Chapter 3
Industrialise Africa

Africa is still relying for economic growth on agriculture and the export of raw commodities. Although industrialisation is growing, Africa’s share of global manufacturing is less than 1%, putting the continent at the bottom of the global value chain. Consequently, economic growth has not been creating enough jobs for the growing number of youth.

Africa has many of the ingredients of industrial success. To unleash this potential, African countries must embark on a bold agenda driven by private sector-led investments in industrial transformation. There is a real opportunity for Africa to create jobs and promote inclusive economic transformation through domestic manufacturing and a commodity-based industrialization process.

This chapter reviews Africa’s progress on key enablers such as a conducive economic environment, economic diversification, competitiveness and access to capital. The chapter also covers the Bank’s role in Africa’s industrial transformation. Our support is focused on promoting enterprise development and helping to improve the business environment. Our operations have supported job creation and provided economic opportunities.

Industry can unlock Africa’s huge economic potential
Africa’s recent growth has been strong. This reflects a host of encouraging factors, including expanding domestic markets driven by a burgeoning middle class, an improving business environment, improved macroeconomic management, favourable commodity prices, rapid urbanisation, and increasing public investment.

Several of these factors continue to drive growth but a persistent lack of industrialisation is holding back Africa’s economies, which remain largely dependent on sectors like agriculture and unprocessed commodities that add relatively little value, even though in absolute terms it is growing. On average, industry generates merely $700 of GDP per capita in Africa, less than a third of Latin America’s output ($2500 per capita) and barely a fifth of East Asia’s ($3400 per capita). Industrial GDP influences overall GDP, as industrial productivity drives productivity in other sectors.

By exporting unprocessed commodities, Africa is effectively exporting wealth and jobs
By exporting unprocessed commodities, Africa is effectively exporting wealth and jobs. Behind the growth numbers is persistent inequality and unemployment. Africa needs to keep its wealth by adding value to its primary commodities. That requires an economic transformation, driven by policy that stimulates the creation and growth of industry.

Across the world and throughout history, an active industrial policy has been essential for advancing national economic development efforts – from eighteenth-century Britain to the recent spectacular rise of East Asian economies. Manufacturing also offers an opportunity for African countries to increase resilience to economic shocks (see Figure 4).

Africa has many of the ingredients of industrial success. Its abundant natural resources offer reliable supplies of raw materials, including minerals, agricultural products, fish and timber. Its large and growing working-age population makes up one of the world’s most dynamic labour forces. Domestic markets are expanding as the middle class swells.

The scale of Africa’s resource wealth bears repeating: over $82 trillion in discovered natural resources, which are expected to contribute over $30 billion per annum in government revenues over the next 20 years. The continent has 120 billion barrels of oil reserves — as much as half of Saudi Arabia’s — and 600 million hectares of uncultivated arable land, a quarter of the world total.

Africa is richly endowed with mineral reserves, ranking first or second among the continents in its share of the world’s bauxite, chromite, cobalt, industrial diamonds, manganese, platinum and many other minerals.
The other vital ingredient of Africa’s economic transformation is its powerful demographic transition. Africa is the world’s youngest continent, with 70% of the population under the age of 30. Its working age population, currently 54% of the continent’s total, will increase to 62% by 2050. Africa’s labour force will surpass China’s and could play a huge role in global consumption and production. Unlike other regions, Africa will neither face a shortage in domestic labour nor need to worry about the economic burden of an increasingly ageing population for most of the 21st century.

This “demographic dividend” can be cashed in to stimulate industrial production. An influx of new workers from rural areas into the cities, if complemented with the necessary educational reforms, could lead to a major productivity boom. This would increase savings and investment rates, push up per capita GDP, and prompt skills transfer.

For many countries, the manufacturing sector will be essential for yielding employment, diversifying technological capabilities that promote and expand the skills base and deepen individual
countries’ industrial structures. Having a more domestic industry would:

- **increase the value** that is created in an economy by generating activity all along the value chain from raw material to finished product;

- **boost productivity**, both by introducing equipment and techniques and by increasing the capability of the workforce, and diffuses this improvement into the wider economy;

- **generate formal employment**, which creates stability;

- **improve the balance of trade**, because it creates goods that can both substitute for what was formerly imported and be exported.

Between 1950 and 2006, about half of the catch-up by developing countries to advanced economy levels of output per worker was explained by rising productivity within industry combined with labour moving out of agriculture into manufacturing.

**Africa has many of the ingredients of industrial success: abundant natural resources, a growing labour force and expanding domestic markets**

Rapid industrialisation is possible. Many countries have gone through a phase of rapid industrialisation as part of their larger economic development, particularly in Asia, and their examples offer lessons that Africa can use to leap forward over the next decade.

**Industrialising Africa: challenges and priorities**
The reality today is that Africa is not making sufficient progress on industrialisation. Africa’s share of global manufacturing exports remains less than 1%, compared with over 16% for East Asia. From 1975 to 2014, the African manufacturing sector’s contribution to the continent’s total economy actually declined from 18% to 11%, leaving it with the smallest share of any developing region. However, in absolute terms industrialisation is growing. Manufacturing production has increased, from $73 billion in 2005 to $98 billion in 2005 prices in 2013, due to strong growth in parts of Africa, domestic policy and institutional improvements, and rising wages in China (see Figure 5).

African manufacturing has grown at 3.5% annually in real terms over the past decade, which is faster than global growth in manufacturing production. The food and beverages sector increased faster than average, partly because of the importance of growing domestic demand. The textiles and clothing sector did less well, unable to withstand competition from Asian imports — but this is now changing due to increased Chinese investment in labour-intensive garment manufacturing, for example in Ethiopia and Rwanda, and to growing regional markets.

Despite these improvements, the growth in the manufacturing sector has been insufficient to create much-needed jobs for the growing number of young Africans.

If Africans are to enjoy a higher standard of living, Africa needs to improve its economic performance. Today, the economies of African countries are facing several **structural challenges**:

- they rely on low value-adding activities, such as the extraction of oil, gas, and other minerals;

- **insufficient investment in education** and skills development, so that the labour force is poorly equipped to work in more complex sectors;

- they **import** far more manufactured goods than they export, a commercial imbalance that drains wealth away from their economies and uses scarce foreign currency;

- they remain dependent on **limited value-added commodities**;

- their **trade balance** in manufactured goods — which embody far more added value than the raw materials they are made from — is deeply negative: 62% of total imports into Africa are manufactured goods, compared with only 19% of its exports.

**Figure 5 Real manufacturing production is increasing despite a fall in Africa’s share of manufacturing in GDP**

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Source: World Bank

Annual Development Effectiveness Review 2016
These shortfalls are linked to the limited investment and growth in the domestic economies of many African countries. Given the demographic profile, considerable action is required to diversify production structures into higher employment-intensive activities, as 10 million new formal jobs are needed each year to absorb the massive youth population entering the market. African countries must build on recent gains by creating opportunities for social change, including critical human capital investments in education and skills. They must also take advantage of science, technology and innovations, to support industrial growth on the continent.

Without effective policies, African countries risk high youth unemployment, which may spark political instability. Africa also needs to solve its energy crisis. Without power, industrialisation cannot be achieved and therefore, the African Development Bank has made the New Deal for Energy its top priority. We believe that Africa must power itself in order to power its industries.

Africa also desperately needs more infrastructure investments in order to support industrialisation. We need roads, rail and ports to open up access to regional and global markets and enhance our competitiveness index, which has slightly increased from 3.61 to 3.64 from 2014 to 2015. A major achievement that is boosting private sector development is the time required for business start-up which has fallen from 42 days in 2010 to 25 days in 2015.

Access to finance, currently one of the main obstacles to doing business in Africa, needs to be improved to enable enterprises to move up value chains. Only 31% of adults have access to an account at a bank or other financial institution.

Expanding the industrial sector will not be easy without stronger regional integration, which provides opportunities for intra-Africa trade. The pursuit of an African industrial revolution can only occur where large markets drive competitive production and build economies of scale in the context of regional integration.

The Bank’s role in Africa’s industrial transformation

The Bank has supported job creation and provided economic opportunities

In the period 2013–2015, the AfDB’s support to private sector development has created more than 3 million jobs, of which almost 812,000 were for women. A total of 153,000 microcredits were granted while 5.7 million people benefited from investee projects and microfinance.

In Egypt, our support to strengthen and develop infrastructure has enhanced productivity and helped make firms more competitive, as well as helping to attract investors. Our investments in Egypt include $54.8 million supporting Egypt’s National Drainage programme to boost agricultural production, and $140 million for the Sharm El-Sheikh Airport expansion project, to increase the airport’s capacity from 10 million to 18 million passengers a year, supporting the country’s tourism and the establishment of well-developed transport links.

In South Africa, we financed a line of credit of $100 million in favour of the Industrial Development Corporation. The line of credit was used by the IDC to provide medium- and long-term financing to 103 small- and medium-scale enterprises and 4 large-scale enterprises, of which more than 60% were new industrial enterprises (see Box 6).

A core area of the Bank’s interventions in governance is addressing bottlenecks to private sector development and competitiveness. Overall, during 2013–2015, 9 out of 15 countries supported by the Bank improved their competitive environment, reflecting challenges in some countries to set up a robust legal and regulatory environment to help private businesses invest, create jobs, and become more productive.

AfDB’s support to private sector development has created more than 3 million jobs

Examples of our support to reforms geared towards improving the investment climate include the Bank’s projects in Mauritius and the Seychelles. Both countries are now considered top performers on the continent with regard to ensuring an enabling business environment.

In the Seychelles, a key constraint to private sector development was poor access to finance, in particular growth of micro, small and medium-sized enterprises (MSME). The Bank helped the government to implement an MSME financing scheme, which greatly improved access to finance for MSMEs; over 670 businesses have benefited from the scheme.
Looking forward: What will it take to industrialise Africa?

The experience of other industrialising economies around the world shows that Africa can realistically more than double its industrial GDP from $751 billion to $1.72 trillion within the next decade. This in turn would enable Africa to raise its continental GDP from $2.6 trillion to $5.62 trillion and its GDP per capita to $3368 by 2025.

For this to happen, Africa needs to implement a comprehensive and resolute industrial policy; one that can be adjusted for each country’s context, requirements and development goals. This will require vision and commitment from political leaders but also from the Bank and the broader development community, who will provide support through financing, technical assistance, capacity building, continuous dialogue and advisory services.

Experience suggests that creating opportunities for entrepreneurship (both new business creation and expansion of existing ones) is the most important driver of industrialisation. To achieve this, however, Africa needs to leverage the full strength of its partners in this area, including the Bank and the specialised expertise of organisations such as the United Nations Industrial Development Organisation and the United Nations Economic Commission for Africa as well as that of a broader set of stakeholders including the African Union, regional economic communities, national governments, policy makers and development finance institutions.

To “Industrialise Africa”, the Bank will leverage its experience, capabilities and its finances

Lessons from other industrialising countries in the developing world highlight five key enablers that have been common to almost all countries that have rapidly industrialised their economies. These enablers are:

- supportive policy, legislation and institutions;
- conducive economic environment and infrastructure;
- access to capital;
- access to markets;
- competitive talents, capabilities, and entrepreneurship.

In successful industrialising countries, these enablers have typically been integrated into a comprehensive industrial policy that has enabled businesses, both large and small, to develop along the value chains of selected, high-potential industrial sectors. These programmes are feasible and can be implemented with the right levers.

The Bank’s strategy to industrialise Africa

Industrialising Africa and driving progress on each of the five enablers outlined above will require combined and coordinated efforts by a wide range of stakeholders, both public and private. That said, the Bank, as the premier financing institution on the continent, can and should play a leading role in the “Industrialise Africa” agenda.

While it will intervene along with its partners in all identified programmes, the Bank plans to place a stronger focus on areas where it can best leverage its experience, capabilities and its finances to support countries by championing a subset of these programmes, grouped into the six “Flagship Programmes”, which are at the core of the Bank’s “Industrialise Africa” priority. To that end the Bank will:

- foster successful industrial policies;
- grow liquid and effective capital markets;
- catalyse funding in infrastructure and industry projects;
- promote and drive enterprise development;
- promote strategic partnerships;
- integrate African markets;
- accelerate flows of capital into African countries;
- accelerate the development of skills and technologies.

How will the Bank’s strategy be implemented?

Through a partnership with UNIDO, UNECA, the African Union Commission and regional economic communities, the Bank will support governments in crafting their national industrial policies, identify potential sectors for industrial development, and provide value chain analysis, technical assistance and some degree of operational support. In addition, the Bank will strive to facilitate dialogue between governments and the private sector to foster coordination between all the industrialisation stakeholders.

Given the significant crosscutting agenda embedded in the Bank’s industrialisation strategy for Africa, our non-sovereign operations and Financial Sector Development teams will jointly take the lead and work with other departments and organisational units to deliver on the ambitious agenda within the framework of the One Bank Approach.

In this respect, the key initiatives the Bank is launching under the High 5s will have positive impacts on the economic environment, infrastructure, access to markets, and access to talent and capabilities, which in turn will foster industrialisation.

We will invest $3.5 billion per year to implement six industry flagship programmes

To deliver the six “Industrialise Africa” flagship programmes, the Bank needs to mobilise a large volume of funding, human resources, and hard and soft infrastructure-related mechanisms. Over the next 10 years, the Bank will invest $3.5 billion per year through direct financing and leveraging to implement the six programmes. This will cover non-sovereign operations, technical assistance pertaining to the industry clusters, investments in SMEs and linkage projects, establishment of a facility to increase liquidity...
in African capital markets, technical assistance for capital markets and PPP-targeted projects and special fora dedicated to establishing strategic partnerships.

To increase and channel funding into Africa’s flagship industrialisation projects, the Bank Group will scale up its own investment, including from managed funds, to catalyse funding by others, acting as strategic investor or as lead arranger. Moreover, the Bank will develop its capability to drive mobilisation activities, i.e. play a lead arranger role, through improved processes and relevant skills and expertise, while increasing its participation in co-financing activities.

In a nutshell, “Industrialise Africa” represents a bold vision and an ambitious strategy — one that has the potential to truly transform the continent. The Bank is committed to playing a leading role in achieving this vision — acting as a catalyst to build support from governments and other development finance institutions, and working with the private sector to turn the vision into reality, factory by factory, across the continent.