Industry plays a vital role in economic development. It increases the value created in an economy, boosts productivity and creates jobs. While manufacturing has doubled in Africa over past decade, the bulk of its value remains concentrated in a few countries, such as South Africa and Morocco. However, there have been positive trends towards greater regional integration of industrial value chains and increased intra-Africa investment. Strengthening regional ties can spur further industrial growth.

Africa’s global competitiveness is improving, and 49% of the population now has access to finance. However, progress has been slow on key industrial indicators. Africa’s economic diversification remains low, despite growth in some promising non-extractive sectors like tourism and ICT. In 2018, Bank private sector projects benefited 1.2 million people across the continent, half of whom were women. The Bank continues to support micro, small, and medium-sized enterprises (MSMEs) and to promote transformational, high-value industrial projects.

### Connecting countries to spur industrial growth

Industry plays a vital role in development. It boosts productivity, adds economic value and creates jobs. It improves the balance of trade by creating goods for export and local competition for imports. Across Africa, countries have sought to promote industrial growth through a variety of approaches, including establishing special economic zones (SEZs), supporting SMEs and intervening in key markets.

Strengthening regional ties is a necessary part of Africa’s industrial development. It promotes cross-border transfer of technology, improves production practices, gives producers access to larger markets and enables them to exploit economies of scale.

There are positive trends across Africa toward greater economic integration. Companies are becoming increasingly connected through cross-border ownership structures and regional hubs. The Bank’s Africa-to-Africa Investment: A First Look reports that intra-African investment is becoming an increasingly significant source of foreign direct investment (FDI) in the region, with South Africa and Morocco leading the way. The AfCFTA has the potential to reinforce this trend and encourage stronger intra-Africa trade and investment.

While manufacturing has doubled in Africa over past decade, it remains concentrated in only a few countries. Two-thirds of African manufacturing by value is located in just four countries — Algeria, South Africa, Nigeria and Egypt — and these positions have remained fairly stable over the last 10 years (see Figures 12 and 13).

Across the continent, there has been a steady rise in major companies that are innovating in their markets and generating real value. However, Africa lags behind other emerging regions in this respect: much of its manufacturing remains small-scale and fragmented. At the same time, SMEs are responsible for 77% of all jobs in Africa and as much as half of GDP in some countries.

On key industrial growth indicators, Africa is making slow progress. Gross fixed capital formation has grown to $535 billion, from $504 billion in 2015. There has been a slight increase in industrial gross domestic product, from $619 billion in 2015 to $627 billion in
2018. Value added on manufacturing increased to $231 billion from the $222 billion achieved in 2015.

The continent is also demonstrating fast growth in tradable services like tourism, ICT and remote office services, as well as agribusiness and horticulture, so that manufacturing's share of GDP is declining. These sectors produce high-value exports and have the potential to further increase Africa’s international competitiveness. They also create jobs and share many characteristics with manufacturing. Thus, they can benefit from policies designed to increase productivity growth and scale in manufacturing: improving logistics and infrastructure, investing in skills and establishing policies to promote exports.

Despite the growth in non-manufacturing sectors, economic diversification — measured on a range from 0 (high) to 1 (low) — declined from 0.62 in 2015 to 0.63 in 2018. Many African economies remain dependent on a few primary export commodities. However, there are encouraging signs of the emergence of new industries, such as leather in Ethiopia, garments in Lesotho and pharmaceuticals in East Africa. Some countries, such as Ethiopia and Rwanda, have used Special Economic Zones to actively diversify their export portfolios (see Box 20).

Africa is becoming an increasingly attractive destination for foreign investment. Asian-based companies are shifting manufacturing to Africa, and Western investors are attracted to Africa’s growing, youthful and affordable work force. South Africa and Morocco, in particular, are attracting high levels of FDI.
As a result, Africa’s position on the Global Competitiveness Index is rising (see Figure 14). African countries are making strong progress on improving their business climates, making them more competitive and attractive to global investors (see Figure 15). Strong GDP performance in East Africa, in particular, makes it an attractive investment destination. According to UNCTAD’s World Investment Report 2018, FDI in Kenya increased 71% as a result of demand for ICT industries and government tax incentives to foreign investors.

Industrial development is heavily dependent on the development of infrastructure — power, roads and railways. Logistics performance on the continent (measured on a range of 1–5) has been steady since 2015, at 2.5. The Bank estimates Africa’s infrastructure gap at $130 billion to $170 billion per year. Closing it will require innovative thinking on how to mobilise new sources of finance, particularly through joint public-private efforts.

Access to finance has improved for 49% of the population, above the target of 44%. Africa is a leader in mobile money, which has contributed significantly to greater financial inclusion. According to McKinsey & Company, there are over 100 million active mobile money accounts across the continent. Mobile money services have also expanded to include a broad array of other services: credit, insurance and cross-border remittances. Traditional banks and fintechs are now entering this market.

Cities as hubs of industrial development
Cities help facilitate growth in critical economic sectors and spur structural transformation. Cities like Cairo, Lagos, Johannesburg and Nairobi lead the way in attracting FDI, facilitating international trade and connecting Africa to global value chains. Africa is experiencing explosive growth in its cities (see Figure 16), with an urban population that is set to reach 50% by 2030, from 36% in 2016.

However, large infrastructure deficits prevent cities from fully reaping the benefits of agglomeration and connectivity. Africa’s cities require stronger policies and institutions to develop physical infrastructure and social capital, promote ICT, introduce zoning policy and implement strategies to become key nodes of production.

The Bank’s support for industrial development
Under the Industrialise Africa High 5 priority, we are working with our development partners to support enterprises of all sizes and promote productivity along international value chains. We have identified and invested in high-value industrial projects that promote the transformation of African economies.

Our investments have been successful in improving the lives of people across the continent and in supporting the growth of MSMEs. In 2018, 1.2 million people benefited from investee projects of which 0.6 million were women. Inadequate infrastructure restricting access to rural areas, regulations in financial services and high interest rates on SME loans are some of the challenges that prevented us from reaching more beneficiaries. For instance, beneficiaries of a line of credit to a commercial bank in Nigeria for on-lending to SMEs cited high interest rates as costly for their businesses.

Despite this, our investee projects also generated $356 million in MSME turnover — up from $68 million in 2015 and well above our target of $306 million.

Working with the Private Sector Credit Enhancement Facility funded by the ADF, we are investing in more challenging markets, including low-income and fragile contexts. This effort is complemented by policy-based operations, knowledge products, policy dialogue and

Box 20 Special economic zones
A number of African countries use Special Economic Zones (SEZs) to attract FDI and boost industrial output. SEZs receive government investment in infrastructure improvements, have substantially lower barriers to import and export, and confer initial tax benefits that help to offset start-up costs.

Kigali, Rwanda, has shown strong upward growth in attracting FDI. Kigali’s SEZ exempts firms from taxes for 10 years and provides reliable utilities such as power, water and sanitation with subsidised initial connection costs and high-quality infrastructure such as access roads and fibre-optic Internet. Firms in the special zones also benefit from trade facilitation, including fast-track customs procedures, and from the improving business climate in the country. Recently, this has attracted $20 million from Volkswagen for a new vehicle assembly plant.

Figure 14 The state of African countries’ competitiveness

Global competitiveness Index, 2017–2018

Rwanda
Ethiopia
Mauritania
South Africa
Zimbabwe
Nigeria
Chad

Source: World Economic Forum
Figure 15 Many African countries are making headways in improving their business climate

Ease of Doing Business Ranking
(each dot represents a country)

Source: World Bank

Figure 16 Booming population growth in African cities

Projected population growth for Africa cities, 2018-2035
% change (cities with current population above 1 million)

Source: UN Population prospects
capacity building, as well as strategic investments in key infrastructure—affordable energy, clean water and transport connections. For instance, our policy advice to the government of Zambia on inter-sectoral linkages between extractive sectors and the broader economy enhanced the 2020/2021 budget framework. Together these inputs catalyse private sector development and improve African producers’ access to regional and global value chains.

In 2018, 154,000 owner-operators and MSMEs were provided with financial services—more than double our target. Of these beneficiaries, 81% were in low-income countries. The Youth Empowerment Facility in Zimbabwe improved access to finance for young business owners. In Uganda, our line of credit for Housing Finance Bank Limited supported over 110 construction projects and improved the confidence of the financial services to lend to housing finance and SMEs. In Nigeria, a line of credit we extended to Fidelity Bank enabled it to provide medium-term loans to about 57 SMEs. As a result, thousands of new jobs have been created and 900,000 people have benefited from more reliable electricity.

The Bank has enabled the increase of government revenues in a number of our investee projects and subprojects. In 2018 they generated $394 million of additional government revenues—up from $331 million in 2015 and an improvement of $118 million on last year’s figure. Further support for private sector development on the continent can increase production and export values, and thus government revenues, and can have wider positive benefits to the surrounding populations. (Morocco is a case in point; see Box 21 and Figure 17)

Box 21 Working with the private sector

In Morocco, we provided a $250 million senior loan to finance the investment programme of the Office Cherifien des Phosphates (OCP), one of the world’s largest exporting producers of phosphates.

The investment increased OCP's production capacity at its Jorf site and enabled it to set up an integrated production system. It reduced the cost of transporting rock, eliminated pollution, reduced water consumption and improved access to electric energy at the site. It also created jobs, improved railway transport, and increased the availability of electricity and water to the surrounding population.

OCP has made a significant contribution to Morocco’s GDP and government revenues. Through wages and employment opportunities, it has had a positive impact on poverty reduction. It has also supported the training of 1200 young people in entrepreneurship and supported 30 start-ups over 3 months.

The Bank has a particular focus on making investments that contribute to continental integration. For instance, a line of credit extended to Ecobank Transnational Incorporated enabled the Volta River Authority in Ghana to extend its electricity generation and distribution operations to domestic, industrial and commercial customers in the neighbouring countries of Côte d’Ivoire, Togo, Benin and Burkina Faso. In Namibia, a new container terminal in Walvis Bay will act as a regional logistics hub and increase trade with the rest of the world (see Box 23).

Over the past 10 years, the Bank has invested more than $35 billion in infrastructure, and it will continue to support public and private infrastructure, including ports and airports, which connect cities to the global economy.
Bank projects have given 14 million people improved access to transport—above the target of 10 million—of which half were women. Our projects constructed, rehabilitated or maintained 1021 km of road, of which 695 km were in low-income countries. For instance, the Bank’s investments in Ethiopia’s Mizan Road Upgrading project have supported market integration between urban and rural areas and improved access to health and education services in the region.

Making plans to attract private investment
As part of the Industrialise Africa Strategy, the Bank intends to help raise Africa’s industrial GDP by 130% by 2025 and drive Africa’s overall GDP from $2.2 trillion to $4.6 trillion. Achieving this level of investment calls for broad-based partnerships and a collective effort among national institutions, multilateral development banks and the private sector.

Private sector development creates jobs and opportunities for green and inclusive growth. The Bank identifies private sector development as a core element in the achievement of the High 5 priority areas. We play a catalytic role in mobilising financial resources for private sector development, for instance through the Africa Investment Forum (see Box 24).

Newly approved projects
The Bank actively supports innovation across the continent. We have provided $30 million to the Rwanda Innovation Fund project to support tech-enabled SMEs in the East African Community region. The Fund will support more than 150 companies, creating 2000 direct jobs and 6000 indirect jobs over 10 years. It will also support capacity building for incubators and accelerators, facilitate angel networks and train entrepreneurs across the region.

As part of our Boost Africa Investment Programme, a collaboration with the European Union and the European Investment Bank, we have provided a $7.5 million equity investment to the Africa Tech
Ventures Fund. This will boost the operations of highly scalable technology start-ups across the continent.

We will continue to support SMEs in transformative sectors. We have approved a $9.66 million line of credit for the Sahel-Saharan Bank for Investment and Trade in Mali. Our $100 million trade finance line of credit to Angola’s Investment Bank (Banco Angolano de Investimentos) will also strengthen subsidiaries in Cabo Verde and São Tomé and Príncipe.

Building on successes in 38 countries, the Bank approved an additional investment in the Africa Guarantee Fund for SMEs to strengthen SMEs and stimulate the development of private enterprise and sustainable jobs. The Bank also approved support for private sector development in Cabo Verde and an equity investment in the Maghreb Private Equity Fund IV to accelerate the development of mid-cap companies in North Africa with strong growth potential in sub-Saharan Africa.

The Bank supports the development of local capital markets. We have provided a $10 million senior loan to the African Local Currency Bond Fund to crowd in domestic institutional investors and support MSMEs. We have also approved a $10 million equity investment in the Africa Financial Sector Deepening Fund to provide Tier 2 capital to financial institutions.

Across the continent we are supporting projects that will not only reduce travel times and cost but also open up new opportunities for income generation. In Senegal, we have invested $103 million for the rehabilitation of the Senoba-Ziguinchor-Mpack Road, a project that will improve connectivity with neighbouring Guinea-Bissau. In Côte d’Ivoire, we have approved €329 million to transform 88 km of roads.

In Uganda, we have approved $229.5 million for the 95 km Kampala-Jinja Express Way project, which will reinforce Uganda’s position as a regional transit hub. In Cameroon, as part of the Transport Sector support programme, we have approved €17.96 million to fund the construction of a ring road in the northwest of the country. And in Benin, we will support the upgrading of the 210 km Djougou-Pehunco-Banikoara Cotton Road to help improve the competitiveness of the country’s cotton industry.

In South Africa, the Bank has approved over $100 million in loans to SA Taxi Development Finance Limited to support the growth of the minibus taxi operators that account for 69% of all public transport trips in South Africa. It will also help attract funding from international commercial banks.

In working to Industrialise Africa, we are focusing our assistance on fostering successful industrial policies and establishing special economic zones that will strengthen industry. We will continue working with our partners to support infrastructure to catalyse more private sector investments and help transform African economies.