



Expert Group Meeting

**Quality of institutions and structural transformation:
distortions and resource allocation in North Africa**

Rabat, 26-27 September 2018

Aide-memoire

I- Introduction

The 2030 Agenda for Sustainable Development was adopted in September 2015 and is a road map for achieving ambitious sustainable and inclusive development by 2030. It comprises 17 Sustainable Development Goals that encompass the challenges relating to economic and social development.

The structural transformation of the economies of North Africa is a prerequisite to achieving the Sustainable Development Goals. Indeed, evidence shows that the development of new economic activities, with the continuous improvement in technology, is critical for a sustained pattern of growth, and such growth has been shown to be very important for poverty alleviation.

At the heart of structural transformation lies the process of capital and labour reallocation from less to more productive economic firms. In some studies, it has been estimated that a more efficient allocation of the factors of production could increase total factor productivity by 30 to 60 per cent in some emerging countries (e.g., China and India). Institutions, broadly defined, play a critical role in supporting or impeding this process. More research remains to be done, however, to better understand the mechanisms underlying the impact of institutions on the structural transformation of the economies of North Africa.

II- Context and justification

The structural transformation of the economies of North Africa remains very slow. In some countries, such as Algeria, Mauritania and the Sudan, growth remains dependent on a few primary sectors, mainly agriculture and mining. Others, such as Egypt, Morocco and Tunisia, although experiencing industrial development, remain “trapped” in the position of an “intermediate” income country in the upstream of the global value chain.

At earlier stages of development, economic growth is concentrated in a limited number of low-productivity sectors, with limited technological improvement. At later stages of development, growth requires the adoption of more complex technologies and the acquisition of new skills. This requires financing new activities and, therefore, a more efficient financial system, a new regulatory framework, infrastructure and new legislation, among other elements. Growth also requires the reallocation of labour and capital (which, for example, may be subject to incomplete contracting issues).¹ The implication is that many policies and institutional reforms need to be enacted to support this growth “process”.

¹ See, for example, Ricardo J. Caballero and Mohamad Hammour, “The macroeconomics of specificity”, *Journal of Political Economy*, vol. 106, No. 4 (August 1998).

As structural transformation goes on hand with economic development, with the emergence of more complex technologies and new sectors, the quality of institutions becomes more critical. However, there is limited work on institutions and structural transformation, and there is a gap between academic knowledge and practice. There is no comprehensive framework to analyse both the process of structural transformation and the institutional impediments to it. Furthermore, although it is known that economic and institutional reforms are needed to foster growth, a comprehensive understanding of the appropriate sequencing of reforms is lacking. Some recent research has been done to understand the link between economic and institutional reforms, but it remains very limited.²

The Expert Group Meeting is part of research project launched by the Subregional Office for North Africa of the Economic Commission of Africa (ECA) to contribute to bridging the gap between academic knowledge and practice in order to analyse the process of structural transformation and the institutional barriers to it. It will focus on the process of productivity growth through the reallocation of the factors of production from the least productive to the most productive economic activities. Its purpose is to develop a framework to understand and assess the impact on total factor productivity of distortions that prevent the efficient allocation of resources and to characterize and quantify the impact of institutions on the reallocation of resources during the structural transformation of the economies of North Africa.

III- Meeting objectives

The main objective of the Expert Group Meeting is to present, discuss and enrich the preliminary results of the study conducted by the Subregional Office for North Africa in order to assess the impact of institutions on the process of economic transformation.

On the basis of the results of the study and the contributions of experts, the Expert Group Meeting is expected to achieve the following:

- (a) Gain a better understanding and greater awareness of the link between (i.e., the channels of interaction) institutions and the process of structural transformation in North Africa;
- (b) Discuss methods and data needed to evaluate the impact and the potential total factor productivity increase resulting from a more efficient allocation of resources;
- (c) Present and discuss a coherent framework for identifying institutional reforms needed for a more efficient allocation of resources.

IV- Participants

The Expert Group Meeting will bring together researchers, experts from member States and representatives of international institutions in the fields of governance and public policies targeting firms.

² See, for example, Paola Giuliano and others, *Democracy and Reforms: Evidence from a New Dataset* (National Bureau of Economic Research, 2012), or Francesco Giavazzi and Guido Tabellini. "Economic and political liberalizations," *Journal of Monetary Economics*, vol. 52 (2005).

V- Expert group meeting details

The EGM will be held on 26 and 27 September and organized around 3 sessions, as outlined below.

Session 1: Structural transformation: measurement and facts for North Africa

This introductory session will present salient facts regarding the structural transformation of the economies of North Africa. It will be composed of a presentation of the main indicators to assess structural transformation and detailed country examples of structural transformation patterns.

It is expected that this session will result in a common understanding of the structural transformation process and offer a global perspective of structural transformation with regard to North Africa.

Session 2: Institutions and their impact on structural transformation

This session will present and serve as a discussion of an ECA study on the quality of institutions and structural transformation.

It is expected that this session will result in the following: (a) an understanding of the channels of impact of institutions on structural transformation, in particular distortions; (b) a potential assessment of misallocation of factors of production (c) a global appraisal of data needs in national statistics systems to better tackle misallocation and its effect on total factor productivity.

Session 3: Addressing distortions and misallocation in North Africa

On the basis of lessons learned from the previous two sessions, the third one will lay the groundwork for establishing the institutional reforms needed to favour a more efficient allocation of factors of production in the economies of North Africa. Possible extensions of ECA study will be presented to more precisely identify the reforms needed and assess their potential impact.

It is expected that this session will lead to the identification of an approach to tackle misallocation from a public policy perspective, of the data/information needed to better assess the impact of the quality of institutions. on structural transformation and of a way forward of the ECA study.

VI- Expected outcomes

The expected outcomes of the EGM will be an increased awareness and in-depth knowledge on the part of key stakeholders regarding the following: (a) the importance of institutions in the process of structural transformation of the economies of North Africa; (b) the importance of misallocation in explaining the productivity of the economies of North Africa; and (c) the need to fill data gaps to better assess the impact of institutions on the allocation of factors of production throughout firms and sectors. In addition, there will be policy recommendations for the more efficient allocation of factors of production.

VII- Outputs

Following the Expert Group Meeting, the following products will be developed and disseminated:

- (a) Final report of the ECA study;
- (b) Meeting report, including the conclusions and recommendations;
- (c) Policy paper;
- (d) Policy brief;
- (e) E-discussion dedicated to following up on the topic among the participants and leading to a discussion synthesis.

VIII- Documentation and working languages

The working document and the programme of the Expert Group Meeting will be communicated to participants in due time. The working languages will be Arabic, English and French, and simultaneous interpretation will be provided in these languages.

IX- Dates, venue and application

The meeting will be held in Rabat on 26 and 27 September 2018.

X- Contacts:

Coordination:

Zoubir Benhamouche

Economist, Subregional Officer for North Africa

Email: benhamouche@un.org

Knowledge Management:

Salem Sebbar

Email: sebbar@un.org

Communication:

Houda Filali-Ansary

Email: filali-ansary@un.org

Documentation:

Mohammed Mosseddek

Email: mosseddek.uneca@un.org

Secretariat:

Naima Sahraoui

Email: sahraoui.uneca@un.org

Tel. : + (212) (0) 537 71 56 13 / (0) 537 71 78 29