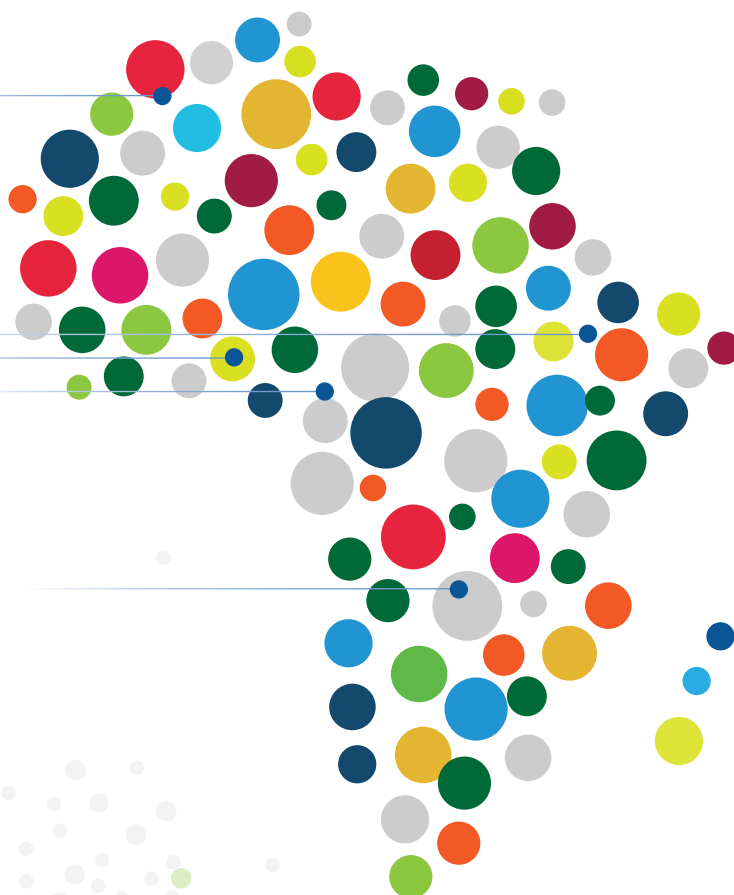


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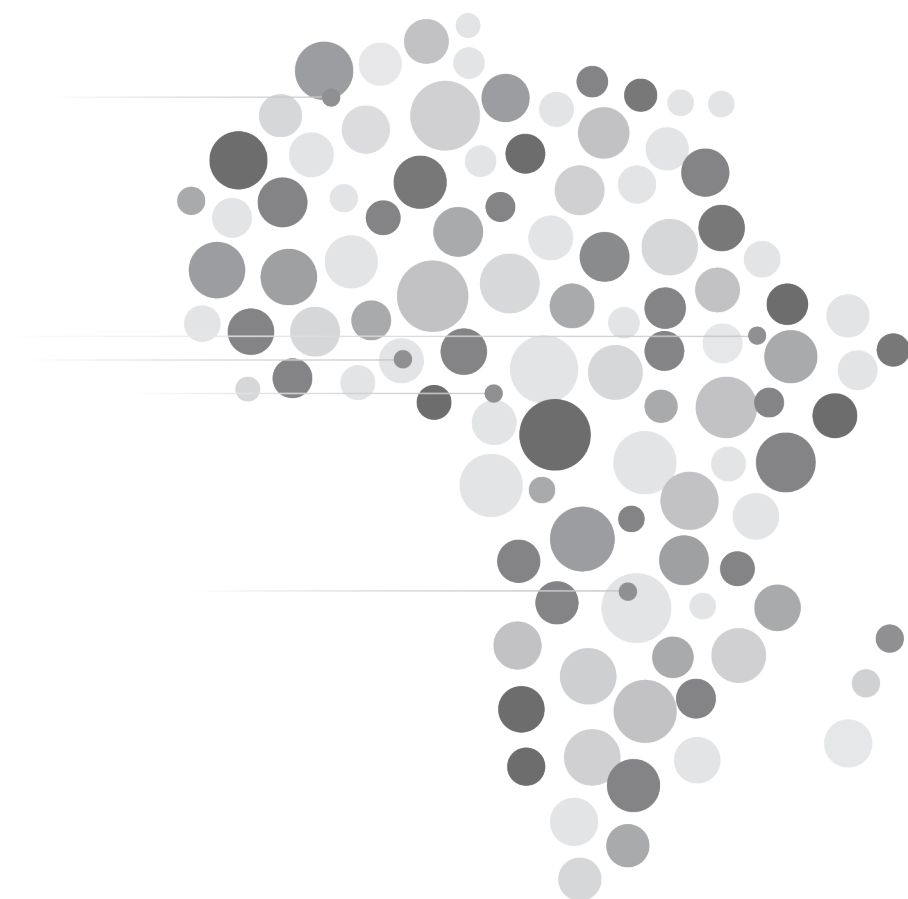


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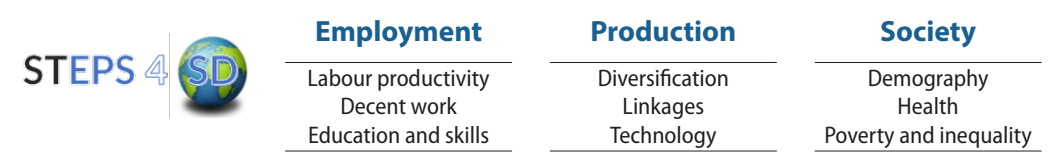
### Definition of structural transformation

The Economic Commission for Africa defines structural transformation as the fundamental changes in economic and social structures that advance inclusive and sustainable development\* This definition addresses three key questions:

- a) What is structural transformation? It is a fundamental and multidimensional process observed in all countries reaching high levels of development;
- b) How is it achieved? It requires profound economic and social transformation, such as economic diversification and technological upgrading, the creation of decent and productive employment and equitable social welfare;
- c) Why does it matter? It is crucial for implementing the 2030 Agenda for Sustainable Development and Agenda 2063: The Africa We Want.

Within the core objective of accelerating structural transformation (ST), there are three inherent dimensions to be assessed: employment (E), production (P), and society (S). This speaks directly to the need to fundamentally change economic and social structures, with employment playing a key role in linking economic growth (production) and social development (society), in both directions. It is useful to keep in mind the ultimate objective of the analytical framework, namely, to achieve inclusive and sustainable development through accelerated structural transformation. Hence, structural transformation, employment, production and society for sustainable development (STEPS 4 SD) is the framework that shapes the design and implementation of the profiles (see figures I and II).

**Figure I: Structural transformation, employment, production and society for sustainable development (STEPS 4 SD)**



Within each of the three dimensions considered, there are three outcome areas that are crucial to accelerate structural transformation. With regard to production, the attention is on (supporting) diversification, (strengthening) linkages and (upgrading) technology. For employment, the focus is on (increasing) labour productivity, (promoting) decent work and (enhancing) education and skills. With respect to society, the emphasis is on (managing) demography, (improving) health and (reducing) poverty and inequality. For each outcome area,

\* The terms "structural transformation" and "structural change" are often used interchangeably. Narrow definitions are centred on the measurement of the economic gains accrued by shifting labour from lower-productivity to higher-productivity sectors, while broader definitions go beyond shifts in economic structures, such as production and employment, by also encompassing within-sector productivity improvements and changes in other aspects of society. For the purposes of the present document, the use of structural change is avoided and a broad perspective, as described by the STEPS framework, is adopted.

there is a set of core outcome indicators. They illustrate the results (outputs) that are expected to be observed in order to accelerate structural transformation. These are complemented by other metrics pertaining to the relevant outcome area. Given that structural transformation is a gradual process, indicators are tracked over a long period of time: from 20 to 25 years, whenever possible. Below is a brief rationale for each outcome area.

### **Diversification**

Economic diversification is a key feature of countries that have achieved high levels of development. Concentrated economic structures undermine structural transformation by promoting rent-seeking (in mining) and commodity traps (in agriculture). They are also typically associated with high vulnerability to price and demand shocks. Expanding the range of goods and services that are produced and exported, especially towards higher value addition, is therefore an important factor behind structural transformation.

### **Linkages**

Deeper integration into the global economy can contribute to increased value addition and productivity growth, especially through participation in global value chains. A more interconnected economy, with strong backward and forward linkages throughout sectors and firms, can also help to overcome critical structural constraints, sustain economic gains and encourage innovation.

### **Technology**

Technological progress is a catalyst for structural transformation. The creation, improvement, and adoption of technologies contributes to accelerating productivity growth and adding value to production processes. Technological change can be supported through the development of domestic technological capabilities and/or through the importation of foreign technologies, such as those embedded in foreign investment.

### **Labour productivity**

Labour productivity is at the heart of structural transformation. In fact, the academic literature often measures structural transformation as the economic gains accrued by shifting labour from lower-productivity to higher-productivity sectors, also known as between-sector effects, as opposed to within-sector productivity improvements. Positive employment dynamics are therefore necessary to generate these benefits. Labour productivity not only depends on skills and health, from the worker's perspective, but also relies on existing technology and other firm-related characteristics. It is therefore central to this framework. Crucially, labour productivity improvements are necessary to enable economic (and household income) growth and thus help to raise living standards.

## Decent work

Decent work entails employment opportunities that provide reasonable levels of remuneration, security and safety. Precarious work conditions, such as low pay and job insecurity, are a key obstacle to raising living standards and often undermine labour productivity. Creating decent work opportunities is critical to engender positive structural transformation, given that economic and social structures may change in ways that do not always promote sustainable development.

## Education and skills

An educated and skilled workforce is critical to accelerate structural transformation. Formal and informal education systems provide a range of skills for work and life. In particular, improved skill levels facilitate the reallocation of labour towards higher-productivity sectors. Enhancing demand-driven and work-relevant skills is key to reducing existing skill gaps and mismatches.

## Demography

Demographic change can boost structural transformation through the considerable impact that it has on the economy and society. For example, changes in the age composition of the population can yield a significant demographic dividend by easing the economic burden on the working-age population. Urbanization and migration can also produce large economic benefits, although they may also entail significant costs if not adequately managed.

## Health

A healthy workforce is central to expanding human capital and enhancing structural transformation. A high prevalence of diseases and other medical conditions undermines economic activity and labour productivity, especially through its impact on an individual's physical and emotional well-being.

## Poverty and inequality

Poverty often undermines access to nutritious foods, health care, education and jobs, which, in

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