Chapter 1

Industrialise Africa

Industrial development is instrumental to creating employment, boosting productivity and sustaining growth. Yet poor transport and energy infrastructure, coupled with limited access to technology and skills, have often limited the level of investment across the continent. Given the right policies, infrastructure and services, industrial development will be better positioned to take hold in Africa over the coming years, creating the economic dynamics needed for inclusive and sustained growth.

However, this chapter shows a mixed picture on industrialisation. While direct investment has risen rapidly and is increasingly directed towards manufacturing and services, other key indicators of industrial development—including industrial output, global competitiveness and economic diversification—are not yet improving. Against this backdrop, the Bank is supporting African business in international value chains, helping governments develop industrial policies and strengthen their business environments, and investing in infrastructure with high economic returns.

Ushering in African manufacturing

With vast natural resources, new technologies and a young population, Africa now has a window of opportunity to catalyse private sector investment, build on its solid economic growth over the last two decades and transform its economies.

With over 1.2 billion people, Africa is a large, untapped consumer market

Industrialisation is essential to this transformation, because it will shift labour and capital resources to higher-productivity economic activities. Job creation through industrial development will be the engine that drives large-scale poverty reduction. Industrialisation will accelerate development, enabling Africa to catch up with other regions and end its reliance on aid.

As wide-scale industrialisation takes hold, it will also affect the global economy. With over 1.2 billion people, Africa is a large, untapped consumer market. By 2030, the continent’s population will be equal to that of China and India today. Bringing Africa into the global economy will boost aggregate demand and generate employment in other continents.

In Africa today, 10–12 million young people are joining the labour market each year. Africa’s huge young labour force presents major opportunities for foreign and domestic investors. With training, apprenticeships, access to finance and better infrastructure, young people can lead the move away from low-productivity work, such as small-scale traditional farming, into agro-industries and manufacturing.

In Africa’s expanding towns and cities, productivity is more than double that in the countryside. Cities are becoming growth poles for investment, since they provide better infrastructure services and are often home to young, forward-looking citizens who are keen to work and quick to adopt new technologies. More than 40% of Africa’s population already live in urban centres, which are growing more rapidly than those in any other region of the world.

In Africa’s expanding towns and cities, productivity is more than double that in the countryside

The development of industries will enable African countries to manage their trade balances by increasing export earnings and substituting for imports, as the Bank’s recent flagship economic report, Industrialise Africa: Strategies, Policies, Institutions and Financing, explains. In many African countries, import bills are rising as the demand in cities for more and higher-quality products outstrips the available supply. This creates opportunities both for new industries that are able to produce competitively priced, high-quality goods, and for African farmers, enabling growing urban prosperity to be shared with the private sector.
Currently, Africa reveals a mixed picture on industrialisation. Foreign direct investment (FDI) in Africa has risen from $10 billion in 2000 to over $60 billion in 2016. In 2015 and 2016, one-third of FDI went into the manufacturing and extractive industries, and in 2016 just 13 African countries, of mostly middle-income status, received three quarters of Africa’s total FDI (see Figure 2). Overall, the data suggest slow progress over 2015–2017, with gross fixed capital formation (constant 2010 prices) staying constant at around $503 billion for Africa. Put simply, this indicator tells us how much is invested rather than consumed. In other words, it suggests that in recent years there has been a relative decline in business confidence in Africa’s economic growth.

The industrial gross domestic product (constant 2010 prices) provides important insights into industry’s contribution to the overall economy. Between 2015 and 2017 it fell for Africa as a whole from $619 billion to $581 billion, reflecting that the sector remains under pressure, with limited domestic and global demand for locally manufactured goods.

However, the value-added of manufacturing (constant 2010 prices) increased in Africa by 2.5% per year from $222 billion in 2015 to $236 billion in 2017. This is in line with the world average, but significantly behind Asia’s 7.4% per year. Africa’s index of economic diversification — measured on a range from 0 (high) to 1 (low) — decreased by just 0.01 since 2015, reflecting the continent’s persistent dependence on too few primary export commodities. Such dependence makes many countries vulnerable to fluctuations in...
commodity prices and demand and to extreme weather events such as droughts and floods.

Within these aggregate figures, there was significant variation in industrial development among countries. Some are struggling to make progress on one or more of these industrialisation measures. For example, Equatorial Guinea suffered a significant decline in fixed capital formation and value-added from manufacturing. The indicators show that the countries that are industrialising the most rapidly are South Africa, Algeria and Mauritius.

There are encouraging signs that countries such as the Central African Republic and Somalia (which started from a low base), Guinea, South Sudan and Tanzania are beginning to invest in new industries. Ethiopia is already building industrial parks across the country and has succeeded in attracting investment from some major international textile and shoe companies (see Box 1). As wages in manufacturing countries in Asia and elsewhere increase, Africa is becoming more attractive to investors.

### Attracting investment in industry

Unleashing the potential for large- and small-scale industrial development requires measures to reduce risk and attract investors. African governments need to create the conditions that will encourage private investment: provide a stable macroeconomic environment, improve the business climate, establish a strong and effective legal framework, create healthy financial institutions, promote cheaper and more reliable infrastructural services, ensure that trade policy is aligned to the needs of industry and address corruption. Across the continent, African governments are rising to these challenges. But much more needs to be done to unleash the potential of Africa’s private sector.

As the Bank’s 2018 African Economic Outlook found, bridging Africa’s infrastructure gap will require investments of $130–$170 billion per year.

Expanding power and transport infrastructure is essential to the development of industrial production and trade, both cross-border trade within Africa and trade in global markets. Regional infrastructure is critical to knit together many small economies and create economies of scale for local producers. However, Africa’s infrastructure deficit remains massive, and, as the Bank’s 2018 African Economic Outlook found, bridging the gap will require investments of $130–$170 billion per year.

Multilateral banks have succeeded in attracting private finance to help deliver infrastructure, but new financing instruments are needed. To help finance Africa’s infrastructure, mechanisms must be developed to draw on such global savings as sovereign wealth funds, pension funds, international bond markets and infrastructure funds.

To attract private sector finance into priority infrastructure, governments and regional organisations must put in place effective institutional arrangements for planning, designing and implementing infrastructure projects. Soft infrastructure, including business-friendly policies and legal and regulatory environments, is also essential to promote industrial development.

Africa’s global competitiveness has deteriorated slightly since 2015, as measured by the Global Competitiveness Index, providing insight into economies’ drivers of productivity and prosperity. The reasons for Africa’s lackluster competitiveness are well documented in Industrialize Africa: Strategies, Policies, Institutions and Financing: large infrastructure deficits, significant skill mismatches, slow adoption of new technologies, and weak institutions. These factors,
in addition to weak financial sector development and low levels of regional trade and integration, are the main bottlenecks that prevent African economies from offering an environment that facilitates better employment and entrepreneurship opportunities. Africa’s logistics performance index has remained constant at 2.5 (on a range of 1–5) since 2015, with a slight improvement from 2.42 to 2.45 for low-income countries. Figure 3 provides a ranking of African countries on four different indexes, looking at the performance of seven countries across the continent.

**Investors in fragile countries often face risks related to macroeconomic policy and political stability**

There has been a welcome increase in access to finance, from 37% to 60% of Africa’s overall population (due in part to an update from the data source). Still, a lack of access to investment finance remains a critical constraint for micro, small and medium-sized businesses wishing to grow, and women entrepreneurs face particular barriers.

Investors in fragile countries often face risks related to macroeconomic policy and political stability. The governments of such countries may lack the capacity and revenue base to perform basic functions, leading to a weak business and investment environment. African-owned companies may be more willing to work within these risks and more adaptable to the context than foreign investors. As one example, the manufacturing conglomerate Dangote, headquartered in Nigeria, has established cement factories in 15 African countries and distribution terminals in Sierra Leone and Liberia.

**Initiatives such as the Buy-Africa campaign in South Africa and the Buy Made-in-Nigeria campaign can help shape consumer preferences**

African governments are taking initiatives to promote domestic industries: for example, many are creating industrial zones or parks with tax incentives and special terms, although such projects must be carefully instituted to optimise long-term benefits to the host countries. Initiatives such as the Buy-Africa campaign in South Africa and the Buy Made-in-Nigeria campaign can also help, by influencing consumer preferences. The Nigerian government promoted local manufactures by mandating that its agencies spend more of their budgets on locally produced goods and services.

Governments need to be alert to the future impact of artificial intelligence and automation on industrial development, including how they may affect employment opportunities for unskilled workers. It is possible that automation will slow the globalisation of production chains, leading to the “reshoring” of production back to advanced economies. For this reason, industrialisation in Africa must also be targeted at meeting the needs of African markets.

**The Bank’s contribution to industrial development**

In accelerating industrialisation across the continent, Africa will need to double its industrial GDP over the next 10 years, enhance economic diversification and improve its competitiveness. To facilitate a private-sector-led investment in industrial transformation, African countries will need to provide a conducive business climate; improve access to capital to facilitate the expansion of industries and the emergence of new firms; and increase investment in infrastructure, including transportation logistics, in support of business development.

The Bank is committed to supporting African countries in their efforts to fast-track industrialisation. Indeed, Industrialise Africa is one of the Bank’s High 5 priorities, explained and fleshed out in the Bank Group’s Industrialise Africa Strategy (2016–2025). Under the strategy, the Bank (working with its development partners) is addressing the challenges of industrialisation through operations that promote the development of enterprises of all sizes and productivity along the international value chains. It is helping governments develop industrial policies that foster private sector engagement with a conducive business environment and the right infrastructure, and assisting countries to mobilise resources from multiple—especially domestic—revenue sources. The Bank also continues to deliver on key infrastructure projects that catalyse private sector investments, and it provides support for businesses.

**Roads, infrastructure and construction**

The Bank’s main contributions to industrial development have been to help address Africa’s huge infrastructure deficit and to help African economies become more competitive. We have supported national and regional infrastructure development both through our own funding and by crowding in private sector resources.

**In 2017 we provided 14 million people with improved access to transport**

In 2017 we provided 14 million people with improved access to transport, considerably above our target of 10 million. The majority of beneficiaries were in low-income countries. We constructed, rehabilitated or maintained 2500 km of road, of which 2100 km were in low-income countries.

Our investments in transport are transforming lives. Our work in northern Ghana, one of the most impoverished and isolated regions of the country, has increased employment, livelihoods and access to social services from the city of FufuSo to Sawla. Our investment
in the Nairobi-Thika highway is contributing to socioeconomic development in Kenya and also to regional integration in the East and Horn of Africa (see Box 2).

**Supporting enterprise development**

The Bank is investing in improving access to finance, to enable firms to start up and expand. Our projects have ensured that 210,000 owner-operators and micro, small and medium-sized enterprises (MSMEs) accessed finance services, far exceeding our target of 57,000. We enabled MSME turnover of $208 million, an increase compared to last year, but still below our target of $306 million. Government revenue from investee projects and subprojects declined from $331 million in 2015 to $118 million, and from $81 million to $28 million in low-income countries—largely because in 2017 the number of private sector projects covering companies with high income, and thus taxes, that were completed was lower than expected. Overall, 2.6 million people benefited from investee projects, which is above our target.

One example of our work was our support to a private equity fund, Africa Capital Works Fund, to provide investee companies across the continent with additional liquidity to help them through the credit crunch and enable them to scale up their work. The initiative targeted companies in the financial sector, consumer staples and energy.

**Our projects have ensured that 210,000 MSMEs accessed finance services**

We also supported Ethiopia’s Derba Midroc Cement Plant, which provides low-cost inputs for all types of construction across the country, contributing to the construction boom. The resulting increases in domestic supply and market competition led to a 70% reduction in the price of cement, as well as decreasing the need for imports (see Figure 4).
The Bank has recognised that low-income countries need support to promote entrepreneurship, create jobs and drive investments. Our private sector support is programmed in close coordination with our sovereign lending to maximise impact.

In fragile situations, we provide risk capital and equity investments to support entrepreneurship and trade. In high-risk contexts, our contributions seek to demonstrate that commercial investment is viable, thereby catalysing both foreign and domestic resources. Boosting local production and employment is an important part of restoring stability. In the Democratic Republic of Congo, we are constructing the first new cement factory in 40 years with the Nyumba Ya Akiba joint venture near Mbanza-Ngungu, to provide a stable and reliable source of cement and stimulate construction and economic activity.

New programmes to catalyse private investment and structural transformation

To **Industrialise Africa**, the Bank is supporting African countries by undertaking flagship programmes — fostering successful industrial policies, catalysing funding for infrastructure and industry projects, growing liquid and effective capital markets, and developing efficient energy clusters.

All of the Bank’s High 5 priorities play a vital role in contributing to industrialisation

All of the Bank’s High 5 priorities play a vital role in contributing to industrialisation, as Figure 5 shows. The next four chapters will also bring out the close links of each High 5 to delivering industrial development.

We have already strengthened our partnerships and are rapidly scaling up our support to promote industrialisation. Clusters, a proven solution to foster industrial development, help group together the infrastructure, financing and talent to sustain industries. The Bank is designing support to drive industrial cluster development and bring cofinancing to ensure that clusters have the level of ICT, transport and power they need.

New initiatives and partnerships

Building on the Bank’s track record in promoting industrialisation throughout Africa, we are scaling up our attention to this area. The following are examples of some of our most promising new efforts.
Toward the end of 2018 we will launch the Africa Investment Forum, which will lead to partnership and investment in support of the High 5 priorities. The event, described in Box 4, will bring together leaders from the private sector to collaborate more closely on investing to address economic and social constraints to Africa’s development.

In 2017 we invested in private sector companies to support the Mauritania Industrial and Mining Company, and to strengthen the cement industry in Morocco. A flagship project in Guinea is boosting bauxite mining and developing domestic processing of bauxite into alumina, capturing more of the value-added in the global value chain from raw bauxite to aluminium. The project covers a wide range of interventions and illustrates how investments in mining, the private sector, infrastructure, logistical services, skills and community development can position Africa to take its place in global value chains.

Over the last three years we approved projects in Ethiopia, Côte d’Ivoire, Tanzania and Madagascar, establishing frameworks for the implementation of public-private partnerships for infrastructure investment. In Madagascar alone, our support involves the adoption of a public-private partnership strategy and the establishment of special economic zones to boost public and private investments.

**Investing in SMEs and financial technology is vital for industrial development**

With the United Nations Industrial Development Organization (UNIDO), the Bank supports African countries in developing sound industrial policies and identifying cofinancing opportunities. The Bank is building on the industrialisation agenda in Ethiopia, Senegal and Morocco as pilot countries by helping to establish industrial parks and special economic zones. In Uganda, we plan on developing value chains to enable cluster development and business linkages that will increase competitiveness and market access.

Investing in small and medium-sized enterprises (SMEs) and financial technology is vital for industrial development. The Bank is providing equity through seed investment in the African Domestic Bond Fund, and we are working with the Chinese Development Bank to provide financial support to SMEs. Under our Africa SME Programme, Sierra Leone’s Union Trust Bank received a loan to support SMEs, with a special focus on women. Finally, last year we supported Maubank to help Mauritius deliver on its 10-year SME plan, covering a range of sectors with a view to supporting gender equality and youth.

To promote trade in fragile situations, the Bank is providing loans and grants to enable countries to join the African Trade Insurance Agency (ATI). This innovative initiative provides instruments covering private investment against risks triggered by political events. Membership in the ATI enables South Sudan to leverage its limited ADF resources to mobilise significant finance for importing essential goods, rehabilitating basic infrastructure and strengthening the productive sector. It is expected that the South Sudan will benefit from up to $300 million in private sector investment.

As cities grow, improved urban transport is important for developing business and industries. We now invest in low-income countries using ADB as well as ADF funds; for example, we have agreed to cofinance a 36 km railway line to connect central Dakar with the growing city of Diamniadio and to the new airport. This will dramatically improve business and economic opportunities in Dakar and its region.

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