Structural and Rural Transformation in Africa: Challenges, Opportunities and Implications for Policy and Investments

Structural transformation reflects changes in the relative contributions of agriculture, services, and manufacturing in an economy. Rural transformation is embedded within structural transformation, driven by changes in rural occupations, livelihoods and behaviour. Structural and rural transformation is underway in most African countries and agriculture has an important role to play in the process. Agriculture is the dominant sector in most countries, and agricultural value added averages 24 per cent of GDP for Africa as a whole, while agro-industry is also predominant in the manufacturing sector. Agriculture is likely to remain central to the transformation process given that demand for food is growing rapidly, largely as a result of urbanization and changing dietary habits. The number of African cities with more than 1 million inhabitants is projected to rise to 93 by 2025, urban food markets are expected to exceed US$400 billion by 2030, the rural poor are increasingly buying processed foods, and private investment in food systems is expanding quickly along the full range of production functions.

Overcoming challenges to structural and rural transformation

For agriculture to successfully drive inclusive structural and rural transformation on the continent, challenges in five key interrelated areas must be addressed: agricultural productivity, development of the rural non-farm economy, the youth bulge, limited manufacturing sector, and factor mobility.

Productivity in African agriculture

Although the agricultural sector is growing rapidly, agricultural transformation in Africa is still at a relatively early stage. Most agricultural growth can still be attributed to expansion of land and labour and shifts in the composition of output, rather than productivity. Increased agricultural productivity is essential if the sector is to realize its potential and meet growing demand for food, and will require changes agricultural practices, including much better use of agricultural technology and greater mechanization.

Dynamics in the rural non-farm economy

The rural nonfarm economy plays a decisive role in both the pace and quality of change in Sub-Saharan Africa, and in poverty reduction. However, in a number of countries, the rural nonfarm business environment faces difficulties including lack of basic infrastructure, inadequate credit and insurance markets, poor tenure security, and ethnic and gender disparities. If Africa’s budding rural nonfarm sector is to offer a ladder to more rewarding work in the local economy, it must also become a more reliable source of regular liquidity.

Coping with the youth bulge

Demographic trends on the continent demand the creation of economic and employment opportunities, and agriculture and related activities in agri-food systems offer significant potential. At present, however, young people within smallholder farming communities and households often find it difficult to access or profitably engage in markets. This is generally due to age-related barriers in accessing land and other assets, lack of relevant training and capacity development initiatives and services, and difficulties in accessing financing for investment. These specific constraints need to be addressed to make agriculture an attractive and profitable option for youth. As transformation proceeds, it will be necessary to expand education and training to facilitate entry into different market opportunities.

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Limited manufacturing base
Countries that underwent structural transformation in the 19th or 20th centuries did so in very different circumstances to those faced by African countries today, most of which have limited manufacturing bases or opportunities for expansion. While manufacturing should stay a priority for development in Africa, agriculture, the rural nonfarm sector, and services will have to provide jobs for the fast-growing rural labour force. Opportunities to produce and sell into growing local and regional agriculture markets are increasing, but depend on the competitiveness of local production. Evidence suggests that in many instances primary agricultural production is competitive, but competitiveness is lost after the farm gate. Addressing the policy and logistical constraints that reduce the performance of food processing, retailing, and exports will be essential.

Barriers to factor mobility
For agriculture, land tenure, use and management, is especially important. With sufficient capital and good skills, small, intensively worked farms can be efficient and profitable, but in many instances fragmentation of family holdings has resulted in very small farms that are not economically viable. At the same time, rapid consolidation of landholding and the move from traditional tenure to individual freehold has resulted in more medium and large farms where land is not fully utilized. In some instances, land markets are failing because many potential participants have limited access, and because gains to speculative landholdings are greater than the costs of managing rental contracts.

Mobility of labour depends largely on the skills workers possess. Young Africans have spent more years in school than their older relatives, but the quality of education has not improved commensurately, meaning that they often still lack the level of education needed for productive employment. Problems of quantity and quality of schooling are more severe in rural than in urban areas: about 60 per cent of those under 35 in rural areas have incomplete primary education and many struggle with basic literacy and numeracy. The least educated remain in agriculture, and those with slightly better skills gravitate towards nonfarm employment.

Thanks to developments in the banking sector and use of technology, capital mobility is not a major constraint to transformation in many countries. The difficulties that poor people face in accessing banking services—distance to branches, high costs of small transactions, absence of collateral, asymmetries of information, relatively less access to emerging ICT solutions—are greater for young people. Technological innovation offers an opportunity to significantly expand financial inclusion.

Implications for investment and policy
Africa’s trajectory of successful long-term structural transformation will start from agriculture, move through services to a more diversified manufacturing sector, then revert to expansion of highly skilled services. For agriculture to play its role, it will be essential to attract private investment, including into the rural non-farm sector, and to integrate market-oriented smallholders and rural communities into dynamic value chains. Agriculture policy should therefore address constraints identified above, such as land access and use and poor rural infrastructure, while also encouraging innovation and creating a conducive environment for investment.

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