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Review of Industrial Policies and Strategies in Africa

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Foreword

Africa has undergone a period of strong economic growth, but with low level of economic transformation due to lack of robust industrialisation. The shares of manufacturing in the GDP of African countries have declined or stagnated over the past decade. Industry, and manufacturing in particular, have the potential of creating a large number of jobs in the formal sector and therefore raise living conditions.

By providing an overview of the main indicators of industrialisation across the continent, this Review shows that industrialisation still has to take off in Africa. But it is refreshing to note at the same time, an increasing momentum for industrialisation across the continent. African countries are re-discovering the importance of strategic industrial policies to stimulate economic transformation into higher value-added activities. In this context of industrial policy renaissance, this Review is timely as it provides a snapshot of industrial policies and strategies in six African countries, from which policy-makers can derive ideas and best practices.

The case studies examined in this review exhibited similar challenges to industrialisation faced by African countries. These range from structural constraints, such as the lack of adequate infrastructure, and scarce access to finance, to strategic issues such as industrial policies. A number of African countries face policy-making issues when trying to design and implement effective industrial policies. These include local private sectors lamenting that the government is not drawing enough on their expertise in the policy-making process; incentives that are well-meaning but difficult to access due to bureaucracy, corruption or complex requirements; unclear or overlapping responsibilities for industrialisation scattered among various government agencies; insufficient funds for effective policy implementation.

The Review also highlighted some best practices, for example the revolution in the timber industry in Gabon following the ban of logs exports, the careful selection of promising industrial sectors to be promoted in Morocco, the high motivation and functionality of officials in the Rwandan government bodies in charge of industrialisation and the ambitious industrial plan targeting economic diversification in Zambia.

For African countries pursuing industrialisation, the ingredients are well documented: these range from creating industrial policies that are mindful of the needs of home-grown businesses and of emerging sectors of the economy beyond the traditional sources of revenues, to introducing mechanisms through which local firms can benefit from the presence of foreign investors, to addressing scarce access to finance through government-backed credit-guarantee schemes and adequate training for firm to help them produce bankable business plans. Of course, Africa’s most pressing structural needs have to be addressed: better infrastructure and education, the creation of local value chains and increased intra-African trade.

By tackling these common challenges while at the same time addressing the specific needs of their industrial sector through smart, flexible and long-term vision industrial policies, African countries can achieve the much needed structural transformation.
1. Introduction

Recent economic trends in Africa show the potential of the continent to become a major global economic player and an important destination for investment. In the past decade, Africa experienced one of the highest levels of GDP growth in the world, between 5 and 10% between 2001 and 2008. The effects of the Great Recession, with growth falling to below 3% and then rebounding to 4.9% in 2010, were less marked in Africa than in other regions.¹ Investment flows to the continent have been steadily increasing, and Africa is on track to achieve several MDG targets, such as achieving universal primary education and combating HIV/AIDS, among others.²

Yet, the continent’s economic progress has scarcely resulted in industrialisation and in the creation of value chains linked to Africa’s extractive industries. Moreover, Africa’s economic growth has failed to translate into more and better quality jobs for Africa’s increasing workforce.

International demand for Africa’s primary products, including minerals, petroleum and agricultural goods, has been a driving force behind the continent’s economic growth. The services sector has expanded and further contributed to economic growth. In contrast, the manufacturing sector has decreased, falling from 15.3% of Africa’s GDP in 1990 to 10.5% in 2008.³ Africa currently accounts for less than 2% of global manufacturing exports. A variety of hindrances ranging from weak infrastructure and human capital to poor access to financing and new technologies prevent the growth and expansion of industry in the continent.

Industry and manufacturing in particular, have the potential of creating a large number of jobs in the formal sector. The lack of industrial development in Africa means that employment opportunities have stagnated. As Africa is projected to have 1.1 billion people of working age by 2040, the need for job-generating growth is obvious.⁴

Development history highlights the perils of high economic growth without concurrent industrial development and structural transformation. The effects of the global economic crisis on trade partners and the impact of substantially lower commodity prices threaten the sustainability of an economic model based on low value-added commodities.

These aspects of the economic and social situation in Africa and across the globe call for a renewed focus on transforming the industrial sector in the continent. Policy makers recognised this by adopting the Accelerated Industrial Development of Africa (AIDA) initiative at the 2008 African Union summit, and in endorsing its key mechanisms and provisions at the 19th Conference of African Ministers of Industry in March 2011. The goal of AIDA is to match locally-based industrial projects with external donors in order to support Africa’s industrial development along the whole value chain. In March 2012, the Regional Economic Communities (RECs) prepared industrial projects to be undertaken under AIDA, and the AIDA Steering Committee was officially launched.

¹ African Economic Outlook 2013.
³ UNCTAD, UNIDO 2011.
Given the renewed commitment of policy makers to industrial development, the availability of accurate and timely industrial data is vital. While industrial databases exist, such data is often scant and out-dated, focusing mainly on primary commodity exports and mining. Currently, very few publications provide consistent data and information on industrial policy and performance at the regional, sub-regional and national levels across Africa. Such information is crucial for assessing the progresses of Africa’s industrial development, and the initiatives and policies needed to propel this process forward. The United Nations Economic Commission for Africa (ECA) *Review of Industrial Policies and Strategy in Africa* aims to contribute to filling this gap.

This Review presents an overview of the state of industrial development in the continent, based on overall indicators. It then analyses the state of industrial development and current industrial policies in six African countries from different regions and at different levels of development: Gabon (Central Africa), Morocco (North Africa), Rwanda (East Africa), Senegal (West Africa), Swaziland and Zambia (Southern Africa). Finally, the Review draws conclusions about common challenges faced by the African countries examined and by the continent in general in achieving industrialisation and presents policy proposals to address them.

The six case studies are based both on quantitative data and desk research and on findings from field missions conducted by ECA staff in each of the six countries. As part of these missions, the authors met with representatives of government departments, ministries, private businesses and civil society. These interviews allowed the authors to gather new, up-to-date information and local insights on industrial development in the countries examined. Such body of knowledge will expand the catalogue of industrial information available and will enhance ECA’s contribution to the industrial policy discourse, including on AIDA.
2. **Overview of industrial development in Africa**

Africa has experienced a decade of unprecedented economic growth – 4% in 2013\(^5\) – and has shown resilience to global and regional headwinds. This growth was underpinned by relatively high global commodity prices, surging domestic demand, and improved economic governance.

Industrialisation, however, has had a small role in Africa’s recent growth. The share of industry in GDP increased in the early 2000s, rising from an average of 24.6% of GDP in 2001 to 29.8% in 2005, but then fell back to 29.6% in 2012. But this masks considerable variety among countries. Over the period, oil-exporting countries\(^6\) saw the share of industry in their GDPs increase by 15.7 percentage points, while mineral rich countries\(^7\) and non-resource-rich countries increased their industry shares by just 4.6 and 1.7 percentage points.\(^8\) The share of manufacturing – a subsector of industry that is often a source of high productivity – in GDP has remained small across the continent, moving from 9.5% of GDP in 2001 to 10.4% in 2005, and falling back to 9.6% in 2012.\(^9\)

Africa’s share of world manufacturing value added (MVA) has remained flat over the past decade, amounting to just 1.5% in 2013.\(^10\) Due to the stagnant industrialisation and sluggish growth of manufacturing, Africa’s economic growth has failed to translate into more jobs for its growing labour force and educated middle class.

### 2.1 The bottlenecks to Africa’s continued industrialization

There are a number of bottlenecks to Africa’s industrialisation.\(^11\) In this paragraph we briefly discuss some of the main ones.

First of all, Africa lacks adequate infrastructure to develop its potential, as transporting goods and people across the continent takes longer and remains more complicated than anywhere else in the world. To close the infrastructure gap with other parts of the world, Africa would need to spend US$ 93 billion annually on electricity, water, roads and information and communications technology.\(^12\)

Secondly, the continent is not yet taking full advantage of the possibilities of intra-African and international trade. African countries trade relatively little with each other: just

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\(^6\) Oil-exporting countries include Algeria, Angola, Cameroon, Chad, Côte d’Ivoire, Equatorial Guinea, Gabon, Libya, Nigeria, Republic of the Congo.

\(^7\) Mineral rich include Botswana, Central African Republic, Democratic Republic of the Congo, Ghana, Guinea, Mali, Mauritania, Mauritius, Mozambique, Niger, Rwanda, Sierra Leone, South Africa, Tanzania, Zambia and Zimbabwe.


11% of Africa’s exports were directed to African partners in 2013. Unofficial estimates\(^\text{13}\), however, point to an existing additional 12% of Africa’s informal internal trade, which would put intra-African trade at 23%, on a par with Latin America.\(^\text{14}\) Either way, Africa needs to step up internal trade even further. Several factors hinder trade flows between African countries. Poor infrastructure and overlapping membership of various Regional Trade Agreements (RTAs) as well as the high costs of trading within Africa (currently only slightly lower than the cost for Africa of trading with the rest of the world\(^\text{15}\)) hinder commerce within the continent. Reducing the costs of trading within Africa would go a long way in supporting intra-African trade.

Thirdly, Africa needs to unlock the huge potential of its resource sectors: mining and agriculture. In 2009-10, commodities made up 81% of Africa’s export revenues, with fuels, mineral and agricultural products respectively accounting for 69%, 16% and 17% of total commodity exports.\(^\text{16}\)

In 2012 Africa imported 87% of its food items from non-African countries.\(^\text{17}\) Nigeria and other oil-rich African countries tend to export crude oil mostly outside of the continent and then import refined petroleum products. Africa can make better use of its resource-richness by raising intra-African trade of agricultural and mineral products and transforming those goods into higher value added products that are globally competitive. Raising the potential of the continent’s agriculture and mining would not only increase its economic growth but also bring food security to the continent and boost jobs in industry and manufacturing.

Finally, a fragile and unfavourable business environment still jeopardises Africa’s growth. Although the number of wars on the continent has fallen significantly in recent years,\(^\text{18}\) regionalised conflicts and terrorism threats continue to undermine business development in Africa. The current Ebola crisis is a reminder that the continent’s weak health provision and information systems expose it to large epidemic risks.

### 2.2 Favourable trends for Africa’s industrial development

Despite the challenges outlined above, Africa also has some positive trends to exploit for its industrial development. To fuel its future economic growth, Africa needs more investment than official development aid, and this shift is already ongoing. Africa is attracting increasing foreign investment flows: the AfDB predicts that, by the end of 2014, the continent will have received record foreign inflows of more than US$ 80 billion.\(^\text{19}\) In 2011, the rate of return on inward FDI in Africa (9.3%) was the highest compared to other regions of the world.

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\(^{14}\) ECA calculations based on UNCTAD statistics.

\(^{15}\) The costs of trading within Africa are 313%-337% lower in ad valorem equivalent than the costs of trading between Africa and the world. As many as 10 African countries have higher trading costs with their intra-regional partners than with the rest of the world (ECA, 2013).


\(^{17}\) ECA analysis of UNCTAD statistics.


\(^{19}\) Katrina Manson, “Emerging Africa: how the global economy’s last frontier can prosper and matter”, by Kingsley Chiedu Moghalu. Financial Times, 21 September 2014.
The world average was 7.2%, with 8.8% in Asia, 7.1% in Latin America and Caribbean and 4.8% in developed economies. Foreign investors are certainly interested in the commodities sector, but are also tapping into other economic areas such as consumer products, business services and hospitality. By the end of 2014, private equity firms were estimated to have assets worth US$ 25 billion in Africa, in a broad range of sectors. In 2012, the four most popular sectors for private equity in Africa were business services; information technology; industrial products; and telecoms, media and communications. The strongest performing sectors for private equity funds in Africa are information technology, industry and manufacturing, and the consumer sector. State-owned sovereign wealth funds, pension funds, global banks and multinationals are also significant and growing sources of finance for Africa.

Some major challenges, however, hinder investments in the continent. Africa is often associated with high geopolitical risks, not to mention the fact that many countries do not have stock exchanges or adequate banking sectors. Addressing these challenges is essential for unlocking new sources of finance for Africa.

Africa’s demographic dividend is set to give a huge comparative advantage to the continent in the coming years. More than half of Africa’s population is under 20. Africa’s workforce was 460 million in 2010 and is expected to be almost 800 million by 2030. Labour costs are rising fast in China (by 20% from 2007 to 2011 alone), due to its shrinking young labour force, and Africa has the potential to replace China as a global manufacturing hub. In 2013 education levels in Sub-Saharan Africa were on a par with Turkey and Mexico in the early 1980s, suggesting that the continent has the human capital it needs to replicate their success.

A growing African middle class is set to alter domestic markets and redraw consumption patterns. Africa is second only to Asia-Pacific in terms of the rate of growth of consumer markets, albeit starting from a very low base. The continent’s middle class has grown by 3.1% per year over the last three decades, reaching 350 million people, or 34% of Africa’s total population, by 2010. If this trend continues, the growing middle class will drive private sector development and increase consumer spending, which is expected to double between 2010 and 2020 to reach US$ 2.1 trillion by 2020. Although more than half of consumer expenditure in Africa currently comes from two of the continent’s biggest economies, Nigeria and South Africa, demand is expected to increase in other regions of the continent too.

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Africa needs to make the most of these trends to foster industrialisation, shifting from commodities and low-value added products to industrial development and more sophisticated goods. The private sector has a key role to play in leading this transformation, and governments should work closely with business leaders in drafting modern industrial policies. A larger middle class with significant economic power is also likely to expect more political transparency and accountability from governments. Addressing inequality, creating formal sector jobs for the educated middle class, scaling up good economic policy and improving the management of oil revenues and mining rents will be key areas of intervention for African political leaders in the coming years.

2.3 General overview of the industrial sector

This section gives a general overview of the state of industrial development in Africa. Although, from a statistical point of view, industry covers mining and quarrying, manufacturing, public utilities including the energy and water sectors, and construction\(^\text{29}\), the main focus of this section is on manufacturing and resource industries.

A common way of analysing the economic structure of a country is to compare the shares of its three main sectors (agriculture, industry and services) in its total output and employment. As economic history shows, agriculture is initially the most important sector in every economy. As a country develops, agriculture tends to lose its primacy and give way first to industry and then to the services sector. Employment generally follows a similar pattern. These structural shifts are generally called industrialisation and post-industrialisation. All developing countries are likely to go through these phases characterised by changes in consumer demand and the relative labour productivity in the three main sectors.

While high-income countries today are generally industrialised, most African countries are undergoing the process of industrialisation now. Figure 1 and Figure 2 below show the shares of the three main sectors and manufacturing in African countries’ GDP.

Agriculture is the largest sector in nine African countries including: Liberia, with relatively the largest agricultural sector, followed by Somalia, the Central African Republic, Sierra Leone, Guinea-Bissau, Ethiopia, Togo, Mali, and Niger.

Industry is the largest sector in nine African countries, namely: Equatorial Guinea which has the largest industrial sector thanks to oil production, followed by the Republic of the Congo, Libya, Gabon, Angola, Algeria, Swaziland, Chad and Guinea.\(^\text{30}\)

\(^{29}\)Tabulation categories C-F in the ISIC Rev. 3 and B-F in ISIC Rev. 4, where ISIC stands for the International Standard Industrial Classification of All Economic Activities. Available from: http://unstats.un.org/unsd/cr/registry/regecst.asp?CI=27.

It is remarkable that most of the African countries with the highest share of industry are resource-rich. This is the case for eight out of the nine countries with the highest share of
industry in the continent (the exception being Swaziland). The high shares of industry are therefore likely to be driven by large mining and oil sectors.

When looking at African countries ranked by their shares of manufacturing (figure 2), the best performers are very different. Out of the ten African countries with the highest shares of manufacturing, only one (DRC) is resource-rich.

As part of a global trend where economic activities are shifting to the services sector, it is important to note that even in industrialising countries, the services sector is growing quickly compared to other sectors. Services are the largest sector in the remaining (the majority of) African countries. African countries with a relatively high share of services in GDP tend to be resource-poor: the correlation between the World Bank’s natural resources rents index and the share of services in GDP is strong and negative, at -0.73. This suggests that resource-rich countries tend to expand their industries (such as mining and oil) more than their services.

The contribution of industry to employment in Africa is difficult to capture. Firstly, the informal sector is a major employer in Africa, accounting for 10 to 92% of total employment among African countries. Little is known about the relative importance of industry and manufacturing within the informal sector. Secondly, few countries have data about the distribution of employment among the various formal sectors.

Figure 3 below shows the sectoral distribution of employment in African countries where such data is available for recent years. What is striking from this figure is that the share of industry in GDP tends to be much higher than the employment share of industry. In Algeria, industry accounts for 50.4% of GDP but only for 30.9% of total employment. In Egypt the shares are 39.2% of GDP and 23.5% of total employment. In Uganda 27.9% of GDP is coming from industrial activities while only 6% of formal employment is in industry. This underlines how a large part of African economies is made of industrial activities that create relatively little employment – i.e. mining.

31 The World Bank’s total natural resources rents indicator shows the sum of rents from all kinds of natural resources including oil, natural gas, coal, mineral and forest rents as a share of GDP. Rents are defined as the difference between the value of production at world prices and their total production costs.
32 ECA analysis of World Bank and ASYB data.
To put Africa’s level of industrialisation in a global perspective, it is interesting to take a look at the grouping of countries adopted by UNIDO35, although the group definitions and the grouping itself can be contested.

According to UNIDO, Industrialised economies are those with an adjusted p.c. manufacturing value added (p.c. MVA) above US$ 2,500 or with a p.c. GDP above US$ 20,000. Fulfilling one of these criteria is sufficient for the country to be classified as industrialised.

Countries with a p.c. MVA between US$ 1,000-2,500, or with a GDP p.c. higher than US$ 10,000, or with a share of the world’s MVA larger than 0.5% are classified as emerging industrial economies. The rationale behind this system of criteria is that some highly populated countries (like India and Indonesia) have relatively low p.c. MVA, but are nonetheless among the major industrial producers in the world.

Other developing industrial economies include countries whose p.c. MVA is lower than US$ 1,000, except the least developed countries as defined by the United Nations General Assembly. The least developed countries form a separate group based on their low level of industrial development and on their specific conditions.

According to this categorisation, the only industrialised economy in Africa is Equatorial Guinea, whose GDP p.c. is higher than US$ 20,000. Nevertheless, the country is considered by UNIDO as a developing industrial economy and it is worth reminding that it has one of the most unequal income distributions in the world. Mauritius, South Africa and Tunisia are considered by UNIDO to be emerging industrialised economies while 17 African countries are considered as developing industrial economies (Algeria, Angola, Botswana, Cameroon, Côte

d’Ivoire, Egypt, Gabon, Ghana, Kenya, Libya, Morocco, Namibia, Nigeria, Republic of the Congo, Seychelles, Swaziland, and Zimbabwe). The rest of the continent’s countries are among the least developed in the world.

Gross fixed capital formation is another important indicator of the level and dynamics of industrialisation, as it refers to investment in assets such as land and machinery for production. Although investment in Africa excluding North Africa has been increasing since the 1990s, it remains below the world average and significantly below the investment levels observed in Asia emerging economies.

There are also huge differences among African countries in the level of investment compared to GDP. Since 2010 average gross fixed capital formation (GFCF) amounted to more than 30% of GDP in 12 African countries. The highest, 61.1%, was in Equatorial Guinea, followed by Sao Tome and Principe, Cabo Verde, Algeria, Mozambique, Niger, Botswana, Tanzania, Morocco, Mauritania, Sierra Leone and Gabon. Some countries have insufficient levels of investment due to conflicts and civil wars that hamper both domestic and international investments. In decreasing order, investment in Central African Republic, Guinea, Angola, South Sudan and Swaziland is below 15% of GDP, while in Eritrea and Guinea-Bissau it is less than 10% of GDP. The table below shows how GFCF in Africa compares to other regions of the world.

<table>
<thead>
<tr>
<th>Region</th>
<th>Gross fixed capital formation as % of GDP (average)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1990-99</td>
</tr>
<tr>
<td>Africa(excluding North Africa)</td>
<td>17.1</td>
</tr>
<tr>
<td>Middle East and North Africa</td>
<td>24.1</td>
</tr>
<tr>
<td>East Asia and Pacific</td>
<td>31.1</td>
</tr>
<tr>
<td>South Asia</td>
<td>23.1</td>
</tr>
<tr>
<td>Europe and Central Asia</td>
<td>21.0</td>
</tr>
<tr>
<td>North America</td>
<td>21.3</td>
</tr>
<tr>
<td>Latin America and Caribbean</td>
<td>19.7</td>
</tr>
<tr>
<td>World</td>
<td>23.4</td>
</tr>
</tbody>
</table>

*Source of data:* ECA analysis based on World Development Indicators.

### 2.4 Manufacturing

#### 2.4.1 Production and employment

Industrialisation in Southeast Asia and the emergence of the “China factory” significantly changed manufacturing patterns and the distribution of MVA across continents. However, Africa’s share of global MVA remained low during the last decade (see Figure 4). As the ECA Economic Report on Africa 2014 notes, African countries remain marginal players in domestic and international markets for their manufactured goods, with a negligible share of manufactured output and exports in world production and trade, even when compared with

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other developing countries. There are twenty countries in Africa where the share of manufacturing in GDP is above 10%, and only six countries where it accounts for more than 15% of total output. These are Swaziland (43.0%), Democratic Republic of the Congo (22.7%), Tunisia (17.0), Mauritius (16.7), Morocco (15.9%) and Egypt (15.8%).

Following the 2008-09 global economic crisis, the average MVA growth rate fell in all regions of Africa except in Western Africa, which is more dependent on the production of petroleum and mineral products. Processing of primary goods from the agricultural sector dominates the manufacturing activities of most African countries. European countries are the main destination for all type of exports. Recession in Europe resulted in loss of demand for African goods. At the same time, the decreased rate of capital outflow to Africa slowed down new investments. These factors caused a slower pace of manufacturing growth in many African countries. The average annual MVA growth in 2008-12 dropped in several regions compared to that of 2003-07.

Figure 4
Distribution of world MVA by region, 2000-13

Source of data: ECA analysis based on UNIDO data 2014.

Table 2
MVA growth rate and per capita MVA by region, 2000-12

<table>
<thead>
<tr>
<th>Region</th>
<th>Total MVA growth rate (%</th>
<th>Per capita MVA growth rate (value, US$)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2000-05 2005-12</td>
<td>2000-05 2005-12</td>
</tr>
<tr>
<td>Africa</td>
<td>2.9 2.7</td>
<td>0.6 0.4</td>
</tr>
<tr>
<td>Central Africa</td>
<td>3.4 2.6</td>
<td>0.9 0.2</td>
</tr>
<tr>
<td>Eastern Africa</td>
<td>4.0 5.1</td>
<td>1.2 2.5</td>
</tr>
<tr>
<td>North Africa</td>
<td>3.1 2.9</td>
<td>1.5 1.3</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Region</th>
<th>12</th>
<th>11</th>
<th>8</th>
<th>5</th>
<th>213</th>
</tr>
</thead>
<tbody>
<tr>
<td>Southern Africa</td>
<td>2.8</td>
<td>2.2</td>
<td>0.4</td>
<td>-0.1</td>
<td>213</td>
</tr>
<tr>
<td>Western Africa</td>
<td>2.7</td>
<td>3.9</td>
<td>0.1</td>
<td>1.3</td>
<td>42</td>
</tr>
<tr>
<td>Asia and Pacific*</td>
<td>6.7</td>
<td>5.8</td>
<td>5.0</td>
<td>4.3</td>
<td>239</td>
</tr>
<tr>
<td>Europe</td>
<td>5.9</td>
<td>4.0</td>
<td>5.8</td>
<td>3.8</td>
<td>1,258</td>
</tr>
<tr>
<td>North America</td>
<td>3.2</td>
<td>-0.6</td>
<td>2.1</td>
<td>-0.5</td>
<td>5,254</td>
</tr>
<tr>
<td>Latin America</td>
<td>2.3</td>
<td>2.0</td>
<td>1.0</td>
<td>0.9</td>
<td>858</td>
</tr>
<tr>
<td>World</td>
<td>3.2</td>
<td>1.9</td>
<td>2.0</td>
<td>0.8</td>
<td>1,262</td>
</tr>
</tbody>
</table>

Source of data: ECA analysis based on UNIDO data 2014.
* Excluding China
2.4.2 Productivity and global competitiveness

It is difficult to compare productivity across industries in different countries. The World Bank’s Enterprise Surveys is a good starting point. According to a recent paper\textsuperscript{40} which used data from the World Bank Enterprise Surveys, formal firms in Africa excluding North Africa account for a small share of total employment in the region but are the main source of manufacturing exports.

Labour costs are relatively low in Africa excluding North Africa, at US$ 1,464 per worker on average. Only South Asia has lower labour costs, at US$ 817, although this is based on observations in just two South Asian countries.

Labour productivity, or value added per worker, is also relatively low in Africa, estimated at US$ 4,737 per worker on average, the second lowest in the world after South Asia. Unit labour costs, however, are similar, on average, to those of Africa’s main competitors in manufacturing. In Africa they amount to 33% of value added, compared to 39.9% in South Asia and 31.7% in East Asia. Further analysis showed that, once differences in p.c. income are taken into account, firms in Africa excluding North Africa seem to be more productive than similar firms in other regions.

Table 3
indicators of productivity by regions, 2006-11

\begin{tabular}{l|ccc}
\hline
Region (observations) & Labour cost per worker (US$) & Value-added per worker (US$) & Unit labour costs (%) \\
\hline
Africa (37)* & 1,464 & 4,734 & 33.5 \\
East Asia (12) & 1,733 & 6,631 & 31.7 \\
South Asia (2) & 817 & 1,483 & 39.9 \\
Europe and Central Asia (30) & 4,046 & 10,297 & 37.7 \\
Latin America and Caribbean (14) & 3,241 & 8,890 & 36.6 \\
\hline
\end{tabular}

Source: Clarke 2011.
* Excluding North Africa.

Despite this encouraging conclusion, as of 2012, only a minority of African countries were major manufacturing producers according to UNIDO data.\textsuperscript{41} One notable exception was South Africa, which was the 10th largest global producer of wearing apparels with 1.5% of the world’s output.

Among developing and emerging industrial economies, the following African countries make it among the largest 15 global producers (product groups are in parenthesis): Algeria (office, accounting and computing machinery); Cameroon (wood products); Egypt (paper products, basic metals, machinery and equipment, radio, television and communication equipment); Kenya (furniture); Morocco (tobacco products and wearing apparels); Nigeria (motor vehicles and furniture); and South Africa (food and beverages, textiles, wearing apparels, leather products, wood products, paper products, printing and publishing, chemical


products, rubber and plastics products, non-metallic mineral products, basic metals, fabricated metal products, machinery and equipment, office, accounting and computing machinery, electrical machinery, radio, television and communication equipment, medical instruments, motor vehicles, other transport equipment, and furniture).

Statistics show that Africa remains a marginal player in global trade. Africa’s share of global exports has fallen from 4.9% in the 1970s to 2.8% in the 2000s, while its share of global imports decreased from 4.3% to 2.5% in the same period.\textsuperscript{42}

Few African countries have so far been successful in export-oriented manufacturing. In absolute terms, the 10 largest African exporters of manufactured products in 2012 were South Africa (with manufactured exports of US$ 33.2 billion), Morocco (US$ 13.5 billion), Tunisia (US$ 12.1 billion), Egypt (US$ 11.7), Kenya US$ 2.1 billion), Nigeria (US$ 1.6 billion), Mauritius (US$ 1.3 billion), Zambia (US$ 1.3 billion), Libya (US$ 1.1 billion) and Côte d’Ivoire (US$ 1.1 billion). These countries accounted for 85.9% of Africa’s total exports of manufactured goods.

In relative terms, there are significant differences in the share of manufactured goods in total exports across different African countries. As Table 4 shows, oil-exporting countries\textsuperscript{43} earn their export revenues mainly from fuels, while manufactured goods make up on average only 3.9% of their total exports. In the meantime, manufactured goods account for 14.2% and 26.8% of total exports of the mineral-rich\textsuperscript{44} and of the non-mineral-rich African countries, respectively.\textsuperscript{45} Figure 5 shows the shares of different product groups in African countries’ total exports.

\textsuperscript{42} ECA analysis based on UNCTAD data.
\textsuperscript{43} Oil exporters are those with oil exports at least 20% higher than their oil imports and include: Algeria, Angola, Cameroon, Chad, Cote d’Ivoire, Equatorial Guinea, Gabon, Libya, Nigeria and Republic of the Congo.
\textsuperscript{44} Mineral rich countries are those where mineral exports account for more than 20% of total exports and include: Botswana, Central African Republic, Democratic Republic of the Congo, Ghana, Guinea, Mali, Mauritania, Mauritius, Mozambique, Niger, Rwanda, Sierra Leone, South Africa, Tanzania, Zambia and Zimbabwe.
\textsuperscript{45} ECA analysis based on UNCTAD data.
Table 4
Average share of product groups in total exports, 2012

<table>
<thead>
<tr>
<th>Country group (number of countries)</th>
<th>Agricultural raw materials</th>
<th>Food items</th>
<th>Minerals</th>
<th>Fuels</th>
<th>Manufactured goods</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil exporters (10)</td>
<td>4.9</td>
<td>6.7</td>
<td>2.3</td>
<td>82.2</td>
<td>3.9</td>
</tr>
<tr>
<td>Mineral rich (16)</td>
<td>7.7</td>
<td>19.3</td>
<td>44.7</td>
<td>11.3</td>
<td>14.2</td>
</tr>
<tr>
<td>Rest of the countries (27)</td>
<td>8.9</td>
<td>39.6</td>
<td>17.7</td>
<td>14.2</td>
<td>26.8</td>
</tr>
<tr>
<td>Africa (53)</td>
<td>2.3</td>
<td>8.0</td>
<td>12.5</td>
<td>60.0</td>
<td>14.4</td>
</tr>
</tbody>
</table>

Source: ECA analysis based on UNCTAD data.
Note: No data is available for South Sudan.

60.8% of Africa’s exported manufactured goods request medium or high-skilled workers and technology intensive production. These are typically electronic products including parts and components. Although countries that are rich in natural resources (mineral or oil) tend to have relatively low shares of manufactured exports, they specialise in higher-skill and technology intensive products.

Table 5
Average share of manufactured goods by degree of manufacturing 2012

<table>
<thead>
<tr>
<th>Country group (number of countries)</th>
<th>Labour- and resource-intensive</th>
<th>Low-skill and technology intensive</th>
<th>Medium-skill and technology intensive</th>
<th>High-skill and technology intensive</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil exporters (10)</td>
<td>20.4</td>
<td>21.9</td>
<td>14.6</td>
<td>43.2</td>
</tr>
<tr>
<td>Mineral rich (16)</td>
<td>20.5</td>
<td>19.8</td>
<td>25.2</td>
<td>34.6</td>
</tr>
<tr>
<td>Rest of the countries (27)</td>
<td>31.8</td>
<td>16.5</td>
<td>21.8</td>
<td>29.9</td>
</tr>
<tr>
<td>Africa (53)</td>
<td>23.6</td>
<td>15.6</td>
<td>30.1</td>
<td>30.7</td>
</tr>
</tbody>
</table>

Source: ECA analysis based on UNCTAD data.
Note: No data is available for South Sudan.

2.4.3 Outlook: opportunities and challenges

Developing the manufacturing sector in Africa would help to create jobs for the growing middle class and to increase incomes across the continent. Rising wages and prices in Asia, and especially in China, have triggered a major structural transformation process with global effects. An important part of the region’s manufacturing production is moving elsewhere, and – as daily news about Chinese investments in Africa illustrate – some, if not an important part, may well move to Africa. The global reallocation of manufacturing and investments could support Africa’s growth and boost employment on the continent.

In 2012, an overwhelming part of Africa’s exports were unprocessed commodities, while manufactured products only made up 14.4% of the continent’s total exports. In addition, African countries import even the most basic products, including agricultural and basic food items, from non-African partners. There is scope to establish backward and forward linkages and add value to African commodities. To achieve this, African industries need to be able to conveniently source inputs from their neighbours. Moving resources from low- to high productivity sectors, and boosting exports in skill and technology intensive sectors would

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46 ECA analysis based on UNCTAD data.
balance the economy of resource-rich countries while creating employment for a growing educated labour force.

Finally, a key factor that hampers businesses and keeps investors away from some African countries is the unfavourable business environment: high costs and long procedures to set up a business; bureaucracy to deal with electricity, register a property, or pay taxes; unavailability of legal tools to protect investments, enforce contracts, or resolve insolvency. Only four African countries – Mauritius (28th), South Africa (43th), Rwanda (46th) and Tunisia (60th) – are in the first third of the World Bank’s most recent Doing Business Ranking, while 75% of them are on the last third of the list. The cost of trade is also an important factor for businesses, and some of Africa’s 16 landlocked countries have extremely high costs to import or export. Improving the general business environment in Africa is fundamental in order to support the development of domestic manufacturing and attract investors.
Source of data: ECA analysis of UNCTAD and World Bank data.
2.5 Mining and natural resources

2.5.1 Production

The importance of mining in countries that are rich in natural resources may be threefold: the sector can be an important source of export revenues (as is the case in most African countries); it can serve large domestic markets for industrial activities; and it can employ workers. Many African countries that are rich in natural resources have a large part of their population living in extreme poverty. The question for them is how to transform their natural resources into wealth that can benefit economic development and reduce inequality.

Although some African countries are extremely rich in fossil fuels and minerals, the continent as a whole was producing just 5.9% of global mining output excluding construction in 2012.47 Figure 7 below shows different regions’ share of global mining production since 1990 and highlights the increasing dominance of Asia and the Pacific. Africa’s share has remained pretty much the same over the past two decades. This seems to show that Africa is not exploiting its resource-richness as much as it could.

Figure 7

Global mining production excluding construction minerals by region, 1990-2012


2.5.2 Global competitiveness

More than half of African countries are global players in the extraction of one or more mineral resources. Some countries like Botswana, Democratic Republic of the Congo, Morocco, South Africa and Zimbabwe have significant shares of the global production of several more or less important natural resources. Others, like Algeria, Angola, Libya or Nigeria have important shares in one or two of the most valuable minerals in the world.

South Africa is probably the richest African country in mineral resources, and is among the most important global players. In 2012 South Africa alone accounted for 80.4% of the global total rhodium production, in addition to 72.3% of platinum, 39.8% of chromium, 37.9% of palladium, 28.0% of vanadium, 26.5% of zircon, 24.4% of vermiculite, 20.8% of manganese,

and 15.3% of titanium. The Democratic Republic of the Congo accounted for 67.2% of the world’s total cobalt production, coupled with 29.7% of industrial diamonds and 21.5% of tantalum, just to mention two digit shares. Morocco produced 16.5% of arsenic and 12.3% of phosphate of the world’s total. Botswana had 20.0% of gem diamond and 10.6% of industrial diamond production. Angola accounted for 10.4% of global gem diamond production, while Zimbabwe had 14.5% of industrial diamonds. Rwanda and Ethiopia are relatively new countries on the list, but they already account for 28.2% and 12.6%, respectively of the world’s tantalum production, a valuable substance in modern industry.48

Surprisingly, in terms of mineral fuels, African countries are far from being the world’s largest producers. Nevertheless, mineral fuels are essential to the global economy and their high global price reflects their importance. It should be noted that the world’s natural gas and petroleum production is quite decentralised. In 2012, the USA and Russia together controlled 37.5% of the world’s gas production, while Saudi Arabia, the USA and Russia produced 31.7% of the world’s total petroleum. Although Algeria, Egypt and Nigeria’s shares of global natural gas production (2.5%, 1.8% and 1.2% respectively) seem relatively low, natural gas generates important revenues for these countries. Nigeria, Angola, Libya and Algeria produced 2.9%, 2.1%, 1.8% and 1.7% of the world’s total petroleum production in 2012.49

In 2012, fuels alone accounted for 60% Africa’s total exports revenues. Mineral resources made up an additional 12.5% and agricultural raw materials 2.3%.

The largest African oil-exporters made over US$ 10 billion in export revenues each in 2012. The largest exporters of fuels were Nigeria (with fuel exports worth US$ 107.5 billion), Algeria (US$ 70.7 billion), Angola (US$ 69.9 billion), Libya (US$ 59.3 billion) and Equatorial Guinea (US$ 14.7 billion).

Also in 2012, the largest exporter of mineral products was by large South Africa (with exports of ores, metals and precious stones reaching US$ 32.9 billion), followed by Zambia (US$ 6.5 billion), Botswana (US$ 5.6 billion), Democratic Republic of the Congo (US$ 5.1 billion) and Egypt (US$ 2.7 billion).

2.5.3 Outlook: opportunities and challenges

Natural resources carry great opportunities as well as risks for economic development. Resource-rich countries can produce commodities, which in turn have the potential to encourage the emergence of downstream local industries. However, natural resource abundance can induce countries to rely too much on their resource sector, neglecting economic diversification. This may result in governments’ over-reliance on resource revenues and in investment policies guided by political interests and private lobbying.

Revenues from natural resources often do not translate into better living conditions for the whole of society. Many of Africa’s resource-rich countries rank among the lowest on the Human Development Index. Half of the African oil-exporting countries (Angola, Cameroon, Chad, Côte d’Ivoire and Nigeria) and almost 70% of mineral-rich countries (Central African Republic, Democratic Republic of the Congo, Guinea, Mali, Mauritania, Mozambique, Niger, Rwanda, Sierra Leone, Tanzania and Zimbabwe) have “low human development” according to the UNDP in terms of poverty, life expectancy, health and education.50

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While resources rents contributed a significant share of Africa’s growth over the past decade, the contribution of industry and of high value added manufacturing varied largely across countries. Countries that are not rich in natural resources tend to have larger manufacturing sectors: 10.7% of GDP on average in 2012. Mineral-rich countries follow with 9.3% share in GDP, while oil exporters are lagging behind with just 7.1%. This implies that resource revenues have helped significantly to increase the industry’s share of GDP in oil-exporting countries. However, this has happened by expanding mining and other resource-related industries, which are not job-intensive and tend to focus on low-value added products, rather than by expanding sectors such as manufacturing, which can create quality jobs and has the potential to diversify production into more sophisticated goods.

Table 6
share of industry and manufacturing in GDP, by natural resources endowment

<table>
<thead>
<tr>
<th>Country group</th>
<th>2001</th>
<th>2005</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share of industry in GDP (%)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Oil exporters</td>
<td>39.0</td>
<td>58.8</td>
<td>54.7</td>
</tr>
<tr>
<td>Mineral rich</td>
<td>22.8</td>
<td>26.9</td>
<td>27.4</td>
</tr>
<tr>
<td>Rest of the countries</td>
<td>19.9</td>
<td>20.8</td>
<td>21.6</td>
</tr>
<tr>
<td>Africa average</td>
<td>24.6</td>
<td>29.8</td>
<td>29.6</td>
</tr>
<tr>
<td>Share of manufacturing in GDP (%)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Oil exporters</td>
<td>7.6</td>
<td>7.0</td>
<td>7.1</td>
</tr>
<tr>
<td>Mineral rich</td>
<td>8.8</td>
<td>11.0</td>
<td>9.3</td>
</tr>
<tr>
<td>Rest of the countries</td>
<td>10.7</td>
<td>11.3</td>
<td>10.7</td>
</tr>
<tr>
<td>Africa average</td>
<td>9.5</td>
<td>10.4</td>
<td>9.6</td>
</tr>
</tbody>
</table>


Even though natural resources may have financed economic progresses in some countries, continued dependency on primary commodities puts the sustainability of the continent’s growth at risks. The current large dependency of many African economies on their natural riches is not a sustainable strategy, for a variety of reasons. Firstly, Africa’s resources are subject to exhaustion, and this raises questions of intra-generational equity as well as of long-term fiscal sustainability. Secondly, dependency on natural resources exposes African countries to substantial volatility risks: government spending risks to become volatile following changes in international commodity prices, which puts other investments in health, education or infrastructure at risk. Thirdly, most of Africa’s natural resources are currently exported in their raw form or with little value addition, reducing the benefits from their use. Therefore, Africa is missing out on maximising benefits from its resources. Fourthly, natural resource-related industries in Africa, such as mining, have failed to create more and better quality jobs for Africa’s growing youth and middle classes.

Table 7 presents the recent trends in the long-term sustainability of natural resource extraction and the volatility of related incomes. The World Bank’s total natural resources rents indicator shows the sum of rents from all kinds of natural resources including oil, natural gas, coal, mineral and forest rents, as a share of GDP. Rents are defined as the difference between the value of production at world prices and their total production costs. Total rents of oil-exporting countries decreased by 15.2 percentage points between 2005 and 2012, but represent nonetheless 35.9% of GDP. The average total rent of countries rich in minerals increased by 5.6 percentage points, reaching a more modest 15.7% of GDP. Although an important part of rents ends up with oil and mining companies, governments have huge tax revenues from the exploitation of resources.

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51 ECA analysis based on World Bank data.
Table 7
Natural resources rent as a share of GDP

<table>
<thead>
<tr>
<th>Country group</th>
<th>2005</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total natural resource rents compared to GDP (%)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Oil exporters</td>
<td>51.1</td>
<td>35.9</td>
</tr>
<tr>
<td>Mineral rich</td>
<td>10.1</td>
<td>15.7</td>
</tr>
<tr>
<td>Rest of the countries</td>
<td>7.2</td>
<td>8.5</td>
</tr>
<tr>
<td>Africa average</td>
<td>16.5</td>
<td>15.8</td>
</tr>
</tbody>
</table>

*Source: World Development Indicators.*
3. **Gabon: promoting industrialization at the highest level**

   Gabon is one of Central Africa’s most stable countries. It covers a land area of 267,670 km², sparsely populated by 1.672 million inhabitants in 2013. The country has a p.c. income four times that of most African nations (US$ 9,000), but, due to high income inequality, a large proportion of the population remains poor. Indeed, the country is faced with a socio-economic paradox: it belongs to the group of Upper Middle Income Countries (MICs), while its social indicators are similar to those of Least Developed Countries (LDCs). About a quarter of the population lives below the poverty line and social conditions for the most vulnerable (widows, orphans, divorced women, AIDS affected, street children, disabled) are of particular concern.

   **3.1 Economic overview**

   Gabon’s economy depended on timber and manganese until oil was discovered offshore in the early 1970s. Since then, the country’s economic growth has been strongly correlated with international oil price and has been erratic, averaging of 2% over the last thirty years. Such growth has been too weak to generate employment and significantly reduce poverty. It is also very volatile and highly dependent on a factor beyond Gabon’s control: the price of oil on world markets. The oil sector dominates the economy, contributing 46% of nominal GDP in 2009, an average 59% of fiscal revenues between 2002 and 2009 and nearly three quarters of exports during the same period. Other key sectors are wood and manganese. The share of manufacturing in GDP has been low, at around 5% on average, for the last five years. Services account for 28.9% of GDP. Real estate and telecommunications are also important sectors for Gabon. The Gabonese economy has all the characteristics of a rent economy, with limited job creation, exports driven mostly by raw materials and high dependence on oil revenues.

   ![Figure 5](image)

   **Gabon – GDP growth rate**

   **Source:** Data from AEO 2014.

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54 AfDB 2014.
The economy was reliant on oil for about 50% of its GDP, 70% of revenues, and 87% of goods exports for 2010, although some fields have passed their peak production. A rebound of oil prices from 1999 to 2008 helped growth, but declining production has prevented Gabon from fully realising potential gains from the sector. In addition to oil, Gabon possesses valuable deposits of manganese, copper and precious stones. Logs, the third largest export after oil and manganese, accounted for 6.2% of total exports.

During the last decade, the Gabonese economy has grown at a pace below the Central African average. Gabon continues to face fluctuating prices for its oil, timber, and manganese exports. Despite the abundance of natural wealth, poor fiscal management has stifled the economy. However, the government has made efforts to increase transparency and is taking steps to diversify the economy and to make Gabon a more attractive investment destination. The attempt to boost growth is mainly driven by increasing government investment in human resources and infrastructure. GDP grew more than 6% per year over 2010-13.

The most prominent feature of the Gabonese economy growth over the last decade is its volatility which cuts across sectors. Manufacturing particularly proved to be very erratic with 2 digit growth followed by strong contraction in 2001 and 2002 for instance. Even agriculture is not insulated from strong variations, despite its low contribution to GDP at around 4-5%.

Figure 6
Gabon – GDP and sectoral growth, 2000-13


FDIs into Gabon have grown steadily during the last ten years, reaching US$ 856 million in 2013, mostly driven by investments in the oil sector and in timber processing. Most FDIs are directed towards a few major firms which have few linkages with the small and medium scale industry. For a long period, large oil companies operating in the country have procured the goods they needed from abroad, complaining about the inability of local enterprises to deliver
according to standards. The Agence Gabonaise de Normalisation (AGANOR), the body which is in charge of supporting the small and medium scale industry in Gabon, is now engaging SMEs in an ambitious upgrading programme to help them reach the standards needed to work with large oil companies.

Figure 7
Gabon – Foreign Direct Investments, 2000-13

![Foreign direct investment, net inflows (BoP, current US$)](image)

Source: ECA’s calculations based on WDI, World Bank.

The sectoral decomposition of GDP exhibits an underdeveloped agriculture sector despite the country’s large potential in this sector, due to extensive fertile land and abundant water resources. This might be due to the fact that oil discovery has concentrated policy attention away from other sectors. At less than 5% of GDP, even basic food staples are imported from neighbouring Cameroon. The services sector, which accounted for 37.7% of GDP in 2013, shows a relative dynamism, boosted by finance, real estate and business services and Wholesale and retail trade, hotels and restaurants.

Industry remains at the helm with 59.1% of GDP in 2013, of which oil accounted for 43.7%. Manufacturing is also gaining momentum: after decades of stagnation at around 4% of GDP it is picking up, having reached 6.5% of GDP in 2013.
Table 6
Gabon – Value added by sector

<table>
<thead>
<tr>
<th>Sector</th>
<th>2008 (%)</th>
<th>2013 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, hunting, forestry, fishing</td>
<td>4.2</td>
<td>3.3</td>
</tr>
<tr>
<td>Industry</td>
<td>63.4</td>
<td>59.1</td>
</tr>
<tr>
<td>Mining</td>
<td>54.9</td>
<td>46.2</td>
</tr>
<tr>
<td>of which oil</td>
<td>49</td>
<td>43.7</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>4.9</td>
<td>6.5</td>
</tr>
<tr>
<td>Electricity, gas and water</td>
<td>0.8</td>
<td>0.9</td>
</tr>
<tr>
<td>Construction</td>
<td>2.8</td>
<td>5.5</td>
</tr>
<tr>
<td>Services</td>
<td>32.4</td>
<td>37.7</td>
</tr>
<tr>
<td>Wholesale and retail trade, hotels and restaurants</td>
<td>4.5</td>
<td>5.5</td>
</tr>
<tr>
<td>Transport, storage and communication</td>
<td>5.5</td>
<td>5.7</td>
</tr>
<tr>
<td>Finance, real estate and business services</td>
<td>11.4</td>
<td>13.2</td>
</tr>
<tr>
<td>Public administration, education, health and social work, community, social and personal services</td>
<td>8.7</td>
<td>10.5</td>
</tr>
<tr>
<td>Other services</td>
<td>2.3</td>
<td>2.8</td>
</tr>
<tr>
<td>Gross domestic product at basic prices / factor cost</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

*Source: AEO 2014.*

3.2 Trade

Gabon is a party to many economic cooperation organisations, including the Economic Community of Central African States (ECCAS), the Economic and Monetary Community of Central Africa (CEMAC), the Organization for the Harmonization of Business Law in Africa (OHADA), and the World Trade Organization (WTO). It is also a signatory of many bilateral trade agreements with major economies in the World. The country is undertaking much needed reforms for better integration into the world economy through its trade-support programme, the Programme d’appui au commerce as a preliminary stage to the ongoing negotiations for an Economic Partnership Agreement (EPA) with Europe. These negotiations have already led to a Voluntary Partnership Agreement on timber exports to the European Union. Non-tariff import barriers are gradually being eliminated, and Gabon no longer collects export taxes.

As far as regional integration is concerned, trade with the CEMAC countries is limited to imports of food products, notably from Cameroon. The free movement of persons in the ECCAS region, which was due to be implemented in January 2014, has however been postponed due to reluctance from some member States on security grounds.

Overall Gabon’s trade balance remains in structural surplus with an import coverage rate exceeding 135% thanks to the performance of the oil sector. It nonetheless fell in 2013, accounting for 37.9% of GDP compared to 38.8% in 2012, as export revenue dipped due to the depletion of marginal oil fields and to technical difficulties experienced by the oil companies. Imports fell slightly as well, from 17.1% of GDP in 2012 to 16.2% in 2013.

The services deficit increased to 11.3% of GDP in 2013 (10.9% in 2012), as a result in particular of the high proportion of non-market services (education and health). The current balance is projected to trend downwards in 2014 and 2015 owing to the gradual decline in oil production.

Main trading partners for exports include Japan, the USA, European Union and Australia. Only 2% of Gabon’s exports were directed to African partners in 2012. However, Gabon sourced 13% of its imports from Africa in 2012.
Table 7
Gabon – main trading partners, 2012

<table>
<thead>
<tr>
<th>Destination of exports</th>
<th>% of total</th>
<th>Origin of imports</th>
<th>% of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>24%</td>
<td>EU</td>
<td>49% (28% France)</td>
</tr>
<tr>
<td>US</td>
<td>17%</td>
<td>China</td>
<td>12%</td>
</tr>
<tr>
<td>EU</td>
<td>12%</td>
<td>US</td>
<td>9%</td>
</tr>
<tr>
<td>Australia</td>
<td>11%</td>
<td>Cameroon</td>
<td>6%</td>
</tr>
</tbody>
</table>

Source: IMF direction of trade statistics.

This reflects the fact that exports are merely commodities as mineral fuels, oils, and distillation products represent more than 75% of total exports. Imports are typical of a developing country with machinery, vehicles and electric equipment accounting for more than 35% of the total.

Table 8
Gabon – main exports and imports, 2013

<table>
<thead>
<tr>
<th>Principal exports, 2013</th>
<th>% of total exports</th>
<th>Principal imports, 2012</th>
<th>% of total imports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mineral fuels, oils, distillation products, etc.</td>
<td>76%</td>
<td>Machinery, nuclear reactors, boilers, etc.</td>
<td>20%</td>
</tr>
<tr>
<td>Ships, boats and other floating structures</td>
<td>10%</td>
<td>Vehicles other than railway, tramway etc.</td>
<td>8%</td>
</tr>
<tr>
<td>Ores, slag and dush</td>
<td>8%</td>
<td>Electrical, electronic equipment</td>
<td>8%</td>
</tr>
<tr>
<td>Wood and wood products</td>
<td>4%</td>
<td>Articles of iron and steel</td>
<td>7%</td>
</tr>
</tbody>
</table>

Source: International Trade Centre.

### 3.3 Industry and manufacturing overview

Gabon’s development strategy is based on three pillars: industry, services and “Gabon Vert” or Green Gabon. The industrial pillar aims to promote local value addition of raw materials, the export of products with high value added and the diversification of the economy. Gabon has long been dependent on oil and gas as its main sources of revenue and the country is presently the third largest producer of oil in Africa and has about 30 oilfields in production. Gabon is mindful of the limited lifespan of this resource, and is keen to pursue a pro-active and sustainable development of other sources of natural wealth, including mining and energy production.

Gabon is rich in manganese and is the world’s second-largest producer. The country also has iron ore resources that are estimated to amount to nearly 1 billion metric tons as well as reserves of gold, diamond, lead/zinc, niobium and phosphates, potassium salts and magnesium.

Explorations have revealed the existence of over 900 sites with potential for mineral operations. The Government aims to increase mining operations, to add as much value on-site as possible to these mining resources, and to enhance the economic development of the regions where these sites are being developed. The current mining code is being revised to make mining more attractive to investors.

In order to provide Gabon with an industrial base that delivers real value added and creates jobs, the government has decided to create special economic zones (SEZs) that will
facilitate growth and attract investors. Two zones have been launched so far: The SEZ of Nkok, with 1,100 hectares, mostly dedicated to the timber industry, close to the capital Libreville, and the special tax concession zone of the island of Mandji, right beside the economic capital of Gabon, Port-Gentil, which covers an area of 1,500 hectares. This latter is dedicated to the petrochemicals industry and includes a fertilizer production unit from natural gas.

The creation of the Nkok multi-sector SEZ made it easier for new foreign firms to set up shop in Gabon. Of the 62 investors in the SEZ in 2013, 40% operate in the timber industry, and the number of factories rose from 81 in 2009 to 114 in 2013. The number of jobs in the sector rose from 4,000 in 2009 to nearly 7,000 at year-end 2012. The boom in the sector also prompted the start-up of small and medium-sized transport firms to haul logs from the production areas to the SEZ, as well as services and handling companies to maintain vehicles and mechanical equipment.

The Bélina iron ores is one of the last major undeveloped iron ore deposits in the world with iron content of 64% and an estimated one billion tons of reserves. Gabon granted it to the China National Machinery and Equipment Import and Export Corporation (CMEC). The export of iron ores from Bélina requires the construction of mining, energy, rail and port infrastructure and of a hydroelectric dam to supply electricity to the mine. This project will generate 26,850 jobs for Gabonese nationals. During operation, the iron mine will support 3,000 direct jobs and 10,000 indirect jobs.

In line with its industrial policy, Gabon successfully issued US$ 1.5 billion in Eurobonds on 5 December 2013, in order to reduce its borrowing costs and finance part of the new infrastructure in the port, airport, road and energy sectors. The government, observing the stalled implementation of the Bélina iron mining project, has undertaken to review the agreement on mining operations that it signed with Compagnie des mines de Bélina (Comibel), which is 75% owned by China National Machinery & Equipment Import & Export Corporation. The Government of Gabon has acquired 180,000 shares of the Chinese holding company and now owns the entire capital of Comibel.

3.4 Industrial policy

The industrial pillar of Gabon’s development strategy has at its core the local processing of raw materials and the move to exporting high value added products. This will contribute to economic diversification by ensuring sustainable exploitation of the raw materials that are available in the country. It has three strategic objectives: i) boost oil production and optimise hydrocarbon revenues and related industries; ii) develop the country’s mineral potential and the embedded metallurgy sub-sector; and iii) promote the development of support industries.

Oil production is shrinking and known reserves are expected to be exhausted in about thirty years, so boosting oil revenues to finance economic diversification suppose to encourage exploration in deep waters offshore far away from the coastal regions. In addition, it is also important for Gabon to improve its negotiating capacity and maintain a fair share for the state in all deals. In this context, for better regulation and an optimal management of oil revenues, the development of a new code regulating hydrocarbons was integrated into the implementation of the governance of the sector.

To support industrialisation, the Gabonese government has set an objective of increasing its power generation capacity to over 5,000 MW against 414 MW actually. This will be achieved through significant investments in gas production - whose potential is 39.59 billion m³ - in hydroelectric generation and the promotion of renewable energies. The aim is to progressively cut back on the production of electricity from fossil fuels and to reach the targets set out in the “Gabon Vert” policy. This strategy includes a six-year (2010-15) power generation
plan, which envisions structural reforms and the opening up of the sector to new operators. Three hydroelectric dams and a gas power plant are currently under construction. The development of an export-oriented Liquefied Natural Gas industry in the SEZ of Mandji Island appears as a promising business opportunity. Investments in the energy sector should include the development of integrated infrastructure, including power generation, transport and distribution.

Developing a petrochemical value chain with a fertiliser plant at its core will allow Gabon to produce nitrogen fertilizers and compounds (NPK). This sector will target not only the Central African markets (where no fertiliser production unit exists yet) but also the overall African market which remains, up to now, completely dependent on imports of fertiliser at prohibitive costs. The ongoing development of the agricultural sector in Africa will result in stronger demand for fertiliser and Gabon is positioning itself to supply this gigantic market.

The development of the hydrocarbons value chain requires skilled human resources. Gabon aims to train a critical mass of workers at management and technicians levels in the hydrocarbon sector. In this framework, an agreement was signed with Total Gabon for the establishment of the Institute of Petroleum and Gas (IPG) in Port-Gentil. This will serve as the basis for the development of a Competitive Regional Hydrocarbons pole in partnership with the private sector.

The World Bank Doing Business 2015 report ranks Gabon 144th among 189 economies. Gabon scored particularly well on two criteria of the report: dealing with construction permits and getting credit. The efforts of the Centre de développement des entreprises, the Gabonese one-stop shop for business set-up, contributed to the improvement in the “starting a business” indicator. Despite the improvement, it still takes 50 days to start a business in Gabon, whereas previously this used to take 58 days. Further effort is required on other criteria, such as getting electricity, registering property, protecting investors, enforcing contracts, resolving insolvency and trading across borders in a region characterised by a very low level of integration. The free movement of persons between Gabon and its neighbours, which was due to be implemented in January 2014 under the Central African Economic Community, has been postponed because some countries, such as Equatorial Guinea, have shown reluctance on security grounds, and this creates additional costs for businesses.

In 2013, Gabon adopted a new oil code with the aim of raising the state’s share of the sector’s profits from 20% to 30%. The law will enable the creation of a new firm under Gabonese law to replace the current oil refinery Société gabonaise de raffinerie (Sogara).

3.5 Forward linkages in the timber industry

The timber industry is a central pillar of Gabon’s industrialisation. The sector is booming, and forests, which cover nearly 85% of Gabon, offer opportunities to reduce the country’s dependence on oil and to fight poverty and improve living conditions. With more than 400 tree species, Gabon has immense ecological wealth.

In recent decades, the timber industry has become more integrated into the global economy with a well-developed value chain and a range of links in this value chain, from the plantations of timber through timber intermediate products. The introduction of flat-pack furniture during the 1990s reduced the cost penalties involved in shipping bulky and relatively low value products. The result was that, increasingly, furniture production gravitated toward

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55 This section is inspired from Anne Terheggen (2011) and UNIDO (2012): Promoting Industrial Diversification in Resource Intensive Economies: The Experiences of Sub-Saharan Africa and Central Asia Regions, Vienna
the site of log production and away from final markets. This transition in timber processing was intensified since many wood products are labour intensive in production and often involve noxious environmental emissions. Government policies in many low income countries specifically fostered the timber processing industry as an entry point into industrialisation, since this is a sector with relatively few technological or scale barriers to entry. Brazil, Malaysia and Indonesia have been very successful in reaping the benefits of this sector. In Africa, Mozambique has imposed taxes on exports of raw logs in order to encourage processing in the country. Despite this policy, however, the sawn timber produced from Mozambique has reportedly been of low quality due to the outdated technology used. A USAID 2006 report found that “log exported in raw form is worth 60% more than the sawn timber that can be produced from it” in Mozambique. Gabon should keep this lesson in mind while promoting the sector, and ensure that producers have access to the right technology to reap benefits from manufactured logs.

Tropical timber fills a specialized niche in the global industry. Tropical timber takes a long time to grow, has a distinctive appearance, is “hard” and is in short supply. It therefore tends to sell at a premium, particularly for species such as mahogany and ebony where there are growing pressures to halt the depletion of global stocks and to limit supplies to renewable plantations. Although Gabon only accounts for 3% of global tropical timber production, it consumes very little of this output domestically and is the 7th largest tropical log exporter. Logs, the third largest export after oil and manganese, accounted for 6.2% of total exports in 2008 (OECD, 2009).

Gabon is the second most forested African country. Although historically timber was the major sector in Gabon’s economy, it has become overshadowed by the oil sector, and now accounts for less than 3% of GDP. It is, however, the second largest employer after the state, absorbing an estimated 28-30% of the active labour force (much of this is part-time employment). Extraction and exportation of tropical timber on an industrial scale began around 1900 during colonial time, and until the late 1990s, timber was predominantly destined to France and other EU markets.

Since then, exports to China have grown and (in round-wood equivalent volume) and currently exceed those to the EU. In 2001, the government introduced legislation designed to both provide for a sustainable timber industry and to encourage forward linkages. The Forestry Code (Loi No 016/01 Portant Code Forestier) of 2001 included four major features. The first was the termination of the state-owned company’s (SNBG, Société Nationale des Bois du Gabon) monopoly over the commercialization of the dominant species Okoumé and Ozigo. The second was the introduction of a sustainable forest management system, and the third saw the introduction of a higher degree of transparency to combat corruption and illegal logging. The final component of the Forestry Code was designed to promote the domestic processing of logs. It established a target of domestic processing, specifying a target of 75% by January 2012. Since progress in meeting the target for January 2012 was slow, in early 2010 the government announced a log export ban, which becomes effective in May 2012.

Two key factors led to the introduction of the Forestry Code. First, Gabon’s oil reserves are finite and oil production peaked in 1996/7. This led the government to target economic diversification and value addition. The second factor was pressure from development partners, including the IMF and the World Bank (Gabon’s largest creditors), European governments and European buyers of tropical timber and wood products. The fact that the historically dominant buyers from Europe were content to see primary processing occurring at the site of logging removed a potential obstacle to this policy-induced promotion of forward linkages. Even though progress in meeting the January 2012 target was slow, the timber value chain in Gabon has seen a deepening of forward linkages.
In the 60’s, market-led exports were relatively small and stable (hovering between 50,000 and 100,00 cubic metres p.a.), but, after the late 1990s, and particularly after the introduction of the Forestry Code in 2001, exports of processed timber products grew rapidly, exceeding 450,000 cubic metres in 2005. However, despite this growth, in terms of round-wood equivalents, this export of processed timber was only 33% of total timber exports in 2007. Whilst European buyers have imported a growing proportion of processed timber products, Chinese buyers almost exclusively buy unprocessed logs.

Aside from the timber, local content in the Gabonese timber industry and in the processing sector is largely confined to labour. It is estimated that wage costs account for up to a quarter of total production costs in a vertically integrated logging processing company. Other major cost items are capital goods (20%), transportation (14%), customs (22%) and taxes (10%). Most of the machinery and transport is imported. But even this overstates the domestic value added component of costs (excluding the resource rents derived from ownership of timber), since Gabon has an acute shortage of both skilled and unskilled labour.

To some extent, the slow progress in meeting the Forestry Code objectives is attributable to processing inefficiency. Exporting logs, Gabonese producers are able to command the highest share of resource rents, since Gabon is a privileged supplier of many tropical species, particularly Okoumé, which is prized because of the ease with which the bark can be peeled. However, as processing is inefficient by global standards, some of these resource rents are dissipated. Processing may increase domestic value added, but will lead to lower levels of profits. Despite this, insofar as these profits are invested productively and the returns to investment stay in Gabon, it may be that the social interest is best met without the beneficiation of Gabon’s timber wealth.

The log export ban has already achieved substantial benefits for the Gabonese economy including expanding FDI and additional recruitment of workforce even though there is no comprehensive assessment of the effects of that decision, as there is also shortage of skilled labour for processing. Nonetheless, it led to the creation of 33 timber-processing firms between 2010 and 2012. Sales of lumber more than doubled in value, from US$ 166 million in 2009 to US$ 340 million in 2012, and 3,173 jobs were created directly.

3.6 Lessons from Gabon

Gabon has taken concrete steps towards industrialisation with the Head of the State championing industrial development as one of the three main pillars of the country’s development framework for an emerging Gabon. The Ministry of Industry and the Direction Générale de l’Industrie have subsequently been provided with both human and financial resources to deliver on this Vision. The political direction provides the necessary clout to the Direction Générale de l’Industrie to engage effectively with other stakeholders on delivering results.

Despite these efforts, some bottlenecks remain which hinder the country’s smooth transition to an emerging economy status. Improving governance entails stepping up the pace of structural reforms aimed at supporting economic diversification. Gabon needs to improve the business climate, upgrade its infrastructure and take actions more geared to the international investors, such as promoting and establishing good practice in the natural resources sector. Transparency in the natural resources sector, for example, is one area where improvement could be made: the board of the Extractive Industries Transparency Initiative (EITI) decided in February 2013 to exclude Gabon for failure to meet the EITI deadlines for submission of accounts.
Private sector continues to face challenges related to market access, technological upgrading, financing and skilled human resources. In order for the private sector in Gabon to become competitive, small and medium-scale industries must overcome these obstacles with a strong support from the Government.
4. Morocco: venturing into new manufacturing sectors

Morocco, officially the Kingdom of Morocco is a country in Northern Africa region. Geographically, Morocco is characterized by a mountains chain with fertile plateau and large portions of desert. Morocco has a population of over 33 million and covers an area of 446,550 km2. Its political capital is Rabat, although the largest city is Casablanca; which is the main economic hub. A historically prominent regional power, Morocco has a history of independence not shared by its neighbours. Its distinct culture is a blend of Arab, indigenous Berber, Sub-Saharan African, and European influences.

Morocco is a constitutional monarchy with an elected parliament. The King of Morocco holds vast executive and legislative powers, especially over the military, foreign policy and religious affairs. Executive power is exercised by the government, while legislative power is vested in both the government and the two chambers of parliament, the Assembly of Representatives and the Assembly of Councillors. The king can issue decrees called dahirs which have the force of law.

Morocco has enjoyed a remarkable growth over the last decade, thanks to stable economic fundamentals and strong policy implementation which have helped stabilize the economy, in spite of the headwinds it has faced. The high volatility of agricultural output impacts the stability of macroeconomic trends. After a bumper crop in 2013, agriculture output has dropped and is expected to bring down GDP growth in 2014 to around 2.5%, despite a recent pick-up of non-agricultural activity. Inflation remains low. The external current account deficit is narrowing and should reach about 6% of GDP. International reserves have also improved. This performance reflects in part the rise of exports from newly developed industries as well as lower capital good and energy imports, the latter mainly thanks to the recent fall in oil prices. The fiscal deficit has been contracting since its 2012 peak owing in particular to measures taken by the government. Public debt has increased but remains sustainable. Progress was made over the last decade in reducing poverty, but more needs to be done to increase employment, particularly youth employment, reduce inequalities, and improve education and access to basic infrastructure.

In this context, it is important for Morocco to pursue the reforms undertaken to stabilize the economy, strengthen competitiveness, and build the foundation for stronger and more inclusive growth. Growth is expected to reach 3.7 percent in 2015, as non-agricultural sectors continue to improve their performance and the agriculture sector returns to a normal trend. However, the Moroccan economy still faces important downside external risks, including in relation with growth in Europe and in Arab countries. The country’s renewed interest in the African continent may prove to be a valuable diversification strategy.

Morocco is gradually strengthening public finances: the 2015 draft budget targets a reduced deficit of 4.3 percent of GDP. Fiscal reforms that help sustain these efforts, reduce fiscal vulnerabilities, and create space for investment in infrastructure, health, education, and social protection are crucial to fostering higher and more inclusive growth. In that respect, significant progress was made in reforming the subsidy system. The reform of the pension system is urgent to maintain its viability. The adoption of a new organic budget law is also expected to strengthen and modernise the fiscal framework.

Regarding the external sector, the continued improvement of the current account, external reserves and the resilience of the economy to external shocks, is quite impressive. This improvement owes in part to the emergence of new export industries, which have mitigated the impact of shocks to traditional exports. Stepped up efforts to improve the business environment, transparency, competition and governance are important to support competitiveness and
potential growth. Greater flexibility in the exchange rate regime, in coordination with other macroeconomic and structural policies, would also help support competitiveness and enhance the economy’s capacity to absorb shocks.

The financial sector remains sound overall. The effectiveness of Bank Al-Maghrib -the Central Bank- in the supervision, including of Moroccan banks’ cross-border activities in light of the rapid expansion of some banks in sub-Saharan Africa provides stability to the financial system. The adoption of new banking and central bank laws is expected to strengthen the financial sector. The authorities’ efforts to improve financial inclusion and access to credit are also helpful.

4.1 Economic overview

In 2014, the Moroccan economy in 2014 has been marked by the decline in agricultural value added and the slight recovery in the non-agricultural activities supported by the consolidation of domestic demand and improved global demand for Morocco’s products. Agricultural activity had to undergo unfavourable weather conditions during the 2013/2014 campaign. The production of major cereal crops is estimated at 67 million cwt, down 28% compared to that of 2012/2013. The impact of this decline was, however, mitigated by the sustained increase in the production of other crops, including tree crops and vegetable crops. The sector has, moreover, benefited from the improvement in the activity of breeding. Under these conditions, the primary sector, with a slight decline in the fishing activities, is expected to decline in value added of 2.3% in 2014 after strong growth of 18.7% in 2013.

The secondary sector activities are marked, for their part, by a recovery in mining and construction industry and public works and a consolidation of growth of manufacturing industries, including food processing, automotive and aeronautics. Their added value is expected to increase by 2.3% in 2014, after the slow growth of 0.3% in 2013.

In the tertiary sector, the activities of market services continue their improvement, in conjunction notably with the consolidation of the performance of tourism activities, the increase in telecommunications activities and strengthening of services to businesses. The services provided by public administrations generate, in turn, an added value with moderate improvement. Thus, the value added of the tertiary sector is expected to grow overall by 3.6% instead of 2.7% in 2013. Non-agricultural GDP, given the evolution of taxes net of subsidies on products, is expected to increase by 3.4% in 2014 compared to 2.2% in 2013.

The national unemployment level recorded during the first quarter of the year 2014 is around 10%, which remains high but not unusual in the country.
Figure 8
Morocco – GDP and sectoral growth, 2000-2012

Source: ECA calculations based on data from AEO 2014.

Table 9
Morocco – value added by sector

<table>
<thead>
<tr>
<th>Sector</th>
<th>2008 (%)</th>
<th>2012 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, hunting, forestry, fishing</td>
<td>14.6</td>
<td>14.4</td>
</tr>
<tr>
<td>of which fishing</td>
<td>1.2</td>
<td>1</td>
</tr>
<tr>
<td>Industry</td>
<td>30.3</td>
<td>30.3</td>
</tr>
<tr>
<td>Mining</td>
<td>7.3</td>
<td>5.3</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>14.2</td>
<td>15.9</td>
</tr>
<tr>
<td>Electricity, gas and water</td>
<td>2.6</td>
<td>2.6</td>
</tr>
<tr>
<td>Construction</td>
<td>6.2</td>
<td>6.5</td>
</tr>
<tr>
<td>Services</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wholesale and retail trade, hotels and restaurants</td>
<td>14</td>
<td>13</td>
</tr>
<tr>
<td>of which hotels and restaurants</td>
<td>2.6</td>
<td>2.6</td>
</tr>
<tr>
<td>Transport, storage and communication</td>
<td>7.3</td>
<td>6.7</td>
</tr>
<tr>
<td>Finance, real estate and business services</td>
<td>14</td>
<td>14.1</td>
</tr>
<tr>
<td>Public administration, education, health and social work, community, social and personal services</td>
<td>8.7</td>
<td>9.7</td>
</tr>
<tr>
<td>Other services</td>
<td>11.1</td>
<td>11.8</td>
</tr>
<tr>
<td>Gross domestic product at basic prices / factor cost</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: AEO 2014.
4.2 Trade

Morocco actively engages in trade policy geared towards regional integration and strong economic cooperation, both with the Mediterranean region and Africa. The country is party to numerous bilateral and multilateral free trade agreements including with the European Union, the United States, Turkey, and several Arab countries through the Agadir Agreement and the Arab Maghreb Union (AMU).

These agreements helped boost Morocco’s external trade and reduce its significant trade deficit. In 2013, the foreign trade balance improved to the tune of MAD 5.7 billion, bringing the structural trade deficit down to about MAD 196.39 billion, compared to MAD 202.06 billion a year earlier. The export-import ratio therefore reached 48.2% in 2013, compared to 47.8% in 2012.

Finished products account for 40% of total imports in Morocco, heavily impacting the country’s trade balance, and providing real opportunity for import substitution industry. Through the creation of industrial ecosystems, industrial providers can produce the goods that Morocco imports, thanks to Government support for import substitution industries. Previous industrial development strategies were mostly export-oriented. Through the integration of sectors and capitalizing on technology transfer, industrialisation will have better prospects and can lead to sophistication of the economy by maximizing wherever possible the local value added content.

Source: ECA’s calculations based on data from AEO 2014.
Only 8% of Morocco’s exports were directed to African partners in 2012. At the same time, Morocco sourced just 4% of its imports from Africa.

Table 10  
Morocco – main trading partners, 2012

<table>
<thead>
<tr>
<th>Destination of exports</th>
<th>% of total</th>
<th>Destination of imports</th>
<th>% of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU</td>
<td>56% (21% France)</td>
<td>EU</td>
<td>48%</td>
</tr>
<tr>
<td>Brazil</td>
<td>5%</td>
<td>China</td>
<td>7%</td>
</tr>
<tr>
<td>India</td>
<td>5%</td>
<td>US</td>
<td>7%</td>
</tr>
<tr>
<td>US</td>
<td>5%</td>
<td>Saudi Arabia</td>
<td>6%</td>
</tr>
</tbody>
</table>

Source: IMF direction of trade statistics.

Table 11  
Morocco – main exports and imports, 2013

<table>
<thead>
<tr>
<th>Principal exports, 2013</th>
<th>% of total exports</th>
<th>Principal imports, 2012</th>
<th>% of total imports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electrical, electronic equipment</td>
<td>14%</td>
<td>Mineral fuels, oils, distillation products</td>
<td>27%</td>
</tr>
<tr>
<td>Articles of apparel, accessories, not knit or crochet</td>
<td>10%</td>
<td>Machinery, nuclear reactors, boilers, etc.</td>
<td>9%</td>
</tr>
<tr>
<td>Fertilizers</td>
<td>9%</td>
<td>Vehicles other than railway, tramway, etc.</td>
<td>8%</td>
</tr>
<tr>
<td>Vehicles other than railway, tramway, etc.</td>
<td>7%</td>
<td>Electrical, electronic equipment</td>
<td>8%</td>
</tr>
</tbody>
</table>

Source: International Trade Centre.

In 2013, foreign direct investments (FDIs) flows recorded gains of nearly 20%, compared to 2012, thanks to improved business environment and active government’s policy, and Morocco alone was able to attract 25% of all FDI going to North Africa. Morocco became the second most attractive country for FDI in Africa in 2013-14, attracting 8.3% of all such flows to the continent.

Remittances remained relatively stable in 2013, totaling MAD 58.3 billion, compared to MAD 58.8 billion in 2012.

4.3 Industrial policy

Despite economic reforms carried out by the government, Morocco has recorded a sluggish growth during the nineties and early 2000s. In order to boost economic growth and speed up the process of structural transformation, the Government has a key role to play in guiding and supporting investors in a number of promising sectors in which Morocco has the potential to compete.

Late 2005, Morocco adopted the Emergence Plan with the objective of raising economic growth by 1.6% per year over the next ten years, leading to the creation of an additional 440,000 new direct and indirect jobs. The plan is based on a diagnosis of 12 industrial value chains and 77 sub-industries. It identified the country’s strengths and weaknesses in areas such as input cost, human capital, taxation, access to markets and cost of finance with respect to a sample of countries.
The implementation of the Emergence Plan was doomed by the consequences of the international economic and financial crisis in its early years. A revamped version of the plan, more articulated and comprehensive, labelled “National Pact for Industrial Emergence” (NPIE) was adopted by the government in 2009 for a period of seven years (2009-15). The pact was dedicated to industries and services and the development of new technologies. It focused on the optimal use of opportunities created by globalization through investment flows. Beyond the consolidation of Moroccan firms and encouraging industrial investment, this strategy was intended to pave the way to the Moroccan economy, so it can expand into new industry niches using innovative technologies and enter into new markets.

The key actors from the Government and the private sector signed the pact to signal the country’s commitment to its effective implementation. The NPIE has two key pillars. The first pillar is to boost industries in which Morocco has a competitive advantage. Six sectors have been selected as drivers of growth and named as “Morocco’s Global Activities.”: French and Spanish-language offshoring/near-shoring, the agro-food industry, textiles, the automotive, aeronautics and electronics.

The second pillar is to strengthen SMEs competitiveness. The SME Promotion Agency ANPME has been in charge of administering two key support schemes: the first one is “Excellence” (Imitiaz) and the second is “Support” (Moussanada).

The purpose of Imitiaz is to provide direct financial support to the most promising SMEs and allow them to expand in terms of size, profitability and value added by subsidizing their investment programmes that can span over three years. The government subsidy can amount to as much as DH 5 million (approximately US$ 600,000) for each selected firm, representing a maximum of 20% of the project’s cost (all taxes included). The beneficiary firms are selected through a national competitive call for tenders’ process. The selection is taken care of by a special committee made of public and private sectors’ representatives. The application needs to be first approved by one of the banks sponsoring the “Imtiaz” and then sent to the ANPME. The government’s target is to provide support to 50 firms every year under the Imitiaz scheme.

The purpose of Moussanada is to subsidize SME projects to improve their productivity through three forms of support. The first is through functional programmes that benefit firms regardless of their sectors and cover strategy elaboration, business and marketing, finance, quality control, and organization and management. The second is more technical and has sector specific programmes. The latter include production processes, supply management, design, R&D, etc. Three sectors have been given priority to benefit from the support: textiles and leather, agro-food and automobile. SMEs can choose from a pre-set menu of support packages that best fit with specific needs. For both functional and technical support, the state subsidy can account for up to 60% of the cost of the support within a limit of (roughly US$ 70,000) for each firm. The third form of SME support is the sector-specific information technology (IT) programme. This can cover up to 60% of the support cost within a limit of (roughly US$ 47,000) per firm. As firms apply for different subsidies, each one may be granted up to US$ 117,000. This is more than four times the limit of subsidies under the upgrading programmes of the past.

In addition, the NPIE included a number of horizontal measures that are not targeted to specific industries or firms of a particular size. The purpose of those measures is to improve business environment, human capital through adequate training to meet the needs of Morocco’s global activities, technological infrastructure (Industrial Integrated Platforms, as the industrial zones are named) as well as investment and trade support facilities.

The plan is presented in 111 measures structured as follows: offshoring (6 measures), automotive (10 measures), aeronautics (6 measures), electronics (6 measures), textiles and leather (15 measures), food industry (14 measures), SME competitiveness (12 measures),
business environment (16 measures), training (14 measures), Industrial Integrated Platforms (5 measures), implementation commitments (6 measures), and finally one single measure regarding monitoring of the pact implementation.

A review of NPIE was carried out in 2013. Based on the review, the first pillar of the pact led to the creation of roughly 111,000 jobs during the first three years of implementation. This means that 50.4% of the objective of creating 220,000 jobs set for 2015 by the pact has been achieved so far. Focusing on the manufacturing, it appears that more than 80,000 jobs out of 150,000 set for 2015 have been created, which represents 54%. There are, however, disparities among industries regarding their achievement rates. The aeronautics and electronics have been underperforming, as far as job creation is concerned. They only achieved one quarter of the target by 2012. The automotive industry has done better, but its performance remains below average. Conversely, agro-food and textiles – two traditional labour intensive industries – achieved respectively 96.2 and 65.6% of their 2015 target.

The mid-term review shows an increase in exports of the five manufacturing industries targeted by the pact from DH 67.3 billion in 2009 to DH 91.6 billion by end of 2012, which is the equivalent on average annual growth rate of 10.8%. Compared to the target of an additional DH 95 billion of exports by 2015, it means that so far the execution rate has not exceeded 28%.

Finally, manufacturing sector value added increased by an average annual growth rate of 5.1% in nominal value between 2009 and 2012. The additional value added amounted to DH 16.7 billion, which is the equivalent of one third of DH 50 billion set by the pact as its 2015 target. To sum up, the official mid-term review indicates an average achievement rate of 50% of target by 2012 with regard to job creation with significant gaps for aeronautics and electronics; and an under-achievement with regard to value added and exports with respectively 33 and 28% increase.

Under the second pillar, the assessment so far can only be made with respect to implementation of the two programs: Imtiaz and Moussanada. In 2010, 33 firms have been granted support under Imtiaz. Their planned investment amounts to DH 666.4 million and are expected to create an additional turnover of DH 9.98 billion over five years, an extra valued added of DH 3.08 billion and 1,964 new jobs. The 33 firms were granted a total public financial support of DH 113.3 million, which is on average DH 3.43 million per project and 17% of the planned investment. Out of 80 projects approved in 2010 and 2011, 75 belong to the manufacturing sector and only five projects are in services.

For the Moussanada programme, the goal is to provide support to 500 firms every year. Paradoxically, due to insufficient communication and limited interest from firms, only 258 firms benefited from Moussanada in 2010. Although, in 2011 the number increased to 341 firms it remains below the target. Taking both years together, the ANMPE achieved no more than 60% of its target (599 firms instead of 1000). Nonetheless, ANMPE has supported more than 3,500 SMEs since its inception in 2002. One third of all support interventions focused on quality and labelling, 26% on information systems and 11% to development strategy and investment. Only 4% of interventions were concerned with productivity and cost reduction and 3% with human resource management.

4.4 Industrial strategy

In 2014, the Government adopted a new industrial strategy for 2014-20 with a focus on ten flagship measures including the creation of industrial ecosystems, reducing the weight of the informal sector, the promotion of industrial compensation and the setting up of an industrial development fund. The new roadmap plans to increase manufacturing ratio to GDP to 23% and create 500,000 jobs. The import substitution industries will also be supported.
Spearheaded by the Ministry of Commerce, Industry, Investment and Digital Economy, the new industrial strategy aims to transform the sector into an engine of growth and employment. This is specifically an industrial acceleration plan to maintain the momentum initiated by the National Plan for Industrial Emergence (PNEI). Indeed, the results over the past two decades are impressive: from Structural Adjustment Programme (SAP) exit in the 90’s to date, Morocco's GDP has tripled; the country has enhanced its infrastructure base and accelerated integration into the global economy.

The country is currently endowed with 38 ports, 24 airports and a highway network of more than 1,400 kilometres. The first round of free trade agreements concluded already cover 55 countries with a sizeable market of 1 billion consumers. With the implementation of different strategies, Emergence and PNEI in particular, in addition to several structural reforms, Morocco has become more attractive by recording a steady increase in international rankings related to business environment, capitalizing on proximity, competitive costs and access to markets through the network of free trade agreements (FTAs) signed. The favourable business environment has also contributed to increasing FDI including more than two hundred international investors in the automobile sector and a hundred in the aeronautics. Nevertheless, much remains to be done to develop the industrial landscape and accelerate its growth.

The country continues to face many challenges for a successful development in general and for the development of industry in particular. First, job creation induced by the different industrial programmes is below expectations. In 10 years, industry has been able to create 75,000 jobs, while by 2020 the number of expected new active people on the labour market will exceed 1.3 million in a context of slowing major infrastructure and real estate projects. Also worrying, the share of manufacturing in GDP remains low, not exceeding 14%.

Similarly, the export capacity of Morocco is restricted by the non-competitive offer, which is hampered by the cost structure disadvantage vis-à-vis of its most immediate competitors. According to the latest report by the World Economic Forum (WEF), Morocco has lost seven positions and thus occupies the 77th place on the International Competitiveness Index, which ranks 148 countries worldwide. Moreover, the apparent labour productivity stands in average levels compared to countries with similar economic structures.

The Government has listed five major pitfalls that need to be dismantled to meet the targets set for 2020. In fact, the industrial landscape mostly consists of small, undercapitalised, low value added production units and therefore had little capacity to export. Regarding human resources, there is a lack of labour force with appropriate technical and engineering skills. The development of industrial infrastructure is geographically unbalanced: in 2011, 33% of the country’s industry was concentrated between Casablanca and Tangier. Furthermore, the industrial infrastructure is not sufficiently exploited. In the SEZs, only two businesses are operating in Fez Shore, three in Tetouan Shore, nine in Atlantic free zone and no more than 40 in Rabat Technopolis. Overall, only 3.1% of the area planned for industrial parks is built and 1.9% is marketed.

The industrial ecosystems are meant to sustain and develop the performance of new export sectors launched by PNEI. They are based primarily on the concept of industrial ecosystems: clusters of industry leaders and SMEs in industrial zones dedicated to create genuine technological fields around targeted cooperation programmes leading to long-term supply contracts and technology transfer. The strategy stresses the importance of encouraging...
industry leaders, local or foreign, who subcontract to tier-one suppliers who, in turn, also entrust some of the work for second-tier suppliers.

The industrial compensation mechanism aims to optimize the socio-economic impact of public procurement. This is to assess and analyze the national programme of public procurement by conditioning the granting of public contracts to foreign operators to a proven transfer of technology. The objective is to ensure ripple effect generated by the public procurement to benefit small local operators.

As one of the major obstacles to the development of integrated sectors, informal sector is addressed upfront in the new vision. A new dedicated support to very small enterprises is announced. There is a mechanism providing support for very small businesses, including tailored financing solutions and automation of daily management to improve productivity and traceability. This is to complement routine access to social security: health, unemployment and retirement. This package of measures is expected to formalise more informal enterprises.

In order to address lack of skills, the industrial acceleration plan proposes to train technicians for each ecosystem in sufficient numbers and to allow industry leaders to identify needs and develop training like the Office Chérifien des Phostates— (OCP) skills programme developed by the phosphate group, a mining champion.

In addition, the plan calls for strengthening support to improve the competitiveness of industrial enterprises, and, through investment subsidies (Imitiaz program). The idea is to help them be more productive, to computerize and innovate through a research tax credit. Using Public Private Partnership, the Government intends to establish mechanisms to address the overarching issue of financing. This can take the form of an industrial development fund, among others, to finance the consolidation of some industrial sectors and supporting businesses engaged in internationalisation and financing import substitution industries.

To address the challenges faced by companies in securing land, the new strategy encourages a rental model through the establishment of holdings with small areas, and, close to employment areas and basic services including restoration, habitat and telecoms. Ultimately, these areas will be an integral part of the cities.

The openness of the Moroccan economy can help the national industry by facilitating access to markets, input supply, and access to capital as well as by strengthening industrial integration and value chains. A particular emphasis is placed on strengthening support actions and development plans for export sectors with high potential. It is also imperative to protect the national economy against unfair competition, strengthen regulation of imports and consolidate the actions to support export sectors. In addition, impact assessment studies should be conducted prior to trade negotiations, to allow Morocco to negotiate strategically.

To promote FDI, the plan senses the need to create a culture of “deal making.” This will involve professional intermediation (investment banks and dedicated experts) emulating the Chinese model. At the same time, there will be a scale up of interventions towards Africa. This will go through the support for industrial investment on the continent, and assistance to Moroccan firms in gaining investment projects in Africa. The strategy assigned the project of Casa Finance City as a single entry point for investors interested in Africa.

Through these operational measures, the strategy aims at the transformation of the domestic industry, the continuation of sector plans undertaken previously. Over a period of 7 years (2014-20), this strategy aims to increase the manufacturing value added to about 23% of GDP and create 500,000 jobs of which half would come from the local industry and the other half from foreign investments. This will be eased by the leasing of some 1,000 hectares of public land to industry.
An industrial investment fund is to be established to support all actions of the strategy. It will be endowed with 20 billion dirhams in 2020. The strategy also includes the overhaul of the investment charter and that of the public guarantee system for SMEs. The implementation will be driven by an interdepartmental committee.

In addition, a strategic promotion cell will be created to streamline actions by various stakeholders in the promotion of Morocco’s offer. Also, a single point will be set up for investors in industrial parks. In parallel, a dedicated team of senior industry experts in charge of the animation of industrial ecosystems will be formed to monitor the actions and advise policy makers.

As a prerequisite for the implementation of the new national industrial strategy, 29 agreements were signed by the various stakeholders. The first concerns the establishment of the Industrial Investment Fund, which seeks to mobilize the necessary funding to support the construction sites of the industrial strategy. The second is the mobilization of industrial rental property. A memorandum of understanding on the mobilization of land for the construction of an integrated industrial park in Casablanca was signed. It defines the terms and obligations of the parties for the development, promotion, marketing and management of integrated industrial park of Casablanca which covers an area of 143 ha.

In addition, the partnership agreements for the development of ecosystems around the OCP as industrial leader, was also initiated. With regard to financing, banks have committed vis-à-vis industrial companies through a protocol which sets preferential terms to strengthen industrial competitiveness in the long term. Meanwhile, a co-financing scheme and guarantee dedicated to industry and particularly the SMEs was introduced.

On the educational side, a partnership agreement was reached to improve the balance between supply and training needs of the labour market and industrial skills to support development of industrial sectors strategies through initial and continuing vocational training, support for entrepreneurship and the development of training in soft skills.

In order to improve Morocco’s integration into international markets and to make its exports more competitive, the government has introduced a partnership to institutionalize dialogue with the private sector. The partnership defines a framework for action on issues related to negotiations, management and monitoring and implementation of preferential and free trade agreements, with the aim of reducing the deficit in the country’s trade balance.

To encourage entities to switch from the informal to the formal economy, the Government has defined the status of self-entrepreneur with an agreement that summarizes the terms and conditions of its operational implementation. In addition, a dozen conventions have focused on the definition of industrial competitiveness measures specific to each sector separately, including food processing, textiles and clothing, chemicals, specialty chemicals, pharmaceuticals, mechanical and metallurgical industries, offshoring and automotive. There is a provision for financial support for industry that will set up in Morocco, equivalent to 20% of their investments.

Morocco’s experience of industrial parks has not yet produced the expected results. Indeed, the occupancy rate of P2I – Integrated Industrial Platform – is between 15 and 20%. Between 2009 and 2012 on all P2I, there were barely 124 installed companies. These have produced 11.4 billion dirhams in additional revenue and created 32,405 jobs. To enhance the attractiveness of the industrial parks to businesses, the new national strategy has chosen to promote the rental approach.
4.5 Lessons from Morocco

Morocco is actively promoting manufacturing as the strategic path to structural transformation and to becoming an emerging economy. Several public institutions and programmes have been put in place to support private sector in stimulating investment, production and exports. Morocco has one of the strongest and consolidated financial sectors in Africa: in addition to a solid infrastructure base, it catalyses investments in the country.

Nonetheless, the overall performance of the manufacturing sector has been rather disappointing lately, particularly regarding the expectations set by the various industrial development plans. Overall, the Pact has not reversed the downward trend of the share of manufacturing value added in GDP, as which decreased to 14.7% by 2011 compared to 16.4% in 2007 and 17.3% in 2003.

At the highest level of Government, the issue of structural transformation through industrial development has been prioritised. The country is seeking to break the barriers of middle income status and become an emergent economy by throwing all its force into the battle of industrialisation. Plans introduced to support SMEs and priority sectors have mostly not fully achieved their success rates, but have nonetheless benefited the country’s private sector. Venturing into new manufacturing activities like motor and aeronautics industry has proved a winning approach as it provides some resilience that compensates the decline in traditional sector such as textiles. This could be a scholar case for fellow African countries if Morocco succeeds in the coming couple of decades.
5. **Rwanda: economic transformation based on services**

Rwanda has undergone two decades of strong economic recovery. Since the 1994 genocide, GDP p. c. has risen to almost US$ 650, and around 45% of the population is now below the poverty line, down from 60% in 2000. The economy has achieved average annual growth of 8.2% for the past ten years and in 2014 Rwanda ranked number 32nd in the world for ease of doing business, up from number 54 in 2013, second only to Mauritius in Africa and ahead of developed countries such as Belgium and France. This performance is exceptional given Rwanda’s regional environment: of the 14 Eastern Africa countries, after Rwanda are the Seychelles at 80th, while all the remaining 12 countries are ranked 125th or worse.

The government has been pushing ahead with market-oriented reforms, trying to position Rwanda as a trade and services hub in the region. President Kagame has overseen the establishment of an efficient state administration capable of channelling large amounts of aid—which accounted for over 80% of total government revenue by 2000—into building the country's social and physical infrastructure. Primary education enrolment reached 95% in 2011, and child mortality dropped from 287 to 55 per 1,000 live births between 1994 and 2012. The agriculture sector, in which 80% of the workforce is still employed and which largely consists of subsistence farming, has been increasingly commercialised, boosting rural incomes. Strong leadership and accountability have driven such results. Heads of government institutions sign performance contracts, known as *imihigo*, with the prime minister’s office and commit to achieving certain goals against which they are held to account during a specified period. Similar contracts are signed between the employees of government institutions and their respective heads of institutions. This has instilled discipline and a meritocratic system rare among other low income African governments.

Realising the limits of growth driven by aid-financed public investment, in 2000 the authorities launched Vision 2020, which set the ambitious target of making Rwanda a middle-income country (income per head of just over US$1,000) by 2020. The strategy emphasises the development of a vibrant private sector, and since the mid-2000s the government has been reforming the regulatory environment to attract private investors. In 2008, the government established a consolidated entity, the Rwanda Development Board (RDB), with the mission of fast-tracking economic development in the country by enabling private sector growth. The process of registering a business - from filling in the first forms to walking away as the director of a company – now takes 24 hours. Rwanda is currently the 9th best place to start a business in the world, both for quickness and easiness.

The government plans to boost expenditure by nearly 5% to Rwf 1.75 trn in fiscal year 2014/15 with over half of the total being allocated to a combination of “economic transformation” (25%), rural development (14%), youth and productivity (10%) and accountable governance (3%). However, lower than expected aid inflows are posing difficulties to this plan: aid to Rwanda was suspended in 2012 owing to Rwanda’s alleged support for the M23 rebels in neighbouring Democratic Republic of Congo (DRC). With the private sector still small, growth will continue to be dependent upon public investment. As external financing constraints grow, the government will need to find alternative sources to maintain its ambitious public investment programme.

Rwanda’s challenge now is to transform the economy from one driven by the public sector and aid money to one driven by the private sector and domestically mobilised resources.

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57 World Bank data.

The country needs to diversify its exports, reduce the cost of doing business (negatively affected by the high costs of utilities, such as electricity and infrastructure gaps), develop regional infrastructure and improve intra-regional trade so as to reduce the trade deficit. Also fundamental for the country will be to increase agricultural productivity while shifting workers into higher value-adding jobs.

5.1 Economic overview

Real GDP growth slowed to 4.6% in 2013 compared to 7.3% in 2012. This was mostly due to a slowdown in agriculture and to aid-related delays in the implementation of the government’s strategic investment programme. Some development partners suspended budget support in 2012/13, amounting to 1.2% of GDP or 3.5% of the budget. Industry and services were the leading growth drivers in 2013, growing at 11% and 4% respectively. Growth in agriculture was around 3% in 2012 and 2013.59

Figure 10
Rwanda – GDP growth, 1960-2013

Source: World Bank data.

5.2 Trade

Rwanda is a key proponent of regional integration and has membership in several regional bodies, including the East African Community (EAC), the Common Market for Eastern and Southern Africa (COMESA) and the Economic Community for the Countries of the Great Lakes (CEPGL). The EAC has significantly reduced costs for Rwandan businesses in the region: products in the EAC are traded tax-free and even non-tariff barriers, such as border controls and charges, have been reduced. In 2012, the EAC accounted for 35% of Rwanda’s total exports, which is above the 32% recorded with the country’s traditional trading partner,

59 Africa Economic Outlook 2014.##

44
Europe. Rwanda’s major exports to the EAC include cereals, coffee, tea and vegetables, while imports comprise consumer goods and construction materials.

Partly due to its landlocked status and poor inter-regional road conditions, Rwanda has some of the highest transport costs in the region, estimated at 40% of the value of its imports and exports, compared to 12% for Kenya and 36% for Uganda. This bottleneck also continues to hinder efforts aimed at improving the competitiveness of the country’s exports. On the other hand, Rwanda’s internal roads are in much better conditions than those of its neighbouring countries such as DRC, Burundi or Tanzania.

Primary commodities (excluding fuels) accounted for over 85% of Rwanda’s exports in 2012. Coffee, tea and minerals accounted for 59% of exports in 2013, five percentage points higher than in 2012. Export earnings increased by an estimated 33% in 2013 compared to the previous year on the back of increased coffee and tea production and favourable prices for key mineral exports, particularly coltan and cassiterite.

Table 12
Rwanda – main exports and imports of goods, 2013

<table>
<thead>
<tr>
<th>Principal exports</th>
<th>% of total exports</th>
<th>Principal imports</th>
<th>% of total imports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Metalliferous ores and metal scraps</td>
<td>35%</td>
<td>Medicinal and pharmaceutical products</td>
<td>7%</td>
</tr>
<tr>
<td>Tea, coffee, cocoa and spices and manufactures thereof</td>
<td>19%</td>
<td>Non-metallic mineral manufactures</td>
<td>6%</td>
</tr>
<tr>
<td>Hides, skins and furskins, raw</td>
<td>12%</td>
<td>Road vehicles</td>
<td>6%</td>
</tr>
<tr>
<td>Cereals and cereal preparations</td>
<td>6%</td>
<td>Iron and steel</td>
<td>5%</td>
</tr>
</tbody>
</table>

Source: UNCTAD.

Manufactured goods accounted for just 9% of Rwanda’s global exports in 2012. The composition of Rwanda’s trade with African partners, however, was more geared towards manufacturing, which made up 13% of Rwanda’s exports toward Africa in 2012, while agricultural goods were 77%. This points to the potential for increased intra-regional trade to boost the competitiveness of Rwanda’s manufacturing sector. Rwanda is collaborating with EAC partner states to develop railway connections with the ports of Dar es Salaam and Mombasa, respectively 1,155 km and 1,092 km from Kigali, which are expected to reduce trading costs.

Table 13
Rwanda – main trading partners, 2012

<table>
<thead>
<tr>
<th>Destination of exports, 2012</th>
<th>% of total</th>
<th>Origin of imports, 2012</th>
<th>% of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Democratic Republic of Congo</td>
<td>17.2%</td>
<td>Uganda</td>
<td>16%</td>
</tr>
<tr>
<td>China</td>
<td>17%</td>
<td>Kenya</td>
<td>15%</td>
</tr>
<tr>
<td>Malaysia</td>
<td>15%</td>
<td>UAE</td>
<td>9%</td>
</tr>
<tr>
<td>US</td>
<td>8%</td>
<td>China</td>
<td>7%</td>
</tr>
</tbody>
</table>


60 UNCTAD data.
61 Africa Economic Outlook 2014.
62 ECA analysis based on UNCTAD statistics.
63 Africa Economic Outlook 2014.
64 ECA analysis based on UNCTAD statistics.
The development of a manufacturing industry is particularly challenging for Rwanda, given the landlocked nature of the country, the Non-Tariff Barriers (NTBs) which continue to impede trade among EAC partners, and weaknesses in transport infrastructure which make imports expensive for the country. Given these issues, the government is targeting service sub-sectors, including the ICT, tourism and finance, for growth. As pointed out by the World Bank\textsuperscript{65}, technology and outsourcing are enabling traditional services to overcome constraints such as physical and geographic proximity. Many services are, by nature, unimpeded by high transport costs. The government is trying to catalyse the emergence of a service-based hub in Rwanda, to serve regional markets. So far there have been some encouraging developments. Service exports in Rwanda recorded annual growth rates of over 10% between 2005 and 2012, starting from a low base of less than US$ 40 million in 2005 to reach over twice that amount - US$ 85 million - in 2012. The service sector accounted for more than 50% of the growth of the Rwandan economy between 2007 and 2013. In contrast, despite still being the largest sector, agriculture contributed barely more than one fifth to total growth. Under the government’s Vision 2020 plan, the services sector is expected to take a lead in its overall contribution to GDP, rising from the current 37-8% to 42% in 2020, overtaking agriculture as the dominant sector by 2015. Wholesale and retail trade, education, finance and insurance, and transport, storage and communications have all been growing at more than 10% per year since 2007. The ICT sub-sector too has been growing rapidly. During the 2000-2011 period, the sector received US$ 552.7 million investments, most of them since 2007. Tourism has been the main foreign exchange earner for Rwanda since 2007. Exports of travel and tourism were equivalent to 63 per cent of total services exports and to 29 per cent of merchandise and services exports in 2011. By 2013, Rwanda received 1,137,000 visitors who generated US$ 294 million, up from US$ 62 million in 2000.\textsuperscript{66} Tourism receipts are expected to grow at a compound annual rate of 25% until 2017.\textsuperscript{67} While gorilla tourism has been one of the main marketing points, the government has also been trying to diversify the tourism products on offer. Thanks to its modern infrastructure and telecommunication services, Rwanda is becoming increasingly attractive for Conference Tourism (MICE); hosting in 2014 both the African Development Bank meetings in May and the World Export Development Forum in September, among other events. Services are attracting large FDIs in Rwanda: in 2012, stocks were estimated at US$ 329.1 million in the ICT sector, US$ 124.1 million in finance, and US$ 125.1 million in insurance, compared to just US$ 90.8 million in manufacturing.\textsuperscript{68} The development of a competitive aviation sector is also part of the government’s strategy to develop services. Rwanda had so far scarce air connectivity and the air market in and out of the country was not a profitable option for private investors. The government is investing heavily in RwandAir, aiming to turn it into a profit making company by 2018 and expand its annual turnover from the current US$ 46 million to more than US$ 350 million during the same period by increasing its destinations and fleet and improving its certifications and standards. Increased connectivity will support Rwanda’s tourism sector and improve the country’s business environment.\textsuperscript{69}

Strong demand for industrial and intermediate products – particularly construction materials, food and fuel – continued to drive import growth. Imports increased by 12.5% to US$ 2.2 billion in 2013 compared to 2012. Despite a reduction in the trade deficit between 2012


\textsuperscript{67} Rwanda Economic Development and Poverty Reduction Strategy 2013 targets.

\textsuperscript{68} http://www.bnr.rw/uploads/media/Forenign_Private_Investments_in_Rwanda_2012.pdf

and 2013 Rwanda remains behind its peers on trade balance: in 2013 exports represented less than 10% of GDP, compared to an average of 32% for Africa excluding North Africa. Measured on a p.c. basis, Rwandan export performance is even weaker – annual exports p.c. are just US$ 18, while the average for Africa excluding North Africa is US$145. The resurgence in construction and implementation of the public investment programme are expected to remain a key driver of trade deficits, especially given the narrow export base.

Supporting the growth of the local private sector, and in particular its capacity to export, is a key challenge for the country’s future.

5.3 Industry

Figure 11
Rwanda – value added by sector, 1965-2013

Source: ECA analysis based on World Bank data.

Table 14
Rwanda – value added and employment by sector, latest year available

<table>
<thead>
<tr>
<th>Sector</th>
<th>Value added as % of total, 2010</th>
<th>Employment as % of labour force (2010 latest data available)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>33%</td>
<td>80%</td>
</tr>
<tr>
<td>Industry</td>
<td>15%</td>
<td>5%</td>
</tr>
<tr>
<td>Manufacturing (within industry)</td>
<td>5%</td>
<td>77%</td>
</tr>
<tr>
<td>Services</td>
<td>52%</td>
<td>14%</td>
</tr>
</tbody>
</table>


The contribution of agriculture to Rwanda’s economy has remained fairly high and stable over the past 20 years: from 34% in 1993 to 33% in 2013. Agriculture benefits from

70 Honore Banda, Rwanda’s bet: middle income or bust. The Africa Report, 1 July 2014.
71 Africa Economic Outlook 2014.
investments in boosting its resilience to weather-related shocks, increasing productivity and promoting commercial farming.\textsuperscript{72} The increased productivity of the agriculture sector is likely to benefit Rwanda’s agribusiness firms.

The services sector dominates Rwanda’s economy and has expanded significantly in recent years thanks to liberalisations and pro-private sector reforms. Services accounted for 52% of Rwanda’s GDP in 2013, largely above the region’s average. Earnings from tourism remain a key source of foreign exchange at US$ 293.6 million in 2013, up from US$ 281.8 million in 2012. Other key contributors to growth in the service sector include trade, finance and insurance, transport, storage and communications, public administration and education. The implementation of key public investments, including the Kigali Convention Centre and transport and energy infrastructure, will support further growth in construction and services, which are projected to spur economic expansion during the medium term. The resumption of budget support disbursements in March 2013 supported public spending, fuelling construction.\textsuperscript{73}

Growth in the industry sector, which surged to 11% in 2013, up from 6% the previous year, was mostly driven by mining and construction. The mining sector, which accounts for an estimated 2% of GDP – but for a much higher proportion of exports, as noted above - increased by 41% in 2013. Minerals receipts were estimated at US$ 263 million in 2013, US$ 127 million higher than in 2012. They were the second leading foreign exchange earner in 2013 after tourism. Added to wolfram, these minerals accounted for 28% and 39% of total exports in 2012 and 2013, respectively.\textsuperscript{74}

The contribution of manufacturing to Rwanda’s GDP has decreased significantly over the past 20 years, dropping from 11.5% of GDP in 1993 to 4.7% in 2013.\textsuperscript{75} The sector is constrained by strong regional competition, mainly from Kenya, by high electricity prices, by lack of skills and by difficulties in accessing export markets. In 2010, industry employed just 5% of Rwanda’s labour force\textsuperscript{76}, 77\% of which in manufacturing. According to the Rwanda Industrial Survey 2011, the average annual wage in the industry was US$ 416 – a low salary compared to, for example, the average US$ 982 pay in construction. The manufacturing sector is heavily skewed towards male workers, who in 2011 accounted or 77\% of employees and 87\% of managers. 33\% of manufacturing managers had a university degree, compared to just 3\% of employees.

In 2011, only 29.4\% of Rwanda’s industry firms utilised more than 75\% of their production capacity. The manufacturing sector was the one with the poorest capacity utilisation (40\% of firms below 50\% capacity utilisation). Low demand and inadequate working capital were often cited as reasons for underutilisation of capacity, followed by breakdowns and lack of spare parts and by the low or limited energy supply.

Within the manufacturing sector, beverages and tobacco has been the fastest growing sub-sector over 2006-11 (+22\%), followed by food (+18\%). Textiles and chemicals, on the other hand, have been the sub-sectors with the lowest growth in activity.\textsuperscript{77}

\textsuperscript{72} Africa Economic Outlook 2014.
\textsuperscript{73} Africa Economic Outlook 2014.
\textsuperscript{74} Africa Economic Outlook 2014.
\textsuperscript{75} ECA analysis based on World Bank data.
\textsuperscript{76} ECA calculations based on Rwanda Industrial Survey 2011 and World Bank data.
\textsuperscript{77} Rwanda Industrial Survey 2011.
5.4 Obstacles to the growth of the country’s manufacturing and private sector

The Rwanda Skills Survey carried out in 2012 found the manufacturing sector to operate with a technical skill gap of 7,568 people, or around 4% of the sector’s workforce. This gap was highest for artisans (79%), followed by managers (11.1%) and liberal professionals (4.4%). The survey found that 90.4% of existing employees would need training in soft (qualitative) skills like leadership, human resource management, business communication, and innovation to become more effective in their occupation.

The 1994 genocide drew a significant blow on the country’s skills. Among the one million people lost during the genocide were highly skilled professionals. As Vision 2020 states: “The nation was robbed of a generation of trained teachers, doctors, public servants and private entrepreneurs.” Rwanda needs to urgently fill this gap by training its workforce and investing in skills upgrading.

The government recently introduced the obligation for children to receive as a minimum 12 years (up from 9 years in the past) of basic education before eventually deciding to move on to Technical and Vocational Education and Training (TVET) or with university. Partly as a result of this policy, the number of students in upper secondary has significantly increased with a growth rate of 26% between 2011 and 2012. In 2012, 40.5% of students enrolled in secondary education were studying sciences-related subjects, and 32.1% were enrolled in TVET, a significant share. However, gaps in the qualifications of trainers risk undermining TVET efforts: 2012 statistics showed that that majority of TVET trainers (84.6%) do not possess the minimum qualification required. The 12 years compulsory schooling requirement is likely to enhance the formation of a more skilled pool of future workers for the industry. Also, the Workforce Development Authority (WDA) is working on improving the alignment of education curricula with the needs of the industry, in close cooperation with the private sector. Rwanda also needs to promote university education: in 2012 only 2% of students were enrolled in tertiary education, though the rate has been increasing.

In order to step up Research and Development (R&D) in the country, the government created the National Industrial Research and Development Agency (NIRDA), with the mandate to work together with the private sector to put research at the service of industrial development. NIRDA has recently been approved by the Cabinet and is now operational. Its presence will increase R&D efforts and use for the industry. At first, NIRDA will support the industry’s R&D for free, while in the long-term the plan is to introduce a fee, in order to ensure sustainability. Other countries in the region, such as Kenya and Tanzania, already have institutions similar to NIRDA in place.

In order to address Rwanda’s skills shortages, the government has also been active in recruiting Western-educated members of the diaspora, and has opened up the labour market to immigrants from Burundi, Kenya, Tanzania and Uganda. About 7,000 Kenyans in Rwanda have set up transport, farming and construction firms. Rwanda has also become the first African country to grant a visa on arrival to citizens of all African countries, a provision that won it the applause of the aviation industry.

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79 In-country interviews, June 2014.
81 In-country interviews, June 2014.
82 Africa’s Singapore? The Economist, 25 February 2014.
**Infrastructure and skill deficits are preventing an expansion in FDI.**

Despite the focus on improving the business climate, foreign direct investment (FDI) inflows as a proportion of GDP in Rwanda have remained below the average of Africa excluding North Africa and of other countries in the region.

Figure 12  
**Rwanda – FDI inflows as percentage of GDP, 1970-2013**  

![Graph showing FDI inflows as percentage of GDP from 1970 to 2013](image)

*Source: ECA calculations based on World Bank data.*

Although this is partly due to the lack of large (known) oil or mineral reserves, it also reflects the small size of the domestic market and the country’s weak infrastructure. As a small landlocked country, import costs are high, while electricity is expensive and the road network insufficient. The closest ports, Dar el Salaam and Mombasa, are at vast distances, which put Rwanda at a disadvantage relative to other countries in the region. A survey of non-tariff barriers along the Northern Corridor (Kigali- Mombasa route) has found that it takes a lorry four days and US$ 864 in bribes to make it from Mombasa to Kigali and has identified the cost of corruption as a result of roadblocks, border posts, and weigh bridges along the route as in Table 15 below:

Table 15  
**Corruption costs along the Northern Corridor (Kigali-Mombasa route)**

<table>
<thead>
<tr>
<th>Areas of occurrence</th>
<th>Number along the Kigali-Mombasa route</th>
<th>Places where bribery occurred</th>
<th>Bribes in USD, Rwanda</th>
<th>Bribes in USD, Uganda</th>
<th>Bribes in USD, Kenya</th>
<th>Total Amount Paid in USD</th>
<th>% share of total value of bribes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Border post</td>
<td>4</td>
<td>2</td>
<td>0</td>
<td>20</td>
<td>30</td>
<td>50</td>
<td>6%</td>
</tr>
<tr>
<td>Police roadblock</td>
<td>26</td>
<td>11</td>
<td>0</td>
<td>4.2</td>
<td>3.5</td>
<td>7.7</td>
<td>1%</td>
</tr>
<tr>
<td>Weigh bridge</td>
<td>8</td>
<td>7</td>
<td>0</td>
<td>150.9</td>
<td>638</td>
<td>789.13</td>
<td>93%</td>
</tr>
</tbody>
</table>
The upcoming Northern Corridor and the pipeline connecting Rwanda and Uganda are expected to help Rwandan businesses improve their transport connectivity.

Concerns over the quality of primary education and limited provision of tertiary education also reduce the attractiveness of the local workforce for investors. The export base is very thin, with little else beyond primary commodities such as coffee, tea and minerals, and the country's external balance is typically a negative contributor to growth. In the future, Rwanda will need to invest in value-addition to its primary commodities. According to the National Bank of Rwanda, in 2011, the sector which attracted the highest FDIs was ICT (37.6%) followed by finance and insurance sector with 23.4% and manufacturing with 15.7% of total liabilities. Rwanda allows businesses to import ICT equipment tax-free.

**Domestic firms are scarcely integrated into global value chains.**

Embedding domestic firms into global value chains (GVCs) is a priority for the Rwandan government and is viewed as a key vehicle for promoting export growth and diversification and contributing to the goal of achieving a private-sector-led economy by 2020. The potential for linking national value chains (NVCs) with GVCs exists in several industries, including exports (especially coffee, tea and minerals), food processing, dairy and beverages, ICT and Business Process Outsourcing (BPO). Most of the current value chain activities are upstream, focusing on the development and supply of primary and intermediate inputs to export markets. There is also evidence of downstream activities, for instance in tea and minerals, with key packaging and processing activities being undertaken in intermediate countries before the final products are shipped to export markets. Expanding linkages between NVCs and GVCs will require addressing three key factors: supply constraints, improving the quality of domestic raw materials and addressing infrastructure bottlenecks, particularly in energy and transport.

**Domestic firms struggle to access the finance they need to develop.**

According to the Industrial Survey 2011, only 37% of Rwandan firms obtained credit in 2009-10, and this is despite the country’s banking sector being quite competitive (as of 2013 Kenya Commercial Bank, Equity Bank, Ecobank and I&M Bank, together with nine other commercial banks, were operating in the country). Of the firms which did not obtain credit, 13% were refused credit while 6% did not obtain the exact amount requested. The majority of credit was obtained from banks (84%) followed by microfinance institutions (10%) and cooperatives (6%). The credit obtained was at high interest rates (average yearly rate of 16.7%). Firms predominantly used buildings of the enterprise and owners as collateral.

Scarce access to finance is due not only to the lack of viable collateral, but also, often, to the lack of capacity of Rwandan businesses to put together business plans that are attractive for banks and other lenders. In order to address these problems, the government created the Business Development Fund (BDF), with the aim of helping businesses to prepare collateral and business plans. BDF is currently rolling out support in every district. PSF has a vision of

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83 Economist Intelligence Unit, 2014.
84 Africa Economic Outlook 2014.
85 Honore’ Banda, Rwanda’s bet: middle income or bust. The Africa Report, 1 July 2014.
creating 200,000 jobs per year, mostly through new businesses. The new regional expansion of BDF is expected to help them achieve this goal.

According to the 2011 Industrial Survey, Rwandan firms sold their products overwhelmingly in Rwanda (72%) followed by the EAC (16%) and Europe (7%). EAC accounted for 18% of sales in the industrial sector, while mining and quarrying were selling primarily to Europe (47% of sales). In the survey, 39% of firms cited lack of finance as one of the reasons for not being able to export in 2010. 30% lacked information on potential destinations and 22% could not find clients.

The EAC was by far the main destination for Rwandan manufacturing products within Africa. The rest of Africa accounted for just 1% of manufacturing sales in 2010. This underlines the importance for Rwandan manufacturing of having strong commercial ties within the region. EAC has also helped to increase the competitiveness of Rwandan businesses by reducing the price of sourcing intermediate inputs.

Rwandan firms often struggle to meet the standards required to export to some markets: as of 2011, for example, 89% of Rwandan firms did not have ISO certified products. The Rwanda Quality Board does not allow companies to export products of a quality that would put the country’s reputation at risk in the industry. Stringent quality requirements, which are well enforced in the country, together with some innovative policies such as the banning of plastic bags, despite having some positive impacts, risk putting Rwanda at a disadvantage relative to other countries. Producers in Rwanda have complained of the higher costs they face in packaging due to the plastic ban and lament that foreign producers are allowed to bring plastic packaging into Rwanda.

Despite the creation of Special Economic Zones (SEZs) for industries, local businesses struggle to find adequate locations.

With a population of 11.6 million people over a territory of 26,338 km², Rwanda is the most densely populated country on the African continent, and industrial land is scarce both in Kigali and outside. Moreover, infrastructure such as water and electricity is scarce relative to demand. The government has created some SEZs in and around Kigali (in each province) where companies can set up and benefit from tax breaks, cheaper infrastructure and clustering. Tax breaks are higher for companies willing to locate outside of Kigali (50% tax break outside of Kigali, 40% in Kigali).

The SEZs have brought benefits to industries in terms of access to infrastructure, clustering and networking opportunities. However, some aspects of the process by which industries have been relocated to the SEZs has been controversial for businesses. The land where industries relocate from before moving to the SEZ is often expropriated at below-market prices, while the plots that industries need to acquire within the SEZ are expensive as land in the Kigali SEZ is starting to be scarce. Industries also generally need to re-adapt their operations to fit into smaller size plots than what they were used to. For these reasons, many industries currently opt to relocate in the SEZs that are being created outside of Kigali, where plots are cheaper and bigger and incentives for relocation are higher.

Some SEZs are struggling to provide the promised cheaper and reliable infrastructure. Electricity cuts occur all too often and many companies have chosen to install their own

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89 World Bank data.
generators, at a high cost. The government has reassured investors that all infrastructure bottlenecks such as water, electricity and internet connectivity currently hampering production at the Kigali SEZ will soon be fixed.\textsuperscript{90}

\textit{SMEs are the backbone of Rwanda’s economy, and yet are not creating many jobs.}

In 2011, 93\% of firms in Rwanda were small and medium enterprises (SMEs) with less than 10 employees. However, firms with more than 10 employees accounted for 72\% of industrial employment.\textsuperscript{91} This highlights the importance for Rwanda to support the growth of SMEs in order to create new jobs.

Many new businesses are created in Rwanda each year, but unfortunately business “mortality” rates are also high. MINICOM has put in place business development centres where entrepreneurs can get help on drafting business plans, information on taxation and access to infrastructure, as well as coaching and mentoring on business skills. Such services are subsidised by the government: only a small contribution from businesses is required. The BDF facilitates access to finance for small businesses by providing them with grants, guarantees and business development advice.

MINICOM has established Community Processing Centres to support private companies operating in the priority sectors identified by the government. So far, the government has singled out twenty priority sectors where Rwanda can have a comparative advantage and strategies have reportedly been developed for half of them. MINICOM provides full-time consultants for each priority sector and also helps SMEs to network and build international links by organising trade exhibitions and trade delegations to and from Rwanda, as well as helping them market their goods and sell their products online.

Rwanda’s geography, its mountainous territory and its distances from main ports put it at a competitive disadvantage relative to its neighbours. While soft infrastructure such as telecoms – Rwanda has a fiber optic network laid out all over the country- and improvements in the business environment have seen fast progresses, improvements in access to electricity and transport network has been lagging behind. The low volumes of raw materials available within Rwanda limit the competitiveness of local businesses vis-à-vis competitors in the region, which have access to cheaper inputs.

Only 16\% of Rwandan households were connected to electricity as of 2013 and the government has vowed to increase electricity access to 70\% of the population by 2017. It has also prepared an expansion plan aimed at increasing the electricity generation capacity from about 100 MW in 2012 to 1,160 MW by 2017. According to the AfDB\textsuperscript{92}, the plan would have an estimated investment cost of at least US$ 500 million/year of which about US$ 200 million/year to be undertaken by the public sector and the rest by the private sector. Despite this ambitious plan, the high price of electricity in Rwanda is expected to remain a significant constraint.

According to the 2011 Industrial Survey, furnace/heavy oils were the primary source of energy used by the industry in 2010, to the tune of 46\%, at a staggering cost of about RWF 8.5 billion. These were mostly used for generators during power failure or where there was fear of power failure. Electricity accounted for 31\% of the energy consumed by the industrial sector at a cost of about RWF 5.6 billion. The high cost and the power outages of electricity make its use

\textsuperscript{90} Rwanda: prioritise infrastructure at Kigali Special Economic Zone. AllAfrica.com, 3 August 2014.
prohibitive for the industry, opening doors for less environmental friendly and less efficient sources of energy.

5.5 Industrial policy

Rwanda’s industrial policy is designed by the Ministry of Trade and Industry (MINICOM), in close collaboration with the private sector and institutions such as the RDB. The government reportedly develops industrial policy in close consultation with the private sector and this process has made it more responsive to business needs in recent years.

The main documents guiding Rwanda’s industrial policy are the Rwanda Manufacturing Sector Strategy (2008), The National Export Strategy, the SME Policy and the MINICOM’s Strategic Plan. The government has also drafted a Private Sector Development Strategy (PSDS). Among the main priorities pursued are the diversification of Rwanda’s production and exports and the creation of an enabling environment for businesses to prosper – including good infrastructure, affordable energy, good human skills, and affordable inputs. The government and RDB have identified the agro-processing and the construction material industry among priority sectors - construction is booming thanks to Rwanda’s strong economic growth. In the services sector, the country is seeing strong growth in education, which has been attracting large private sector investments; financial services; logistics within the country; and tourism.

The government is currently implementing a second development and poverty reduction programme (EDPRS2) and in December 2013 it agreed a new 3-years policy support instrument with the IMF. Both these programmes aim to move the economy towards services and industry. The government is also looking to reduce reliance on foreign aid and on public sector-led growth, which have been fuelling the country’s development so far.93 The Rwanda Industrial Master Plan is currently being developed to provide a more detailed and comprehensive guidance to the development of the industrial sector, taking into account the most recent industrial challenges and the current country environment.

The Rwanda Industrial Policy 2011 highlights four desired outcomes:

- Achieving GDP growth rates in excess of 8% p.a. (GDP growth averaged 7.5% over the past 10 years)94;
- Achieving structural transformation of the economy, increasing the share of industry to over 20% of GDP (industry value added was 15% of GDP in 2013)95;
- Increasing employment for a growing and increasingly urbanised population, targeting the creation of 1.4 million of non-agricultural jobs by 2020 (estimates suggested that 80% of the workforce, or 4.4 million people, where employed in agriculture as of 201296); and
- Increasing the well-being of the Rwandan people, with GDP p.c. reaching US$ 900 by 2020. As GDP p.c. amounted to US$ 620 in 201297 this target requires annual growth rates of around 5% up to 2020. The government has recently announced its vision of becoming a middle-income country by 2020, which raises this target further, at above US$ 1,000 p.c.

94 World Bank data.
95 World Bank data.
96 Rwanda Industrial Survey 2011 and Economist Intelligence Unit.
97 World Bank data.
The Industrial Development and Expert Council (IDEC) has been created to ensure coordination among the various actors shaping the country’s industrial policy as well as to ensure that the private sector is closely involved in the process. IDEC brings together all the Ministries involved in the country’s industrialisation: the Ministries of Labour, of Finance, of Education, of Agriculture, of Environmental and Natural Resources, and of course the Ministry of Trade and Industry. The IDEC Secretariat has the mandate of ensuring the implementation of the country’s industrial policy. It meets quarterly, chaired by MINICOM, and reports directly to the President. This process ensures accountability and the constant monitoring of progresses with the industrial plan. The government conducts quarterly industrial surveys, published on the MINICOM website, which are aggregated into the Annual Performance Report of MINICOM. These surveys serve to monitor industrial development indicators.

RDB, the agency in charge of supporting private sector development in the country, is quite a unique institution, in that its CEO is the only non-minister that is also a member of the cabinet and reports directly to the President. This way, the government and all the ministries are up-to-date with progresses and investments in the country’s private sector, and business development is at the centre of policy-making. RDB brings together under one roof several institutions that were previously separated, such as those in charge of promoting tourism, supporting SMEs and FDIs, as well as the business registration office.

RDB also acts as a one-stop centre for investors, assisting with everything from registration to getting access to utilities, immigration permits for workers and environmental impact assessments. Having RDB act as a one-stop centre has made it much easier to invest and start a business in Rwanda. A special section within MINICOM provides support to SMEs.

The best hope for Rwanda’s industrialisation lies with its competent and motivated leadership and public sector force. The government has so far been able to implement effective pro-development policies and corruption has been eliminated from the country. Contrary to what is common in many African countries, Rwanda’s Private Sector Federation (PSF) feels that the private sector is closely consulted by the government in the design of industrial policy. Government and PSF have quarterly forums where they discuss a variety of issues (examples of past forums include taxes, environmental issues, utilities and standardisation). Nothing in industrial policy gets done without a consultation with PSF and proof that such consultation has taken place. Once a year, PSF also participates in the Presidential Investors Roundtable, where the private sector can present issues that have not been solved during the year to the Prime Minister, which often takes swift action on them.

5.6 Issues with the implementation of the current industrial policy

Despite these achievements, one problem with the current industrial policy is that some of the incentives designed for businesses, despite being well-meaning, are difficult to access. For example, accessing tax-breaks in the SEZs requires complex bureaucratic procedures for firms. Industrial policy-makers need not only to design sensible incentives for local businesses but also to ensure that these can be taken up easily.

Finding a suitable location and securing access to infrastructure also remain obstacles for Rwandan firms: SEZs have alleviated these problems in the short-term but are unlikely to fix them in the long-term.

The government is proactive in its approach to industrial policy, but this also means that its involvement in the country’s economy remains significant, both directly and indirectly. Recently, thought, the government is said to be looking for ways to scale down its direct involvement in some industries. The government owns the water and electricity sectors, is involved in some areas of agriculture (such as rice milling), and in a few banks, but is looking
at opportunities for privatisations. Investors can obtain licences from the government to distribute water and electricity.

5.7 Lessons from Rwanda

The strong commitment to reform shown by Rwanda’s leaders and its citizens has been essential to the country’s achievements. The government has established a well-functioning and accountable bureaucracy and a pro-business culture of efficiency and transparency. The government entities involved in the process have had clearly defined roles and responsibilities, and they have respected the goals set in initial implementation strategy documents.

The main lesson from Rwanda is that a competent and motivated leadership and a transparent and goal-driven institutional setting can go a long way in driving a country’s development. The country was on its knees at the end of the genocide twenty years ago and is now one of the easiest places to do business in the world.

Despite these impressive improvements the scarcity and high cost of utilities, diffused poverty, lack of skills, poor access to finance for businesses and poor infrastructure links are big obstacles to Rwanda’s growth. The government is taking concrete and sensible actions to address most of these issues. Developing a competitive private sector and export-led industries is an ongoing process that starts from a very low base and which will take time. The country needs to diversify its economy, improve its skills, develop an entrepreneurial culture and expand into higher value-added activities with export potential. It needs to switch from a public-led to a private-led model of growth. In order to help the business community, investments into efficient infrastructure need to offset the limitations of being a landlocked country. The services sector, which has seen strong growth in recent years, could position Rwanda as a services hub in the region.

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6. **Senegal: a liberal approach to industrialization**

Senegal is a French-speaking country situated at the westernmost point of West Africa. It has a surface area of 196,722 km² largely opening onto the Atlantic Ocean (500 km coastline) and has an estimated population of about 14 millions. The Senegalese coastline is generally flat and sandy which offers vast opportunities for tourism. Senegal has a dry tropical climate tempered by cool sea breezes. It has two main seasons: a dry season (from mid-November to June) and a rainy season, known traditionally as the “hivernage” (from mid-June to early November).

Senegal is part of the least developed countries with a GDP per capita of US$ 1,070 and associated human development challenges such as high poverty level and low education and health indicators. The main industries include food processing, mining, cement, artificial fertilizer, chemicals, textiles, refining imported petroleum, and tourism. Exports include fish, chemicals, cotton, fabrics, groundnuts, and calcium phosphate. Imports include oil products, capital goods, cereals and foodstuffs, and intermediate goods.

Senegal ranks 161 out of 189 economies in Doing Business report 2015, a gain of 10 places over the previous edition, but still below countries such as Cote d’Ivoire, Cameroon or even Mali which is landlocked.

Senegal’s growth has been sluggish in recent years, with implications for poverty reduction. Average growth was relatively strong in 1995–2005 (4.5%) and accompanied by a large drop in poverty incidence (from 68 to 48%). Due partly to a series of exogenous shocks (i.e., volatility of global food and fuel price, global financial and economic crisis, and more recently the electricity sector crisis and drought in the Sahel), growth decreased to an average of 3.3% in 2006–2011. As a result, poverty incidence barely decreased during this period and stood at 47% in 2011. Wide disparities exist between rural areas, where poverty incidence is higher than the national average (at 57%), and urban areas (at 33%).

Economic growth in Senegal reached 4.5% in 2014 (DPEE 2014), slightly below earlier estimates, reflecting the late start of the rainy season and a softening in the tourism sector. Inflation remained low. Government is committed to continue to conduct a sound fiscal policy, including by maintaining the budget deficit target of 5.1% of GDP for 2014. The ambitious *Plan Senegal Emergent* (PSE) is the main development programme which frames the economic policies and structural reforms that would allow Senegal to achieve and sustain high and inclusive growth. The economic and social emergence requires the maintenance of a sound economic framework and the acceleration of structural reforms to enhance productivity and improve the business environment. These include measures to improve the business climate and governance and to deepen the financial sector as well as reforms in the energy sector to boost electricity generation and reduce its cost.
6.1  Economic overview

In 2013, the economic activity was slightly consolidated with a real GDP growth rate estimated at 3.5% against 3.4% in 2012.\textsuperscript{99} This growth was driven mainly by the primary and tertiary sectors. However, internally, the Senegalese economy is more affected by the difficult international context and the tense socio-political situation in Mali, which have had a particularly negative impact on the industrial sector.

In the primary sector, value added increased by 3.3% in 2013 against 8.9% in 2012, thanks to the livestock and hunting subsector performance. The agricultural sub-sector, for its part, grew hesitantly (+ 0.3%) reflecting the decline of industrial agriculture (-2.3% against 17.9% in 2012) and low growth in food crops production (+ 1.2% against 17.4% in 2012). In food production, although the production of cereals is on the downside, horticulture has performed well in 2013 thanks to the good onion production (+ 9.5%), cherry tomato (+ 37.5%), green beans (+ 40%) and mango (+ 4%).\textsuperscript{100}

The livestock sub-sector value added increased by 8.9% after having declined 0.8% in 2012, thanks to increased beef and sheep production in the context of improving availability of food following the good results of the crop production during the 2012/13 campaign.

\textsuperscript{99} UEMOA 2014.
\textsuperscript{100} Ministere de l’Economie et des Finances, Direction de la Prevision et des Etudes Economiques#
The secondary sector has recorded a decline of 4.1% in 2013 against 0.9% growth in 2012, reflecting the contraction of mining, fats food, grain products, and manufacture of sugar, oil refining and chemical industries.

In the tertiary sector, activity was up 6.4% in 2013 against 3.3% in 2012, driven by transport, post and telecommunications and in financial services. The contributions of primary, secondary and tertiary sectors to GDP growth in 2013 were 0.4, 0.3 and 3.3 percentage points, respectively.

Table 16
**Senegal – value added by sector**

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, hunting, forestry, fishing</td>
<td>15.9</td>
<td>15.8</td>
</tr>
<tr>
<td>of which fishing</td>
<td>1.8</td>
<td>2</td>
</tr>
<tr>
<td>Industry</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mining</td>
<td>1</td>
<td>3.1</td>
</tr>
<tr>
<td>of which oil</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manufacturing</td>
<td>14.1</td>
<td>13.7</td>
</tr>
<tr>
<td>Electricity, gas and water</td>
<td>2.9</td>
<td>2.8</td>
</tr>
<tr>
<td>Construction</td>
<td>5</td>
<td>4.5</td>
</tr>
<tr>
<td>Services</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wholesale and retail trade, hotels and restaurants</td>
<td>20.8</td>
<td>20</td>
</tr>
<tr>
<td>of which hotels and restaurants</td>
<td>0.9</td>
<td>0.7</td>
</tr>
<tr>
<td>Transport, storage and communication</td>
<td>12.7</td>
<td>11.9</td>
</tr>
<tr>
<td>Finance, real estate and business services</td>
<td>13</td>
<td>12.6</td>
</tr>
<tr>
<td>Public administration, education, health and social work, community, social and personal services</td>
<td>6.9</td>
<td>7.7</td>
</tr>
<tr>
<td>Other services</td>
<td>7.7</td>
<td>7.9</td>
</tr>
<tr>
<td><strong>Gross domestic product at basic prices / factor cost</strong></td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

*Source: AEO 2014.*

On the demand side in 2013, final consumption grew up to 3.2% at the same pace in 2012, supported mainly by its private component which rose by 3.2%. As for public consumption, it increased by 2.9%. Gross fixed capital formation increased by 5.5% against 1.2% in 2012, reflecting the good execution of Government’s infrastructure investment and the improvement of the business climate. The contributions of final consumption, investment and foreign trade to GDP growth in 2013 were 2.9, 4.3 and 3.8 percentage points respectively.

Recent economic developments point to signs of recovery in 2014, following the slump observed in recent years due in particular to low resilience to external shocks, agriculture dependency on rainfall and a weak industrial sector. The renewed dynamism seems to reflect the strengthening of domestic demand, boosted by public investment in energy and infrastructure, as part of the implementation of the Plan Senegal Emergent. Overall, the growth rate of real GDP, estimated at 4.5% in 2014 against 3.5% a year earlier, driven mainly by the recovery in the secondary sector and the strength of the services sector.101

The primary sector grew by 0.8% in 2014, after a growth of 3.3% in the previous year. This slowdown is related to the agricultural sub-sector, reflecting the uncertainties around the rainy season, in view of the late start of the rains in several parts of the country. Furthermore,

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101 DPEE 2014.
the National Agency of Civil Aviation and Meteorology reported insufficient rain in some parts of the country.

Overall, agriculture slowed down at 3.4%, following a decline of 2.3% in 2013, reflecting the decline expected in peanut production. In food crops, increased horticultural production mitigates the weakness of cereal production. It would fit therefore in the same upward trend recorded in 2013, with an increase of 1.3%. Thus, the agricultural sub-sector remained almost flat with a growth of 0.1% in 2014 after rising 0.3% the previous year. The poor performance of the agricultural production is mitigated by the increase in the sub-sectors of livestock and fishing.

In the secondary sector, the production benefits from the recovery of dietary fats sub-sector, sugar, chemicals and building materials coupled with the construction. The sector grew up to 4.9% in 2014, following a contraction of 1.5% the previous year. Regarding the production of edible fats, the structural problems in the cooking oil industry suffering competitiveness problems related in particular to the high production costs, continue to weigh on the development of the industry. Over the period of 2011-13 the sub-sector contracted by 19.6% on average. However, activity resumed in 2014 thanks to the Government’s support. Therefore, the sub-sector is raised by 6.5% against a decline of 26.1% in 2013.

In the sub-sector in sugar manufacturing and confectionery, production recovered in 2014, after the poor performance recorded a year earlier following the pause in sugar production when the industry faced marketing problems. Thus, the sub-sector rebounded by 25% against a 10.7% decline in 2013. Sugar imports were down 66% in volume in the first seven months of 2014 compared to the same period in 2013, revealing the revival of production activity and regained competitiveness of the sector.

For manufacture of chemicals, a recovery occurred in 2014 thanks to the recapitalization of the Industries Chimiques du Senegal (ICS) through the capital buy-in of Indonesian partners, injecting US$ 100 million. The production of phosphoric acid, as well as fertilizer - severely affected by recurrent failures and lack of inputs - were boosted following the rebuilding of the production equipment. Overall, the sub-sector grew by 2.3% in 2014 after a decline of 24.6% in 2013.

In the building materials sub-sector, the activity exhibited an increase of 7.3% in 2014, against 0.4% in 2013 and 0.1% in 2012. This recovery reflects the restart of construction sites in Mali but also the strength of construction activity nationwide. Indeed, it is expected that construction will record a 12.2% growth in 2014 against 10.3% in 2013, due in particular to the continuation of major public infrastructure projects, namely, the construction of the Blaise Diagne International Airport (AIBD) and Diamniadio Conference Centre, the extension of the toll road and highway projects (N6, Ndioum and Kolda bridges, etc.) funded under the Millennium Challenge Account (MCA).

The upward trend noted in the secondary sector is also supported by the recovery in the oil refining (+ 12.4% in 2014 against -0.8% in 2013), manufacture of rubber products (+ 17.2% in 2014 against -2.8% in 2013), metallurgy (12.3% in 2014 against 15.1% in 2013) and machinery manufacturing (+ 19.2% in 2014 against 20.3% in 2013). In addition, the sub-sector of the processing and conditioning of meat and fish recorded a growth of 5% in 2014, following an increase of 9.3% a year earlier. This good performance is the result of the rescue of the main fish processing unit by Korean investors.

As for the cotton ginning activity and textile manufacturing, it benefited from the good 2013 campaign characterized by production of 32,248 metric tons of cotton against 25,376 metric tons in 2012. Overall, the sub-sector activity grew by 5% in 2014 after rising an 2.1% in
2013. The leather sub-sectors and the construction of transport equipment maintained their momentum. The leather manufacturing activity and leather-based products increased to 10.2% in 2014 (against 10.3% in 2013), driven by strong domestic demand. For the construction of transport equipment, it benefited from the increased orders in ship repair. The sub-sector recorded an increase of 23.4% in 2014 after rising 23% in the previous year.

Regarding the energy sub-sector, it grew 3.5% in 2014, at a relatively moderate pace. However, significant progress has been made in the provision of electricity through the rehabilitation of production capacities but also through the introduction of additional capabilities, allowing therefore SENELEC (the electricity service provider) to better manage demand. Overall, the production of electricity and water is consolidated with a growth of 4% and 2% respectively in 2014.

However, the dynamics of recovery in the secondary sector was hampered by the underperformance of certain branches of activities such as mining, grain processing, the manufacture of cereal products and woodworking. In terms of mining, most of the production fell down in 2014 compared to 2013. The production of phosphate showed a 20.6% decline, due among others causes to recurring mechanical and electrical incidents, technical failures but also stops related to electricity outages that significantly affect operations. Attapulgite production, for its part, would contract by 15.5% in 2014. In addition, gold production would contract by 15.7% compared to 2013, due to declining international market prices. This downward trend is, however, offset by the 3.2% increase in the production of salt. Overall, the poor performance of the extractive sub-sector, observed in 2013, would continue in 2014, with a decline estimated at 16.6% (against 24.7% in 2013).

The decline in the grain processing sub-sector down by 17.4% in 2014 is driven by lower wheat flour production, which contracted by 23.2% in the first half of 2014. The sub-sector of the cereal food processing recorded the same trend, with a contraction of 11.6% in 2014 following the drop of 21% observed a year earlier, in a context of declining wheat imports (-8.3%) in the first half. For wood processing, the activity remains under stiff competition from imported products which affect the development of the subsector. After a decline estimated at 14.2% in 2013, the sub-sector continued the slowdown in 2014, with a decline of 1.7%. Similarly, the “paper-cardboard” industry contracted by 5.8% in 2014, following a 21.9% decline posted the previous year.

In sum, despite the good discernible trend in the secondary sector, the structural problems in certain sub-sectors remain a risk factor for growth in the industry.

Regarding the service sector, the renewed dynamism noted in 2013, extended in 2014, promoted especially by the post and telecommunications as well as financial services. However, commercial activities, transport and accommodation and food services were affected by the threats posed by the Ebola Virus Disease outbreak in the neighbouring countries. In total, the service sector was reinforced with a recorded growth of 5.6% in 2014 against 6.4% in 2013.

In post and telecommunications, mobile telephony and mobile internet continues to grow fast, thanks to increasing competition which became very fierce among the various operators. The penetration rate of mobile phones has reached a level of 111.5% at end-June 2014. Overall, the sub-sector grew by 8% in 2014 after rising 17.1% in 2013. In financial services, business continues to expand in connection with the diversification of banking services, facilitating access to credit, but also with the development of new money transfer systems. With this dynamic, the sub-sector recorded an increase of 12.7% in 2014 after 11.9% in 2013. The growth in services is also driven by health activities and social actions that grew by 7.9% in 2014 (after 7.8% in 2013), particularly reflecting the good performance of the private sector, but also government actions in the context of improving access to care.
Business services activities also maintain their momentum, with growth recorded at 5.1% in 2014 (against 5.9% in 2013), thanks to the revival of economic activity. However, the increased activity would be slower in the service of education and training (3.7% in 2014 as compared to 4% in 2013), real estate activities (+ 3% against 4.5 % in 2013), as well as accommodation and food services (+ 1.1% against -5.3% in 2013). As for business, they would suffer the negative consequences of the closure of borders with Guinea, which represents a significant partner with approximately 10% of Senegal exports. However, the sub-sector would record, in 2014, an increase of 3.5%, following a decline estimated at 0.5% the previous year. This increase is mainly driven by the growth in fuel sales, capital goods, and retail trade.

6.2 Trade

Senegal is part of the Union Economique et Monetaire Ouest Africaine and of ECOWAS. The latter external common tariff becomes effective January 2015. The country is also pressing ahead with its infrastructure programme to strengthen its position as a sub-regional hub. Measures to make trade simpler will come into effect, with the application of axle-load controls and the installation of adjacent checkpoints on the Dakar-Bamako and Dakar-Conakry corridors. The trade deficit for 2013 was at 20.7% of GDP and the current account deficit reached 9% of GDP and is financed by public and private capital transfers.

Transfers of funds from Diaspora are estimated to have amounted to XOF 897 billion in 2013 or 12% of GDP, while foreign direct investment (FDI) was around XOF 163 billion or 2% of GDP. FDI goes chiefly to agriculture, agro-business, food processing and services using new information technology (in particular call centres).

Table 17
Senegal – main trading partners, 2012

<table>
<thead>
<tr>
<th>Destination of exports</th>
<th>% of total</th>
<th>Origin of imports</th>
<th>% of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mali</td>
<td>14%</td>
<td>EU</td>
<td>31% (France 16%)</td>
</tr>
<tr>
<td>Switzerland</td>
<td>14%</td>
<td>Nigeria</td>
<td>13%</td>
</tr>
<tr>
<td>EU</td>
<td>14%</td>
<td>India</td>
<td>6%</td>
</tr>
<tr>
<td>India</td>
<td>12%</td>
<td>China</td>
<td>6%</td>
</tr>
</tbody>
</table>

Source: IMF direction of trade statistics.

Senegal trades significantly with Africa: 44% of its exports went to African partners – chiefly Mali (14%) – and 21% of its imports came from Africa – chiefly from Nigeria (13%) – in 2012. India and China are also significant commercial partners for Senegal with the latter receiving 12% of its exports and the two combined representing more than 12% of the imports.

Fuels account for the bulk of exports, mainly due to the performance of the Societe Africaine de Raffinage (SAR), which exports refined petroleum products to neighbouring countries.

Table 18
Senegal – main exports and imports, 2013

<table>
<thead>
<tr>
<th>Principal exports, 2013</th>
<th>As % of total exports</th>
<th>Principal imports, 2012</th>
<th>As % of total imports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mineral fuels, oils,</td>
<td>19%</td>
<td>Mineral fuels, oils,</td>
<td>24%</td>
</tr>
<tr>
<td>distillation products,</td>
<td></td>
<td>distillation products,</td>
<td></td>
</tr>
<tr>
<td>etc.</td>
<td></td>
<td>etc.</td>
<td></td>
</tr>
<tr>
<td>Pearls, precious</td>
<td>14%</td>
<td>Cereals</td>
<td>10%</td>
</tr>
<tr>
<td>stones, metals, coins,</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>etc.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Product Type</td>
<td>Share of Exports</td>
<td>Product Type</td>
<td>Share of Exports</td>
</tr>
<tr>
<td>-------------</td>
<td>------------------</td>
<td>-------------</td>
<td>------------------</td>
</tr>
<tr>
<td>Fish, crustaceans, molluscs, aquatic invertebrates etc.</td>
<td>11%</td>
<td>Machinery, nuclear reactors, boilers, etc.</td>
<td>9%</td>
</tr>
<tr>
<td>Salt, sulphur, earth, stone, plaster, lime and cement</td>
<td>9%</td>
<td>Vehicles other than railway, tramway</td>
<td>6%</td>
</tr>
</tbody>
</table>

Source: International Trade Centre.

### 6.3 Industry and manufacturing

Senegal had inherited from the colonial era an important economic and industrial infrastructure, and was relatively privileged compared to the countries of the sub-region. The availability of local raw materials had allowed the development of agro industries (cooking oil, soap, cotton textile, etc.) for the market of the former French Western Africa, constituting an important outlet for manufactured products.

After independence and following the emergence in the sub-region of similar manufacturing activities, local businesses, apart from traditional exports - peanuts, fish, and phosphates - had to turn towards the domestic market resulting in overcapacity. What once seemed to be an advantage quickly turned into a structural problem in the 1970s. Senegal had been able to maintain local industries through an industrial development policy, based on a system of tariffs and non-tariff protection measures.

After a phase of acceleration between 1973 and 1978, the industrial growth rate slowed from 4.4% to 4.0% between 1978 and 1987 then dropped to 3.5% between 1987 and 1990.\(^{102}\)

To boost industrial performance, in February 1986 in the wake of structural adjustment programs the Government adopted a New Industrial Policy (NPI). The NPI focused on some major principles such as: reducing the high level of tariff protection, removing non-tariff protection, strengthening the competitiveness of the Senegalese industry, promoting high value-added products, and accelerating industrial recovery. However, the sudden transition to a non-protective policy did not allow the industrial public and private sectors to develop adequate response to face this situation.

With the adoption of the programme based approach in 1993, industrial policies and strategies evolved from a sector wide approach to a mere horizontal industrial policy approach aiming at improving the private sector environment. The new trend weakened the support for industrial policy at large. NPI took a heavy toll on the Senegalese economy that was engaged in a process of liberalization, resulting in the loss of thousands of industrial jobs, the closure of many businesses and constraining the demand side of the economy. During this period the number of industrial jobs lost increased from about 1,000 in 1989 to nearly 5,000 in 1993. According to a census conducted on closures, 14% of all industrial companies had already ceased operations in 1991, thus contributing to worsen the fiscal deficit consecutive to declining tax revenues.

In the early 2000s, the Senegalese industry was unable to fulfil its structuring role for the overall economy, due to the limited success of industrial policies and strategies, coupled with structural constraints and an unfavourable environment. Thus the Government developed, in 2004, the policy document for the development of industry in Senegal, focused on industrial restructuring. The Industrial Redeployment Policy (PRI) aims to endow Senegal with a dense, modern, dynamic and competitive industrial sector, able both to satisfy the local demand and access external markets. PRI was developed around a three-fold conceptual approach: (i)\(^{102}\)

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\(^{102}\) Soludo 2004.
spatial, by rebalancing industrial facilities in the country, (ii) sectoral, by reorganizing of the productive system and reorienting towards new growth sectors, and (iii) professionalism-centered, by strengthening the management capacity of the operators.

Furthermore, the PRI is expected to build an industrial system able to adapt quickly to changing trends in the global environment and to increase income, industrial jobs and the purchasing power of households in both urban and rural areas by promoting the best usage of available local resources.

6.4 Upgrading the industrial sector

The upgrading programme aims to raise firms’ performance enabling them to become more competitive, both in domestic and external markets. The general objectives are as follows: (i) to improve the competitiveness of industrial enterprises to face liberalization and openness of the economy; (ii) to increase the technical skills of support institutions of public sector, and raise the quality of services provided to the private sector in reorganizing production systems and management; and (iii) to raise the operational parameters of Senegalese enterprises to international standards in terms of competitiveness, labour productivity, quality and environmental protection.

The strategy to implement the PRI revolves around the followings steps:

- Identifying upgrade needs, starting from pre-sectoral audits and analysis of competitive potential, the development and implementation of upgrading programmes;
- The initiation of upgrading programmes will be based on the result of prior audits and different strategic decisions derived from a SWOT analysis of the sectors and industries concerned. In this respect, struggling businesses will be given special attention and, if necessary, a recovery plan will be implemented. In this context, special support measures to avoid bankruptcy may be envisaged.
- The implementation of safeguard clauses at national level as recognized by the West African Economic and Monetary Union (UEMOA) and accepted by the WTO;
- The establishment of advisory support windows for rapid response that firms in difficulty may use.
- Monitoring and evaluation of upgrading programmes.

6.5 Industrial policy institutions

Senegal has been very active in putting in place several institutions to support the development of its industrial sector. These institutions tackle critical bottlenecks ranging from easing business environment to addressing financing and technical constraints. The Direction de l'Industrie (DI) at the Ministry of Industry (which is currently within mining ministerial department, but used to be with Trade depending on cabinet reshuffling) is theoretically in charge of coordinating the various interventions in the industrial sector. But the DI lacks critical capacity both human, technical and financial to fully play its role, especially given the number of institutions involved with wider capacity than the DI itself.

The Agency for the Development and Supervision of Small and Medium Enterprises (ADEPME) accompanies bearer of idea of SMEs throughout the life of their company: the creation or resumption of activity, growth or corporate restructuring. Personalized interviews and site visits help to achieve a corporate pre-diagnosis or a review of projects needed to define a support plan. The promoter is the center of this support plan and benefits from the expertise
of consultants in the implementation. The ADEPME provides advice and guidance to SME managers. The councils are varied and take into account the choice of legal form, cash management, investment decisions, market access and financing. It is to modernize and strengthen the competitiveness of SMEs by empowering them to develop business strategy and promote innovation.

ADEPME also provides studies and business intelligence relate to in-depth analysis of external trade statistics and promising sectors. These studies reveal the investment opportunities and promising niches for export through the study of value chains. Detailed information is provided and to enhance knowledge of the sectors and markets. Develop capacities of anticipation and reactivity to the environment and needs of Senegalese SMEs and improve the ratio efficiency / cost of the intervention of the Agency.

The ADEPME acts as a facilitator of relationship between public administration and SMEs. It organizes consultation frameworks between SME managers and service trade, customs, tax, environmental and other public sector to improve the economic dialogue. It strives to improve knowledge and build strong professional relationships for SMES. It catalyses the dialogue between research centers, companies and encourages the promotion of innovative projects. A club of investors is also set up.

The National Bank for Economic Development (BNDE) main mission is to facilitate access to finance for Senegalese companies with focus on SMEs. Small and medium enterprises and small and medium industries (SMEs) are the main actors of Senegal economy, SMEs account for 85% of the companies, occupy 60% of the workforce and provide 30% the country's formal employment. Indeed, despite state support, the Senegalese SMEs see 80% of their funding requests rejected by the banking institutions, mostly handicapped by the absence of collateral, point of blockage explaining 51% of Credit requests rejection.

The national consultation organized in 2010 on SMEs' access to finance have proposed in addition the creation of a guarantee fund to enable a significant improvement SME financing in Senegal. This is one of the major obstacles to economic growth and development. According to a 2009 study by the Ministry of SMEs, the SME financing gap is estimated at about 500 billion CFA francs. The lack of sufficient guarantees required by banks is one of the main difficulties of access to credit for SMEs.

The establishment of the Guarantee Fund for priority investment (FONGIP) addresses this concern and aims to improve the financing conditions of the priority sectors to sustainably increase their productivity. The FONGIP acts complementarily with other entities as a leverage to mobilize public and private financial resources for SMEs by providing better security to financial institutions. The priority sectors covered are agriculture, agribusiness, fisheries, aquaculture, tourism, textiles, affordable housing, information technology and communication, tele services, cultural industries, crafts, renewable energy, infrastructure and transport. The Mission of FONGIP is to intervene in the provision of guarantees for financing for SMEs, enhance financial institutions lending to SMEs, and provide advice and technical assistance for companies entitled to the guarantee of the Fund.

The Government of Senegal also established a Sovereign Strategic Investments Fund (Fonsis) by transferring state assets to Fonsis and allocates additional cash to invest in the economy and support the emergence of leading Senegalese companies in certain sectors in order to attract local talent and the Diaspora while creating wealth for the State-shareholder and future generations. The Fonsis invests primarily in the form of capital alongside the private national and foreign (particularly sovereign wealth funds and other strategic partners, experts in their industries).
The Fonsis was created in 2012 with a capital of 500 billion CFA francs (which was to be released over several years). The strategic orientations of Fonsis are to effectively manage companies / targeted state assets; grow assets and be a part of its profits in financial reserves to be protected for the future; regularly distribute dividends to the State in ensuring that its portfolio make profits and pay back dividends; and being the partner of private investors providing the capital required to strategic and structuring projects.

The Focus is on sectors that are employment intensive eg the whole chain of agribusiness, tourism / hospitality, textile, real estate and construction, but also in areas strategic and structuring such as energy, mining and infrastructure. The SMEs are targeted through a sub-fund Fonsis dedicated to SMEs, investing in equity and advise, support, structure these SMEs to rise additional funding from banks (BNDE, commercial banks etc.) and improve their management. The whole chain of Agribusiness is supported to develop agricultural projects in co-investing with domestic and foreign investors. In the energy sector, it meant to be a partner for PPP in power generation projects; in industries and metallurgy: to transform Senegal phosphates and iron ore, and to add value to local resources; in infrastructure and transport: ore port, special economic zones (SEZ) and industrial parks (IP).

The Bureau de Mise à Niveau (BMN) led the first experimentation with industrial upgrading programme in Africa excluding North Africa. The BMN provides a set of technical and financial support to firms wishing to improve their competitiveness. The evaluation of the pilot phase of BMN, was used to measure its effectiveness and learn from this first experience. The validation of the assessment report enabled the Steering Committee to take the necessary decisions on new directions for the programme. The modifications are mainly on expanding BMN missions to cover the financial restructuring, environmental upgrading and energy efficiency by setting their conformity to business standards. Improvement measures also include the easing of procedures in accordance with beneficiaries’ expectations.

The expansion of BMN’s missions is accompanied by measures that reframe its field of intervention. Bigger companies that were so far excluded from the program are now eligible. It is important to give priority to companies in sectors targeted by the clusters of the SCA (Accelerated Growth Strategy): agriculture and agro-industry; sea and aquaculture products; tourism, cultural industries and crafts art; textile and clothing; and ICT and teleservices.

The Apiex (Agence de Promotion des Investissements et des Exportations) is the Agency mandated for investment and exports promotion. It is well endowed with adequate resources and offers comprehensive services to foreign investors while assisting exporters in various administrative processes.

6.6 Towards a regional industrial policy for UEMOA

The West African Economic and Monetary Union (UEMOA) countries have chosen the path of industrialization for their economic and social development. However, the bulk of manufacturing in these countries is intended for domestic markets. In addition, the lack of reliable statistics in many countries makes it difficult to assess the industrial sector’s performance and contribution to the economy and setting quantifiable goals.

The constraints of industrial development in UEMOA are related to the size of domestic markets, low competitiveness of production units, difficult access to finance and technology. However, the UEMOA Member States have reaffirmed their commitment to industrialization through the Common Industrial Policy (PIC). This momentum should enable the mobilization of significant funds and the diversification of financing instruments needed to upgrade form's capabilities and develop entrepreneurship in the region. The approach is based on a consultation mechanism between governments, partners, and the private sector. The policy is adopted in a
changing global context, which present many opportunities but also potential threats, with the agreements of the World Trade Organization (WTO), now exposing UEMOA companies to global competition. The PIC implementation includes five main activities: the development of a quality infrastructure program, the upgrading of enterprises, the promotion of information networks, the strengthening of consultation processes at the regional level, and the development of the SME sector.

The establishment of an effective PIC should be coordinated with other Common policies, with implications for industry. It is therefore necessary to deepen at the UEMOA through three major projects: i) establishment of a stable and harmonized macroeconomic environment, ii) increased effectiveness of a common market and iii) the establishment of an enabling legal and institutional environment.

6.7 Lessons from Senegal

The weak impact of trade liberalization measures on Senegal’s industry raises some questions about the effectiveness of the strategy introduced as a tentative to curb the industrial sector’s decline in the mid-1970s. The current orientation clearly favours a liberalized approach to industrialization with more focus on horizontal interventions. Indeed there is a multitude of industrial policy institutions at work to promote private sector in general with little focus on the manufacturing firms.

It is therefore vital to review the current industrial policy landscape by merging some institutions with overlapping mandates to avoid scattering the already limited financial and human resources. The coordination issue has to be tackled by strengthening the Direction de l’Industrie and providing a stable institutional anchor.

The private sector participation in defining the priorities of industrial policies should be broadened to encompass all stakeholders. A close collaboration between public institutions and the private sector at large is required to tackle the persistent issues of industrial development in the country.
7. **Swaziland: overcoming private sector challenges**

The Kingdom of Swaziland (Swaziland hereafter) has so far never had an industrial policy and is in the process of developing one with technical assistance from ECA. During the 1980s Swaziland was able to rely economically on being perceived as an “oasis of stability and peace” between apartheid-era South Africa and war-torn Mozambique, which made it an attractive investment destination. Many enterprises settled in Swaziland in order to benefit from this relative security; others set up there to engage in cross-border trade without having to face apartheid sanctions. There was little need for strategic economic planning, as Swaziland benefited from the competitive advantage of its location and from the political turmoil of its neighbours. A lack of contingency planning for regional political change meant that the country was unable to continue to attract investors following peace in Mozambique after 1992 and the end of apartheid in South Africa in 1994. The country became dependant on income from the Southern Africa Custom Union (SACU) and on exports of sugar and other basic commodities.

These sources of revenues are now at risk. Swaziland recently lost access to an important trade agreement with the US (AGOA, discussed in paragraph 7.2 below), and several others are being reconsidered (including SACU and some trade quotas for the EU market); these changes risk inflicting large damages on Swaziland’s main industries, and therefore on the country’s already low employment. Moreover, the potential of the country’s private sector is inhibited by a variety of constraints which prevent it from accessing essential factors of production such as location, facilities, infrastructure, finance and skills and upgrading their production. In order to protect its economic development, Swaziland needs to diversify the structure of its economy, focusing on value-addition and technological upgrading; unlock the potential of its local industry; and diversify trading partners and products.

7.1 **Economic overview**

Swaziland is landlocked, surrounded by South Africa and Mozambique, and has a population of 1.4 million, 30% of which live in the capital, Mbabane. The rest of Swaziland’s people are based in rural areas, with livelihoods predominantly dependent on subsistence agriculture. In 2012, the country’s GNI p.c. was US$ 2,860, classifying it as a lower middle income country. However, Swaziland faces social challenges typical of poorer economies. In 2010, the poverty headcount ratio at national poverty line was 63%, down from 69% in 2001. The distribution of income is very unequal: the richest 10% of the population detains over 40% of the national income. Life expectancy at birth was 49 years in 2012, significantly below the average for lower-middle income countries. Much of this low life expectancy is due to the country’s struggle with HIV/AIDS: 26% of all adults – and a much higher rate among adult women - are critically affected by the HIV/AIDS pandemic, the highest infection rate in the world. Tuberculosis is also a significant problem, with an 18% mortality rate. Many patients have a multi-drug resistant strain, and 83% are co-infected with HIV.

Swaziland’s economy has been growing at a low rate, especially compared to other countries in the region, over the past ten years. The country’s slow growth is due to a variety of

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104 World Bank data.
107 CIA, 2012.
108 KPMG, The Economist.
factors, including a drop in custom revenues due to the recent global economic crises, a reduction in South African imports (which represented more than 60% of Swaziland’s trade in 2012)\textsuperscript{109} and the low competitiveness of the country’s private sector.

Swaziland experienced a low GDP growth over 2000-13, averaging 2.1%. The Swazi economy is mainly driven by its membership of SACU and of the Common Monetary Area (CMA), which links South Africa, Swaziland and Lesotho into a monetary union. In 2011 the country suffered its worst fiscal crisis since independence due to reduced SACU revenues as a result of the slowdown of the South African economy. Uncertainty over the future trend of SACU receipts, which are highly volatile due to the current instability in the global economy and to potential renegotiations of the SACU revenue-sharing formula (discussed in 7.2 below), represents a key risk for the country.\textsuperscript{110}

Figure 14

\textbf{Swaziland – GDP growth, annual percentage, 1971-2013}

\begin{center}
\includegraphics[width=0.8\textwidth]{swaziland_gdp_growth.png}
\end{center}


\section*{7.2 Trade}

Swaziland is very open to trade, which was 141\% of its GDP in 2011.\textsuperscript{111} In addition to its membership of SACU Swaziland is also a member of the Southern Africa Development Community (SADC) and of the Common Market for Southern and Eastern Africa (COMESA). The country also participates in the EAC-COMESA-SADC tripartite negotiations aimed at creating a free trade area covering Eastern and Southern African countries.

Despite its participation in various trade agreements, Swaziland’s trade remains heavily concentrated on one country, South Africa, making the Kingdom vulnerable to any shocks to the economy of its big neighbour.

\textsuperscript{109} KPMG, Swaziland Country Profile, 2012.
\textsuperscript{110} KPMG, Africa Economic Outlook 2014.
\textsuperscript{111} World Bank data.
Swaziland’s share in global trade has fallen over the years – from 0.02% in 2004, to 0.01% in 2010. Exports have therefore declined as a source of economic growth, especially over the last decade. However, exports have grown at an average of 8% per year, almost double the average yearly increase in imports, and the country’s current account balance has been positive in 2012-13.\(^{112}\)

Swaziland’s good exports remain concentrated on primary commodities, which represented 48% of exports in 2012, followed by manufactured goods at 46%. The rest was composed of precious stones and gold. Edibles are Swaziland’s main export earners. These are mostly made up of the production of the country’s Coca-Cola plant: Swaziland hosts Conco, the main subsidiary of the Coca-Cola Company in Southern Africa. Conco purchases sugar from Swazi producers and refines it in-country to produce Coca-Cola concentrate exported to twenty countries in Africa. This concentrate is a major export for Swaziland: unofficial estimates of Coca-Cola’s contribution to the Swazi economy range from 20 to 40% of GDP. According to Swaziland’s Central Bank, Conco generates more than half of the country’s exports. Conco has secured a 6% tax rate, instead of the official 27.5% corporate rate\(^{113}\), in negotiations with the Swaziland government “as a result of employment actions and capital investments made by the company”\(^{114}\).

Textiles are also important exports for the country, but are now at risk after the withdrawal of the Africa Growth Opportunity Act (AGOA), they have been facing strong competition from Asia and require a lot of imports in the form of fabric.\(^{115}\)

Swaziland’s exports of manufactured products are scarce, with some exceptions, such as fridges and freezers, which are exported from Swaziland mostly to South Africa.

Exports of services represented just 2% of Swaziland’s total exports in 2012 and were mostly composed by transportation (26% of commercial services exports) and travel (13%).\(^{116}\)

The country imports are mainly composed of machinery, equipment and manufactured goods, mainly from South Africa, but also of food and live animals, despite Swaziland’s abundance of such resources.

### Table 19

**Swaziland – main exports and imports, 2012**

<table>
<thead>
<tr>
<th>Main exports</th>
<th>% of total</th>
<th>Main imports</th>
<th>% of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Miscellaneous edibles</td>
<td>57.6%</td>
<td>Machinery and equipment</td>
<td>19.2%</td>
</tr>
<tr>
<td>Sugar</td>
<td>21.3%</td>
<td>Manufactured goods</td>
<td>18.6%</td>
</tr>
<tr>
<td>Textiles</td>
<td>9.0%</td>
<td>Food and live animals</td>
<td>16.6%</td>
</tr>
<tr>
<td>Minerals</td>
<td>6.0%</td>
<td>Petroleum products</td>
<td>14.9%</td>
</tr>
</tbody>
</table>

*Source: Economist Intelligence Unit, 2014.*

As shown in table 20 below, Swaziland’s exports of sugar, the main staple of the country, are concentrated on few trading partners: in 2013 the EU absorbed 63% of Swaziland’s sugar exports. Swaziland benefits from preferential market access to the EU but this is due to expire by 2015 and the country is in the process of negotiating an Economic Partnership

\(^{112}\) ECA analysis based on UNCTAT data.\#

\(^{113}\) Patrick McGroarty, In Swaziland, Coke holds sway with the King, Wall Street Journal, 18 November 2013.


\(^{115}\) In-country interviews, June 2014.

\(^{116}\) ECA analysis based on International Trade Centre data.\#
Agreement (EPA) with the EU. A production quota is currently exercising upward pressure on EU sugar prices, but it is due to be phased out in 2017, likely causing sugar prices to fall significantly. This will have a severe negative impact on Swaziland’s economy, unless the country manages to diversify export partners: following Europe, but at much of a distance, the UK and the US were the two others main importers of Swaziland’s sugar, buying 9% and 3% of Swaziland’s sugar exports respectively.

Africa absorbed only 17% of Swaziland sugar in 2013, less than the UK alone. Kenya is an important market for Swaziland’s exports of sugar (6% of total in 2010) and the potential of these exports could be even greater was it not for the derogation that COMESA grants to Kenya for sugar importation, which allows Kenya to maintain a 350,000 tons ceiling on duty-free sugar imports from COMESA\textsuperscript{117} in order to protect local production.

Swaziland needs to exploit its participation in RTAs to boost its exports of sugar in the region and reduce its dependency from the EU market. At the same time, it needs to find new ways of increasing the competitiveness of its sugar on global markets, by raising the value added of its sugar products as well as improving the efficiency of their production process.

In June 2014, the US rescinded the duty-free export access which was granted to Swaziland’s goods exported to the US market under AGOA. The revocation of AGOA rights for Swaziland was mainly due to US concerns over workers’ rights\textsuperscript{118} – Swaziland does not recognise trade unions and other private and business organisations - as well as over the low political freedom in the country. The loss of AGOA, starting from January 2015, is expected to bring large losses to Swaziland, whose exports to the U.S. have averaged over $168 million\textsuperscript{119} a year since the beginning of AGOA in 2000, mostly in the apparel sector.

With one exception, all apparel manufacturers in Swaziland were set up post AGOA, backed by South African and Taiwanese investors.\textsuperscript{120} Swaziland’s textile exports to the US jumped from US$ 65 million in 2000 – the year when AGOA started- to US$ 283 million in 2004, a 44% increase. More than 32,000 people in Swaziland found employment in newly opened textile factories over 2000-04.

In 2004 the WTO ATC, which had progressively removed textile import quotas outside WTO/GATT rules, came to a completion. The progressive liberalisation of textiles under the ATC had opened up market shares for large producers such as China and India, which moved production to their own countries\textsuperscript{121}. Small producers and those more distant to key markets, such as Swaziland, found themselves in trouble.\textsuperscript{122} More than half of the people employed in the Swazi textile sector lost their job following 2004. Swazi textile exports dropped from US$ 449 million in 2004 to US$ 125 million in 2013. Nonetheless, in 2013 the US represented 52% of Swaziland’s clothing exports, a value of US$ 65 million\textsuperscript{123}, or 3.5% of the total value of Swaziland’s exports: the damage from the loss of AGOA is significant.

\textsuperscript{117} COMESA approves 1-year extension of Kenyan sugar safeguards, Agritrade.cta.int, 11 May 2014.
\textsuperscript{118} The US withdrew Swaziland's AGOA privileges after the Kingdom ignored an ultimatum to implement the full passage of amendments to the Industrial Relations Act; full passage of amendments to the Suppression of Terrorism Act (STA); full passage of amendments to the Public Order Act; full passage of amendments to sections 40 and 97 of the Industrial Relations Act relating to civil and criminal liability to union leaders during protest actions; and establishing a code of conduct for the police during public protests.
\textsuperscript{119} UNCTAD data.
\textsuperscript{120} Impact of AGOA on Swaziland textile industry. Actiafrica.com, August 2010.
\textsuperscript{121} Thomson Fontaine, End of quotas hit African textiles. IMF Survey Magazine, 5 July 2007.
\textsuperscript{122} Nordas, H., K., The global textile and clothing industry post the Agreement on Textiles and Clothing. WTO Discussion Paper No. 5. Geneva: WTO.
\textsuperscript{123} UNCTAD data.
Clothing employs around 17,000 people in Swaziland, a huge number for a country whose unemployment rate is estimated to be around 40%. After the US, the EU was the main export partner for Swaziland’s textiles, with a 9% share in 2013. Demand from regional trading partners remains negligible compared to the quantity previously absorbed by the US: the regional market is unlikely to compensate for the loss of AGOA.

In order to preserve its textile industry, Swaziland needs to quickly and significantly redirect its textile exports to markets other than the US and improve their competitiveness vis-à-vis large global producers: these are not easy tasks. However, as labour costs in growing economies such as China and India rise, Swaziland and other African textile producers may have a chance of becoming preferred manufacturing floors in the future. Policies aimed at increasing worker productivity, addressing labour skills, and facilitating increased trade within the SADC and with the EU could go a long way toward mitigating the impact of the loss of AGOA.

Uncertainty over the trend in SACU revenue receipts is a key risk for Swaziland. Ongoing negotiations on a revised revenue-sharing formula might reduce Swaziland’s share of SACU receipts. In addition, the levels of tariff rates in the region and those for South Africa’s main trading partners are declining in line with global trends.

The current SACU formula for sharing the billions of rand of customs revenue earned by the five members on their international trade with other countries is based on the level of intra-SACU imports of a country. This penalises South Africa, which imports very little from within SACU, and favours smaller countries such as Swaziland and Lesotho. The South African government is therefore pressing to reform the revenue-sharing formula: discussion on potential changes was ongoing as of September 2014. Some interpreted the recent series of bilateral agreements signed by South Africa with Lesotho, Swaziland and Botswana as an indication that South Africa might aim to exit SACU.

In recognition of the risks surrounding the country’s reliance on SACU receipts, the Swaziland government is trying to enhance domestic revenue generation: value-added tax (VAT) collection was introduced in 2013, replacing the cascading system of taxation previously in force. Nevertheless, for the time being, around half of government’s revenues will continue to be derived from SACU receipts, leaving budgetary performance largely subject to external factors.

Swaziland remains heavily dependent on financial support from development partners, which include, chiefly, the EU and Taiwan – as Swaziland is one of the few countries in the world that recognises Taiwan as a sovereign state. In 2012, total bilateral aid net flows amounted to US$ 71.8 million, or 2% of the country’s GDP.

As a small landlocked country, exports are crucial for Swaziland’s economy. Despite being a relatively diversified economy, with manufacturing representing over 40% of GDP, Swaziland’s trade pattern is highly concentrated on few partners, chiefly South Africa, which accounted for 83% of Swaziland imports and 31% of its exports in 2010. Swaziland’s trade with the US has dropped from a peak of 16% of Swaziland’s total exports in 2003 to 5% in

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124 Swaziland’s AGOA status revoked: Madagascar all over again?, Brookings Institute, May 23 2014.
125 Africa Economic Outlook 2014.
126 Botswana, Lesotho, Swaziland, South Africa and Namibia.
128 Economist Intelligence Unit, 2014.
129 Sources: Financial Times, The Economist.
130 World Bank Data 2013.
most of these were textiles. Africa excluding South Africa absorbed just 19% of Swaziland’s exports in 2010.132

Swaziland is not taking advantage of its missions abroad to promote trade with countries other than South Africa: only two embassies – the ones in Geneva and Brussels – currently have a trade attaché, with the result that most resident ambassadors also need to take care of trade interests, often with poor results.

Table 20
Swaziland main trading partners, 2010 (latest data available)

<table>
<thead>
<tr>
<th>Destination of exports</th>
<th>% of total</th>
<th>Origin of imports</th>
<th>% of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Africa</td>
<td>30.6%</td>
<td>South Africa</td>
<td>83.1%</td>
</tr>
<tr>
<td>US</td>
<td>9.3%</td>
<td>Taiwan (part of People’s Republic of China)</td>
<td>2%</td>
</tr>
<tr>
<td>UK</td>
<td>3.9%</td>
<td>US</td>
<td>1.6%</td>
</tr>
<tr>
<td>South Korea</td>
<td>3.8%</td>
<td>Hong Kong (part of People’s Republic of China)</td>
<td>1.2%</td>
</tr>
</tbody>
</table>

Source: UNCTAD.

Despite Swaziland’s several RTA memberships, the country’s access to regional markets is constrained by high transport costs, cumbersome border procedures and a number of non-tariff barriers: the 2015 World Bank Doing Business Report ranked Swaziland 110 out of 189 countries on ‘trading across borders’.133 Such barriers undermine Swaziland’s efforts for regional trade integration.

7.3 Industry

While in 1980 agriculture made up 23% of Swaziland’s value added, the sector represented less than 8% of total in 2011. Industry value added has grown, though at a low pace, from 30% in 1980 to 48% in 2011. Despite the low contribution of agriculture to the country’s GDP, the sector employed around 70% of Swaziland’s population in 2012.134 The change in the economic structure has been accompanied by the reduced capacity of the economy to absorb unskilled labor: unemployment was estimated to be around 40% in 2012.135

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131 US cuts Swaziland from lucrative trade pat. AlJazeera, 27 June 2014. Complete data for figure 2 was only available up to 2010.
132 Latest year for which complete data is available.
134 KPMG, Swaziland Country Profile, 2012.
135 KPMG, Swaziland Country Profile, 2012.
In the extractive sector, the greatest domestic value is generated from forestry, coal, lignite and peat, while other mining activities add less than 40% in domestic value. Opportunities to extract greater value from these activities are limited, given the little upscale activities in these products, the size of the Swazi economy and the size of the operations. Mining has declined in importance in recent years with only coal and quarry stone mines remaining active.\textsuperscript{136} Coal production has virtually doubled in year-on-year terms in the first three quarters of 2013. Coal reserves, estimated at about 158 million tons, could attract private sector investments for the export market. The mining sector, however, has restrictions from a policy perspective and also suffers from institutional capacity constraints. Investors face equity restrictions and short periods for prospecting rights.\textsuperscript{137}

The contribution of services to the economy has remained almost stable, and relatively high, over the past twenty years: they accounted for 47% of value added in 1980 and for 45% in 2011.\textsuperscript{138}

\textsuperscript{136} KPMG, Swaziland Country Profile, 2012.
\textsuperscript{138} ECA calculations based on World Bank Data.
Within industry, manufacturing accounted for 44% of value added in 2011, a high share for African standards and up from 21% in 1980.\(^\text{139}\) However, currently the country’s manufacturing remains concentrated on low-value added products, mainly related to agriculture and with scarce links with other sectors of the economy. Moreover, as discussed below, the sector faces challenges related to the poor business environment, scarce business skills, industrial policy privileging foreign investors, scarce access to finance and to locations for local entrepreneurs, restrictive regulation and strong government participation in key sectors of the economy.

### 7.4 Obstacles and opportunities for the manufacturing and private sector

Swaziland’s main manufacturing products are sugar, confectionery, soft drinks, textiles, canned fruit and forestry products. Due to the few stages of production required to reach the final product, opportunities for value addition in these sectors are limited. Sugar production is Swaziland’s biggest industry and the country is the 4th largest producer in Africa excluding North Africa (its output is 29% of South Africa’s), although it pales in international comparison, producing the equivalent of just 0.07% of the output of global market leader Brazil.\(^\text{140}\) Despite this, Swaziland can aim to compete in international production of sugar thanks to its low production costs.\(^\text{141}\) The dominance of the sugar industry in the country is expected to continue, with 6,000 hectares of additional crop area planned until 2016. Diversifying sugar products and increasing their competitiveness on global markets are key challenges for Swaziland.

Private sector investments have recently stagnated, hampering productivity and innovation. Gross fixed capital formation was only 5.2% of GDP in 2012, down from 12.4% in 2000.\(^\text{142}\) In recent years a number of textile and apparel companies and pulp and paper mills have closed because of a decline in competitiveness due to lack of new investments (and more are expected to close as a result of the loss of AGOA). The growth rate of manufacturing value added (MVA) in Swaziland in 2010-12 was negative, -1.56%, compared with 3.19% in Africa.

In order to drive growth in its manufacturing sector, Swaziland needs to diversify its product ranges to create new investment opportunities with significant growth spillovers to the rest of the economy, increase value addition in and linkages among existing industries and attract the necessary investments for technological upgrading.

**Government’s participation in key sectors of the economy is crowding out space for private sector development.**

Several sectors of the Swaziland economy, chiefly energy and ICT, are dominated by government-owned monopolies. The government has equity in banking, insurance, sugar, telecommunications and property. Public enterprises are often responsible for charging levies for supplies imported by private enterprise in which the public enterprise also competes. Examples of this occurrence include the maize, milk and vegetable industries.\(^\text{143}\)

The sugar industry, which accounts for 60% of agricultural output and is estimated to contribute 18% of Swaziland’s GDP, is an example of the government’s participation in the Swaziland economy. Sugar production in Swaziland is only permitted by allocation of a quota

\(^{139}\) World Bank Data.\(^\#\)


\(^{141}\) In-country interviews, June-July 2014.

\(^{142}\) ECA analysis based on World Bank Data.

\(^{143}\) KPMG, Swaziland Country Profile, 2012.
from the Sugar Industry Quota Board, which brings the industry under government control. A large share of this industry is owned by the monarchy: the Royal Swazi Sugar Corporation produces two-thirds of the country’s sugar output, on land leased from the Swazi nation, and is 53.1% owned by the sovereign wealth fund Tibiyo Taka Ngwane. Tibiyo Taka Ngwane is held by the king in trust for the Swazi nation and is considered separate from the government. It is run as a corporate social investment entity.

The government’s intense participation in these sectors compromises its capacity to develop appropriate regulatory and corporate governance systems and creates economic inefficiencies. Moreover, the presence of government’s shares in companies prevents private stakeholders from making independent business decisions. In order to unlock its industrial potential, Swaziland needs to reduce government participation in the economy and increase private investments.

FDI inflows to Swaziland accelerated in the 70s and grew substantially up to 1992 – the end of apartheid, when many companies relocated to South Africa- but then slowed down during the past two decades. In particular, FDI inflows dropped by almost 50% over the period 2000-12, mostly due to the unstable political and fiscal situation in the country and to the fact that many foreign investors consider Swaziland as having a high political risk. Equity and long-term capital recorded negative growth of 28% in 2010.

Figure 16
Swaziland – FDI inflows, 1972-2012

Source: ECA calculations based on World Bank data.

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145 KPMG, Swaziland Country Profile, 2012.
146 In-country interviews, June-July 2014.
147 ECA analysis based on World Bank Data.
148 KPMG, Swaziland Country Profile, 2012.
149 Only 10 new FDIs in the last three years, The Times of Swaziland, 18 March 2014.
Despite the slowdown, total FDI inflows remain significant in the region, at almost US$ 90 million (over 2.2% of GDP). The manufacturing sector continues to be the leading contributor to the total stock of FDI, standing at US$ 493 million, and accounted for 55.2% of total FDIs in 2010.\(^{150}\) FDIs are key drivers of investments and participation in global value chains in the country: in 2011 and 2012, the share of FDIs in gross fixed capital formation was more than 24%.\(^{151}\) This underlines the importance for Swaziland of continuing to attract FDIs in order to foster industrial productivity.

However, many of the foreign investors currently in Swaziland are neither establishing deep links with the local economy nor creating high quality jobs. For many foreign investors, it is cheaper to import some of the finished goods they need from South Africa or other neighbouring markets, as goods produced in Swaziland are often made up of imported components. The absence of local firms in a position to absorb potential technological spillovers also plays a role in the lack of linkages between FDI and local SMEs.\(^{152}\) Foreign investors do not face any requirements for minimum local content and often import their own workers. In addition, some foreign investors are demanding additional cuts to the already meagre salaries of local employees.\(^{153}\) the government needs to reconsider the standards that it would like its foreign investors to offer to local workers.

The Swaziland Investment Promotion Authority (SIPA) was established to implement strategies for attracting foreign investors and to act as a one-stop shop for them once they come into the country. SIPA is providing useful services to investors but not all of them come into Swaziland through SIPA\(^{154}\) and the institution is in the process of improving its effectiveness. The sovereign wealth fund Tibiyo Taka Ngwane, which was created through royal charter, forms joint ventures with foreign investors.

Swaziland needs to identify ways to deepen linkages between foreign investors and the local economy, such as opportunities for local sourcing of materials, technological transfers and hiring and training of local workers. At the same time, the Swaziland government needs to define the quality of work that it would like foreign investors to offer to its citizens.

**Local SMEs struggle to grow their businesses.**

Swaziland’s private sector is largely composed of SMEs: in 2006 the average number of permanent, full time employees was 28.\(^{155}\) Most of Swaziland’s SMEs lack capacities for business management and marketing. Many SMEs tend to stay in the informal sector indeterminately.

Swaziland imports most of its manufacturing inputs: in 2006, 70% of Swaziland firms used inputs of foreign origin.\(^{156}\) In 2010, 80% of Swaziland’s imports of machinery and equipment came from South Africa, but this percentage has dropped enormously over 2011-13, reaching just 3% of Swaziland’s machinery and equipment imports in 2013. In contrast, imports from Mozambique, Europe and South Korea have significantly increased.

\(^{151}\) Africa Economic Outlook, 2014.
\(^{152}\) Cornelia Staritz, foreign direct investments and local spillovers in the apparel sector in Sub-Saharan Africa. OFSE Policy Note 05/2013.
\(^{153}\) In-country interviews, June 2014.
\(^{154}\) In-country interviews, June 2014.
\(^{155}\) World Bank African Development Indicators 2014.
\(^{156}\) World Bank Africa Development Indicators, 2014.
Most local businesses in Swaziland engage in import-export operations or provide services, but few actually produce goods.\(^{157}\) In order for its businesses to become more competitive, Swaziland needs to develop local production of goods and inputs and to create local and regional value chains, making the most of its RTAs memberships. The export competitiveness of Swaziland’s businesses remains limited: in 2006, the latest year for which data is available, only 11% of Swaziland’s firms were exporting. In the same year, 94% of all companies’ sales were domestic sales.\(^ {158}\) SMEs often struggle to meet quality requirements to export to markets with stringent standards such as the EU.

The government needs to ensure that SMEs have access to production locations and facilities, but also provide them with comprehensive support services across all stages of production and growth.

Many private sector stakeholders lament the lack of entrepreneurial culture in the country and find the current education system not apt to nurturing business skills.\(^ {159}\) In order to develop its local businesses, Swaziland needs to promote business education and establish programmes that can support entrepreneurship, such as mentoring and training. The Small Enterprises Development Company Limited (SEDCO), an organisation under the Ministry of Commerce, Industry and Trade (MCIT) currently provides some training and support to local SMEs.

**Scarce access to finance is a key obstacle for the growth of local businesses.**

Access to credit is a major issue for local SMEs: access to credit facilities was limited to just 53% of businesses in 2013.\(^ {160}\) Three out of four of the banks operating in Swaziland are South-African banks that do not have any development agenda. The government has put in place a credit-guarantee scheme for SMEs, but firms have struggled to make use of it, mostly because banks evaluate their business plans poorly: without a convincing business plan, the guarantee scheme is not enough to persuade banks to lend to SMEs. Moreover, South African banks tend to penalise Swaziland’s businesses on the ground of their risk-assessments of the country, which they see as politically risky.\(^ {161}\) In 2010 private-sector credit stock amounted to 23% of GDP, which is low not only for a middle-income country but even for a low-income country.\(^ {162}\)

The feudal land-ownership system, under which the majority of the land belongs to the Swazi nation, is controlled by the King in his role of traditional leader and is distributed by his chiefs: this means that individuals cannot own land unconditionally. Chiefs can take the land back from individuals for alleged “bad behaviour”.\(^ {163}\) Such uncertainty reduces possibilities to use land as collateral to obtain much-needed finance and minimize incentives to invest in developing the land.

In order to improve access to finance for local firms Swaziland could consider establishing a development-oriented bank (on the model, for example, of the Rwanda Development Bank) to finance national development projects and local businesses. Reviewing

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\(^{157}\) In country interviews, June 2014.
\(^{158}\) World Bank African Development Indicators 2014.
\(^{159}\) In country interviews, June 2014.
\(^{160}\) Africa Economic Outlook 2014.
\(^{161}\) In-country interviews, June 2014.
\(^{162}\) African Economic Outlook 2013.
\(^{163}\) Swaziland: Coca Cola abandons Swazi workers. AllAfrica.com, 2 December 2013.
the system of land ownership and improving the provision of training for SMEs to increase their
capacity to produce bankable business plans would also help the country’s private sector.

Private sector stakeholders lament that the current structure of industrial incentives in
the country privileges foreign investors over the local industry. Foreign investors can obtain a
tax rate of 10% or even 5% depending on government’s approval, while local businesses
generally pay a corporate profit tax of around 28%. Unlike many other countries where the
tax rate is different for small and large enterprises, Swaziland’s firms are taxed at the same rate
irrespective of their size, putting small businesses at a disadvantage relative to large corporate
and multinationals. As a result, Swaziland’s SMEs tend to pay the highest tax rate in the region.
In contrast South Africa taxes its SMEs at rates between 0 and 10% depending on their annual
turnover, Lesotho taxes SMEs at around 15% and Zimbabwe does not tax SMEs. High
taxation is a considerable obstacle to the competitiveness of Swazi SMEs. Swaziland ranked
20th out of all African countries for its total tax rate of 36.8% - the sum of its 28% profit taxes,
4% labour taxes and 4.7% other taxes. This places it well above the African average of 56%
total tax rate. However, its profit tax is the 6th highest in the whole Africa.

Swaziland has built several industrial areas where accommodation for industries is
provided in the form of “factory shells”. These are plots of land rented at below-market rates
and connected to essential infrastructure such as water and electricity. Industries located in the
factory shells benefit from synergies and clustering, as well as from financial and infrastructure
incentives. However, local businesses struggle to find space in the factory shells, which are
crowded out by foreign investors and often too big for local firms. Swaziland law also
prevents Swazi from setting up businesses in their residences (such as spaza shops below their
houses). This prevents many micro-businesses from starting up and has led many Swazi to rent
out their businesses to foreigners, who are not subject to the same requirements.

Reducing the tax burden on small local enterprises, introducing ad-hoc support for local
SMEs, helping them secure adequate locations and cutting regulatory obstacles to starting a
business would go a long way in boosting the competitiveness of the Swaziland private sector.

Starting a business in Swaziland takes more than three days and is extremely
bureaucratic. Swaziland’s ranking in the 2015 Doing Business Index by the World Bank was
110th out of 189 countries. The World Economic Forum’s Global Competitiveness Report 2013-
14 ranked Swaziland 124th out of 148 countries. Corruption is a big obstacle to doing business
in Swaziland: Transparency International ranked it 95th out of 178 countries in its Corruption
Perceptions Index, with a rating of 3.1. Corruption is found to be particularly rife among
government bureaucracy, custom and excise, and the police.

The Economic Diversification Study (EDS) commissioned by the AfDB identified an
inefficient bureaucracy, corruption, and poor access to finance as the main challenges faced by
businesses in Swaziland. Access to electricity was considered the third major challenge.

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165 SD SMEs pay highest taxes in the region, The Times of Swaziland, 1 August 2013.
166 PwC, Paying Taxes 2013.
167 In-country interviews, June 2014.
168 In-country interviews, June 2014.
Despite its middle-income status and large infrastructure investments, Swaziland faces bottlenecks in all kinds of infrastructure, including transport, electricity and telecommunications, all of which increase the cost of doing business.\textsuperscript{171}

Swazi MTN, a subsidiary of South Africa MTN, has been granted monopoly to provide mobile services in the Kingdom and its services are expensive compared to the regional average. The high costs of telecom services impacts all aspects of businesses in the country. The government is currently considering issuing a new license to an international operator.

The internet sector has been open to competition with four licensed internet service providers but prices have remained high and market penetration relatively low. ADSL was introduced in 2008 and 3G mobile broadband services in 2011, but development of the sector has been hampered by the limited fixed-line infrastructure and by a lack of competition in the access and backbone network.\textsuperscript{172}

According to SATH, Swaziland has the highest electricity cost in SACU.\textsuperscript{173} In 2006, 37\% of Swaziland’s firms shared or owned their own generator.\textsuperscript{174} A large proportion of the country’s electricity is imported from South Africa and the sector remains heavily dominated by the government-owned Swaziland Electricity Company.

Most of the Vocational Education Training (VET) institutions in Swaziland are managed by the government and their curricula have not been progressively adjusted to the needs of the country’s industry. Industry players struggle to find adequate engineering and artisan skills, among others, in the country.

The private sector is scarcely consulted on the design of education or VET curricula and foreign investors have so far not contributed to creating the skills they need in the country. It is easy for foreign investors to proof that they cannot find the skills they need locally and bring in their workers from abroad. Swaziland needs to involve the private sector in the design of educational curricula and to create strategies for foreign investors to contribute to creating the skills they need locally.

The loss of young adults in their most productive years due to HIV/AIDS results in lower economic output. Businesses incur further costs in time lost as a result of illness or absenteeism, and in the recruitment and training of new workers. The high infection rate and high turnover of workforce have a negative impact on economic development: the HIV/AIDS epidemic makes human capital formation and the development of skills and competencies extremely difficult.

The increasing dependence of the country on sugar, moreover, has reduced the intra-generational transfer of skills related to other industries. Currently the labour force is predominantly employed in low-skilled, low-paid work, and skilled workers who are able to leave the country tend to do so.

Swaziland enjoys low labour costs and, given the current rigid and hostile labour environment in South Africa, could attract investors from its neighbours by increasing labour productivity and worker’s skills in addition to improving its labour relations. Swaziland labour tax is one of the lowest in Africa at 4\%. Swaziland needs to invest in upgrading the skills of its

\textsuperscript{172} KPMG, Swaziland Country Profile, 2012.
\textsuperscript{174} World Bank African Development Indicators, 2014.
labour force, both through education and ad-hoc training, and to invest in productivity-
increasing equipment and techniques.

The country’s private sector is often left out of key industrial policy-making decisions
and there is a poor flow of information between the government and local businesses on
industry and trade initiatives. Swaziland’s future industrial policy needs to create mechanisms
for a structured coordination between the country’s public and private sector in shaping
industrial and trade development. Systematic private sector representation in industrial policy-
making – as happens, for example, in Rwanda, where the private sector has formal meetings
with the Ministries and with the President – allows governments to remain adaptable to the
changing needs of the private sector. Swaziland could benefit from introducing similar
mechanisms.\textsuperscript{175}

Swaziland officials working on industrial policy should be isolated from political
pressure and selected through competitive recruitment and well-defined career paths that make
politically motivated hiring and firing difficult.\textsuperscript{176} This is particularly relevant for Swaziland,
where the monarchy has a strong influence on policy making and public appointments.

Swaziland’s trade delegations often lack the resources and capacity to be competitive in
international negotiations: the country should invest in upgrading the technical capabilities of
trade negotiators and involve the private sector more directly in shaping the direction of trade
policy in the country.

Responsibilities for policy-making and programme implementation and regulation are
often assigned to different organisations, resulting in overlapping mandates and poor
information flow. For example, the SME section within the Ministry of Industry is entrusted
with formulating initiatives for SMEs in the country, while other institutions such as SEDCO
and FSE & CC implement private-sector led initiatives to support local firms. The initiatives of
these various institutions are poorly coordinated. Swaziland needs to clarify and coordinate the
responsibilities of each organisation involved in the country’s industrial policy.

The government should also ensure that there is no mismatch between the resources and
responsibilities assigned to each public body: some institutions involved in industrial policy-
making were facing a scarcity of funds which prevented them from implementing any initiative.

7.5 Industrial policy

Swaziland has adopted a National Development Strategy (NDS), which sets out the
following overall vision for the country:

“\textit{By 2022, the Kingdom of Swaziland will be in the top 10\% of the medium human
development group of countries founded on sustainable economic development, social justice
and political stability.}”

Accordingly, the NDS sets out the following goals for the Ministry of Commerce, Trade
and Industry (MCIT).

Table 22
Swaziland – goal for the MCIT in the NDS

<table>
<thead>
<tr>
<th>Economic empowerment</th>
<th>Promote local entrepreneurs; rural development; gender; and programmes for informal sector.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industrialisation</td>
<td>Diversification; value addition on agricultural and mining products; promote trade in services.</td>
</tr>
<tr>
<td>Efficiency and productivity</td>
<td>Create and strengthen structures for continuous dialogue; measures to promote and stimulate sustained private sector investment; intensify efforts for the creation of a favourable investment climate.</td>
</tr>
<tr>
<td>Marketing</td>
<td>Promote production and marketing of agricultural products; rural markets, regional and international markets; improve market infrastructure to provide market information and facilitate its dissemination.</td>
</tr>
<tr>
<td>Regional cooperation</td>
<td>Collaborate in retaining and improving the national share in the regional markets.</td>
</tr>
<tr>
<td>Rural development through cooperatives to achieve greater empowerment</td>
<td>Promote the formation of groups, especially among women, youths and the physically disabled; support cooperative movement formations; develop entrepreneurship and enhance access to special credit programmes and equity financing for small business start-ups in rural areas.</td>
</tr>
<tr>
<td>Trade, commerce and industry</td>
<td>Facilitate communication infrastructure and networks and develop one-stop centres for exports; develop export opportunities, particularly in the Southern Africa region. Promoting Swaziland as an attractive investment location.</td>
</tr>
<tr>
<td>Poverty and employment</td>
<td>Reduce unemployment through small scale income generating activities; promote commercial agricultural production; support the urban informal sector.</td>
</tr>
<tr>
<td>Policy and legislative matters and economic services</td>
<td>Develop appropriate investment policies to facilitate both local and foreign investment and an enabling environment to promote private and informal sector investment free of red-tape.</td>
</tr>
<tr>
<td>Competitiveness</td>
<td>Ensure that business costs are kept at a competitive level.</td>
</tr>
<tr>
<td>Agricultural development</td>
<td>Build on agriculture to stimulate other sectors of the domestic economy – commercialisation of agriculture.</td>
</tr>
</tbody>
</table>

Source: National Development Strategy of Swaziland.

The Industrial and Trade Policies currently being developed for Swaziland will need to fit into the objectives articulated in the NDS vision.

The NDS spells out the country’s strategy for its industrial development, articulated around sensible objectives. However, the lack of diffuse participation in the country’s policymaking prevents the implementation of such objectives. The concentration of power at the central government’s level limits the influence of the institutions dealing with industry, of business participants and of citizens in the decision-making process. These actors have little incentives to speak out, come up with proposals to improve the country’s industrial development and establish entrepreneurial activities.

7.6 Lessons from Swaziland

Swaziland is at a crossroad: the reduction and volatility of its traditional sources of revenues, such as SACU receipts and exports of sugar and textiles, require the country to develop a new strategy for its economy.

Local entrepreneurship is constrained by a political atmosphere that does not promote private sector initiative, as well as by lack of skills, of location for businesses, of access to finance, of efficient infrastructure and facilities, of government support and incentives and of a favourable tax regime. At the same time, the current industrial setting focused on attracting foreign investors penalises the development of the local industry. Thanks to its strategic location
and business environment friendly to foreign investors, the country has managed to attract considerable FDI: these however have so far failed to create significant links with the country’s local economy and to promote entrepreneurship in the country. Swaziland needs to attract FDI which can create strong links with its economy and support the development of the local industry.

Trade, which is essential for Swaziland as a small, landlocked country, is concentrated on a few partners and based on some trade agreements whose future is at risk. The loss of AGOA will have a large negative impact on the already weakened textile sector. Moreover, the direction and nature of current trade does not point to a development in Swaziland’s manufacturing capability: the country exports mostly basic products with low value addition and imports mainly manufactured products. In order for trade to support Swaziland’s industries, the country will need to quickly diversify its trading partners as well as expand its trade beyond low-value commodities.

Social challenges such as income inequality, working poverty, the HIV/AIDS pandemic and gender inequality also create significant constraints on the country’s development and need to be addressed.

Swaziland has several opportunities to exploit, such as its low cost of labour, important for the production of goods such as sugar and textiles, which are already developed in the country; strategic geographical position and relative stability; strong participation in RTAs; a relatively educated population with a good level of English; and relatively large manufacturing and services sectors, which can support industrial development.

Unlocking the country’s potential will require reducing public participation in the economy, increasing incentives to local private entrepreneurship; facilitating access to finance for local SMEs; improving the mechanisms of policy-making in the country, in particular by increasing private sector involvement in policy design; exploring avenues for value addition in established sectors and for linkages between foreign investors and local entrepreneurs; reviewing the mechanisms for land ownership with a view to improving access to collateral; addressing the country’s quality of education, tailoring it to the needs of the local industry; improving the country’s response to its social challenges; tackling corruption and excessive red-tape and improving the capability, motivation and accountability of public service officials involved in industrial policy.
8. Zambia: diversifying the economy while addressing social challenges

Over the past decade, Zambia has enjoyed solid economic growth – over 6.3% per year on average– fuelled mainly by its abundant mining resources, chiefly copper, as well as by growth in construction, transport, communications, the public sector, tourism and trading.

The country’s mining endowments have been fundamental to Zambia’s GDP growth, but have also held back diversification efforts: copper makes up over 60% of Zambia’s exports and 8% of GDP value added\(^\text{177}\) and the country is therefore heavily vulnerable to fluctuations in the price of copper and to the state of the global economy. Moreover, mining is not an employment-intensive sector and has not helped to create jobs for the country’s youth. While according to official estimates unemployment is relatively low for the region - 13% in 2012 - the rate was considerably higher for youth – 25% in 2012\(^\text{178}\) – and some sources indicate that only 10% of the labour force is in formal employment.\(^\text{179}\)

Beyond the lack of economic diversification, several factors hold back the potential of Zambia’s industry. These include the status of its workforce, which is heavily affected by HIV/AIDS and has a low skills base; the geographical situation of Zambia as a landlocked country, aggravated by the poor status of the country’s transport infrastructure; the scarcity of electricity and high fuel prices which hit the manufacturing sector; the lack of improvements in some aspects of the business environment; and corruption, which remains a major impediment to the development of the country’s private sector.

Zambia needs to make the most of its strong growth to address the country’s main social challenges – inequality and unemployment –; continue to diversify its economy beyond mining, developing activities with higher value-added that can ensure a bright future for the country independently from mining riches; and increase the competitiveness of its private sector by improving the business environment and reducing corruption.

Zambia has a sophisticated industrial policy targeting economic diversification and value addition. Government institutions in charge of implementing it should make sure that incentives and policies are of practical use for the private sector and reinforce its involvement in the formulation of industrial policy.

8.1 Economic overview

Zambia’s GDP growth has become less volatile after the 90s and is expected to reach 7.1% in 2014.\(^\text{180}\) Economic policy has significantly improved over the last several years, with key macroeconomic indicators such as inflation and the current account balance strengthening substantially since 2003. Gross fixed investment as a percentage of GDP in Zambia has been above the average for Africa excluding North Africa for the past 5 years.

\(^{177}\) Africa Center for Economic Transformation, Zambia Transformation Profile, July 2014.

\(^{178}\) ILO estimates, World Bank Data.

\(^{179}\) African Economic Outlook, 2014.

\(^{180}\) African Economic Outlook 2014.
8.2 Trade

Zambia is very open to trade, being part of SADC, COMESA and the WTO. The main destinations of Zambia’s manufactured products are COMESA and SADC, with the DRC and South Africa being the largest markets.\textsuperscript{181} This highlights the potential for increased intra-regional trade to boost the competitiveness of Zambia’s manufacturing sector.

Metals accounted for most of Zambia’s exports in 2013, followed by inorganic metals. Primary commodities (excluding fuels) represented 84\% of Zambia’s exports to the world in 2012, while manufactured goods were 13\% of total exports. The share of manufacturing products was much greater when looking at Zambia’s exports to Africa, where they made up 34\% of the total.\textsuperscript{182}

Despite the continued dominance of metals in Zambia’s trade, non-traditional exports\textsuperscript{183}, which include sugar, gemstones, tobacco and cotton, have been growing over the past 3 years (+42\%).\textsuperscript{184} This indicates that Zambia is successfully developing sectors of the economy beyond mining, which are likely to create more and better employment opportunities in the future.

\textsuperscript{181} Zambia Development Agency, Zambia Manufacturing Sector Profile, June 2013.
\textsuperscript{182} ECA analysis of UNCTAD data.
\textsuperscript{183} Defined by the Zambian Development Agency as all exports other than copper and cobalt.
Table 23
Zambia – main exports and imports, 2013

<table>
<thead>
<tr>
<th>Principal exports</th>
<th>As % of total exports</th>
<th>Principal imports</th>
<th>As % of total imports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non ferrous metals</td>
<td>62%</td>
<td>Metalliferous ores and metal scraps</td>
<td>15%</td>
</tr>
<tr>
<td>Inorganic chemicals</td>
<td>4%</td>
<td>Petroleum and petroleum products</td>
<td>11%</td>
</tr>
<tr>
<td>Non-metallic mineral manufactures</td>
<td>3%</td>
<td>Specialised machinery</td>
<td>9%</td>
</tr>
<tr>
<td>Tobacco and tobacco manufactures</td>
<td>3%</td>
<td>Road vehicles</td>
<td>8%</td>
</tr>
</tbody>
</table>

Source: UNCTAD.

Table 24
Zambia – main trading partners, 2012

<table>
<thead>
<tr>
<th>Destination of exports</th>
<th>% of total</th>
<th>Origin of imports</th>
<th>% of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Switzerland</td>
<td>42.3%</td>
<td>South Africa</td>
<td>33.8%</td>
</tr>
<tr>
<td>China</td>
<td>19.2%</td>
<td>Democratic Republic of the Congo</td>
<td>14.4%</td>
</tr>
<tr>
<td>South Africa</td>
<td>9.1%</td>
<td>China</td>
<td>9.9%</td>
</tr>
<tr>
<td>Democratic Republic of the Congo</td>
<td>7.8%</td>
<td>Kuwait</td>
<td>6.2%</td>
</tr>
</tbody>
</table>


The services sector is important for Zambia: it represented over 45% of GDP value added in 2013. However, services exports remain a relatively small component of its trade (around 5% in 2012). Zambia’s main services exports in 2012 were transport and travel.185

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185 Source: International Trade Centre data.
8.3 Industry

Figure 18
Zambia – value added by sector, 1965-2013

Source: ECA calculations based on World Bank data.

Table 25
Zambia – value added and employment by sector

<table>
<thead>
<tr>
<th></th>
<th>Value added as % of total GDP - 2013</th>
<th>Employment (as % of labour force) – 2005 latest data available</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>17.7%</td>
<td>72%</td>
</tr>
<tr>
<td>Industry</td>
<td>37.3%</td>
<td>7.1%</td>
</tr>
<tr>
<td>Manufacturing (within industry)</td>
<td>8.3%</td>
<td>n.a.</td>
</tr>
<tr>
<td>Services</td>
<td>45.1%</td>
<td>20.6%</td>
</tr>
</tbody>
</table>

Source: World Bank data.

The contribution of industry to Zambia’s GDP has grown only modestly over the past 20 years, going from 36% of GDP in 1994 to 37% in 2013. Within industry, the contribution of manufacturing has decreased, from 11% of GDP in 1994 to 8% in 2013. The contribution of agriculture has remained fairly stable, increasing slightly from 16% of GDP in 1994 to 18% in 2013. Agriculture is still the most important sector from a socio-economic point of view, employing 72% of the labour force and 8% of the only 625,000 formally employed workers.186

During the past decade, the Zambian manufacturing sector has performed consistently well, driven by strong performance in agri-business, such as food processing, tobacco and beverages, as well as by a growing need for materials to support activities in the construction industry. Food and beverages account for more than two-thirds of manufacturing value added (MVA), and Zambia successfully exports sugar to African countries such as Congo, Kenya, Burundi and Rwanda. The growing consumer market in neighbouring DRC offers opportunities

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186 African Economic Outlook 2014.
for Zambian firms and farmers to expand their export of products such as foodstuff, cement and sugar.

The low contribution of manufacturing to the country’s GDP is not promising for the diversification of the economy and for the development of higher-value added activities outside of mining. Several factors prevent the Zambian manufacturing sector from accelerating its growth.

**8.4 Challenges and opportunities for manufacturing and private sector**

Zambia’s power infrastructure falls in the middle of its regional peers. The country provides electricity to 19% of its population compared with 6% in the DRC and 39% in Botswana and the cost of electricity in Zambia is not particularly high compared to its neighbours. However, the country’s large mining sector absorbs most of the available electricity supply and the manufacturing sector faces frequent black-outs. Despite Zambia’s huge potential in hydro sources – Zambia possesses 40% of SADC’s water resources - there has not been any investment in additional hydropower capacity over the past 30 years. The government is now expanding electricity supply, but with the intention of serving the mining community first. Zambia is self-sufficient in all its energy sources with the exception of petroleum, which is imported. Demand for electricity is growing fast and risks outstripping capacity: demand is expected to reach 3,000 MW by 2020, while installed capacity is only 1,970 MW as of 2013.187 Power cuts were largely responsible for Zambia’s copper production shortfalls in 2007 and early 2008. Power generation has been declared a priority by the government in 2013, and activities to build power plants now qualify for tax concessions under the Zambia Development Agency (ZDA), in the hope that such incentives will attract much needed investments in the sector. The country has recently obtained loans from Chinese, Swedish and South African lenders to extend grid power to part of the underdeveloped North-Western and Western provinces.188

Fuel costs in Zambia are among the highest in the region (US$ 1.64 per litre of unleaded petrol in July 2014189) and they increase the costs of business. The government has been the main actor in Zambia’s fuel sector since the 1960s and since 2009 has been the sole owner of the country’s only refinery, Indeni plant, built in 1973.190 Oil coming from sources other than Indeni is subject to heavy tariffs: this limits the possibility for businesses to source their fuel from more competitive providers. Moreover, the many middle-men between Kuwait, from which Zambia imports most of its oil (via Dar –es Salaam) and Zambia push up the final prices. The Energy Regulation Board (ERB) determines maximum retail fuel prices (except for sales to mines and certain other industries). In 2013, the government scrapped fuel subsidies. The Indeni refinery has broken down several times over the past few years, plunging the country into fuel crisis.191 Recognising the need to increase capacity and efficiency, the government has now signed an agreement to build a new oil refinery by 2016, expected to triple the country’s current oil supply. However, continued government involvement in the country’s fuel production might not be the most efficient way for Zambia to reduce fuel costs: privatisation might help the country to supply additional electricity at a more efficient cost.192

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188 Economist Intelligence Unit, 2014.
189 Zambia Energy Regulation Board.
190 Zambia Energy Regulation Board.
191 M. Hill, Zambia to build $410 million oil refinery to lower cost, Bloomberg, July 16 2013.
Zambia’s landlocked position substantially increases the cost of long-haul transport by up to 40% of the final product’s value. According to the World Bank’s Doing Business 2014 report, it takes 44 days to export and 49 days to import a product, compared with the average 30.7 and 36.8 days respectively for Sub-Saharan Africa. The cost is also significantly higher, at US$2,765 to export and US$3,560 to import a container, compared with a respective average of US$1,990 and US$2,567 for Africa excluding North Africa. Zambia needs to improve trans-boundary corridors and border administration to reduce delays. Deepening integration with regional trade partners and common infrastructure projects could also help to unlock the country’s export potential.

Zambia has 12.1 km of road per 100km², slightly less than the average for the Southern Africa region. Of these roads, 22% are paved, below the 29% average for Southern Africa. The paved roads, which are limited to cities and major arteries, are often of very poor quality. During the wet season, travel on any unpaved road is difficult. The Zambian Roads Development Agency is tasked with improving the road network and is supported by the EU and World Bank. The country’s transport network needs to expand and improve in order to lower the cost of doing business. A US$ 5.6 billion road upgrade scheme is ongoing until 2016, supported by the introduction of a toll system in 2014. Some successful examples of private sector financing, such as the Kariba North Bank and Itezhi-Tezhi Power Station, have demonstrated the potential of private sector contribution for the development of the country’s infrastructure and the government is actively looking at potential PPPs to fund infrastructure projects.

Despite being landlocked, Zambia is strategically positioned in-between eight countries, many of them large consumer markets, and, subject to infrastructure improvements, could act as a trade and investment hub in the region.

Despite the banking sector in Zambia being quite competitive, access to finance for businesses remains limited: SMEs have difficulties in providing adequate collateral to obtain finance from banks and, even when collateral is provided, interest rates on loans remain high (the average lending rate for commercial banks was 16.4% in December 2013). Over the past years, non-bank lenders such as microfinance institutions and pension funds have multiplied, but their lending rates tend to be high. In the second half of 2013, the total cost of credit in the non-bank financial institutions sector was 24.7%. In January 2013, the Bank of Zambia implemented a cap on commercial lending rates of 18.3%, non-bank credit lenders at 30% and micro-lenders at 42%, but the effects of such caps on overall lending remain to be seen as they risk undermining the financing of riskier projects. As of December 2013, the agricultural sector was the one with the highest share of total loans (19.7%), followed by manufacturing at only 9.2%.

The Development Bank of Zambia (DBZ) has put in place a scheme to extend credit to local businesses, and the Citizens Economic Empowerment Commission (CEEC) has been lending at below-market rates for industrial projects aligned with the priorities identified by the government (such as value addition to traditional Zambian exports, investments in rural areas or job creation). FDI have also been fundamental in providing finance for the local industry.

Beyond creating avenues for businesses to obtain cheaper loans, Zambia also needs to increase the capacity of its businesses to come up with “bankable” business plans. Many of the

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193 Economist Intelligence Unit, 2014.
small companies in the country lack the capability to design and market interesting proposals that could win a loan.

Zambia has abundant supply of unskilled labour, and semi-skilled labour is in adequate supply. Although secondary school enrolment is below the average for Africa excluding North Africa, at 28% instead of 32%, the national literacy rate is fairly high at 81%. This is well above the 59% average for Africa excluding North Africa. Skilled labour, however, remains scarce. Enrolment in tertiary education was only 2.3% of total enrolment in 2000 (latest data available). In the opinion of the private sector, vocational training in the country is not aligned with the current needs of the industry. Insufficient budgets, inadequate learning resources, insufficient school infrastructure and outdated curriculum hinder the formation of Zambian students. Having recognised these issues, the Ministry of Education, Science, Vocational Training and Early Education (MESVTEE) is implementing a Revised New Zambia Curriculum, aimed at improving students’ performance and make them more competitive for the business sector. Additionally, a two-tiered education system will be implemented at the secondary school level, allowing students to choose between academic and vocational curriculum pathways. This policy is expected to increase the availability of graduates with the skills needed by the industry.

17% of Zambia’s working-age population is infected with HIV - compared with an average of 6% in Sub-Saharan Africa. As one in six workers is affected by AIDS, the disease significantly increases the cost of labour for businesses. A 2007 study found that typical mining and agricultural firms in Zambia spent US $9,000 on each employee lost to AIDS, via funeral, rehiring and retraining costs, which is a significant cost for the country. It is important for the country to continue its campaign of sensitisation on HIV/AIDS and to improve prevention.

Labour-management relations can be tense: Zambia has faced frequent protests in the mining industry, often directed against Chinese owners, who workers accuse of skirting safety and labour laws.

A poor business environment and corruption remain major obstacles to private sector development.

Zambia’s ranking for ease of doing business has slightly improved, from 90th in the World Bank Doing Business 2013 report to 83rd in 2014. The country has made it easier to open a business and obtain credit and has enacted policies to streamline resolving insolvency. However, Zambia remains far from the best performers for business environment on the continent, such as Rwanda (32nd in the world), South Africa (41st) and Botswana (56th).

The Zambia Private Sector Development Reform Programme (PSDRF), which has been under the Cabinet Office since early 2013 – it was previously under the Ministry of Commerce, Trade and Industry (MCTI) - has carried out several reforms that have improved the business environment in the country, such as streamlining and harmonising business regulation, reducing the cost of business licences and removing some superfluous documentation previously required for businesses.

Zambia has been encouraging foreign investment since the 1990s. The Zambia Development Agency (ZDA), intended to be a one-stop shop for foreign investors, was created in 2007 in an effort to consolidate a number of disparate investment promotion agencies. The ZDA processes all investments for which incentives are requested and is generally regarded to be fair and efficient, with most decisions completed within 30 days. However, businesses still

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197 Peter Sands, Business must take the lead on HIV/AIDS. Financial Times, 30 November 2007.
complain about excessive red tape and the many licenses required to start-up. Zambia is working on improving the business environment by further simplifying ZDA procedures, streamlining operations at other key government departments, and improving border control efficiency via the implementation of modern customs techniques.

Big investors which have the potential to bring a large number of jobs and value creation, have the possibility of negotiating directly with the government on incentives, through ad-hoc Investment Promotion and Protection Agreements (IPPs). Negotiated incentives may include larger tax breaks and duty-free imports against set targets such as local jobs created, new technology brought into Zambia, local content in products, etc.

Corruption remains a major problem for Zambia, with Transparency International giving the country a score of only 38 out of 100 in its 2013 Corruption Perceptions Index, ranking the country 83rd out of the 177 countries assessed. Widespread corruption has led to inefficiencies in government and to a business environment which is less conducive to investment, both of which have impeded economic development.

Local manufacturing struggles to increase value addition, to compete with imported goods and to partner with foreign investors. Government policies are trying to address these problems.

Zambia currently produces a lot of raw materials with little value addition, especially in agriculture and mining. ZDA is charged with helping the priority sectors selected in the National Development Strategy to increase value addition, grow and create jobs. For example, ZDA is helping farm blocks in finding investors to finance much needed equipment and other capital investments to increase their productivity. The government is also providing incentives for businesses to set up in rural areas or in industrial zones, but these are undermined by the gaps in infrastructure in such areas.

Zambian firms need to invest (and find finance to do so) in technological upgrading in order to increase their value addition and become more competitive. One good example is the soap production industry, which has seen a lot of technology investments in recent years and has improved its value addition. Other sectors, however, have not had the same luck: in the North-Western part of the country, large quantities of pineapples are going to waste as the local market cannot absorb them and some factories that used to produce canned pineapples for export have shut down because they could not keep up with foreign competition. Zambia has abundant valuable products, in particular in agriculture and mining, which could benefit from significant value addition locally. But in order to do so, the country needs to invest in adequate facilities and technology upgrades and in creating local value chains that can forge international competitive products.

The government has invested into a “Buy Zambia Campaign” and in raising awareness among local producers of the importance of investing in quality in order to be able to compete with imported products. High quality Zambian agricultural products, such as dairy and fruit, have recently been doing well on supermarket shelves vis-à-vis imported products, also thanks to improved packaging and quality certifications. Shoprite, a South African supermarket chain which operates in Zambia, for example, has struck deals with Zambian small-scale entrepreneurs to produce locally at certain standards.

199 Kingsley Ighobor, Africa’s economy set for dramatic changes, Interview with Mr. Carlos Lopes. Africa Renewal, August 2014.
Zambia currently does not have any local content requirements for foreign investors. However, the government is aiming to increase incentives for investors to source local products and inputs. ZDA is facilitating such linkages between foreign investors and local companies, by helping local SMEs achieve the quality standards required by foreign investors through training and by providing FDIs with information about local suppliers. Local producers are graded according to the quality they can provide, to help investors identify the providers they want, and ZDA also helps local companies to improve packaging and marketing of their products.

While mining is rather small as a percentage of GDP, making up only 7.1% of the real economy in 2012, it plays an outsized role in the economy. The mining sector led the current boom in FDI, which grew to approximately US $1.1 billion in 2012 from US $350 million in 2006. Such foreign investments have expanded beyond the mining sector into related and supportive fields, and have fostered a second boom in the construction sector. The extractive industry is the main exporter in the country and has potential for upstream value chain development. Competitiveness of downstream activities may be constrained given the distance from the main markets for copper products.\(^{200}\)

Output in the sector should continue to grow strongly over the next decade as new mines emerge, but over the longer term output will inevitably shrink as mines mature. Zambian policymakers need to pursue a programme of economic diversification in order to avoid the risk of the Zambian economy falling with copper output. Mining is not an ideal sector to foster diversification and movement up the value-added chain, at least compared with manufacturing, although opportunities exist to develop non-copper deposits.

Beyond developing sectors unrelated to mining, Zambia also needs to develop linkages between its mineral riches and other sectors of the economy. At present there is very little value addition being made to the country’s mineral exports. Hence significant investment opportunities in processing copper, iron ore and steel, cobalt and other minerals into intermediate and finished engineering products exist and are currently under-exploited. Engineering products have a ready local market from the mines (for the supply of mining equipment), construction companies, and other industries. The manufacture of engineering products includes metal items such as window frames, doors and roofing materials, nuts and bolts, as well as light engineering products such as cable carbon brushes, switch gears, pipes and rail sleepers. Furthermore, Zambia imports all major spare parts required for machinery and therefore investment opportunities also exist in the local manufacture of spare parts for various industrial machines. There is scope for investment in the manufacture of copper wire and other copper products, such as copper plate and tubing, and also for increased copper rod and cables manufacturing activities which are already being undertaken in the country (and account for a significant proportion of Zambia’s non-traditional exports). Government incentives support new businesses that process copper rather than exporting the raw copper.\(^{201}\)

### 8.5 Industrial policy

The main documents guiding Zambia’s industrial strategy are the Commerce, Trade and Industrial Policy, plus the Sixth National Development Plan (SNDP) 2011-15 and the Vision 2030, which guide the country’s industrial development. Zambia aims to become a “prosperous middle-income economy by 2030”\(^{202}\) through sustained economic growth and poverty

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\(^{200}\) African Economic Outlook 2014.

\(^{201}\) Zambia Development Agency, Zambia Manufacturing Sector Profile 2013.

reduction. Infrastructure investments are also at the centre of the country’s industrial policy. According to Zambia’s minister in charge of transportation, Yamfwa Mukanga, the government’s strategy also aims to increase Zambia’s trade with its neighbours, boost the country’s vibrant tourism sector and reduce the cost of doing business.\textsuperscript{203}

The Ministry of Commerce, Trade and Industry (MCTI) has identified six priority sectors to diversify the country’s manufacturing base: engineering products; gemstones; leather and leather products; processed foods; textiles and garments; and wood and wood products.

For each of these sectors, the government plans to develop a strategy and action plan. The only one developed so far has been for engineering products, which have a strategy plan to be completed over the next five years.\textsuperscript{204} Other priority sectors are expected to follow.

\section*{8.6 Issues with the implementation of the current industrial policy}

Recently, the government has tried to involve the private sector more in formulating the country’s industrial policy: for example, the Zambian Chamber of Commerce and Industry (ZACCI) was – although not fully - involved in the selection of the six priority sectors. However, still too often, government institutions in charge of industrial policy tend to bring the private sector on board at a late stage of the decision-making process, when policies are already shaped. In the future, MICT and other institutions working on industrial policy should aim to include the private sector in industrial decisions from the start, allowing Zambia’s firms to influence policy-making at the roots. Also, the government needs to clarify the landscape of incentives provided to businesses, since these have been changing rapidly over the past few years.

Zambia has several incentives to encourage foreign investment in the country, especially in targeted sectors. Income derived from farming is taxed at 15\%, compared with the normal corporate tax rate of 35\%, and a 100\% farm work allowance is permitted on expenditure used to improve farmland. A further 10\% capital expenditure allowance is granted for the purposes of growing qualifying crops. Equipment used exclusively for farming (or manufacturing and tourism) qualifies for 50\% depreciation allowances. There are also some incentives for mining and the export of non-traditional products.

The largest incentives – mostly in terms of exemption from custom duties - apply to businesses, which fall into one of five categories, aligned with the government’s objectives of economic diversification and value addition:

\begin{enumerate}
\item Net foreign exchange earning exporters of non-traditional products;
\item Firms that produce either products for agricultural use, or agricultural-related products (including commodities) for export;
\item Firms where tourism accounts for more than 25\% of annual earnings;
\item Import-substitution industries that use a significant proportion of local raw materials; and
\item Businesses located in rural areas.
\end{enumerate}

Private sector feedback on the current incentives framework is that these are well-meaning and well-designed but often difficult to access in practice. For example, in order to

\textsuperscript{203} Is Sata doing great things? The Economist, 12 May 2014.
obtain VAT refunds on exports, exporting firms need to provide importation documents from the countries they have exported to, a requirement which proves difficult in practice, in particular when dealing with countries with inefficient institutions such as the DRC.\footnote{In-country interviews, June 2014.} Also, obtaining quality certificates from the Zambian Bureau of Standards can be complex for businesses.

Under the ZDA Act, larger investors benefit from larger incentives. For example, those investing more than US$ 10 million are entitled to private negotiations with the government for incentives additional to those granted through the ZDA Act. Also, investors above US$ 500,000 who set up in the Multi Facility Economic Zones are entitled to additional incentives. These schemes have the potential to attract large foreign investors but are likely to be of limited use to local enterprises, which tend to be small in size and can only access the general ZDA incentives (or less significant extras for those companies that qualify as SMEs)\footnote{Zambia Development Agency.}. Plus, currently local suppliers struggle to create links with foreign investors and are therefore unlikely to be able to reap benefits from their presence. Industrial policy needs to rebalance incentives targeting the local private sector, in particular SMEs, and increase opportunities for them to link with foreign investors.

### 8.7 Lessons from Zambia

Zambia is putting in place some helpful policies for the diversification of the country’s economy, but will need to continue and increment efforts to reduce dependency from mining revenues, develop a strong and export-led local industry, increase job opportunities and income equality. In order to create a productive business environment, policy-makers need to focus on reducing corruption and to involve the private sector in all aspects of industrial policy-making. Also, the public institutions in charge of industrial policy should continuously monitor efforts and implementation of policies, as well as their effectiveness, against established goals, and increase public sector accountability and transparency.

The country has made substantial achievements in investment policy, by harmonising regulations and establishing industrial parks with privileged business infrastructure. However, access to affordable and efficient infrastructure (such as water, electricity, fuel and land) remains a problem for businesses, as well as access to finance. Efforts to tackle these issues would go a long way in promoting the country’s private sector development. The incentive structure embedded in the current industrial policy seems to privilege large foreign investors over local SMEs: Zambia needs to re-focus incentives and support on the needs of its local firms. The government should help local firms develop their export potential and tap into global value chains: a good point where to start would be for local firms to develop better linkages with foreign investors operating in the country, both in the mining and in other sectors.

Mineral-richness does not need to be seen as a curse for the country’s diversification: mineral revenues can be used to support the growth of non-traditional sectors through backward linkages – local production of inputs for the commodity sector- forward linkages – developing manufacture capability to add value to commodities in the country - and horizontal linkages – developing sectors based on competitive advantages, resources and techniques similar to the ones used in the resource-sector.\footnote{UNIDO, 2011. Commodities for industrial development: making linkages work. Geneva: UNIDO.}

Recent reforms in the education sector will help tackle the lack of skills lamented by businesses looking for talent in the country. However, in order for these reforms to be effective,
the private sector needs to be involved in designing relevant curricula and the quality of teaching needs to be high.
9. **Conclusions and policy recommendations**

Industrial policy is back in the political discourse on development and this is good news for African countries. African economies need industrial policy because it is necessary to induce the structural transformation which is the key to sustained economic growth. The fact that the current discussion is about which are the best industrial policies to be implemented rather than if Governments should intervene, is already by itself a leap in the right direction.

A number of important issues have been analysed in this review. The starting point has been a careful description of the current status of industrialization in the continent. The analysis across the continent has shown the numerous weaknesses of a small manufacturing base and an increasing role of primary production export. The current economic structure of African countries is, among other elements, the result of the lack of appropriate industrial policies or erroneous policies implemented so far.

The case studies on Gabon, Morocco, Rwanda, Senegal, Swaziland and Zambia show that firms operating in the private sector suffer from similar constraints: scarce access to finance, poor business environment, difficulties in recruiting talent and finding the skills needed, extensive corruption, poor linkages with foreign investors or with fast-growing sectors such as mining in resource-rich countries, difficulties in securing adequate locations, unreliable infrastructure and expensive inputs. These factors severely undermine African companies’ competitiveness.

To tackle the above challenges, governments are employing a vast range of policies, from sectoral through education to trade policies. Moreover, new instruments are increasingly being employed to foster industrialization. Some of the good practices reviewed are harmless and could be widely applied in other African countries as well. To name some of them: creating free economic zones with easy access to infrastructure; providing incentives to local firms to upgrade along different value chains; creating an efficient dialogue and agreements between decision makers and private sector representatives; taking full advantage of existing and new regional free trade agreements; providing training programs targeting technical and managerial skills that are most in need.

However, there is no one-size-fits-all industrial strategy or policy for African countries. To tackle the current industrial challenges in Africa, there is a need to identify the best industrial policy mix for each African country. Trade, education, innovation, sectoral and competition policies should be used in different combination depending on the characteristics of the specific country. In this way, the peculiarity of each country can be taken into consideration and each industrial policy can be clearly targeted.

Industrial policies have, in several cases, focused on attracting foreign investors without at the same time developing a strategy to link foreign investors with local SMEs. In some cases, such as that of Swaziland and Zambia, industrial incentives appear too skewed in favour of foreign investors, which benefit from attractive tax breaks and subsidized locations, while support for local SMEs is scarce. African policymakers need to put in place mechanisms to ensure that SMEs derive the maximum benefits from the presence and activity of foreign investors in their countries. Foreign investors can benefit SMEs through technology and knowledge transfers; by offering them the opportunity to win supplier contracts; by linking them up with regional and global value chains; and by providing much needed finance for investments. Morocco has already introduced an industrial compensation in its procurement system to create such linkages.

But these benefits are unlikely to flow solely out of foreign investors’ goodwill; governments need to implement a conducive strategy in this regard. Policy options to facilitate
such benefits include clever requirements for local content in foreign investors’ activities; the provision of information to foreign investors about available suppliers in the countries and to local SMEs about opportunities to work with foreign investors; the offering of training to SMEs to step up their production capabilities and quality in order to match the requirements of foreign investors; and programmes, such as credit-guarantee schemes, that facilitate access to credit for SMEs and give them the opportunity to invest in technological upgrading.

Many SMEs struggle to recruit employees with the skills they need locally. Policies that improve the quality and affordability of local education, that favour vocational training opportunities and skills enhancements through foreign investors operating in the country and that align the education and training curricula with the needs of the private sector can go a long way in boosting Africa’s pool of local talent.

Infrastructure gaps such as expensive electricity, water and telecommunications and scarce or poor quality transport links, significantly increase operating costs for firms in Africa. Investments in those areas have the potential to improve the competitiveness of local businesses by allowing them to cut their costs and override disadvantages such as landlockedness. Zambia, for example, is a landlocked country, but ideally positioned in-between eight countries: investments in transport infrastructure could help it position itself as a trade and investment hub in the region. Countries struggling with infrastructure constraints could consider creating pockets of efficiency by supporting strategic local industrial sectors or clusters with ad-hoc policies, infrastructure and incentives. Pockets of efficiency are likely to foster growth in other sectors through positive spillovers and the creation of backward and forward linkages.

Access to finance for SMEs can be improved through schemes such as government credit-guarantees or specific institutions lending to SMEs. It is important, however, to improve the capacity of the demand side at the same time: SMEs need to be able to draw convincing business plans and to produce bankable projects in order for credit-guarantee schemes to be effective. Building their capacity in this regard is critical for presenting bankable projects.

In some resource-rich countries, such as Zambia, industrial incentives have focused on supporting the mining community, without linking it up with businesses in other areas. African governments endowed with abundant natural resources need to invest in economic diversification: resources are bound by exhaustion; excessive dependency on few commodities exposes economies to price fluctuations; and the resource sector is not labour-intensive enough to satisfy Africa’s increasing demand for quality jobs. At the same time the rents from commodities can be invested in development-enhancing projects such as improvements in infrastructure or education. Industrial policies in commodity-rich countries need to include strategies to connect the prospering mining sector with businesses in other sectors, through backward and forward linkages.

In some countries, such as Zambia and Swaziland, policy-makers do not involve the private sector in industrial policy decision, or bring them on board too late in the process. This results in industrial policies that are not reflective of the needs of the private sector. In Rwanda and Morocco, strong coordination in policymaking between government and private firms have brought about effective strategies and improved trust between the public and private sectors in the country. For the public and private sector to enhance their collaboration in designing industrial policies, the accountability and skills of public officials need to be improved, through adequate incentives (career path or bonuses for example), ad-hoc training and the diffusion of a shared culture of responsibility and high performance in public service. As highlighted by the Economic Report on Africa 2014, industrial policies in many African countries suffer from under-capacity and lack of financing in the government agency in charge of implementation.
In some instances, for example as highlighted by the private sector in Zambia, incentives that are well-designed are difficult for the private sector to access because of burdensome regulatory requirement or poor information: government agencies designing industrial incentives need to make sure that they can be easily adopted by the firms they are targeting.

Industrial policies need to revolve around a clearly-articulated vision but, at the same time; they have to contain practical and detailed recommendations, a clear timeline for action and a division of responsibilities among the public and private sector. Industrial policies need to include clear monitoring and evaluation mechanisms to monitor progresses and adjust policies as needed.

The issue of infrastructure is critical for industrial revolution to take place on the continent. The role of governments and international organizations is fundamental in that they can catalyze public-private partnerships for clean energy projects that create jobs and growth. Following the example of developed countries but also China and Brazil, African countries should design stimulus packages and public investments in infrastructures. In terms of the optimal industrial policy mix, the Green Growth paradigm indicates that another variable to consider in choosing the best country strategy for industrialization would be its environmental impact. This obviously does not mean to abandon the industrialization goal. It would instead mean to design and adopt stimulus packages to favor greener jobs and industries.
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