Industrialize Africa
Across the continent, there is little variation in constraints to Private Sector Development (PSD). The findings from a Synthesis Report covering 33 evaluations of support for the private sector reveals that the six largest obstacles to doing business in Africa are:

1. Lack of access to finance (for larger firms) and electricity (for smaller firms)
2. tax rates
3. informal sector competition
4. political instability
5. corruption
6. inadequate worker and management skills

Many bilateral donors also consider lack of or poor quality infrastructure to be a key constraint.

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Per Øyvind Bastøe
Overall, the report found that donor strategies were aligned with national PSD strategies, but translating policy alignment into selective interventions is challenging. Not surprisingly, the evaluations clearly found that in-country presence by donors was vital for improving consultation with the private sector. Donors without field presence ran a higher risk of irrelevant design, inadequate supervision, and poor efficiency in program delivery.

An interesting finding is the lack of clear documentation on the relevance of PSD programs to poverty reduction. Many evaluations note contributions to job creation but it is difficult to attribute job creation to a single agency’s intervention. Bearing in mind that most of the poor live in rural areas, many agriculture and agro-business priorities and donor programs countries in these areas were well aligned with government programs.

The synthesis report shows that there is a need for an updated regulatory framework to keep up with changes in the global trade environment. While the evaluations provided no clear answers on the effectiveness of reforms, several of them highlighted political will, government commitment, and stakeholder ownership among key success factors.

Banks were found to be more efficient in their capacity to deliver services than public sector institutions, which have long approval processes and poor design issues. The study found mixed evidence of the effectiveness of many of the financial instruments but one clear finding is that financial support was more effective when coupled with technical assistance and capacity building. Interventions in targeted sectors, particularly in agriculture, were quite effective.

Sustainability is a weak area, primarily because it is not considered in the design stage. When sustainability was considered during program design, the focus was more on the financial sustainability of the implementing agencies than on institutional sustainability. A capacity assessment of a donor’s intermediaries and the government would help donors address the sustainability issue. Also, we must ensure that donor support packages include capacity building for intermediaries designed to strengthen institutional capacity and business support institutions to create the right conditions for success (specifically when targeting SMEs).

The report pointed to the need for donor interventions to emphasize additionality and catalytic impact. We must go beyond “gap-filling” towards an integrated approach focused on additionality and catalytic impact that can lead to changes in market structure, behavior, and to mitigate the risk of market distortions.

Rigorous monitoring and evaluation systems focused on outcomes and integrated throughout the life cycle of PSD interventions are important to design, implement and invest.
“I own an enterprise that produces, processes, and sells cashew nuts. While this puts me in the agro-industry sector, I would say that my enterprise is more agricultural than industrial. Mine is an enterprise that employs nearly 800 employees, of whom 90% are women, and it is their energy which has made Côte d’Ivoire the leader in the production and export of cashews.”

To paraphrase various ministerial declarations, the lack of cooperation between government and the private sector is slowing the rate of Africa’s industrial transformation. Vietnam, after only 15 years in the industry, has almost topped us in the almond industry. It produces, processes and imports from Africa to transform in-country, creating employment, wealth and financial gain from the final export product. We may draw inspiration from these governments whose strategic decisions have boosted industries.

The private sector is the motor of development and must be heard if governments are to design appropriate policies for sustainable industrialization. African governments lack the capacity to establish industrialization without the private sector, and should take the measures necessary to establish partnerships between the public and private sectors and to mobilize the necessary resources to invest in energy and infrastructure.

For Africa to be industrialized, businesses must have institutional support and mechanisms adapted to each sector. We need a business climate that encourages processing, fiscal exemptions for the materials to industrialize, financial incentives for processing, incentives to extend industrialization, and easier access to finance.

The other brake on our industrialization is the lack of trained labor and poor coordination between training and jobs. We need to examine our human resources and better align our education systems with our labor market needs.

We need a high-quality finished product for a demanding client, which requires qualified labor. We need better information, training, and government support to replace poverty with added value. Most of all, Africa needs effective strategies and concrete actions to effectively transform our natural and human resources into sustainable industrialization.
We cannot move towards African industrialization unless we challenge the current models, beginning with our own definitions of industrialization. We can’t move towards globalization if we can’t meet the needs of African countries and people. Africa should not industrialize first and foremost to export; we must start with internal needs.

In addition, we must change how industrialization is financed. We are too reliant on external assistance for industrializing. People from the outside can only bring us what they know works in their environment, but this may not be adapted to what we need or want. We can take micro-finance as an example. We too often say that we’re too poor and without resources, yet we know that the poorest people save the most and know how they want to use savings. We must generate resources internally ourselves and challenge our central banks, using the example of micro-financing models. Let’s innovate and generate our own resources. If Africa continues with the same thinking and financing model for its industrialization, we risk repeating the same mistakes. We need to find solutions that are adapted to us.
Africa has de-industrialized over the last four decades, moving steadily away from industrial processes. Africa can catch up and industrialize quickly by drawing on lessons from the Asian success stories, where stable governments have reassured investors and where constructive policies have opened markets and fixed favorable trade and currency rates.

The continent now has the means to launch a new generation of industrialization, and countries with a head start can lead the way. Ethiopia, Tanzania, Ghana and Côte d’Ivoire are some examples. We should be promoting regional value chains helping local industries which produce manpower-intensive products to move up the value chain.

Changes in the global economy also present opportunities for the continent. As China moves away from its role as an exporter to one as a consumer and an investor, for example; we can take advantage and find new ways to fill the gap and become part of global value chains.

Despite the numerous opportunities with China and at the regional level, free trade and the international fragmentation of production value chains, the continent still has to overcome major industrialization hurdles. Poor infrastructure reduces productivity and the inherent costs of poor roads, transport, water and connectivity for example are too high. If African industries are to become competitive, considerable national investment in infrastructure is needed.
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Tim Turner

Edward Marlow

Providing infrastructure is critical to enabling industrialization. Ethiopia has very much focused on building its industrial enablers and has invested in government-led infrastructure programs, which assumes that the government builds and industrialization follows.

Government enablers for the industrial base is an example to follow. Commercial banks of capital are risk-averse, balance-sheet constrained, and reliant on investors who demand high returns. Development Banks can assist by providing credit guarantees or persuading governments to guarantee project risks. Also, the early involvement of quality lending mechanisms such as the AfDB is the best way to encourage the commercial investors and pension funds into the programmes on a long term basis.

Tim Turner

African governments should encourage industrialization with appropriate policies. They should set the rules, the regulatory processes and create an enabling environment, i.e. A level playing field for the players. They should, however, abstain from trying to define the players in the game.
The biggest impediment to industrialization is that governments are unpredictable in their policy responses to a whole range of enablers – physical infrastructure, capital markets, and human development. The recent shock in commodity prices has revealed how many governments responded too late or did too little. Commodity industries and the private sector are not the only ones to have suffered as a result of their poor response. Capital markets and rating agencies also reacted negatively to poor government reactions. There has been a significant downgrading in poor shock-response countries over the past 5 years, shying financial markets away from investing capital, and thereby creating a downward spiral.

We need to focus our attention on creating strong, predictable policy responses. Development needs are far beyond the lending capacity of most development banks, which means that the business model may need to be rethought from a buy-to-hold model to seeking private investors to share risk. Financial sustainability is the precursor to all sustainability.

Evaluation Week 2016