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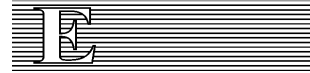
Meeting of the Committee of Experts of the Seventh Joint Annual Meetings of the ECA Conference of African Ministers of Finance, Planning and Economic Development and AU Conference of Ministers of Economy and Finance

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Concept note

Theme: Industrialization for inclusive and transformative development in Africa

I. Context

There is an emerging consensus that structural economic transformation is vital for consolidating and sustaining the impressive growth record of African countries over the last decade. In line with this thinking, a number of initiatives have been undertaken to promote industrial development on the continent.

An important step in this direction was the adoption of the Action Plan for the Accelerated Industrial Development of Africa (AIDA)¹. Consistent with this plan, recent joint AU/ECA meetings of Ministers of Finance and Planning and the Economic Reports on Africa have focused on various aspects of transformation in Africa.

The 2013 Economic Report on Africa, entitled “Making the Most of Africa’s Commodities: Industrializing for Growth, Jobs and Economic Transformation”, called on policymakers to add value to their primary commodities². It noted that progress in linkage development had largely been slow throughout Africa. Drawing on country case studies, the report provided a framework for policymakers to develop country-specific policy measures aimed at catalysing commodity-based industrialization. Informed by the findings of the report, the Sixth Joint Annual Meetings of AU Conference of Ministers of Economy and Finance and ECA Conference of African Ministers of Finance, Planning and Economic Development, held in Abidjan, called on African countries to adopt coherent industrial policies, create institutional industrial policy mechanisms and coordinate line ministries to improve policy implementation for industrialization.

Building on the recommendations of the 2013 session and drawing inspiration from the AIDA Action Plan, the 2014 session provides a platform for policymakers to articulate and build consensus around an industrial development framework that is both inclusive and transformative. The focus on inclusiveness derives from the important role it plays in promoting sustainable development. The recent social and political unrest on the continent is ample testimony to the appropriateness of this focus.

II. Challenges of inclusive development

Africa’s current economic performance stands in sharp contrast with the 1980s, a decade characterized by slow growth and a crushing debt burden. Over the last five consecutive years, the continent has ranked among the world’s fastest growing economies, despite the shrinking global economy. Even though growth has slowed from 5.4 per cent in 2012 to 4.1 per cent in 2013, it is still almost double the global average growth rate and surpassed only by the East and South Asia region, which grew at 5.5 per cent in 2013. Africa’s growth performance was underpinned by sustained relatively high exports of primary commodities, increased domestic demand (due in particular to increased private investment in infrastructure and energy), and improved economic governance and management in African

¹ The plan was promoted by the African Union Commission (AUC) in collaboration with the United Nations Industrial Development Organization (UNIDO), the United Nations Economic Commission for Africa (UNECA) and other development partners; AIDA is made up of seven programme clusters.

² Deliberations that emerged from the 19 ministerial and country-level launches held to date of the latest ERA have brought resounding agreement from policymakers, public and private sector stakeholders, and experts on industry and value-addition that commodity-based industrialization is a realizable engine of growth for Africa.

countries. Nonetheless, oil-exporting countries continued to be the leading drivers of Africa's growth in 2013.

Africa's medium-term growth prospects remain strong owing to expectations of moderate global growth recovery and continued growth in industrial production and trade with emerging and developing economies, led by China. The business climate in Africa has also improved and there is a nascent and growing middle class, estimated at 355 million people, or 34 per cent of the total population in 2010. Social indicators have also improved, particularly in terms of primary school enrolment (including gender parity in primary education), decreasing maternal and infant mortality rates, reduced prevalence and incidence rates of HIV/AIDS, innovations in the use of mobile telephones for financial transactions, improvements in governance and less violent democratic transitions.

Despite Africa's recent impressive growth performance a number of challenges remain, particularly in the areas of job creation and social service delivery; both are important markers of inclusive development. Growth has not generated sufficient job opportunities for Africa's youthful and rapidly growing population. The primary reason is that growth continues to be driven by exports of primary commodities, which are produced in economic enclaves with limited value-addition or linkages to the rest of the economy. The global share of manufacturing in West, Central, East and Southern Africa has dwindled to less than 1 per cent, despite preferential access to markets in the United States of America and the European Union³. In the absence of significant value-adding activities, the continent is invariably reduced to being "a net exporter" of jobs to the rest of the world. The capital-intensive techniques associated with the extraction of minerals and crude oil, in particular, have further undermined the capacity of a number of African economies to create jobs. As a result of these developments, the contribution of manufacturing to gross domestic product (GDP) has declined or stagnated in several African countries, with adverse consequences for job growth.

Progress on socioeconomic indicators has been positive but not rapid enough to achieve the targets of the Millennium Development Goals. Of particular concern are high rates of child and maternal deaths, limited access to safe drinking water and basic sanitation, and the substandard quality of social service delivery in general.

The limited impact of growth on livelihoods and access to social services has also contributed to growing gender, income and rural-urban inequalities. Africa's Gini index – a measure of income inequality – was 44.2 in 2008, ranking the continent the second most unequal in the world (African Development Bank, 2013). Moreover, the Gini coefficient masks deep spatial and gender inequalities. In countries such as Algeria, Côte d'Ivoire and Mauritania, women's wages are almost half those of men for similar work (UNECA, 2013).

Furthermore, Africa's steady economic growth has not necessarily been associated with strengthened capacity to adapt to the environmental hazards associated with climate change. Recurrent droughts are becoming increasingly common in several parts of Africa, with extremely negative impacts on livelihoods, agricultural output and overall economic growth.

³ Hinh, D. and others (2013). *Light Manufacturing in Zambia: Job Creation and Prosperity in a Resource-Based Economy*. The World Bank: Washington, D.C.

There have been impressive technological innovations in the application of mobile telephony for the delivery of financial services. These promising outcomes are contributing to financial inclusion and intermediation. Greater investment in science, technology and innovation is, however, required to strengthen and improve Africa's productive capacities and competitiveness. Prioritizing investment in research and development, strengthening science and technology curricula of education systems and enhancing institutional capacities for the protection of intellectual property are critical for improving technological innovation in Africa.

In effect, there is considerable scope for Africa to chart a more inclusive growth process underpinned by: the creation of decent employment opportunities, particularly for young people; improvements in the quality of social services, particularly health, education and sanitation; adequate investment in science, technology and innovation; strengthened resilience and capacity to respond to the threat of climate change and; the narrowing of income, asset and geographic inequalities (UNECA, 2011).

III. Rationale and opportunities for industrialization in Africa

Concerns about the limited inclusiveness of the continent's growth experience have rekindled interest in structural economic transformation underpinned by commodity-based industrialization as a pathway for inclusive and sustainable development.

Key features of the industrialization process include (i) rising productivity and wages through the application of modern technologies for value-addition; (ii) a steady increase in the creation of decent jobs due to increased opportunities for value-addition and value chain development, based on labour-intensive technology; (iii) a relative decline in agriculture's contribution to GDP and a corresponding rise in the relative share of industry and services; (iv) the movement of workers from the agricultural sector to relatively higher wage opportunities offered by the expanding industrial sector. Of critical importance are the backward and forward linkages between sectors that create spillover effects on the economy as a whole.

In the African context, labour-intensive industrialization fuelled by inputs from the continent's abundant natural resource endowments provides an opportunity for: the creation of decent jobs through value addition; increased domestic revenue through the production of higher value products and; lessened exposure to external shocks as a result of economic diversification and reduced dependence on primary products.

In effect, economic transformation through inclusive industrial development is vital for the continent to optimize the benefits from its vast natural resource endowments. However, what are some of the downside risks that African countries should be mindful of as they embark on the journey of transformative and inclusive industrial development?

Economic theory predicts that transformations are initially associated with widening inequality followed by a gradual reduction as individuals and households adjust and adapt to new opportunities and as redistribution programmes are put in place⁴. In contrast to theory,

⁴ Kuznets, S. (1955). Economic Growth and Income Inequality, American Economic Review, vol. 45, pp. 1-28.

the empirical evidence is mixed and points to the role of active policies in determining the inclusiveness of the transformation process.

Indeed, the experiences of countries that have successfully transformed their economies suggest that Government policies influence the nature and outcomes of the transformation agenda. Specifically, active Government interventions and programmes, including those aimed at strengthening productive capacities (particularly those of women and vulnerable groups), are needed to ensure that industrial development does not widen inequalities.

IV. Industrialization, inclusiveness and sustainable development

A review of the industrialization trajectories of developed and emerging countries suggests that the socioeconomic impacts of industrialization are country-specific and depend on the countries' initial conditions and policy choices. The impact on inclusiveness is manifested largely but not exclusively through its effects on various dimensions of inequality, particularly income, spatial and gender inequality.

A. Industrialization and income inequality

A key feature of structural transformation is the gradual shift in economic activity from low (i.e. agriculture) to high productivity (i.e. industry) activities. Associated with this shift is an increased demand for more productive or skilled workers. As individuals “defect” from the agricultural sector to the industrial sector, the inter-sectoral wage gap initially widens until most workers are absorbed into the industrial sector. While this theory of inequality (Kuznets, 1955) is supported by the historical experience of Western industrial economies, it does not consistently reflect the reality in emerging economies. In Indonesia for instance, active agricultural policies including input subsidies, exchange rate depreciation and diversification away from rice crops supported the agricultural sector, created employment and narrowed income disparities (van der Eng, 2009).

B. Industrialization and gender inequality

Industrialization can also widen gender wage inequalities if women are concentrated in low-skill occupations within industries. Indeed, cross-country studies have shown that women are mainly concentrated in sectors such as garments and horticulture, and occupy low-skilled jobs such as picking and packing in sectors that are characterized by low wages and limited conditions of service. However, affirmative action programmes coupled with gender-targeted skills training programmes can improve the occupational mobility of women and narrow the gender pay gap.

C. Industrialization and spatial inequality

Some scholars (Williamson, 1965) argue that structural transformation is initially associated with a geographic concentration of economic activity in a few regions thus resulting in disparities in regional income distribution. For instance, in Indonesia widening inequalities between Java Island and the Outer Islands have been attributed to a concentration of substantial public investment and infrastructure for the development of the manufacturing industry in Java (Van der Eng, 2009). Industrialization in China has also been associated with regional disparities, with the eastern zone enjoying higher per capita output, higher levels of

employment and productivity, and higher exports at the expense of the central and western zones (Yao, 1997). Country experiences reveal that in the short-term, economic transformation could exacerbate inclusion inequalities by shifting the focus from agriculture to industry, thus widening the gap between skilled and unskilled workers and aggravating the rural-urban divide. Notwithstanding these adverse outcomes, a development planning process that promotes balanced spatial development can be useful in addressing such challenges.

V. Role of policy

Country experiences suggest that rising inequality and marginalization are not an inevitable outcome of industrialization and transformation. Studies have demonstrated the important role of effectively targeted policies such as conditional cash transfers (CCTs) in reducing inequality. Indeed, CCTs were responsible for about 21 per cent of the fall in both the Brazilian and the Mexican Gini index between the mid-1990s and mid-2000s (Soares and others, 2007).

The employment effects of industrialization are also not inevitable. They depend on the type of industrialization strategy pursued (i.e. heavy or light industry) and the extent to which such industries are labour absorbing (particularly unskilled labour). A defining element of the success of East Asian economies in achieving full employment, rising real wages and favourable income distributional effects was a focus, in the early stages, on export industries that were intensive in the use of unskilled labour and in which they had a comparative advantage (Fields, 1985). During the initial stages of transformation, Hong Kong, Korea, Singapore and Taiwan experienced rapid labour-intensive export-led growth that contributed to significant declines in unemployment. In Singapore, the unemployment rate fell sharply from 10 per cent in the 1960s to 3 per cent in the 1980s. The unemployment rate in Korea fell from 8.2 per cent in 1964 to 4.1 per cent in 1981. In Hong Kong, unemployment rose to 9.1 per cent in 1975 but declined to 4.3 per cent in 1980⁵.

VI. Seventh Joint Annual Session

The above analysis supports the need for a high-level policy dialogue aimed at articulating an inclusive and transformative industrialization framework for Africa. It is in this context that the Seventh Joint AU Conference of Ministers of Economy and Finance and ECA Conference of African Ministers of Finance, Planning and Economic Development is being organized under the theme “Industrialization for Inclusive and Transformative Development in Africa”. The Conference will be hosted by the Government of Nigeria from 25 March to 30 March 2014 in Abuja.

A. Objectives and focus of the 2014 Conference of Ministers

Specific objectives of the Conference are to:

- Ensure a meeting of the minds by policymakers about the drivers and key success factors for inclusive and sustainable industrialization;

⁵ Fields, G.S. (1985). *Industrialization and Employment in Hong Kong, Korea, Singapore, and Taiwan*. Cornell University ILR Collection.

- Provide a platform for policymakers to articulate concrete proposals to catalyse implementation of industrialization frameworks including the Accelerated Industrial Development of Africa (AIDA) Action Plan;
- Frame concrete policy options and actions for an inclusive sustainable industrialization agenda that generates decent employment opportunities and is environmentally sensitive.

B. Format of the Conference

The Conference will discuss various development issues for Africa and provide guidance for the work of the Commission. Among the key features of the Conference are high-level policy dialogue, panel sessions, round-table discussions and parallel events on development issues. A number of innovations have been introduced for the 2014 ECA-AUC Conference of Ministers. The Conference will also see the launch of an annual lecture series commemorating a prominent African personality. In addition, there will be several add-ons to cover topical issues including the Regional Coordination Mechanism, statistics and renewal of planning.

1. Plenary sessions

The plenary sessions will comprise discussions on the theme of the Conference followed by focused discussions in three areas: capacity and institutions; innovation and technology; and inclusive growth and job creation. The sub thematic discussions will provide an opportunity for more detailed analysis of some of the key elements of an inclusive and transformative industrial programme.

(a) Ministerial policy dialogue on the theme of the Conference: Industrialization for Inclusive and Transformative Development in Africa

The Ministerial policy dialogue on the theme of the Conference will brainstorm on how to ensure that Africa's industrialization programme is inclusive and takes into account the three dimensions of sustainability: economic, social and environmental. Specific issues to be discussed will include the design and implementation of effective industrialization strategies and policies that: support job creation; enhance productive capacities; address the needs of the vulnerable (including through the design of fiscally sustainable social protection programmes); facilitate transition to a green economy; and ultimately promote intergenerational equity.

In effect, the dialogue should provide concrete perspectives on how Africa's industrialization strategies could result in an increase in both the pace and quality of growth. Critical to the discussion will be an assessment of the role of the State in facilitating the industrialization process. In this context, an analysis of the lessons learnt from Asia, Latin America and Africa's own historical industrialization experience will be pertinent. What lessons can Africa draw from the successes of Asian and Latin American countries and to what extent are these lessons relevant to Africa? Should Africa develop its own unique model of industrialization? If so, what might such a model look like?

The ministerial policy dialogue will be led by a high-level panel comprising of eminent personalities, senior Government leaders, private sector practitioners and

distinguished experts from regional and international organizations, including the United Nations system and the World Bank.

(b) Innovation and technology transfer for enhanced productivity and competitiveness

The panel will explore issues pertaining to the streamlining of technology and innovation strategies into industrial development policies as well as overall national development plans in African countries. Deliberations will assist in gauging the emphasis policymakers place on the significance of innovation in developing African industry.

(c) Capacity and institutions for industrial development: the role of the public and private sector

Both the public and private sectors have a critical role to play in fostering Africa's industrialization. By creating unnecessary administrative obstacles and delays, a dysfunctional public sector undermines the effectiveness of the private sector in carrying out its commercial activities. On the other hand, without the necessary skills and institutional support mechanisms the private sector cannot fully exploit investment and preferential market access opportunities, such as those offered by the Africa Growth and Opportunity Act.

This session will reflect on the policy measures and initiatives required to strengthen the institutional capacities of the public and private sectors, and leverage their respective contributions to the continent's inclusive and transformative agenda for industrialization. Success stories of private African entrepreneurs in a number of export sectors (such as cut flowers in Ethiopia and Kenya) will be shared and a framework for greater involvement of the private sector put forward. A similar framework was discussed for the AIDA Action Plan at the tenth AU assembly in 2008. However, precious little progress has since been achieved in transforming AIDA.

2. Lecture series

A main innovation of the 2014 Joint ECA-AUC Conference of Ministers is the launch of an annual lecture series commemorating a prominent African personality's contribution to development on the African continent.

3. Side events and other meetings

(a) Renewal of planning, which will focus on identifying lessons learnt in planning for inclusive and sustainable development on the continent.

(b) The Regional Coordination Mechanism for Africa (RCM-Africa).

(c) Visual Presentation of Commodity and Finished Products Trade Flow between Africa and the World:

(d) Caucus of Governors of African Central Banks and Executive Directors of the International Monetary Fund and the World Bank prior to the 2014 spring meeting.

(e) Greening Africa Economy and Structural Transformation: the role of new technologies and innovation.

(f) The launch of the New Continental-Wide Gender and Development Initiative: a new ECA initiative intended to support member States to hasten gender equality and women's empowerment through cutting-edge interventions.

(g) Joint UNIDO/UNAIDS event.

(h) The Cost of Hunger project.

(i) Productivity, competitiveness and industrialization.

(j) Launching the Working Project on Data for African Development Report

Further details on the parallel events will be provided in the respective aides-memoires.

VII. Expected outcomes

It is expected that the Conference will result in the following:

- Well-articulated documentation of progress in the implementation of the industrialization agenda as stated under AIDA;
- Enhanced understanding and appreciation of the institutional and policy frameworks necessary to effectively pursue inclusive and sustainable industrial development in Africa;
- A Ministerial policy statement articulating the policy options and actions required at national, subregional and regional levels to implement AIDA with a view to achieving inclusive and sustainable development in Africa.

VIII. Documentation

An Issues Paper on the Conference theme and technical background papers on the sub themes for the plenary sessions, roundtables and parallel events will inform the discussions of the Conference.

IX. Participation

Participants and delegates to the Conference will include Ministers and representatives from member States, Regional Economic Communities, United Nations agencies, pan-African financial institutions, African academic and research institutions, development partners and other intergovernmental organizations. Invitations will be extended to other cooperating partners, non-governmental organizations and the private sector.

X. Contacts

For more information about the Conference and the meeting of the Committee of Experts, kindly contact:

Ms. Sandra Baffoe-Bonnie,
Secretary of the Commission, UNECA
Tel: +251-11-544-3378 or +251-911-523-267;
email: SBaffoe-Bonnie@uneca.org

or representatives of AUC:

Mr. Amadou Cissé,
Senior Policy Officer, Economic Policies and Research Division
Tel: +251 115182629; Fax: +251-11 5510249;
CisseA@africa-union.org

Mr. Abia Sunday Udoh,
Policy Officer, Economic Policies and Research Division
Tel: +251 115 182663; Fax: +251-11 5510249;
UDOHAS@africa-union.org

Ms. Ndinaye Charumbira,
Policy Officer, Economic Policies and Research Division
Tel: +251 115182664; Fax: +251-11 5510249;
CharumbiraN@africa-union.org