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Africa's New Climate Economy

ECONOMIC TRANSFORMATION AND SOCIAL AND ENVIRONMENTAL CHANGE

Executive Summary

Africa's "Growth Miracle" in the 21st century has reversed a long standing narrative of pessimism about the region. It has emboldened hope for the future. GDP growth reached around 5% annually from 2001–2014. Rates of extreme poverty fell substantially.

Yet big challenges remain. Growth slumped in 2015 and 2016. The region lags far behind on most measures of human development. And climate change is taking an increasing toll on many countries: the region is warming faster than the world as a whole, and many areas will experience more frequent and intense droughts and floods. The economic impacts of climate change are expected to be severe, with agriculture and poor people especially at risk.

Policymakers in African countries have identified *economic transformation* as a critical strategy to build on progress to date in the decades to come. This strategy is also supported by the Pan-African institutions—the African Union in its "Agenda 2063", the African Development Bank, and the United Nations Economic Commission for Africa. Economic transformation refers to increases in the economy's productivity through the movement of workers from low-productivity sectors like agriculture to higher-productivity sectors like industry and services, as well as through productivity growth within sectors.



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Sub-Saharan Africa is at an early stage of economic transformation, as 60% of employment is still in low-productivity agriculture, and productivity within sectors remains far below advanced economies.* A faster pace of economic transformation will also provide Sub-Saharan Africa with potential to make progress on three closely linked objectives: achieving robust long-term growth; promoting rapid poverty reduction and social inclusion; and acting to reduce climate risk.

Economic transformation has deep links with other economic, social and environmental processes. These include the inclusivity of growth, demographic change, urbanisation, resilience to climate change and the impact of the economy on the natural environment. Policies based on a sound analysis of these deep links have a better chance of delivering benefits across multiple areas, while also helping to better manage many inevitable trade-offs between objectives.

This report aims to help decision-makers take stock of the extraordinarily rich experience of recent years and draw lessons for the future. The choices made now will have implications for the decades ahead.

This report lays out 5 action areas for economic transformation and social and environmental progress in sub-Saharan Africa.

1. Getting the fundamentals right: Certain basic policies and institutions are important to ensure the effective functioning of markets, foster innovation and investment, and pursue public goals. These fundamentals include macroeconomic stability and financial sector development, voice and accountability, social and human development policies, including policies to speed a more rapid demographic transition, and policies to improve natural resource management.

2. Transforming agriculture and land use: Boosting the productivity and climate resilience of agriculture is crucial to the well-being of the majority of people in sub-Saharan Africa, as well as for reducing greenhouse gas emissions.

Cropland in sub-Saharan Africa is growing much faster than the global rate, due to low yields, rapid population growth, soil degradation and depletion of nutrients. This contributes to deforestation, exacerbates vulnerability to climate change, and puts pressure on the fragile natural resource base in the region's vast drylands.

* While the term sub-Saharan Africa comes with a complex historical legacy, this report uses the term as it is deployed by international organizations, including the UN and the World Bank, to refer geographically to countries south of the Sahara desert.



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Intensification to boost yields per hectare, combined with climate-smart agriculture techniques, can help sub-Saharan African countries sustain robust growth in agricultural output and incomes. Landscape management efforts in Niger have boosted farmers' incomes while restoring degraded lands. Recommendations include accelerating implementation of the African Union's Comprehensive African Agricultural Development Programme, mainstreaming climate-smart agriculture and landscape management approaches in national agricultural plans, and scaling up Reducing Emissions from Deforestation and Forest Degradation.

3. Diversifying into manufacturing and other high-productivity, modern sectors: Sub-Saharan Africa has only a tiny share of global manufactures exports. With improved macroeconomic stability, a better investment climate and, where appropriate, targeted but pragmatic industrial strategies, countries are poised to make robust gains in manufacturing and other modern sectors. Ethiopia and Tanzania provide early examples.

There is an urgent need to strengthen infrastructure, lack of which is a leading constraint on manufacturing, as well as access to finance and other aspects of the investment climate. An additional area for action is to

promote geographical agglomeration and clustering of firms as a way to increase exports of manufactures and boost productivity. Selective industrial policies can target and respond to market and coordination failures and support the emergence of new, modern sectors if done with a high level of transparency and accountability. Reforms to increase market competition could also increase productivity by encouraging greater entry and expansion of high-productivity firms.

4. Unleashing the power of urbanisation:

Urbanisation in sub-Saharan Africa has been something of a missed opportunity so far. For the most part, urban growth has not been accompanied by economic transformation – a phenomenon sometimes called “urbanisation without growth”.

Weak urban infrastructure, inadequate urban planning and lack of public services are holding back the emergence of cities as sites for economic transformation. While urban population is growing fast, the physical footprint of cities is growing even faster in many cases, creating urban sprawl and holding back productivity gains associated with more compact cities. Many already suffer from severe transport congestion, long travel times, high road fatality rates, low energy efficiency, rising outdoor air pollution, and rising emissions.



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By 2050, sub-Saharan Africa's cities will increase by almost 800 million people, nearly half of the projected rise in numbers of urban dwellers globally. A shift towards more compact, connected and coordinated cities will assist in creating more inclusive and clean urbanisation. Policymakers should develop national urban development strategies, empower and increase the capacity of city governments, greatly expand urban infrastructure provision, exploit new emerging technologies and institutions, and strengthen urban land regulation.

5. Fostering a modern energy transition:

Sub-Saharan Africa's economic transformation will require a large increase in energy supply to meet the growing needs of households, industry, transport, and power generation. At present 620 million people lack access to electricity altogether. The challenge is how to meet this new demand while managing

the negative impacts associated with fossil fuels, in particular the health costs of air pollution related to fossil fuel use. It will be important to make the most of the region's ample clean energy resources, and to work to improve energy efficiency.

Global technological progress has created the potential for developing countries to "leapfrog" to much more energy efficient processes and products than were available to other countries as they developed decades ago.

Priorities include reforming energy subsidies, more effectively using energy taxes, reforming utilities, increasing public and private investment in power generation and distribution, and using off-grid and mini-grid distribution options to rapidly increase access for the poor.

The Global Commission on the Economy and Climate, and its flagship project The New Climate Economy, were set up to help governments, businesses and society make better-informed decisions on how to achieve economic prosperity and development while also addressing climate change. To read the full *Africa's New Climate Economy: Economic Transformation and Social and Environmental Change* report visit <http://newclimateeconomy.report/workingpapers/>. For media and other inquiries, please email info@newclimateeconomy.net.