



Lessons for a High-Quality Recovery in Africa

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Summary

The COVID-19 pandemic has revealed the fragility of many African economies, which are not diversified and lack resilience to economic crisis. One of the main ways to promote diversification and economic transformation is through promoting innovation. This essay brings together findings from a Development and Economic Growth Research Programme (DEGRP) synthesis report on innovation in low-income countries, drawing lessons from research in African countries for a high-quality recovery from COVID-19.¹ Strategic policies can protect innovation, diversification of economic structures and productivity growth to enable both a general and targeted response to the current downturn. Evidence from research promotes paying attention to manufacturing with coordinated public policies, for example, to strengthen the capacity to supply medical goods, as well as building more flexible firm capabilities.

Thematic Context

The COVID-19 pandemic has revealed structural vulnerabilities of many low- and middle-income countries. Despite having lower rates of COVID-19 infections and deaths compared to other regions, African economies have already faced incredible challenges and are likely to experience a longer path to recovery. Many economies across the African continent are not well diversified, relying mostly on agriculture and natural resources extraction for their employment and exports. Over the past three decades, most African and low-income countries have experienced economic growth, but have also seen limited structural change and achieved low productivity growth, remaining reliant on traditional sectors such as extensive agriculture, unprocessed natural resources, and low quality services.

Supporting and maintaining a strong, steady economic transformation process is crucial to COVID-19 recovery. Therefore, sources of productivity growth such as innovation and investment must be protected. However, evidence for 2020 suggested the contrary. For instance, in South Africa high-quality services and manufacturing **were affected disproportionately** by the COVID-19 downturn compared to other sectors. If high productivity activities do not get support and are lost permanently, Africa will again face growth-reducing structural change in the recovery.

Innovation's Contribution

With its contribution to productivity growth, innovation can drive the process of economic transformation, thus allowing low- and middle-income countries to deliver a broad-based, sustainable and resilient growth. Economic transformation consists of structural change as resources are moved from one sector to another, as well as raising productivity within sectors. Within Africa, the structural change process has fluctuated in recent decades, decelerating or reversing in the 1990s, but then getting somewhat back on track in the 2000s.²

This is where innovation comes in. By bringing in new products, production processes, and technology, innovation can contribute to transformative economic growth by boosting productivity, creating jobs, and enabling businesses to expand into new sectors. For instance, firms tend to grow, expand their business, and hire more people when they are producing a new product, or producing the same products through new or more efficient processes. This could be through better use of digital technologies to organize production processes more efficiently or to market products. Therefore, innovation goes hand in hand with economic transformation, promoting the creation of more vibrant, diversified, and ultimately resilient economies.

Innovation is sometimes difficult to spot. In some cases, changes in working practices within firms can be very important, even if “under the radar” and not easily visible or measurable through innovation indicators such as patents or research and development.³ Sometimes, innovative practices take a long time to generate results. For instance, in agriculture, most farmers still do not apply the full range of technical options on offer, for reasons that often include information failures in markets for inputs, credit, and insurance.⁴

Recommendations

A quality recovery from COVID-19 in Africa starts by supporting innovation and economic transformation. Without transformation, a growth recovery will not be sustained or resilient to future shocks. DEGRP research evidence suggests strategic policy actions that can help with:

- **Pay more explicit attention to structural change, promoting the creation and expansion of high productivity sectors.** Policy support is often focused on sector transformation while wider structural change is underemphasized. This should include a focus on the development of more modern and productive sectors of the economy, including manufacturing and highly productive services.
- **Provide targeted support for the manufacturing sector across Africa.** Manufacturing plays a special role in economic transformation because it has greater (labor) productivity than most other sectors, but also because it creates jobs and has significant scope for growth. However, over time manufacturing has become more capital-intensive, making it more difficult for countries to break into this market. Targeted actions by African policymakers could include consideration of the importance of training for supervisors, especially in large garments firms.
- **Coordinate a range of targeted and general enabling measures for economic transformation.** General enabling market incentives are relevant, such as stimulating greater openness to trade and investment. But strategic and targeted actions are also important and complementary, such as stimulating the development of firm capabilities in the pharmaceutical sector. It is important to combine market incentives and interventions to support the development of the sector while building up innovation systems involving a range of interconnected institutions that interact around innovation. This is crucial for building up industrial capabilities to supply medical and other critical supplies. DEGRP research shows that sectoral and industrial policies and active support for local production can be effective; for example, through using public procurement and better coordination between trade and industrial policies.
- **Work with firms to incentivize collaboration and learning.** Much progress in productivity within a sector happens at the firm level. Not all firms are the same, and evidence suggests firms have different levels of productivity—even within firms across production lines. With access to credit, training of staff, and coaching of managers, policymakers will need to work with firms to understand how they can best foster collaboration and learning among firms, including through knowledge sharing. More attention needs to be focused on peer learning and mentoring among firms, which has been shown to support firm performance.

- **Address agricultural market failures and increase funding for research.** For agriculture, two priorities emerge: one, address the markets failure in inputs, credit, and insurance, which have shown to be a weak point in the sector; and two, sustain and increase funding for public agricultural research, since the payoff for much of this kind of research is very high.

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About the Series

Policy experts and researchers from the [African Center for Economic Transformation \(ACET\)](#) and the [Development and Economic Growth Research Programme \(DEGRP\)](#), in partnership with [ODI](#), explore the critical role of innovation in Africa's recovery from COVID-19. Essays identify areas in which innovation can contribute to effective responses and offer high-level policy recommendations.

Endnotes

1. Linda Calabrese, Kunal Sen, Chisom Ubabukoh, Dirk Willem te Velde, and Steve Wiggins, [Innovation and economic transformation in low-income countries: a new body of evidence](#), (DEGRP synthesis report, ODI, 2020).
2. Margaret McMillan, Dani Rodrik, and Inigo Verduzco-Gallo, "[Globalization, Structural Change, and Productivity Growth, with an Update on Africa](#)" (World Development, Volume 63, 2014); Xinshen Diao, Margaret McMillan, and Dani Rodrik, "[The Recent Growth Boom in Developing Economies: A Structural-Change Perspective](#)" in Machiko Nissanke and Jose Antonio Ocampo (eds), *The Palgrave Handbook of Development: Critical Reflections on Globalisation and Development* (Palgrave, 2019).
3. Xiaolan Fu, Pierre Mohnen, and Giacomo Zanella, "[Innovation and productivity in formal and informal firms in Ghana](#)" (*Technological Forecasting and Social Change*, Volume 131, 2018).
4. Linda Calabrese, et al, 2020.

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