

Dynamic industrial policy in Africa: innovative institutions, effective processes and flexible mechanisms

Institutional dynamics and challenges in Africa's industrial policy

African countries have a greater opportunity today, than ever before, to increase and sustain growth, foster industrialization and achieve economic transformation. The continent has attracted much interest over the past decade for its high growth rates of over 5 per cent, high returns on investment (the highest in the world) and the massive potential of its growing labour force, emerging middle class and diversifying sectors of economic activity. In order to turn the corner and reach a more sustainable level of inclusive, job-creating growth, the continent must focus on economic transformation.

As indicated in previous editions of the Economic Commission for Africa and African Union Commission's Economic Report on Africa (ERA) (especially the 2011, 2012 and 2013 reports), structural transformation is associated with the reallocation of resources, especially new investments from low- to higher-productivity activities, typically from traditional agriculture to agro-processing, industry and modern services, which all lead to higher economy-wide productivity and progressively rising incomes. Much of Africa, however, has experienced the opposite, as resources have moved to lower productivity services and informal sectors. Meanwhile, African countries are still marginal players in domestic and international markets for manufactured goods, with the continent's share of global manufacturing value added remaining at a negligible 1.5 per cent as of 2011.

There is a strong consensus that an expanding and prosperous industrial sector is crucial for the structural transformation of African economies. Industry, manufacturing in particular, has traditionally been a source of substantial employment generation in developed and developing countries alike.

Industrialization is thus a precondition for Africa to achieve inclusive economic growth. A variety of strategies have been laid out for Africa to achieve industrialization, ranging from commodity-based value addition to branching into new labour-intensive manufacturing sectors. As argued in ERA 2013, these strategies are not mutually exclusive; and in fact, commodity-based industrialization is a stepping stone to diversifying over the long term and building new competitive advantages.

The question now for African policymakers is not whether or not to engage in policies for industrialization, but how to build innovative institutions, effective processes and flexible mechanisms capable of supporting industrial development. This policy brief highlights selected findings from ERA 2014 in this regard. Data and findings were discerned from 92 interviews held in 11 African countries.

A key finding of the report is that a holistic framework for industrialization and transformation will help translate the continent's strong economic growth into enhanced structural transformation and social development. A framework that is dynamic, led by apex-level political leadership and inclusive of private sector inputs, will be best suited to address the variety of market failures facing industrialization in Africa. Given the need to create stable and decent jobs for Africa's rapidly growing population, the test of African policymakers and stakeholders will be to ensure that the right institutional environment is in place for effective industrial policymaking.

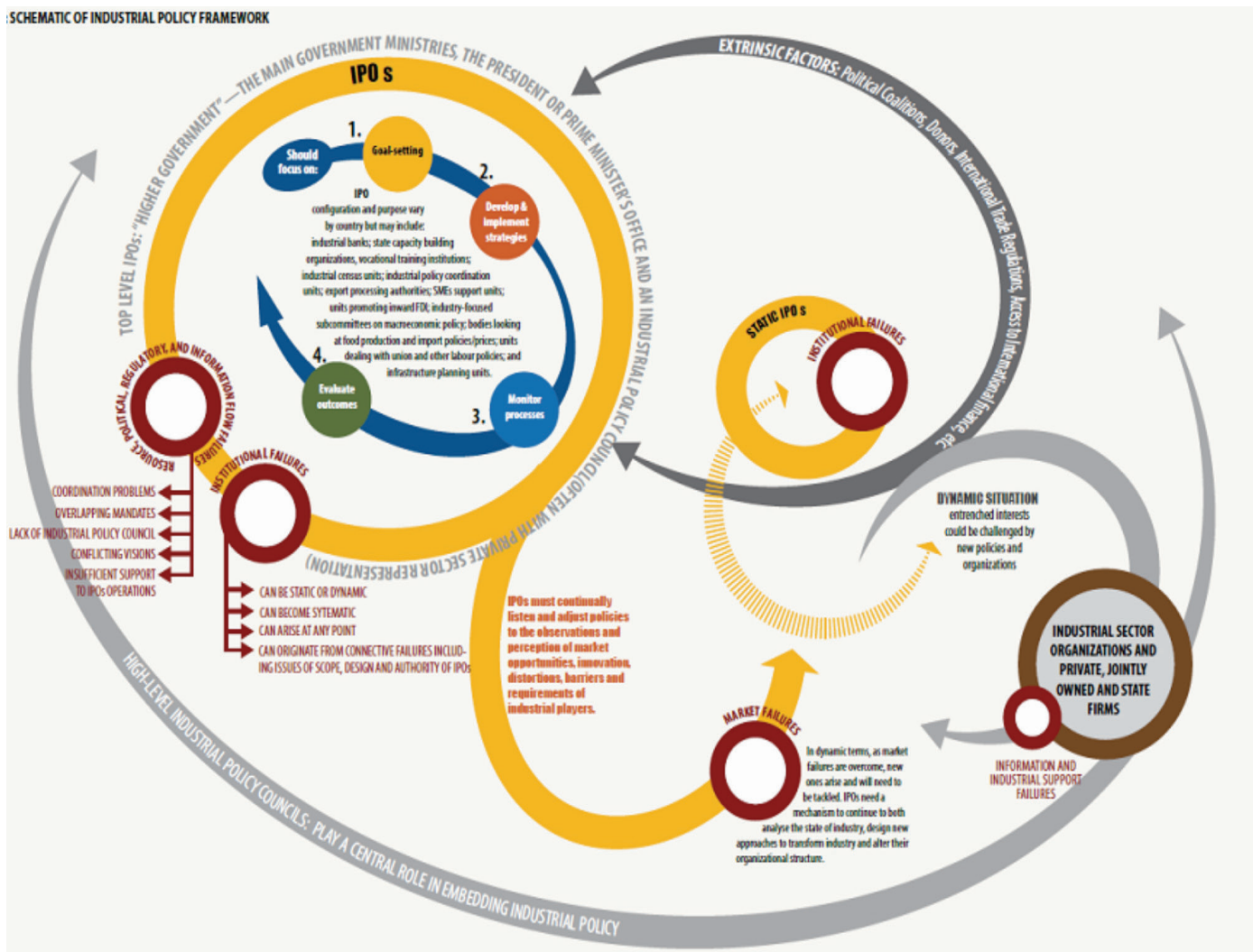
Industrial policy processes in Africa

Constraints to industrialization in Africa such as infrastructure, financing and human capital deficits have been well documented. The responses to these, however, have largely focused on one-off policy interventions, rather than addressing the weaknesses in the institutions governing industrial policy. In many cases, industrial policy organizations (IPOs) and industrial stakeholders have not been able to effectively coordinate in identifying the most serious constraints and developing a set of cross-cutting interventions. These institutional weaknesses have hindered African countries from addressing three key market failures regarding industry: problems of self-discovery externalities, coordination failures regarding parallel investments, and inadequate provision of necessary public goods.

Indeed, research has revealed that industrial policy in Africa has followed a “blueprint approach”, in which broad policy interventions, often borrowed from other countries’ development portfolios, were adopted in an ad-hoc manner to address general constraints. This process has not often included inputs from the private sector.

A theoretical framework produced in the report illustrates the variety of stakeholders and IPOs – from both the Government and private sector – that interact in a country’s industrial policy making process (see figure 1). There are a number of points of contact between these institutions, and continuous interaction and feedback is necessary for the proper functioning of the industrial policy process. Several African case studies shed light on positive examples of countries which overcame coordination failures, and put in place a well-functioning framework for industrial policy development similar to that in figure 1. These cases are of use as best practices for other African countries.

Figure 1
Schematic of industrial policy frameworks



Mauritius – Dynamic policy system inclusive of all industrial stakeholders

The well-documented successes of Mauritius in economic transformation stem from smart domestic policies, with continuing government efforts to involve both public and private stakeholders in discussion on formulating and executing industrial policies.

A network of Mauritian Government and private sector institutions is responsible for drafting policies, negotiating and fulfilling international agreements and elaborating export promotion programmes. This inter-organizational dialogue has been developed through planning and evaluating the performance of IPOs over time. There is strong approval for both the system of collaboration and the implementation of industrial policy.

The Mauritius Board of Investment is an example of a dynamic IPO. It has successfully met its mandate to attract “sustainable investment” and develop business relations with other countries. Key to this success has been the ability of its leadership to be visionary, flexible and adaptive to a changing business climate. The Board exercises autonomy from the Government in decision-making, and it works closely with private sector organizations. Its goals and instruments are monitored regularly.

Mauritius has also succeeded in countering market failures by creating special IPOs to support small and medium enterprises (SMEs). The Government addressed the challenges facing SMEs, particularly the high cost of technological innovation, by creating the SME Development Authority in 2010. The Authority promotes and helps build the competitiveness of SMEs by providing them with business facilitation services and assisting them in acquiring technical and innovative capabilities. The Authority has created multiple capacity-building programmes, which allow new entrepreneurs to acquire business skills.

Mauritius has had successful industrial outcomes, owing largely to the structural dialogue created between Government authorities, IPOs and private stakeholders.

South Africa – close coordination and strong “embeddedness” of the private sector

The design, implementation, monitoring and evaluation of national industrial policy plans in South Africa illustrate a high level of coordination among Government authorities, public organizations and private stakeholders. The National Industrial Policy Framework, the Industrial Policy Action Plan and the Customised Sector Programme are the responsibility of the Department of Trade and Industry, in cooperation with stakeholders such as min-

istries, public organizations and private institutions (see figure 2). This coordination is formalized, with multiple stages of feedback and collaboration.

There is regular monitoring of the Industrial Policy Action Plan, where achievements are reported and reviewed during monthly meetings.

Standards and accreditation are handled by four separate agencies. The South African National Accreditation System, for example, facilitates accreditation as a means of promoting international trade and enhancing the economic performance of the export sector. The System also meets many of the IPO objectives outlined in the analytical framework above, including embeddedness with the private sector.

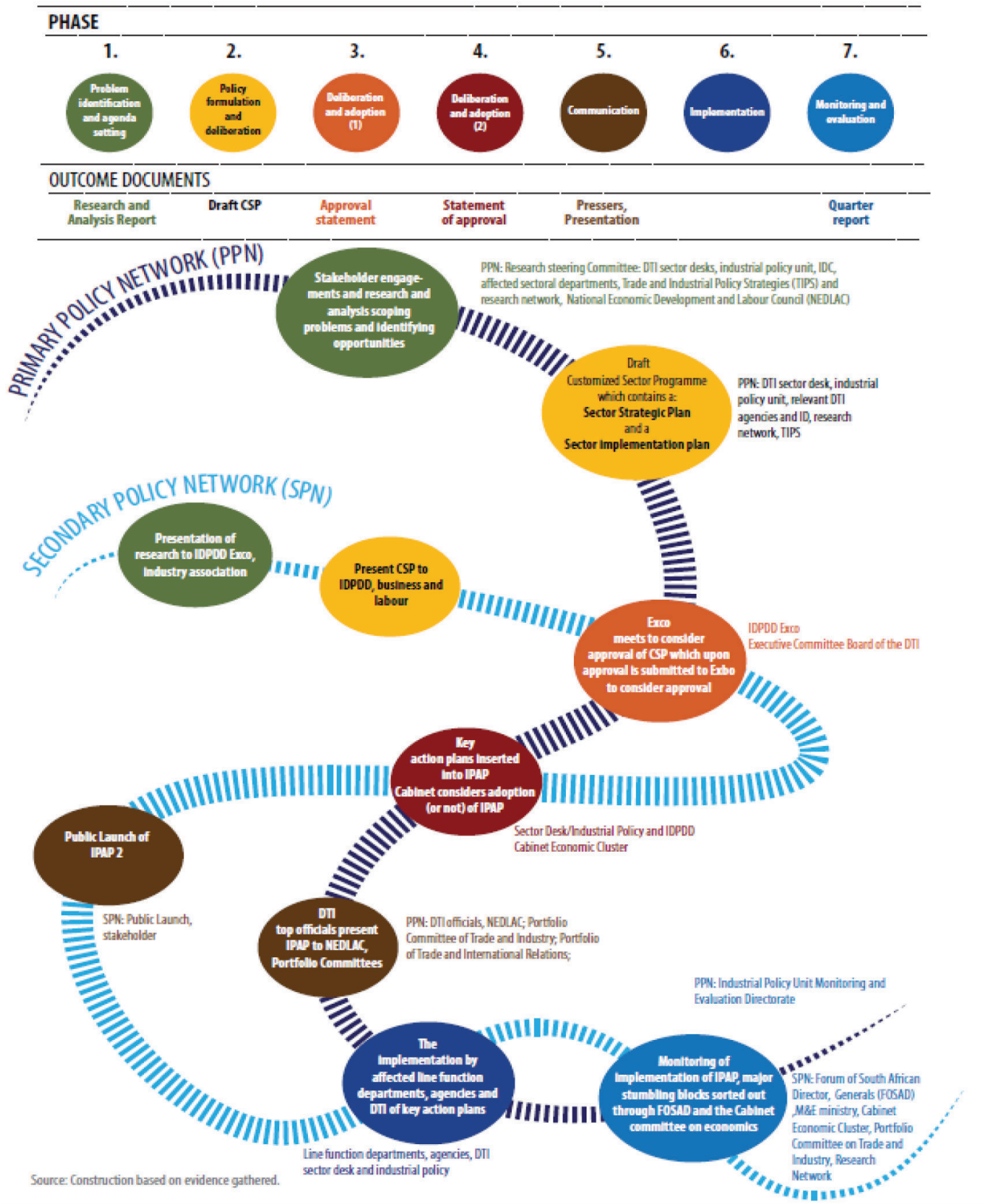
Another example of a well-functioning IPO in South Africa is the National Automobile Association of Motor Vehicle Manufacturers of South Africa. The automotive sector employs 30,159 persons directly, with another 70,000 in parts production, and an estimated 200,000 jobs in sales, maintenance and servicing across the country. It is a private concern, which works closely with the State and industrial and labour groups and liaises between manufacturers and Government for policymaking. It also helps keep industrial policy dynamic by providing insight into the specific types of support the private sector needs to remain competitive.

These sophisticated frameworks for industrial policy development and the strong IPOs involved in the policy-making process illustrate the kinds of institutionalized links between firms and policymakers that are a feature of informed industrial policymaking.

Tunisia – Strong post-intervention monitoring

Thorough post-intervention monitoring has assisted Tunisia in its skills upgrading programmes. The country’s Bureau de Mise à Niveau (skills upgrading bureau) was established “to support and work with Tunisian companies, especially SMEs, so as to better withstand foreign competition”. The skills upgrading programme has clear quantitative goals, which include assisting 500 companies every year to improve their competitiveness. A major strength of the Bureau is its post-intervention monitoring, where it ensures tight coordination between technical centres and the Ministry of Industry. Member companies also work closely with the technical centre in preparing achievement reports. This process allows the Bureau to be aware of the effectiveness of its programmes. To date, more than 4,440 companies have gone through this programme. The Bureau is seen as a vital industrial policy tool, which can be further strengthened by introducing sound long-term national plans and ensuring greater coordination with the private sector.

Figure 2
South Africa’s Customised Sector Programme and Industrial Policy Action Plan policy processes and policy networks



Towards a dynamic industrial policy framework for Africa

Based on 11 country case studies and successful experiences from Africa and elsewhere, ERA 2014 identified the key features of effective industrial policy frameworks as follows:

- The industrial policymaking process should be dynamic and organic – that is, it should be constantly changing, based on the needs of industry and be developed to address Africa-specific issues.
- Countries should focus primarily on building a network of IPOs and institutions for effective industrial policymaking; this, as the first step, will then yield a system capable of addressing individual constraints through appropriate policy interventions.
- Industrial policy coordination must begin at the apex level of Government, with the executive office and key line ministries exhibiting strong political will.
- Industrialization must be entrenched in long-term development visions and plans that are nationally-owned and transcend changes in political leadership.

- Public-private dialogue must be institutionalized, with high-level policymaking units featuring representatives from the private sector and other stakeholders.
- Embedded autonomy will ensure that bureaucrats are well-versed in the needs of industrial firms and stakeholders, while also safeguarding against the “capture” of bureaucrats by special interest groups and political pressure.
- IPOs must be well supported and financed in order to build internal capacities and coordinate with one another.
- Countries should establish pockets of efficiency within industry in order to make the most of limited resources and demonstrate the effectiveness of industrial policy through key related interventions.
- Regional integration and intra-African trade should be promoted as key enablers of Africa’s industrialization.

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ECA policy briefs are based on various analytical work and research on the social and economic development of Africa carried out at, or in collaboration with, the Commission. The mandate of ECA is to promote economic and social development and good governance in member States and foster regional integration in Africa.

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