Developing infrastructure for productive transformation in Africa

Presentation by

Bakary Traoré
Economist Africa, Europe and Middle East Desk
OECD Development Centre

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The AfDD report is the product of a collaborative approach initiated and led by the African Union Commission.
This 2nd edition of the AfDD examines public policies that can help transform Africa’s firms and production systems.

Chapter 1 highlights the ways for achieving Africa’s productive transformation in a fast-changing world.

Regional chapters highlight policies to accelerate productive transformation in...

Chapter 2: Southern Africa
Chapter 3: Central Africa
Chapter 4: East Africa
Chapter 5: North Africa
Chapter 6: West Africa
WHAT ARE OPPORTUNITIES AND CHALLENGES FOR PRODUCTIVE TRANSFORMATION IN AFRICA?
Africa is the second fastest growing region in the world...

African economies have grown by 4.6% since 2000....

Africa’s GDP have grown by 4.6% annually between 2000 and 2018

1. Africa’s domestic demand accounted for 69% of this growth.

2. Domestic demand is growing at 6.7%

Africa’s rapid demographic growth and urbanisation bring a window of opportunities

By 2050, Africa accounts for 69% of increase in global labor force

**Workforce changes by 2050, in millions**

- **Africa**: 902 (+136%)
- **China**: -200 (-20%)
- **India**: 263 (+31%)
- **Europe**: -85 (-17%)
- **United States**: 25 (+12%)

Africa’s urbanisation occurs twice as fast as Europe’s

**Africa’s population by 2050 (in millions)**

Demographic dividends:
- ↑ demand for jobs
- ↑ demand for basic services

Urban transition:
- Urban poverty
- Urban congestion

Risks:
- ↑ domestic market
- ↑ savings for investment
- ↑ urban markets
- Infrastructure development

Opportunities:
- Urban markets
- Infrastructure development
Africa’s regional demand is shifting towards more processed goods

Africa’s net demand for processed goods is growing 1.5 times faster than global averages

Many regional champions and dynamic start-ups are seizing these opportunities to grow in size and productivity. While the majority of start-ups are located in few large cities.

49% of start-ups are located in 5 cities: Cape Town, Lagos, Johannesburg, Nairobi, Cairo.

Many large regional firms are now going continental.

Examples:
- OCP (Morocco);
- Dangote (Nigeria);
- Ecobank (Togo);
- Ethiopian Airlines;
- MeTL Group (Tanzania);
- Safaricom M-PESA (Kenya);
- MTN and Shoprite (South Africa).

Who do they do? The top10 most attractive activities for African start-ups:

- IT and internet services: 27.9%
- Apps and software: 20.5%
- Audiovisual, broadcasting: 15.6%
- Hardware, robotics and: 14.3%
- Finance, lending and: 13.6%
- E-commerce and Shopping: 12.1%
- Leisure, lifestyle, tourism: 9.7%
- Mobile industry and: 9.4%
- Sales, marketing and: 8.5%
- AI, data analysis and science: 6.9%
Many African governments invested in infrastructure since 2000...

...leading to process of capital accumulation.

Gross fixed capital formation, 2009-16

% GDP

<table>
<thead>
<tr>
<th></th>
<th>Private</th>
<th>Public</th>
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<tbody>
<tr>
<td>Africa</td>
<td>15</td>
<td>7</td>
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<tr>
<td>Non-resource-rich...</td>
<td>18</td>
<td></td>
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<tr>
<td>Resource-rich...</td>
<td>13</td>
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Source: Africa’s Development Dynamics 2018
The Africa-to-Asia labour productivity ratio decreased from 67% in 2000 to 50% in 2018.

Yet, successful cases are too often isolated and scaling-up remains a challenge.

...and only 18% of Africa’s exporters survive beyond the 3rd year.
Development of *intra-African value chains* is limited

Intra-African only accounts for 12% of region’s *export in intermediate goods* and 7% of *greenfield FDI inflows*. 

[Chart showing Intra-region as % of trade in intermediate goods and Intra-region as % of greenfield foreign direct investment inflows for Africa, Asia, and LAC.]

Several sources of financing are not being mobilised for productive investment.

Example: Domestic savings in Africa represented USD 422 billion annually over the period 2009-16.

Private investment in infrastructure is lagging behind (USD bn, 2012-2016).

Source: Africa’s Development Dynamics 2018

Source: EIB, 2018
DEVELOPING INFRASTRUCTURE FOR PRODUCTIVE TRANSFORMATION IN AFRICA

WHICH POLICY APPROACHES CAN HELP?
Infrastructure development strategies can help Africa’s firms prepare for future changes and support structural transformation by focusing on three sets of policies.

Regional production networks

Firm clusters

Access to local, regional and global demands
Several SEZs and industrial clusters have attracted world-class FDI

<table>
<thead>
<tr>
<th>Location</th>
<th>Industry/Activities</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hawassa (Ethiopia)</td>
<td>Textile, leather, agro-transformation, pharmaceutical</td>
<td>Eco-industrial parks (35 sites) using green energy. 60 000 people employed, export capacity of USD 1 bn per year</td>
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<tr>
<td>Zone Franche Maurice (Mauritius)</td>
<td>Textile (80% of exports), jewellery, eyewear, toys</td>
<td>Agreement with Senegal, Ghana &amp; Madagascar to promote exports. 90 000 people employed.</td>
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<td>Tangier Med Special economic zone (Morocco)</td>
<td>Automobile – Cluster (Renault, Ford) employing 60 000 people.</td>
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<td>Suez Economic Zone (Egypt)</td>
<td>The Suez Economic Zone has allowed Egypt to move up the value chain in the oil industry (drills and components)</td>
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<td>Bizerte cluster (Tunisia)</td>
<td>Agro’tech: The Bizerte cluster in Tunisia, for example, consists of an agri-food tech hub, a network of “Agro’tech” partners and 150 hectares of industrial space.</td>
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Don’t overlook the potential of informal clusters

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<tr>
<th>Location</th>
<th>Industry/Activities</th>
<th>Notes</th>
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<tbody>
<tr>
<td>Suame Magazine (Ghana)</td>
<td>Automobile – Employs 200 000 people with complementary skills in metallic engineering and repair.</td>
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<td>Nollywood (Nigeria)</td>
<td>Cinema – Second cinematographic industry in the world, one of the main employers of the country, accounts for 1.4% of Nigeria’s GDP.</td>
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<tr>
<td>Nnewi (Nigeria)</td>
<td>Automobile – Manufacturing base of the country. 70% of the components are domestic, diminishing reliance on imports.</td>
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1. Select clusters based on:
- Comparative advantages
- Existing capabilities and local assets for jobs and value addition
- Proximity to strategic inputs, markets or infrastructure

2. Attract new capabilities:
- Infrastructure (electricity and transport)
- Regulation & administrative efficiency
- One-stop shop & investor after-care

3. Develop linkages through:
- "Matchmaking"
- Support industrial associations
- Training for local workers
- Financial support for suppliers’ upgrading
- Local governments engagement
2/ Local firms can gain new competitive edges if countries develop **regional complementarities** within high potential value chains

<table>
<thead>
<tr>
<th>Region</th>
<th>Value chain</th>
<th>(Regional) Opportunities</th>
<th>(Country-level) Challenges</th>
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<tbody>
<tr>
<td>Central Africa</td>
<td>Wood processing</td>
<td>• Diversity of forest products (ayous, okoumé, sapelli, etc.)</td>
<td>• Weak processing capacity (sawing, debarking, and cutting trees for plywood and veneer)</td>
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<td></td>
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<td>• Large panel of activities possible: construction, paper pulp, furniture, energy...</td>
<td>• Valorise traditional know-how.</td>
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<td>East Africa</td>
<td>Tourism</td>
<td>• Air transport</td>
<td>• Administrative costs, lack of infrastructure in remote areas</td>
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<td>• Easy entry for tourists</td>
<td>• Security issues in some countries</td>
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<td></td>
<td></td>
<td>• Emerging regional co-operation to jointly promote regional tourist packages</td>
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<td>North Africa</td>
<td>Textiles/clothing</td>
<td>• Geographical proximity to Europe and FTA with USA</td>
<td>• Target niches to move upmarket (design, branding, marketing, etc.)</td>
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<td></td>
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<td>• Accumulated know-how</td>
<td>• Availability of raw material in most of the region (wool, cotton, etc.),</td>
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<tr>
<td>Southern Africa</td>
<td>Automotive</td>
<td>• Strong automotive industry in South Africa</td>
<td>• Identify niches and supply at a competitive rate</td>
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<td></td>
<td></td>
<td>• Existing production of intermediary inputs (batteries from Botswana, car seat kits</td>
<td>• Small market size</td>
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<td></td>
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<td>manufactured in Lesotho)</td>
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<tr>
<td>West Africa</td>
<td>Agro-food products</td>
<td>• Global dominance in several agriculture production *(i.e. cocoa beans, casew nuts,</td>
<td>• Develop activities and services that create more value added (branding, marketing...)</td>
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<tr>
<td></td>
<td></td>
<td>karite nut, cassava...)*</td>
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<td></td>
<td></td>
<td>• Opportunity to create a cross-border SEZ</td>
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Regional economic communities (RECs) are beginning to actively support the creation of **regional value chains**

| Sikasso-Korhogo-Bobo-Dioulasso (SKBO) | **Africa’s first cross-border SEZ** (Mali, Burkina Faso and Côte d’Ivoire)  
➢ Attract private investment in agri-food, agro-industry and mining.  
➢ Promote the creation and strengthening of public and private industrial projects, through incentives for the private sector |
|---|---|
| **Action Plan for the SADC Industrialization Strategy** | Identifies specific projects to better align and carry out existing strategies develop technical skills, and address service trade.  
**Six priority areas identified for regional value chain development**, based on comparative advantages:  
➢ agro-processing, minerals and beneficiation, pharmaceuticals, consumer goods, automobiles, and modern services |
| **Cotton-Textile and Garment Development Strategy (Central Africa)** | ➢ **Increase cotton production** (seed cotton and fibre) while improving productivity and profitability.  
➢ Improve and guarantee cotton quality.  
➢ Support and develop the transformation of fibre.  
➢ Improve **promotion and marketing** of cotton and textiles.  
➢ Development and improvement of cotton seed by-products |
3/ Improving the quality of connective infrastructure, regulatory frameworks and logistics services to increase firms’ capabilities to export and thrive on new markets

Gains from different trade facilitation measures (% reduction in trade costs)

Examples:
- The EAC’s Single Customs Territory significantly reduced transit times and cost for goods entering the EAC from Mombasa, by approximately 50% and 30%, respectively.
- New shipping lines are being planned, like that of Wazzan II in Morocco and another in Tunisia, linking the region to West Africa.
- The port of Alexandria in Egypt sees a high percentage of foreign trade (60%) pass through each year.
Time to act **regionally**: A call for proactive and coordinated productive transformation strategies

1. Develop integrated *regional value chains*:
   - Coherent national and regional strategies: many countries focus on same goods
   - Promoting the development of logistic services for strategic RVC
   - Encourage *talent mobility within Africa*

2. Go beyond national investment reforms
   - Countries can avoid inappropriate tax competition *for FDI*
   - Develop common regional norms for FDI
   - Facilitate intra-African cross-border investments

3. **Harmonise statistics at regional level**
We are “all ears” : Joining our efforts through the AfDD platform to deliver better on the Agenda 2063 ambitions

Evidence-based policy assessment, Benchmarking & Harmonised statistics

Consultation & Policy dialogue on Africa’s development

Policy coordination among Pan-African institutions
WE ARE “ALL EARS”
“Nous sommes dans la dynamique de l’écoute”

THANK YOU!
Improving connective infrastructure

Africa has the world's highest maintenance costs for road and rail networks

Rail freight in Africa... is 150% more expensive than in LatAm... and 200% more expensive than in Asia.
Accelerating Africa’s productive transformation is a strategic objective for several continental initiatives

<table>
<thead>
<tr>
<th>On-going continental initiatives</th>
<th>Key institutions</th>
<th>Timeframe</th>
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<tbody>
<tr>
<td><strong>1. Agenda 2063</strong></td>
<td>AU</td>
<td>2013-</td>
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<tr>
<td>Aspiration 1: “A Prosperous Africa Based on Inclusive Growth and Sustainable Development.”</td>
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<td><strong>2. AU Action Plan for the accelerated industrial development of Africa (AIDA)</strong></td>
<td>AU</td>
<td>2008 -</td>
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<tr>
<td><strong>3. Boosting Intra-African Trade (BIAT)</strong></td>
<td>AU, ECA</td>
<td>2012 -</td>
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<tr>
<td>Cluster III – Productive Capacity</td>
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<tr>
<td><strong>4. The United Nations third industrial development decade for Africa (IDDA III)</strong></td>
<td>UNIDO</td>
<td>2016-2025</td>
</tr>
<tr>
<td><strong>5. Programme for infrastructure development in Africa (PIDA)</strong></td>
<td>AUC, NEPAD, AfDB, ECA</td>
<td>2012-2040</td>
</tr>
<tr>
<td><strong>6. The science, technology and innovation strategy for Africa 2024 (STISA)</strong></td>
<td>AUC</td>
<td>2014 - 2024</td>
</tr>
<tr>
<td><strong>7. The African agribusiness and agro-industries development initiative (3ADI)</strong></td>
<td>FAO, IFAD, UNIDO</td>
<td>2010-2020</td>
</tr>
<tr>
<td><strong>8. Comprehensive Africa agriculture development programme (CAADP)</strong></td>
<td>AU, NEPAD</td>
<td>2003 -</td>
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<tr>
<td><strong>9. The Africa mining vision</strong></td>
<td>AU</td>
<td>2009 -</td>
</tr>
<tr>
<td><strong>10. The African productive capacity initiative (APCI)</strong></td>
<td>UNIDO</td>
<td>2003 -</td>
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*(not exhaustive)*