URING 2012, most international reports on the African economy have focused on jobs and employment. After years of complacency over the continent’s rapid economic growth, it is now widely recognised that, if growth is to be sustained, it is high time for inclusiveness. In particular, the demographic dividend has to be reaped. If Africa can put its rapidly growing population to productive work, its economic future will be very bright.

If, on the other hand, the many young are left unemployed or in less productive informal activities, persistent poverty and increasing inequalities might well turn into social unrest and conflict. Such a lesson has been very clear from the “Arab Spring.”

There are divergent views on how growth in Africa should be understood. Two stories compete. One says that the rapid growth has come about due to a combination of two factors: increased international demand for oil, gas and commodities, and domestic improvements in governance. African countries have greatly improved their macroeconomic policies and moved into new economic sectors, such as telecommunications. As a result of this growth,
poverty is falling. Proponents of this story admit that major challenges remain. However, if Africa has managed to grow despite these huge challenges, it will most likely continue to do so.

The other story says that, despite the rapid growth, no real structural transformation has taken place. African countries are still heavily dependent on commodity exports. These sectors bring in large sums of money, but create very few jobs. Hence, inequalities are rising, with half the population still living on less than US $1.25 per day. If no structural transformation takes place, growth is less likely to be sustained in the longer run. More fundamentally, poverty reduction and broader socioeconomic development will not happen.

STARTING WITH THESE two divergent narratives, in late November 2012 NAT organised a workshop in which the Swedish finance minister, Anders Borg, took part. Other participants included NAT researchers; Shanta Devarajan, chief economist for the Africa region at the World Bank; Thandika Mkandawire, guest professor at the London School of Economics and Stockholm University; and Miguel Nino-Zarazua from the UN University on development economics (UNU-WIDER) in Helsinki.

Any such conversation between policymakers and researchers has two objectives: to better understand what is happening, but also to find out what can be done to improve things.

This particular discussion came to focus largely on governance. Yes, macroeconomic balance and policies have improved considerably in many African countries, but further governance reforms are needed to achieve much needed structural transformations. Especially the vast and increasing inequalities have to be tackled.

Where to start? Here, the perspectives of policymakers and researchers complement each other in interesting ways. While researchers try to combine different factors into comprehensive approaches, policymakers try to see what is possible right now and where support can be built for change in selected areas.

According to a mainstream economist’s view, there is, for instance, a need to deregulate the transport and energy sectors in African countries. Take transportation as an example. The rows of lorries and vans waiting for documents to be processed at custom posts, border crossings and ports tend to be very long. Regulation originating in an era when these sectors were perceived to be natural monopolies and key national interests tends to persist. Specific interest groups benefit from these regulations. Getting rid of them would bring transport and energy costs down considerably, improving competitiveness.

This has been tested in Rwanda. When the transport sector there was deregulated, prices fell 73 per cent. Other studies show that the cost of moving a vehicle is no different on African roads than it is in, for example, France. The great differences in transport costs between Europe and Africa flow from differences in regulations.

However, there is a research-based critique of this narrow approach to deregulation. To focus on selected and limited areas and on the interests of powerful groups will not be enough, according to the critics. There are at least three other “I’s” to consider: a) Infrastructure investment needs are immense in sub-Saharan Africa; b) Institutions will continue to malfunction, and c) International conditions create massive vulnerability for African economies. For structural change to come about, a much more comprehensive approach would be needed. There were many lessons to be learned from what went wrong during the 1980s and 1990s. During that period, the Washington consensus view of economic policies dominated and policies were to a large extent prescribed by international institutions. One of the lessons learned was that the focus on deregulation and “getting the prices right” was much too narrow. Productive capacity is not built that way. Much more comprehensive policies are needed. Another of the lessons was that policy reforms have to be driven by African policymakers themselves, and not by outsiders.

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WHILE ACADEMICS ARGUE from different positions about what combination of policies is the correct one, a policymaker thinks differently. Instead of discussing details in a policy package, a politician would first try to understand what reforms stand a chance of being implemented. What possibilities are there to find broad alliances in favour of certain reforms? Rather than starting with a fully coherent programme, one or possibly two reforms should be chosen from the larger set of reforms needed. As soon as one reform is implemented, the next could follow. If, for instance, potential international investors, together with domestic businesses, push for reform in the transport and energy sectors, there might be
enough political support for starting with these sectors. If, on the other hand, interest groups unite for change in other sectors, it might be better to start elsewhere. Not everything can be done at once, so it becomes even more important to select and start with the most important reforms. The policy agenda is long, but some issues are more fundamental. In the nsc/a/sc workshop, there was wide agreement that low productivity in small-scale agriculture and in other informal sectors is just such a major and fundamental problem. However, to solve this, policy interventions and governance improvements over a vast range of areas are needed. Knowledge, improved health and better functioning markets are some of the necessary factors.

IN THE AREA of education, great progress has been made with school enrolment in sub-Saharan Africa. The continent is on track to meet the Millennium Development Goal on primary school enrolment, with an average enrolment rate of 80 per cent, according to recent UN statistics. However, this is not enough. Drop-outs are high, mainly among girls. In some countries, only 33 per cent complete primary school. Teachers are often absent from work. When they are there, the quality of the education is often poor.

To tackle such problems, the whole educational system needs reform. Universities and higher education need to be extended so that teachers can have proper training. Teachers need a wage increase. However, perhaps most importantly, pupils need to see possibilities for finding jobs after their education.

Many factors are interlinked, and education is just one of the factors needed for agricultural productivity to increase. Other needs include better functioning of markets and improved connections between local markets and the export sector. Furthermore, social protection systems should be built for peasants to be able to deal with all the risks they face in cultivation and marketing. Hence, a wide set of reforms is needed. If governments are to deliver on this, their governance capacity generally has to increase.

INFORMALITY POSES SPECIFIC problems for a reform agenda. Of the approximately 400 million people in the African workforce, more than 70 per cent do not receive wages. Using this way of counting, 275 million people would be working informally. A common approach, not least from a Western point of view, is to promote formal sector wage jobs. However, if such jobs are provided, these may very well come at the expense of informal employment. Street vendors are swept away when shopping malls are built in efforts to modernise and expand the retail sector. Small-scale farmers run the risk of losing their lands when large-scale investments beef up the agricultural sector. The mining sector is capital- rather than labour-intensive. Employees in this sector are often brought in from abroad rather than hired locally.

Hence, when the recent McKinsey International’s report Africa at Work argues that 72 million new jobs may be created in Africa by 2020, capturing at least a large part of the additional 122 million people that are expected to enter the labour force in the same period, questions arise. How many informal jobs will be lost and what will the net result be in terms of job creation? What would safety nets, if any, look like for those losing their informal employment?

Structural transformations of economies are needed, but so are measures to protect people currently in the informal sector. The big challenge is to find ways to use the productive capacities of the many who live in poverty. According to recent statistics, these account for almost half of Africa’s population.