

From Economic Growth to Structural Transformation: Evidence from the First Biennium Report of Agenda 2063's Second Ten-Year Implementation Plan

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Article History	Abstract
Original Research Article	<i>Africa's development challenge is shifting from generating economic growth to ensuring that growth produces sustained productivity gains, productive employment, rising real incomes, economic diversification, and improved welfare. This study examines Africa's progress towards inclusive structural transformation during the first two years of the Second Ten-Year Implementation Plan of Agenda 2063 (2024–2025), dubbed a decade of acceleration. Using a continental comparative secondary-data design based on the First Biennial Continental Progress Report, which covers 44 reporting Member States, the study analyses economic growth, real GDP per capita, poverty, unemployment, inequality, manufacturing value added, processed exports, diversification, agricultural productivity, and food security. The findings reveal a significant transformation gap. Moonshot 1 achieved an overall performance score of 60%, and inclusive, equitable, and sustainable economic growth achieved 62%. Poverty declined from 41.6% to 34.6%, unemployment from 10.5% to 9.5%, and the Gini coefficient from 0.382 to 0.365. However, real GDP per capita fell from US\$2,234 in 2023 to US\$2,053 in 2025, and undernourishment rose from 19.4% to 20.4%. Manufacturing value added increased only marginally, from 11.24% to 11.53%; processed exports rose from 24.77% to 26.46%; and the diversification index rose from 0.43 to 0.45. The study argues that Africa is improving selected welfare outcomes faster than it is transforming its productive structures, and that poverty and unemployment reduction alone do not demonstrate productivity-led transformation. It proposes an inclusive structural transformation framework linking productive investment, industrialisation, agricultural modernisation, diversification, productive employment, value addition, and resilience to improved incomes and welfare. The next phase of Agenda 2063 implementation should prioritise productivity-enhancing industrialisation, agricultural value chains, productive-sector finance, regional value chains, infrastructure, skills, technological upgrading, and climate-resilient investment.</i> Keywords: Agenda 2063; structural transformation; transformation gap; inclusive growth; economic diversification.
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Copyright © 2026 The Author(s): This is an open-access article distributed under the terms of the Creative Commons Attribution 4.0 International License (CC BY-NC) which permits unrestricted use, distribution, and reproduction in any medium for non-commercial use provided the original author and source are credited. Citation: Margaret Nakiwala & Wangadya Charles. (2026). From economic growth to structural transformation: Evidence from the first biennium report of Agenda 2063's second ten-year implementation plan. UKR Journal of Economics, Business and Management, 2(10), 56-68.	

Introduction

Africa's long-term development trajectory has been shaped by sustained efforts to accelerate economic growth, reduce poverty, and improve living standards. Between the mid-1990s and the mid-2010s, many African economies recorded their longest period of rapid growth since independence, accompanied by gains in poverty reduction, access to basic services, and human development (Rodrik,

2018). However, the continent still faces deep structural challenges, including low productivity, widespread informality, limited industrialisation, weak economic diversification, low domestic value addition, food insecurity, and insufficient productive employment (de Vries et al., 2015; McMillan et al., 2014).

These challenges matter because economic growth does not automatically produce structural transformation. Structural transformation involves fundamental changes in the composition of production and employment, the reallocation of labour and capital towards higher-productivity activities, technological upgrading, industrialisation, and rising domestic value addition (Chenery et al., 1986; Herrendorf et al., 2014; Lewis, 1954). An economy may therefore record positive GDP growth without achieving the productivity improvements needed to sustain rising real incomes and long-term convergence with higher-income economies (Rodrik, 2018).

The African Union's Agenda 2063 is the continent's principal long-term framework for addressing these challenges. Adopted as Africa's development blueprint, Agenda 2063 promotes inclusive and sustainable socioeconomic development, continental integration, and shared prosperity (African Union Commission, 2015). Its Second Ten-Year Implementation Plan (STYIP), covering 2024–2033, represents the second phase of implementation and places greater emphasis on accelerated execution, measurable results, and transformation (African Union Commission, 2024). Earlier assessments of the first implementation phase identified governance weaknesses, resource constraints, dependence on external financing, and weak monitoring data as persistent obstacles to domesticating the Agenda 2063 at the national level (Nakiwala et al., 2025).

The STYIP's ambition for economic transformation is particularly significant. One of its principal objectives is that African countries should move towards middle-income status by 2033 (African Union Commission, 2024). Achieving this ambition requires more than increases in aggregate output. It requires sustained productivity growth, industrialisation, agricultural modernisation, economic diversification, value addition, productive employment, and rising real incomes (Commission on Growth and Development, 2008).

The STYIP's first biennium report provides an early opportunity to assess whether Africa is moving in this direction. The First Biennial Continental Progress Report indicates an overall continental performance of 53% across the seven Moonshots. The report identifies strong progress in aligning national development plans with Agenda 2063, while highlighting structural transformation, productive employment, infrastructure connectivity, and sustainable financing as areas requiring greater attention (African Union Commission, 2026a, 2026b).

The economic evidence presents a notable paradox. Moonshot 1 recorded an overall performance score of 60%, while inclusive, equitable, and sustainable economic growth achieved 62% and economic resilience achieved

59%. Poverty declined from 41.6% to 34.6%, unemployment from 10.5% to 9.5%, and the Gini coefficient from 0.382 to 0.365. Yet real GDP per capita declined from US\$2,234 in 2023 to US\$2,053 in 2025, while undernourishment increased from 19.4% to 20.4% (African Union Commission, 2026a). These trends raise a fundamental development question:

To what extent is Africa's recent economic progress translating into structural transformation capable of supporting the middle-income aspirations of Agenda 2063?

This question motivates the paper's central argument: Africa is experiencing a *transformation gap*, in which improvements in selected welfare indicators are occurring faster than changes in the productive structures required to sustain long-term income growth.

This concept matters because welfare improvement and structural transformation are related but distinct dimensions of development. A decline in poverty is an important achievement, but it does not necessarily indicate higher economy-wide productivity (Bourguignon, 2003; Dollar & Kraay, 2002). Similarly, lower unemployment does not necessarily imply an expansion of productive employment when new jobs are concentrated in low-productivity informal activities (International Labour Organisation (ILO), 2018; La Porta & Shleifer, 2014). Conversely, modest improvements in manufacturing, processing, and diversification may signal structural progress even where short-term income indicators remain under pressure.

The paper therefore distinguishes between *distributional progress*, which concerns improvements in poverty, inequality, employment, and access to services, and *productive transformation*, which concerns changes in productivity, industrialisation, value addition, diversification, agricultural productivity, and the composition of employment.

The study makes four contributions. First, it introduces the concept of the transformation gap to interpret the first two years of the STYIP implementation. Second, it brings together welfare and productive-sector indicators in a multidimensional assessment of Africa's economic transformation. Third, it connects the empirical findings to structural transformation theory and inclusive growth theory. Fourth, it derives policy implications for accelerating the transition from growth to inclusive structural transformation.

The remainder of the paper is organised as follows. Section 2 reviews the literature. Sections 3 and 4 present the theoretical and conceptual frameworks. Section 5 describes the methodology. Section 6 presents the results, and Section 7 discusses them. Section 8 sets out the theoretical

contribution. Sections 9 and 10 present implications and policy recommendations. Section 11 concludes, and Section 12 outlines limitations and directions for further research.

2. Literature Review

2.1 Economic Growth and Structural Transformation

The relationship between economic growth and structural transformation is foundational to development economics. Lewis (1954) conceptualised development as a process through which labour moves from traditional, low-productivity activities towards a modern sector characterised by capital accumulation and higher productivity. Ranis and Fei (1961) extended this dual-economy model by showing that labour transfer depends on rising agricultural productivity to release workers and supply food to the modern sector. In this tradition, structural transformation is not simply an increase in aggregate output; it involves changes in the economy's underlying productive structure.

Subsequent research showed that successful development is generally accompanied by systematic shifts in the sectoral composition of output and employment. Chenery et al. (1986) demonstrated that industrialisation involves coordinated changes in production structures, trade, consumption, and employment, while Herrendorf et al. (2014) documented the regular movement of economic activity from agriculture to manufacturing and then to services as incomes rise.

This perspective is highly relevant to Africa. Although many African economies have grown, labour has not always moved towards high-productivity manufacturing and modern activities. McMillan et al. (2014) show that structural change reduced aggregate productivity growth in Africa during the 1990s but began to contribute positively after 2000, while persistent productivity gaps between traditional and modern sectors indicate substantial potential gains from reallocation. De Vries et al. (2015) similarly find that labour moving out of agriculture in Africa has largely been absorbed by services with low productivity growth, producing static gains but dynamic losses. Africa's development challenge is therefore partly a problem of reallocating resources towards activities with greater productivity and value addition.

2.2 Industrialisation and Premature Deindustrialisation

Manufacturing has historically played a central role in structural transformation because it facilitates technological learning, productivity growth, export diversification, and employment generation (Kaldor, 1966; Szirmai, 2012). However, the industrialisation pathway available to contemporary developing countries differs from that

available to earlier industrialisers. Rodrik (2016) documents a global trend towards premature deindustrialisation, whereby manufacturing reaches its peak share of employment and output at lower income levels than occurred historically.

This phenomenon has significant implications for Africa. If African economies deindustrialise before building strong manufacturing capabilities, the traditional pathway from agriculture to manufacturing and then to high-productivity services becomes more difficult (Page, 2012; Rodrik, 2018). Recent work suggests that Africa's response should not be limited to reproducing twentieth-century industrialisation. Instead, industrial policy should integrate manufacturing with agro-processing, tradable services, logistics, and regional value chains, an approach advocated by Newman et al. (2016) and the United Nations Economic Commission for Africa (UNECA, 2016).

2.3 Inclusive Growth and Development

Inclusive growth extends conventional growth analysis by asking whether economic expansion creates broad-based opportunities and improves welfare (Ianchovichina & Lundstrom, 2009; World Bank, 2008). The pace and pattern of growth are treated as interlinked: growth must be sustained to reduce poverty, and it must draw a large share of the labour force into productive activity to be inclusive (Commission on Growth and Development, 2008).

An economy may grow rapidly while large segments of the population remain excluded from productive opportunities, and the extent to which growth reduces poverty depends on initial inequality and on how growth is distributed (Bourguignon, 2003). For Africa, this issue matters because informal employment accounts for most total employment (ILO, 2018), so reductions in unemployment may not translate into higher labour productivity or household incomes. Inclusive growth should therefore be interpreted not merely as poverty reduction but as a process through which individuals and firms gain access to productive opportunities and expanded capabilities (Sen, 1999).

2.4 Economic Diversification and Resilience

Economic diversification is another core component of structural transformation. Economies dependent on a narrow range of commodities are particularly vulnerable to international price fluctuations, external demand shocks, and climate-related disruptions. Imbs and Wacziarg (2003) show that sectoral diversification rises with income over a wide range of development, and Hausmann et al. (2007) find that what a country exports, not just how much, predicts subsequent growth.

Diversification should not, however, be understood simply as adding sectors. Productive diversification requires a shift

toward higher-productivity activities, stronger technological capabilities, and greater domestic value addition (Hausmann et al., 2007). The link between diversification and resilience is especially important in Africa given the continent's exposure to commodity-price volatility, climate change, geopolitical shocks, and restricted fiscal space. The African Union's 2026 assessment identifies global economic uncertainty, climate change, geopolitical tensions, debt burdens, and constrained fiscal space as continuing pressures on African development (African Union Commission, 2026b).

2.5 Agricultural Transformation

Agriculture remains central to Africa's structural transformation because it contributes to employment, rural incomes, food security, industrial raw materials, and domestic markets (Johnston & Mellor, 1961). Growth originating in agriculture has been shown to reduce poverty among the poorest households far more effectively than growth in other sectors (Christiaensen et al., 2011).

Agricultural transformation requires more than increased output. It requires improvements in productivity, irrigation, mechanisation, extension services, finance, storage, transport, technology, and market access. Gollin et al. (2014) show that measured value added per worker is substantially lower in agriculture than elsewhere in developing economies, which implies large potential gains from both raising farm productivity and reallocating labour. Barrett et al. (2017) emphasise that rural transformation in Africa increasingly occurs through off-farm employment, rural towns, and agri-food value chains. Agro-processing can link farmers with manufacturing, logistics, packaging, marketing, and export markets. Agricultural transformation should therefore be treated as an integral component of industrialisation rather than a separate rural development agenda.

2.6 The Research Gap

The existing literature provides substantial evidence on structural transformation, inclusive growth, and industrialisation. However, less attention has been paid to interpreting the STYIP implementation cycle through the lens of the relationship between welfare improvement and productive transformation. Research on Agenda 2063 has concentrated largely on governance, domestication, and macroeconomic constraints on implementation (Nakiwala et al., 2025; Nakiwala et al., 2026), rather than on whether reported welfare gains rest on a strengthening productive base.

The present study addresses this gap by examining whether improvements in poverty, unemployment, and inequality are accompanied by corresponding changes in real GDP per capita, manufacturing, processed exports, diversification,

agricultural productivity, and food security. Its central analytical proposition is:

Welfare progress does not necessarily constitute structural transformation; sustainable development requires the productive foundations of growth to improve alongside distributional outcomes.

3. Theoretical Framework

3.1 Structural Transformation Theory

The study is anchored primarily in structural transformation theory, which holds that economic development involves moving labour and resources from low-productivity traditional activities to higher-productivity sectors (Lewis, 1954; Ranis & Fei, 1961). In the African context, the theory implies that sustained development requires a shift from low-productivity subsistence agriculture and informal activities to more productive agriculture, manufacturing, and modern services (McMillan et al., 2014). The theory provides an appropriate lens for evaluating Agenda 2063 because the STYIP's economic objectives include industrialisation, agricultural productivity, diversification, value addition, employment, and rising incomes (African Union Commission, 2024).

3.2 Inclusive Growth Perspective

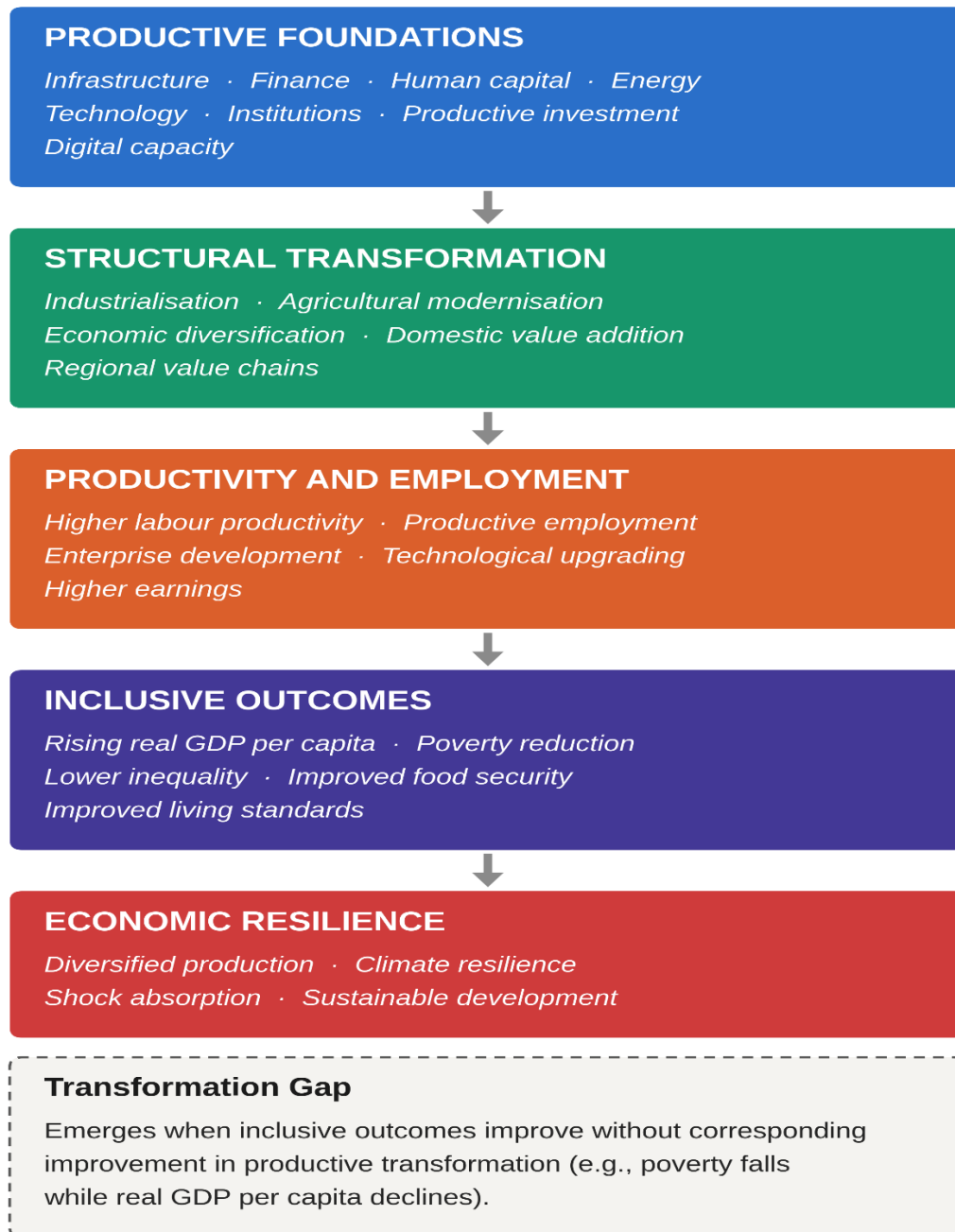
Structural transformation alone is not sufficient, because transformation may raise productivity without ensuring that its benefits are broadly shared. The study therefore complements structural transformation theory with an inclusive growth perspective, which requires that economic opportunities and benefits reach broad segments of the population (Ianchovichina & Lundstrom, 2009).

The combined perspective suggests that successful development requires two transformations to occur simultaneously: *productive transformation*, involving productivity, industrialisation, diversification, and value addition; and *distributional transformation*, involving poverty reduction, employment, lower inequality, and improved living standards. The paper conceptualises their intersection as *inclusive structural transformation*.

4. Conceptual Framework

The conceptual framework proposes that inclusive structural transformation occurs through a sequence linking productive inputs to structural change, productivity, employment, welfare, and resilience (Figure 1).

Figure 1: Conceptual Framework for Inclusive Structural Transformation under Agenda 2063



Note. The author's conceptualisation is based on structural transformation theory, inclusive growth theory, and the economic transformation objectives of the Agenda 2063 STYIP (African Union Commission, 2024).

The framework assumes that productive foundations such as infrastructure, finance, human capital, energy, and institutions create the conditions for structural transformation. Structural transformation should, in turn, raise productivity and generate productive employment, and these processes should contribute to rising real incomes, poverty reduction, lower inequality, food security, and greater resilience (Commission on Growth and Development, 2008; Herrendorf et al., 2014).

The framework also identifies the possibility of a transformation gap, which emerges when inclusive outcomes improve without corresponding improvements in productive transformation. Poverty may decline while real

GDP per capita declines; employment may increase while productivity remains low; and export performance may improve while domestic value addition remains limited. The transformation gap therefore represents a divergence between improvements in welfare outcomes and improvements in the productive foundations required to sustain them.

5. Methodology

5.1 Research Design

The study employed a continental comparative secondary-data research design. The design was appropriate because the objective was to assess Africa's aggregate progress

during the first STYIP biennium using existing continental-level evidence rather than primary data. The analysis covers 2024–2025 and uses 2023 as the baseline year.

5.2 Data Sources

The principal source was the First Biennial Continental Progress Report on the Implementation of Agenda 2063's Second Ten-Year Implementation Plan (African Union Commission, 2026a), which provides an evidence-based assessment of implementation across the 44-reporting African Union Member States. The study also draws on the official STYIP framework (African Union Commission, 2024) and peer-reviewed literature on structural transformation and development economics. The African Union's statistical platform identifies the first STYIP biennial score as an official continental performance measure and confirms that it announced the first assessment in June 2026 (Statafric, 2026).

5.3 Variables and Indicators

The indicators are grouped into five analytical dimensions. The first is economic performance, represented by Moonshot 1 performance, inclusive and sustainable economic growth, and economic resilience. The second is distributional and welfare performance, represented by poverty, unemployment, and inequality. The third is productive transformation, represented by manufacturing value added, processed exports, and economic diversification. The fourth is agricultural transformation, represented by agricultural productivity and undernourishment. The fifth is income convergence, represented by real GDP per capita.

5.4 Data Analysis

The analysis uses descriptive comparative techniques. Absolute change is calculated as $\Delta X = X_{2025} - X_{2023}$, and percentage change as $\% \Delta X = [(X_{2025} - X_{2023}) / X_{2023}] \times 100$. Official performance scores are interpreted as reported by

the African Union rather than recalculated, because the reporting framework uses different aggregation procedures depending on the characteristics of individual indicators (African Union Commission, 2026a). The analysis focuses on the direction, magnitude, and consistency of changes across indicators.

5.5 Operationalising the Transformation Gap

To operationalise the central argument, the study compares changes in welfare indicators with changes in productive-sector indicators. A positive welfare outcome is not automatically interpreted as evidence of structural transformation. Instead, evidence of transformation requires simultaneous improvement in at least three broad areas: productivity or real incomes; productive employment or industrial activity; and diversification or value addition (Hausmann et al., 2007; McMillan et al., 2014).

5.6 Methodological Limitations

Continental aggregates may conceal considerable variation among countries and regions, and the quality and availability of national statistics may affect comparability (Jerven, 2013). The 2023–2025 period is too short to evaluate structural transformation, which is inherently a medium- to long-term process. The study also does not establish causal relationships between STYIP interventions and observed changes, because national and global economic conditions influence the indicators simultaneously. The findings should therefore be interpreted as evidence of emerging continental patterns rather than causal estimates.

6. Results

6.1 Overall Economic Transformation Performance

The first finding is that Africa recorded moderate progress in economic transformation during the first STYIP biennium (Table 1).

Table 1: Performance of Selected Economic Transformation Dimensions under Moonshot 1

Dimension	Performance
Overall Moonshot 1	60%
Inclusive, equitable and sustainable economic growth	62%
Economic resilience	59%
Agricultural productivity	58%

Note. Data from African Union Commission (2026a).

The overall Moonshot 1 score of 60% indicates progress, but not enough to suggest that the structural transformation required for the 2033 middle-income ambition is firmly established. Inclusive, equitable, and sustainable economic growth scored slightly higher at 62%, economic resilience 59%, and agricultural productivity 58%. These moderate

scores suggest that economic transformation remains unfinished.

6.2 Changes in Economic and Social Indicators

Table 2 reports changes in the selected welfare and productive indicators between 2023 and 2025.

Table 2: Changes in Selected Economic, Social and Structural Transformation Indicators, 2023–2025

Indicator	2023	2025	Absolute change	% change
Poverty	41.6%	34.6%	–7.0 pp	–16.8%
Unemployment	10.5%	9.5%	–1.0 pp	–9.5%
Gini coefficient	0.382	0.365	–0.017	–4.5%
Real GDP per capita	US\$2,234	US\$2,053	–US\$181	–8.1%
Undernourishment	19.4%	20.4%	+1.0 pp	+5.2%
Manufacturing value added	11.24%	11.53%	+0.29 pp	+2.6%
Processed exports	24.77%	26.46%	+1.69 pp	+6.8%
Diversification index	0.43	0.45	+0.02	+4.7%

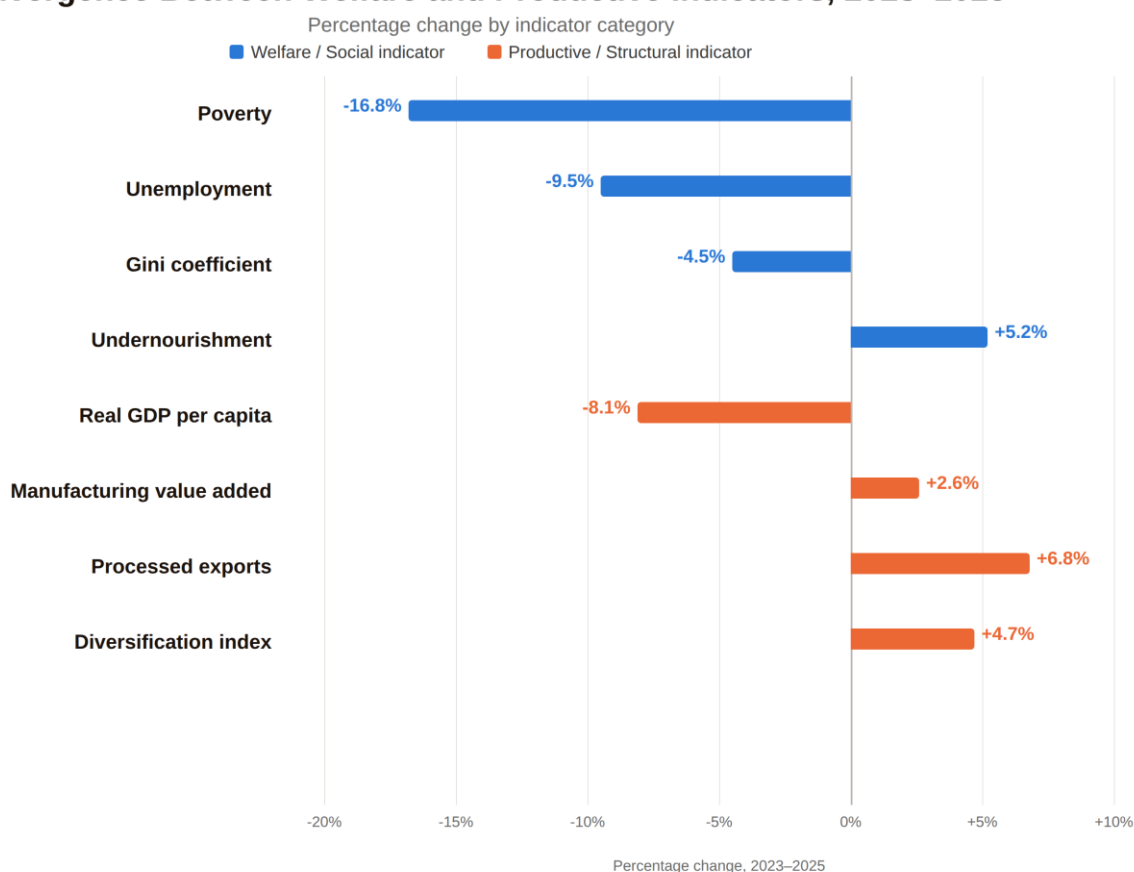
Note. Data from African Union Commission (2026a); author's calculations. pp = percentage points.

The results reveal a striking divergence. Poverty fell by seven percentage points, unemployment by one percentage point, and the Gini coefficient by 0.017. However, real GDP per capita declined by approximately 8.1%, and food security deteriorated, with undernourishment rising by one

percentage point. On the productive side, manufacturing value added increased only marginally, processed exports improved somewhat, and the diversification index rose modestly. Figure 2 illustrates this divergence.

Figure 2: Percentage Change in Welfare and Productive Indicators, 2023–2025

Divergence Between Welfare and Productive Indicators, 2023–2025



Note. Data from African Union Commission (2026a); author's calculations.

6.3 The Transformation Gap

The results indicate that Africa's development trajectory during the first STYIP biennium contains two simultaneous processes: welfare improvement and incomplete productive transformation (Table 3).

Table 3: Evidence of the Transformation Gap in Africa during the First STYIP Biennium

Dimension	Indicator	Direction of change	Interpretation
Poverty	Poverty rate	Improved	Strong welfare progress
Employment	Unemployment	Improved	Positive labour-market outcome
Distribution	Gini coefficient	Improved	Reduced measured inequality
Income convergence	Real GDP per capita	Declined	Weakening average real income
Food security	Undernourishment	Worsened	Negative welfare and resilience signal
Industrialisation	Manufacturing value added	Slight improvement	Limited industrial deepening
Value addition	Processed exports	Improved	Emerging value-addition progress
Diversification	Diversification index	Slight improvement	Limited productive diversification
Overall transformation	Moonshot 1	60%	Moderate progress

Note. Author's synthesis based on African Union Commission (2026a).

Table 3 shows why an interpretation based solely on poverty reduction could lead to an overly optimistic assessment of economic transformation. The evidence suggests that Africa has made important welfare gains without equally great changes in the productive structure of the economy. This divergence constitutes the transformation gap.

7. Discussion

7.1 The Transformation Gap as the Central Finding

The principal finding is that Africa's welfare progress has outpaced its productive transformation. The decline in poverty from 41.6% to 34.6% is substantial and should be recognised as an important development achievement, and declining unemployment and inequality indicate progress towards greater inclusion. However, the simultaneous decline in real GDP per capita indicates that welfare gains have not been accompanied by rising average output per person. This matters because structural transformation requires sustained productivity growth (Herrendorf et al., 2014; Lewis, 1954).

Recent empirical work identifies productivity-enhancing structural change as a key pathway for African development (de Vries et al., 2015; McMillan et al., 2014), and cautions that Africa's growth boom has not yet been matched by the expansion of modern, high-productivity industry seen in earlier successful developers (Rodrik, 2018). The first STYIP evidence suggests that this process remains incomplete.

7.2 Poverty Reduction Does Not Equal Structural Transformation

Poverty and GDP per capita measure different dimensions of economic performance. Poverty captures the share of the population below a specified income or consumption

threshold, whereas GDP per capita measures average output per person. The two measures frequently diverge because household surveys and national accounts capture different things and are compiled differently (Deaton, 2005; Ravallion, 2003). Poverty can therefore decline even when GDP per capita declines. Plausible mechanisms include changes in income distribution, social protection, transfers, remittances, labour-force participation, and relative price movements (Bourguignon, 2003). The US-dollar decline in GDP per capita may also partly reflect the large currency depreciations experienced by several large African economies during 2023–2024 (International Monetary Fund (IMF), 2024).

This has significant implications for Agenda 2063 monitoring. Poverty reduction should remain a central objective, but it should not be treated as sufficient evidence of structural transformation. A country or continent can reduce poverty without fundamentally transforming its productive system; the long-term objective must be to achieve both.

7.3 Employment versus Productive Employment

The decline in unemployment from 10.5% to 9.5% represents progress. However, unemployment statistics alone do not establish whether new employment is productive, secure, or adequately remunerated. This distinction matters in African economies, where informal employment dominates, and informal firms are typically small, unproductive, and rarely graduate into formality (ILO, 2018; La Porta & Shleifer, 2014).

The development challenge is therefore not simply to create more jobs but to create productive employment associated with higher labour productivity, enterprise development, skills utilisation, technological upgrading, and sustainable earnings. This is consistent with the African Union's

assessment, which identifies productive employment as an area requiring greater attention in the next phase of implementation (African Union Commission, 2026b).

7.4 Industrialisation and the Manufacturing Constraint

Manufacturing value added increased from 11.24% to 11.53%. The direction of change is positive, but the magnitude is modest, suggesting that the industrial base has not yet expanded enough to generate the productivity gains required for rapid income convergence. Rodrik's (2016) analysis of premature deindustrialisation is relevant here: manufacturing opportunities may close earlier in the development process than they did for earlier industrialisers.

Africa must therefore pursue industrialisation strategically. The objective should not be manufacturing for its own sake but manufacturing that strengthens technological capabilities, generates employment, increases domestic value addition, and connects African firms to regional and global value chains (Newman et al., 2016; Page, 2012; UNECA, 2016).

7.5 Processed Exports and Value Addition

The increase in processed exports from 24.77% to 26.46% provides evidence of progress towards greater value addition. Exporting processed rather than unprocessed products allows economies to retain a larger share of value within domestic production systems, and a more sophisticated export basket is associated with faster subsequent growth (Hausmann et al., 2007). Value addition also creates opportunities for employment, skills development, technology transfer, and enterprise growth. The modest change, however, suggests that Africa's potential in this area remains substantially underutilised.

The African Continental Free Trade Area (AfCFTA) offers an important institutional mechanism for expanding this potential by enlarging regional markets and facilitating cross-border production networks. Full implementation of the agreement could raise regional income and increase intra-African trade, particularly in manufactured goods (World Bank, 2020).

7.6 Economic Diversification and Resilience

The diversification index increased from 0.43 to 0.45. Although modest, this movement is directionally positive. Diversification is essential because dependence on a narrow range of commodities increases exposure to external shocks, while a diversified production structure allows countries to offset declining demand or prices in one sector through expansion in others (Imbs & Wacziarg, 2003).

The current global environment reinforces this need. The African Union has identified geopolitical tensions, climate

change, debt burdens, global economic uncertainty, and constrained fiscal space as continuing pressures on African economies (African Union Commission, 2026b). At the national level, election-related fiscal expansion and inflationary pressures can further narrow the fiscal space available for Agenda 2063 priorities (Nakiwala et al., 2026).

7.7 Agriculture, Productivity, and Food Security

Agricultural productivity recorded 58% performance, while undernourishment increased from 19.4% to 20.4%. This combination presents an important challenge and is consistent with global evidence that hunger in Africa has remained high and rising since the COVID-19 pandemic (Food and Agriculture Organisation of the United Nations (FAO) et al., 2024).

Low agricultural productivity constrains rural incomes, while weak food systems increase vulnerability to climate and external shocks. Agricultural transformation should therefore extend beyond farm production to integrate irrigation, extension services, finance, mechanisation, storage, rural roads, processing, logistics, and market development (Barrett et al., 2017). The connection between agriculture and industrialisation is particularly important: agriculture can supply raw materials for manufacturing, while manufacturing can supply machinery, inputs, processing capacity, and markets for agricultural producers (Johnston & Mellor, 1961).

7.8 The Quality of Economic Growth

Taken together, the findings suggest that Africa's principal challenge is increasingly one of growth quality. Growth becomes transformative when it generates productivity, productive employment, value addition, diversification, rising real incomes, and resilience (Commission on Growth and Development, 2008). The first biennium shows progress in several of these dimensions, but not at the same pace, which explains the emergence of the transformation gap.

8. Theoretical Contribution: From Inclusive Growth to Inclusive Structural Transformation

The study's principal theoretical contribution is the proposition that Agenda 2063's economic transformation should be interpreted through the concept of inclusive structural transformation. Traditional growth analysis focuses primarily on changes in aggregate output. Inclusive growth broadens this focus to how growth benefits are distributed (Ianchovichina & Lundstrom, 2009), while structural transformation focuses on changes in the productive structure (Herrendorf et al., 2014). The concept proposed here combines these dimensions and can be represented conceptually as:

$$\text{IST} = \text{P} + \text{PE} + \text{D} + \text{VA} + \text{I} + \text{R}$$

where IST is inclusive structural transformation; P is productivity growth; PE is productive employment; D is economic diversification; VA is value addition; I is inclusion; and R is resilience.

This is a conceptual representation, not a statistical index. It shows that sustainable development requires simultaneous improvement in productive capacity, employment, inclusion, and resilience. The transformation gap arises when welfare improvement exceeds productive transformation, that is, when poverty and inequality improve faster than productivity, real incomes, industrialisation, diversification, and value addition. The concept offers a useful lens for monitoring Agenda 2063 because it prevents welfare improvements from being interpreted automatically as evidence of complete economic transformation.

9. Implications for Agenda 2063 Implementation and Public Sector Management

The findings have several implications for STYIP implementation. First, economic transformation should be measured through a balanced set of welfare and productive indicators that distinguish social welfare, economic output, productivity, productive employment, industrialisation, diversification, and resilience. Second, implementation should prioritise the link between growth and productive employment, aiming not simply to reduce unemployment but to increase the number of workers in activities capable of sustained productivity and income growth. Third, industrial policy should be strengthened to support domestic production, technology transfer, enterprise development, value addition, and regional value chains (UNECA, 2016). Fourth, agricultural policy should integrate with industrial policy through agro-processing that connects rural production with manufacturing, logistics, and export markets (Barrett et al., 2017).

Fifth, diversification should become a central resilience strategy, expanding capabilities beyond traditional commodity exports into manufacturing, agro-processing, modern services, tourism, renewable energy, and digital industries. Sixth, regional integration through the AfCFTA should be used as an instrument of structural transformation (World Bank, 2020). Seventh, long-term productive-sector finance must be strengthened for industrial investment, infrastructure, agricultural modernisation, and enterprise expansion. Finally, productive investment must build in climate resilience, because climate shocks undermine agricultural productivity, infrastructure, employment, and household welfare (Hallegatte et al., 2016).

The transformation gap also has implications for public-sector management. Economic transformation cannot be

achieved through isolated interventions by individual ministries or agencies. Industrialisation requires coordination among finance, trade, industry, agriculture, infrastructure, education, energy, and technology institutions, and the historical experience of successful developmental states shows the importance of capable, coordinated public institutions working closely with the private sector (Chang, 2002; Mkandawire, 2001). A fragmented approach may produce individual projects without generating systemic transformation.

Agenda 2063 implementation therefore requires stronger whole-of-government delivery systems that connect public resources to productive investment, outputs, productivity, employment, income, and welfare. This has direct implications for performance management. Industrial programmes should not be assessed solely by expenditure or the number of projects implemented but also by changes in manufacturing capacity, firms established, employment generated, exports, domestic value addition, and productivity. Agricultural programmes should likewise be evaluated through productivity, farmer incomes, food availability, agro-processing capacity, and market access. This shifts management from activity-based to results-based, transformation-oriented performance management (Kusek & Rist, 2004).

10. Policy Recommendations

The evidence supports a coordinated transformation strategy. African governments should prioritise employment-intensive and productivity-enhancing industrialisation, particularly in sectors with strong domestic and regional demand (Newman et al., 2016). Agricultural transformation should focus on integrated value chains rather than isolated production increases, with investment in irrigation, extension, storage, rural transport, finance, processing, and market access (Christiaensen et al., 2011).

Productive-sector finance should be expanded through development finance institutions, blended finance, credit guarantees, and other instruments that reduce long-term investment risk. The AfCFTA should be positioned as an instrument for industrial transformation through regional value chains, cross-border investment, harmonised standards, and trade facilitation (World Bank, 2020). Infrastructure investment, particularly in energy, transport, digital connectivity, irrigation, and logistics, should be linked directly to productive-sector development. Skills development should be aligned with the sectors targeted for transformation, with particular attention to technical, engineering, digital, agricultural, and industrial skills. Climate resilience should be integrated into economic planning, especially in agriculture, infrastructure, and energy (Hallegatte et al., 2016).

Finally, Agenda 2063 monitoring should incorporate explicit measures of productive transformation alongside welfare indicators, supported by investment in national statistical capacity (Jerven, 2013). This would make it possible to identify situations where poverty is falling without sufficient productivity growth, and to intervene before such gains become difficult to sustain.

11. Conclusion

This study examined Africa's progress towards inclusive structural transformation during the first biennium of Agenda 2063's Second Ten-Year Implementation Plan. The evidence reveals an important paradox. Africa has made meaningful progress on several welfare indicators: poverty declined from 41.6% to 34.6%, unemployment from 10.5% to 9.5%, and the Gini coefficient from 0.382 to 0.365. However, these gains were accompanied by a decline in real GDP per capita from US\$2,234 to US\$2,053 and an increase in undernourishment from 19.4% to 20.4%. Productive-sector indicators improved only modestly: manufacturing value added rose from 11.24% to 11.53%, processed exports from 24.77% to 26.46%, and the diversification index from 0.43 to 0.45.

The evidence therefore supports the study's central proposition: Africa is improving selected welfare outcomes faster than it is transforming its productive structures. This is the transformation gap. Its significance is that the success of Agenda 2063 cannot ultimately be judged only by whether poverty declines or GDP increases. The deeper question is whether African economies are becoming more productive, diversified, technologically capable, employment-intensive, and resilient.

The first STYIP biennium provides evidence of progress, but it also shows that the transition from growth to transformation remains incomplete. This aligns with the African Union's assessment that the central challenge has shifted to implementation at scale, with structural transformation and productive employment requiring greater attention (African Union Commission, 2026b). The next phase of implementation should therefore concentrate on the productive mechanisms that convert growth into sustained development: industrialisation, agricultural modernisation, value addition, productive-sector finance, regional value chains, infrastructure, skills, technological upgrading, and climate resilience.

The central policy message is straightforward: Africa does not merely need more growth; it needs growth that transforms. Such growth must raise productivity, create productive employment, increase domestic value addition, diversify production, strengthen resilience, and improve household incomes. Achieving Agenda 2063's middle-income ambition will ultimately depend on whether African

countries can close the gap between welfare progress and productive transformation.

12. Limitations and Directions for Further Research

The study has four main limitations. First, it relies on continental aggregates and therefore does not capture substantial differences among African countries. Second, differences in national statistical capacity may affect the consistency and comparability of reported indicators (Jerven, 2013). Third, structural transformation is a long-term process, whereas the study covers only the first two years of STYIP implementation. Fourth, the analysis is descriptive and does not establish causal relationships between specific Agenda 2063 interventions and observed outcomes.

These limitations suggest several directions for further research. Country-level panel analyses could determine whether industrialisation, agricultural productivity, diversification, and productive investment are associated with changes in real GDP per capita and employment quality, and whether exchange-rate movements account for part of the observed decline in dollar-denominated income. Further research could examine whether countries with stronger alignment between national development plans and STYIP priorities achieve better productive outcomes, and how AfCFTA implementation affects regional value chains, manufacturing, and employment. Future studies should also examine the gender and youth dimensions of structural transformation, particularly whether new economic opportunities are accessible to women and young people. The 2028 mid-term assessment of the STYIP will offer an important opportunity to determine whether the transformation gap identified in the first biennium is narrowing or widening.

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