



Chapter 7

Designing, carrying out and assessing Africa's industrialisation strategies

This chapter analyses the existing national industrialisation strategies in Africa. It first looks at designing the continent's industrialisation strategies, the role of industrial policies and the extent to which they support entrepreneurship. It then discusses implementation by co-ordinating the work of national and sub-national governments and by improving government capabilities. Finally, the chapter examines the need for policy monitoring and impact evaluation for successful industrialisation strategies.

BRIEFING

African countries are making significant efforts to develop a vision for industrialisation. At present, about half of African countries have an industrialisation strategy, many of which aim to improve entrepreneurship. But few address the role of firms with high-growth potential effectively, in particular young small and medium-sized enterprises. Strategies need to better target such firms, which are important for industrialisation. In designing strategies, governments should consider certain industrial policies and draw lessons from past experience.

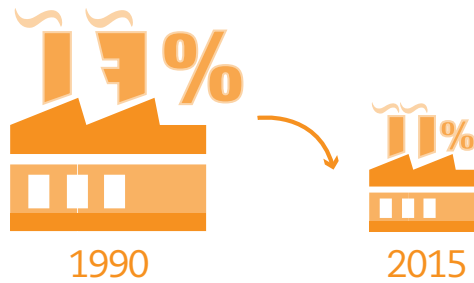
Carrying out industrialisation strategies remains a challenge for many countries. Successful strategies require strong political leadership and the full commitment of all levels of government. Sub-national governments' participation can help tailor policies that better suit firms' local needs, provided the governments have the necessary capabilities and can ensure transparency. Co-ordination between government bodies and private sector involvement in policy making can help implement industrialisation strategies more effectively.

Finally, policy monitoring and impact evaluation are crucial to make industrialisation strategies more efficient. Such assessments can serve to reward well-performing institutions and to revise policies, but reliable data is needed.

Did you know?

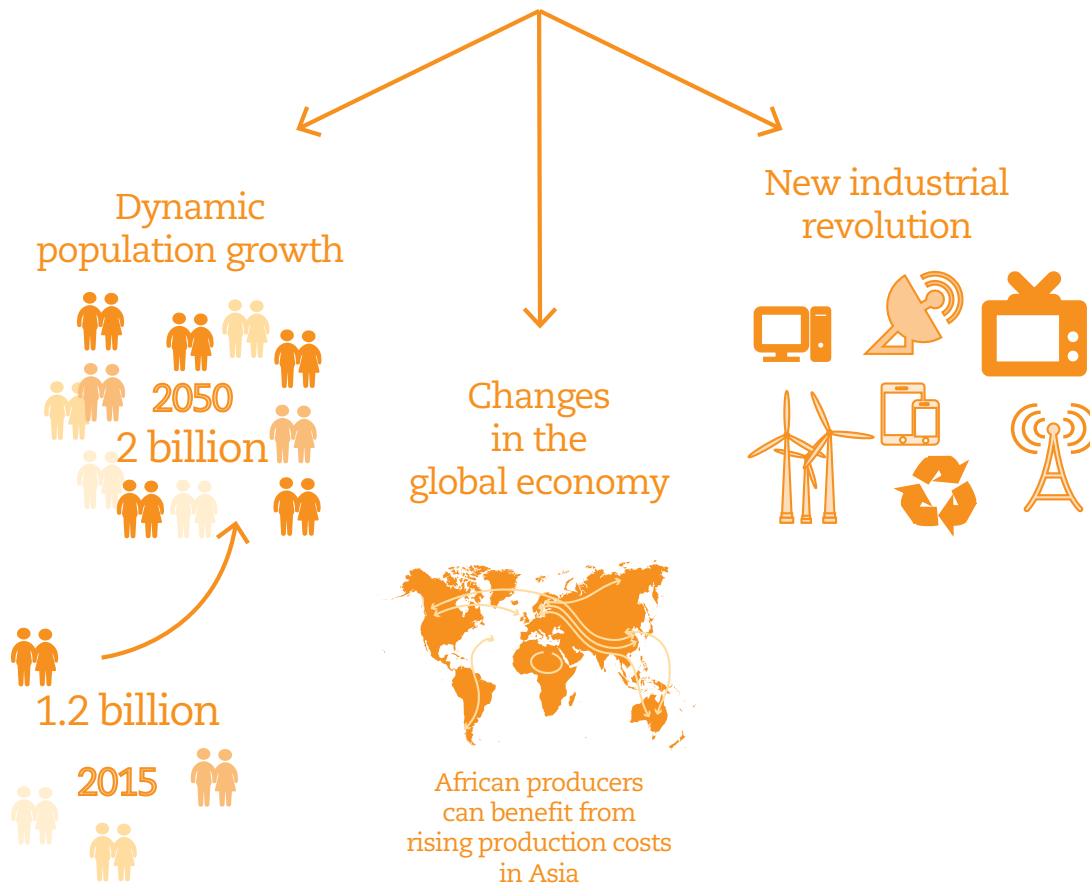
- 26 African countries have a national strategy on industrial development, and 19 of those target light manufacturing.
- Premature death from ambient air pollution cost Africa a third of its GDP, although the continent has not yet industrialised.
- Botswana, Ghana, Mauritius and South Africa rank higher in their capability to implement industrial policies than some Asian competitors.
- In Ethiopia, federal and regional agencies work together with municipalities to provide management training and facilitate financing for SMEs.

Despite impressive economic growth, the share of manufacturing in Africa's GDP has declined



A new look at industrialisation in Africa

Looking ahead, new opportunities are emerging for Africa's industrialisation



Governments can design industrialisation strategies to promote entrepreneurship

How can African countries put their visions of industrialisation into action? The main prerequisite for adopting industrialisation strategies is strong political leadership. Implementing strategies also requires many attributes that some countries have yet to develop: strong domestic capabilities and institutions, efficient policies and co-ordination among agencies, and regular monitoring and revisions of policies. However, governments can learn by doing.

Industrialisation is imperative for Africa to catch up with high-income regions and calls for strategic action. Chapter 6 showed that innovative industrialisation strategies have three main characteristics: they should avoid past mistakes, harness sectors with high-growth potential, and empower all economic agents, in particular opportunity-driven African entrepreneurs.

An industrialisation strategy aims to transform society. It is a public good requiring public support. It connects policy making with long-term visions of the future shared by citizens. To fulfil those visions, a strategy defines development priorities, which serve to co-ordinate mid-term policy objectives and assess their achievement. Those priorities are context-specific and differ between the diverse African countries. An industrialisation strategy guides thinking and long-term investments in a context of uncertainty.

Strategies provide an overarching framework for co-ordinating policies by defining:

12. **Long-term objectives** for development.
13. **Mid-term priorities** guiding policies and investments. These priorities can be adjusted as risks evolve. Achieving mid-term priorities may require structural reforms, including multi-level governance reforms.
14. **Short-term goals** that allow for measuring performance, notably of individual government institutions. Performance can be rewarded and policies revised accordingly.

Innovative industrialisation strategies should be participative, multi-sectoral and place-based. Different levels of government can fulfil distinct functions to carry out industrial policies. Participative strategies can unlock the potential of African economic agents, including entrepreneurs, and secure the population's ownership. Strategies should be more than a collection of sectoral policies; they should provide an overarching framework for balancing sectoral policies, macroeconomic policies and place-based policies. Strategies should take a close look at the potential of different places and regions including at sub-national and cross-border levels (AfDB/OECD/UNDP, 2015: 206; AfDB/OECD/UNDP, 2016: 236-237).

Many African countries have already designed industrialisation strategies

At least 26 African countries currently have a national strategy for industrial development but their objectives vary widely (Table 7.1). Many countries aim to create new labour-intensive industries to generate employment. Others look to industrial policy to increase their competitiveness and technological capacity. Some strategies attempt to create more linkages between existing industries, especially through improving backward linkages (i.e. connecting companies with suppliers) to mining and resource extraction sector, or through improving forward linkages (i.e. connecting producers or suppliers with customers) to targeted retail sectors. Natural resources-based countries often consider industrial development as a means to diversify their economies and exports and to broaden the government tax base. Trade is an important component where many strategies aim to increase exports to sub-regional and international markets.



Table 7.1. National industrialisation strategies in Africa

Country	National strategy	Timeframe
Algeria	New Economic Growth Model	2016-20
Angola	National Development Plan, within Vision 2025	2013-17
Botswana	Industrial Development Policy for Botswana	2014
Cameroon	Plan directeur d'industrialisation, within Vision 2035	2010-35
Cabo Verde	Growth and Poverty Reduction Strategy	2008-11
Côte d'Ivoire	National Development Plan	2016-20
Egypt	Industrial Development Strategy	2010-25
Equatorial Guinea	Plan Ecuatoguineano de Industrialización 2020	2011-20
Ethiopia	Industry Development Strategy	2002
Gabon	Stratégie Nationale d'Industrialisation, within the Plan Stratégique Gabon émergent 2025	2013
Ghana	Ghana Industrial Policy	2020
Kenya	Kenya National Industrial Policy Framework	2010
Malawi	National Industrial Policy	2016
Mauritania	Stratégie pour le développement du secteur industriel en Mauritanie	2015-19
Morocco	Industrial Acceleration Plan 2014-2020	2014-20
Mozambique	National Development Plan	2013-33
Namibia	Industrial Policy Implementation and Strategic Framework	2012-30
Nigeria	Nigeria Industrial Revolution Plan	2014-19
Rwanda	Rwanda Industrial Master Plan	2009-20
Senegal	Accelerated Growth Strategy	2005
South Africa	Industrial Policy Action Plan	2014-17
Tanzania	Integrated Industrial Development Strategy	2011-25
Tunisia	National Industrial Strategy	2011-16
Uganda	Integrated Industrial Policy for Sustainable Industrial Development and Competitiveness	
Zambia	Industry Strategy for Engineering Products	2012-17
Zimbabwe	Industrial Development policy	2012-16

Source: AEO 2017 experts' survey of 42 countries and desk research.

Most of Africa's industrialisation strategies target specific economic sectors. A survey and desk research conducted for this report show that this is the case for 24 of the 26 strategies listed in Table 7.1:

- 19 strategies have identified light manufacturing as the key area for development, particularly agro-processing, wood products, clothing, textiles, leather and footwear.
- 16 strategies address aspects of environmental sustainability, such as renewable energy use and water conservation.
- 15 strategies target agriculture, including livestock, forestry and fishery products.
- 13 strategies relate to tourism and high-tech services.
- 11 focus on mining and resource extraction sectors such as copper, oil and gas.
- 8 give priority to energy and 5 to construction.

Some African industrialisation strategies prioritise private sector development, including entrepreneurship (see Chapter 6; AfDB, 2016a). For instance, Ethiopia's Industry Development Strategy identifies small and medium-sized enterprises (SMEs) as an important sector for domestic entrepreneurs and for employment creation. The strategy dedicates federal and regional agencies who work with municipalities to support SMEs. Through close consultation with the private sector, these agencies provide management training and strengthen SME financing via sources such as Capital Goods Leasing companies. Mozambique's National Development Plan also aims to encourage the private sector to invest in and develop SMEs.

Strategies guide the co-ordination of industrial policies across areas

Industrial policies can be defined generally as the “active promotion of structural change and new economic activities of high potential in all sectors” (McMillan et al., 2016: 8). National industrialisation strategies co-ordinate policies that cut across areas such as “human capital and skills, infrastructure, finance, trade and science and technology” (OECD, 2013: 104). Their success depends on the specific country, its development stage and the global context (OECD, 2013: 104; Lin and Monga, 2013:20).

Industrial policies can correct market failures and guide economic activities to achieve strategic policy objectives. Market incentives can lock countries into less sophisticated activities such as exporting raw commodities (OECD, 2013). Also, information asymmetry can discourage investment in innovative economic activities that are often risky. Industrial policies can promote learning about new practices and business failures. Many projects require simultaneous, large-scale investments to become viable, which can surpass market dynamics and the co-ordination capacity of a single entrepreneur (Rodrik, 2004).

Industrial policies can help a country diversify its economy and upgrade its industrial capability. Policies targeting certain sectors can foster new economic activity by improving linkages between industries. For example, Botswana established the Diamond Trading Company in 2006 to link diamond mining with jewellery manufacturing. It created domestic forward linkages and additional jobs cutting and polishing diamonds and making jewellery. Jewellery is now the country’s single largest industrial export (see Botswana country note).

Promoting foreign direct investment (FDI) is an important policy for industrialisation. Governments can use FDI to improve the knowledge of entrepreneurs, upgrade infrastructure and develop local businesses. In addition, FDI policies can help channel finance to risky and long-term projects that market-based financing schemes would be reluctant to support. They can also encourage businesses and universities to carry out research.

When designing industrial policies, governments should consider their key features and lessons from the past

How countries design their industrial policies varies greatly. As Table 7.2 shows, industrial policies can comprise different governance structures, development objectives and economic priorities and can mix several policy areas. While priorities differ for each country, promoting access to finance, skills development and business clusters are critical for supporting entrepreneurs (see Chapter 8).

Table 7.2. Key features of industrial policies

Governance structures	Centralised: Sub-national governments have limited responsibilities and decision-making power (e.g. Côte d'Ivoire). Mixed: National and regional initiatives co-exist with local ones (e.g. Ethiopia). Devolved: Sub-national governments have more responsibilities than in centralised governance and are more involved in decision making (e.g. Rwanda).
Development objectives	Growth Job creation International competitiveness Spatial inclusion and regional competitiveness Social cohesion Sustainable development
Economic priorities	Diversification (i.e. entry into new sectors and types of specialisation and upgrading of existing ones) A dense production system (i.e. increased entrepreneurship and linkages)
Policy mix	Direct and indirect incentives for firms Macroeconomy (i.e. exchange and interest-rate management) Trade and FDI Competition Skills development Infrastructure building and upgrading Financing (i.e. development banks) Science and technology

Source: Adapted from OECD (2013: 109).

Lessons drawn from past industrial policies' successes and failures show that governments should avoid the following when designing policies (OECD, 2013: 107):

- **Indiscriminate subsidies.** Granting subsidies without clear conditions increases the risk of a poor selection of beneficiaries and the development of assistance-dependent behaviour among firms.
- **Never-ending support.** Subsidies without sunset clauses reduce firms' incentive to increase productivity.
- **“Cathedrals in the desert”.** Factories and research laboratories established in remote locations are less productive unless backward and forward linkages are created simultaneously.
- **Preventing competition.** If new economic activity and industries are not gradually exposed to internal and external competition, they remain less productive.
- **Capture by incumbents.** Consultations with the private sector should not only include existing firms but also new ones to prevent policy capture by older firms that might disregard the interests of new firms.
- **Low critical mass for investments.** If government investment is small, it will not be able to “crowd in” funds from the private sector.
- **Short-term horizon and annual budgeting.** Promoting science and innovation requires medium-term rather than annual budgeting to be efficient, as they have a longer time horizon.
- **Lack of monitoring and evaluation mechanisms.** Regularly monitoring and evaluating industrial policies makes them more effective and allows for improvements through trial and error.

Industrial policies should respect the environment. Although the continent has not yet industrialised, in 2013 air pollution already cost Africa USD 447 billion, a third of its GDP (Roy, 2016). It also causes premature death. To save lives and reduce economic costs, governments should avoid subsidising fossil fuels and other polluting sectors. Low-carbon energy solutions, such as wind, solar and hydropower as well as off-grid and mini-grid systems, can help countries expand their capacity to generate electricity (Brahmbhatt, Haddaoui and Page, forthcoming). Investing in low-carbon technologies would allow African countries to avoid considerable costs endured by OECD countries, including retrofitting costs and damage to people's health, the economy and the environment. Policies should also help develop industrial parks and special economic zones (see also Chapter 8) without exacerbating their environmental impact. Governments should adopt “green” policies targeting specific areas of industrial development in parks, such as transport and logistics, energy efficiency, and water and sanitation.

Countries can reduce the environmental impact of industrialisation by adopting clean technologies, renewable energies and appropriate waste management. For example, in July 2000, Kenya's government and the United Nations Industrial Development Organization created the National Cleaner Production Centre. Their activities include training, project implementation, and policy advice for increased enterprise productivity and sound environmental management. So far, the centre has audited 90 enterprises in resource efficiency and cleaner production, covering more than 20 industrial sectors and helping them reduce pollutants and energy and water use by an average of 20% (KNCPC, 2017).



Box 7.1. Recent experiences in industrial policy: Morocco and South Africa

African countries are adopting different policy packages depending on their specific needs. In **Morocco**, the Industrial Acceleration Plan 2014-2020 (PAI) aims to increase industry's contribution to 23% of GDP by 2020 and create 500 000 new jobs. It builds on the strengths of sectors such as automotives and aeronautics that were previously priorities under the National Pact for Industrial Emergence 2009-2015.

PAI employs a number of instruments to foster growth and competitiveness, particularly the massive development of infrastructure in industrial clusters. PAI has created a USD 2.2 billion fund to identify and fill in the financing gap in industrial development. The government also attracts FDI into supporting industries to gradually reduce manufacturing's reliance on imported input goods and to acquire the knowledge and expertise that domestic companies need (El Mokri, 2016). At the same time, PAI provides targeted support for domestic enterprises to grow and transition from the informal to the formal sector.

In **South Africa**, Industrial Policy Action Plans (IPAPs) serve to diversify the economy beyond the mining sector. They prioritise sectors that are medium to high value added and labour-intensive such as agro-processing, vehicles, textiles and green energy. On top of promoting trade and attracting FDI, the IPAPs provide incentives and co-ordinate actions to strengthen skills and industrial and scientific capabilities (Zalk, 2012). These policies have enhanced co-operation and discussion among government ministries, the national development bank, private-sector stakeholders, civil society and universities (Baloy, 2012).

Source: OECD (2013); Oxford Business Group (2015); El Mokri (2016); OECD (forthcoming).

An important gap persists between entrepreneurship and industrialisation strategies

Many African countries have strategies for entrepreneurship, yet they mainly focus on alleviating poverty and creating jobs rather than on industrialising (Table 7.3). According to a survey of 42 African countries and research conducted for this report, national entrepreneurship strategies often aim to reduce poverty by stabilising income for survivalist micro enterprises.¹ They rarely aim to increase waged employment and productivity necessary for industrialisation. Most strategies targeted at micro, small and medium-sized enterprises have managed to promote self-employment, rather than increase waged employment (Grimm and Paffhausena, 2015). Many entrepreneurship programmes in Africa have limited potential to scale up employment opportunities (Annex 7.1; AfDB, 2016b).

Several African governments have effectively integrated entrepreneurship development into their industrialisation strategies. One example is Morocco's Industrial Acceleration Plan 2014-2020 (see Box 7.1). It lays out special measures to support entrepreneurship growth through five pillars: creation of self-employment status, social security, financing, taxation and direct support to entrepreneurs. Direct support includes entrepreneurship coaching, personalised coaching, financing and digitalisation.

Another example is Côte d'Ivoire's development plan for the ICT sector. It promotes the creation of new firms by reducing start-up costs, investing in infrastructure

and improving the legal framework. This initiative helped the country climb to 142nd position in the Doing Business 2017 ranking, 35 positions ahead of its 2013 ranking (World Bank, 2016).

Table 7.3. Strategies and initiatives to foster entrepreneurship in African countries

Country	Strategies and initiatives
Algeria	National Agency for Investment Development, National Agency for SME Development
Botswana	Citizen Entrepreneurial Development Agency, Entrepreneurship Development Policy for Botswana (development ongoing)
Burkina Faso	National Strategy for the Promotion of Women's Entrepreneurship
Cabo Verde	Technology Innovation and Entrepreneurship Strategy 2011-2014
Cameroon	Strategy for the Development of SMEs and the Social and Artisanal Economy
Egypt	Technology innovation and entrepreneurship strategy 2011-2014, Social Fund for Development (for micro and small enterprises), General Authority for Investment (for small and medium enterprises)
Ethiopia	Micro and Small Enterprises Development Strategy (2011), Ethiopian Entrepreneurs Development Centre
Gabon	Legal Framework of Support for Enterprises
Ghana	Yes Initiative, Graduate Entrepreneurial Business Support Scheme, Youth Employment Agency
Kenya	Micro and Small Enterprises Act 2012, Fund for Inclusion of the Informal Sector 2011
Malawi	Enabling Enterprise Growth in Malawi, Buy Malawi Strategy, Small and Medium Enterprise Development Institute
Morocco	Law 114-13 on self-employment status 2015
Nigeria	National Policy on Micro, Small and Medium Enterprises
Rwanda	Small and Medium Enterprises Development Policy
Senegal	Charter for the Small and Medium Enterprises
South Africa	National Small Business Act, Small Enterprise Development Agency, Black Industrialists Policy 2015, Broad-Based Black Economic Empowerment, Youth Enterprise Development Strategy
Tanzania	Small and Medium Enterprise Development Policy
Tunisia	State Bank for SME Financing, Agency for the Promotion of Industry and Innovation (without a specific mandate for SMEs)
Uganda	Micro, Small and Medium Enterprise (MSME) Policy
Zambia	Micro, Small and Medium Enterprise Development Policy

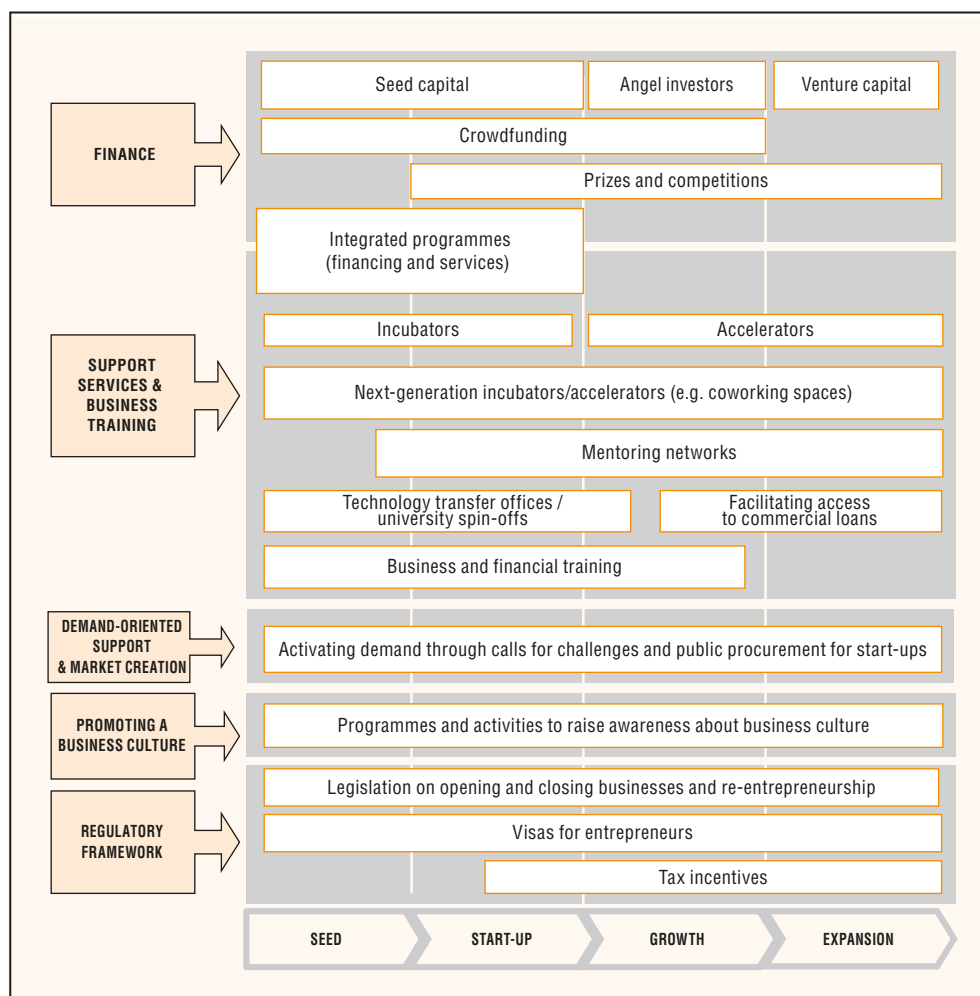
Source: Adapted from the AEO experts' survey for 42 countries and desk research.

While no single formula exists for promoting entrepreneurship (AfDB, 2013), four development stages of business tend to guide effective policies (Figure 7.1). Each country must develop its own policy mix based on its resources, development vision, technological capability and production systems. However, all policies should follow the development stages of business: from seed to start-up, growth and expansion.

Across the development stages of business, governments can employ a mix of policy tools. The tools serve different areas such as financing, services and training, demand, the business culture, and the regulatory framework. Recent experience from Latin American countries shows that combining multiple policy tools, such as financing and training services, makes new programmes more efficient (OECD, 2016a). Governments can also direct firms towards "greener" activities, by tailoring support to entrepreneurs whose business plans or operations meet certain criteria (Brahmbhatt, Haddaoui and Page, forthcoming).



Figure 7.1. Policy mix to support entrepreneurship



Source: OECD (2016a).

Carrying out and assessing industrialisation strategies remain challenges

In putting their industrialisation strategies into action, African countries can benefit from a broad range of international experiences. Evaluating current African strategies in detail goes beyond the scope of this chapter, however an experts' survey conducted for this report shows that much room for improvement still exists. According to the experts surveyed, only six strategies have been carried out effectively. A large body of literature exists on appropriately implementing industrialisation strategies.²

Several factors are essential for industrialisation strategies that promote entrepreneurship:

- Senior political leaders must fully commit to industrialisation and recognise entrepreneurs as key agents.
- Governments must identify i) the obstacles preventing firms from upgrading and ii) the barriers to firms' entry into high-growth industries (Stiglitz, Lin and Patel, 2013).
- Governments must strongly engage with the private sector in planning, designing, implementing, monitoring and evaluating industrial policies. The establishment

of Small Business Acts can help structure consultations with private companies.³ Parliamentary hearings can also provide a platform for exchanges.

- The design of incentives must allow decision makers to make policy choices without succumbing to political pressure and private interests. This requires a clear delegation of responsibilities, regular reporting of outcomes and transparency throughout the process.
- Effective co-ordination among agencies must be ensured, notably through designing simple administrative procedures.⁴
- Policy makers should set up continuous capacity building processes and reporting mechanisms to learn from past experience (Greenwald and Stiglitz, 2013; Oqubay, 2015).

In addition to these factors, industrialisation strategies can be implemented more effectively by i) involving sub-national governments in certain industrial policies, ii) eliciting policies that fit governments' capacities, and iii) monitoring industrial policies and evaluating their impact.

Involving sub-national governments makes industrialisation strategies more efficient

Sub-national governments can help carry out industrialisation strategies, assuming that they are empowered with responsibilities and resources and that transparency is ensured. Regional and local governments can provide essential public goods and business-friendly services, such as vocational education and training (see Chapter 8). They can streamline bureaucracy and develop transparent local tax regimes. They can set up business clusters and promote linkages between them and other parts of the local economy. They can ensure the safety of people and property and identify infrastructure needs. They can also design place-based policies to address implementation challenges that central governments face.

At the level of programme delivery, local intermediary organisations can help tailor policies to the local context and use available resources such as trained mentors, platforms to exchange ideas and training. For instance, locating several services for entrepreneurs in a single facility can improve co-ordination, coaching and the fertilisation of ideas, reduce administration costs and result in a better experience for the users (OECD, 2016b).

Several positive examples exist of involving sub-national governments in national industrial policies in Africa. National-level reforms can be more effective when local authorities have more autonomy, as the case of Ethiopia suggests. The country introduced a nationwide value-added tax in 2003; the importing firms in cities with greater autonomy have benefited more from this reform than those in cities with less autonomy (Chaurey and Mukim, 2015). In South Africa, the eThekweni Municipality acted on the central government's behalf to engage more directly with firms in creating the Durban Auto Cluster. The municipality facilitated bringing the firms together into an industrial association and contributed 50% of its budget (Morris, Staritz and Barnes, 2011). Rwanda has begun successfully decentralising SME support (Box 7.2).

Sub-national governments can also spearhead policy experimentation and changes. In South Africa, the City of Johannesburg developed a Youth Entrepreneurship Strategy and Policy Framework in 2009. It plans to transform South Africa into the developing world's leading country in entrepreneurship by 2025. The policy framework aligns with the central government's priority to tackle high rates of youth unemployment. In Kenya, Nairobi's municipal authorities have worked with UN-Habitat to develop one-stop Youth Resources Centres since 2003. Their main objective is to train young people in ICT, entrepreneurship, business incubation, financial literacy and employment generation. After the first centre was created in Nairobi, five more centres were set up in Kigali (Rwanda), Mogadishu (Somalia), Dar-es-Salaam (Tanzania), Arua and Kampala (Uganda).



Box 7.2. Rwanda's Business Development Fund

In Rwanda, decentralising business services helps to promote rural areas. The Business Development Fund (BDF) is a public limited company with 55% of its shares owned by the government and 45% owned by the Development Bank of Rwanda. Established in 2011, BDF is one of the main institutions implementing the national Entrepreneurship and Business Development objectives. Among other activities, BDF assists, coaches and trains entrepreneurs pursuing new business ideas and supports bankable business proposals from micro, small and medium-sized enterprises to access finance.

After a year in operation and based on feedback from rural citizens, BDF realised that their office in the capital was unable to provide services in rural areas. The national government decided to decentralise the fund and open BDF branches across the country. There are now 30 Business Development Centres located at district level. These branches work in collaboration with district governments that help BDF attract, administratively support and monitor beneficiaries.

To date, 827 business development advisors have been trained and assigned to different districts countrywide, and over 17 000 entrepreneurs have benefited from their business development services. The range of business services is broad, from preparing and reviewing business plans to providing technical support to raise capital. Of the beneficiaries, more than 14 000 received financing from BDF and other financial institutions. Overall, more than 28 000 new jobs have been created.

Sub-national governments could be more involved in Africa's industrial policies. The experts' survey conducted for this report shows that among the 26 countries with national entrepreneurship strategies, only 3 effectively engage with local governments. An additional 18 countries involve local governments in these strategies but in more limited and ineffective ways.

Accountability and weak capacity of local governments are among the main impediments to further devolution. Lower levels of government usually have less capacity than central governments; in addition, there are large differences in capacity among regions and provinces within countries. Multi-level governance arrangements can increase the capacity of Africa's regions to carry out industrial policies. Investing in institutional capabilities is necessary for regions to meet their production potential (OECD, 2013: 134; AfDB/OECD/UNDP, 2015).

Vertical co-ordination between national, regional and local governments can fill policy gaps. Rwanda's central government, for example, monitors and rewards local government performance. Some countries use statutory co-ordination bodies to prevent policy gaps. While local governments cannot substitute for national ones, they can provide the conditions for local businesses to grow, even in countries without strong national strategies. In an environment of fragility or conflict, for instance, local authorities can often address certain basic needs of the private sector more directly than national agencies.

Some countries are developing "functional regions" through multi-level governance structures. These improve co-ordination in addressing challenges shared across administrative boundaries, particularly for metropolitan areas. For example, Côte d'Ivoire has developed the Grand Abidjan metropolitan region; Ghana is developing an integrated metropolitan planning system across jurisdictions around Accra; Morocco created the new region of Casablanca-Settat in 2015; and Togo has established the Grand Lomé area.

South Africa's Gauteng region co-ordinates the urban areas around Johannesburg, Pretoria and Midrand. It uses co-funding arrangements and has developed common projects such as the Gautrain Rapid Rail Link, the Dinokeng Tourism Area and the City Deep Logistics Hub (Ronderos, 2016). However, several of these cases of horizontal co-operation are new and can be further improved.

Regional development can bolster industrial policy. For example, in South Africa local governments can mobilise industrial and innovation policies, notably by raising local revenues. In Ethiopia, the local government districts (*woredas*) provide education, healthcare, a justice system, a police force and infrastructure such as roads and drainage, though their resources largely depend on grants from the federal government. Morocco has used SEZs to industrialise certain regions. Experience from Latin American countries shows that sub-national governments can promote start-ups (Box 7.3).

Box 7.3. Promoting start-ups and regional development: Examples from Latin America

Countries in Latin America have recently promoted start-ups by: i) strengthening the institutional framework for supporting them; ii) giving priority to social and regional inclusion beyond the capital city in their pro-start-up policies; and iii) modernising support instruments and tailored interventions across all development stages of business (i.e. seed, start-up, growth and expansion).

Since the launch of Start-Up Chile in 2010, **Chile** has integrated entrepreneurship into its national production-transformation strategy, giving priority to retaining talent and businesses. Chile has also promoted the creation of start-ups in the regions outside Santiago and of firms that offer innovative solutions to social problems in the country's strategic sectors (e.g. smart mining, the food industry and engineering). The country has introduced more flexible mechanisms tailored to start-ups, such as collaborative workspaces and mentoring networks. It has also simplified regulations so that registering a business requires only one day.

In 2012, **Colombia** set up a special agency, iNNpulsa Colombia, to support start-ups. Today, Colombia is introducing a voucher scheme to give new businesses access to financing and services by accredited intermediary organisations. The government encourages financial institutions to invest in start-ups at all stages of their development, and local governments promote the founding of start-ups through public-private partnerships. The cities of Bogotá and Medellín have seen rapid growth in start-up numbers.

Source: OECD (2016a).

Regional integration is another form of co-operation between governments which can support industrialisation under the right conditions. The Southern Africa Power Pool, which accounts for the majority of electricity trade in sub-Saharan Africa, and the Senegal River Basin Development Authority are examples of regional co-operation in the energy sector. Regional infrastructure projects can also complement national industrial policies, such as the Maputo Development Corridor linking South Africa's Gauteng region to Mozambique's deep-water port in Maputo. However, regional integration can come with side-effects such as excessive competitive pressure on certain regions. Policies should plan and manage negative side-effects in concertation with local actors (AfDB/OECD/UNDP, 2015: 180-181).



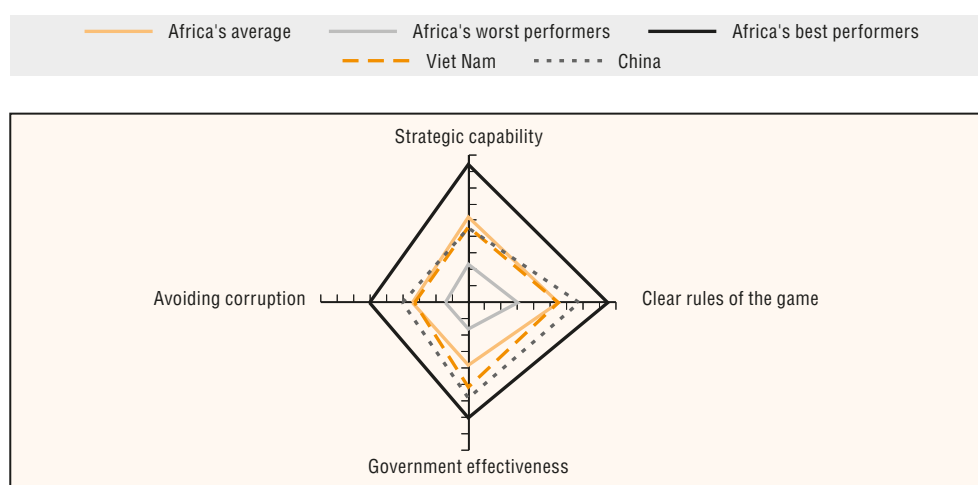
Effective industrial policies depend on government capabilities

Governments require certain capabilities to effectively manage industrial policies (Altenburg and Lütkenhorst, 2015: 52-53):


1. **Strategic capability:** to design policies conducive to sustainable and inclusive productivity growth
2. **Capability to establish clear rules:** to set up transparent rules for market-based competition that i) facilitate contract enforcement for firms and their easy entry into or exit from the market and ii) provide safeguards against monopolies and cartels
3. **Capability to deliver services effectively:** to identify and deliver in a transparent and systematic manner the necessary services that market fails to provide
4. **Capability to avoid corruption:** to remove protection which only helps special interest groups but are not in the interest of the general public, to uphold the incentive systems and to ensure accountability.

Figure 7.2 shows the performance of African governments based on these policy management capabilities, compared to China and Viet Nam. Overall, African countries rank more favourably in their strategic capability and in setting up “clear rules of the game”, i.e. market-based rules. Middle-income African countries such as Botswana, Ghana, Mauritius and South Africa rank highly on all four dimensions, even better than the two Asian competitors. These countries appear well-equipped for carrying out industrial policies. In countries lacking these capabilities, industrial policies may result in misallocating resources and strengthening the power of rent-seeking groups (Altenburg and Lütkenhorst, 2015: 96).

Figure 7.2. Industrial policy management capabilities for Africa, China and Viet Nam, 2015



Note: Indicators are rescaled to fit on a scale from 0 (worst performance) to 10 (best performance). Africa's average includes the 36 African countries which have data available in all four dimensions.

Source: Adapted from Bertelsmann Stiftung (2016) *Transformation Index* for the indices on “Strategic capability” and “Clear rules of the game”; World Bank (2015) *World Bank Worldwide Governance Indicators* for the index on “Government effectiveness”; Transparency International (2016) *Corruption Perception Index* for the index on “Avoiding corruption”.
StatLink  <http://dx.doi.org/10.1787/888933475486>

Governments can gradually upgrade their capabilities by facilitating learning, as South Korea and Taiwan demonstrate. These two countries began their industrialisation efforts, in the 1960s, with weak capacities and imperfect governance (Chang, 2007). Nevertheless,

the governments focused on building capabilities progressively and kept their check and balance systems in place. Throughout the process of implementing industrial policies, they facilitated governmental “learning by doing” to accumulate relevant knowledge and organisational capabilities. They also improved the “soft” competencies of policy makers such as the abilities to learn, manage complex projects and maintain organisational coherence (UNECA, 2016).

Some African countries have made good progress while recognising problems with implementation. For example, Tanzania has recently developed effective industrial strategies (Balchin et al., 2016). Although the government acknowledges numerous problems hindering progress since 2010 (Government of Tanzania, 2016), recognising shortcomings helps to address them and improve policies. Many other African governments are using digitalisation and new technologies to upgrade their capabilities, identify bottlenecks and improve service delivery performance (see Chapter 5).

Policy monitoring and impact evaluation make for successful industrialisation strategies

Assessing industrial policies is crucial to improving policy effectiveness (Newman et al., 2016a; Stiglitz, Lin and Monga, 2013). Monitoring policies and evaluating their impact are essential to correct possible mismatches between complementary policies, including those related to innovation, skills, finance and infrastructure. Countries can strengthen their institutional capabilities for monitoring and evaluation by improving the visibility and traceability of their strategies. For example, in South Africa the Department of Trade and Industry (DTI) must present mid-term implementation reviews, which include quantitative and qualitative achievements. The reviews assess the status of strategic and sectoral targets such as the number of beneficiary firms, the number of jobs created, allocation of government support and changes in the legal framework. The DTI is also required to report to parliament annually on the progress of the Industrial Policy Action Plan, reassessing strategic priorities and explaining potential new challenges.

Policy evaluation can be improved in many African countries. Few have developed measurable, simple and meaningful performance indicators for policy evaluation. In addition, countries face difficulties in evaluating industrial policies because their impact often extends beyond the scope measured by indicators. The high costs of conducting surveys and analyses, a lack of understanding of the usefulness of designing more effective policies, and a lack of political commitment can prevent governments from evaluating the impact of policies. The capacity to access and exchange the information generated by different governmental bodies is crucial to assess impact (OECD, 2013: 139-40).

New data are being collected to inform Africa's policy choices. Data on firm dynamics, on the various types of entrepreneurs and on their potential contribution to development, as described in Chapter 6, could serve to assess industrial policies. Ethiopia, Kenya, Morocco, South Africa and Tanzania have carried out surveys to increase understanding of production and innovation dynamics.

Firm-level surveys can show the heterogeneity in the behaviour of firms and better target policies (Mayer and Ottaviano, 2007; Criscuolo et al., 2012). Ghana, South Africa and Tunisia increasingly collect and analyse firm-level data. The availability of firm-level data is still limited in Africa, as in the majority of developing economies.

Building countries' statistical infrastructure is essential for tackling this data challenge durably. Producing high-quality statistics provides the information necessary for effective policy making. National statistical agencies can play a key role as data producers, in co-ordination with administrative offices. Business surveys can offer information needed



for policy design but can be costly. Statistics on the structure of firms and on their dynamics are also useful. Business and investment registries can produce such data, and administrative data and regular surveys can complete them. Various international initiatives, such as the Partnership in Statistics for Development in the 21st Century (PARIS21) and the UN Working Group on Big Data for sustainable development, are underway to improve the statistical base for assessing developing countries.

Finally, while successful industrial policies must be country-specific, they share common requirements for implementation:

- strong domestic institutional capabilities, at the national and regional levels
- data and the capacity to process it, in order to diagnose domestic and foreign trends
- resources to carry out policies and the capacity to co-ordinate them across several fields
- dialogue with the private sector to build partnerships and create investment synergies (OECD, 2013: 240).

Chapter 8 will examine constraints that bind entrepreneurs and will show how targeting policies on skills, business clusters and financing can promote effective entrepreneurship for Africa's industrialisation.



Annex 7.A1. Impacts of entrepreneurship programmes in Africa

The table below compiles evidence from the literature on the impacts of various entrepreneurship programmes in Africa. Data were selected from two meta-analyses which included 78 quantitative studies on entrepreneurship in developing countries (Grimm and Paffhausen, 2015; Honorati and Cho, 2013). Only studies that evaluate impacts based on experimental or quasi-experimental design were selected.

Table 7.A1.1. Impacts of entrepreneurship programmes in Africa

Country	Programme	Target	Women targeted	Programme impacts	Source
Ethiopia (rural)	Joint-liability micro-credit, combined with a family planning programme	Micro-entrepreneurs	No	Business creation: insignificant	Tarozzi, Desai and Johnson (2015)
Ethiopia (urban Dire Dawa)	Enabling of legal framework and streamlining of regulatory conditions as well as support services	Micro-entrepreneurs	No	Employment: positive	Eshetu, Ketema and Kassa (2013)
Ghana	Cash grant or in-kind subsidies	Microenterprise owners	Yes	Subsistence enterprises: None Larger businesses: increased profits	Fafchamps et al. (2014)
Ghana	Business training	Microenterprise owners	No	Profits, management practice and revenue: positive	Mano et al. (2011)
Kenya	Access to non-interest bearing bank accounts	Market vendors (women) and bicycle-taxi drivers (men)	Yes	Savings, investment and expenditure: positive Hours worked: None	Dupas and Robinson (2013)
Madagascar (urban)	1-year individual-liability loans averaging EUR 500 for urban micro-businesses and 2-3 year loans averaging EUR 8 000 for SMEs	Micro-entrepreneurs	No	Employment: insignificant	Gubert and Roubaud (2011)
Malawi	Access to banking: ordinary vs. account with restricted withdrawal policy	Small holder farmers	No	Saving and investment: positive	Brune et al. (2016)
Malawi	Provision of credit for adopting technology	Farmers	No	Take up of loans: positive	Gine and Yang (2009)
Malawi (national)	Vocational apprenticeship combined with entrepreneurial support and life skills training and, in some cases, start-up capital	Micro-entrepreneurs	No	Business creation: insignificant	Cho et al. (2012)
Morocco (rural/semi-urban)	Micro-credit, joint-liability as well as individual-liability	Existing micro-entrepreneurs	No	Employment: insignificant Business creation: insignificant	Crepón et al. (2015)
South Africa	Expansion of access to consumer credits	Marginally rejected loan applicants	Yes	Labour market activities, income, consumption, well-being: positive	Karlan and Zinman (2010)
Tanzania	Business training and grants (cash)	Microfinance clients	No	Sales: positive	Berge et al. (2011)
Tanzania	Business training	Microfinance clients and microenterprise owners	No	Business knowledge: positive	Bjorvatn and Tungodden (2010)
Tunisia (national)	Entrepreneurship education for university graduates	Youth	No	Business creation: positive	Premand et al. (2012)
Uganda (Northern Region)	Nearly unconditional, unsupervised group cash transfers to pay for vocational training, tools and business start-up costs	Poor and underemployed youth who are micro-entrepreneurs	No	Employment among males: significant Employment among females: negative	Blattman, Fiala and Martinez (2014)
Uganda (rural, urban and semi-urban)	Business training and information on sex, reproduction and marriage	Girls aged 14-20 who are micro-entrepreneurs	Yes	Business creation: positive	Bandiera et al. (2015)
Zimbabwe (urban)	Joint-liability micro-credit, accompanied by an orientation session on sound business management practices and management advice from loan officers	Micro-entrepreneurs	No	Employment: significant	Barnes (2001)

Source: Adapted from Grimm and Paffhausen (2015); Honorati and Cho (2013).



Notes

1. The AEO experts' survey collects responses by country economists of the AfDB, OECD and UNDP in country offices in Africa about trends they monitor. Responses are clustered to one per country.
2. See in particular Lin and Stiglitz, 2013; Lin, 2012; Noman and Stiglitz, 2015; Newman et al., 2016a; UNECA, 2016; Altenburg and Lütkenhorst, 2015; Oqubay, 2015; Newman et al., 2016b; McMillan et al., 2016.
3. For instance, since 2003, Tanzania's SME Development Policy has enabled the government to identify limits met by small businesses and to offer remedies (Severino and Hajdenberg, 2016: 229-232).
4. Performance contracts in the civil service can help, as shown in Kenya in the 2000s and in Rwanda currently.



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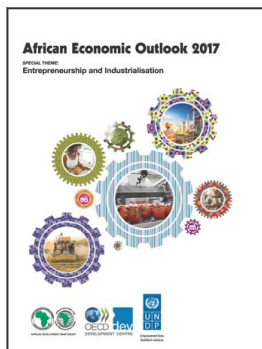


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