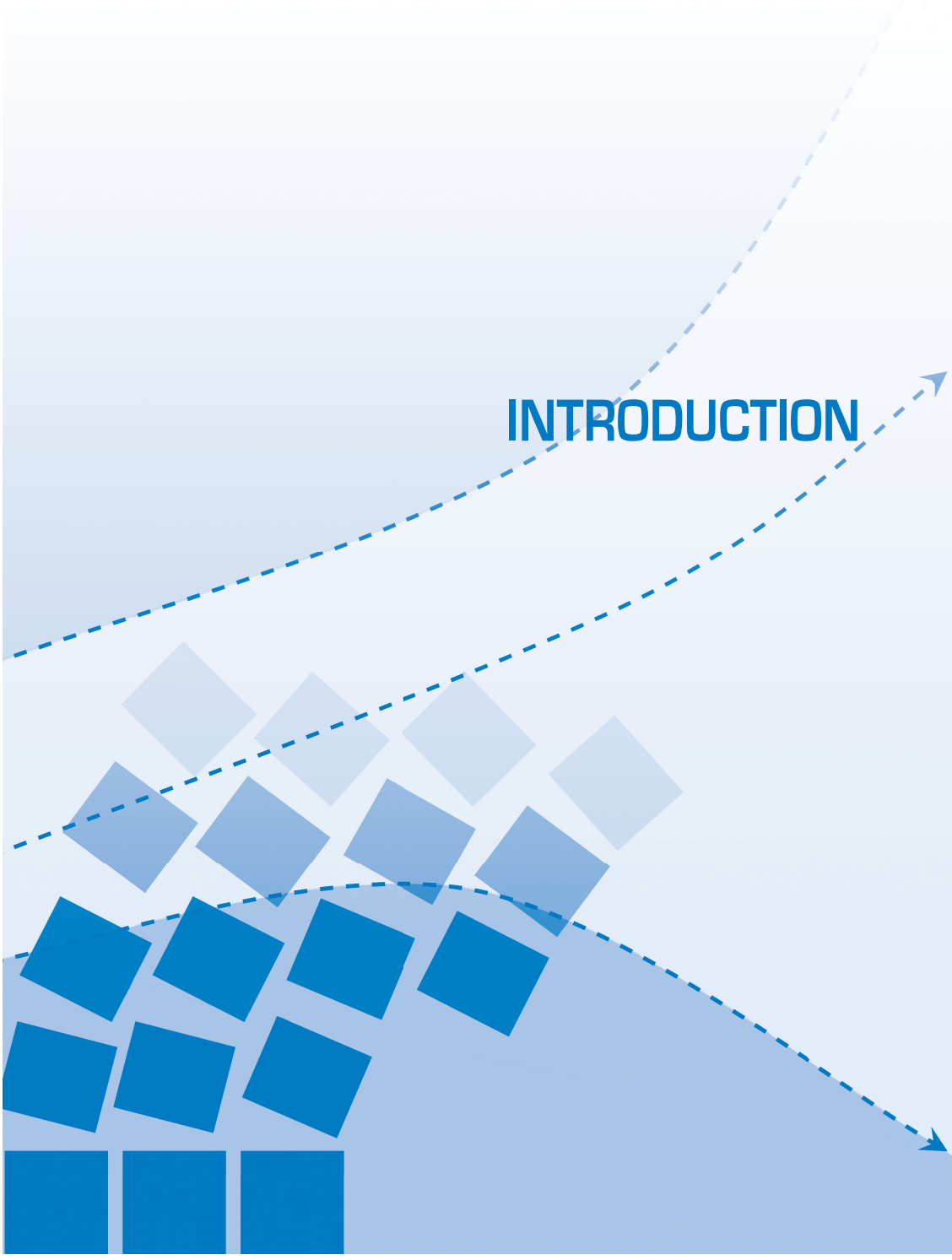
INTRODUCTION



THE RATIONALE FOR A NEW DEVELOPMENT PATH

African countries have been growing at a relatively fast rate since the beginning of the new millennium, which in turn has led to improvements in several areas such as trade, mobilization of government revenue, infrastructure development, and the provision of social services and vice versa. Indeed, over the period 2001–2008, Africa was among the fastest growing regions in the world economy, and it is interesting to note that this improvement in growth performance has been widespread across countries. Despite the progress that has been made by the region over the last decade, the current pattern of growth is neither inclusive nor sustainable. There are various reasons for this.

Firstly, African countries are heavily dependent on natural resources as drivers of economic growth. But most of these resources — fossil fuels, metallic and non-metallic minerals — are non-renewable and are being depleted at a very rapid rate with negative consequences for future growth and sustainability. The dependence on resource-based growth is also of concern to African policymakers because commodity prices are highly volatile and subject to the caprices of global demand. Such price instability has negative consequences for investment and makes macroeconomic planning challenging.

Secondly, per capita agricultural output and productivity in the region are still low compared to the global average, with dire consequences for food security and social stability. The African Development Bank estimates that Africa's per capita agricultural output is about 56 per cent of the global average. Furthermore, about 30 per cent of sub-Saharan Africa's total population is estimated to have been undernourished in 2010 (Food and Agriculture Organization of the United Nations (FAO) and World Food Programme (WFP), 2010). There have been some positive signs of rising agricultural productivity during the last decade (Block, 2010). But in the past, agricultural output growth has been driven largely by an expansion of cropped area rather than an increase in productivity. With rising rural population densities, farm sizes have been declining and more and more people have been compelled to move to more fragile lands. The sustainable intensification of agricultural production is necessary to boost agricultural productivity and output and enhance food security in the region.

A third feature of Africa's current pattern of growth is that it has been accompanied by deindustrialization, as evidenced by the fact that the share of manufacturing in

Africa's gross domestic product (GDP) fell from 15 per cent in 1990 to 10 per cent in 2008. The most significant decline was observed in Western Africa, where it fell from 13 per cent to 5 per cent over the same period. Nevertheless, there has also been substantial deindustrialisation in the other sub-regions of Africa. For example, in Eastern Africa the share of manufacturing in output fell from 13 per cent in 1990 to about 10 per cent in 2008 and in Central Africa it fell from 11 to 6 per cent over the same period. Furthermore, in Northern Africa it fell from about 13 to 11 per cent and in Southern Africa it fell from 23 to 18 per cent. The declining share of manufacturing in Africa's output is of concern because historically manufacturing has been the main engine of high, rapid and sustained economic growth (UNCTAD and the United Nations Industrial Development Organization (UNIDO), 2011).

Furthermore, Africa has experienced rapid urban growth. The share of the urban population in total population is currently about 40 per cent and is projected to rise to about 60 per cent by 2050.[1] Historically, industrialization and an industry-led agricultural transformation have been important drivers of urbanization, making it possible to absorb labour moving from the rural to the urban and modern sectors of the economy. However, Africa's urbanization has not been driven by either industrialization or an agricultural revolution. Jedwab (2012) shows that the dramatic urban growth observed in Africa over the past few decades has been driven by natural resource exports rather than an industrial or agricultural revolution. He argues that, because natural resource rent in Africa are spent mostly on urban goods and services, they make cities relatively more attractive and pull labour out of the rural areas.

The current pattern of Africa's economic growth is particularly worrisome given the fact that the region has a young and growing population and will, according to the United Nations Population Division, account for about 29 per cent of the world's population aged 15–24 by 2050. Furthermore, population projections indicate that the working age population in Africa is growing by 15.3 million people per annum, and this number is expected to increase over the coming decades. While having a young and growing population presents opportunities in terms of having an abundant labour supply with much creative potential, it also means that African countries will need to engage in growth paths that generate jobs on a large scale to absorb the additional labour. In particular, they will need to move away from jobless growth strategies and towards inclusive growth paths that are labour-intensive and create learning opportunities for young people. Recent events in North Africa have shown that a development pathway that generates growth without significant

improvements in employment has the potential to create social and political unrest with dire consequences for efforts to promote sustainable development.

Recent evidence shows that Africa has experienced a process of structural change over the last 30 years, but that it has not been productivity-enhancing structural change. This is because it has been associated with the increasing importance of the commodity economy and also the rising importance of low-productivity informal economic activities in the service sector. Such structural change has actually slowed rather than enhanced the economic growth process, as it has not involved a shift from low-productivity to high-productivity sectors (McMillan and Rodrik, 2011). Consequently, if African countries want to achieve high and sustained economic growth, they have to go through the process of structural transformation involving an increase in the share of high productivity manufacturing and modern services in output, accompanied by an increase in agricultural productivity and output.

In recent years, African leaders have responded to the challenge of resource-based growth by renewing their political commitment to structural transformation and adopting several initiatives, at the national and regional levels, aimed at diversifying their production and export structures (UNCTAD and UNIDO, 2011). But structural transformation is a double-edged sword: while it is necessary for sustained growth and poverty reduction, it also imposes significant costs on ecological systems, especially when deliberate and appropriate actions are not taken by governments to reduce environmental damage to protect the environment. Fischer-Kowalski and Haberl (2007) argue that, historically, the transition from an agrarian to an industrial socio-ecological regime has been a major factor behind the rapid increase in environmental pressures. Resulting problems range from climate change, waste pollution, deforestation, desertification and degradation of freshwater resources, to the loss of biodiversity. It is crucial that the renewed focus on structural transformation in Africa is not achieved at the expense of social and environmental sustainability. Therefore, as they ratchet up efforts to transform their economies, African governments should also seek to improve resource use efficiency and address the adverse environmental impacts of structural transformation.

In summary, Africa needs to rethink its growth strategies and find ways and means to make them more compatible with the objective of sustainable development. Sustainable development as recognized in the Brundtland report amounts to “development that meets the needs of the present without compromising the ability of future generations to meet their own needs”. As acknowledged at the

United Nations World Summit in 2005, sustainable development consists of three interdependent and mutually reinforcing pillars: *economic development, social equity and environmental sustainability.* In particular, it requires that policymakers take into account the consequences of their choices and decisions on future generations and that social welfare is maximized inter-temporally rather than currently.

THE FOCUS AND MAIN MESSAGE OF THE REPORT

The *Economic Development in Africa Report 2012,* subtitled *"Structural Transformation and Sustainable Development in Africa"*, examines how African countries can promote sustainable development. The main message of the *Report* is that *achieving sustainable development in Africa requires deliberate, concerted and proactive measures to promote structural transformation and the relative decoupling of natural resource use and environmental impact from the growth process.* Sustainable structural transformation, as defined in the *Report*, is structural transformation with such decoupling.

The *Report* builds on the *Economic Development in Africa Report 2011* on *Fostering Industrial Development in Africa in the New Global Environment.* It also fits into UNCTAD's broader work on the development of productive capacities. The report is timely in the light of the United Nations Conference on Sustainable Development (Rio+20), 20–22 June 2012 and the renewed global focus on greening economies occasioned by the global financial and economic crisis of 2008–2009. The concept of sustainable structural transformation provides a dynamic understanding of the efforts which are involved in greening an economy, and also places such efforts into a development perspective.

The *Report* focuses directly on the economic and environmental pillars of sustainable development. However, to the extent that it stresses the need for structural transformation — which is crucial for inclusive growth and poverty reduction — it indirectly addresses the social pillar as well. The *Report* argues that, in the context of structural transformation, decoupling natural resource use and environmental impacts from economic growth is critical to addressing the environmental sustainability challenge in Africa. The United Nations Environment Programme (UNEP) defines decoupling as using less resource per unit of economic output (i.e. increasing resource productivity or resource efficiency) and reducing the environmental impact of any resources that are used or economic activities that are undertaken. Decoupling can be either absolute — requiring a decrease in the

absolute quantity of resources used irrespective of output produced — or relative, which implies that resources may be increasingly used but at a rate lower than the rate of increase in output.

While absolute decoupling may be needed at the global level to address global environmental challenges (such as climate change), this *Report* argues that the focus of African policymakers should be on *relative decoupling* because the region has very low per capita resource use compared with the global average and is also not a major polluter. Furthermore, Africa currently has very low per capita income, has not gone through the normal process of structural transformation, and would need to achieve higher economic growth in the short-to-medium term in order to make significant progress in reducing poverty. Consequently, the region needs more policy space to promote structural transformation and address its current and emerging development challenges. Furthermore, decoupling should not be seen as an end in itself but rather as a part of a more expansive strategy of structural transformation.

Africa, however, does not stand alone in the need to achieve sustainable development. There is a general global movement for integrating environmental considerations into economic and social decision-making. The *Report* points out that these international efforts should be managed in a manner that does not reduce the policy space needed by African countries to promote sustainable structural transformation. Moreover, the international community has an important role to play in supporting sustainable structural transformation through action in the key areas of trade, finance and technology transfer.

STRUCTURE OF THE REPORT

The main body of the *Report* consists of four chapters.

Chapter 1 is on conceptual issues. It discusses different views of the relationship between the economy and the environment and of how resource use and environmental impacts typically change during the course of a development process. It raises some conceptual questions concerning “green economy” and “green growth”, and introduces and defines the concept of sustainable structural transformation as a way to operationalize the concept of the green economy in the context of sustainable development and poverty eradication.

Chapter 2 presents new stylized facts associated with resource use and productivity in Africa. Where possible, it discusses how these stylized facts could be linked to the structural transformation process. The chapter also provides information on Africa's contribution to global greenhouse gas emissions and the impact of climate change in the region.

Chapter 3 provides a strategic framework for sustainable structural transformation. It discusses the nature of the African challenge in a global context and why African governments should adopt policies of sustainable structural transformation rather than follow a policy of "Grow Now, Clean Up Later". It also identifies key drivers of sustainable structural transformation, its prioritization and financing. Finally, it discusses the role of government in promoting sustainable development, and the way in which the international community can support national efforts.

Chapter 4 identifies policies for sustainable structural transformation in Africa, with a focus on three key economic sectors: energy, industry and agriculture. Furthermore, it highlights the special role of trade and technology policies in promoting sustainable structural transformation in Africa.

The final chapter presents a summary of the main findings and policy recommendations of the *Report*.