiopia, Ghana, Kenya, Malawi, Mauritius, Nigeria, Uganda and Zimbabwe from 1980 to 2000. Source: IFPRI/Ulimwengu & Badibanga