Chapter 3
Industrialise Africa

Across Africa, industry is continuing to recover from the major disruption caused by the Covid-19 pandemic. The focus must now be to accelerate the pursuit of valuable opportunities to develop industry across the continent.

A turbulent year for industrial development
2021 was another turbulent year for African industry as the Covid-19 pandemic, which had emerged in early 2020, continued to disrupt two decades of sustained industrial expansion across the continent. In the early part of 2021, however, the industrial sector of many African countries showed early signs of recovery. For example, Ghana benefited from high demand for its exports in the first months of the year, and in Rwanda, industrial growth had accelerated to 25.1% year-on-year by June.

Recovery slowed in mid-2021, however, as more transmissible variants of Covid-19 emerged, and governments added measures to slow the virus’s spread. In Ghana, industrial production fell by 14.2% month-on-month in June, and in Rwanda, industrial growth slowed to 6.2% year-on-year in July. Across Africa, gross fixed capital formation—a broad measure of investments—contracted by 5.7% and industrial gross domestic product contracted 6.8% over the year, even as value added in manufacturing remained stable.

The pandemic disrupted two decades of industrial expansion. But the AfCFTA is creating momentum, and venture capital is growing

Despite these setbacks, there are many reasons to be optimistic about the prospects for industrial development in Africa in 2022 and beyond. The Africa Continental Free Trade Area (AfCFTA) is facilitating economic collaboration across borders. Growing demand in Africa’s cities for consumer goods is creating markets for new products and expanding digital connectivity will stimulate new forms of commerce.

Expanding private investment in African industry
The Covid-19 pandemic has highlighted concerns about the pace of industrialisation in Africa and continuing structural vulnerabilities in many African countries. These include weaknesses in industrial policies, poor transport infrastructure, skills constraints, and limited trade-related services (e.g., logistics and trade finance). Research suggests that addressing these constraints would add more value to African industry than would completing the removal of tariff barriers. Even before the pandemic, trade costs in Africa were increasing. The pandemic worsened the problem.

Two key steps in addressing these vulnerabilities are to create an environment that attracts private investment into industry and to support infrastructure. This will increase industrial productivity, output, and employment. Yet greenfield foreign direct investment to Africa shrank during the Covid-19 pandemic, from an average of $78.4 billion per year during 2015-2019 to just $32.3 billion in 2020-2021. On a more positive note, tech companies with a majority of their operations and users in Africa raised $5.2 billion from venture capitalists in 2021, three times the amount raised in 2020.

Private investors in African industry and infrastructure also face a range of risks and challenges related to the quality of investment projects, fluctuations in local currencies, and the difficulties of securing exit from investments. The Bank and other development finance institutions are playing an important role in mitigating these risks through initiatives such as the Africa Investment Forum.

Another area that is demonstrating significant potential, and whose development could stimulate productivity across the economy, is information and communication technology (ICT). The ICT sector contributed 9% of Africa’s GDP in 2019, generated 1.7 million direct jobs, and added $144 billion in economic value and $15.6 billion in tax revenue. A recent survey of firms in 13 African countries found that one company in five had started using or had expanded its use of digital technology (the internet, social media, and digital platforms) in response to Covid-19 disruptions. To build on this momentum, a range of policies will be needed, among other things to strengthen regulatory frameworks, develop risk-sharing mechanisms for investors, and improve skills in the field.

Finally, the AfCFTA is creating important momentum for African industry to expand and transform. Reducing barriers to trade within Africa is expected to stimulate private investment in African industry, as external and internal investors respond to the growing demand for industrial goods across the continent.
The Bank’s support for industrial development
The Bank has a long history of supporting industrial development across Africa. Our work in this area is guided by our Industrialisation Strategy for Africa. One of the strategy’s six flagship programs is to develop industry value chains and enterprises.

**The Bank finances more infrastructure than any other multilateral development bank. And we are ramping up public-private partnerships and co-financing**

The Bank is stimulating private investment in Africa’s companies. In 2021, the number of people benefiting from our investee projects grew to 3.4 million, up from 1.4 million in 2020, while the level of government revenue generated by investee projects increased markedly, to nearly $2 billion. This included a $43 million eight-year line of credit to Coris Bank International in Burkina Faso. The financing was then on-lent to 28 small and medium enterprises (SMEs), which collectively paid $28 million in taxes, well above the $5 million targeted.

Bank programmes like the one in Burkina Faso have provided a significant number of owner-operators and MSMEs (micro, small, and medium-sized enterprises) with financial services. This figure reached 133 600 in 2021, signalling recovery and a return to the results recorded before Covid (2017/2018). Our support to Mauritania’s SMEs through the Banque Populaire de Mauritanie provided financial services to 35 SMEs operating in agriculture, fisheries, industry, transport, and construction. This investment alone helped create more than 2 800 jobs.

Our support for enterprise also helped our investees grow their businesses. Their overall turnover has increased consistently since 2015, when it was $68 million, to $1 billion in 2019 and over $2.6 billion in 2021, far outperforming our target.

### Spurring industrial growth with enabling infrastructure
Infrastructure gaps are a major drag on the growth of enterprise across Africa, curtailing gains in efficiency and productivity. The Bank supports African countries to attract investment into transport and other business-enabling infrastructure. Over 2007–2020, the amount of the Bank’s finance for infrastructure projects with private sector participation in Africa far outstripped the amount provided by any other multilateral development bank.

In early 2022, we signalled our commitment to expanding private investment in infrastructure by approving our first strategic framework for the development of public-private partnerships. This framework guides the Bank’s work to provide regional member countries with upstream support on developing regulations and building institutional capacity; with midstream support on preparing projects and advising on transactions; and with downstream support for innovative finance to implement public-private investment projects.

Our operations have also invested directly in road transport, supporting the construction, rehabilitation, or maintenance of 857 km of roads. For example, in Ghana, our Accra Urban Transport Project, completed in 2021, constructed the four-tier Pokuase interchange and an additional 10 km of local roads. This has cut vehicle operating costs by 37%, shortened travel times, and reduced road accidents by 40%. In Cameroon, our support for the Kumba–Mamfe Road Development Project developed and rehabilitated 151 km of roads, helping to reduce average travel times to two hours year-round, from five hours in the dry season and eight hours in the rainy season.

Overall, the number of people with improved access to transport through Bank-financed projects reached 6.6 million in 2021, below our target of 10 million and below levels recorded in 2020. A cluster evaluation of transport projects between 2012 and 2019 noted that while construction work is managed effectively overall, transport operations were delayed by capacity and administrative constraints within executing agencies, lengthy resettlement and compensation procedures, and difficulties with procurement

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**Table 5 Value added, access to finance have room to grow (progress in Africa)**

<table>
<thead>
<tr>
<th>INDICATOR</th>
<th>ALL AFRICAN COUNTRIES</th>
<th>ADF COUNTRIES</th>
<th>TRANSITION STATES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross fixed capital formation (constant 2018 $ billion)</td>
<td>504</td>
<td>596</td>
<td>138</td>
</tr>
<tr>
<td>Industrial gross domestic product (constant 2010 $ billion)</td>
<td>619</td>
<td>712</td>
<td>113</td>
</tr>
<tr>
<td>Value added of manufacturing (constant 2010 $ billion)</td>
<td>222</td>
<td>315</td>
<td>46</td>
</tr>
<tr>
<td>Access to finance (% population)</td>
<td>37</td>
<td>42</td>
<td>24</td>
</tr>
<tr>
<td>Logistics performance index (Index, 1 low–7 high)</td>
<td>2.5</td>
<td>2.5</td>
<td>2.4</td>
</tr>
<tr>
<td>Economic diversification (Index, 1 low–5 high)</td>
<td>0.62</td>
<td>0.64</td>
<td>0.64</td>
</tr>
<tr>
<td>Global competitiveness (Index, 1 low–7 high)</td>
<td>3.64</td>
<td>3.41</td>
<td>3.48</td>
</tr>
</tbody>
</table>

**INDICATOR**

- Improvement over baseline
- Stability
- Deterioration
Figure 2  **High-resolution impact mapping**

**Assessing living conditions of communities near Bank-funded roads in West Africa**

The Bank is using high-resolution impact mapping to assess the impact of eight road projects covering seven countries in West Africa: Benin, Burkina Faso, Ghana, Mali, Niger, Senegal and Togo. Focusing on an unprecedented geographic scale, the map provides details on the roads’ economic footprint, improvements in human development and how they promote integration throughout the entire region. By comparing data from household surveys in 2006 (before) and 2020 (during or after) and applying geotagged datasets, and satellite imagery, the methodology can assess with a high degree of reliability the changes in people's living conditions—for example, additional people with access to energy—within 20 km of the roads. Not all changes are directly attributable to the project: they reflect broader improvements in living conditions over time.

### Changes across the seven West African countries from 2006 to 2020

- **Improved access to clean water and sanitation**
  - 2,730,000 additional households access piped-in drinking water
  - 1,814,000 additional households with access to flush-toilets

- **Improved health conditions**
  - Child stunting rates in the region have stayed around 30%
  - 84% child immunisation coverage in 2018 (from 75% in 2005)
  - 16,774,000 additional people know how to get an HIV test
  - 7,400,000 additional women visiting health centers

- **Gender**
  - 110,000 additional households headed by women

- **Mobility to markets**
  - 4,000,000 additional households owning cars

- **Economic significance**
  - The combined GDPs of the seven countries reached $145 billion in 2018, a growth of over 200 percent.

- **Transport**
  - Average transport time expected to fall from 6h45m to 4 hours
  - Transport costs fell by 55%

- **Health**
  - Travel time fell by 20% between 2007 and 2012
  - 29% of households have access to piped-in drinking water
  - 57% of households have access to electricity
  - 30% of households have access to electricity
  - 66% of households have access to electricity
  - 29% of households have access to piped-in drinking water
  - 57% of households have access to electricity

- **Gender**
  - 11% of households are headed by women

- **Population size**
  - 2006: 94.7 million
  - 2020 (estimated): 137.6 million

- **Population density**
  - 25

**Source:** AfDB/Fraym
and counterpart funding. The Bank is assisting regional member countries to address these challenges proactively and is drawing on evaluations of its projects to minimise delays in future (Box 6).

The continent is more digitally connected than ever: internet users in Africa grew from 2% of the continent’s population in 2005 to up to 39% in 2021. Digital transformation is both a challenge and an opportunity. The Bank is helping to bridge the digital divide. For example, our support for Lesotho’s E-Government Infrastructure Project improved rural connectivity by laying 138 km of dark fibre and installing a base transceiver station, providing internet connectivity to nine underserved areas and 40 rural schools with more than 3000 pupils.

Most African countries have faced major challenges in accessing drugs and vaccines during the Covid-19 pandemic. This has stimulated plans to develop Africa's nascent pharmaceutical sector. The Bank is currently supporting the establishment of an integrated platform to discuss and finance pharmaceuticals and is planning to invest $3 billion over the next ten years. Of this amount, $1 billion will be invested directly in pharmaceutical and vaccine manufacturing, and $2 billion in related logistics and infrastructure. The Bank has also financed an operation in the ECOWAS region to manufacture more essential drugs and medicines locally, notably by developing institutional and human capital.

### Box 6 Tracking Africa’s progress on industrialisation

The Bank’s Independent Evaluation department carried out a cluster evaluation of 18 transport projects funded by the Bank over 2012–2019. The evaluation provides important lessons for future transport operations:

- **Ensure sustainability:** Integrating cost recovery mechanisms into transport projects can be an effective way to address a lack of funding and insufficient capacity for maintenance, since revenue-generating projects are more likely to be well maintained.

- **Avoid delays and additional costs:** Exploring alternative procurement routes can reduce delays in project implementation and avoid extensive design revisions. The non-sovereign operations in the cluster of projects that were financed through a public-private partnership were implemented on time, and the use of an engineering, procurement, and construction contract ensured that constructors absorbed additional and unforeseen costs.

- **Increase impact:** Exploiting synergies with other development projects can increase development outcomes, for example by integrating and following up on transport projects’ ancillary components such as socioeconomic infrastructure and services for the local population, especially women (e.g., schools, health centres, women’s associations, and agro-processing). (See for example Figure 2)

### Table 6 Industrialise Africa indicators (the Bank’s contribution to development)

<table>
<thead>
<tr>
<th>INDICATOR</th>
<th>ALL AFRICAN COUNTRIES</th>
<th>ADF COUNTRIES</th>
<th>TRANSITION STATES</th>
</tr>
</thead>
<tbody>
<tr>
<td>People benefiting from investee projects (millions)</td>
<td>1.90</td>
<td>3.44</td>
<td>2.09</td>
</tr>
<tr>
<td>of whom women</td>
<td>0.96</td>
<td>1.41</td>
<td>1.05</td>
</tr>
<tr>
<td>Government revenue from investee projects and sub-projects ($ millions)</td>
<td>331</td>
<td>1955</td>
<td>597</td>
</tr>
<tr>
<td>MSMEs effect (turnover from investments) ($ millions)</td>
<td>68</td>
<td>2643</td>
<td>306</td>
</tr>
<tr>
<td>Owner-operators and MSMEs provided with financial services (thousands)</td>
<td>56.6</td>
<td>133.6</td>
<td>57.0</td>
</tr>
<tr>
<td>People with improved access to transport (millions)</td>
<td>8.6</td>
<td>6.6</td>
<td>10.0</td>
</tr>
<tr>
<td>of whom women</td>
<td>4.4</td>
<td>3.1</td>
<td>5.0</td>
</tr>
<tr>
<td>Transport-roads constructed, rehabilitated, or maintained (km)</td>
<td>2100</td>
<td>857</td>
<td>2900</td>
</tr>
</tbody>
</table>

- Achieved 95% of 2021 target  - Achieved less than the baseline

### Box 7 Nourishing the potential of Africa’s tech companies

The Bank’s $30 million financing of the Rwanda Innovation Fund unlocked an additional $2 million investment in 2020/2021 for promising African tech companies. One such company is VIEBEG Technologies, a health-tech firm whose data-driven procurement platform provides medical supplies and equipment throughout Central and East Africa. VIEBEG’s data-driven medical supply chain has reportedly impacted over 2 million people and has helped to reduce the cost of medical supplies in three countries by 20% to 40% of the market price after barely three years.

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