Manufacturing

The costs of embarking on a manufacturing pathway

Kouassi Yeboua

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The costs of embarking on a manufacturing pathway

Many Africans survive in the informal sector, and the challenges that need to be overcome to create jobs for the continent's rapidly growing population are significant indeed.

Typically when countries embark on a manufacturing transition, inequality and poverty may initially increase. This is because resources and investments are diverted to more capital and knowledge-intensive sectors, which leads to an initial crunch in consumption. However, in the long term, these efforts stimulate inclusive growth with a greater impact on poverty and inequality reduction.

Policies aimed at industrialisation, therefore, need to be accompanied by measures to mitigate these effects. These could include efforts to directly support extremely poor families through social programmes (e.g. distributing cash grants) and investing in education, job creation and providing basic services. Large increases in employment in the formal sector eventually push up low-end wages and reduce inequality. Being part of the formal sector locks workers into annual wage negotiations, allows them to qualify for sick leave and other benefits, and to be part of pension schemes. Improvement in education is generally perceived as the great leveller that can eventually allow for more complex, productive and hence better-paid work.

The situation with respect to extreme poverty is already dire in Africa. In 2019, extreme poverty (using US$1.90 as the benchmark) was 34% of the total African population, forecast to decline to 18% by 2043 on the Current Path.

The alternative to cash or social grants is to provide subsidies, particularly for fuel, bread and basic foodstuffs. These efforts have been particularly popular in many North and West African countries. Although, like subsidies, direct cash transfers over extended periods can lead to dependency and reduce the incentive to undertake or seek employment, being paid in local currency (as opposed to subsidising fuel imports that are bought using foreign exchange) and going directly to the needy (largely reducing transaction costs and, using modern technology, eliminating opportunities for corruption) are important advantages.

To this end, social protection policies are best employed in tandem with other economic reform efforts that focus on changing productive structures. In Egypt, for example, the Takaful (Solidarity) and Karama (Dignity) cash transfer programme was launched in 2015 and covers 3.69 million households—approximately 12.84 million individuals, or 13% of Egypt's population.[1]

The programme was originally introduced to cushion the impact of Egypt's ambitious 2014 economic reform programme, which included the removal of energy subsidies, the adoption of a flexible exchange rate and the introduction of a new value-added tax. The government has also scaled up its social protection programmes. The Takaful (Solidarity) part of the programme provides modest, unconditional monthly pensions to the elderly and disabled citizens, while the Karama (Dignity) part provides conditional income support aimed at increasing families' food consumption, reducing poverty, encouraging families to keep children in school and providing them with healthcare.[2]

Modern technology now makes it possible to set up social grant systems without the inefficiencies and corruption of the past. For example, setting up efficient social grant systems would not be possible without a push to provide Africans with secure identity systems and the establishment of a national population register in each country. The Sustainable Development Goals (SDGs) recognise that some form of official proof of identity is a prerequisite to participate in a modern economy and to access basic rights and services. The advances in digital technology, with biometrics and its incorporation into identification systems, means this can be made available more rapidly and cheaply than before (also see the theme on leapfrogging), although the political and practical challenges should not be underestimated.

Endnotes

1. World Bank, New World Bank financing will expand and strengthen Egypt's flagship social protection program, 23 December 2022.
2. World Bank, The story of Takaful and Karama cash transfer program, 15 November 2018.

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About the authors

Dr Kouassi Yeboua is a senior researcher in African Futures and Innovation programme in Pretoria. He recently served as lead author on ISS studies on the long-term development prospects of the DR Congo, the Horn of Africa, Nigeria and Malawi. Kouassi has published on various issues relating to foreign direct investment in Africa and is interested in development economics, macroeconomics, international economics, and economic modelling. He has a PhD in Economics.

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