

Scaling up private investment

To drive industrialisation in Africa, the Bank is supporting enterprises of all sizes and production and promoting transformational, high-value industrial projects. In Nigeria, our support for Indorama Eleme Fertilizer & Chemical Ltd. increased fertiliser output, boosting yields, raising farmers' incomes, and turning the country into a net exporter of fertiliser.

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Chapter 3
Industrialise Africa

Over the last decade, African industry has expanded and developed in a wider range of countries and in more diverse areas. But Africa's industrial sector remains modest by global standards. Manufacturing is overly concentrated geographically and is focused on a limited range of products; most enterprises are small and informal; and the continent's share of global markets is low. The Bank is working to change this by promoting successful industrial policies, attracting funding to infrastructure and industry, supporting the growth of capital markets, and promoting enterprise development in general.

Industrialisation is essential to transforming African economies

Most Africans still earn their living through informal and small-scale economic activity, mainly linked to agriculture and the growing service sector. We estimate that 72% of non-agricultural employment in Africa is informal.

Informal livelihoods and jobs are generally less stable and not as well paid, and informal employment is higher amongst women and people with limited or no education. Although Africa has made significant economic progress in the last two decades, most jobs created in the region have been informal.

> *72% of non-agricultural employment in Africa is informal. Informal jobs are less stable and not as well paid*

Industrial development can change this. It can create more formal jobs and improve productivity and economic growth. This can enhance Africans' quality of life by increasing their incomes and raising government revenues.

Following the decline in African industry in the late 1970s and 1980s, the last couple of decades saw Africa's industrial sector grow again. Progress continued in 2019, with Africa's **industrial gross domestic product** (GDP) expanding by 17% to $731 billion (in 2010 dollars) and **gross fixed capital formation** in industry expanding by 10% to $590 billion (in 2010 dollars). **Industrial GDP** grew more slowly in transition states, where constraints to industrial development are greater. The Covid-19 pandemic and the disruption it is causing are likely to constrict industrial production further.

Manufacturing in Africa has contributed to industrial growth. Manufacturing increased by an average of 5.3% per year during 2000–2017, outperforming the global growth rate. Similarly, the number of people employed in African manufacturing grew steadily from 11 million in 1991 to 17.7 million in 2013. The expansion continued in 2019, with value-added of manufacturing growing by 39% to $309 billion (in 2010 dollars). Importantly, low-income ADF countries and transition states also extended their manufacturing sectors in 2019, albeit from much lower bases, especially in the case of transition states.

> *In 2019, Africa's industrial gross domestic product expanded by 17%. But two-thirds of value-added manufacturing took place in just five nations*

Growth in African manufacturing was spearheaded by an increasing number of countries, with Côte d'Ivoire, Ethiopia, and Rwanda as significant new entrants. But Africa's manufacturing is still dominated by a small number of countries, with around two-thirds of value-added manufacturing taking place in just five nations: Algeria, Egypt, Morocco, Nigeria, and South Africa.

The recent upturn in African manufacturing has seen firms producing a broader range of products, including some medium- and high-technology manufactures, such as automobiles and electronics. That said, Africa's manufacturing still focuses largely on low-technology products such as food, beverages, textiles, and clothing.

Despite these advances, the share of manufacturing in Africa's GDP has remained steady, at around 10%. The service sector has grown and absorbs an increasing share of the workforce, including entrants from the agriculture sector. But Africa's service sector is still dominated by small, largely informal firms, which makes it more difficult to increase productivity and employment. However, in a number of service sectors, including ICT and tourism, more formal and globally competitive activity is emerging.

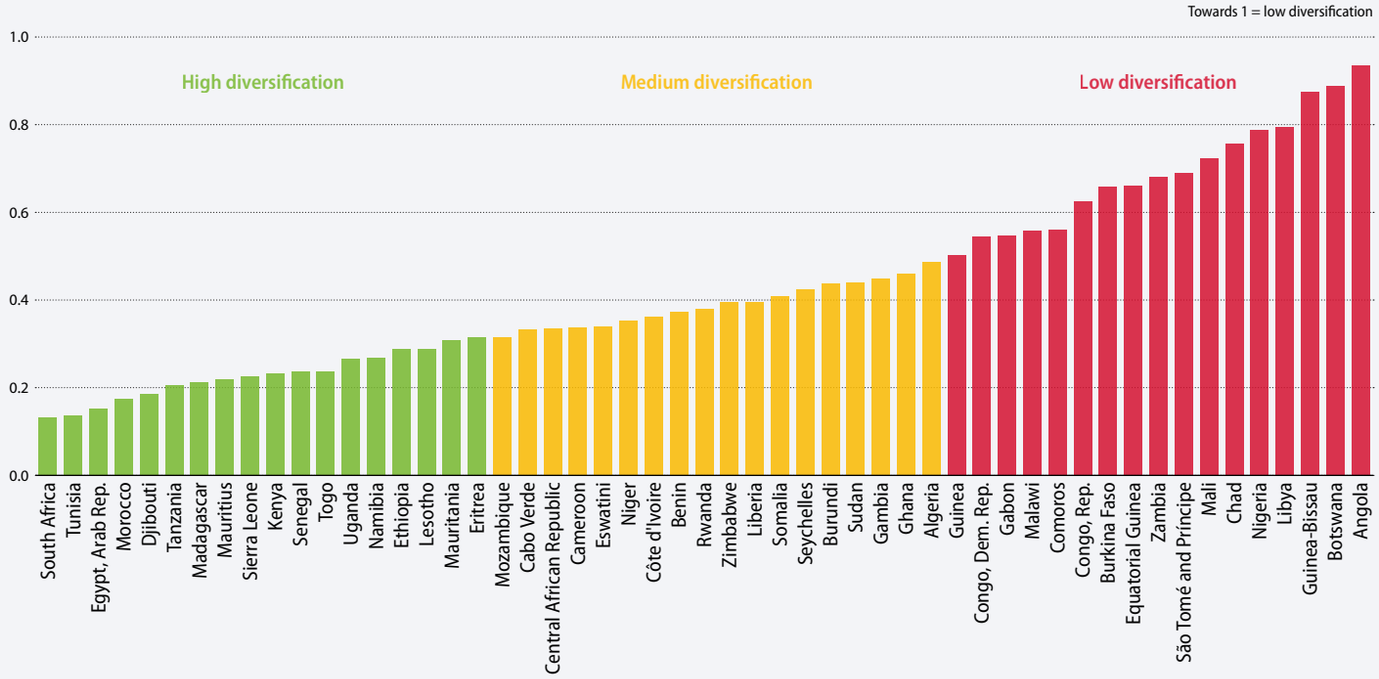
Table 5 **Africa's industrialisation is making slow progress (Level 1)**

INDICATOR	AFRICA		ADF COUNTRIES		TRANSITION STATES	
	Baseline 2015	Latest 2019	Baseline 2015	Latest 2019	Baseline 2015	Latest 2019
Gross fixed capital formation (constant 2010 $ billion)	504	590	138	167	44	53
Industrial gross domestic product (constant 2010 $ billion)	619	731	113	156	34	45
Value added of manufacturing (constant 2010 $ billion)	222	309	46	63	16	19
Access to finance (% population)	37	56	24	29	9	14
Logistics performance (Index: 1 low–5 high)	2.5	2.5	2.4	2.4	2.3	2.3
Economic diversification (Index: 1 low–0 high)	0.62	0.63	0.64	0.65	0.66	0.66
Global competitiveness (Index: 1 low–7 high)	3.64	3.38	3.48	3.15	3.23	2.90

Improvement over baseline Stability Deterioration

Figure 4 **Many African countries export a small number of products**

Export diversification in African countries, 2018



Source: UNCTAD

The dynamism of Africa's service sector creates valuable opportunities for the region to drive employment and increase growth and trade. Africa's emerging connectivity structures and a workforce increasingly familiar with the digital world will make it possible for the continent to take advantage of the fourth industrial revolution to improve productivity, create jobs, and extend social welfare.

At the same time, weak global competitiveness and limited structural diversification often hold African industries back (Figure 4). In 2019, Africa's performance on the **global competitiveness index** weakened significantly, and Africa's level of economic diversification remained unchanged. Africa's score on the **logistics performance index** was also unchanged in 2019 and has stagnated since 2015.

The availability of finance for Africa's predominantly small and medium firms will be vital to their efforts to expand, formalise, and absorb more workers. It is therefore significant that **access to finance** in Africa continued to grow rapidly in 2019: it reached 56%, up from 49% in 2018 and 37% in 2015. Access to finance also grew significantly in transition and low-income ADF countries.

The Bank's support for industrial expansion

In 2019, the Bank made it possible for 1 million **people to benefit from investee projects** in transport (Burundi, Democratic Republic of Congo, Malawi, Mozambique, and Tanzania); financial services and MSME support (Mauritania, Mozambique, and Niger); enterprise development (Malawi); and fertiliser production (Nigeria). The result for 2019 is below that for 2018 (1.2 million people) and 2017 (2.6 million people). The decline in 2019 occurred largely in ADF countries, where the number of beneficiaries halved to 400 000 (the number in transition states was 1400).

> *In 2019, the turnover from our investments in micro, small and medium enterprises almost trebled.*

The Bank's support for African MSMEs stimulated rapid increases in MSMEs' economic activity. In 2019 alone, **MSME turnover from Bank investments** almost trebled, reaching $1 billion and far exceeding targets. MSMEs supported in ADF and transition countries grew much more modestly—$179 million and $15 million, respectively.

One of the benefits of expanding businesses' economic activity is that expansion can broaden and deepen the tax base and increase government revenues. **Government revenue from investee projects and sub-projects** supported by the Bank increased from $394 million in 2018 to $428 million in 2019. While encouraging, the figures did not reach targets and revenues generated in low-income ADF countries and transition states were modest. The number of owner-operators and MSMEs provided with financial services by Bank projects fell to 53 300 in 2019, and the Bank is scaling up its investments in this area to meet its target for 2016–2025.

The Bank has been especially active in **providing finance to owner-operators and MSMEs** in Malawi (Box 4), Mauritania, Mozambique, and Niger. In Mozambique, the Bank provided a $9 million line of credit to Mozambican commercial bank Moza Banca S.A., which helped the bank provide medium-term loans to 109 MSMEs in agriculture and fisheries, construction, transport and communication, health, processing industry, services, tourism, and trade.

> *We are fostering smart industrial policies and mobilising funding for infrastructure*

Efficient transport infrastructure is another significant enabler for enterprise growth. The Bank's transport projects rapidly expanded their reach in recent years—the **number of people with improved access to transport** increased to 17.7 million in 2019, twice the number achieved in 2015. The length of **transport roads constructed, rehabilitated or maintained** as a result of Bank projects also increased in 2019, rising from 1021 km to 1417 km. This figure is, however, less than half of the target and below the results achieved during 2015–2017. While transport accounts for a quarter of the value of the Bank's portfolio—more than any other sector—challenges in project execution and planning persist, resulting in 96% of transport projects requiring extensions that average 2.6 years. The Bank is assisting regional member countries proactively to address these challenges.

The Bank mainly funded transport projects in low-income ADF countries, home to around a third of the beneficiaries of roads constructed, rehabilitated, or maintained in 2019. To date, the Bank supported only a limited expansion in transport access and related infrastructure in fragile states.

In Tanzania, the Bank supported upgrades to the Namtumbo-Tunduru road (193 km) and the Iringa-Dodoma road (260 km). This reduced travel costs and times and enhanced agricultural production, tourism, mineral extraction, trade, and regional integration. The two roads are part of corridors in the southern Africa region.

> *We are developing the Africa Industrialisation Index and the AfCFTA Country Business Index*

Better designing and implementing industrial policy in Africa is vital to sound industrial development. In 2020, the Bank plans to assist the governments of Ethiopia and Senegal to revise and upgrade their industrial policies and develop strategic frameworks for industrialisation. The Bank is also developing the Africa

Box 4 **Stories from beneficiaries – Mega Signs and Media Ltd, Malawi**



Through the African Development Bank's Competitiveness and Job Creation Support Project in Malawi, Mega Signs and Media Ltd received a matching grant of about $42 400. The company used this funding to purchase a PVC welding machine and a Roland printer, which has allowed it to offer services that were previously only provided by foreign companies. "There is now no need for anyone to go to South Africa. All billboards and signage can be done locally. We wouldn't have been able to reach this far without the support of the project," said Managing Director Michael Chombo.

Table 6 **Industrialise Africa indicators (Level 2)**

INDICATOR	AFRICA			ADF COUNTRIES		TRANSITION STATES	
	Baseline 2015	Actual 2019	Target 2019	Baseline 2015	Actual 2019	Baseline 2015	Actual 2019
MSMEs effect (turnover from investments) ($ million)	68	1041	306	65	179	0	15
People with improved access to transport (millions)	8.6	17.7	10.0	8.6	11.3	0.6	1.0
—of whom women	4.4	8.9	5.0	4.4	5.7	0.3	0.5
Government revenue from investee projects and sub-projects ($ million)	331	428	597	81	55	32	1.0
People benefiting from investee projects (millions)	1.9	1.0	2.1	0.6	0.4	0.6	0.05
—of whom women	1.0	0.5	1.1	0.3	0.2	0.3	0.03
Owner-operators and MSMEs provided with financial services (thousands)	56.6	53.3	57.0	55.1	52.1	52.7	3.1
Transport-roads constructed, rehabilitated or maintained (km)	2100	1417	2900	2000	948	142	79

Achieved 95% of 2019 target Achieved less than 95% of 2019 target Achieved less than the baseline

Industrialisation Index. This index will inform dialogue with the Bank's regional member countries on key issues and weaknesses.

The Bank promotes trade in industrial goods across Africa, mainly by supporting the operationalisation of the African Continental Free Trade Area (AfCFTA). A key element here is the Bank's work with the United Nations Economic Commission for Africa to develop an AfCFTA Country Business Index that will assess how well businesses are taking advantage of the AfCFTA and understand their constraints.

New programmes

The Bank continues to support Africa's industrial development to drive economic growth and employment in coming years. As part of this commitment, we recently approved projects to improve industrial competitiveness and catalyse private investment in industry in Botswana, Morocco, and Mozambique; to expand access to finance for SMEs in Côte d'Ivoire, Ghana, Guinea, and Nigeria; and to develop infrastructure—including roads, airports, ICT, and urban transportation—that will accelerate industrialisation in countries across the continent.

The Bank also recently approved funding to the East African Community (EAC) to support South Sudan to develop and harmonise payment and settlement system with other EAC member countries. This will enhance the performance of countries' financial systems and promote regional integration. ■