Chapter 3
Industrialise Africa

A dynamic industrial sector is a critical engine of inclusive growth and economic transformation. Industrial development has the potential to create the jobs required for large-scale poverty reduction and also to generate valuable export revenues for African economies. To sustain growth, Africa is diversifying its economies by adding value to its primary commodities.

Drawing on Levels 1 and 2 of our Results Measurement Framework, this chapter explores Africa’s progress in building a viable industrial sector, and the Bank’s contribution to industrialisation. We present the results of our investments in the sector and our plans to implement our new industrialisation strategy, with a focus on agribusiness and agro-industry.

Progress in bringing manufactures and industries to Africa’s economies

Until now, most African economies depended on unprocessed or semi-processed natural resources for a large share of their output, with limited and often uncertain returns. Industrial development links entrepreneurs, processors, and both small and large manufacturers and producers into local, regional and global supply chains, creating the value-added for inclusive growth. In 2016, the value-added from manufacturing (at constant 2010 prices) stood at $227 billion across Africa, but remained very low for low-income ADF countries, at $48 billion, just $2 billion more than in 2015.

Africa’s industrial development has lagged behind that of other developing regions: annual industrial activity generates just $700 of GDP per capita, compared to $2500 in Latin America. There is also considerable variation across the continent: some industries and countries are forging ahead in both jobs created and economic returns. However, the overall industrial gross domestic product (at constant 2010 prices) is $584 billion overall and $115 billion for ADF countries (see Figure 7), while gross fixed capital formation (at constant 2010 prices) is $505 billion for Africa and $138 billion for ADF countries.

Enterprises, whether small or large, flourish in competitive economies. In an increasingly interconnected world, Africa is becoming more competitive: its global competitiveness index

Figure 7

Industrial GDP, highly correlated with overall GDP, remains very low across Africa

Industrial GDP per capita, 2015
Constant 2010 $

< 150
150 – 500
500 – 1500
1500 – 2500
2500 and above

GDP per capita per region, 2015
Thousands, constant 2010 $

North America
Europe
Latin America
East Asia & Pacific
South Asia
Africa
Middle income countries
ADF countries
Low income countries

Source: World Bank
is at 3.65 on a scale of 1–7, where 7 represents a high degree of competitiveness. With growing urban markets and greater regional integration, opportunities are opening up for industries to exploit economies of scale and improve competitiveness, boost productivity and join up with global supply chains.

Much of Africa’s industrial activity draws on agricultural and natural resource inputs, which provide higher and more reliable returns to farming households than subsistence farming or small-scale trade in agricultural produce. In this way, industrialisation creates opportunities for farmers to become more business-oriented and rise out of poverty. Global experience shows that as countries develop, they diversify their output, both across their natural resource base and into medium- and high-technology sectors with higher value-added. At present, however, Africa’s overall economic diversification index is not improving; it worsened to 0.63 on a 0–1 scale where 0 signifies high diversification.

African countries need the right business environment to encourage the start-up and growth of new industries. Macroeconomic stability, a conducive legal and regulatory environment and an active financial sector are all critical to attracting private sector investment (see Figure 8), with transport, power and communications providing access to inputs and markets. Whilst 43% of Africans now have access to finance, often through mobile telephone-based services, most do not have access to a bank account or other financial services required for business. Improvements in the logistics performance index are also important for industries to become efficient and competitive.

**Table 3 Industrialise Africa indicators (Level 1 & Level 2)**

<table>
<thead>
<tr>
<th>INDUSTRIALISE AFRICA INDICATORS — PROGRESS IN AFRICA (LEVEL 1)</th>
<th>ALL AFRICAN COUNTRIES</th>
<th>ADF COUNTRIES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross fixed capital formation (constant 2010 $ billion)</td>
<td>504</td>
<td>505</td>
</tr>
<tr>
<td>Industrial gross domestic product (constant 2010 $ billion)</td>
<td>619</td>
<td>584</td>
</tr>
<tr>
<td>Value-added of manufacturing (constant 2010 $ billion)</td>
<td>222</td>
<td>227</td>
</tr>
<tr>
<td>Economic Diversification (Index, 1 Low – 7 High)</td>
<td>0.62</td>
<td>0.63</td>
</tr>
<tr>
<td>Global Competitiveness (Index, 1 Low – 7 High)</td>
<td>3.64</td>
<td>3.65</td>
</tr>
<tr>
<td>Access to finance (% population)</td>
<td>37</td>
<td>43.4</td>
</tr>
<tr>
<td>Logistics performance index (Index, 1 Low – 5 High)</td>
<td>2.5</td>
<td>2.5</td>
</tr>
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</table>

**INDUSTRIALISE AFRICA INDICATORS — AfDB CONTRIBUTIONS (LEVEL 2)**

<table>
<thead>
<tr>
<th>INDUSTRIALISE AFRICA INDICATORS — AfDB CONTRIBUTIONS (LEVEL 2)</th>
<th>ALL AFRICAN COUNTRIES</th>
<th>ADF COUNTRIES</th>
</tr>
</thead>
<tbody>
<tr>
<td>People benefiting from investee projects (millions)</td>
<td>1.9</td>
<td>2.2</td>
</tr>
<tr>
<td>— of which women</td>
<td>0.96</td>
<td>1.11</td>
</tr>
<tr>
<td>Government revenue from investee projects and sub-projects ($ million)</td>
<td>330.6</td>
<td>146</td>
</tr>
<tr>
<td>MSMEs effect (turnover from investments) ($ million)</td>
<td>68</td>
<td>83</td>
</tr>
<tr>
<td>Owner-operators and MSMEs provided with financial services (thousands)</td>
<td>57</td>
<td>156</td>
</tr>
<tr>
<td>People with improved access to transport (millions)</td>
<td>8.6</td>
<td>7</td>
</tr>
<tr>
<td>— of which women</td>
<td>4.4</td>
<td>3.6</td>
</tr>
<tr>
<td>Transport: roads constructed, rehabilitated or maintained (km)</td>
<td>2100</td>
<td>2200</td>
</tr>
</tbody>
</table>

*Achieved 95% or higher of the 2016 target*  *Achieved less than 95% of the 2016 target but above baseline value*  *Achieved less than the baseline*  *Data are not available to measure progress*

The Bank’s support for fostering industrial development

In recent years, the Bank has developed a substantial portfolio of operations that directly or indirectly support industrialisation, providing a solid basis for accelerating our support to African industries. During 2016, 2.2 million **people benefited from investee projects**, half of whom were **women**.

Our support to the cotton and textile sectors in Benin, Burkina Faso, Mali and Chad has trained nearly 84 000 farmers in good farming practices, facilitated successful seed promotion and improved processing and storage. Expanding cotton production in this way provides reliable, high-quality inputs to the African textile industry and can lead to substantial expansion and job creation (see Box 7). For example, in Ethiopia over 60 000 people now work in the apparel industry. Among them are workers of the shoemaker Huajian, which
aims at making the country a global hub for the shoe industry, creating employment and transferring skills to 33,000 people by 2022.

Our road projects connect cities, reduce traffic congestion and provide access to basic services

We have invested in transport infrastructure to improve the access to inputs and markets that is fundamental for both large- and small-scale industrial development. In 2016, over 2,200 km of road was constructed, rehabilitated or maintained, and 7 million people gained improved access to transport from our projects, of which 3.6 million were women. We plan to accelerate this work to meet our target of providing better access to transport to 10 million people each year, we plan to ramp up investments, including in highly populated and congested urban areas. Our road projects are delivering much more than infrastructure. They connect cities, reduce traffic congestion and provide access to basic services. In Ghana, social services were established along the 15-km Awoshie-Pokuase road. The road opened up opportunities and access to services in neighborhoods, improved mobility in the greater Accra region, and enhanced market integration. Figure 9 demonstrates how this project contributed to improving people’s lives.

We help Africa’s financial sectors provide entrepreneurs with access to capital and financial services. In South and East Africa, we supported a private equity investment fund called Agri-Vie which made 12 investments in food and agribusiness, timber and forestry, and ecotourism, almost all of which delivered greater economic returns than anticipated.

In 2016, we provided financial services to 156,000 individual owner-operators and micro, small and medium enterprises through financial intermediaries, addressing a key constraint to starting up and growing businesses. For example, we worked with USAID, Fund for Africa Private Sector Assistance and the International Labour Organisation to build the capacity of small and medium enterprises (SMEs) in Zambia and enable national financial institutions to become efficient at lending to smaller business.

We are also launching a number of new programmes that are designed to help move Africa toward its industrialisation goals:

- Promoting access to capital for industrial companies and entrepreneurs, through loans and lines of credit to financial institutions and for trade finance, equity participation, guarantees and technical assistance. We have accelerated our access-to-finance programmes to achieve 34 new transactions this year – a 34% increase over the 2015 approval value.
Figure 9  High resolution impact mapping: Assessing living conditions for urban dwellers along the 15 km road linking Awoshie to Pokuase in Ghana

The Bank is piloting an experimental approach with Fraym consulting services that assesses its impact at a high geographic scale, providing an unprecedented level of detail. The data provided below are drawn directly from household surveys undertaken before (2008) and after (2014) the road and the social services (boreholes, schools, health centres and bus stations) were made available. By comparing data from these two household surveys and applying geotagged datasets, the methodology can assess with a high degree of reliability the changes in people’s living conditions—for example, additional children enrolled in school programmes, or increased household spending. It should be noted that not all of these changes are directly attributable to the project, but they reflect broader improvements in living conditions.

Measurable changes in living conditions

### Better access to education
- 37,000 people gained basic literacy skills
- 3,000 additional children were enrolled in school programmes
- 300% more children (46,000) are within 15–40 minutes of school

### Improved health conditions
- 13,000 fewer children aged 0–5 experience stunted growth
- 5,000 fewer children aged 0–5 experience wasting
- 200% more adults (86,000) were tested for HIV
- 5% reduction in volatile organic compounds for vehicles limiting smog

### Jobs creation and mobility to markets
- 107,000 additional people with a job
- 45,000 additional women with a job
- 10% increase in household monthly spending
- 30,000 less workers have commutes longer than 40 minutes
- 61% travel time reduction between 2008–2015

- Providing equity participation of $30 million in two equity funds to invest in financial technologies.
- Establishing the Affirmative Finance Action for Women in Africa programme to set up a financing facility for women’s economic empowerment and address the pervasive barriers that women face in accessing finance for their businesses.
- Initiating the African Domestic Bond Fund, an enhanced exchange trade fund, for African domestic bond markets.
- Joining with the European Investment Bank in the Boost Africa Initiative, which will finance and build capacity for innovative start-ups. The €200 million Investment Fund should leverage 3–5 times the local capital invested and support funds that cover different
What has not worked so well

Measuring results from providing lines of credit through private sector institutions

Loan agreements for private sector lines of credit must be explicit about objectives and indicators, so impact can be measured. An independent evaluation of a South Africa private sector loan agreement highlighted this issue. The Bank is developing new guidelines to ensure that private sector loan agreements are clear about objectives and indicators, so that supervision will be effective.

Establishing baselines to monitor the performance of investment in private banks

Private sector projects need a baseline and indicators to ensure that the projects remain focused on delivering their key outputs and to allow the assessment of impact. For our support to the Zanaco Bank in Zambia, there was no baseline and only some indicators were identified. The Bank now requires that the baseline and benchmarks be recorded in the project appraisal report.

What has worked well

Making roads sustainable by ensuring that maintenance is funded

Investments in roads need regular maintenance to optimise benefits for users. In Burundi, the municipal authorities are supposed to provide 10% of their budget for maintenance, but the funding does not always materialise. Close and regular discussions among the Bank, other donors and the Government resulted in more maintenance funding from road tolls and fuel taxes, as well as plans to weigh vehicles to prevent heavy lorries from illegally using and damaging certain roads.

Having a seat on the advisory committee

Active involvement on an advisory committee provides the opportunity for close monitoring and follow-up. For our financing of the Maghreb private equity fund, our seat on the Advisory Committee enabled us to acquire regular information about the activities and progress of the fund, and to voice concerns as appropriate. This was a good model for the Bank that we now replicate in similar projects.

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Investing in special economic zones that enhance exports, develop regional industries and directly finance industrial development.

Learning lessons from our private-sector operations is important as we accelerate our efforts to promote industrialisation. Key lessons are set out in Box 8.

An industrialisation strategy to boost competitiveness

To help Africa deliver the industrialisation agenda set out in the African Union’s Plan for Accelerated Industrial Development in Africa and reaffirmed in Agenda 2063, the Bank has launched an Industrialisation Strategy for Africa 2016–2025. Our strategy sets out a roadmap for the structural transformation of African economies that is necessary to achieve inclusive and green growth, in line with the objectives of our Bank Strategy (2013–22).

Africa’s youth are a huge potential workforce that could power a dynamic market in manufacturing and industry

The Industrialisation Strategy responds to major constraints—limited access to capital and markets, weak supportive policy, unfavourable business environment and infrastructure, and lack of entrepreneurship talents and capabilities—that hinder industrial development across Africa. Africa’s youth dividend means there is a huge potential workforce that, with the appropriate skills, could power a dynamic market in manufacturing and industry. Macroeconomic management has improved across the continent, providing a sound framework for appropriate industrial policies and a context conducive to investment. Remittances are outstripping overseas development assistance and are often used to invest in businesses. Finally, increased regional integration enables the Regional Economic Communities to play active strategic roles in promoting industrialisation.

Creating competitive economies in Africa is key to achieving resilient economies

Under our strategy, we will help African economies move from low- to high-productivity activities that add value along supply chains and create jobs and sustainable growth. We will improve productivity by introducing new equipment, technologies and business models, and by enhancing skills and capabilities. Creating competitive economies in Africa is key to achieving resilient economies that are fit for the future.

Driving agribusiness to diversify economies

Investing in industries that use agricultural products creates value-added along the supply chains and returns higher, more reliable incomes to smallholders. Helping transform farming from subsistence farming into agribusinesses and agro-industries is important to achieving growth and reducing poverty in Africa.

Across Africa, urbanisation and a growing middle class have led to increased demand for processed and high-value foods, and therefore to major increases in imports. As the middle class grows, so do consumerism and the spread of supermarkets—an expansion in demand that offers opportunities for agro-industry investment across Africa.

Agribusiness companies are already at work on the continent. For example, Premium Foods, a locally owned company, provides Ghanaian farmers with financial guarantees so they can provide

Creating competitive economies in Africa is key to achieving resilient economies.
inputs to outgrowers on credit and be repaid in kind from produce harvested. Côte d’Ivoire, the world’s largest cocoa producer, has expanded its capacity and attracted investment from three multinational companies—Cargill & ADM, Barry Callebaut, and Cemoi & Touton—enabling it to capture a growing share of the $84 billion global confectionary market.

**Leveraging resources to transform the industrial sector**

Our goal is ambitious: we hope to support the doubling of Africa’s industrial GDP over the next decade, from $619 billion to $1728 billion. We are financing six flagship programmes (see Figure 10) in areas that are crucial for industrial development: improving policy legislation and institutions; creating a conducive economic environment and infrastructure; providing access to capital; providing access to markets; and developing competitive talents, capabilities and entrepreneurship.

**Investing in industries that use agricultural products creates value-added along the supply chains**

Delivering industrial change calls for commitment and collaboration amongst a wide range of actors. African governments must provide the policy context to attract and support private sector investment. As a development financier, the Bank plays a facilitative and catalytic role, working with the public and private sectors and specialist international organisations like IFC, the European Investment Bank, and UNIDO. The Regional Economic Communities play a central role in developing the right regional frameworks for industry to flourish.

We will use our range of financial instruments to leverage finance and expertise from development finance institutions, donor partners and commercial institutions, as well as directly from the private sector, drawing on our close relationships, experience in the sector and the lessons from past programmes. Our programming under the other High 5 priorities will also contribute significantly to implementing the industrialisation strategy.

Africa possesses many of the basic factors it needs to become an industrial powerhouse—ample natural resources, huge energy potential, and a vast pool of talented and able workers. The continent needs the help of the African Development Bank and other partners to develop the appropriate business environment, training, and infrastructure to fulfil this potential. Under our Industrialisation Strategy, this is where we are focusing our efforts.