



# Launch of **Africa's Development Dynamics** 2019

## Developing infrastructure for productive transformation in Africa

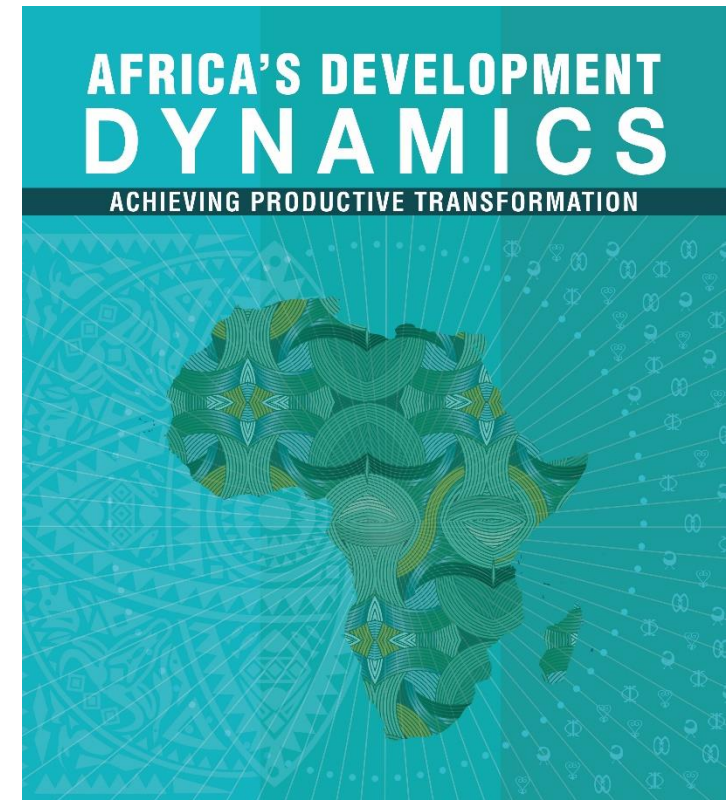
*Presentation by*

***Bakary Traoré***

*Economist Africa, Europe and Middle East Desk*

*OECD Development Centre*

*Cairo, 27 November 2019*



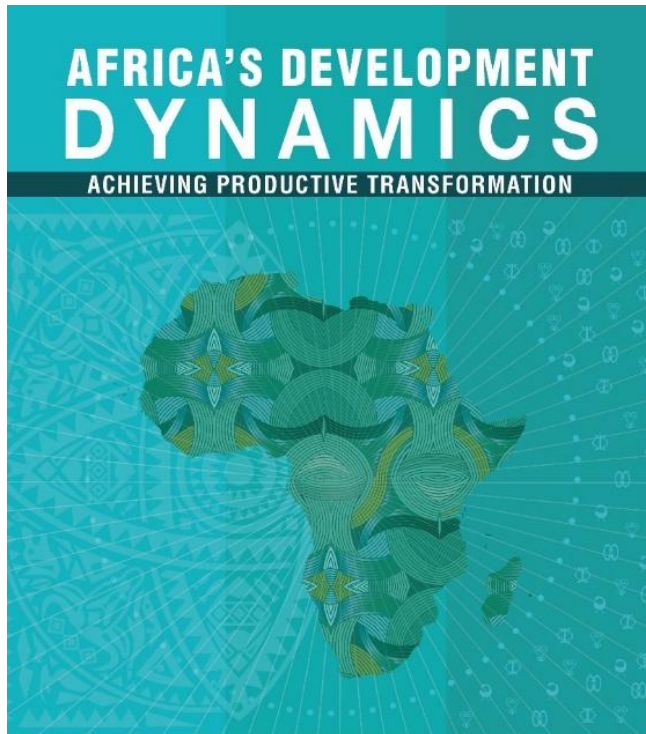


# The AfDD report is the product of a collaborative approach initiated and led by the African Union Commission





**This 2<sup>nd</sup> edition of the AfDD** examines public policies that can help transform **Africa's firms and production systems**



African Union



**2019**

**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*

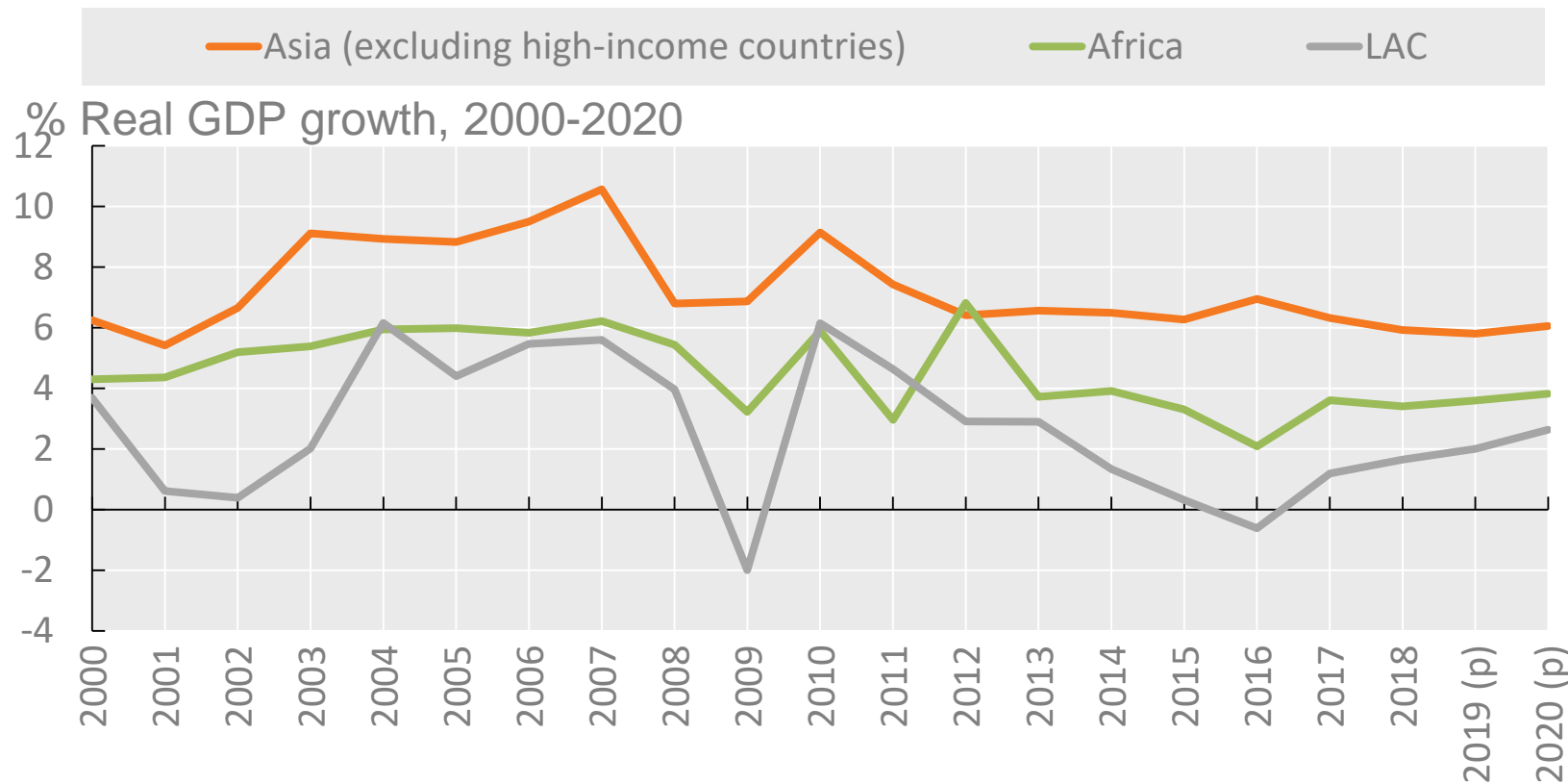


# WHAT ARE OPPORTUNITIES AND CHALLENGES FOR PRODUCTIVE TRANSFORMATION IN AFRICA?



# 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%

Source : AUC/OECD (2019), calculations based on IMF (2019) *World Economic Outlook* (database)

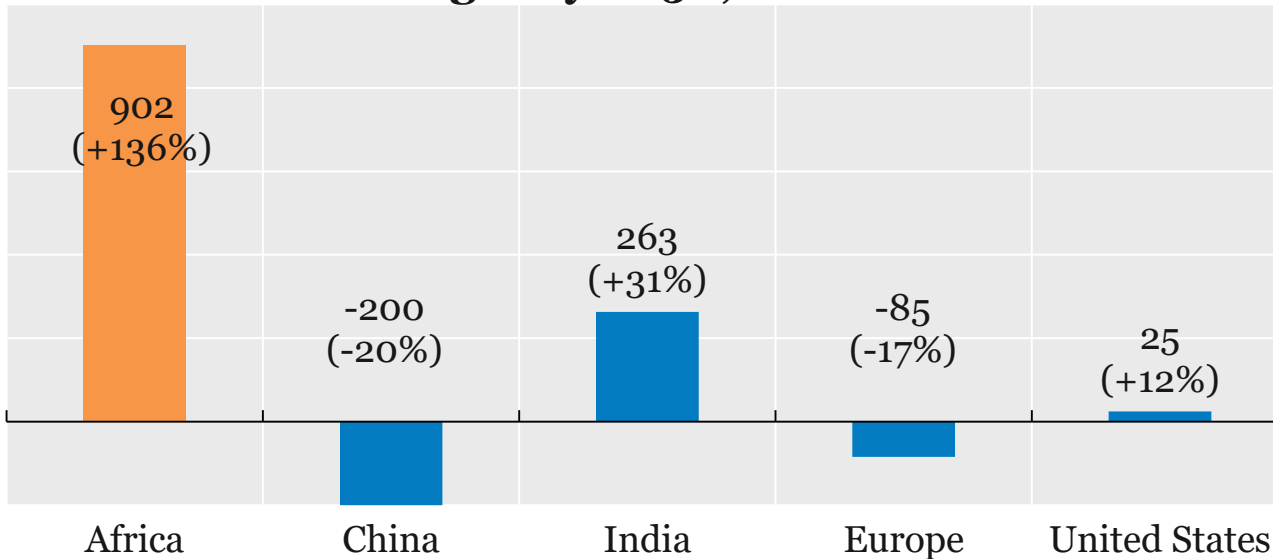


# Africa's rapid **demographic growth** and **urbanisation** bring a window of opportunities

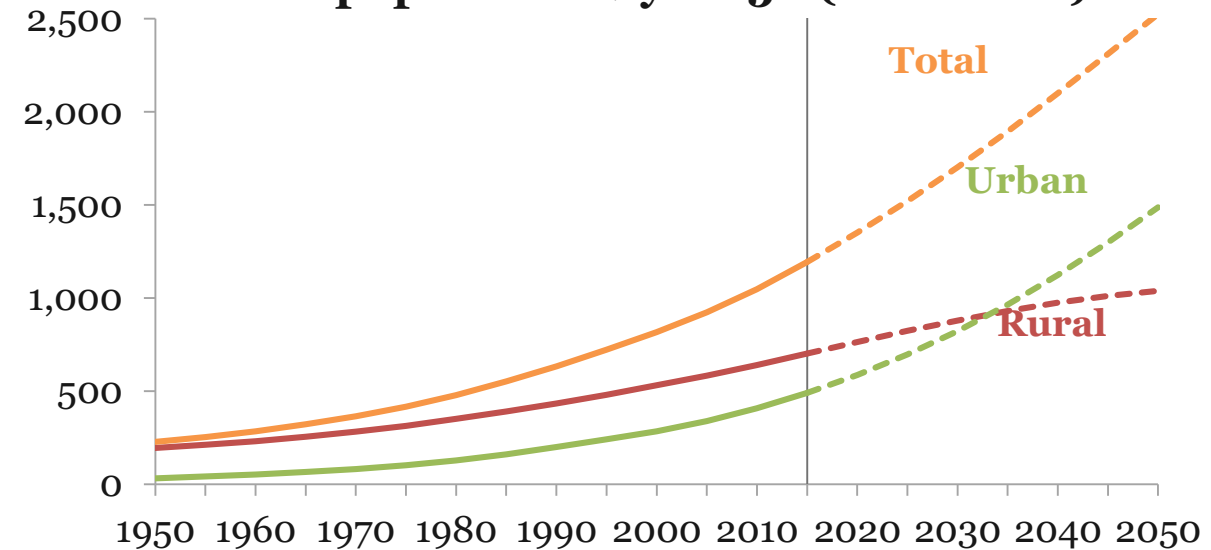
By 2050, Africa accounts for 69% of increase in global labor

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

**Workforce changes by 2050, in millions**



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



**Demographic  
dividends**

**Urban  
transition**

- ↑ demand for jobs -
- ↑ demand for basic services -
- ↑ domestic market
- ↑ savings for investment

Urban poverty -

Urban congestion -

↑ urban markets

Infrastructure development+

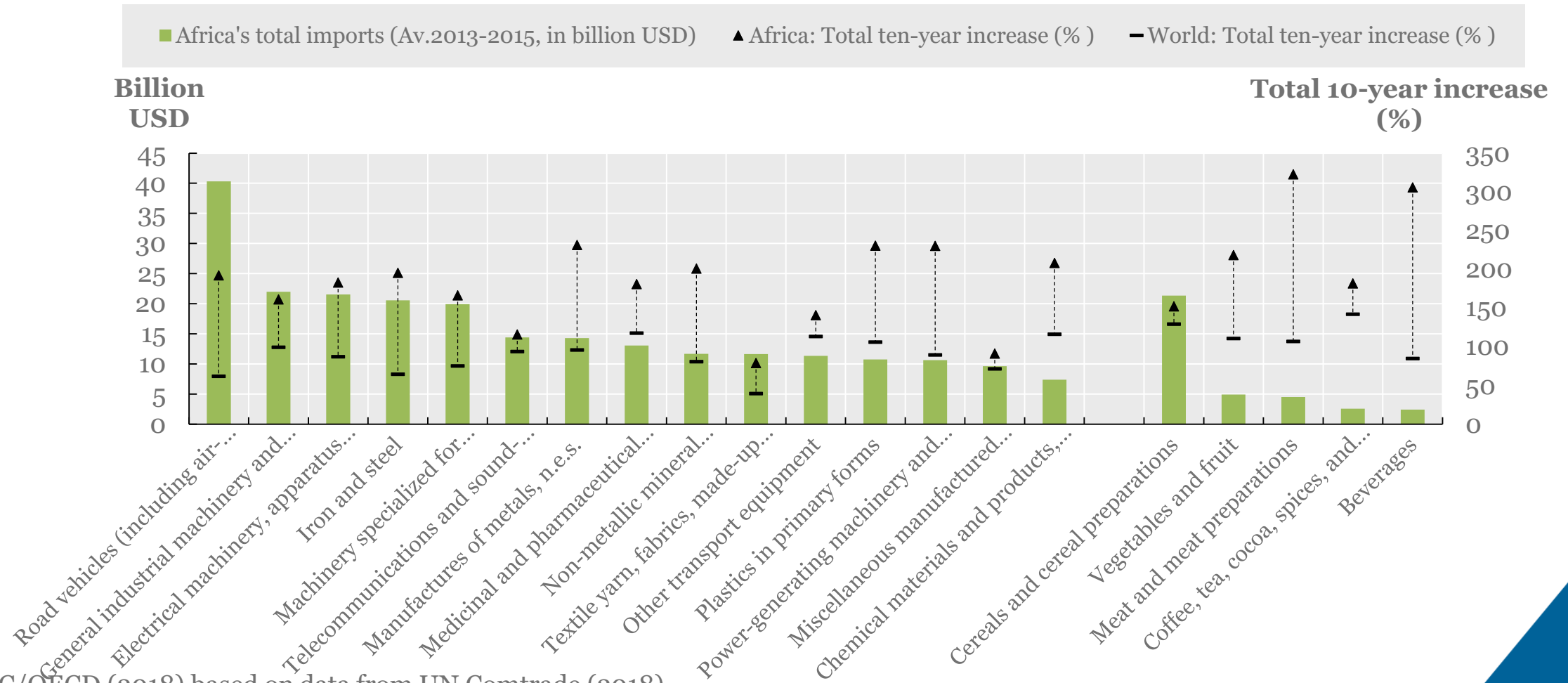
**Risks**

**Opportunities**



# 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



Source: AUC/OECD (2018) based on data from UN Comtrade (2018)





# 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

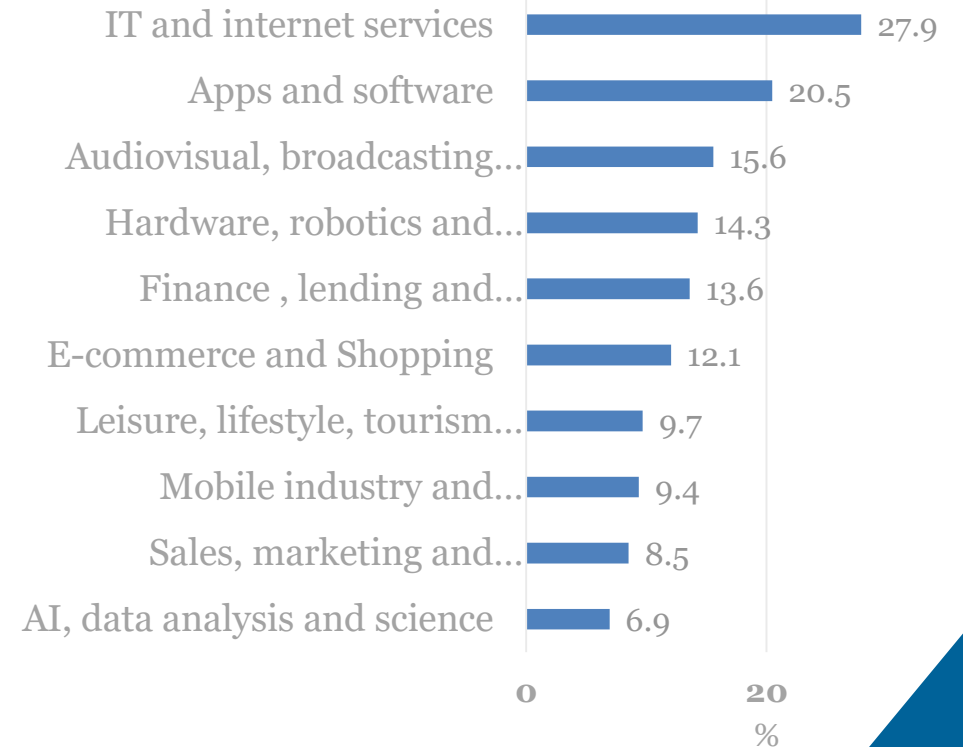
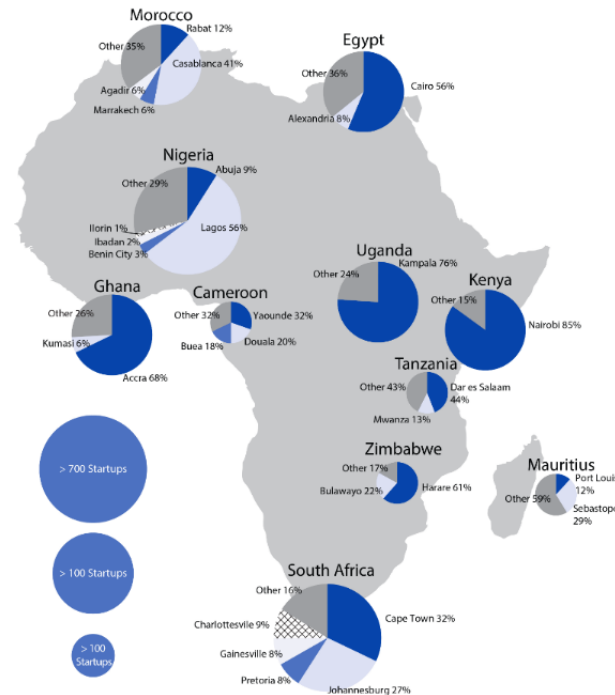
Many large regional firms are now going continental

## Examples:

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

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

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

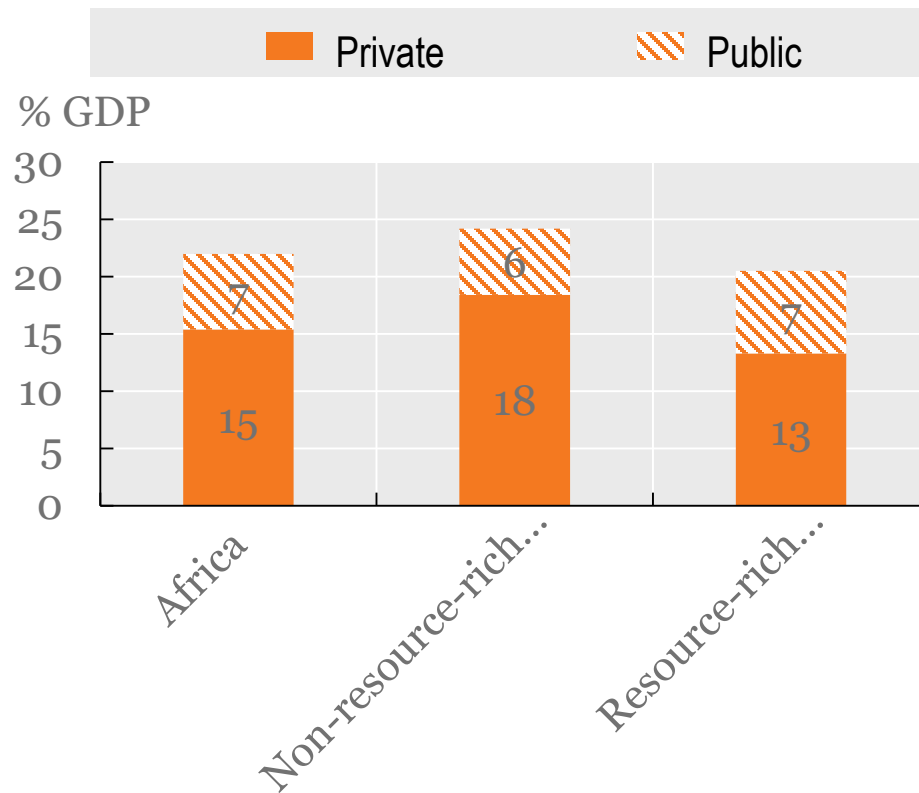




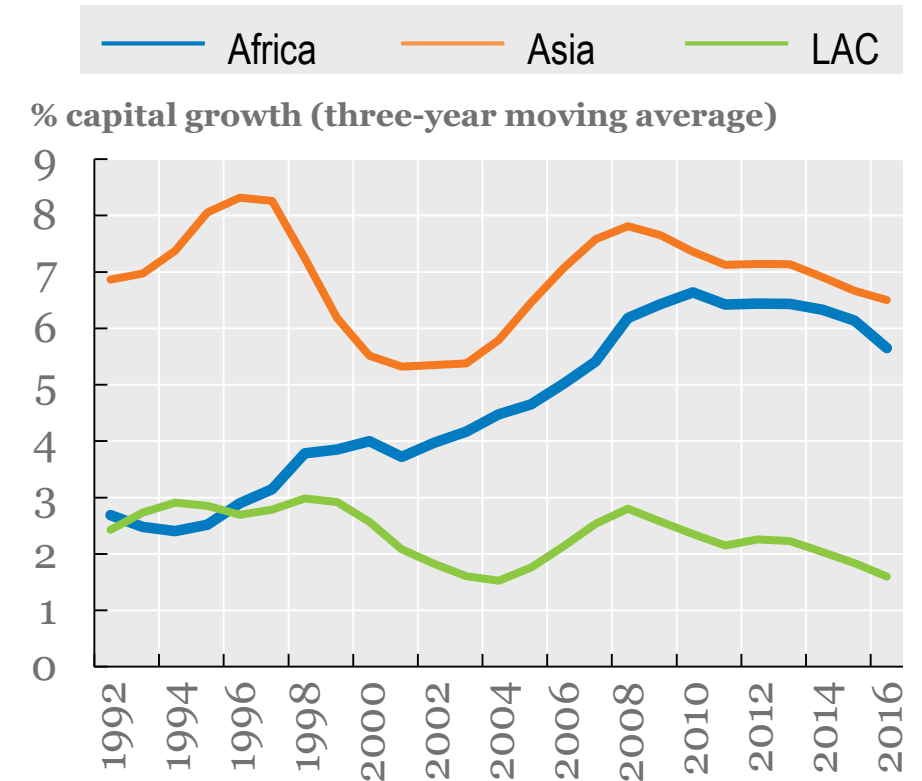


# Many African governments invested in infrastructure since 2000...

Gross fixed capital formation, 2009-16



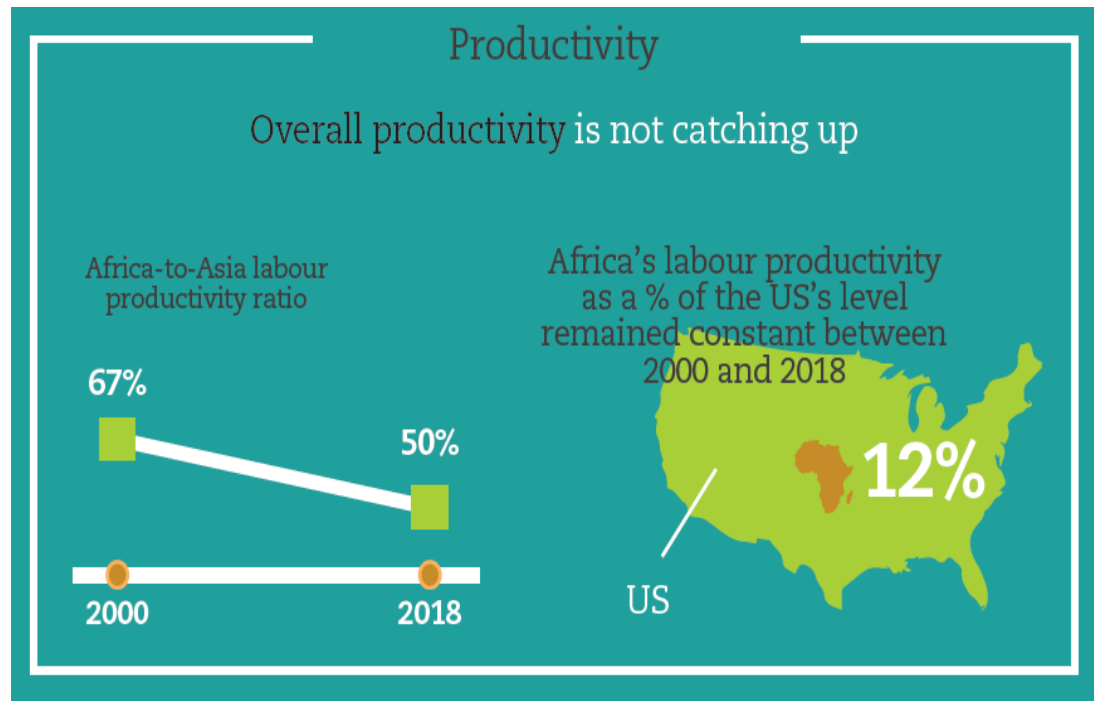
...leading to process of capital accumulation.



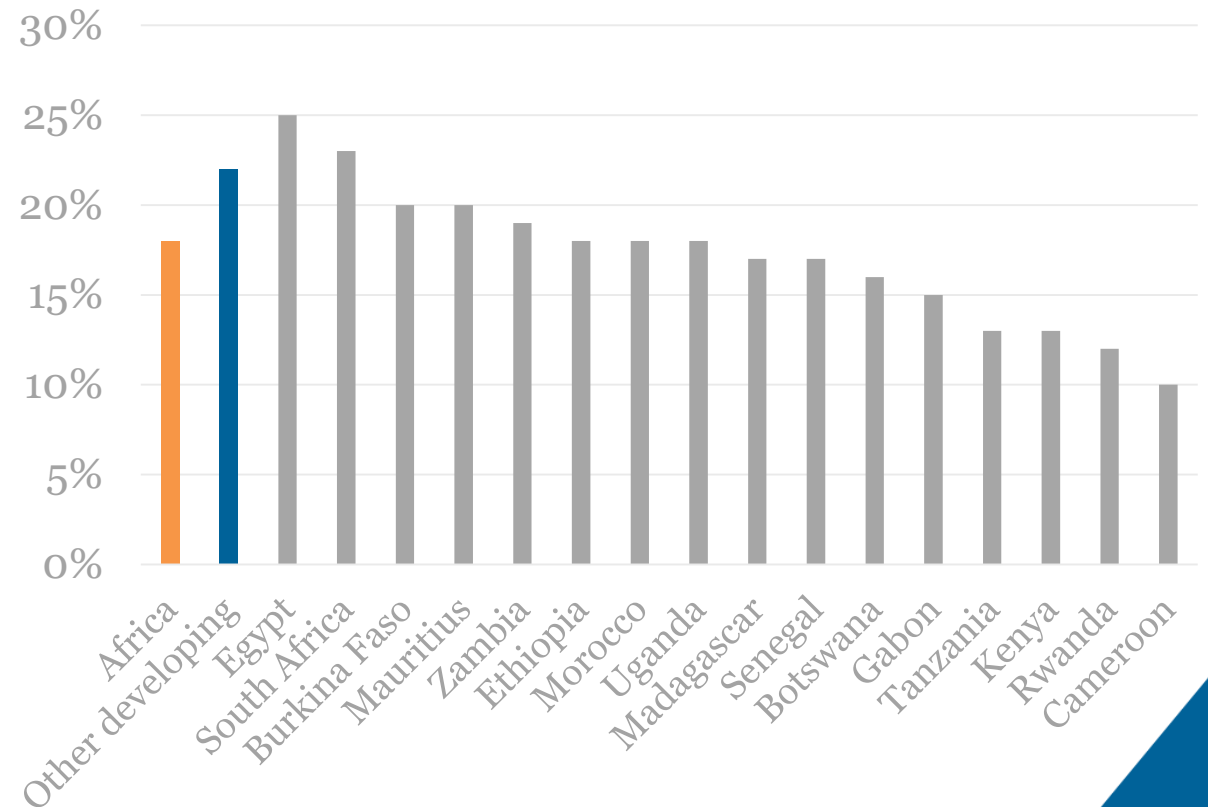


# yet, successful cases are too often isolated and scaling-up remains a challenge

The Africa-to-Asia labour **productivity ratio decreased** from 67% in 2000 to 50% in 2018.



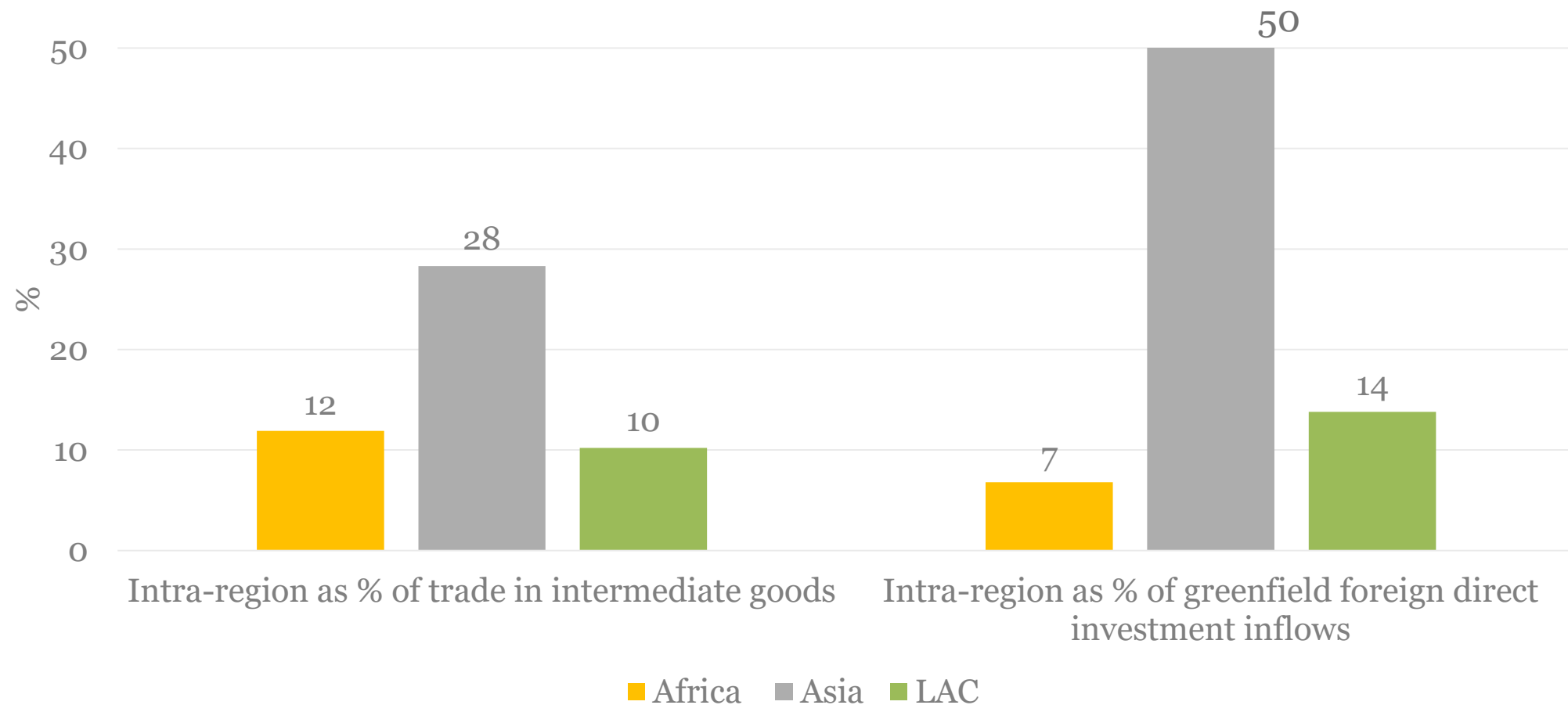
....and only **18%** of Africa's exporters survive beyond the 3<sup>rd</sup> year





## Development of **intra-African value chains** is limited

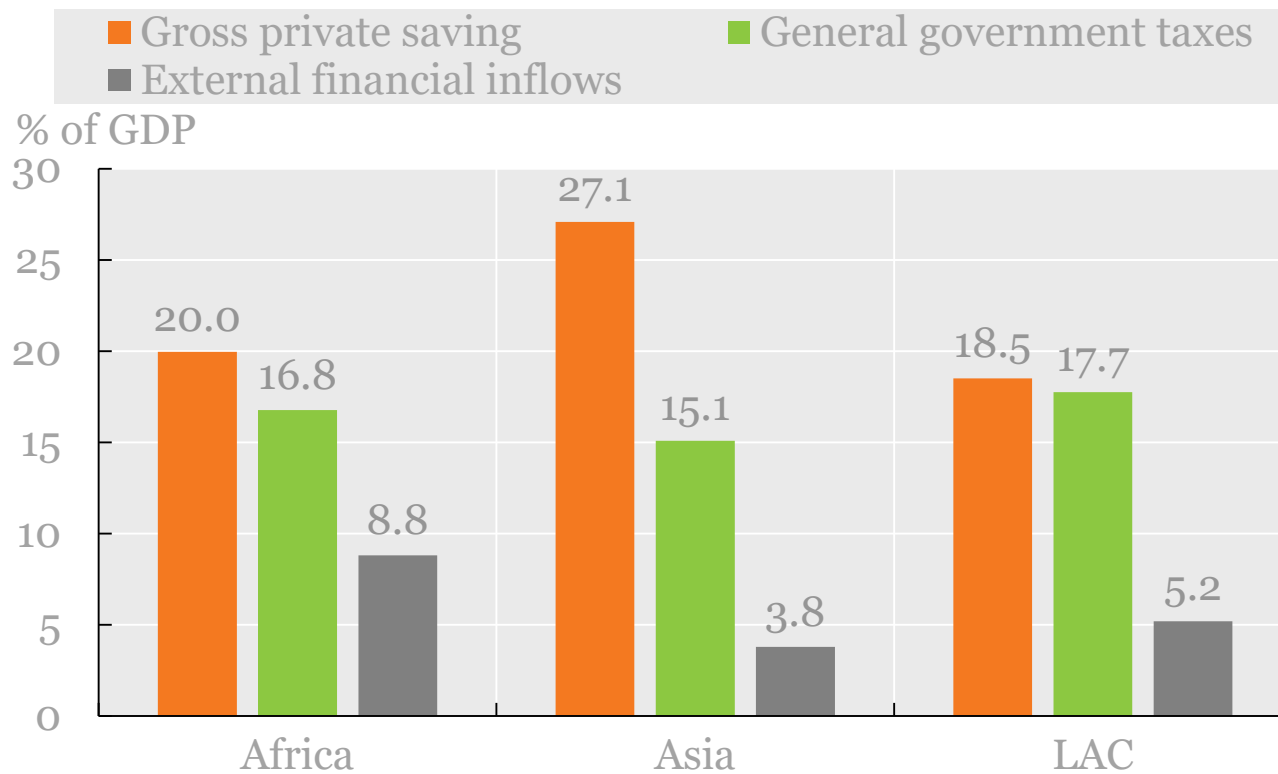
Intra-African only accounts for **12%** of region's **export in intermediate goods** and **7%** of **greenfield FDI inflows**





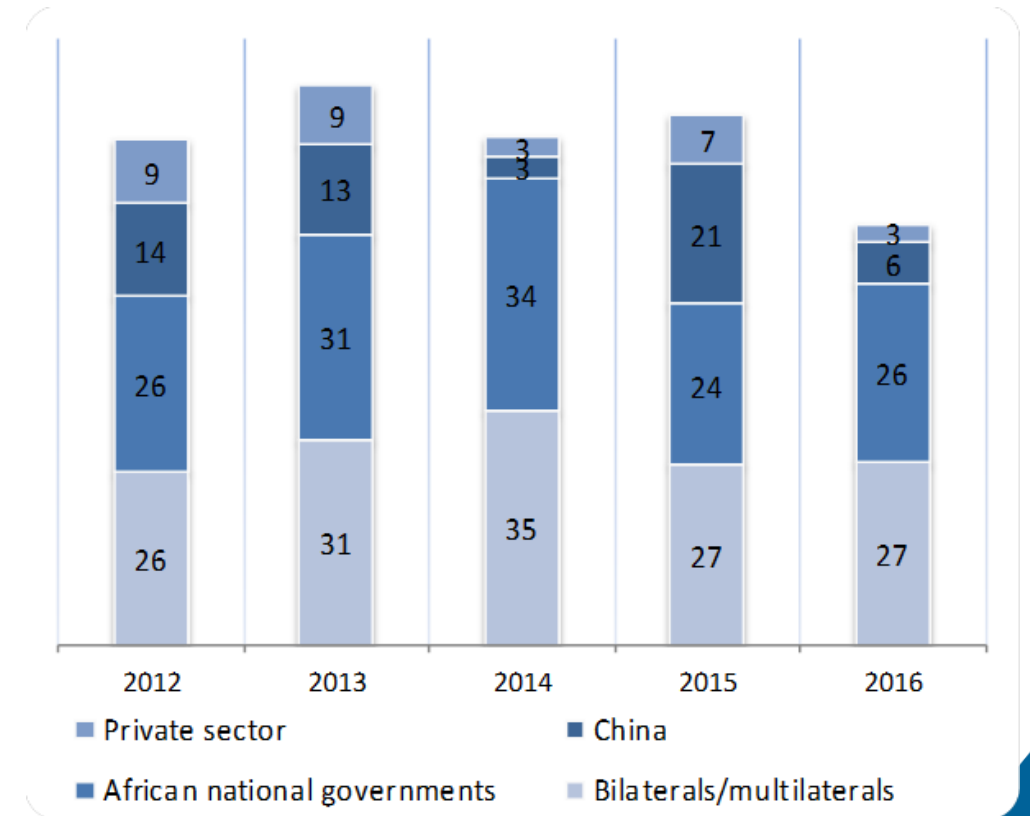
# Several sources of financing are not being mobilised for productive investment

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



Source: [Africa's Development Dynamics 2018](#)

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



Source: EIB, 2018



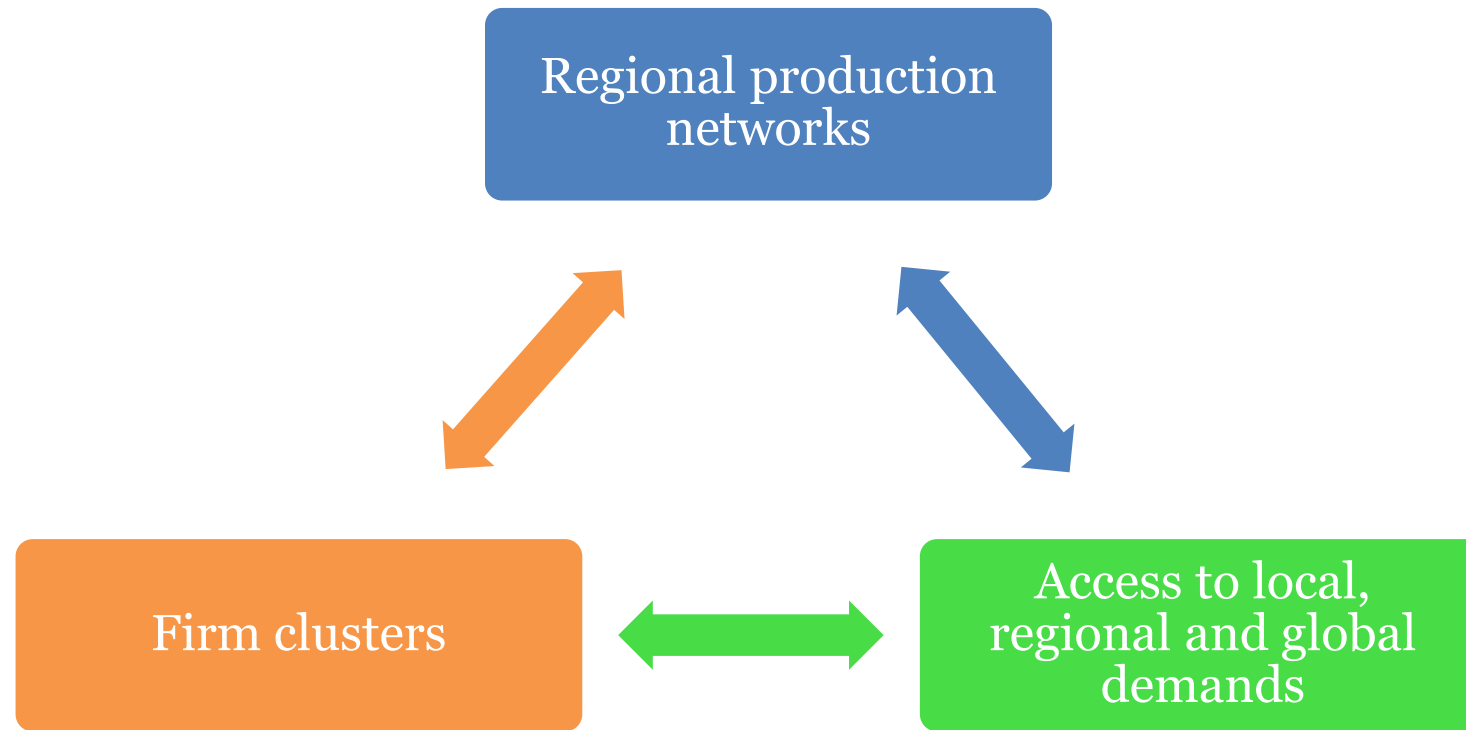
# DEVELOPING INFRASTRUCTURE FOR PRODUCTIVE TRANSFORMATION IN AFRICA

## 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

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# 1/ Promoting clusters of firms ...

## Several SEZs and industrial clusters have attracted world-class FDI

<b>Hawassa (Ethiopia)</b>	<b>Textile, leather, agro-transformation, pharmaceutical</b> – Eco-industrial parks (35 sites) using green energy. 60 000 people employed, export capacity of USD 1 bn per year
<b>Zone Franche Maurice (Mauritius)</b>	<b>Textile</b> (80% of exports), <b>jewellery, eyewear, toys</b> – Agreement with Senegal, Ghana & Madagascar to promote exports. 90 000 people employed.
<b>Tangier Med Special economic zone (Morocco)</b>	<b>Automobile</b> – Cluster (Renault, Ford) employing 60 000 people.
<b>Suez Economic Zone (Egypt)</b>	The Suez Economic Zone has allowed Egypt to move up the value chain in the oil industry (drills and components)
Bizerte cluster (Tunisia)	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.

## Don't overlook the potential of informal clusters

<b>Suame Magazine (Ghana)</b>	<b>Automobile</b> – Employs 200 000 people with complementary skills in metallic engineering and repair.
<b>Nollywood (Nigeria)</b>	<b>Cinema</b> – Second cinematographic industry in the world, one of the main employers of the country, accounts for 1.4% of Nigeria's GDP.
<b>Otigba (Nigeria)</b>	<b>ICT</b> – Larger firms attracted by cluster activity. Industrial association (CAPDAN) recognised by the Lagos State government.
<b>Nnewi (Nigeria)</b>	<b>Automobile</b> – Manufacturing base of the country. 70% of the components are domestic, diminishing reliance on imports.

### 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

Region	Value chain	(Regional) Opportunities	(Country-level) Challenges
Central Africa	Wood processing	<ul style="list-style-type: none"><li>• Diversity of forest products (ayous, okoumé, sapelli, etc.)</li><li>• Large panel of activities possible: construction, paper pulp, furniture, energy...</li></ul>	<ul style="list-style-type: none"><li>• Weak processing capacity (sawing, debarking, and cutting trees for plywood and veneer)</li><li>• Valorise traditional know-how.</li></ul>
East Africa	Tourism	<ul style="list-style-type: none"><li>• Air transport</li><li>• Easy entry for tourists</li><li>• Emerging regional co-operation to jointly promote regional tourist packages</li></ul>	<ul style="list-style-type: none"><li>• Administrative costs, lack of infrastructure in remote areas</li><li>• Security issues in some countries</li></ul>
North Africa	Textiles/clothing	<ul style="list-style-type: none"><li>• Geographical proximity to Europe and FTA with USA</li><li>• Accumulated know-how</li></ul>	<ul style="list-style-type: none"><li>• Target niches to move upmarket (design, branding, marketing, etc.)</li><li>• Availability of raw material in most of the region (wool, cotton, etc.),</li></ul>
Southern Africa	Automotive	<ul style="list-style-type: none"><li>• Strong automotive industry in South Africa</li><li>• Existing production of intermediary inputs (batteries from Botswana, car seat kits manufactured in Lesotho)</li></ul>	<ul style="list-style-type: none"><li>• Identify niches and supply at a competitive rate</li><li>• Small market size</li></ul>
West Africa	Agro-food products	<ul style="list-style-type: none"><li>• Global dominance in several agriculture production (<i>i.e. cocoa beans, cashew nuts, karite nut, cassava...</i>)</li><li>• Opportunity to create a cross-border SEZ</li></ul>	<ul style="list-style-type: none"><li>• Develop activities and services that create more value added (branding, marketing...)</li></ul>



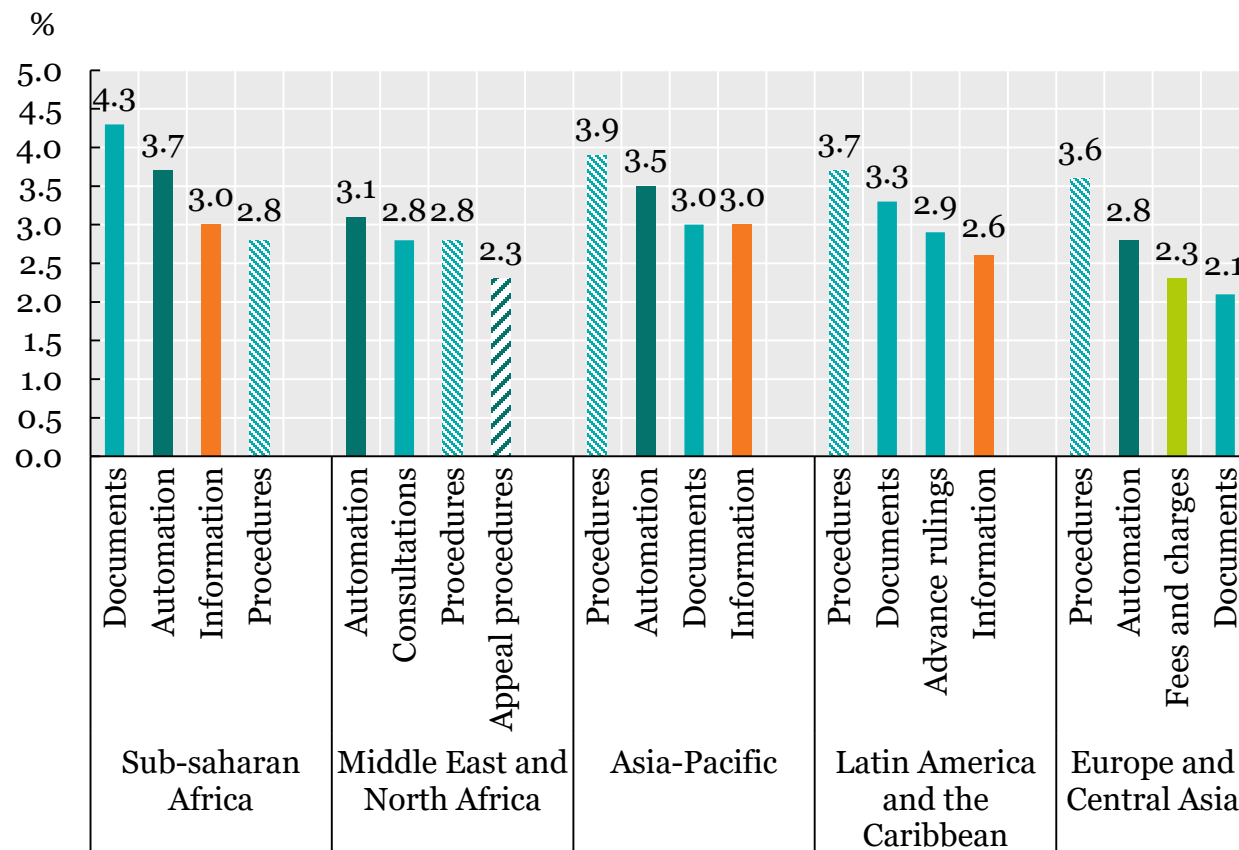
## Regional economic communities (RECs) are beginning to actively support the creation of **regional value chains**

<b>Sikasso-Korhogo-Bobo-Dioulasso (SKBO)</b>	<p><b>Africa's first cross-border SEZ</b> (Mali, Burkina Faso and Côte d'Ivoire)</p> <ul style="list-style-type: none"><li>➤ Attract private investment in agri-food, agro-industry and mining.</li><li>➤ Promote the creation and strengthening of public and private industrial projects, through incentives for the private sector</li></ul>
<b>Action Plan for the SADC Industrialization Strategy</b>	<p>Identifies specific projects to better align and carry out existing strategies develop technical skills, and address service trade.</p> <p><b>Six priority areas identified for regional value chain development,</b> based on comparative advantages:</p> <ul style="list-style-type: none"><li>➤ agro-processing, minerals and beneficiation, pharmaceuticals, consumer goods, automobiles, and modern services</li></ul>
<b>Cotton-Textile and Garment Development Strategy (Central Africa)</b>	<ul style="list-style-type: none"><li>➤ <b>Increase cotton production</b> (seed cotton and fibre) while improving productivity and profitability.</li><li>➤ Improve and guarantee cotton <b>quality</b>.</li><li>➤ Support and develop the transformation of fibre.</li><li>➤ Improve <b>promotion and marketing</b> of cotton and textiles.</li><li>➤ Development and improvement of cotton seed by-products</li></ul>



### 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

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## 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**

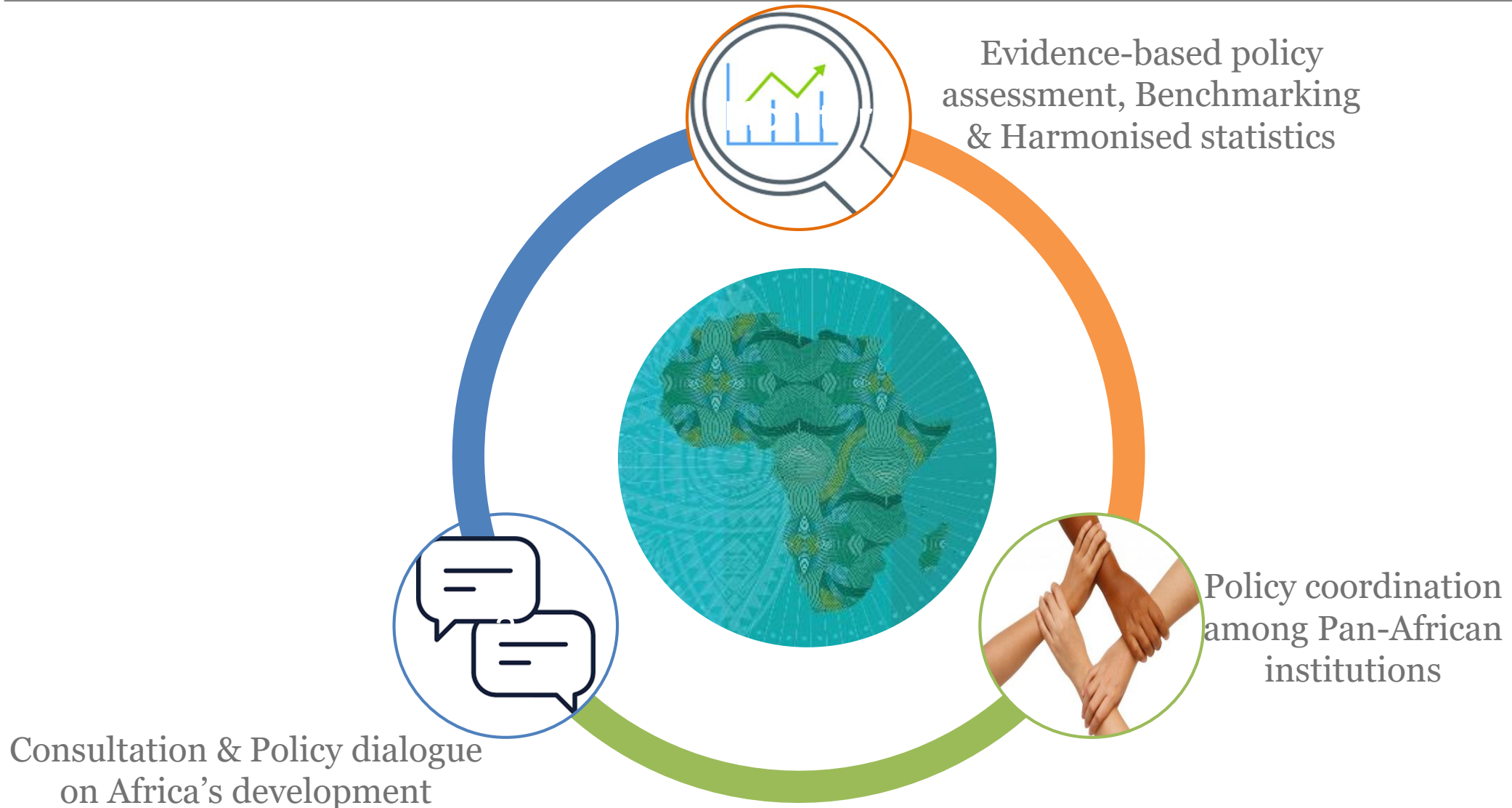
## 2. Go beyond national investment reforms

- 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





**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







# Accelerating Africa's productive transformation is a strategic objective for several continental initiatives

## On-going continental initiatives

*(not exhaustive)*

On-going continental initiatives	Key institutions	Timeframe
1. Agenda 2063 Aspiration 1: “A Prosperous Africa Based on Inclusive Growth and Sustainable Development.”	AU	2013-
2. AU Action Plan for the accelerated industrial development of Africa (AIDA)	AU	2008 -
3. Boosting Intra-African Trade (BIAT) Cluster III – Productive Capacity	AU, ECA	2012 -
4. The United Nations third industrial development decade for Africa (IDDA III)	UNIDO	2016-2025
5. Programme for infrastructure development in Africa (PIDA)	AUC, NEPAD, AfDB, ECA	2012-2040
6. The science, technology and innovation strategy for Africa 2024 (STISA)	AUC	2014 - 2024
7. The African agribusiness and agro-industries development initiative (3ADI)	FAO, IFAD, UNIDO	2010 -2020
8. Comprehensive Africa agriculture development programme (CAADP)	AU, NEPAD	2003 -
9. The Africa mining vision	AU	2009 -
10. The African productive capacity initiative (APCI)	UNIDO	2003 -