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# Study on Identification of Industrial Development Priorities and Sub-regional Co-operation in the context of the Second IDDA (the case of the Eastern and Southern Africa Subregion)

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# TABLE OF CONTENTS

## INTRODUCTION

### A. Background to the Study

1. The tenth meeting of the Conference of African Ministers of Industries held in Dakar, Senegal, in July 1991, adopted in its programme the Second Industrial Development Decade for Africa(IDDA), which was subsequently adopted by the General Assembly in 1992. At the national level, the programme recommends the restructuring of the industrial sector in order to promote the goals of independent integrated and self-sustaining national economy with forward and backward linkages within and among sectors, especially between agriculture and industry, with a view to laying foundation for new industries based on domestic natural resources and increased transformation of local raw materials. This position is also emphasized by the Lagos Plan of Action which calls for attainment of self-reliance; also by the Abuja Treaty which inter-alia calls for increased self-reliance and promotion of indigenous self sustained development.

2. At the subregional level, the second IDDA programme puts emphasis on the promotion of industrial economic cooperation with a view to achieving economies of scale and establishing basic industries. At the level of each subregion, a number of subregional priority industrial projects form the core of the subregional component of the programme of the second IDDA. These cover the major industrial sub-sectors of the national and subregional economies and are in metallurgical industries, engineering industries, chemical industries, agro-and agro-related industries, building material industries and a number of industrial support projects.

### B. Purpose of the Study

3. The objective of the study on subregional and country industrial priorities for Eastern and Southern African subregion is to provide a substantive updated data on industrial priorities to be submitted in the subregional meeting with a view to achieving the following:

(a) Create awareness for the African leaders of the importance and potential of subregional economic cooperation with a view to encourage them to create a viable investment climate.

(b) Stimulate the articulation of national and subregional industrial priorities for the second IDDA.

(c) Rationalize prioritization of national and subregional projects in order to avoid duplication.

(d) Enhance the concept of subregional integration and cooperation for the Eastern and Southern African subregion as a principal factor in the implementation of their country and subregional programmes for the second IDDA.

(e) Enable governments and economic subregional groupings to take a number of policy measures in devising feasible and practical implementation mechanisms for their industrial development programmes.

(f) Encourage and enhance the major role of the private industrial production sector.

(g) Consolidate the existing manufacturing enterprises through rehabilitation and restructuring.

(h) Stimulate greater government awareness about the mandates and assistance from the economic subregional groupings like the Preferential Trade Area (PTA), Southern Africa Development Community (SADC) and the upcoming Eastern and Southern African Economic Community (COMESA).

4. The report is presented in four main parts. In addition to the introduction, consisting of the background and purpose of the study, Chapter I presents Industrial Review of Sub-Saharan Africa (SSA), Chapter II, Country Industrial Priorities containing Structure, Performance, Structural Adjustments Programmes and Sectorial Priorities, Chapter III reviews Sub-regional Organization which include regional organization i.e. SADC, PTA, KBO and OIC. Chapter IV covers financial resources needs and possibilities. Chapter V attempts to make some conclusions and recommendations.

## CHAPTER I: INDUSTRIAL REVIEW OF SUB-SAHARAN AFRICA (SSA) IN THE CONTEXT OF SECOND IDDA

### (i) Development Policies and Reforms

5. Sub-Saharan Africa (SSA) is presently facing a series of complex problems. Development policies from the late 1980s are conducted in terms of structural adjustment, a concept different from structural change. In the new approach, governments encounter a delicate situation on how to compromise between immediate and longer term outlooks. The state of socio-economic decline and consequent political instability in the region have wider coverage. For most SSA countries, the economic conditions started to deteriorate in the 1970s due to primarily the slump of prices of primary commodities. Subsequent trends have shown even greater rate of decline in the 1980s. This feature became the norm throughout SSA; bringing the economically weakest countries to the brink of collapse. But even a few amongst the so-called stronger ones have had to accommodate the most difficult choices.

6. In an attempt to reverse the declining social and economic conditions, most SSA countries have adopted stabilisation and adjustment programmes. By the end of 1983, nearly 23 countries had adopted some variant of the economic restructuring measures. Between 1980 and 1989, over 240 programmes were initiated in close association with the International Monetary Fund (IMF) and World Bank (WB).

7. Policy reform measures of direct relevance to the industrial sector include, among others; privatisation and or commercialisation of public sector enterprises, reduction and in some cases elimination in administrative bottlenecks, reduction and or elimination of subsidies on consumer goods, deregulation of interest rate and exchange rate determination and trade liberalisation involving the reduction in the level of protection behind which a number of inefficient enterprises were believed to have thrived.

8. These efforts underline the need for special incentives and support services to motivate agriculture and domestic industries for increased productivity and export diversification. There is also the need for a systematic development and upgrading of capacities relevant for industrial development through training and learning by doing. Also relevant are such issues as good governance, transparency and an effective legal system.

9. Indeed, the second IDDA set period 1993 - 2002 with specific plans and programmes in member countries. The programmes have been a result of restructuring policies of the industrial sector so as to develop integrated and self sustaining economic policies with forward and backward linkages within and between major sectors especially industry and agriculture.

### (ii) Objectives and Strategies for Second IDDA

10. The broad objectives and strategies for the Second IDDA have remained the same as those of First IDDA for most countries. The strategies in summary have been:

- consolidation of existing investments,
- expansion of existing facilities,
- development and improvement of human skills, required for industrial development,

- development of appropriate supporting physical infrastructure,

- improvement of quality and range of institutional infrastructure,

- strengthening and extending programmes of subregional cooperation.

(iii) Rehabilitation and Consolidating Existing Investments.

11. Key sectors being focused are textiles, food processing, building materials, construction and engineering industries all carrying the largest share of industrial employment in all countries.

12. Rehabilitation covers the entire range of technical, managerial and technology at plant level as well as the overall financial, commercial and structural issues. The strategy is expected to secure optional use of existing capacities and resource for future industrial growth for each country.

13. Domestic production of spare parts is low, with the majority of industries operating with inadequate provision of spares and preventive maintenance programmes. Preventive maintenance, spare part production studies carried out for a number of African countries such as Kenya, have not been implemented. The use of foreign exchange to import spare part continued unabated.

(iv) Programme Expansion

14. The existing sub-sectors included are:

- Agro related Industries,

- Metallurgical Industries to support engineering industries,

- Chemical industries - drugs and vaccines fertilisers pesticides chemical,

- Telecommunication and information processing industries,

- Engineering Industries producing capital goods, hand tools components and spare parts,

- Engineering design and product development.

15. Angola, Mozambique and Tanzania earlier placed strong emphasis on investment in core industries. Plans are still on the drawing table. Therefore the supply of capital equipment and intermediate inputs will not be realised in the near future despite potential benefits.

16. Regional coordination and integration has a potentially vital role to play in establishing core industries in view of their complex technology and high capital cost.

(v) Human Skills Development

17. Effective implementation of programmes consolidation and expansions calls for a competent managerial and technical labour staff. Entrepreneurs, managers, technicians, artisans and others should be equipped with competent skills to perform their roles. Enterprise culture development is a new concern. Management skills for middle level manager will be strengthened. Repair and maintenance skills will be given priority. Entrepreneurship education programmes aimed at trainers at all level will be intensified to increase the supply of entrepreneurs.

## CHAPTER II. COUNTRY INDUSTRIAL PRIORITIES

(i) Structure and Performance of the Industrial Sector.

18. Most sub Sahara Africa (SSA) did undertake substantial economic reforms and adjustment programmes often at a very high social and political as well as economic cost. The external

economic environment behaved much worse than projected with terms of trade losses exceeding net inward real resources transfers plus debt write downs.

19. Perhaps most crucial, there is a fairly broad area of general agreement on medium terms strategic industrial policy and programmes even if divergences in detail and priority still vary. Fortunately, there are three strategic industrial options/approaches.

(a) Pre-export processing and manufacturing e.g. wood, leather, animal product and other material resources.

(b) Manufacture of consumer goods and simple capital goods.

(c) Agro-industry - processing of domestic agricultural products.

20. The manufacturing sector has undergone little or no structural change in recent years and manufacturing output continues to be dominated by light consumer goods industries. In many countries, public investment has been scaled down drastically, reducing the level of domestic investment in manufacturing industry. The inflow of private direct foreign investment remains negligible despite the privatisation of state owned enterprise and the opportunities offered in the sub region. According to Industrial Finance Corporation (IFC) flows of private direct foreign investment accounts for only 9% of the GDP of sub Saharan Africa well below the levels observed in other developing regions.

21. Despite positive inclination in the industrial development strategy and policies in the sub region, the target growth rate 8% per annum set in IDDA II for the manufacturing sector can hardly be realised, given external and internal structural rigidities in the sub-region.

22. Agro-industry and manufacture of consumer and capital goods will become viable options through regional and sub regional markets which must go beyond tariff preferences.

23. In addition performance in Angola, Mozambique, South Africa and Rwanda are affected by a fragile political environment. Persistent and new outbreaks of military conflicts in these countries have made planning and implementation of development programmes difficult. In some cases industrial facilities and infrastructure crippled.

24. Manufacturing value added declined by 5% compared to the sub regional average fall of 2.9% in 1992. A recovery is forecast in 1993 at the rate of 2.6% predicted on expected improvements in the supply of agricultural raw materials, coupled with increased availability of foreign exchange.

25. Key areas that have been of focus of many countries in the development of industries in the subregion are:

- Physical and Institutional Infrastructure;

- Development of the physical and institutional infrastructure to support industrial development has been inadequate;

- Movement of raw materials and finished products to factories and to markets is impended for lack of efficient network of transportation, supported by an efficient network of telecommunications;

- Complementary to the physical infrastructure is a supportive institutional infrastructure, which should include agencies deliberately created to stimulate and support industrial development;

- Increasing Utilisation of Installed Capacity;

26. There are several factors and causes for capacity under- utilisation. In order to address the problem the following policy issues have been developed:

- human resources development,
- provision of spare parts,
- maintenance services,
- liberalization policies in foreign exchange,
- improved physical and institutional infrastructure.
- Development of Industrial Skills and Manpower

27. Many Countries lack an adequate pool of human capability to exploit its abundant natural resources. Programmes have been established to increase industrial skills through educational systems. Efforts are under way to orient skill requirement and job opportunities with the educational system.

(ii) Structural Adjustment Programmes (SAP)

28. Under SAP it is envisaged to create a policy environment aimed at enhancing a sustainable market economy. Measures to create an enabling environment for private investment have featured prominently in industrial policies and priorities. They have included access to credit facilities, alleviating tax burdens on existing firms for new entrants and easing the approval of investment projects.

(iii) Rehabilitation and Revitalisation of Industries

29. A number of industries need serious rehabilitation because of very low capacity utilisation of existing structures. On going efforts of privatisation of public enterprises necessitated rehabilitation prior to privatisation or vice versa. Key issues for rehabilitation included adoption of technology that would lead to internalization of technology, development of technical and managerial skills to manage and operate the industries, maintenance services, spare parts and financial resources.

30. Unlike many countries in the region, Botswana, Lesotho and Swaziland does not have any significant number of enterprises in need of rehabilitation and maintenance. In Uganda, for instance, no new investment has taken place for some time now.

(iv) Private Investment and Joint Venture

31. One of the major critical limiting factor in industrial development in the region is the shortage of financial resources. The realities of the current international economy, makes the region more sceptical about the possibilities for the increased external financial resources. The prudence of expectation thus force us to assert domestic mobilisation of savings. Innovative means and ways to promote domestic saving in both rural and urban areas in order to finance industrial investments are under consideration.

(v) External Resources.

32. Borrowing has proved to be ineffective in promoting industrialization. Member countries are faced with a situation whereby the modest payments made towards loans do not even cover the interest on the loan, and the principal borrowed remains untouched for an unspecified time framework, not discounting the adverse socio-economic effects on the country due to the conditionality of these loans.

33. Increasing foreign direct investment remains the main approach of the IDDA programme with respect to external resources. This condition is extremely essential, more so now than ever, when there is cut-throat competition for external investments. Stimulation of foreign direct investments and the maximization of the effect of domestic investments in the industrial sector, requires an adequate supportive infrastructure.

(vi) Liberalisation and Privatisation

34. Liberalisation and privatisation are major policies under implementation. Governments are in the process of privatising public enterprises. This effort by governments to transfer

industrial assets into private hands, are accompanied by efforts of governments to create the enabling environment under which the enterprises can become viable and efficient.

35. The motive for privatisation is to disengage government responsibility from non-profit-making enterprises. It is perceived as a means of creating dynamic private entrepreneurs as partners and contributors to industrial development.

36. Parastatals have been responsible for fiscal deficit. Poor management, disregard of professional criteria, in the selection of Boards of Directors are cited as reasons for appalling financial performance. Ad hoc reforms and change, of management which leave structural weaknesses essentially unaddressed and lack of mechanisms for performance evaluation and review to encourage managerial competence and competitiveness of enterprises are added, apart from weak financial and budgetary controls.

37. Outright sale of privatisation is not encouraged, but a change of policy in order to emphasize on sound commercial operation and organisation habits.

38. Removing incentive for mismanagement like subsidies and price controls is emphasized. Critical to the success of privatisation programme is the adequacy of capital market to handle transactions. Stock exchange are necessary to check concentration of ownership among certain racial and ethnic groups. Equity distribution in shares is essential. Parallel efforts to strengthen and liberalise domestic capital market, review of legislations governing the investment behaviour of large investors to allow them to trade in shares while maintaining their financial soundness, creation of special tax incentives and debt/equity swaps are recommended.

39. In Tanzania, the government plans to liquidate or privatise over 425 inefficient public corporations resulting into a retrenchment of over 120,000 employees in the next years. By August 1993, 15 enterprises have been privatised. Parastatals are reported to be costing the government over US$ 24.0 million subsidies per year with many enterprises operating below 40 per cent of capacity.

40. In Uganda, Public Enterprise Divestiture and Restructuring Board earmarked over 100 enterprises for privatisation including Railways, Insurance and Banks.

(vii) Small and Medium Enterprises (SME's)

41. The development of small industries and enterprises is significant in economic development of any country. In many countries in the region comprehensive programme were developed in the 70's. The basic objectives have been to:

- create immediate employment opportunities with relatively less capital;
- to meet increased demand for consumer goods and simple producer goods;
- to facilitate mobilisation of resources of capital and skills which may otherwise remain unutilized;
- to raise the incomes of artisans craftsmen and entrepreneurs;
- to assist small scale exporters and help quality control
- to remove regional disparities through a deliberate policy and encourage growth in rural areas.

42. A large range of policy and programmes support provided to the SME's include categorisation of products, credit facility, tax considerations, training, marketing and consultancy.

43. The sector is facing continuous challenge, sophistication, diversification and modernisation. Several policies are geared towards protection and promotional of SME's to enable them to compete especially in differential taxation, financial assistance and training.

44. An innovative technology related industrial strategy the "Incubator Approach" has proven a viable option in reducing the failure rates of SME's. Workshops and factory facilities are made available to tenant companies and entrepreneurs in value added and technology related activities. It provides new business ventures with shared office services, technology consultancy, research and development advices, access to risk capital, management and marketing assistance. The approach is expected to enhance commercialisation of new products, job creation and the decentralisation of industrial development.

(viii) Endogenous Capacity Building in Science and Technology

45. Very few countries in the sub-region have invested in endogenous capacity building in science and technology. Countries continue to construe narrowly science and technology as high level scientific research and manpower training, while neglecting the application of off the shelf science and technology. Little efforts have been made to apply scientific research results and findings to development of the domestic resource base.

46. Curriculum needs should be adjusted to the needs of industries since public employment is no longer a priority. Adequate incentives should be offered to scientific personnel and to enable users and entrepreneurs to commercialise technology products. Some countries have already established such institutes, these include Tanzania, and Zimbabwe. Research and developments efforts must be re-oriented and better connected to industry, through improved science and technology policy institutions. Cooperation and collaboration must be strengthened.

(ix) Export Promotion

47. Manufactured exports have a particular role to play in improving the quality and technological level of the domestic sector, in offering a source of foreign exchange more certain

than many commodities and in giving also a wider market than might be available locally, thus allowing for new industries for whose output local demand may be insufficient to justify the investment cost.

48. Export promotion is priority policy in Zimbabwe, Kenya and Mauritius are overwhelmingly targeted towards hard currency areas. Due to their geographic position, Lesotho and Swaziland are, heavily dependent on certain opportunities in the South African market. Zambia and Malawi face the problem of a less competitive and diversified industrial base as a platform for the selective expansion of industrial exports. For most of these countries, their landlocked position is a principal determinant in the formulation of an export policy.

49. Provision for export processing zones (EPZ) is becoming a component of the policy for export promotion. The phenomenal economic growth of Mauritius in the 1980s was based on a renewed effort to induce investment in manufacturing by offering advantages of production within an EPZ, which had been sanctioned by an act of law since 1972. Kenya is now reaching out for the benefits of exports by developing EPZ on several sites, and enacting the required legislation covering their establishment and operations.

50. With EPZ, manufactured products are solely handled in the country. In this light, the emphasis observed in Kenya, Tanzania and Zimbabwe is really one of selective diversification. This is particularly true of Zimbabwe, which well illustrates the need to continue the production of new products and to climb the technological ladder, even though it has by many standards a very diversified manufacturing sector already.

## (x) Industrial Sectoral Priorities

### (a) Sub-Sector Priorities

51. The issue of sub-sectoral priorities is expressed by the individual member states. The expression of priorities is seen in investment decisions, for instance, "agro-industries" is a

priority that has been set by at least nine countries. The priorities given to the main manufacturing sub-sectors by the national plans and policies of the PTA countries are various.

52. The selection of particular industrial sub-sectors for priority status is likely to be a component of an encompassing strategy for economic development. For example, giving priority status to metals, engineering and chemical industries may be part of a classical import substitution policy within a strategy to improve the balance of payments position in order to accelerate growth. This kind of approach is taken by Ethiopia, Tanzania, and to a degree Zimbabwe as well, although its manufacturing industry has always been to some extent export-oriented.

53. Zambia and Malawi gives priority to the resource-based industries, which means not only agro-based industries but also metal, engineering and chemicals. It also promotes non-traditional exports. On the other hand, Kenya, Mauritius, Lesotho and Swaziland have addressed themselves to the promotion of agro-based, export-oriented sub-sectors. Somalia finds itself in a transition where the point at issue is the privatization of the economy. If it succeeds, the priorities will emerge directly from the choices made by private enterprises, and this may favour agro-based industries, metals, engineering and chemicals.

54. Another, more general emphasis found is on minerals based industrialization. Zimbabwe has a large, diversified and successful mineral exporting-based manufacturing complex. Tanzania, Somalia, Uganda, Rwanda, Mozambique and Angola are rich in certain mineral resources, and it appears to policy makers there that there is scope for considerable expansion.

55. The choice of priority sub-sectors for integrated industrialization of the subregion must be considered particularly in view of natural endowments and the diverse current paths of development. Other factors that effect choices concern market growth, or its potential for growth, facilities for financing projects, and degree of potential change in various national priorities as industrial integration progresses in the subregion.

56. The priority industrial sub-sectors for development in the subregion are metals, engineering, chemicals, agro-industries, and building materials, Specifically, the subregion is currently giving priority to certain branches of manufacturing in the mentioned sub-sector. the priority branches and their sub-sectors, are listed below:

| SUBSECTOR | BRANCH |
|---|---|
| Basic metal<br>Basic industries | Iron and steel Industries (metals) non-ferrous metal basic industries (copper only) |
| Fabricated products,(machine tools) (engineering) | Machinery Except metal Electrical machinery equipment agricultural machinery Transport equipment (spare parts for agricultural machinery/equipment and spare parts for motor vehicles) |
| Manufacture of chemicals, chemicals and chemical, petroleum, coal, rubber and plastic products (chemicals) | Industrial chemicals (fertilizer) other chemical products, coal, (pharmaceutical products) |
| Food, beverages | Food (grain mill tobacco (agro food, products, sugar vegetable agro-allied) and animal oils and fats, canning and preserving of fruit and vegetables) |
| Non-metallic mineral products (building materials) | Other non-metallic products (cement) |

57. Other elements of priorities include rehabilitation and restructuring. Unfavourable macro-economic conditions and external factors have led in most cases to deterioration of machines, shortages of spare parts and maintenance, lack of appropriate staff, and deterioration of products with respect to quality, cost , and even obsolescence, compared with those from more modern factories. Upgrading are needed simultaneously in three aspects; products, production processes, and skills. These constitute the major tasks of industrialization in the subregion.

(b) Country Priorities

58. Industrial plans and programmes vary in different countries: A summary of plans and programmes under implementation for selected countries is presented below:

**ANGOLA**

59. Policy guidelines for the manufacturing sector were stipulated in 1985 with the industry sector programme giving priority to agricultural inputs and mass consumer goods, specifically foodstuffs, clothing, textiles, footwear, and salt; farm implements, irrigation pumps, cement and hospital equipment were also identified as priority products. The main policy thrust is one of import substitution, although an export retention scheme was introduced to promote some industrial exports. The administration is committed to a socialist development path emphasising central planning and more than half manufacturing value-added is produced by state-owned enterprises.

60. In 1987, a new programme on industrial restructuring was adopted designed to increase productivity, improve the allocation of resources and generate faster economic growth. The plan aims at creating more favourable conditions for private enterprise development as well as increased autonomy for public enterprises.

**BOTSWANA**

61. The Industrial Development Policy paper (IDP) emphasises the role of the private sector, outlining a free-market, incentives-based strategy that gives priority to export-oriented activities and the exploitation of domestic resources.

62. The strategy aims at a mix of export promotion and import substitution with priority in research; and promotion being substitution devoted to markets in which Botswana can produce at a cost advantage. The IDP aims at exploiting demand originating from major sectors of the economy (government, parastatals, agriculture and mining) and the processing of their products and by.products. Priority is also be given to the utilisation of those raw materials in which Botswana is relatively well-endowed and the promotion of agro-based activities.

63. It emphasises export promotion and trade diversification rather than import substitution in consumer goods sectors. It favours the promotion of export-oriented investment, focusing on the processing of raw materials in which Botswana can achieve international competitive advantage in consumer industries, such as clothing, textiles and electronics.

**ETHIOPIA:**

64. In the Ten Years Perspective Plan (TYPP) 1984/85-1993/94 industry has been accorded priority second only to Agriculture. Accordingly, priority areas have been identified to be:

(a) development of industrial exports;
(b) development of SME's
(c) revitalization of public industrial enterprises, and
(d) development of human resources.

65. The priorities selected are expected to strengthen the development of consumer and capital goods as well as export oriented industries. The following specific development objectives have been drawn to support the implementation of the TYPP.

(i) <u>Development of Industrial Exports:-</u>

66. In this context concrete measures to develop industrial exports are as follows:

- identification of lead sectors of export potential.
- expansion of traditional manufactured exports where there is comparative advantage
- focus on increasing the value added of industrial products.i.e leather, textile and garments

(ii) <u>Development of SME's</u>

67. SME's are favoured due to the following factors: labour intensive, low capital investment, limit rural-urban migration, use of alternative sources of energy, skill development potential, consumers goods production potential etc.

(iii) <u>Revitalization of Industrial Public Enterprises (IPE's)</u>

68. As 80% of gross industrial production is currently from IPE's, there is need to revitalize. The objective is to increase capacity utilisation. Key industries which support other sectors will be strengthen in order to develop a sustained industrial base. These industries include Basic Metal and Engineering firms, chemicals and Non-metallic mineral products.

(iv) Development of Human Resources

69. Serious shortage of skilled manpower continue to be recognized in several occupation. In order to develop human resources, the following measures are undertaken:

- identification of training needs and training modules
- up-to-date data on manpower inventory to be developed
- training institutions to be identified and strengthened
- co-operation with local institution of higher learning to be fostered
- in-house training capability to be developed.

70. With regard to Financing Modalities investment priority projects costing US1.3 billion is expected to be realised from external sources due to low domestic export earnings. Direct private investment will be promoted.

**KENYA**

71. Kenya is geared to the attainment of specific national objectives within the framework of IDDA 2, the strategies that are related to industrial development include:

- Enhancing the role of the private sector in production particularly manufacturing,
- Mobilization of local savings and improvement in investment climate so as to attract more domestic and foreign investment into the manufacturing sector,
- Development of small-scale and Jua Kali sector,
- Promoting inter-sectoral and inter-industry linkages.
- Rehabilitating existing industries in order to make them more efficient and profitable,

- Developing repair and maintenance capabilities,
- Developing the physical infrastructure,
- Developing the quality and range of institutional infrastructure.

72. On the policy plan, Kenya is committed to the strengthening of those policies designed to improve the enabling environment for manufacturing industry and make the sector more export-oriented. Specifically, trade and other industrial incentives will continue to be reoriented so as to eliminate anti-export bias, promote efficiency and the growth of new kinds of manufactured exports, and encourage investment. The policy of import liberalisation will be continued. Already quantitative restrictions are being replaced by tariffs and the average level of tariffs has begun to come down.

**LESOTHO**

73. Lesotho's fourth Five-Year Development Plan states that given the smallness of the domestic market, the country must follow a combination of two export-oriented industrial strategies. One path is the processing of domestic raw materials - wool, mohair, meat and horticultural crops, while the second emphasises assembly operations using imported intermediate inputs.

74. This strategy is designed to capitalise on Lesotho's relatively low-cost, productive and reliable labour force and its access to consumer markets within the South African Customs Union, SADC and the Preferential Trade Area (PTA).

75. Industrial strategy gives priority to private enterprise activity with investment incentives directed mainly to foreign investors. These are supported by the provision of infrastructure, primarily through industrial estates.

## MALAWI

76. The Malawi Government's of Development Industrial Policies (1987/96) is designed to increase the manufactured component of the nation's agriculture output and expanding manufactured exports while selectively replacing imports by domestic production. While particular emphasis is placed on the substitution of intermediate items, imported raw processed industrial and agricultural inputs - exports are expected to provide the stimulus to industrial expansion.

77. The development of manufacturing industry will require complementary small-scale operations for efficient production and the employment of labour intensive techniques. It requires the encouragement of export-oriented projects.

78. Particular attention is being paid to the small-scale, informal sector whose development is essential to job creation for those workers unable to find employment in the formal wage economy or in small-scale agriculture. For medium and large-scale industry, policy is designed to attract both domestic and foreign investment through the creation of stable and position investment climate. Malawi aims at establishing a "moderate and uniform" level of tariff protection across all branches of industry with "minimum selective protection".

79. Manufacturing is forecast to grow at 4.3% annually during the 1987/96 period - slightly faster than the projected 4% GDP growth rate. The bulk of the demand stimulus will come from growth in processed agricultural exports and exports of manufactured goods rather than from domestic demand.

## MOZAMBIQUE

80. Mozambique's industrial strategy was redesigned as part of the Economic Rehabilitation Programme (ERP) launched in January 1987. The objectives of the programme include a

reversal of the protracted decline in production and the establishment of conditions conducive to sustained economic growth. Specific aims include increased industrial production to support agricultural marketing, for import substitution and to stimulate exports of marine and mineral products. The programme is also designed to rehabilitate industrial plant and equipment and reduce high levels of excess capacity in the manufacturing sector.

81. The ERP calls for the channelling of resources into high domestic value-added activities, that manufacture construction materials and agricultural implements and inputs, that make an important contribution to tax revenues and that support the export sectors and the overall rehabilitation programme.

**SWAZILAND**

82. The Fourth National Development Plan (1984/1988) calls for increased investment in those industries utilising renewable resources and providing the greatest value added contribution to national development. It emphasises investment in labour-intensive activities and industries with potential opportunities in overseas markets. Foreign investment is seen as the main source of industrial investment and new investment is encouraged through incentive packages including a 5-year tax holiday on profits and tax breaks of up to 150% of initial capital investment. As in Botswana and Lesotho policy is also designed to attract industries with export potential.

**TANZANIA**

83. The main objectives of Tanzania's third Five Year Development Plan (1988/9 to 1992/3) are to raise capacity utilisation from 20% to 30% at the start of the period to between 60% and 70%, increasing industry's share of GDP from 5.2% in 1985 to 13.4% by 1992.

84. The policy aims at promoting the development of basic industries that supply industrial inputs - iron and steel, pulp and paper and chemicals - while also expanding output of building materials, foodstuffs and clothing. Special attention is being paid to developing industries which

will stimulate production in other sectors, especially agriculture. Other preferred industries include those generating export earnings and contributing to government revenues (beer, soft drinks, and cigarettes).

85. Since 1986 when the Economic Recovery Programme was adopted, these priorities have changed with resources being directed mainly to the rehabilitation of existing projects and the reactivation of existing capacity rather than new projects.

86. As a result, there has been some reduction in industry's share of resources, with agriculture and infrastructure receiving an increased share of available investment funds, while manufacturing plays a substantive supportive role.

87. Within the manufacturing sector, the emphasis in resource allocation has shifted in favour of the more effective firms and sectors, export-oriented as distinct from import substitution firms, privately-owned firms rather than parastatals and also in favour of small-scale enterprises.

**ZAMBIA**

88. Zambia's New Economic Recovery Programme adopted in June 1987 gives priority to three categories of industries, the industries are those:

- producing basic needs and essential goods;
- producing intermediate items; and
- producing for export.

89. The industrial strategy aims at implementing policy and institutional reforms designed to encourage the local processing of raw materials, reducing dependence on imported inputs and increasing levels of capacity utilisation. Rehabilitation and re-investment is to be concentrated to such firms in order to improve capacity utilisation.

90. Export production is being encouraged through an export retention scheme, reduced tax on export earnings, an export revolving fund and an export guarantee scheme.

91. Industries producing intermediate items used by agriculture, mining and other manufacturers are also targeted to receive priority in resource allocation.

**ZIMBABWE**

92. The First Five Year National Development Plan (1985-1990) projects industrial growth of 6.5% annually compared with a GDP growth target of 5.1% a year, while exports of manufactured goods would grow at 8.8% annually. Employment is projected to increase from 169,000 in 1985 to 200,000 in 1990, while industrial exports would rise 50% to Z $830 million by the end of the plan period. Because in the past, manufacturing industry has been heavily reliant on the domestic market and while since 1982, industrial expansion has been seriously constrained by a shortage of foreign exchange, policy has recently emphasised on expansion of export led industries.

93. Industrial exports have been promoted by :

- a highly-successful Export Revolving Fund,
- a system of export subsidies,
- rewarding successful exporters with increased import allocations based on export performance,
- a policy of gradual exchange rate depreciation.

94. Increased state participation in manufacturing industry was envisaged in the Plan published in 1986 and this has been taking place by government purchases of equity shares in privately-owned enterprises. The plan outlines government's intention of controlling "strategic"

industries, with priority being given to the establishment by the state of new enterprises in the capital goods and intermediate sectors.

95. Industrial strategy in Zimbabwe is under review and significant policy changes, including incentives to encourage more foreign and domestic investment, apply a more flexible system of price controls, relax the existing labour legislation and liberalise import controls, are anticipated.

## CHAPTER III. SUBREGIONAL INDUSTRIAL ORGANIZATION

96. The subregion has four main economic groupings.They are Southern African Development Community (SADC), Preferential Trade Area (PTA),Kagera Basin Authority (KBA), and The Indian Ocean Commission (OIC).

### A. SOUTHERN AFRICA DEVELOPMENT COMMUNITY (SADC)

97. The establishment of the Southern African Development Community (SADC) on August 17, 1992 marked a new approach in efforts to strengthen regional economic cooperation. It also expressed the ultimate desire of the member states to transform their national economies into an integrated self- sustaining regional economy. In this connection, industrial and trade development would be crucial for successful regional economic integration and for the structural transformation of the region's economies.

98. In order to promote regional economic integration in industry and trade, the SADC Industry and Trade Coordination Division (SITCD) was created to direct efforts towards facilitating resources mobilisation, cross border investments and the creation of a regional market. The starting point had been the preparation of protocols on regional cooperation. A number of protocols would thus be required to cover the various aspects of regional cooperation in the field of industry and trade and the related aspects of investments and finance.

99. According to the 1992 SADC annual progress report, during the period of 1990/91, all SADC countries except Zambia recorded positive GDP growth rates.The performance was slightly better for 1991 when on average GDP grew at 4.2% as compared to 3.4% in 1990. The performance of 1991 was unlikely to be sustained in 1992 mainly on account of the 1991/92 severe drought which covered the whole of Southern Africa and parts of East Africa.

100. Statistical data on intra-SADC trade is not easily available for most SADC countries. However, it would appear that the manufacturing sector as well as trade still remain the main focus of the economic reforms being implemented in mostSADC countries; including efforts to liberalise and to create enabling investment and trade conditions. These measures have not as yet produced the expected impact; at least in terms of capacity utilisation and increased new industrial investments and intra-regional trade.

101. Statistics shown in Table I represent the growth rate of Manufacturing Value Added (MVA) for six countries including Botswana, Malawi, Swaziland, Tanzania, Zambia and Zimbabwe Growth rate of MVA for Botswana dropped to 11.7 in 1992 from 6.6 in 1991. On the other hand, the manufacturing sector in Swaziland, Tanzania Botswana and Zimbabwe performance poorly in 1991. The main contributing factors to the poor performance of the manufacturing sector in most SADC Countries include old machinery, inadequate capital and economic infrastructure, and problems related to management, tight liquidity and transitional effects of economic reforms.

TABLE I

GROWTH OF MANUFACTURED VALUE ADDED (MVA)

| GROWTH % P.A | | |
|---|---|---|
| COUNTRY | 1990 | 1991 |
| BOTSWANA | 11.70 | 6.60 |
| LESOTHO | 3.90 | 4.50 |
| SWAZILAND | 1.20 | 11.90 |
| TANZANIA | 7.84 | 4.30 |
| ZAMBIA | 7.80 | 7.60 |
| ZIMBABWE | 4.40 | 2.80 |

Source:- Country Reports.

102. In order to build SADC programmes in the Industry and Trade Sector would include the preparation of protocols to address regional integration in investments and finance, trade facilitation and support services. The areas earmarked include industry, trade and investment, especially with respect to the following:-

- the facilitation of cross-border investment;

- the removal of tariff and non-tariff barriers to trade,and overcoming the current payments problems;

- the mobilisation of resources through the creation of a network of commercial banking, development finance and capital market services.

103. Guidelines for the preparation of protocols on cooperation in the field of industry and trade have been prepared.The guidelines are that:

- the focus of this Sector should continue to be industry and trade development of the region;

- umbrella protocols in the field of industry and trade and related aspects of investment and finance should prepared as follows: industry and Trade; support services; investment and finance;

104. On the basis of the umbrella protocols, consequential protocols on special areas will be developed; the protocols to be prepared should be as practicable and comprehensive as possible; in preparing the protocols account of the existing bilateral and multilateral cooperation arrangements including the African Economic Community should be considered; the time frame for completing preparation of draft protocols is February, 1994.

105. The other programmes would focus at the implementation of ongoing sectoral projects in as much as these re-enforce the preparation of the protocols.The on-going programmes cover the following programme elements: industrial development; trade development; industry and Trade Support Services.

Industrial Development

106. In implementing the SADC Industrial Development Policies and Strategy, programme activities include improvement of investment climate.

107. This is to facilitate the harmonisation and improvement of investment policies and mechanisms in the SADC region.

108. SADC governments in response are taking practical measures to create an enabling investment climate including:

- the democratisation of political systems;
- liberalisation of economic management;
- establishment of one stop investment promotion centres;
- elimination of bureaucratic practices and regulations;
- improvement of banking systems and establishment of competitive financial intermediaries; and - involvement of the private sector in the management of the economy.

109. At the regional level a number of programme activities have been approved for implementation: reviewing, up-dating and publication of existing investment policies and regulations of the member states; harmonisation of economic policies and business practices that facilitate improvement of the regional investment climate and regional cross-border investments; consultations (e.g. through country visits, workshops aimed at facilitating exchange of experiences in the area of investment mechanisms and practices amongst member States.

However, programme activities are yet to be implemented.Shortage of resources contributed to the failure in updating and publication of existing investment policies and regulations of member states and the carrying out of consultations.However, funding for the updating and publication of investment codes and regulations have been secured and implementation has started. On the other hand, the establishment of SADC has enhanced possibilities to harmonise economic policies and business policies of member states. Proposed SADC projects for implementation are shown in Annex I.

## B. PREFERENTIAL TRADE AREA FOR EASTERN AND SOUTHERN AFRICA STATES (PTA)

110. PTA was established in 1982 to foster development of the region. Members of PTA are Angola, Burundi, Comoros, Djibouti, Ethiopia, Kenya, Lesotho, Malawi, Mauritius, Mozambique, Rwanda, Somalia, Sudan, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe. Other states which are regarded as potential members are Botswana, Madagascar, Namibia and Seychelles.

111. The Treaty establishing PTA, stipulates the key objective of the Organisation as to promote the cooperation and development particularly in the field of trade, customs, industry, transport, communications, agriculture, natural resources and monetary affairs.PTA has created a number of institutions which provide a framework for cooperation in the years to come.These include PTA Bank, the Clearing House, the Federation of Chambers of Commerce and Industry, the Metallurgical Technology Centre, the Leather and Leather Products Institute and the African Joint Air Services.

112. The scope of activities depends on natural resources endowments, established industrial structures, physical infrastructure, human resource capabilities, and potential market orientation, and other elements of an enabling environment.Secondly, there is a severe limit to what can be done by the member states in a situation of limited resources.Recognition of this limit takes into consideration the essential co-ordinating and promotional role of the PTA secretariat.Whatever

the action may be at the subregional level, they are always shaped and guided by the goals that are mandated in the treaty for the PTA.

Industrial Development of Objectives in PTA States.

113. In the sector of industry, PTA has determined industrial objectives according to their potential for enhancing self-reliance of the subregion as a whole in strategic fields.In addition the table below summarizes industrial objectives in the PTA States.

**INDUSTRIAL OBJECTIVES IN PTA STATES**

| COUNTRY | MVA | EMP | FER | CON | LIG | LCG | ISL | BRI | SHG | ENV |
|---|---|---|---|---|---|---|---|---|---|---|
| 1. Angola | - | - | - | - | - | - | - | - | - | - |
| 2. Burundi | Y | Y | Y | - | - | Y | - | - | - | - |
| 3. Comoros | - | - | - | - | - | - | - | - | - | - |
| 4. Djibouti | - | - | - | - | - | - | - | - | - | - |
| 5. Ethiopia | Y | Y | Y | Y | - | - | Y | Y | Y | Y |
| 6. Kenya | Y | Y | Y | - | Y | Y | Y | Y | - | - |
| 7. Lesotho | - | - | - | - | - | - | - | - | - | - |
| 8. Malawi | Y | - | Y | Y | Y | - | - | - | - | - |
| 9. Mauritius | Y | Y | Y | - | - | - | - | - | - | - |
| 10.Mozambique | - | - | - | - | - | - | - | - | - | - |
| 11.Rwanda | - | - | - | - | - | - | - | - | - | - |
| 12.Somalia | Y | - | Y | Y | - | - | - | - | - | - |
| 13.Sudan | - | - | - | - | - | - | - | - | - | |
| 14.Swaziland | Y | - | Y | - | - | - | - | - | - | - |
| 15.Tanzania | - | - | - | - | - | - | - | - | - | |
| 16.Uganda | Y | - | - | Y | - | - | Y | - | - | - |
| 17.Zambia | Y | - | Y | - | - | Y | - | - | - | - |
| 18.Zimbabwe | Y | Y | - | - | Y | Y | Y | Y | - | - |
| With | 10 | 9 | 8 | 4 | 3 | 4 | 4 | 3 | 1 | 1 |
| As percentum | 56% | 50% | 44% | 22% | 17% | 22% | 22% | 17% | 6% | 6% |
| Without | 8 | 9 | 10 | 14 | 15 | 14 | 14 | 15 | 17 | 17 |

KEY:

| | | |
|---|---|---|
| MVA | = | Manufacturing Value Added |
| EMP | = | Employment |
| FER | = | Foreign Exchange |
| CON | = | Local consumer goods production |
| LIG | = | Local intermediate goods production |
| LCG | = | Local capital goods production |
| 1SL | = | Inter-sectoral linkages |
| BRI | = | Balanced regional industrial development |
| SHG | = | Standardised high quality goods |
| ENV | = | Environmental protection |

Source: Adapted from Integrated Industrial Development Programme for the PTA. July, 1991

114. PTA have common objectives in three areas of increasing manufacturing value added,employment creation and foreign exchange earnings.There is minimal emphasis in balanced industrial regional development, standardised high quality products and environmental protection.

Industrial Sub-Sector in the PTA

Iron and Steel

115. The iron and steel branch is given the highest priority at the PTA level, both at present and in terms of expressed concerns for the future.Other metals of importance include copper, tin, aluminum, lead, nickel and chromium.

116. The major problem of this sub-sector is low capacity utilization.Because of this problem, a major part of this subregion's requirements are met from outside the subregion. The

underutilization of capacity has its origins in a number of factors.These include shortages of raw materials inefficient plants, shortages of skilled staff, lack of foreign exchange to buy replacement equipment and spare parts, and insufficient supply of scrap iron from the subregion.Rehabilitation of some of the older plants has been estimated to be almost as expensive as the establishment of new ones.

**Engineering**

117. Some of the PTA countries already have engineering industries of considerable size, namely Kenya, Zambia and Zimbabwe.Zambia's engineering industries are specialized in production and repair of mining equipment and their components.Zimbabwe's engineering industries are relatively diversified.Most of these plants, however, are under utilized or need rehabilitation, due to lack of foreign exchange for purchasing raw materials and spare parts and to lack of skilled personnel.The role of such industries in developing industrial linkages, skilled employment, small- scale entrepreneurship and sub-contracting is quite significant.

118. Engineering activitiesencompass a range of activities, ranging from the assembly or part construction of transport equipment in some countries to manufacture of agricultural hand tools and animal-draw equipment;Other important subsectors for the engineering industries include the manufacture and repair of machinery and equipment for the mining sector and agro-industries, such as sugar refining and textile manufacturing.The engineering industries include, besides the production of machinery and equipment, the manufacture of replacement parts and structural components for the construction industry.These include screws, bolts and nuts, flanges, hinges and the like.

**Chemicals**

119. The chemicals subsector is widely diversified. Compared to other subsectors there are many establishments in chemicals. Output from the subsector is input, and therefore important to all other subsectors in manufacturing, as well as to agriculture and other sectors of

production.Because of its numerous linkages to the rest of the economy, particularly its production of inputs to food production and health care, the chemicals subsector is included as a priority subsector.

**Agro-Industries**

120. Agro-industries in the PTA subregion are endowed with the required raw materials.Apart from the industrial (cash) crops, tea, coffee, tobacco, cotton and so forth, which are cultivated for export, all food processing industries within the subregion could rely exclusively on the local resources: grain, sugar, meat, milk, fish, fruits, and vegetables.The subregion has comprehensive potential for attaining complete self- sufficiency in food production and processing, plus a large export capacity in processed foods.

121. Food processing industries dominates the industrial structure.Like other industries, however, and especially to the extent that it is or is becoming export-oriented, it will have to take account of changes at the international level.Two of these changes are inter-related:The first is in the area of standards, where a complex international process of determination and application continues to extend its scope and its reach.

122. This means that standards for processed food that are determined in developed countries have to be met. They demand the plants to export their products that meet the health and quality requirements of such markets.The second important aspect is in packaging, where, standards are laid down, affecting not only the type of packaging but the information that has to put on the label.

123. One major food industry in the subregion is the sugar industry.Substantial quantities of raw sugar are produced in Ethiopia, Kenya, Malawi, Mauritius, Swaziland, Tanzania, Zambia and Zimbabwe. Many of these are also major refiners. The sugar industry requires improved supply of spare parts for machinery and production of chemicals from sugar. However, the industry would also benefit from direct support in terms of the development of human resources.

Mauritius has a successful national training centre, which is well placed to play a subregional role. Subregional training programmes could have important effects on skills in several technologies associated with this key industry.

124. The leather industry is important to many of the PTA states. Virtually all of them produce the raw materials (hides and skins).In aggregate, the PTA states have 48.4 per cent of cattle in Africa, together with 27.6 per cent of all sheep and 39.5 per cent of all goats.

125. The total annual production of hides and skins in the subregion is estimated at 13.8 million cattle hides, 17.9 million sheep skins and 23.8 million goat skins annually. Several of the member states have leather industries of high quality, producing for export to Europe.

126. PTA recognized the need to overcome the constraints and problems facing an existing national leather centre in Ethiopia.It has been decided that the present centre should be improved and become the nucleus of a subregional development of leather industry. The institute is named the Leather and Leather Products Institute (LLPI).The activities of the institution would be directed particularly to working on leather technology, carrying out R&D, training, and providing consultancy services.

**Paper and Paper Products, Printing and Publishing**

127. The subregion is interested to develop the manufacture of pulp, paper and paperboard, although the industry is not yet among the branches or subsectors selected for priority attention. Nevertheless, its importance for social and industrial development is not in question.Moreover, there is considerable potential in the subregion for its total output of pulp, paper and paperboard and products of paper and paperboard.Manufacture of containers and boxes of paper and paper board and printing and publishing and allied industries are two other important branches of the subsector.

128. Pulp and paper industries in the subregion are believed to be producing at high capacity and supplying about 80 per cent of the subregional market.Nevertheless, potentially they could be considerably expanded, if supply and demand constraints were reduced.On the supply side, the subregion has a capacity to produce a sufficient quantity of wood, but waste paper is in short supply and costly for certain grades of products.Old machinery and unfulfilled needs for improved technology and expertise are other serious constraints.

**Non Metallic Mineral Products**

129. The non-metallic mineral products subsector of manufacturing is readily associated with building material of all types produced in every branch of the subsector. The branches and their products that are used in building construction are the following:

- pottery, china and earthenware, vitreous china plumbing fixtures, china and earthenware plumbing fittings and bathroom accessories, and porcelain electrical supplies,in addition to various household wares and laboratory products;

- glass and glass products including plate glass for windows, doors, screens and mirrors, moulded glass blocks and lighting fixtures;

- structural clay products including bricks, tiles, pipe architectural terra-cotta, and chimney pipes and tops;
- cement, lime and plaster including all types of cement and a variety of lime and plaster;

- other non-metallic mineral products including blocks and other products of cement, gypsum, and plaster, such as ready-mixed concrete, mineral wool, slate products, and dimension stone.

130. A major building material, cement, has been selected for priority. The actual total installed capacity of 8 million tonnes per year in 20 plants would meet the needs of the subregion, but the production amounts to only 3.5 million tonnes per year.Particularly in Angola and Mozambique, the utilization level is very low,about 30 per cent.

131. Manufacture of glass and glass products is an important branch of this subsector for not only building materials but also packaging materials. In this context it should be noted that there is a considerable number of proposals to institute or expand glass production in the member states of the PTA. The production of sheet and plate glass, as well as container glass has been at subregional level.

132. Other projects included in sub regional co-operation are involved in research on building materials.Those institutes are, for example, the building materials research institute in Khartoum, the Housing and Research Development Unit at the University of Nairobi and the Malawi Housing Corporation.Institutional co-operation will enhance enterprise formation or trade.The Malawi Entrepreneurs Development Institute (MEDI) is an example of an institution that trains local small scale entrepreneurs who are active in several manufacturing subsectors, including building materials and construction. Development of entrepreneurship is a primary goal.

Constraints Facing I..dustrial Integration

133. Industrial integration is unable to unfold in isolation from overall economic integration, since it requires open markets, free movement of capital and labour, removal of exchange controls and, most important of all, free flow of information.

134. The critical problems facing industrial integration are prominent in four areas: information, balance in overall economic integration, pattern of industrial structures in the member states, transport and communications.

135. An enormous variety of processes and products, and an accelerating pace of technological change, means that problems and opportunities are continually changing.

136. Entrepreneurs must be well informed in order to have the merest know-how and ability to be competitive and to be able to adapt their lines of production in the optimal direction. Up-to-date and comprehensive information is essential to entrepreneurs who intend to keep pace with competitors and market requirements and, therefore, essential for national industrial development.Consequently, information must be readily and easily available and abundant, meaning obtainable at low cost.

137. Effort by the PTA institutions in the direction of increasing the quantity and improving the quality of flows of information is important for facilitating trade and effectively reducing barriers to trade.Moreover, the effects of the dissemination of information by means of integrated programming and other efforts of the PTA institutions are multiplied if they result in bringing industrialist together personally to share and create additional flows of information.

138. The second problem arises in the relation between overall economic integration and industrial integration. Integration has to be aligned with a more general process of economic integration.The PTA has already made progress in many fields, but it must be stressed that progress can only continue if it is distributed relatively evenly across all fields.Only in this way will the collective consensus and impetus continue.The process of integration cannot ensure all countries achieve the same type and degree of industrialization at the same time; disparities will continue to exist and even to be accentuated.They can be compensated for by progress in other sectors, but this means that the integration process has to make progress in all sectors, not necessarily simultaneously, but with an acceptable degree of co-ordination.

139. The structural problem, however, is complex.Putting all the industries of the PTA together still leaves many gaps, that is, many necessary facilities and technologies are missing. Consequently, the subregion is dependent on outside sources for many products and services.The industries of the subregion, even with a perfect market system in operation, however, could not

meet all their industrial needs.Nor should they.In spite of the large geographical spread of the PTA, it can never be expected that the most efficient solution would be for it to produce all of its industrial requirements. Rather, it is by exchanging goods and services with other regions of the world that the best use of comparative advantages will be found.

140. Because the industrial structure contains so many gaps, however, means that presently established industries cannot find reliable sources of supply or sufficiently wide markets for their products in order to ensure continuous production. This is seen in such industrial subsectors as metals and engineering, where the supply of spare parts is hampered by the absence of local producers, exacerbated by foreign exchange constraints on importing spare parts from outside the subregion.

- sharing of metrology services among the member states;
- establishment of traceability links between the member states and metrology centres in the industrial world;
- technical assistance and training in metrology offered by the more developed member state to the other lacking such experience and knowledge;
- exchange of information on metrology among the member states.

141. There are also sixty projects earmarked for consideration/implementation in the following sub sectors.

| | |
|---|---|
| Industry | 13 |
| Chemical | 11 |
| Engineering | 8 |
| Metal | 7 |
| Human Res.Dev. | 7 |
| Environment | 5 |
| Energy | 3 |
| Agriculture | 3 |
| Building | 3 |

## C. KAGERA RIVER BASIN ORGANISATION (KBO)

142. KBO is a subregional organisation established in 1977 with Rwanda, Burundi, Uganda and Tanzania as founding member states. KBO is a multipurpose development organisation for the region. Key development projects in the plans of the organisation are in the sectors of communications, energy, agriculture and human resources development (training). The implementation of the planned activities has been slow for lack of funds, it has not been able to realise proposed projects and programmes except the telephone network.

143. The Organisation is currently mobilising funds to finance the following three projects:-

- Trypanosomiasis Control project
- Two major road segments from Lusahunga to Mtukula and Kagitumbo to Isaka.
- Rusumo hydro-electric project of 354 KV.

144. KBO has not involved itself in industrial projects in the past and there are no plans in the future either.

## D. THE INDIAN OCEAN COMMISSION (IOC)

145. The Co-operation strategy of the Indian Ocean Commission is based on two main area of emphasis. These are the development of trade and the promotion of industrial co-operation within the sub-region. These areas are determined by objective considerations such as factor endowments and the requirements of the population, as well as by the interests expressed by governments and economic factors.

146. Stemming from the two objectives subscribed by the different subregional groups of SADC and PTA, the policy framework for the subregion has focused on harmonisation and

coordination. However, degrees of emphasis have varied.Thus, while SADC's general policy is the development of national efforts, PTA's focus is on sub-regional integration.

147. Policies have also been formulated to strengthen the effectiveness of strategies in areas like import substitution, small and medium scale industrial promotion core and engineering industries development.

148. IOC is expected to play an active and coordinated role in ensuring the full implementation of the sub-regional programme of IDDA.

## CHAPTER IV. FINANCIAL RESOURCES

149. Given the inadequacy of medium and long term development capital in the sub region, the economies are characterised by a limited degree of monetization. Resources in kind account for a large proportion of the household budget and significant amounts of savings and investment in kind are realised with little or no commitment of financial resources. The progressive monetization of the economies will certainly create more favourable conditions for the savings mobilisation function of financial intermediaries. Capital accumulation is a major pre-requisite for economic development and that saving is an essential pre- condition for a well planned capital accumulation. A low savings rates, clearly is insufficient to promote self sustained growth. Any increase in capital formation will depend on the success in achieving and sustaining higher domestic savings ratios. The Swaziland Development and Savings Bank is good example to emulate in the sub-region.

### Domestic Savings

150. The gross domestic savings in 1987 of the subregion as a whole amounted to US$ 3.7 billion, which was 11 per cent of the Gross Domestic Product. The same ratio was 13 per cent for sub-Saharan Africa. Five countries out of twelve had a savings ratio higher than 10 per cent (Swaziland, Comoros and Djibouti are not included) and only three had a savings ratio over 20

per cent: Kenya, Zimbabwe and Mauritius. Two countries, Tanzania and Lesotho, had negative savings ratios.

**Financial Intermediaries**

151. Banking and finance structures as well as capital and markets remain rudimentary in SSA and their capacity for financial intermediation very limited. The state of under development of the financial system is also demonstrated by the narrow range of financial instruments available to investors, as well as the near absence of capital and money markets in a number of states. The predominance of the informal financial system is further testimony of the underdevelopment of the formal financial system in Africa.

152. Capital and money markets in SSA exist only in a few countries and Wherever they exist the range of financial instruments transacted is narrow. Among the stock exchanges currently existing are in Kenya and Zimbabwe. However, the number of companies listed is still small and the volume of transactions is correspondingly small. Development banks depend on funds provided by the government or on loans and or grants from external sources. Some of them accept saving deposits. Many of them however have become reluctant to become involved in the financing SME's. Zaire is one of the countries included in the group of highly externally indebted countries. The accumulated debt of the subregion in 1991 was US$ 87,7 billion, which is 83 per cent of GDP. The countries with the highest debt ratio to GDP are Angola Mozambique, Somalia, Sudan, Zambia and Tanzania. Refer Appendix I.

**Multilateral and Bilateral Finance**

153. Resources flows have declined steadily since 1989, from US $ 26.2 billion to US $ 23.8 billion in 1991. There is no data to show positive changes to the situation given the mounting pressure on global aid resources to Eastern Europe. For 1992 net long-term financial inflows to Sub Saharan Africa stood at US$ 17.8 billion which when compared to 1991, reflects a

contraction of US$ 100 million. Multilateral and bilateral finance institution have reduced resources for investment in the industrial sector in the region.

154. The population of the PTA subregion in 1987, at 150.3 million, was 34 per cent of the total sub-Saharan African population. The average ODA per capita was thus US $ 31.24. The total amount of ODA net disbursements received by PTA countries corresponded to 14 per cent of their total GDP of that year, whereas for sub-Saharan Africa as a whole the ratio was 9 per cent. The same amount of ODA receipts represented 12 per cent of the total GNP of PTA subregion, while in sub-Saharan Africa the ratio was 8 per cent.

155. The scarcity of resources continue to remain as a major constraint for promotion and implementation of industrial projects. Plans are not realised and the reports are outdated. There is a serious need to establish a SADC/PTA, Bank to complement financial resources in the sub region. The financial infrastructure has to be developed to meet the requirements of the business community.

**Special Arrangements**

Investment and Trade Finance

156. This programme is aimed at encouraging development of capital markets and mobilisation of domestic savings and foreign exchange to finance industrial investments and export trade. In this regard, the following programme activities have been initiated:

**(a) Study on Cross-Border Investment Facility**

157. The programme involves establishment of Cross-Border Investment Facility. It is intended to overcome financing constraints to investments across national boundaries.

**(b) Comprehensive Export Financing Scheme (CEFS).**

158. The programme incorporates both Export Pre-financing Revolving Fund (EPRF) and Export Credit Facility (ECF) and is intended to increase investments in the sub-region.

**(c) Counter Trade Agreements**

These agreements are based on reciprocal commitments for trade exchanges. They were initiated mainly in order to reduce dependency on the utilisation of foreign exchange in financing export trade and to promote non-traditional exports. The programme involves the conclusion of counter trade agreements between trading partners within the SADC region and between SADC business enterprises and their counterparts in the rest of the world.

**(d) NORSAD FUND**

159. The NORSAD Fund, established since January, 1990 within the broad context of SADC/Nordic cooperation, is intended to provide a foreign exchange revolving facility to promote joint venture investments particularly to exporting firms drawn from SADC and Nordic countries.

160. Over the period the Fund through its Agency in Lusaka has received and approved a number of project proposals. These include a security company in Angola, a telephone company and a mechanical engineering company in Zimbabwe, a fruit processing plant and a mining company in Zambia and a hotel project in Tanzania. However, most of them have experienced delay in disbursement due to rigid conditions of the Fund which made the facility inaccessible and unattractive to most entrepreneurs. The project is the only one that has received actual funding so far amounting to DKK 20 million.

161. To correct this situation, the Fund has made some major improvements which now make the conditions for the utilisation of the fund more flexible and competitive. This has raised the prospects of increased Nordic-SADC investments and trade in the SADC region.

162. The programmes on trade financing, including promotion of capital markets and investments within SADC as well as cross-border investments, will have to be incorporated in SADC Treaty protocols. In addition to regional efforts mentioned above, member States would be required to establish strong financial markets, including stock exchanges, as a means of mobilising financial resources to finance private investments.

## CHAPTER V. CONCLUSIONS AND RECOMMENDATIONS

### A. CONCLUSIONS

1. The objectives of this study is to enhance awareness of the governments of their potentials of sub-regional groupings. Meanwhile to review efforts for the creation of enabling environment to assist national governments to priorities industrial programmes and projects and integrate them with subregional priorities in industries and to streamline apprehensive policies for implementation.

2. The sub-Saharan Africa has a population of 278.3 million (1991) with Ethiopia and Zaire with 32% of the population. the economies continue to be agricultural exports as the main source of foreign exchange.

3. Political and economic policies are subject for review are re-organization. Management has to be streamlined and reconstituted. Innovative methods are necessary so as to maximize exploitation and processing of abundant natural resources.

4. Despite priority given by national governments to second IDDA activities, resource constraint are a serious bottleneck. Rehabilitation and revitalization efforts of industries are expected to increase capacity utilization.

5. Programmes expansions have also been limited by lack of resources. In view of the private sector promotion care should be exercised to minimize unnecessary capacity creation in certain sectors. New sub-regional industrial projects should be coordinated.

6. The choices of priority sub-sectors for integrated industrialization of the subregion must be considered particularly in view of natural endowments and the diverse current paths of development. Other factors that affect choices concern market growth, or its potential for growth, facilities for financing projects, and degree of potential change in various national priorities as industrial integration progresses in the subregion.

7. The Coordination in Implementation of IDDA II programme with members state is lacking despite a number of recommendations taken by national and sub regional policy making institutions including ECA, OAU and UNIDO.

8. The role of the private sector is highly appreciated by all member state as a major challenge in the industrialisation process. Also the need to develop the indigenous entrepreneurship so as to enhance possibilities to attract foreign investment and joint ventures is stated in a number of policy strategies. There is no clear evidence of programmes to implement such priority strategy.

9. Member states are continuing to face critical structural economic problems and lack of enabling environment in industrial infrastructure, communications and telecommunication, unstable currencies and inflation, inter- nationalisation of technology, social residue, heavy indebtness, fiscal policies providing incentives, rule of law and democracy and a high level of human capability.The on-going Structural Adjustment

Programme (SAP), with the accompanying conditionalities, will not solve the problems above easily in the near future.

10. Despite repeated statements regarding privatisation of public enterprises, so as to achieve greater efficiency, the financial sectors are ill prepared to assist indigenous entrepreneurs to participate in the process effectively.Stock exchange houses are yet to work effectively in those countries and in some countries are yet to be developed.

11. Inspite of the comparative advantage in terms of natural endowment, the industrial sector in the sub region is dominated by light industries such as textile, food,beverage and simple consumer goods. The industries are characterised by low productivity and capacity utilisation not exceeding 40%

12. There is an extremely high level dependency on technology acquisition and development. Local research and development of technology is not linked to operating enterprises for industrial use.

13. The SADC and PTA regional institutions are geared to promote intra African trade and industrial development.The majority of the member states had decided that industrial development would be controlled and managed by government as public sector monopolise productive sectors including industry. Yet the ability of the public sector to strategically respond to market opportunities remains extremely wanting.

14. As the majority of industrial projects are in the plan of being privatised, sub-regional projects will depend on their potential viability to industrial sub-sectors in the sub region. SADC is committed to a core industry strategies in line with the Lagos Plan of Action.

15. The Sub Saharan Africa like other parts of the region has to divert to a free market philosophy, propelled by SAPs which has led to de-industrialisation caused by lack of investment, an end to import restrictions and rampant devaluation. These policies changes

are induced by donor supported programmes rather than investment having a potential for rapid productivity gains.

16. Protection of infant industry is non-existent,and there has been little new investment particularly in the on-going privatised state enterprises. And yet SAP policies continue to be supported by IMF and World Bank. Such relentless policies are yet to show success or positive results. Private industry remains un-competitive and there has been little export.

17. Kegera River Basin Organisation (KBO) has no plans for industrial projects. It has, however, accomplished a telephone network for member states.

## B. RECOMMENDATIONS

1. The basic problem in the present national industrial structures is the basis for integration. What is to be integrated is not a full set of sophisticated industrial system but instead a number of economies which are in many cases still highly dependent on imports of manufacture from outside the sub region. There is a serious need to integrate local industrial structure with regional groupings to reduce overlap or duplication of production capability.

2. The subregion should forge closer links with South East Asia in promoting Joint Ventures, Venture Capital and technology transfer. South East Asia could support regional institutions and strategies in line with the Lagos Plan of Action. 3.T h e Subregion has already instituted a wide variety of activities of industrial production, to address the main tasks of industrial recovery and to lay the basis for sustained growth and development. There has been a particular concentration on mobilizing and exploiting complementary resources, defining these to include existing industries and institutions, together with skilled people active in the field of industry. This is broadly summarised

as rehabilitation, new investment, expansion and diversification, and institutional support. Concrete and concentrated effort will be necessary to accelerate the activities

4. Industrial research result could not be translated into worthwhile results by well meaning policy makers in the interest of national development. A lot of result efforts in research show little evidence of utilisation,inadequate strategies in approach, skills and coordination. The weak relationship between development and the offering of higher education and research have been blamed on irrelevance, of research to the needs of the users of their results. Efforts to integrate the knowledge and research results to users should be initiated and implemented.

5. The scarcity of resources continue to remain a major constraint for promotion and implementation of industrial projects. Plans are not realised and many of the evaluations are not done on time to guide causes of action.

6. In a latest development, PTA adopted a treaty to establish a regional Common Market for Eastern and Southern Africa (COMESA) in November 1993. The treaty seeks to break down trade barriers and boost interstate trade, initiatives related to economic integration, trade facilitation and development. Political will is necessary to realise the results in the immediate future.

7. Development of a regional network of industrial subcontracting exchanges designed to diffuse information on subcontracting capabilities within the region with emphasis on the mobilisation of small and medium industries should be developed and supported. Kenya, Zimbabwe Mauritius and Tanzania are undertaking the project.

8. Due to lack of investible resources there is a serious need to establish a SADC Bank to complement financial resources in the sub region. The financial infrastructure has to be developed to meet the requirements of the business community.

9. Human resource development is crucial in technology transfer and management. It is highly recommended that regional training institutions enhance management skills,provide and exchange information and research methods as well as results.

10. Member countries should develop Intra regional cooperation for SME's promotion designed to establish a network to enhance small industries development and national promotional capabilities.

11. For the financial system in SSA to meet the challenges that will face the continent in the 1990s, some major policy changes have started to improve the system's capability for effective intermediation. These measures invariably include; permitting greater freedom for and other financial intermediaries to effectively respond to market signals and other developments, encouraging the development of non-bank financial intermediaries, particularly those which support the productive base (savings).

# THE SADC PROPOSED PROJECTS/PROGRAMMES.

## Industry and Trade Support Services

The Industry and Trade support services including; the development of capabilities for product design and engineering, industrial research and development (R&D), standardisation and quality assurance (SQA), market research, industrial management and skills development, consultancy services and exchange of information between member states. The Industry and Trade Support services in most SADC countries are not sufficiently developed. In this regard, the following strategies have been adopted to create and strengthen national/regional technical capacities for support services:-

- To undertake regional surveys of existing industrial support services in SADC countries.
- To prepare programmes for establishing and strengthening national capacities for support services.
- To promote regional cooperation in the management and utilisation of existing industrial support services and to encourage joint establishment of regional institutions.

So far efforts have been made to initiate programmes for the following support services:

**Standardisation and Quality Assurance (SQA)**

SITCD has established a group of experts to promote development of SQA programmes. In this regard, programmes relating to the establishment and strengthening of existing NSBs, harmonisation of standards and certification schemes, information exchange and training, quality testing and envelopment are being implemented.

**Information Exchange Centre**

SITCD is establishing Industry and Trade Information Exchange Centre in Dar es Salaam. Further development of the centre is being reviewed in the context of cooperating with the SADC Regional Business Council (SRBC).

**Study on Industrial Research and Development Capability Building in the SADC Region**

The mandate to coordinate SADC Industry and trade programmes covers among others, regional cooperation in Industrial Research Development (R&D) capability building. In this respect, SITCD commissioned a study to asses the existing institutions, that structures, programmes and activities in order to recommend appropriate measures for improvement.

**Standardization and Quality Control**

Four of the ten SADC countries have National Standards Bodies (NSBs), namely Malawi, Tanzania, Zambia and Zimbabwe.The other six member states are in different stages of establishing NSBs or national systems for standardization and quality assurance; of these Mozambique has passed a law for the establishment of a NSB. The existing NSBs are all in a phase of development or expansion. The African Regional Organisation for Standardization (ARSO)and the PTA have also programmes on SQA, similar to that of SADC.

**Establishment of National Standards Bodies**

Nuclei have now been established in Angola, Botswana,Lesotho, Mozambique, Namibia and Swaziland. The nuclei are responsible for coordination of all SQA activities both at National and Regional levels. Assistance in establishing these nuclei is provided by ITC under a regional project.

**Information Exchange and Training**

ITC has continued to assist the information dissemination systems in SADC through MBS. The ITC PACKDATA already developed and updated has been installed in four member States including Botswana, Malawi, Tanzania and Zimbabwe.Plans to install the PACKDATA in the remaining member States is underway. Installation of QUALIDATA system at MBS is in progress to be followed later in all member States. The EPIS and the EQIS newsletters for exporters, producers and traders in the SADC region are produced and circulated regularly. ITC sub-regional workshop on packaging specifications and testing was carried out in November, 1992 Harare, Zimbabwe which came up with a number of recommendation which are now under implementation. SADC training programme on Quality Management and Quality Assurance for 100 selected companies is proceeding successfully. So far it has already covered seminars for the chief executives in all the SADC member States and seminars for the top managers have been conducted in almost half of the member States.

**Harmonization of Standards and Certification Schemes**

A list of goods traded between the SADC member States whose standards could be harmonized has been prepared and circulated to members to provide additional information so as to facilitate the harmonization. However, in practice harmonisation of standards has been seen to be best done bilaterally between the member States. The approach could be simple and practical, starting at the standards drafting and trading levels where the countries involved could agree on harmonised standards.

**Quality Testing and Development**

The following programme activities are being implemented under the project:

- Direct Assistance in Packaging to Selected Enterprises in SADC member States which is being funded by the government of Finland.

- Development of Effective Quality Control, Standards and Testing Services for Export Products and Packaging, which also includes a Food Quality control System under preparation. The project is being funded by the government of Italy.

These projects which also include elements of training and information exchange and establishment of nuclei and strengthening of existing NSBs have been under implementation for the past 3 years. Project proposals for their further continuation have been submitted for funding.

**Study on Engineering Design and Other Product Development**

The study is intended to assist in drawing up a programme of action for the development of engineering design and product development facilities in SADC countries. The terms of reference for the study have been prepared.

**Development of Small/Medium Scale Industries Technologies and Transfer and Project**

<u>Research and Development Programme.</u>

**Industry and Trade Consultancy Services**

The objective is to compile a SADC Directory for Industrial and Trade consultancy services. The project is now part of the SADC Directory of consultancy firms compiled by the SADC Secretariat which requires updating. Compilation of consultancy firms in the area of industry and trade for updating the directory is in progress. However, the sustainability of the project is being reviewed with a view to commercialising it along the lines of the SADC Trade Directory.

**Establishment of Information Exchange Centre**

SADC is establishing an Industry and Trade Information Exchange Centre at Dar es Salaam to facilitate exchange of information within the region. The centre will inter alia,have the following functions:

- Collection of information on databases in agreed formats
- Storage and retrieval of information, both numerical and descriptive, in a computerised system linked with the member States.
- Dissemination of information to various users within and outside the region.

In order to operationalise the project, the project is being reviewed in the context of cooperating with SRBC taking into account:

- The memorandum of cooperation between SITCD and SRBC.

**Development of Small-Scale Industry Technologies Programme**

The project is intended to promote development of small scale technologies in SADC countries with a view to enhancing their contribution to economic development.

Efforts are being made to establish and convene the first expert group meeting to work on a programme of action for the promotion and development of small scale industry technology.

**Industrial Research and Development**

This project involves the formulation of a programme for regional cooperation in industrial research and development(R & D). On the basis of a survey report on (R & D), a workshop involving relevant institutions was organised to deliberate on a programme of action.

The workshop recommendations and the proposed action plan have been considered by the SADC Industry and Trade.

**Management and Skills Development**

The development of this programme is being done in the context of the Human Resources Development Sector. The objective of this project is to develop industry and trade sector specific programmes including training, recruitment of experts and exchange of information.

**A System of Direct Trade Measures including Bilateral Trade Agreements**

The evaluation of existing bilateral trade agreements was completed in 1989. A "prototype" trade agreement prepared as a standard guideline for improving the existing bilateral trade agreements for SADC member States, was approved.

Several SADC member States have signed new bilateral trade agreements. An evaluation by SITCD of these agreements,including the assessment of the acceptability of the "prototype" agreement, would be undertaken to assess the effect of bilateral trade agreements on the development of intra-SADC trade.

Within the context of the proposed trade facilitation protocol, the bilateral trade agreements will have to become the effective means for increasing intra-SADC trade.

**Study on Generalised System of Preferences (GSP)**

The objective of the project is to promote exports from SADC countries to developed countries. A study to evaluate the performances of the existing Generalised System of Preferences (GSPs) and how these could support the expansion of SADC exports to developed countries is under discussion.

Through GSPs, SADC countries also stand to enjoy the cumulative treatment on the rules of origin clause for exports directed to the developed countries. this has to be pursued with the EEC and other developed countries.

**Study on the Development of a Comprehensive SADC Metrology System**

The main objective of the study is to propose a programme on SADC Metrology System, which is most effective and economical in benefiting industry and trade in the SADC region through:

- encouraging and assisting the member States in the establishment of National Metrology Systems (NMSs) including preparation/reviewing of the legal framework, working out national programmes, training of staff and identifying required physical infrastructure.

**PROPOSED PTA PROJECTS**

A number of potential areas have been identified calling for regional approach, they include:

- working out programmes to be adopted by member countries for guidance in their national plans,
- enhancing intra-regional flow of information through a number of activities ranging from establishing various fora to investing in information technology,
- promoting R&D in the region by establishing regional R&D institutions,
- rehabilitation and or expansion of industrial capacity to reflect the demand in the PTA market,
- carrying out opportunity, pre-feasibility, feasibility and appraisal studies in identified potential areas,
- collective human resource development through setting up regional training centres,
- establishing regional technology centres etc.

Appendix

(ix)

**EAST AND SOUTHERN AFRICAN COUNTRIES: KEY INDICATORS**

| | | | | | |
|---|---|---|---|---|---|
| EAST AND SOUTHERN AFRICA | 65654 | 202176 | 325 | 20.8 | 35.5 |
| Angola | 7715 | 9536 | 809 | | |
| Botswana | 2878 | 1278 | 2259 | 11.3 | 16.2 |
| Comoros | 155 | 563 | 275 | .. | .. |
| Djibouti | 477 | 453 | 1052 | .. | .. |
| Ethiopia | 4844 | 51331 | 94 | 7.0 | 10.5 |
| Kenya | 10843 | 24375 | 445 | 12.2 | 26.3 |
| Lesotho | 534 | 1799 | 297 | 13.9 | .. |
| Madagascar | 3393 | 12405 | 274 | 17.0 | 13.9 |
| Malawi | 1843 | 9899 | 186 | 15.8 | 20.0 |
| Mauritius | 2062 | 1086 | 1899 | 10.1 | 4.6 |
| Mozambique | 2200 | 14602 | 151 | 39.1 | 50.0 |
| Namibia | 2361 | 1486 | 1589 | 12.9 | .. |
| Seychelles | 181 | 72 | 2505 | 3.8 | 3.5 |
| Somalia | 2707 | 8953 | 302 | 51.8 | .. |
| Swaziland | 792 | 777 | 1019 | 13.7 | .. |