INSIDE THIS ISSUE:

TABLE OF CONTENTS

Understanding Economic Transformation in Africa Through the Country Studies
Derek Headey and Margaret McMillan

Economic Growth without Structural Transformation: The Case of Ethiopia
Paul Dorosh, Emily Schmidt and Admassu Shiferaw

Economic Transformation in Ghana: Where Will the Path Lead?
Shashi Kolavalli, Elizabeth Robinson, Xiaohan Diao, Vida Adjorlolo, Rosato Follofe, Mira Slavova, Guyslain Ngoleza and Felix Asante

All Eggs in One Basket: A Critical Reflection on Malawi’s Development Strategies
Klaus Dropplemann, Jonathan Makwetsa and Ian Kamwenda

Growth Without Change? A Case Study of Economic Transformation in Mozambique
Benedicto Cunguara, Gorka Fagilde, James Garrett, Rafael Uanje and Derek Headey

Rural-Urban Transformation in Nigeria
James Sackey, Samwela Liverpool-Tasie, Shae Salau and Taiwo Awoyemi

Rural-Urban Transformation in Uganda
Paul Mukwaya, Yezishe Bamistiae, Teddy Benson and Samuel Agyemansu
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TABLE OF CONTENTS

Understanding Economic Transformation in Africa Through the Country Studies 1
Derek Headey and Margaret McMillan

Economic Growth without Structural Transformation: The Case of Ethiopia 7
Paul Dorosh, Emily Schmidt and Admasu Shiferaw

Economic Transformation in Ghana: Where Will the Path Lead? 41
Shashi Kolavalli, Elizabeth Robinson, Xinshen Diao, Vida Alpureto, Renato Folledo, Mira Slavova, Guyslain Ngeleza and Felix Asante

All Eggs in One Basket: A Critical Reflection on Malawi’s Development Strategies 79
Klaus Dropplemann, Jonathan Makuwira and Ian Kumwenda

Growth Without Change? A Case Study of Economic Transformation in Mozambique 105
Benedito Cunguara, Gorka Fagilde, James Garrett, Rafael Uaiene and Derek Headey

Rural-Urban Transformation in Nigeria 131
James Sackey, Saweda Liverpool-Tasie, Sheu Salau and Taiwo Awoyemi

Rural-Urban Transformation in Uganda 169
Paul Mukwaya, Yazidhi Bamutaze, Todd Benson and Samuel Mugararura
Understanding Economic Transformation in Africa Through Country Studies

DEREK HEADEY and MARGARET MCMILLAN

ABSTRACT

Economic transformation typically entails changes in the structure of output and the movement of labor from rural to urban areas as the significance of agriculture declines. In most rich countries, this process is accompanied by industrialization. Little is known about this process in Africa at least in part because of a lack of reliable data. To bridge this gap in knowledge, each of the six Africa based country strategy support programs of the International Food Policy Research Institute (IFPRI) commissioned papers on economic transformation in Africa. The countries studied are Ethiopia, Ghana, Malawi, Mozambique, Nigeria and Uganda. In May 2011, IFPRI together with Ghana's Institute of Statistical, Social and Economic Research (ISSER) hosted a conference in Accra in May 2011 where the papers were presented and discussed. These papers are published in this volume and this note provides an introduction to these papers.

1 Derek Headey: International Food Policy Research Institute; IFPRI-Addis Ababa (d.headey@cgiar.org); Margaret McMillan (corresponding author): IFPRI-Washington D.C., and Department of Economics; Tufts University, Medford, MA, 02155 (margaret.mcmillan@tufts.edu). The authors thank the IFPRI country strategy support programs in Ghana, Ethiopia, Malawi, Mozambique, Nigeria and Uganda for their dedication to this research. We also thank USAID for its financial support for this work, particularly the 2010 conference on structural transformation in Accra, Ghana where early versions of the papers were presented.
INTRODUCTION

The papers in this volume were prepared for the conference “Understanding Economic Transformation in Africa” hosted by the International Food Policy Research Institute (IFPRI) and Ghana’s Institute of Statistical, Social and Economic Research (ISSER). Each paper was prepared by a team of primarily local researchers and facilitated by IFPRI’s country strategy support programs in Africa. Case study authors were asked to address the following issues: (i) patterns and trends of economic transformation; (ii) patterns and trends of agglomeration and (iii) broad sectoral strategies implemented by the government that fostered or hindered economic transformation and agglomeration. The time horizon of the studies is sometimes constrained by data availability but roughly spans 1960 to the latest year for which data were available which is typically 2008. The authors were then asked to summarize the findings and outline the main constraints to further economic transformation and agglomeration in their respective countries.

As noted by all of the papers in this volume, economic transformation entails structural change and the movement of labor from rural to urban areas. In most poor countries, large numbers of people live in rural areas and devote most of their time to production of food for home consumption and local markets. By contrast, in richer countries, relatively few people work in agriculture. This is a robust feature of the cross-section data from different countries. It is also a feature of the historical experience of development in almost all rich countries [Headey and McMillan, forthcoming].

Recently, there has been a resurgence of interest in the study of economic transformation. This renewed interest in economic transformation stems at least in part from a disappointment with neo-classical growth models and a recognition of the dual nature of most underdeveloped economies. Apart from the work by McMillan and Rodrik (2011), most of this literature ignores Africa despite the fact that these issues will ultimately play a critical role in shaping the future of sub-Saharan Africa. Most of Africa’s labor force still works in agriculture: the proportion is as high as 80 percent in a number of countries. Agriculture also accounts for large fractions of GDP in most countries. In recent years, between 15 and 20 percent of GDP for the sub-Saharan region as a whole has originated in agriculture [Headey and McMillan, forthcoming]. In a number of countries, agriculture’s share of GDP reaches 30-40 percent. Africa’s economies
remain heavily rural and very poor.

The papers in this volume make it clear that while Africa is certainly a heterogeneous continent, the broad patterns of economic transformation and rural urban migration seem to be similar across the countries studied in this volume. Unlike countries in the developed world, the countries studied in this volume appear to have experienced growth without industrialization. There has been some transformation but it is primarily a movement out of agriculture and into services. And while there is rural urban migration, apart from Nigeria, it is not as rapid as one might expect given the extreme differences in living standards between rural and urban areas. Nevertheless, it is important to note that while Africa has been growing, most countries in Africa are still extremely poor by international standards. In fact, employment shares in agriculture, services and manufacturing are in line with what would be predicted by their income levels [Johnson and McMillan, 2012]. Viewed from this perspective, Africa may well be on the brink of an era of economic transformation.

**PATTERNS OF ECONOMIC TRANSFORMATION**

In spite of rapid growth in the past decade, the evidence from all six country studies indicates that at present, agriculture’s share of employment is substantially higher than its share of GDP. The share of employment in agriculture ranges from 80% [Ethiopia] to around 46% [Nigeria] while the share of agriculture in GDP ranges from 48% [Ethiopia] to 21% [Nigeria]. The direct arithmetic implication is that output per worker in agriculture must be lower than in non-agriculture. In other words, very large numbers of Africa’s laborers are working in a sector with extremely low levels of relative productivity.

However in some countries labor is moving out of agriculture into other possibly more productive sectors. For example, in 1998/99, Ethiopia's share of labor in agriculture was 90% - by 2006 the share of labor in agriculture dropped to around 80%. This coupled with the fact that agriculture’s share of GDP remained roughly constant at around 50% indicates both productivity growth in agriculture and productivity enhancing structural change albeit at a very slow pace. Unlike Ethiopia, Ghana has experienced relatively rapid agricultural labor exit rates. However, Ghana’s employment is still dominated by the agricultural and rural sectors. Nevertheless there has been a gradual but steady decline in agricultural employment. Where the share of the labor force in agriculture has declined, the share of the labor force in services has typically increased. The
share of the labor force in manufacturing has increased slightly in Ethiopia but still remains very low at less than 5 percent. The share of the labor force in manufacturing in Ghana is higher but has barely changed over the past two decades.

The remaining papers in this volume indicate that movement out of agriculture has proceeded much more slowly. In Malawi, the agricultural sector remains the main employer for the majority of Malawians and accounts for 85% of the labor force and 39% of GDP, with the smallholder sector contributing 70% of agricultural GDP. In Mozambique, the agricultural sector’s share of employment remains very high (76% in 2006-07) and has declined very slowly over time. And in Nigeria and Uganda, agriculture’s share of employment appears to have increased over time.

These statistics suggest that a large pool of African labor is employed in low productivity activities and that economic transformation is tepid at best. Moreover, the country studies indicate that employment growth in Africa has lagged behind working population growth. It appears that in some instances, the informal sector has absorbed much of the increase in labor supply leading to low official unemployment rates. However, it is clear that African policymakers are extremely concerned about high levels of unemployment particularly among the young.

As pointed out by the authors of the paper on Uganda, it is worth noting that the statistics on employment partially mask the true extent of the diversification of rural employment patterns by omitting secondary employment figures. For example, while 85% of rural households in Uganda are engaged in crop farming as the major activity, crop farming only provides 46% of household income, the remainder coming from other household enterprises (21%), salaries and wages (12%), and transfers and other benefits (15%).

**AGGLOMERATION AND THE RURAL URBAN DIVIDE**

It is well understood that the agglomeration of individuals and firms can create economies of scale for industrialization and public service delivery. It is also true that historically, the majority of poor in Africa have lived in relatively sparsely populated rural areas with limited access to public amenities such as education, electricity, clean water and health facilities. Thus, one measure of development that is particularly important in Africa is agglomeration.
Importantly, agglomeration differs from typical measures of urbanization that rely primarily on political and administrative boundaries. In comparison, the agglomeration index defines urban areas as locations using the following two criteria: a population density greater than 150 people per km²; and areas located within 1 hour travel time from a city of at least 50,000 people.

The differences between political and economic measures of urbanization can be substantial. For example, the authors of the Ghana study published in this volume find that according to official statistics published by the United Nations, 45 percent of Ghana’s population is living in urban areas. By contrast, the authors estimate that according to the agglomeration index, only around 37 percent of the population is living in urban areas. Since the papers in this volume are focused on understanding patterns of economic development, the authors use agglomeration indices to describe patterns of urbanization.

All of the papers published in this volume indicate that agglomeration is proceeding at a relatively rapid pace. However there are significant differences across countries. For example, Nigeria is highly urbanized with close to 50 percent of the population living in urban areas. By contrast, Ethiopia is one of the least urbanized countries in the world with only around 15 percent of the population living in urban areas. Like Ethiopia, only around 15 percent of Malawi’s population is living in urban areas. While urbanization is increasing in all of the countries studied in this volume, for the most part current rates of urbanization are extremely low by international standards – about 50 percent for developing countries.

The relatively low rates of urbanization in many parts of Africa are somewhat puzzling given the income disparities between rural and urban populations documented by the papers published in this volume. One of the reasons for the relatively low rates of urbanization is limited rural to urban migration. The reasons for this are complicated and as yet not well understood. The authors of the Ethiopia study note that the majority of urbanization taking place in present day Ethiopia is a consequence of high urban fertility rates rather than rural urban migration. They speculate that some of the reasons for limited rural urban migration might be high rates of urban unemployment and a land tenure regime that forces people to stay on their land in order to keep it.

As noted by the authors of the Malawi study, some of the barriers to rural urban migration are deeply rooted in history. For example, throughout Malawi’s colonial period, British rulers classified urban areas as primarily “white
only”. As a result of these restrictive policies on the migration of indigenous populations to urban areas, Malawi’s urban population, after well over 70 years of the emergence of urban settlements, was only 260,000 in 1966, when the first post-independence national census was conducted or 6.4% of the total population.

While urbanization has been slow in much of Africa, all of the papers published in this volume indicate that the pace of urbanization does seem to be accelerating. Many governments have invested heavily in road infrastructure in recent years, particularly those linking productive rural areas to urban markets. And more governments are pushing for reform of land markets which will make it less risky to migrate and easier to obtain bank financing [Deininger et al, 2012].

CONCLUSION

The papers in this volume make it clear that while Africa’s population is still relatively rural, the landscape is changing rapidly. New technologies such as Geographic Information Systems (GIS) have made it easier to document these changes. The rapidly changing landscape provides challenges and opportunities for economic development in Africa. The papers in this volume document and explain patterns and consequences of agglomeration in six African countries. We hope that the papers will serve as a useful reference point for policymakers in Africa whose primary focus is economic growth and poverty reduction.

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