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## **Overview of industrial policies and strategies in Africa**

### **July 2015**

#### **I. Introduction**

1. Between 2001 and 2008, Africa experienced one of the highest levels of gross domestic product (GDP) growth in the world, between 5 and 10 per cent. Yet, the continent's economic progress has scarcely resulted in industrialization and in the creation of quality jobs and value chains linked to Africa's extractive industries.
2. A variety of hindrances, ranging from weak infrastructure and human capital to poor access to financing and new technologies, prevent the growth and expansion of industry on the continent. The share of manufacturing – a subsector of industry that is often a source of high productivity – in GDP fell from 15.4 per cent of GDP in Africa (excluding North Africa) in 1990 to 11 per cent in 2013.<sup>1</sup> At present, Africa accounts for less than 2 per cent of global manufacturing exports.
3. Development history highlights the perils of high economic growth without concurrent industrial development and structural transformation. The effects of the global economic crisis on trade partners and the impact of substantially lower commodity prices threaten the sustainability of an economic model based on low value-added commodities.
4. The present review analyses the state of industrial development on the continent. It then looks at current industrial policies in six African countries from different regions and levels of development: Gabon, Morocco, Rwanda, Senegal, Swaziland and Zambia. Lastly, it draws conclusions about the overall common challenges faced by these African countries and the continent in achieving industrialization, and presents policy recommendations.
5. The six case studies are based on desk research and on findings from field missions conducted by the Economic Commission for Africa (ECA) staff in the six countries.

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<sup>1</sup> ECA analysis of World Development Indicators data.

## II. Overview of industrial development in Africa

6. Africa's recent economic growth has been underpinned by relatively high global commodity prices, a surge in domestic demand, and improved economic governance.

7. Industrialization, however, has had a small role in Africa's recent growth. The share of industry in GDP increased in the early 2000s, rising from an average of 24.6 per cent of GDP in 2001 to 29.6 per cent in 2012.

8. Africa's share of the world's manufacturing value added has remained flat over the past decade, amounting to just 1.5 per cent in 2013.<sup>2</sup> Africa's economic growth has failed to translate into more jobs for its growing labour force and educated middle class because of the stagnant industrialization and sluggish growth of manufacturing.

### A. Bottlenecks to Africa's industrialization

9. This section discusses some of the main bottlenecks to Africa's industrialization.<sup>3</sup>

10. First of all, Africa lacks adequate infrastructure. Transporting goods and people across the continent takes longer and remains more complicated than anywhere else in the world. To close the infrastructure gap, Africa would need to spend \$93 billion annually on electricity, water, roads and information and communications technology.<sup>4</sup>

11. Second, the continent is not taking full advantage of trade. African countries imported just 12 per cent from African partners in 2014. Barriers to trade among African countries include poor infrastructure, overlapping membership of various regional trade agreements, and high costs of trading within Africa (which, at present, is only slightly lower than the cost for Africa of trading with the rest of the world).<sup>5</sup>

12. Third, Africa needs to unlock the huge potential of its resource sectors – mining and agriculture. During the period 2009–2010, commodities made up 81 per cent of Africa's export revenues. In 2012, Africa imported 87 per cent of its food items from non-African countries.<sup>6</sup> Nigeria and other oil-rich African countries tend to export crude oil mostly outside the continent and then import refined petroleum products.

13. Lastly, a fragile and unfavourable business environment still jeopardizes Africa's growth. Although the number of wars on the continent has fallen significantly in recent years,<sup>7</sup> regional conflicts and terrorism threats continue to undermine business development in Africa. The Ebola crisis was a reminder that the continent's weak health provision and information systems expose it to large epidemic risks.

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<sup>2</sup> United Nations Industrial Development Organization, *International Yearbook of Industrial Statistics 2014* (Geneva, 2014).

<sup>3</sup> Carlos Lopez, Executive Secretary of the Economic Commission for Africa, "Made in Africa?," statement to the Emerging Markets Network Africa Meeting of the OECD Private Sector Emerging Markets Network, Paris, 7 October 2014.

<sup>4</sup> World Bank, *Africa's Infrastructure: A Time for Transformation* (Washington D.C., 2010). Available from [http://siteresources.worldbank.org/INTAFRICA/Resources/aicd\\_overview\\_english\\_no-embargo.pdf](http://siteresources.worldbank.org/INTAFRICA/Resources/aicd_overview_english_no-embargo.pdf).

<sup>5</sup> Economic Commission for Africa, *Trade Facilitation from an African Perspective* (Addis Ababa, 2013). Available from [http://www.uneca.org/sites/default/files/PublicationFiles/trade\\_facilitation\\_eng.pdf](http://www.uneca.org/sites/default/files/PublicationFiles/trade_facilitation_eng.pdf).

<sup>6</sup> ECA analysis of United Nations Conference on Trade and Development (UNCTAD) data.

<sup>7</sup> "Civil wars: the picture in Africa", *The Economist*, 13 November 2013. Available from <http://www.economist.com/blogs/baobab/2013/11/civil-wars>.

## B. Favourable trends for Africa's industrial development

14. Notwithstanding the challenges outlined above, Africa can ride some positive trends for its industrialization. Africa is attracting increasing foreign investment flows,<sup>8</sup> which are expected to reach \$55 billion by the end of 2015 – 20 per cent higher than in 2010.<sup>9</sup> By the end of 2014, private equity firms were estimated to have assets worth \$25 billion in Africa, in a broad range of sectors.<sup>10</sup> State-owned sovereign wealth funds, pension funds, global banks and multinationals are also significant and growing sources of finance for Africa.

15. The continent's demographic dividend is set to give it a comparative advantage in the coming years. More than half of Africa's population is under 20 years of age. Africa's workforce was 460 million in 2010 and is expected to be almost 800 million by 2030. In China, labour costs rose by 20 per cent from 2007 to 2011 alone<sup>11</sup> owing, in part, to its shrinking young labour force; and so Africa has the potential to replace China as a global manufacturing hub.

16. Africa's middle class has grown by 3.1 per cent per year over the past three decades, reaching 350 million people – or 34 per cent of Africa's total population – by 2010.<sup>12</sup> The growing middle class will drive private sector development and increase consumer spending, which is expected to double between 2010 and 2020 to reach \$2.1 trillion by 2020.<sup>13</sup>

## C. Overview of industrialization in Africa

17. This section gives an overview of the state of industrial development in Africa, focusing on manufacturing and resource industries.<sup>14</sup>

18. While high-income countries today are generally industrialized, most African countries are only now embarking on the process of industrialization. Figure 1 and Figure 2 show the shares of the three main economic sectors and of manufacturing in African countries' GDP.

<sup>8</sup> Katrina Manson (review), "Emerging Africa: how the global economy's last frontier can prosper and matter", by Kingsley Chiedu Moghalu, *The Financial Times*, 21 September 2014. Available from <http://www.ft.com/intl/cms/s/0/934452d6-3f4d-11e4-984b-00144feabdc0.html>.

<sup>9</sup> "Investment in Africa", *The Economist*, 30 May 2015. Available from <http://www.economist.com/news/economic-and-financial-indicators/21652274-investment-africa>.

<sup>10</sup> "The New Africa", *The Financial Times*, 5 October 2014. Available from: <http://www.ft.com/intl/reports/new-africa>.

<sup>11</sup> Paul Callan and Sanchali Pan, "The burgeoning opportunity in Ethiopia's factories," *This is Africa*, 3 February 2014. Available from <http://www.thisisafricaonline.com/Perspectives/The-burgeoning-opportunity-in-Ethiopia-s-factories>.

<sup>12</sup> African Development Bank, "The Middle of the Pyramid: Dynamics of the Middle Class in Africa." Market Brief, 20 April 2011. Available from [http://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/The20Middle%20of%20the%20Pyramid\\_The%20Middle%20of%20the%20Pyramid.pdf](http://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/The20Middle%20of%20the%20Pyramid_The%20Middle%20of%20the%20Pyramid.pdf).

<sup>13</sup> Based on estimates by Euromonitor in Bain Consumer Products Brief. Available from [http://www.bain.com/Images/INDUSTRY\\_BRIEF\\_Growing\\_with\\_Africas\\_consumers.pdf](http://www.bain.com/Images/INDUSTRY_BRIEF_Growing_with_Africas_consumers.pdf).

<sup>14</sup> From a statistical point of view, industry covers mining and quarrying, manufacturing, public utilities including the energy and water sectors, and construction: tabulation categories C–F in the International Standard Industrial Classification (ISIC) Rev. 3 and B–F in ISIC Rev. 4, where ISIC stands for the International Standard Industrial Classification of All Economic Activities. Available from <http://unstats.un.org/unsd/cr/registry/regcst.asp?Cl=27>.

Figure 1  
Structure of output in African countries, ordered by share of industry, 2012

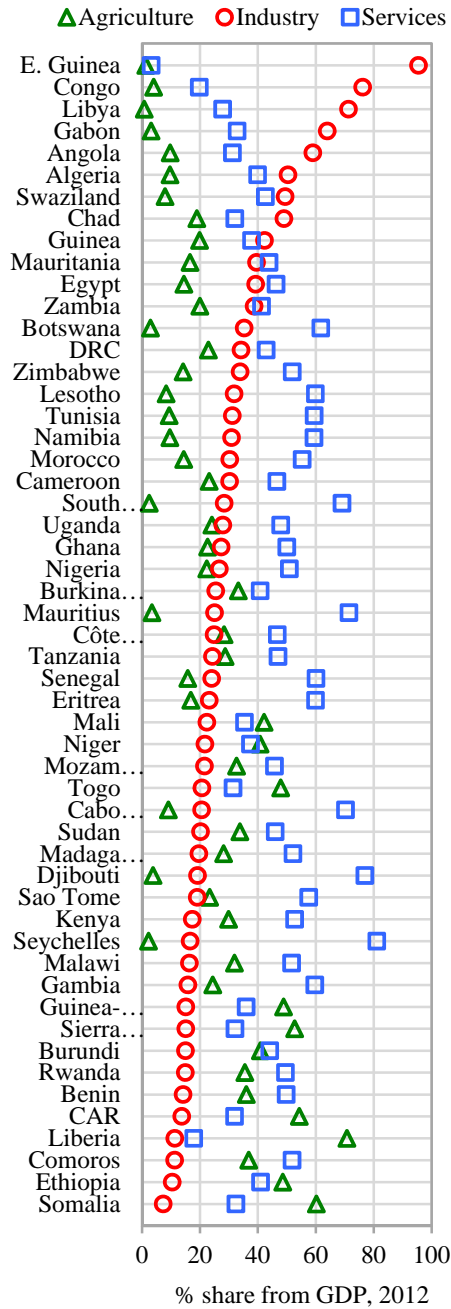
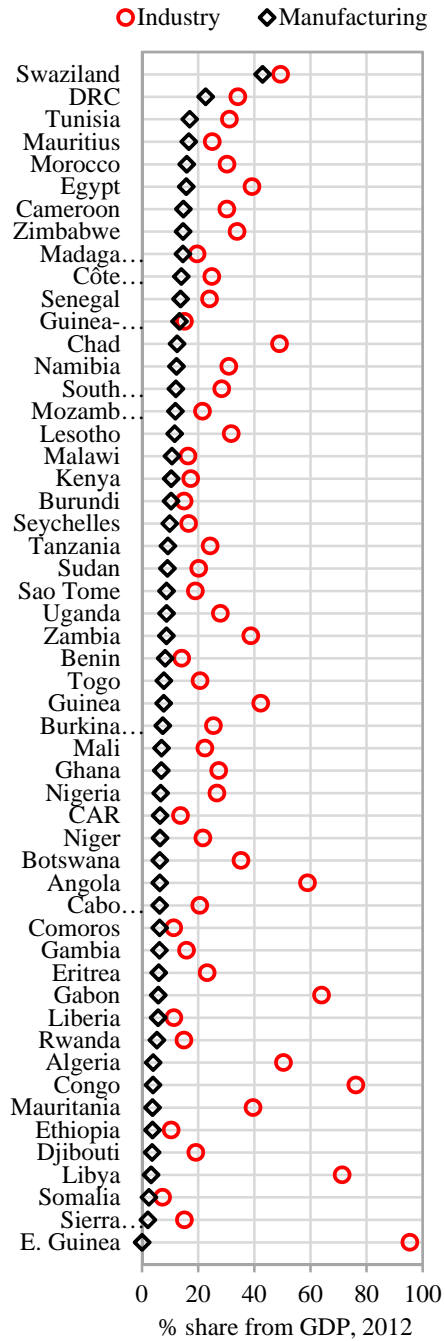


Figure 2  
Share of industry and manufacturing in GDP, ordered by share of manufacturing, 2012



Source: ECA analysis of data from the 2014 edition of the *African Statistical Yearbook*. Available from [http://www.uneca.org/sites/default/files/PublicationFiles/african\\_statistical\\_yearbook\\_2014.pdf](http://www.uneca.org/sites/default/files/PublicationFiles/african_statistical_yearbook_2014.pdf).

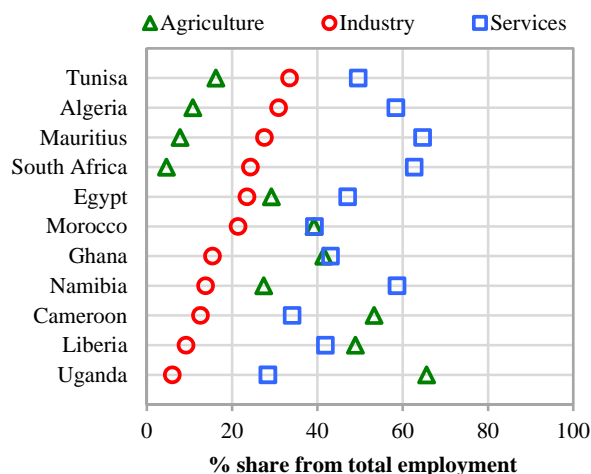
Abbreviations: CAR, Central African Republic; DRC, the Democratic Republic of the Congo; E. Guinea, Equatorial Guinea; Sao Tome, Sao Tome and Principe; Tanzania, United Republic of Tanzania.

19. It is remarkable that eight out of the nine countries with the highest share of industry on the continent (the exception being Swaziland) are resource-rich. The high shares of industry are therefore likely to be driven by large mining and oil sectors. Of the ten African countries with the highest shares of manufacturing, there is only one resource-rich country –the Democratic Republic of the Congo.

20. Services are the largest sector in the majority of African countries. The countries with a relatively high share of services in GDP tend to be resource-poor countries. The correlation between the World Bank's natural resources rents index<sup>15</sup> and the share of services in GDP is strong and negative, at -0.73.<sup>16</sup> This suggests that resource-rich countries tend to expand their industries (such as mining and oil) more than their services.

21. Figure 3 shows the sectoral distribution of employment in African countries where such data are available for recent years. The share of industry in GDP tends to be much higher than the employment share of industry. For example, in Uganda 27.9 per cent of GDP comes from industrial activities while only 6 per cent of formal employment is in industry.<sup>17</sup> This underlines how a large part of African economies is made up of industrial activities that create relatively little employment (e.g. mining).

Figure 3  
Structure of employment in selected African countries, 2009–2012



Source: ECA analysis of World Development Indicators. Available from <http://data.worldbank.org/data-catalog/world-development-indicators>.

Notes: Year of data in parenthesis: Tunisia (2011), Algeria (2011), Mauritius (2012), South Africa (2011), Egypt (2011), Morocco (2012), Ghana (2010), Namibia (2012), Cameroon (2010), Liberia (2010) and Uganda (2009).

## D. Manufacturing

### 1. Production and employment

22. African countries remain marginal players in domestic and international markets for their manufactured goods, with a negligible share of manufactured output and exports in world production and trade, even when compared with

<sup>15</sup> The World Bank's total natural resources rents indicator shows the sum of rents from all kinds of natural resources including oil, natural gas, coal, mineral and forest rents as a share of GDP. Rents are defined as the difference between the value of production at world prices and their total production costs.

<sup>16</sup> ECA analysis of World Bank and *African Statistical Yearbook* data.

<sup>17</sup> World Bank, *World Development Indicators*. Available from <http://data.worldbank.org/data-catalog/world-development-indicators>.

other developing countries.<sup>18</sup> There are twenty countries in Africa where the share of manufacturing in GDP is above 10 per cent, and only six countries where it accounts for more than 15 per cent of total output. These are Swaziland (43.0 per cent), the Democratic Republic of the Congo (22.7 per cent), Tunisia (17.0 per cent), Mauritius (16.7 per cent), Morocco (15.9 per cent) and Egypt (15.8 per cent).<sup>19</sup>

23. Processing of primary goods from the agricultural sector dominates the manufacturing activities of most African countries. European countries are the main destination for all type of exports. Recession in Europe resulted in loss of demand for African goods.

## 2. Productivity and global competitiveness

24. Formal enterprises in Africa (excluding North Africa) account for only a small share of total employment in the region, but are the main source of manufacturing exports.<sup>20</sup>

25. Labour costs are relatively low in Africa (excluding North Africa), at \$1,464 per worker on average, but labour productivity is also low (\$4,737 per worker, the second lowest in the world after South Asia). Unit labour costs are similar, on average, to those of Africa's main competitors in manufacturing. In Africa they amount to 33 per cent of value added, compared to 39.9 per cent in South Asia and 31.7 per cent in East Asia. Once differences in per capita income are taken into account, firms in Africa (excluding North Africa) seem to be more productive than comparable firms in other regions.

26. Notwithstanding this encouraging conclusion, as of 2012, only a minority of African countries were major manufacturing producers, according to United Nations Industrial Development Organization data.<sup>21</sup> One notable exception was South Africa, which was the 10<sup>th</sup> largest global producer of wearing apparel with 1.5 per cent of the world's output.

27. Few African countries have so far been successful in export-oriented manufacturing. Statistics show that Africa remains a marginal player in global trade. Africa's share of global exports has fallen from 4.9 per cent in the 1970s to 2.8 per cent in the 2000s, while its share of global imports decreased from 4.3 per cent to 2.5 per cent in the same period.<sup>22</sup>

28. Africa's oil-exporting countries<sup>23</sup> earn their export revenues mainly from fuels, while manufactured goods make up on average only 3.9 per cent of their total exports. In the meantime, manufactured goods account for 14.2 per cent and 26.8 per cent of total exports of the mineral-rich<sup>24</sup> and the non-mineral-rich African countries, respectively.<sup>25</sup>

<sup>18</sup> Economic Commission for Africa, *Economic Report on Africa 2014* (Addis Ababa, 2014). Available from <http://www.uneca.org/publications/economic-report-africa-2014>.

<sup>19</sup> African Development Bank and others, 2014 edition of the *African Statistical Yearbook* (Tunis, 2014). Available from [http://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/African\\_Statistical\\_Yearbook\\_2014.pdf](http://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/African_Statistical_Yearbook_2014.pdf).

<sup>20</sup> George Clarke, "Wages and productivity in manufacturing in Africa: some stylized facts", Background paper V for the World Bank, *Light Manufacturing in Africa* (Washington D.C., 2011). Available from <http://siteresources.worldbank.org/DEC/Resources/VolumeIIIPaper5.pdf>.

<sup>21</sup> United Nations Industrial Development Organization, *International Yearbook of Industrial Statistics* (Geneva, 2014).

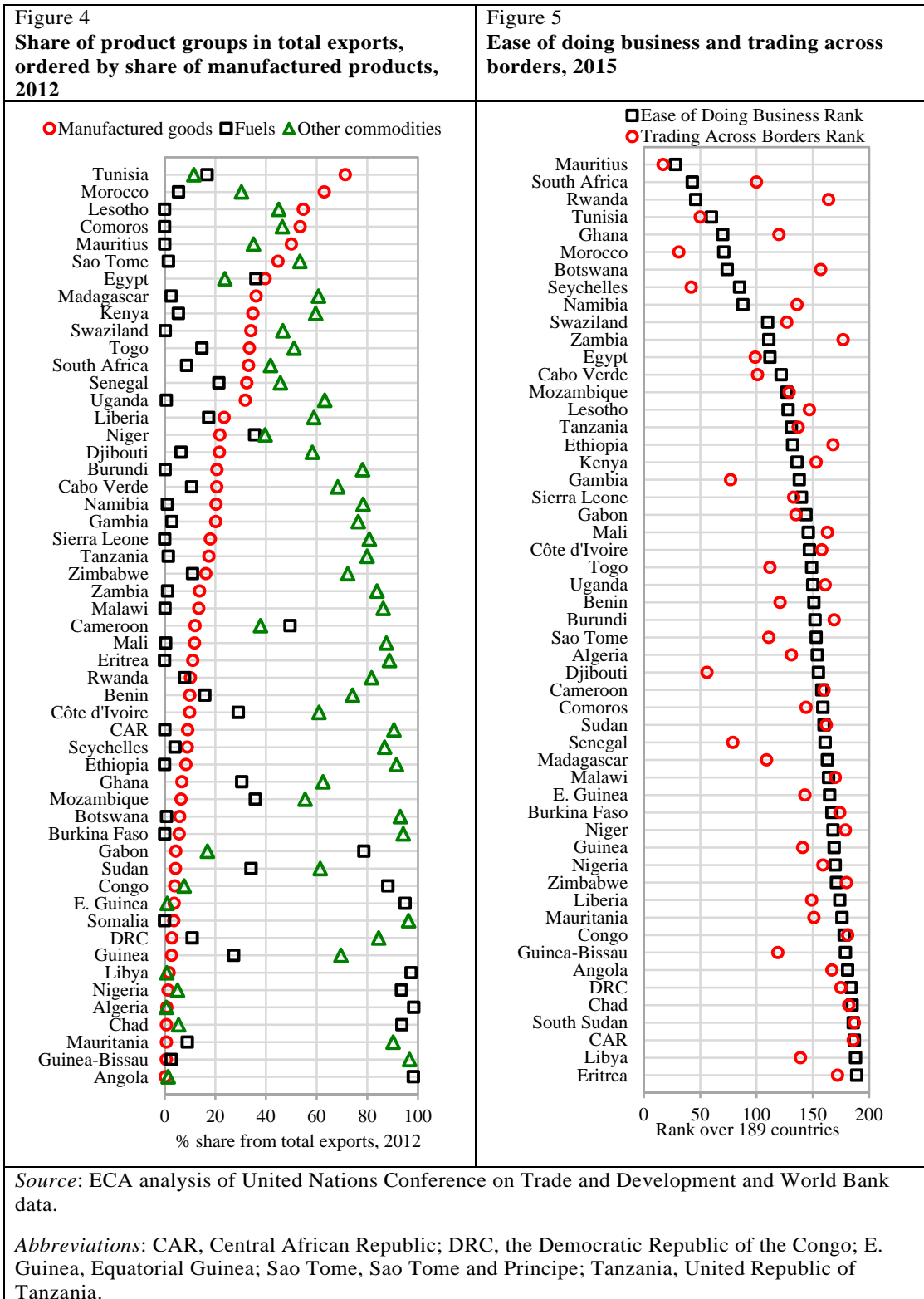
<sup>22</sup> ECA analysis based on UNCTAD data.

<sup>23</sup> Oil exporters are those with oil exports at least 20 per cent higher than their oil imports and include: Algeria, Angola, Cameroon, Chad, Côte d'Ivoire, Equatorial Guinea, Gabon, Libya, Nigeria and the Congo.

<sup>24</sup> Mineral-rich countries are those where mineral exports account for more than 20 per cent of total exports and include: Botswana, Central African Republic, the Democratic Republic of the Congo, Ghana, Guinea, Mali, Mauritania, Mauritius, Mozambique, Niger, Rwanda, Sierra Leone, South Africa, United Republic of Tanzania, Zambia and Zimbabwe.

<sup>25</sup> ECA analysis based on UNCTAD data.

29. In absolute terms, the 10 largest African exporters of manufactured products in 2012 were – in descending order – South Africa, Morocco, Tunisia, Egypt, Kenya, Nigeria, Mauritius, Zambia, Libya and Côte d’Ivoire (figures 4 and 5). Those countries accounted for 85.9 per cent of Africa’s total exports of manufactured goods.



### **III. Gabon: promoting industrialization at the highest level**

30. Oil dominates the economy of Gabon, contributing 46 per cent of nominal GDP in 2009, an average 59 per cent of fiscal revenues between 2002 and 2009, and nearly three quarters of exports during the same period.<sup>26</sup> Other key sectors for the country are wood and manganese. The share of manufacturing in GDP has been low, at around 5 per cent on average, for the past five years. Services account for 28.9 per cent of GDP. Real estate and telecommunications are also important sectors. The Gabonese economy has all the characteristics of a rent economy, with limited job creation, exports driven mostly by raw materials and high dependence on oil revenues. Economic growth has been highly volatile across all sectors over the past decade.

31. The country's development strategy is based on three pillars: industry, services and aspirations towards a "Gabon Vert" or "Green Gabon". The industrial pillar promotes the local development of raw materials, the export of products with high value added, and the diversification of the economy. The country has long been dependent on oil and gas as its main sources of revenue, but Gabon is mindful of the limited lifespan of this resource, and is keen to pursue the proactive and sustainable development of other sources of natural wealth, including mining and energy production. The country aims to: invest in the production of natural gas and hydroelectricity; develop renewable energy; and progressively cut back on the production of electricity from fossil fuels and to reach the targets set out in the Gabon Vert policy. Three hydroelectric dams and a gas power plant are under construction.

32. The Government is creating special economic zones that will facilitate growth and attract investors. Two zones have been launched so far: the special economic zone of Nkok, mostly dedicated to the timber industry, close to the capital Libreville; and the special tax concession zone on the island of Mandji, right beside the economic capital of Gabon, Port-Gentil. The latter is dedicated to the petrochemicals industry and includes a fertilizer production unit from natural gas.

33. Some bottlenecks are hindering the country's transition to emerging economy status. Gabon needs to improve the business climate, upgrade its infrastructure and promote good practices in the natural resources sector. As an example of the lack of transparency undermining the country's mining sector, the Extractive Industries Transparency Initiative decided in February 2013 to exclude Gabon for failure to meet the Initiative's deadlines for submission of accounts.

34. The private sector faces challenges related to market access, financing and skilled human resources. The country's small and medium-size industries need to upgrade their productive capacities to be competitive and add value to the country's resources.

### **IV. Morocco: venturing into new manufacturing sectors**

35. Morocco has enjoyed remarkable growth over the past decade, thanks to stable economic fundamentals and strong policy implementation, which have helped to stabilize the economy.

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<sup>26</sup> African Development Bank and others, 2014 edition of the *African Statistical Yearbook* (Tunis, 2014). Available from [http://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/African\\_Statistical\\_Yearbook\\_2014.pdf](http://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/African_Statistical_Yearbook_2014.pdf).



36. In 2005, Morocco adopted its development plan, known as the “Plan Emergence” to raise economic growth by 1.6 per cent per year over a ten year period, leading to the creation of an additional 440,000 new direct and indirect jobs. The plan is based on a diagnosis of 12 industrial value chains and 77 sub-industries. It identified the country’s strengths and weaknesses in areas such as input cost, human capital, taxation, access to markets and cost of finance relative to a sample of other countries.

37. The implementation of the Plan Emergence was doomed by the consequences of the global economic and financial crisis. A revamped and more comprehensive version of the plan, the National Pact for Industrial Emergence was adopted for the period 2009–2015. The Pact was dedicated to industries, services and new technologies – encouraging industrial investment, consolidating Moroccan firms and expanding into new industry niches and markets using innovative technologies.

38. The National Pact for Industrial Emergence has two key pillars. The first is to boost industries in which Morocco has a competitive advantage. Six sectors have been selected as drivers of growth and named as “Morocco’s global activities” – the provision of offshore locations for foreign enterprises, the agrofood industry, textiles, automotive, aeronautics and electronics.

39. The second pillar is to strengthen the competitiveness of small and medium-sized enterprises, through two key support schemes: “*Imtiaz*” (Excellence) and “*Moussanada*” (Support). *Imtiaz* provides direct financial support to the most promising of these enterprises, and allows them to expand in terms of size, profitability and value added by subsidizing their investment programmes spanning over three years. The purpose of *Moussanada* is to subsidize small and medium-sized enterprises to improve their productivity.

40. In 2014, the Government adopted a new industrial strategy for 2014–2020, with a focus on ten flagship measures, including the creation of industrial ecosystems, reducing the weight of the informal sector, conditioning the granting of public contracts to foreign operators to a proven transfer of technology, setting up an industrial development fund and supporting import-substituting industries. The new roadmap plans to increase the ratio of manufacturing in GDP to 23 per cent and to create 500,000 jobs.

41. Morocco has one of the strongest and most consolidated financial sectors in Africa, in addition to a solid infrastructure base. Nonetheless, the performance of the manufacturing sector in general has been rather disappointing, particularly regarding the expectations set by the various industrial development plans. Overall, the Pact has not reversed the downward trend of the share of manufacturing value added in GDP, which decreased to 14.7 per cent by 2011 compared to 17.3 per cent in 2003.

42. Structural transformation through industrial development has been prioritized at its highest level of Government. The country is seeking to break the barriers of middle-income status and become an emergent economy by throwing all its resources into industrialization. If Morocco succeeds in the next few of decades, it could become a best practice case for other African countries.

## V. Rwanda: economic transformation based on services

43. Rwanda has achieved an average annual growth of 8.2 per cent for the past ten years, and ranked number 46 in the world in 2015 for ease of doing business, second only to Mauritius in Africa and ahead of developed countries such as Italy and Luxembourg. The Government has been pushing ahead with market-oriented reforms, trying to position Rwanda as a trade and services hub in the region. Strong leadership and accountability and the clever channelling of development aid have driven such results. Heads of government institutions sign performance contracts, known as *imihigo*, with the Prime Minister’s office

and commit themselves to achieving certain goals against which they are evaluated. Similar contracts are signed between the employees of government institutions and their respective heads of institutions. This has instilled discipline and a meritocratic system – rare among other low-income African Governments.

44. In 2000, Rwanda launched Vision 2020, with the aim of achieving middle-income status (income per head of just over \$1,000) by 2020. The strategy emphasizes the development of a vibrant private sector and the Government has been reforming the regulatory environment to attract private investors. In 2008, the Government established a consolidated entity, the Rwanda Development Board, with the mission of fast-tracking economic development in the country by encouraging private sector growth.

45. Manufacturing development is challenging for Rwanda, given its landlocked position, the non-tariff barriers (which continue to impede trade in the East African Community), and weaknesses in transport infrastructure (which make imports expensive for the country). Given these issues, the Government is targeting service subsectors (including information and communications technology, tourism and finance) for growth.

46. The contribution of manufacturing to the country's GDP has decreased significantly over the past 20 years, dropping from 11.5 per cent of GDP in 1993 to 4.7 per cent in 2013.<sup>27</sup> In 2010, industry employed just 5 per cent of the country's labour force<sup>28</sup>, 77 per cent of which in manufacturing. The main instruments guiding its industrial policy are the Rwanda Manufacturing Sector Strategy (2008), the Rwanda National Export Strategy (2011), the Small and Medium-Sized Enterprise Policy, the Ministry of Industry and Commerce Strategic Plan 2009–2012, and the Private Sector Development Strategy. Priorities include diversifying the country's production and exports and creating an enabling environment for businesses to prosper – good infrastructure, affordable energy, good human skills, and affordable inputs.

47. The Government and the Rwanda Development Board have identified the agro-processing and the construction material industries among priority sectors – construction is booming thanks to the country's strong economic growth. In the services sector, Rwanda is seeing strong growth in education, which has been attracting large private sector investments; financial services; logistics within the country; and tourism.

48. The main lesson from Rwanda is that a competent and motivated leadership and a transparent and goal-driven institutional setting can go a long way in driving a country's development. The country was on its knees at the end of the genocide 20 years ago, and has now one of the best business environments in Africa. Notwithstanding these impressive improvements, the scarcity and high cost of utilities, diffused poverty, lack of skills, poor access to finance for businesses and poor infrastructure links, may limit future growth. The Government is, however, taking specific actions to tackle most of these issues.

49. The country's challenge now is to transform its economy from one driven by the public sector and aid money, to one driven by the private sector and domestic resources. With this in mind, Rwanda needs to:

- (a) Diversify its exports (economy);
- (b) Improve the country's skills as well as develop an entrepreneurial culture;

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<sup>27</sup> ECA analysis based on World Bank data.

<sup>28</sup> ECA calculations based on Rwanda Industrial Survey 2011 and World Bank data.

(c) Reduce the cost of doing business (which has been negatively affected by the high costs of utilities, such as electricity and infrastructure gaps);

(d) Develop its regional infrastructure;

(e) Reduce the trade deficit;

(f) Increase agricultural productivity while shifting workers into higher value-adding jobs and activities with export potential.

50. In order to help the business community, investments in efficient infrastructure need to offset the limitations of being a landlocked country. The services sector, which has seen strong growth in recent years, could position Rwanda as a services hub in the region.

## **VI. Senegal: a liberal approach to industrialization**

51. The average growth of Senegal was relatively strong during the decade 1995–2005 (4.5 per cent) and accompanied by a large drop in poverty incidence (from 68 to 48 per cent). However, growth decreased to an average of 3.3 per cent during 2006–2011, due partly to a series of exogenous shocks (e.g. food and fuel global price volatility, global financial and economic crisis, and more recently, the electricity sector crisis and drought in the Sahel). As a result, poverty incidence still stood at 47 per cent in 2011, with huge disparities between rural and urban areas.

52. Economic growth reached 4.9 per cent in 2014, slightly below earlier estimates (reflecting the late start of the country’s rainy season and a softening in its tourism sector); and inflation remained below 2 per cent.

53. The Government is committed to a sound fiscal policy, with a budget deficit target of 4.7 per cent of GDP for 2015. The ambitious “Plan Senegal Emergent” is the country’s main development programme. The plan requires the maintenance of a sound economic framework and the acceleration of structural reforms to enhance productivity and competitiveness. These include measures to improve the business climate and to deepen the financial sector, in addition to energy sector reforms to boost electricity generation and reduce its cost.

54. Senegal inherited an extensive economic and industrial infrastructure from the colonial era, and was relatively privileged compared to other countries in its subregion. The availability of local raw materials had allowed the development of agro-industries (cooking oil, soap, cotton textile, etc.) for the market of the former French Western Africa. After independence and following the emergence in the subregion of similar manufacturing activities, local businesses had to turn towards the domestic market, resulting in overcapacity. The focus went back to traditional exports (peanuts, fish and phosphates). Senegal tried to maintain local industries through an industrial development policy based on a system of tariffs and non-tariff protection measures.

55. In 2004, the Government launched its industrial redeployment policy, which aims to endow Senegal with a solid, modern, dynamic and competitive industrial sector, able to both satisfy local demand and access external markets. The policy was developed around a three-fold approach:

- Spatial (by rebalancing industrial facilities in the country)
- Sectoral (by reorganizing the productive system and reorienting towards new growth sectors)
- Professionalism-centred (by strengthening the management capacity of the operators)

56. Furthermore, the Policy is expected to build an industrial system that is able to adapt quickly to changing trends in the global environment and to increase incomes, industrial jobs and the purchasing power of households (in both urban and rural areas) by promoting the best usage of local resources.

57. Senegal has put in place several institutions to support industrialization, tackling critical bottlenecks such as a poor business environment, and financing and technical constraints. The weak impact of trade liberalization measures on the country's industrial sector has raised some questions about the effectiveness of the strategy, which was introduced provisionally to curb the industrial sector's decline in the mid-1970s.

58. The current orientation clearly favours a liberalized approach to industrialization with more focus on horizontal interventions. The country has a multitude of industrial policy institutions at work to promote the private sector in general, with little focus on manufacturing. With this in mind, Senegal should:

(a) Review the current industrial policy landscape and merge some institutions with overlapping mandates to avoid scattering the already limited financial and human resources;

(b) Deal with the issue of coordination by strengthening the country's industry directorate and providing a stable institutional anchor;

(c) Broaden private sector participation in defining the priorities of industrial policies so as to encompass all stakeholders;

(d) Tackle the persistent issues of industrial development in the country, by creating close collaboration between public institutions and the private sector at large.

## VII. Swaziland: overcoming private sector challenges

59. Between 2000 and 2013, the economy of Swaziland had grown by 2.1 per cent, a low rate compared to other countries in the region. Such slow growth was because of a variety of factors, including a drop in custom revenues because of the recent global economic crises, a reduction in South African imports (60 per cent of the Swazi trade in 2012)<sup>29</sup> and the low competitiveness of the country's private sector.

60. The Swazi economy is mainly driven by its membership of the Southern African Customs Union (SACU) and of the Common Monetary Area, which links South Africa, Swaziland and Lesotho in a monetary union. Uncertainty over the future trend of SACU receipts, which are highly volatile due to the current instability in the global economy and to potential renegotiations of SACU revenue-sharing formula, represents a key risk for the country.<sup>30</sup>

61. Local entrepreneurship is constrained by an environment that does not promote private sector initiative; and by a lack of skills, location for businesses, financing, efficient infrastructure and facilities, government support and a favourable tax regime. The current industrial setting, which is focused on attracting foreign investors, penalizes local firms. Thanks to its strategic location and friendly business environment, Swaziland has attracted considerable foreign direct investments. These, however, have failed to create

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<sup>29</sup> KPMG, *Swaziland Country Profile, 2012* (South Africa, 2012). Available from <https://www.kpmg.com/Africa/en/KPMG-in-Africa/Documents/Swaziland.pdf>.

<sup>30</sup> African Development Bank, Organization for Economic Cooperation and Development, United Nations Development Programme, *African Economic Outlook 2014*. Available from [http://www.africaneconomicoutlook.org/fileadmin/uploads/aeo/2014/PDF/E\\_Book\\_African\\_Economic\\_Outlook\\_2014.pdf](http://www.africaneconomicoutlook.org/fileadmin/uploads/aeo/2014/PDF/E_Book_African_Economic_Outlook_2014.pdf).

significant links with the country's local economy. Swaziland needs to ensure that foreign direct investments have a positive and lasting impact on the local industrial base.

62. Trade, which is essential for Swaziland as a small landlocked country, is concentrated on a few partners and based on some trade agreements whose future is at risk. The loss of the African Growth and Opportunity Act in 2015 will have a large negative impact on the already weakened textile sector. Swaziland exports mostly basic products with low value addition and imports mainly manufactured products. The country will need to diversify its trading partners and expand its trade beyond low-value commodities.

63. Social challenges (for example, income and gender inequality, working poverty, and the HIV/AIDS pandemic) also constrain the country's development. Swaziland has several opportunities to exploit, such as: its low cost of labour, which is important for the production of goods (sugar and textiles, etc.) already developed in the country; strategic geographical position and relative stability; strong participation in regional trade agreements; a relatively educated population with a good level of English; and relatively large manufacturing and services sectors, which can support industrial development.

64. Unlocking the country's potential will require:

- (a) Reducing public participation in the economy by increasing incentives for local private entrepreneurship;
- (b) Facilitating access to finance for local small and medium-sized enterprises;
- (c) Improving policymaking in the country, in particular by increasing private sector involvement in policy design;
- (d) Exploring avenues for value addition in established sectors and for linkages between foreign investors and local entrepreneurs;
- (e) Reviewing the mechanisms for land ownership with a view to improving access to collateral;
- (f) Improving the country's quality of education, tailoring it to the needs of the local industry;
- (g) Improving the country's response to its social challenges;
- (h) Tackling corruption and excessive red tape;
- (i) Improving the capability, motivation and accountability of public service officials involved in industrial policy.

## **VIII. Zambia: diversifying the economy while addressing social challenges**

65. Over the past decade, Zambia has enjoyed solid economic growth – over 6.3 per cent per year on average – fuelled by its abundant mining resources, chiefly copper; and by its growth in construction, transport, communications, the public sector, tourism and trading. The country's mining endowments have been fundamental to its GDP growth, but have also held back diversification: copper makes up over 60 per cent of the country's exports and 8 per cent of GDP value added.<sup>31</sup> Zambia is heavily vulnerable to fluctuations in the price of copper and to the state of the global economy.

<sup>31</sup> Africa Centre for Economic Transformation, "Zambia – Still too dependent on copper", in *2014 African Transformation Report: Growth with depth* (Ghana, July 2014, pp. 206–207). Available from <http://africantransformation.org/wp-content/uploads/2014/02/2014-african-transformation-report.pdf>.

66. The contribution of industry to the country's GDP has grown only modestly over the past 20 years, from 36 per cent of GDP in 1994 to 37 per cent in 2013. Within industry, the contribution of manufacturing decreased from 11 per cent of GDP in 1994 to 8 per cent in 2013. Food and beverages account for more than two-thirds of manufacturing value added, and Zambia exports sugar to African countries such as Burundi, the Democratic Republic of the Congo, Kenya and Rwanda. The growing consumer market in the neighbouring Democratic Republic of the Congo offers opportunities for Zambian firms and farmers to expand its export of products such as foodstuff, cement and sugar.

67. The main documents guiding the industrial strategy in Zambia are the Commerce, Trade and Industrial Policy, plus the Sixth National Development Plan 2011–2015 and Vision 2030. Zambia aims to become a “prosperous middle-income economy by 2030”<sup>32</sup> through sustained economic growth and poverty reduction.

68. The country has made substantial achievements in investment policy, by harmonizing regulations and establishing industrial parks with privileged business infrastructure. However, access to affordable and efficient infrastructure (such as water, electricity, fuel and land) and to financing, remains limited. Efforts to tackle these issues would go a long way in supporting the country's private sector. The incentive structure embedded in the current industrial policy seems to privilege large foreign investors over local small and medium-sized enterprises, therefore Zambia needs to re-focus incentives and support on the needs of its local firms. The Government should help local firms develop their export potential and tap into global value chains: a good starting point would be for local firms to develop better linkages with foreign investors operating in the country, both in mining and in other sectors.

69. Mineral-richness should not be a curse for the country's diversification: mineral revenues can be used to support the growth of non-traditional sectors. Recent reforms in the education sector will help tackle the lack of skills lamented by businesses looking for talent in the country; and improve the quality of teaching.

70. Zambia needs to:

- (a) Reduce dependency from mining revenues;
- (b) Develop a strong and export-led local industry;
- (c) Involve the private sector in designing relevant curricula, in order for the education sector reforms to be effective;
- (d) Increase job opportunities and income equality;
- (e) Encourage policymakers to involve the private sector more thoroughly in industrial policymaking, in order to create a productive business environment;
- (f) Ensure that public institutions (in charge of industrial policy) continuously monitor efforts and the implementation of policies and their effectiveness, against established goals – and increase public sector accountability and transparency.

## IX. Conclusions and policy recommendations

71. The present review has highlighted the challenges that the six African countries face in their efforts to achieve industrialization, and has outlined the limitations of each country's industrialization. The economic structure of

<sup>32</sup> Republic of Zambia, *Sixth National Development Plan, 2011–2015* (Lusaka, 2011). Available from [http://siteresources.worldbank.org/INTZAMBIA/Resources/SNDP\\_Final\\_Draft\\_20\\_01\\_2011.pdf](http://siteresources.worldbank.org/INTZAMBIA/Resources/SNDP_Final_Draft_20_01_2011.pdf).

African countries is, among other elements, the result of the lack of appropriate industrial policies or erroneous policies that have been implemented so far.

72. The case studies show that the six countries analysed suffer from similar constraints: infrastructure deficit, including unreliable energy access; limited access to finance; poor business environment; difficulties in recruiting talent and finding the skills needed; governance and inadequate linkages with foreign investors or with fast-growing sectors such as mining in resource-rich countries; difficulties in securing adequate locations; and expensive inputs.

73. Some of the good practices reviewed could be adopted by other African countries. To name some of them:

- (a) Creating free economic zones with easy access to infrastructure;
- (b) Providing incentives to local firms to upgrade along different value chains;
- (c) Creating an efficient dialogue between the Government and the private sector;
- (d) Taking full advantage of trade agreements;
- (e) Developing training programmes targeting technical and managerial skills that are most in need;
- (f) Creating pockets of efficiency by supporting strategic local industrial sectors or clusters with ad hoc policies, infrastructure and incentives. Pockets of efficiency are likely to foster growth in other sectors through positive spillovers and the creation of backward and forward linkages.

74. There is no one-size-fits-all industrial strategy for Africa. Accordingly, trade, education, innovation, sectoral and competition policies should be used in different combinations, depending on the characteristics of the specific country, its endowments and vision.