



**UNITED NATIONS
ECONOMIC AND SOCIAL COUNCIL
ECONOMIC COMMISSION FOR AFRICA**

Forty-seventh session of the Economic Commission for Africa



AFRICAN UNION

*Ninth session of the Conference of African
Ministers of Economy and Finance*

Seventh Joint Annual Meetings of the ECA Conference
of African Ministers of Finance, Planning and
Economic Development and AU Conference of
Ministers of Economy and Finance

Abuja, Nigeria
29 and 30 March 2014



Distr.: General

E/ECA/CM/47/3
AU/CAMEF/MIN/3(IX)
28 February 2014

Original: English

Draft background paper

**High-level policy dialogue on
“Capacity and institutions for industrial development: the role of the public and private
sectors”**

Theme: Industrialization for inclusive and transformative development in Africa

1. Background

1. The debate on industrial policy has shifted to examining the circumstances under which industrial policies will work and the role played by industrial policy institutions. Central to this is the need for the public and private sectors to work together in the design, implementation, monitoring and evaluation of industrial policies in the context of Africa's industrialization and economic transformation. Examining the experiences of industrializing countries reveals that, regardless of their individual national policies, they all have at their core well-functioning institutions and processes that promote strategic collaboration between Government, the private sector and other stakeholders. Industrialization and structural transformation in Africa will, therefore, require institutions that facilitate such collaboration.

2. The private sector needs government help to address market failures and internalize externalities linked to the cost-discovery process, along with a host of important public goods such as infrastructure, certification and property rights. In turn, Governments need information about the obstacles and opportunities that the private sector faces in order to design policy interventions catered to these constraints. Good industrial policy should provide an institutional framework that is conducive to continuous dialogue and collaboration among all actors.

3. This process of dynamic interaction creates a feedback mechanism that enables the identification of impediments and the design of relevant industrial policy interventions to address them. These interventions, which include special infrastructure and human capital development projects, research and development and improved access to credit, can be properly monitored and regularly re-evaluated within a dynamic process.

4. Achieving this requires a high and efficient level of strategic collaboration between public sector bureaucrats and private sector agents, with the support of high-level government organs. In addition to knowledge-sharing, this collaboration ensures both the relevance and credibility of government policy and encourages private investment. Successful industrial policy frameworks from African and East Asian countries reveal that when the private sector is systematically represented in all relevant industrial policy organizations, it has allowed Governments and industrial policy organizations to remain adaptable to the changing needs of industry. However, public sector bureaucrats must be able to act autonomously and remain independent of the influence of the private sector.

5. African countries have been unable to meet their industrialization potential as a result of poorly designed interventions, weak institutional capacities and the neglect of the critically important continuous dialogue between the public and private sectors. From this perspective, there is an obvious justification to equip Governments with the necessary capabilities to govern and shape the behaviour of economic agents and forge strategic collaboration with the private sector in the pursuit of industrialization. Likewise, there is a need to foster the development of capabilities in the private sector to ensure that it can play its role in the policy dialogue and compete and innovate.

2. The role of the public sector

6. There is a consensus among African leaders that Africa needs strategic policies targeted at specific sectors to foster industrialization. Special priority has been given to promoting commodity-based industrialization as a means to capitalize on Africa's current

assets in order to speed up the process, whilst also looking to develop other sources of comparative advantage. More importantly, African enterprises need to be equipped with the requisite capacities to undergo three complementary stages of industrialization, namely: industrial diversification through building new industrial capacity; industrial deepening through the creation of backward and forward linkages and complementarities between sectors and industries, including through the development of value chains; and industrial upgrading to build a more advanced and competitive industrial structure through product, process and functional upgrading.

7. The majority of African countries have economies that are characterized by: segmented national markets and weak sectoral linkages that hinder the exploitation of economies of scale; underdeveloped financial markets and a lack of long-term finance for industrial development; low levels of high-impact entrepreneurship; and crippling infrastructure deficits that exert high indirect costs on economic activity. The State has a role to play in addressing these challenges and supporting the private sector by dealing with bottlenecks in capital formation, factor markets and national learning systems. In a rapidly changing global market landscape, African firms may not have access to the information, skills, financing or other factors needed to develop their capabilities to catch up and keep up. In addition to promoting entrepreneurship and supporting small and medium-sized enterprises (SMEs) with a view to expanding the private sector base and employment opportunities, the State must address decisively the problem of informality: productivity matters in industrialization and it has been shown that informal firms tend to have lower productivity than small formal firms (United Nations Conference on Trade and Development, 2013). Promoting industrialization will require policies that build human capital through quality education, technical training and the acquisition of tacit knowledge. The availability of an appropriately skilled labour force will be a key determinant factor for the sustainable expansion of manufacturing activity and the development of new high-technology industries. The potential calamity of skills gaps should not be underestimated; according to the United Nations Educational, Scientific and Cultural Organization (2014), schooling is currently no guarantee of literacy. Some 10 per cent of global spending on primary education is currently being lost on poor-quality education that is failing to ensure that children learn. It is critical that education and skills formation policies encompass technology policies that will assure the three-way process of industrial diversification, deepening and upgrading.

8. Likewise, maintaining openness to trade and foreign investment will continue to be a key strategy for promoting learning, access to technology and international competitiveness, which is essential for industrial growth. The public sector has a vital role to play in addressing these and other constraints in order to establish the overall conditions under which an efficient and competitive private sector can thrive and industrialization can take place. Failing to address one or all these structural weaknesses in national economies heightens the risk of failure of industrial policy interventions. Hence, industrial policy institutions may also need to be set up to deal with other institutional gaps in, for example, infrastructure, skills development and particularly financing for industrialization. Experience also shows that there is a need to strengthen national industrial policy organizations to overcome organizational imperfections that can render them ineffective.

9. The need for appropriate institutional frameworks and enhanced State capabilities is ever more important given the current global context. Globalization and the primacy of global value chains places a premium on efficient and developed services sectors and rapid technological change presents both opportunities to leapfrog industrialization and challenges in ensuring that industrial policies are rooted in the future rather than in existing areas of

comparative advantage. This means that as much as there may be lessons to be learned from the experience of newly industrialized countries in East Asia, the applicability of their industrialization strategies will be limited by the radically different global trading conditions facing developing countries today. Rapid advances in technology mean that African Governments have to be nimble and capable of devising dynamic new or calibrated catch-up strategies. Such strategies also need to have a dual and mutually reinforcing national and regional focus in order to maximize synergies and opportunities for scale economies. Accordingly, capacity and institutional development interventions must address the skills and expertise Governments need in order to overcome all these challenges.

10. The State must provide strategic leadership in developing a long-term vision that prioritizes transformative and inclusive economic and social development, and puts in place the requisite institutional frameworks to strengthen coherence, coordination, and the reviewing of progress in implementation. The need for dynamic platforms for regular dialogue, stocktaking, and agenda-setting within the public sector is vital since the process of industrial policy formulation and implementation typically involves many players. The diversity of complementary actors and institutions implicated in industrialization increases the risk of conflicting interests or interventions undermining the effectiveness of industrial policy and diffusing energy and resources. Successful experiences from emerging and developing economies show that a high degree of systematic coordination and super-ministerial collaboration is a necessary ingredient for keeping lines of communication open, channelling scarce resources to vital interventions and ensuring a focus on the broader national interest.

11. Formal public-private sector dialogue and deliberation frameworks are needed to inform the development of industrial policy¹. Investing in political will to advocate and channel private sector demands through institutional means rather than informal networks is an important consideration for industrial policy success. Informal networks can facilitate a reliance on key individuals within private sector firms or associations and in so doing promote privilege and facilitate rent-seeking behaviour and corruption. Both the public and the private sectors have the responsibility to seek ways in which to discourage rent-seeking behaviour.

3. The role of the private sector

12. The private sector can play an important role in advocating for a better business and learning environment and should actively mobilize its members to cooperate with the public sector to industrialize. The private sector also has a central role to play in helping to overcome the traditional informational and bureaucratic constraints that arise from the closed and centralized decision-making processes that often characterize public sector policymaking. For instance, one of the key tasks for every African Government when designing industrial policy will be undertaking national industrial diagnosis in order to determine strategic sectors and strategies. The private sector, being closer to markets and having presumably a more intricate knowledge of the market failures prevalent in the economy in which it operates, should have the superior insight needed to help policymakers make the correct choices on industrial policies and interventions, pick priority sectors, and anticipate and plan for potential hitches.

¹ Some examples of formal structures for integrating and coordinating broad-based interests into the public policy agenda include policy coordination units, participatory committees that set priorities with input from industrial firms, institutionalized national dialogue forums and tripartite forums bringing together labour groups, the Government and employers.

The private sector also has a critical role to play in the monitoring and evaluation of industrial policies and interventions.

13. The private sector is able to fulfil this function best when it is organized into networks. In this context, industry associations have long been recognized as playing a significant role in industrial development, both as industry's legitimate collective voice and as service providers. The reality in many developing countries and in Africa is that the private sector is weak and often ill-equipped to provide meaningful contributions to policy dialogue or guide policy formulation. The ability of the private sector to mobilize itself around collective interests and respond effectively to policy dilemmas is hampered by a number of factors, including low membership to business associations owing to the cost of membership (both in time and resources) and the prevalence of free-riding; the fragmentation of membership as a result of the diversity of interests and overlapping or competing associations; and the lack of knowledge and analytical skills within such associations. Many of these factors are mutually reinforcing, given that the strength (i.e. influence and capacity to build consensus, and upgrade knowledge and analytical skills), credibility and attractiveness of an association is influenced by the size and active participation of its paid-up membership.

14. Strengthening trade and industry associations and avoiding fragmentation can be particularly challenging in developing countries, when membership is voluntary and when the private sector is dominated by SMEs with limited resources and/or large foreign-owned firms that are perceived to have a privileged position with regard to relations with the State. The latter can influence smaller firms to assume a passive role or encourage large firms to favour direct and informal channels of engagement with the State, including engaging in rent-seeking, which can in turn contribute to overlapping and fragmented membership of trade associations. In some contexts, favouring sectoral and industry-specific associations or encouraging local and subnational associations in addition to national associations could be a solution. Emulating the French example of mandatory membership is another option, which could also be complemented by the Barbadian example of granting tax rebates on membership payments. Country-specific factors and social capital are likely to be important considerations in determining an appropriate institutional design and governance structures.

15. Trade and industry associations can play a significant role in providing collective services or semi-public goods, including specialist advice and assistance on a range of industry-wide issues (e.g. information on taxation, industry-specific regulations and standards). Such associations can also promote networking and marketing through trade fairs, promotions and export services. They may also play a critical role in peer learning and best practices; facilitating industry-specific research and development and upgrading; establishing codes of conduct; and providing education and vocational training for industry employees, all of which potentially complement and serve the objectives of industrialization and transformation. They may also help to run public-private partnerships, mobilize investment capital and even assume public functions such as collecting levies or providing industry accreditation.

16. Key areas of institutional capacity-building and policy dialogue for developing a responsive and responsible private sector will encompass increasing private sector capacity to aggregate a diversity of interests into specified objectives and policy recommendations. Building analytical capacity within private sector bodies to engage in policy dialogue on a sustained basis, including at regional level, will be important for ensuring effective dialogue. Likewise, strengthening private sector capacity to undertake research and development; conduct skills audits and anticipate future skills needs; and develop and provide sector- and

industry-specific training institutions that complement public sector efforts should be a key objective for private sector associations.

4. Objectives

17. The high-level policy dialogue will provide a platform to explore and identify concrete policy options to address the capacity and institutional gaps that impede the public and private sectors from fulfilling their intended roles in delivering successful industrial policy outcomes.

18. Constructive policy dialogue will be enhanced by:

(a) Assessing the current state of private sector institutions in Africa and their capacity to effectively contribute to Africa's economic transformation by exploring the main challenges in addressing the capacity gaps;

(b) Examining effective institutional and governance frameworks conducive to sustainable and inclusive public-private cooperation for advancing Africa's industrialization and structural transformation process;

(c) Examining best practices and reflecting on lessons to be learned from country experiences from Africa and other regions in fostering cooperation between the State and the private sectors for industrialization;

(d) Formulating a road map for building, consolidating and coordinating cooperation among State, private sector and other stakeholders involved in the industrialization process; and

(e) Proposing recommendations for consideration and adoption by African Governments.

5. Expected outcomes

(a) Enhanced understanding of the capacity and institutional challenges faced by Africa's public and private sectors in implementing industrial policy;

(b) Deliberation and understanding of how options and measures for overcoming major institutional and capacity barriers faced by Africa's public and private sectors can be tailored to suit different national conditions, for devising and implementing industrial policy.

6. Format and discussion issues

19. Discussions will be led by a high-level panel consisting of four or five people. The panellists' interventions will assign importance to exploring issues around public sector capacity and institutional gaps, including: effective planning; the importance of institutions and mechanisms for fostering skills and technology transfer for industrialization and structural transformation; and the institutionalization of monitoring and evaluation in the implementation of industrial policy.

20. The discussion will focus on answering the following questions:

(a) What are the institutional and capacity requirements for the public private sector to effectively contribute to Africa's economic transformation?

(b) What governance frameworks are needed for public-private cooperation to take root in Africa and how can its contribution be made more effective in the implementation of industrial policy?

(c) Which countries can be considered examples of best practice on the developmental state model and are their experiences and practices easily adoptable and adaptable?

(d) What recommendations can be submitted for consideration and adoption by African Governments and development institutions on the formation of capacities and institutions, namely those fostering public-private partnerships, for industrialization and structural transformation?

7. Participants

21. Participants will include policymakers, academics and representatives of the private sector and civil society from the member States. Development partners and representatives of United Nations agencies will also be present.

8. Languages

22. Discussions will be conducted in English and French with simultaneous interpretation.

9. Contacts

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