

**RESEARCH PAPERS**

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**INDUSTRIALISATION AND INDUSTRIAL POLICY IN  
AFRICA: IS IT A POLICY PRIORITY?**

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## ACRONYMS

AEC	African Economic Community
AGOA	African Growth and Opportunities Act
APCF	African Productive Capacity Facility
APCI	African Productive Capacity Initiative
AU	African Union
BDC	Botswana Development Corporation Ltd
CAMI	Conference of African Ministers of Industry
CAMU	Central African Monetary Union
CEMAC	Economic and Monetary Community of Central Africa
CET	Common External Tariff
CFC	Common Fund for Commodities
COMESA	Common Market for Eastern and Southern Africa
DTI	Department of Trade and Industry
EAC	East African Community
EBA	Everything But Arms initiative
ECOWAS	Economic Community of West African States
EGM	Expert Group Meeting
EOI	Export-Oriented Industrialisation
EPA	Economic Partnership Agreement
EPZ	Export Processing Zone
EPZA	Export Processing Zones Authority
EU	European Union
FAP	Financial Assistance Policy
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
FTZ	Free-trade zone
GDP	Gross domestic product
GPRS	Growth and Poverty Reduction Strategy
ICT	Information and communications technology
IDC	Industrial Development Corporation of South Africa Ltd
IDDA	Industrial Development Decade for Africa
IDP	Industrial Development Policy
IDRC	International Development Research Centre
IFI	International Financial Institution
IMF	International Monetary Fund
ISI	Import Substitution Industrialisation
ISO	International Organization for Standardization
IPAP	Industrial Policy Action Plan
ITC	International Trade Centre
MDG	Millennium Development Goal
MFA	Multi-Fibre Arrangement
MFI	Multilateral Financial Institutions
MFN	Most favoured nation
MIGA	Multilateral Investment Guarantee Agency
MTCS	Medium Term Competitive Strategy
MUB	Manufacturing Under Bond
MVA	Manufacturing Value Added
NEPAD	New Partnership for Africa's Development
NIPF	National Industrial Policy Framework
PRSP	Poverty Reduction Strategy Paper

R&D	Research and development
REC	Regional Economic Community
RIPCO	Rural Industries Promotion Company
SACU	Southern Africa Customs Union
SADC	Southern African Development Community
SAP	Structural Adjustment Programme
SSA	Sub-Saharan Africa
SMEs	Small and Medium-sized Enterprises
TNC	Transnational corporation
UNCTAD	United Nations Conference on Trade and Development
UNDESA	United Nations Department of Economic and Social Affairs
UNECA	United Nations Economic Commission for Africa
UNIDO	United Nations Industrial Development Organisation
US	United States of America
VAT	Value added tax
WAEMU	West African Economic and Monetary Union
WTO	World Trade Organisation

## I. INTRODUCTION

The importance of industrialisation as an engine of economic growth and development cannot be overstated. Industrial production creates job opportunities at higher skill levels, facilitates denser links across the services and agricultural sectors, between rural and urban economies and between consumer, intermediate and capital goods industries.<sup>1</sup> Prices of manufactured exports are less volatile and less susceptible to long-term deterioration than those of primary goods, making it particularly strategic in highly commodity-dependent developing countries. In addition, industrialisation is a critical tool in poverty eradication, employment generation, and regional development policies.<sup>2</sup> Finally, it can spur technological advancement and innovation as well as productivity gain and is hence able to play the development role more suitably than the agricultural sector (Table 1).

**Table 1: Industrial sector vs. Primary sector activities**

<b>Characteristics of the Agricultural Sector</b>	<b>Characteristics of the Industrial Sector</b>
Diminishing returns	Increasing returns
Commodity competition	Dynamic imperfect competition
Extreme price fluctuations	Stable prices
Generally unskilled labour	Generally semi-skilled or skilled labour
Irreversible wages	Reversible and more stable wages
Innovation leads to lower prices	Innovation leads to higher revenues
Creation of a feudal class structure	Creation of a middle class

Source: E. Reinert, 2007

Cognisant of the critical role that manufacturing plays in economic development, virtually all of today's industrialised nations actively supported and protected their industries through specific policies and institutions (Chang, 2002 and Chang, 2005). In Africa, however, notwithstanding decades of development assistance, preferential trade arrangements and experiments with diverse trade and industrial policies, the developmental contribution of the industrial sector is well below its potential (Lall and Wangwe, 1998). Presently, the continent is the least industrialised region of the world, while the share of sub-Saharan Africa (SSA) in global manufacturing value added actually declined in most sectors between 1990 and 2000. While other regions have increased their share of non-oil exports over the last two decades, almost two-thirds of Africa's merchandise exports are still accounted for by agricultural, fuel and mining products.

Following independence, most African governments gravitated towards a state-led and elite-managed development strategy. Industrialisation was seen as a central part of the development agenda, which was expected to facilitate the transformation of economic structure to modern industrial economies. These objectives constituted the backbone of the import substitution industrialisation (ISI) model that most African countries adopted in the 1960s and 1970s.

Under ISI policies, governments endeavoured to mobilise investment for domestic industries to achieve the "big push" thought necessary for self-sustaining economic growth. In some countries, the policy had a socialist leaning<sup>3</sup> and contained a high percentage of state-owned enterprises and a

<sup>1</sup> Wade, R. (2003), 'Creating capitalisms', New introduction to *Governing the market*, Princeton: Princeton University Press, p. xlviii, cited in UNCTAD (2005), p.55.

<sup>2</sup> UNDP (2005).

<sup>3</sup> For example, Ghana, Mali, Congo, Tanzania, Zambia, Benin and Ethiopia (after 1974).

professed commitment to labour rather than capital. In other countries it had a stronger capitalist inclination, where the state partnered with labour and capital (both domestic and foreign) in the pursuit of capital formulation and industrialisation. In addition, a number of measures were instituted to nurture infant industries. These included: over-valued exchange rates that kept imported capital goods and intermediate inputs relatively cheap; subsidised interest rates to spur domestic investments; import duties, drawbacks and rebates; licensing arrangements; the provision of direct loans and equity capital; and quotas allowing access to foreign exchange for imported inputs and remittances at subsidised official rates.

Nonetheless, the capacity created did not always correspond to local demand and supply conditions and much of it could consequently not be sustained, and towards the end of the 1970s there were indications that the high expectations from ISI would not be realised. Although there were variations across countries, the annual growth rate of manufacturing value added fell to 2 per cent in most sub-Saharan countries in the first half of the 1970s and was negative in the second half.<sup>4</sup>

Since the early 1980s, the Structural Adjustment Programmes (SAP), launched by the International Monetary Fund (IMF) and the World Bank, influenced the design of industrial policies in response to these failures. National policies were primarily designed to restore equilibrium, especially in the balance of payments and the fiscal and monetary elements. Trade liberalisation was intended to provide corrective signals and incentives to the manufacturing and other sectors, increase the level of competition and technical efficiency, and stimulate factor productivity. Specific recommendations under the SAPs included: eliminating subsidies and controls (on imports, wages and prices), devaluing local currencies, letting market forces determine prices (including those of commodity exports), liberalisation of internal and external trade, tight monetary and fiscal policies (credit squeezes, budget cuts and public sector reforms).

However, the growth of manufacturing value added during the adjustment period was again disappointing. Many countries in SSA suffered de-industrialisation, with particularly adverse results in existing industries such as textiles, leather and leather products.

Currently, the idea of national industrial policies has made its way back to many African capitals, with new industrial policies in many countries over recent years. This is an indication that, after swinging between two extreme positions (i.e. the import substitution and structural adjustment policy prescriptions), governments are reflecting about the policy mixes that best suit their current needs. Some of these policies combine both active industrial instruments (e.g. selective tariff protection) and broader macro-economic measures (e.g. improvement of basic infrastructure, promotion of the private sector).

However, the context for the formulation of industrial policies has changed. First, the global economy and global industrial production patterns have evolved, and policies therefore need rethinking with a solid anchorage in national circumstances (Rodrik 2004, ul Haque, 2007). Second, industrialisation competes with several other public policy priorities and national development needs. Third, the use of certain typical instruments of industrial policy has been forbidden or regulated by international trade agreements (e.g. export subsidies and local content requirements under the World Trade Organisation [WTO]'s agreements). Last but not least, commonly used measures, such as selective tariff protection, are under increasing pressure as a result of both the WTO Doha Round and the conclusion of Free Trade Agreements (FTAs).

Particularly in the context of tariff reduction discussions in FTA and WTO negotiations, it is common to argue that industrial policies have become obsolete. Developing country delegations taking part in the WTO negotiations for Non-Agricultural Market Access (NAMA) have commonly heard from developed country partners that tariffs are no longer useful policy instruments and can or should be eliminated. Similarly, African, Caribbean and Pacific (ACP) trade negotiators face pressure

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<sup>4</sup> UNIDO, 1983.



from the European Commission to eliminate export taxes and discriminatory government procurement practices in the context of the Economic Partnership Agreements (EPAs). Often, developed country negotiators argue that even if potentially useful, these policy measures are not being utilised anyway and can hence be eliminated at no cost.

Given the importance of industrialisation and the pressure weighing on industrial policies, it is thus useful to survey the extent to which industrialisation is a policy priority and is being pursued. Is industrialisation a high policy priority for African governments? The renewal of interest seems to indicate that many African countries are pragmatically pursuing industrial aspirations despite the controversy about the usefulness of industrial policies. However, even when it is a stated priority, does industrial promotion actually translate into specific policy tools? What instruments do African governments associate with industrial promotion? What are the present thematic and sectoral focuses of African industrial policies?

This study endeavours to answer these questions, focusing on eight African countries: Botswana, Cameroon, Ghana, Kenya, Mauritius, Rwanda, South Africa and Uganda (Chapter 3). The study also reviews the most recent regional and continent-wide plans of action for the industrialisation of Africa (Chapter 2), in order to assess the mutual supportiveness of regional and national policies. It concludes with an analysis of the commonalities and main differences among the national policies reviewed (Chapter 4).

## **II. INDUSTRIAL DEVELOPMENT INITIATIVES AT CONTINENTAL LEVEL**

Industrialisation figures among the highest policy priorities at the continental level, at least if one judges by the number of calls for industrial action plans at the continental and sub-regional levels. As a matter of fact, starting in the period after independence and until today, a large number of initiatives and calls for action have been made to spur industrialisation in the continent. The most important of such initiatives are reviewed in this chapter.

### **II.1 Conference of African Ministers of Industry**

First and most prominently, the Conference of African Ministers of Industry (CAMI), inaugurated in 1971 under the auspices of the United Nations Industrial Development Organisation (UNIDO), created a high-level forum to debate industrial development issues as they affect Africa. The Conference is organised at regular intervals of two years and brings together high-level actors with an interest in the industrialisation of the continent (e.g. experts, governments, UN agencies and donors). According to a decision taken at the 2001 Conference, industrialisation should focus on two aspects rather than attempting to solve too many problems at the same time:

1. the improvement of industrial performance at the sub-regional level and the diversification of productive capacities using Africa's own natural resource endowments as a basis for industrial transformation and upgrading; and,
2. the expansion of integration efforts, taking advantage of existing support measures to access regional and global markets.

The 18<sup>th</sup> CAMI was held in October 2008 under the heading "Towards the accelerated industrial development for Africa - the need for local value addition and transformation of raw materials".<sup>5</sup>

Through its various sessions, the Conference has acted as a central platform for policy debate regarding industrialisation in Africa. Recommendations are often issued at the end of each Conference and several plans of action or initiatives have been adopted. Several of these initiatives are described below.

### **II.2 Lagos Plan of Action, IDDA I and II**

The Lagos Plan of Action constituted a milestone proposal for the development of Africa for the period 1980-2000. The Final Act of Lagos, adopted in 1980, generated a feeling of optimism and expectation that the Continent would be transformed during the last two decades of the century through the individual and collective efforts of countries. The underlying spirit of the Lagos Plan of Action was the vision of African self-reliance and self-sustainment, while committing the member states to the concept of regional and sub-regional co-operation.

From the optimism generated by the Lagos Plan of Action, the idea emerged of a decade specifically devoted to economic development through industrialisation. Proposals for an Industrial Development Decade for Africa (IDDA) were adopted at the Sixth CAMI, held at Addis Ababa, Ethiopia in November 1981. Under the IDDA, industrialisation was a means of attaining self-reliance and self-sustainment, as foreseen in the Lagos Plan of Action. However, before the decade was

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<sup>5</sup> Conference Website: [www.info.gov.za/events/2008/cami.htm](http://www.info.gov.za/events/2008/cami.htm).

completed, it became clear that the economic and industrial performance of the continent was extremely disappointing. GDP per capita decreased and many African countries actually experienced de-industrialisation during the 1980s.

Drawing on the lessons of an independent evaluation, the report of which was adopted at the Eighth CAMI, the Second Industrial Development Decade for Africa was adopted in 1989 for the 1993-2002 period. The basic goals of the Second IDDA were very close to those of the first IDDA. The vision remained to end the over dependency of African countries on the industrialised world, to promote internal engines of growth, to build on Africa's wealth and natural resources and to progressively achieve self-reliance and self-sustainment.

The second initiative strove to increase local ownership since its objectives had to be translated into national and sub-regional programmes using the services of local experts. Building up from the nationally felt problems should ensure a sense of pragmatism and greater commitment to the initiative. At the regional level, industrialisation was expected to contribute to the widening of sub-regional markets, to the establishment of production links between countries and to the creation of a common market and later of an African Economic Community (AEC).

Another difference between the first and second IDDA initiatives was that the latter was influenced by the SAPs which were being implemented throughout the continent. The second IDDA reflected an attitudinal shift towards industrialisation and focused more explicitly on optimising linkages between industry and agriculture, improving public enterprise performance, and strengthening the African entrepreneurship base. There was, moreover, a clear trend towards liberalising the economies and reducing direct investments of the public sector in production.

The operational focus of IDDA was on:

1. The rehabilitation of existing industries and the improvement of performance of public sector enterprises (mostly through either creating performance benchmarks for public enterprises or through privatisation programmes);
2. The expansion of the industrial base towards new sectors (metallurgy, engineering and allied metalworking, chemicals, food processing,<sup>6</sup> forest-based industries,<sup>7</sup> leather products, textiles and construction materials).

Notwithstanding the reforms of the second IDDA, and despite isolated successes, the initiative was deemed disappointing by most African countries. The initiative was hampered by an absence of mechanisms for its implementation, coordination and monitoring. It was drafted more as a wish list than as a concrete action-plan. For instance, despite the well recognised importance of external finance to implement the plan, no operational strategy was adopted for raising necessary funds (UNIDO 1997).

### **II.3 Other Initiatives**

Paradoxically, another element which hindered the effectiveness of the second IDDA was that a variety of parallel calls for action were adopted, competing for policy and financial attention.

First, the Abuja Treaty for African Integration (1991) assigned top priority to the development of regional production structures, with appropriate supportive infrastructure, and the coordination and harmonization of economic and social policies within and between the sub-regional communities. The

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<sup>6</sup> E.g. edible oil mills; fruit and meat preservation; fish processing; milk, sugar, coffee and salt production.

<sup>7</sup> E.g. manufacture of doors and windows; pulp and paper; plywood, flush doors, multi-ply panels; and fibreboard.

Treaty also established a Committee on Industry, Science and Technology, Energy, Natural Resources and Environment under the AEC. The Treaty aimed to harmonise African national industrial policies, modernise priority sectors, establish joint industrial development projects at regional level and create African multinational enterprises in priority industrial sub-sectors.

Second, other initiatives such as the Cairo Agenda for renewing the impetus of Africa's economic and social development (June 1995) also contained a call to increase the production, competitiveness, and diversification of the domestic private sector, especially in the agro-industrial, mining and manufacturing sub-sectors, with potential for exports and employment.

Third, the System-wide Plan of Action for African Economic Recovery and Development aimed to provide a dynamic and flexible framework for concerted and coordinated action by the United Nations system to assist Africa in achieving sustained and sustainable growth. The plan made diversification of African economies a key priority issue for all UN agencies implementing projects in the continent

More significantly, there was also the launch of the Alliance for Africa's Industrialisation (1996). The Alliance sought to provide a framework under which African countries could formulate competitive national industrial strategies based on private sector-led development, focusing on comparative advantage, and then see these translated into concrete, practical action programmes.

#### **II.4 NEPAD and the APCI**

In 2001, the New Partnership for Africa's Development (NEPAD) constituted a milestone effort in the establishment of an overall common vision and strategy for the attainment of Africa's sustainable development. While the Partnership places more explicit priority on enhancing agricultural production and overall infrastructure, it also encompasses specific manufacturing objectives. It indeed aims at "promoting diversification of production and exports, particularly with respect to agro-industries, manufacturing, mining, mineral beneficiation and tourism". In this sense, the Partnership is aligned to the historic approach to manufacturing in the continent. However, it confirms a greater sectoral emphasis and incorporates a stronger focus on the development of national standards and the harmonisation of technical regulatory frameworks.

In furthering NEPAD's objectives, the African Productive Capacity Initiative (APCI) was adopted by the African Union and NEPAD in 2004 to be the overarching framework for sustainable industrial development in Africa. The APCI was an outcome of various CAMI sub-regional conferences held across the continent in 2002-03 bringing together both state and non-state actors.

The initiatives of CAMI, NEPAD and the Millennium Development Goals (MDGs) were intertwined in the Initiative, which sought to modify the continent's approach to industrial development by emphasising productive capacity as opposed to merely focusing on trade. It also strove to address some of the negative elements that contributed to the failure or poor performance of previous industrialisation efforts. While reaffirming that neither development nor trade are sustainable in the absence of a manufacturing base, it contained several conceptual and operational innovations or improvements, particularly:

- A more explicit focus on national and regional comparative advantages;
- A bottom-up approach to mobilise the active participation of the private sector in industrial development, with a view to promoting *business-driven decision making*. This expands the scope for improved private-public sector dialogue, by making the private sector responsible for the achievement of goals identified based on demands. The approach thus takes into account the needs of entrepreneurs throughout the value chain,

encouraging the acknowledgement of the contributions of both small and large enterprises in the performance of the sector;

- A call for a gradual transfer of leadership in the African productive sector from states to private stakeholders;
- Through its focus on productive capacity, the initiative marked a shift away from the macro-economic perspective on industrial issues towards a more hands-on sectoral approach. Interventions were based on the identification and promotion of selected value chains;
- It innovated with a call to mainstream and generalise strong public-private sector partnerships at all levels (national, regional and continental) and sought to involve all stakeholders from planning to implementation; and,
- Last but not least, it contained a financing window, the African Productive Capacity Facility (APCF) and a Trust Fund to finance projects identified under the Initiative.

### **Box 1: Priority sectors and clusters in NEPAD/APCI**

#### Priority sectors

- (i) food processing;
- (ii) textiles and garments;
- (iii) leather and leather products;
- (iv) mineral and metal products (processing of);
- (v) wood and wood products;
- (vi) automobile equipment and assembly;
- (vii) pharmaceuticals; and
- (viii) building materials.

#### Cross-cutting issues

- (i) harmonisation of industrial strategies and policies (including statistical data);
- (ii) improving quality infrastructure, investment promotion and supply chains (trade capacity building);
- (iii) promoting energy supplies and efficiency, especially in rural areas;
- (iv) developing information and communication technologies as a mean to reduce transaction costs;
- (v) focusing on technology diffusion, clean production and productivity;
- (vi) promoting a conducive regulatory and business environment; and,
- (vii) upgrading skills through learning and innovation processes.

The sectoral approach was particularly important as, due to the wide and conflicting range of needs facing most African economies, there is a marked need for strict strategic prioritisation. For this reason, and because African countries tend to export (and be highly dependent on) primary agricultural commodities, improving industrial performance has to be based on increasing the level of local value-added through processing a proportion of these commodities at home. This approach is based on the fact that trade in agricultural commodities is increasingly constrained by barriers that hinge upon industrial capability and capacity. The sectoral approach adopted is meant to: facilitate a review of all aspects within and around a specified value-chain; encourage a focus on competitive strengths; foster efficiency; encourage collective approaches (e.g. regional and local clustering, economic integration); and generate new strategic alliances.

In preparing the report on APCI, specific sectors were identified for each of the five African sub-regions and several cross-cutting issues were also highlighted.

Currently, the APCI is under implementation at the sub-regional and continental levels. For instance, the Southern Africa Development Community (SADC) has identified projects in the region and corresponding funding needs. Funders include governments of SADC member states, the private sector, the SADC Development Fund, members of the African Diaspora and the donor community. However, funds for the APCF have been difficult to mobilise.

## **II.5 Plan of Action for Accelerated Industrial Development**

From 31 January to 2 February 2008, African heads of state met in an African Union (AU) Summit devoted to the issue of industrial development in Africa. The dedication of an entire meeting of heads of state to industrialisation attests to the political visibility that the problem has in Africa. During the Summit, a "Plan of Action for the Accelerated Industrial Development of Africa" was adopted. The Plan was completed by a Strategy for Implementation, adopted during the 18th CAMI (October 2008). The consensus which has emerged through successive Conferences is that the priorities to unleash the potential of African industrialisation are:

- value addition and processing of Africa's agricultural and mineral resources is the quickest industrialisation path;
- the development of infrastructure to sustain and promote industrialisation, such as energy, communications, transport and water;
- improving human capital through health, education and training policies;
- increase competitiveness and productivity through the adaptation of technologies and increased research and development (R&D);
- private sector development and the promotion of SMEs;

While identifying overall priorities, the 18<sup>th</sup> CAMI also reaffirmed the need to adapt industrial policies and incentives to national conditions. Specific policy measures are therefore to be identified and implemented by individual governments. Finally, the Conference also confirmed the need for participatory approaches to industrial policy making, particularly through a more institutionalised participation of the private sector.

### III. INDIVIDUAL COUNTRY STRATEGIES

National governments play a central role in industrialisation efforts. The structural changes that industrialisation necessitates must be triggered by high-level leadership and must mobilise stakeholders at the most local level, such as investors, entrepreneurs, workers, and national research and education institutes. In this sense, national industrial policies are not the translation of a broader continental vision, but rather the drivers and channel of transformation. National policies must both inform (bottom-up) and reinforce (top-down) continental efforts.

Bearing in mind the importance of national industrial policies, this section describes the industrial policies and relevant policy measures in a sample of African countries: Botswana, Cameroon, Ghana, Kenya, Mauritius, Rwanda, South Africa, and Uganda. For the purposes of this review, public policy was understood largely as a broad government statement which outlines how a government intends to achieve a specific social, political and economic objective. The main purpose of industrial policy was understood to be to speed up the process of structural change towards higher productivity and greater value added activities. Industrial policy could refer to specific statements, guidelines and regulations on trade and industrial development. Economic diversification was also included as a policy objective to the extent that manufacturing was contemplated as an area for diversification. The process by which such government statements are arrived at is broadly referred to as policy making.

Policies and instruments reviewed were categorised in three major clusters for purposes of the description:

- National industrial framework policies: The presence of a comprehensive regulatory, legislative or policy framework for industrial development is the most obvious indication of a government's intention to promote a transformation of the productive base through industrial development. Some of these policies might have been translated from regional or continental objectives or maybe the result of national multi-stakeholder consultations and validation processes. They can be more or less specific and enumerate or not the actual instruments (e.g. trade, investment and fiscal measures) that will be used to achieve the policy's objectives.
- Specific measures, instruments and institutions: The presence of specific policy measures or institutions with the purpose of fostering economic diversification and particularly industrialisation indicate a government's intention to promote manufacturing, even where a framework industrial policy does not exist. Specific measures can encompass active industrial promotion initiatives such as sectoral policies (e.g. national policy for the promotion of the leather industry) or trade measures (e.g. selective border protection for infant industries). It can also include indirect instruments (e.g. fiscal incentives to attract foreign investment in selected industries).
- Other measures to promote industrial development: The extent to which wider policies have a direct industrial promotion component is more difficult to assess. Certainly, for instance, education systems have a direct impact on economic diversification and industrialisation (e.g. availability of qualified labour, and entrepreneurial spirit). However, there might be no explicit link between education and industrial policies. Broader policies include diffusion of R&D and industrial technologies, human capital development, infrastructure development and industrial credit services.

The results of the survey are organised within the following sections for the countries reviewed:

1. National industrial policy;
2. Specific measures, instruments and institutions;
3. Trade and tariff policy;
4. Sectoral policies; and
5. Other measures to promote industrial development.

Finally, it should be noted that this study does not purport to be exhaustive. Too large a volume of legislation and declarations would need to be reviewed and described. Hence, only the most explicit or significant public efforts to promote manufacturing activities or industrialisation are therefore reported in this study.

### III.1 Botswana

Despite its limited current size (5 per cent of gross domestic product (GDP)), manufacturing is seen as having great potential and the Government's objective is to diversify away from mining and cattle ranching towards the processing of local raw materials (e.g. leather building on the meat industry). The economy is heavily dependent on mining (about 50 per cent of public revenues) and specifically the diamond industry (73 per cent of merchandise exports). Average growth in manufacturing during the 1990s was 3.8 per cent, but its importance has been rising as the country experienced some noticeable diversification. At independence in 1966, Botswana's manufacturing output was almost wholly (95 per cent) meat and meat products. By the late 1990s, their share had fallen to 15 per cent as the shares of beverages, textiles, agro products, metal and metal products rose. New manufacturing projects, such as those for confectionery and electrical equipment, also contributed to the expansion of output in the sector.

**Table 2: Botswana, main exports**

Description	Share of exports (%)			
	1996	1998	2000	2002
Diamonds	71	70	83	85
Vehicles, accessories and parts	14	11	2	3
Copper and nickel	5	5	6	3
Textiles	2	3	2	1
Soda ash	1	1	2	2
Live animals and meat	3	4	2	2
Other products	4	6	5	4

Source: Botswana's Central Statistics Office



### **III.1.1 National Industrial Policy**

Guiding the Government's present approach to industrial development are the principles outlined in the Industrial Development Policy (IDP), validated and adopted in 1998. In recognition of increasing competitive pressures in globalised markets, the policy was oriented towards encouraging higher productivity through the employment of highly skilled workers and modern technology. The policy marked a shift away from import substitution, which had featured previously, towards more liberal policies designed to encourage the establishment of a core of high-productivity, highly competitive export industries. The policy is largely export-oriented and focuses on the attraction of Foreign Direct Investment (FDI) for export activities.

The *Financial Assistance Policy (FAP)*, which constituted the centrepiece of Botswana's industrial development incentives for two decades, illustrates the government's attitudinal change. The FAP offered financial grants to encourage investment and employment in non-traditional sectors. Initially the scheme focused on manufacturing and non-traditional agriculture, but it expanded over the years to include tourism, small-scale mining and related service businesses. Grants were linked to the employment of skilled and unskilled labour. For medium- and large-scale projects, the grants were available to both foreign and national investors but they were higher for national investors.

However, the FAP was abolished in 2000 after a critical evaluation of its rationale, effectiveness and administration (Botswana Institute for Policy Analysis, 2000). Assistance with the establishment of manufacturing and industrial enterprises is now provided by two major government organizations: the Botswana Development Corporation Ltd (BDC) and Botswana Export Development and Investment Authority (BEDIA), described below.<sup>8</sup> These organisations invest in selected industries including the manufacturing of textiles and garments, jewellery, glass, tannery and leather products, and information and technology products, and have a greater focus on the promotion of exports.

### **III.1.2 Specific Measures, Instruments and Institutions**

Consistent with its focus on FDI attraction and the encouragement of export-oriented activities, the main instruments put in place for industrialisation concern export development and promotion, as well as fiscal incentives to attract investments.

A sophisticated network of institutions promotes and supports export activities in Botswana. These institutions, either public or private, provide services ranging from credit lines for exports to quality control and accreditation to improve the competitiveness of local products in international markets. Here is a sample of these institutions and services:

1. Botswana Export Development and Investment Authority: BEDIA, an autonomous, private sector-led organisation, was mandated by Parliament in 1997 to promote FDI, with an emphasis on promoting export oriented manufacture and services, together with identifying market outlets for products manufactured in Botswana (see Box 2). Some of BEDIA's activities are complemented by the Botswana Exporters and Manufacturers Association (BEMA).

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<sup>8</sup> Source: Botswana Export Development and Investment Authority.

**Box 2: Sample of Export Promotion Activities: The Example of BEDIA**

The Authority came into existence as a result of a series of consultations between the Chamber of Commerce and the Government on the need to create a favourable business environment to attract and retain investment in Botswana. Its services include:

- Identification of new markets including investigation of opportunities in markets that have trade agreements with Botswana;
- Participation in trade fairs and exhibitions to promote local products in overseas markets;
- Services to overseas buyers in identifying vendors, proposing itineraries, fixing appointments and organising buyer-seller meetings;
- Assistance to local companies in product development and adaptation to meet buyers' requirements;
- Organising seminars and workshops on trade-related subjects;
- Dissemination of export promotion information to local manufacturers;
- Organising a major business-to-business exhibition (Global Expo Botswana)
- Assistance to investors to secure clearances and approvals within the shortest possible time (e.g. licences, work and resident permits, visas, utility connections as well as infrastructural facilities such as land and factory space).

2. Botswana Development Corporation: BDC Ltd is the country's main agency for commercial and industrial development, owned by the Government of Botswana. The corporation was established in 1970 and has been mandated to assist both local and foreign investors in the establishment and development of commercially viable businesses in Botswana in any sector except large-scale mining (this is explicit productive diversification intent). The Corporation strives to attract foreign direct investors to establish new businesses or expand existing ones. It supports both export products and import substitutes. In fulfilling its mandate, the BDC holds shares in new industrial ventures of a significant size and importance and offers cash flow finance as well as other loans and rentals on favourable conditions.
3. Botswana Export Credit Insurance and Guarantee Company Ltd: set up in 1996 as a wholly owned subsidiary of BDC, its main objective was to assist in the development of non-traditional exports by diversifying products and markets. The company provides short-term export credit insurance for exporters. The company also continuously updates clients with credit information to assist them in making business decisions.
4. Botswana Bureau of Standards: the BOBS, which became a parastatal entity in 1997, is the national body responsible for standards and quality assurance. BOBS is a full member of the International Organization for Standardization (ISO) and the national contact point for all SADC programmes and standardisation and quality assurance. BOBS offers technical services in the areas of standards, testing of goods, certification of products, industrial and trade metrology,<sup>9</sup> quality management, environmental management, information and training.

In addition to these institutions, tax and customs incentives are available to attract foreign investors or encourage export activities. Corporate tax rates in Botswana are the lowest in the SADC region at 15% for all companies operating within the jurisdiction. There are also a number of taxation allowances, for instance for the acquisition of buildings, plant and machinery as well as for the costs of training employees.

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<sup>9</sup> Metrology is the science of measurements.

To reinforce its diversification strategy, the government has put in place a number of import duty rebates or exemptions for selected industries:

- *Industrial Rebate Concession:* This exemption from customs duties benefits the import of raw materials used for products sold either for local or external market in the textiles, foodstuffs and beverages sectors.
- *General rebates, Customs Duty Drawback Facility and Schedule 470.03:* These are available for the import of raw materials for manufacture destined exclusively for export either within or outside the Southern African Customs Union (SACU). Companies seeking to benefit from import duty exemptions must be licensed and might be subject to bonded storage requirements.<sup>10</sup>
- *Duty Credit Certificate Facility:* This product-specific duty rebate applies to clothing and clothing accessories, household textiles, yarns, fabrics and other textiles. Rebates apply to exports outside the SACU area. The amount of duty rebated is a percentage of the value of the exported goods, not the actual rate of customs duty. The percentages are 25% for clothing and accessories, 8% for yarn, 17.5% for household textiles and 12.5% for fabrics and other textiles. The progressiveness in rates clearly denotes a policy intention to favour the export of greater value-added products.
- *Machinery and equipment:* All machinery and equipment for purposes of manufacturing is imported duty-free.

### **III.1.3 Trade and Tariff Policy**

As a member of SACU, Botswana's tariff policy is determined by SACU's Common External Tariff (CET). Tariffs on products originating in a SACU member state are imported free of duties while third countries are accorded "most favoured nation" (MFN) duties. Botswana's average simple applied MFN tariff for industrial products is 7.8 per cent. While 59 per cent of imports carry no duty, about 20 per cent of tariff lines have rates higher than 15 per cent<sup>11</sup>. A small number of products (8 per cent of tariff lines) are subject to higher rates, which reflects intent to protect products such as clothing (40 per cent rate), leather and footwear (48 per cent tariff rate) and transport equipment (32 per cent).

In addition to selective tariff protection for MFN imports, Botswana has the option under SACU to increase tariff rates for up to eight years on products from other SACU countries for purposes of protecting its infant industries. Infant industries are defined as those which have been established for not more than eight years.<sup>12</sup> Temporary border protection could be strategic insofar as some authors have attributed some of the difficulties in setting up manufacturing activities in Botswana to competition from South African imports. Only in three instances has the Government utilised that flexibility: for beer, soap and milled products (of which only beer is a sectoral priority identified by the Government). Tariff increases were accompanied by price controls to protect consumers. However, some authors have questioned the effectiveness of infant industry protection in Botswana.<sup>13</sup>

<sup>10</sup> Under bonded storage, products eligible for customs duty exemptions must be stored in identified warehouses straight after import.

<sup>11</sup> World Trade Organisation, UNCTAD and International Trade Centre (2007). The definition of industrial products used is that of the WTO (non-agricultural products), the most peculiar element of which is that it includes fish and fish products.

<sup>12</sup> SACU Agreement 2002, Article 26.

<sup>13</sup> WTO, Trade Policy Review for SACU (1998)

Other trade restrictions (import permits and seasonal trade bans) apply only to agricultural goods, not manufactures. Likewise, exports are not subject to restrictions<sup>14</sup>.

With relation to market access abroad, Botswana's exports enjoy favourable access to the European Union (EU) by virtue of the Cotonou Agreement and since 1 January 2008, by virtue of the interim Economic Partnership Agreement (EPA). In addition, Botswana has preferential access to the United States' market under the African Growth and Opportunity Act (AGOA). Botswana benefits under AGOA provisions for textiles and apparel, which allow producers to use third-country inputs for textile and apparel manufacture to the United States of America. Non-reciprocal preferences for textiles and clothing seem to have spurred exports in the sector (clothing is currently the third largest export sector).

Finally, a Local Procurement Programme utilises government procurement activities to foster local manufacturing and promote entrepreneurship. The main purpose of the programme is to reserve 30 percent of Central Government purchases for local manufacturing companies. To qualify for the programme, companies must satisfy requirements relating to their size (annual turnover and productive machinery) as well as employment capacity (no more than 200 employees).

### ***III.1.4 Sectoral Policies***

In addition to the overall framework of the IDP, Botswana has identified the motor industry sub-sector as a priority sector for economic diversification. Non-traditional activities include vehicle assembly, tyre manufacturing, leather finishes, paint manufacturing, batteries, and spare parts manufacture. The sector's growth was based on the establishment of assembling activities by foreign automotive manufacturers interested in the larger South African market, mainly Hyundai Motor Distributors, the Swedish Motor Corporation (Volvo) and Leading Auto Engineering (agents for General Motors).

Automotive manufacturers benefit from incentive schemes, such as low taxation rates and SACU's Motor Industry Development Programme (MIDP). The MIDP aims to improve regional competitiveness by encouraging export activities in the light vehicle and medium and heavy motor vehicle sub-sectors. The programme is based on concessional duties and rebates of customs duties. However, the customs duties on imported light motor vehicles are gradually being phased down at the rate of 2% per annum, until 2009, to reduce the protection afforded to the manufacturers of light motor vehicles in the SACU. The current rate of customs duty applicable to imported light motor vehicles is 36%.

In addition, to support the growth of the automotive industry through the supply of skilled labour, an Automotive Trades Technical College<sup>15</sup> was established in 1982, offering automotive and metal skills training. From its beginnings, the college has expanded tremendously in both numbers of students and diversification of courses. It is run by the Government and offers apprenticeship training in a variety of trades leading to national certificates. Further, the school has developed and successfully piloted its Entrepreneurship Development Programme.

Beyond the automotive sector, customs rebates benefit other sectors, such as clothing and clothing accessories, household textiles, yarns, fabrics and other textiles, foodstuffs and beverages. In addition, some sectors presenting investment opportunities (or in which a comparative advantage is thought to exist) may benefit from direct financial support such as equity participation. These include the processing of locally available raw materials (e.g. cattle hide from the beef industry), food can

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<sup>14</sup> Although beef exports are subject to a state monopoly.

<sup>15</sup> [http://www.moe.gov.bw/dvet/courses\\_institutions/technical\\_colleges.html](http://www.moe.gov.bw/dvet/courses_institutions/technical_colleges.html)

manufacture, tableware, sanitary ware, float glass, components assembly (e.g. telephones, personal computers), pharmaceuticals and jewellery.<sup>16</sup>

### ***III.1.5 Other Measures to Promote Industrial Development***

In addition to the specific measures and institutional arrangements described above, Botswana's strategy to diversify its productive base is also supported by other policy areas. For instance, the Local Enterprise Authority (LEA) was established by the Small Business Act (2004) to promote SMEs in the key sectors of manufacturing, as well as in agriculture, tourism and services. Part of the strategy is to encourage businesses to use locally available natural resources and raw materials, within the identified sectors. Also the Authority endeavours to build competencies in quality and efficiency. Support services offered to SMEs include training, mentoring and advisory services; identification of business opportunities; promotion of domestic and international linkages; facilitation of access to government and large firms' procurement, facilitated access to finance; and promotion of technology adoption and diffusion.

In addition, the government has a policy for human capital development and for the diffusion of technology and innovation. Botswana's strategy for education and training, as outlined in the Revised National Policy on Education, includes the development of a responsive education and training system that is in line with economic growth. The Government of Botswana has put particular emphasis on technical and vocational education and training. The Botswana Training Authority (BOTA), established in 2000, oversees vocational training and provides quality assurance, accreditation, policy advice, monitoring and evaluation within the National Vocational Qualifications Framework.

To facilitate research and development in the industrial sector, the government has also established the Rural Industries Promotion Company (1974) to promote industrial development and employment in rural areas by assisting in the dissemination of technology. It is aimed at achieving self-sufficiency in developing technology to reduce reliance on imports. RIPCO works closely with the Rural Industries Innovation Centre. RIPCO, for example, was involved with two plants manufacturing nails and pelletised animal feeds in 2001, and transferred technologies to the private sector for the manufacture of a maize sheller and a multi-purpose thresher.

Finally, the government-funded Botswana Technology Centre (BOTECH) was established in 1979 to foster industrial and scientific development through research and technology innovation in collaboration with the private sector. The Government adopted a science and technology policy in July 1998, which involved the formation of the National Commission on Science and Technology (NCST) in 2002. Specific responsibilities include: providing policy guidelines for the establishment of a new science and technology research development system; promoting linkages with other sectoral programmes and policies; advising the Government on priority research areas; and encouraging business to invest in research and development.

## **III.2 Cameroon**

The Cameroonian industry is one of the largest in Africa (second only to Côte d'Ivoire in Francophone Africa), accounting for 31 per cent of GDP in 2007<sup>17</sup> although less in terms of employment and exports. However, despite a contribution to GDP that is above the average of African countries, the sector is heavily dependent on the extraction and export of mineral fuels. Crude oil and refined oil

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<sup>16</sup> <http://www.bdc.bw/industry.html>

<sup>17</sup> World Bank data by country: [www.worldbank.org](http://www.worldbank.org)

account in fact for about two-thirds of national exports.<sup>18</sup> Manufacturing is predominantly based on the processing of domestically sourced commodities, for example oil refining, agribusiness, rubber, wood, and aluminium. Sometimes, exports in these sectors have very little value added (for instance, the prevalence of crude oil, unwrought aluminium or rough and sawn wood in exports). However, the industrial fabric is quite diverse and investments in new sectors have softened the country's reliance on oil revenues.

**Table 3: Cameroon: Employment and value added in selected industrial sectors (%)**

Sector	Manufacturing value added	Industrial employment
Agro-industries	40	30
Chemicals, petroleum refineries, rubber and plastics	17	41
Wood processing industry	14	15
Textiles, leather and footwear	12	6
Construction materials, metalworking, iron and steel	9	3

Source: UNIDO analysis of the industrial sector in Cameroon, December 2005.

Despite the existence of a national Industrialisation Master Plan, industrial policy in Cameroon has been mostly conducted through dispersed measures and, sometimes, sectoral policies. Most of the current industrial base developed during the 1960s and suffered a long crisis from which it only emerged in the late 1990s. The most relevant measures to promote manufacturing are described below.

### ***III.2.1 National Industrial Policy***

Industrial policy in Cameroon has historically been guided by five-year plans ("*plans quinquennaux*"), implemented from 1961 to 1991. These plans aimed both at substituting imports and increasing exports. Industrial production was often conducted directly by the State through public enterprises. While that strategy was successful in expanding and diversifying local industrial production, industries suffered from a severe lack of infrastructure (which partly explains their geographical concentration around the city of Douala) and competitiveness. In 1998, therefore, Cameroon adopted an Industrial Master Plan, or *Plan Directeur d'Industrialisation* (PDI), which, however, was never implemented. In fact, during the same period, Cameroon started implementing an SAP which accorded limited importance to industrial development and pruned a reduction of government activism in productive sectors.

As a result, and until now, the government has not adopted an overall industrial vision. Specific measures are, nevertheless, in place to encourage investment and promote exports in priority sectors.<sup>19</sup> Most of these measures relate to the attraction of foreign investment and incentives for export promotion.

### ***III.2.2 Specific Measures, Instruments and Institutions***

The Government of Cameroon adopted in 2002 an Investment Charter order to define a regulatory framework for international private investment. The Charter guarantees all natural or legal persons the freedom to engage in business, with equality of treatment, property rights, freedom to repatriate

<sup>18</sup> International Trade Centre (ITC) Country Market Analysis Profile (Country Map): [www.intracen.org](http://www.intracen.org)

<sup>19</sup> Government of Cameroon: [www.spm.gov.cm](http://www.spm.gov.cm).

foreign capital invested and operating profits, as well as repatriation of savings on salaries paid to expatriates; access to foreign currency and freedom to transfer capital in accordance with the rules of the Central African Monetary Union (CAMU). It does not impose any limit on foreign capital holdings. Investments in priority sectors (tourism, industry, agriculture, mining, forestry, information technology and communications) are also eligible for the reinvestment regime under the General Tax Code, with exemption from registration fees and lower company and personal income tax. Finally, the Charter aimed at speeding up the paperwork for new investments and foresaw the marketing of Cameroon's potential as an investment destination. In addition, the Charter created fiscal incentives<sup>20</sup> for priority investments as well as the creation of free economic zones. However, the machinery for implementing the Charter - in particular the Investment Promotion Agency, the Export Promotion Agency and the National Agency for Standards and Quality - have yet to be put in place.

Another set of measures to encourage manufacturing (through export promotion) is those applicable to Cameroon's Industrial Free Trade Zones. These free trade zones, located in all ten Cameroonian provinces, provide several benefits where 80 per cent of production is exported. Firms automatically qualify for extensive packages of fiscal, regulatory, customs and administrative incentives including a complete exoneration of all customs duties and taxes as well as a 100 per cent tax exemption for the first ten years of production followed by a subsequent flat corporate profit tax of 15 per cent. These benefits extend to industrial estate developers and operators in Cameroon. It is expected that in future the zones will promote specific sectors presenting a comparative advantage or strategic interest.

### ***III.2.3 Trade and Tariff Policy***

Manufacturing activities in Cameroon are based mainly on the processing of domestically sourced commodities (oil refining and agribusiness), although the non-ferrous metal segment (aluminium) depends on imported raw materials. In 2004, nearly half of the value of firms' inputs was imported and one-third of outputs was exported. Consequently, trade policy, particularly duties and taxes and other measures at the border, has a significant impact on the sector (WTO, 2007).

Cameroon's customs policies are generally those of the Central African Economic and Monetary Community (CEMAC), particularly the CEMAC CET, which is made up of five rates:

- zero rate, applied mainly to pharmaceutical products, books and brochures, and aviation products (0.7 per cent of tariff lines);
- 5 per cent, applied to staple goods (3.7 per cent of tariff lines);
- 10 per cent, applied to raw materials and capital goods (42.7 per cent of tariff lines);
- 20 per cent, applied to intermediate goods (12.2 per cent of tariff lines); and
- 30 per cent on wage goods (40.7 per cent of tariff lines).

While the average non-agricultural tariff is 17.3 per cent, some sectors are subject to higher tariffs, for instance clothing (30 per cent average rate), beverages and tobacco (27.2 per cent), leather products (20.5 per cent). Protected sectors coincide mostly with priority sectors identified under Cameroon's various industrial promotion instruments. Based on the two-digit ISIC classification, negative escalation from raw materials to intermediate products is notable in non-metal mineral

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<sup>20</sup> Fiscal incentives include lower customs duties, zero VAT on exports and refund of VAT collected on investments and the operating costs of exporting companies; as well as special incentives for research and development, vocational training, and environmental protection.

products and "other manufacturing industries." Similarly, tariff escalation is negative from intermediate goods to finished goods in the wood articles industry. Import tariffs account for over one-third of Cameroon's non-oil fiscal revenues (WTO, 2007).

In addition to import tariffs, duties are also levied on the exports of specific products. The application of export duties seems to relate more to environmental than industrialisation considerations although there is an intent to increase the local processing of wood products. Thus local products – from the soil (such as cocoa, coffee, bananas and cotton) and the sub-soil – are not subject to any export taxes. However, exports of wood (raw and semi-processed logs) are subject to an export tax of 17.5 per cent of the f.o.b. value. Export taxes on logs have been imposed to encourage processing and enhance local added value.

Finally, Cameroon has signed an Interim EPA with the EU and is currently engaged in negotiations for a complete EPA with other CEMAC member countries.

### ***III.2.4 Sectoral Policies***

To strengthen the industrial sector further, the Government has launched a number of programmes in specific sectors. Notably, the Competitiveness Committee (see Section D below) has completed a study analysing the competitiveness of various industries and identifying those with the greatest growth potential. The sectors identified are textiles, wood, energy and hydrocarbons, sectors undergoing change (plantains, maize, oilseeds), "configuration" sectors (cocoa, coffee, rubber) and high-tech sectors (ship building and repairs, information and communications technology, pharmaceuticals). Sectoral interventions include:

- In the textiles industry, a strategic audit was performed on Cotonnières Industrielles du Cameroun and reforms are being implemented. In particular, an ad hoc committee and provincial units have been established to combat fraud, counterfeiting and contraband.
- A regional project for the development and modernisation of the palm oil industry is being formulated with support from UNIDO and the Common Fund for Commodities (CFC).
- The Integrated Project for Industrial Development, approved in April 2003 in cooperation with UNIDO, made further progress with the creation of pilot centres for agri-food processing (e.g. milk and ginger processing centres built).
- In preparation for a policy to promote local sub-contracting, a study on industrial sub-contracting and partnering was conducted under a Government contract awarded by tender. The purpose was to pave the way for creating an Industrial Subcontracting and Partnership Exchange.
- In the context of promoting standards and quality control, the creation of the National Standards and Quality Agency was approved in 2006.
- The programme to support the EPA between Central Africa and the EU is providing assistance to develop a national programme for industrial scale-up and competitiveness, with a pilot phase supporting scale-up, standardization and quality.



### III.2.5 Other Measures to Promote Industrial Development

The most comprehensive effort to diversify production and indirectly promote industrialisation lies in Cameroon's Competitiveness Committee established by the Prime Minister. The Committee aims to identify factors that hinder economic competitiveness, formulate proposals to reduce production and transaction costs and monitor the implementation of recommendations. Actions relate to the business environment and economic governance. One of the objectives is to improve the competitiveness of existing industries, particularly in the context of trade liberalisation under the interim EPA with the EU.

In addition, in its Poverty Reduction Strategy Paper (PRSP), the Government of Cameroon affirmed its intent to diversify the economy. This rests on a number of pillars, of which manufacturing is one. The Government intends to promote competitiveness and support the development of agro-industries, textile manufacturing, and wood. To carry forward these objectives, the Government plans to improve physical infrastructure, build support institutions, and implement policies supporting industry.

Emphasis is also on the strengthening of large-scale infrastructure and cross-sector services essential to industrial development, such as power, transport, financial intermediation, information and communications technologies (ICT), tourism, education, vocational and professional training, housing, and construction and public works.

On another front, several reforms were launched in 2006 and 2007 to improve education and adapt provision to the needs of the labour market. For instance, universities have adopted the bachelor's-master's-doctorate degree system and their curricula have been revised with a view to the development of occupational skills.

### III.3 Ghana

Ghana has been historically characterised by a reliance on the production and export of a limited number of products, namely gold, cocoa and timber (see Table 4). However, the industrial base is relatively broad as a result of strong Government action in encouraging new industries and import substitution in the 1960s. Apart from one petroleum refinery and one aluminium smelter, most of the expansion of production was in simple consumer goods such as textiles, but it also included pharmaceuticals and electronics. Nonetheless, the contribution of manufacturing value added to GDP remains modest at 8.5 per cent<sup>21</sup>

**Table 4: Ghana's export profile, selected sectors (%)**

<b>Product group</b>	<b>As a share of total exports</b>
Cocoa beans	30
Unwrought gold	31
Wood, wood articles and charcoal	8
Cotton woven fabrics	6
Plastic articles (tableware, kitchenware, toiletry articles)	5
Bananas and plantains	3
Footwear	1
Aluminium and articles thereof	1

Source: ITC Country Market Analysis Profile (Country Map): [www.intracen.org](http://www.intracen.org)

<sup>21</sup> World Bank (2006)

### ***III.3.1 National Industrial Policy***

While Ghana does not currently implement an overall industrial policy, the Government does consider industrial development to be part of its broader Growth and Poverty Reduction Strategy (GPRS). According to the long-term vision expressed in the first (2003-05) and second (2006-09) GPRS, Ghana should move towards middle-income developing country status by 2015 and transform its productive base towards an agro-based industrial economy. Under the GPRS, the main instruments to achieve that objective are:

- i. to enhance the competitiveness of the private sector;
- ii. to undertake human resource development to generate quality employment; and
- iii. to undertake fundamental reforms of the public sector to achieve good governance and civic responsibility.

Accordingly, the diversification of production and the increase of non-traditional exports should be led by the private sector. Government interventions to accelerate private-sector led industrialisation include: reduce the constraints associated with export and import procedures and generally facilitate trade (e.g. facilitate transactions at ports); invest in trade-related infrastructure (e.g. energy supply and transport), minimise the incidence of “dumping”; promote new areas of competitive advantage, take full advantage of Ghana’s preferential access to international markets (AGOA, EPA). The priority sectors which have been identified for diversification and industrial growth include food processing, metal-based industry and ICT.

The thrust of the Government's policy is towards:<sup>22</sup>

- A liberalised trade (import/export) regime;
- Liberalised investment regime sustained by a targeted investment drive;
- An export-oriented, value-adding industrial development strategy;
- Free zone development encompassing export processing zones (EPZs), liberalised skies and free ports.

In addition, the final evaluation of the first GPRS indicated that the manufacturing sector is not well linked in with domestic resources and has inadequate infrastructure (in 2006 and 2007 severe shortages of energy caused a reduction of manufacturing activity). Therefore, overall improvement of basic infrastructure is also a priority.

### ***III.3.2 Specific Measures, Instruments and Institutions***

To attract foreign investors, Ghana provides a variety of incentives, including tax holidays, capital allowances, locational incentives and customs duty exemptions. Many of Ghana’s incentives are of general application. However, a number of them have a narrower focus, and some apply to specific regions. For example, tax rebates are granted to manufacturing companies located outside Accra, Tema, and other regional capitals. Sectoral tax incentives relevant to the manufacturing sub-sector are provided under the Income Tax Decree, 1975 and include tax holidays for manufacturing enterprises

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<sup>22</sup> The Ghana High Commission in the UK, [http://www.ghanahighcommissionuk.com/trade\\_industry.php](http://www.ghanahighcommissionuk.com/trade_industry.php)

that use local raw materials and reduced rates of corporate taxation for non-traditional exports.

However, revenue losses from duty and tax exemptions undermine the government's efforts at increasing the share of revenue that is generated from domestic sources. In order to reverse the trend and rationalise the use of exemptions for productive areas of the economy, the government started a review of the exemption regime to reduce its scope and eliminate abuses.

The Ghana Investment Promotion Centre (GIPC) is a government agency established in 1994 to encourage investments in all sectors of the economy except mining and petroleum. It is meant to function as a one-stop agency that supports local and foreign investors in both the manufacturing and service sectors. The following initiatives have been taken by the GIPC to encourage industrial investment:

1. The Ghana Trade and Investment Gateway Project (GHATIG): In 1998, Ghana won support from the multilateral institutions to attract a critical mass of export-oriented firms. This would be achieved by increasing private investment, reducing the cost of doing business and providing infrastructure. The Government of Ghana is strengthening the Gateway project to position the country as a West African hub for import, export, storage, assembly, distribution, manufacturing, and trans-shipment of goods, services and passengers. The project has three main components, namely the modernisation of Ghana's regulatory framework, the training of trade-related personnel (e.g. customs, immigration, ports) and the financing of infrastructure in the free-trade zones (FTZs). The project also attempts to develop backward linkages between foreign investors and local suppliers.
2. Investment workshops, conferences and seminars, trade fairs and exhibitions: The GIPC is involved in organising and participating in local and external business workshops and forums to promote opportunities in Ghana.
3. Investor Facilitation and Services: The Centre receives applications to facilitate the arrival of foreign investors and provides services for them.

To complement its investment policy, Ghana has created schemes to increase its exports. The Ghana Export Promotion Council (GEPC) is an autonomous body for export development under the aegis of the Ministry of Trade and Industry. The Council acts as an authority on the export of products in the non-traditional sector. The Council's goal is to ensure that the export diversification and promotion drive succeeds. In pursuance of this goal, the Council proffers advice on product development, adaptation, handling, preservation, packaging, pricing and shipping. In addition, the Council liaises with all export-related agencies in Ghana to streamline procedures for non-traditional exporters. Finally, the Council manages incentive schemes for exporters, such as corporate tax rebates and customs duty drawback on material imported to produce export products.

In addition, Ghana has a number of FTZs that provide further incentives to exporters. The zones are used mainly to produce cocoa, spices, cashew nuts, fruits, textiles and clothing, and plastic products (WTO, 2008). They provide infrastructure services – including bonded warehouses and utilities such as power, water and telecommunications – to export-oriented businesses. FTZ enterprises are granted 100 per cent exemption from income tax on profits for ten years, after which the tax rate must not exceed 8 per cent; foreign investors benefit from a relief from double taxation; there are no import licensing requirements and only minimal customs formalities; there are no conditions or restrictions on repatriation of dividends or net profit or the remittance of proceeds from sales. In addition, free-zone investments are guaranteed against nationalisation and expropriation.

### **III.3.3 Trade and Tariff Policy**

Ghana is a member of the ECOWAS Customs Union currently being implemented and will therefore eventually apply the corresponding CET rates. Meanwhile, Ghana's applied tariff consists of four bands (zero, 5 per cent, 10 per cent, and 20 per cent *ad valorem*). These tariffs apply to 99.8 per cent of total lines, with the remaining lines (13 petroleum products) subject to specific tariffs. In 2007, the average applied MFN tariff was 12.7 per cent, down from 14.7 per cent in 2000.<sup>23</sup>

Ghana's tariff structure is characterised by tariff escalation (higher rates for more processed goods) for food and beverages, textiles and apparel, chemical, and non-metallic products; and mixed escalation for wood and paper products. Tariff concessions also apply to specific importers, such as the Volta Aluminium Company, and on inputs into nominated end-uses at approved manufacturers. These include the making of agricultural implements and machinery, fishing nets, pharmaceuticals, plastic pipes and bicycles. In the manufacturing sub-sector, average tariffs are higher on textiles (19 per cent), apparel (20 per cent), furniture (19.5 per cent) and beverages (18.9 per cent). The Ghanaian Government remains heavily reliant on value-added tax, import and excise duties, which make up more than 55 per cent of public revenue.

Barely 3 per cent of Ghana's exports are destined to other ECOWAS countries (mainly Guinea, Benin, and Nigeria) but its composition is more diverse and often consists of non-traditional exports. For instance, Ghanaian cotton fabrics, plastics, footwear, pharmaceutical products and fertilisers are mostly exported to Burkina Faso, Mali, Nigeria, Senegal and Mauritania. Regional integration is therefore a promising avenue for diversification.

Exporters of non-traditional items are exempted from paying duty on exports. However, exports of unprocessed cocoa and hydrocarbons are subject to a tax.

Ghana is also a beneficiary of preferential access to the US market under the AGOA initiative. The most significant aspects of AGOA to Ghana are related to preferences for apparel and textile imports. In addition, Ghana initialled an interim EPA with the EU at the end of 2007, and with other ECOWAS member states is negotiating a complete regional EPA with the EU.

### **III.3.4 Sectoral Policies**

While the focus of Ghana's GPRS is on agriculture, there is also a clear intent to position Ghana as the ICT hub in West Africa. The Ghana Information and Communications Technology Policy for Accelerated Development, adopted in 2003, aims to engineer an ICT-led process to transform Ghana into a middle-income, information-rich, knowledge-based and technology-driven economy.

The United Nations has assisted Ghana to establish a science and technology park at the Kwame Nkrumah University of Science and Technology to develop and test software and hardware components. Moreover, under the Micro Small and Medium Enterprises project, the World Bank is funding the construction of an ICT Park at the Free Zone Enclave in Tema to support industrial growth and technology development. China and Ghana have signed a US\$30 million agreement towards extension of the country's ICT backbone.

The factors that explain the development of ICT industries in Ghana include its political and macro-economic stability, control of inflation, a demand for software products (local and West African customers), the availability of skills and the presence of a vision for the sector.

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<sup>23</sup> Ghana's Trade Policy Review, WTO (2008)

Another research priority is biotechnology. Plans are far advanced to undertake research into biotechnology with Government support for equipment at two institutes: The Animal Research Institute in Accra and the Crop Research Institute in Kumasi. Also, the Biotechnology and Nuclear Agriculture Research Institute is engaged in active research in this field.

Finally, in a series of Presidential Sector Initiatives, the Government has made a commitment to target the cassava starch, textiles and garments, palm oil, and salt sectors for export promotion. Sectors were selected on the basis of their ability to generate rural employment; be technology-driven; have the potential to earn foreign exchange and have multiplying effects on the economy.<sup>24</sup>

### **III.3.5 Other Measures to Promote Industrial Development**

The Government of Ghana has finalised its education reforms and given a boost to science and technology in schools. Under the reforms, the private sector will contribute to private colleges and technical institutions in a bid to supply the scientific skills needed by industry.

As far as R&D is concerned, the Ghana Atomic Energy Commission (GAEC), with three research institutes, and the Council for Scientific and Industrial Research (CSIR), with 13 institutes, constitute the core of public research in Ghana outside higher education. The 13 CSIR research institutes are categorized into three groups including natural resources, agricultural, and industrial and social sectors operating across the country. Private research institutes include the Centre for Democratic Governance, Centre for Economic Policy Analysis and the Kumasi Institute of Technology and Environment, which is involved in energy sector research.

The dissemination of industrial research has been given attention through an Institute of Industrial Research. This institute was formed to undertake applied research on industrial process and product technology development, transfer appropriate technologies and provide consultancy services to small and medium-scale industries and other stakeholders in Ghana. The institute seeks to move forward technological development thereby accelerating industrialisation.

## **III.4 Kenya**

The Government of Kenya has adopted a broad development strategy (*Kenya Vision 2030*<sup>25</sup>) for achieving sustainable economic growth and poverty eradication. Manufacturing is an integral component of that strategy, alongside agriculture and selected service sectors. The Government hopes that the strategy will improve the performance of the industrial sector and unleash its potential to generate employment and attract FDI.

While Kenya's productive base is quite diverse, the economy remains largely agricultural (about half of all jobs are in the agricultural sector). Despite the rapid increase in exports of clothing (over 10 per cent of total exports), tea, cut flowers and coffee accounted for 34 per cent of exports in 2006 (see Table 5).

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<sup>24</sup> Vandra Chandra and Israel Osorio-Rodarte (2007)

<sup>25</sup> Government of the Republic of Kenya (2008a) and Government of the Republic of Kenya (2008b)

**Table 5: Top Exports, Kenya (2006) (%)**

Sector	Exports as a share of total exports
Coffee, tea, mate and spices	20
Live trees, plants, cut flowers etc	16
Edible vegetables	8
Clothing, accessories, not knit	7
Mineral fuels and distillation products	6
Vegetable, fruit, etc food preparations	3
Fish, crustaceans, etc.	3
Clothing, accessories, knit or crochet	2
Salt, sulphur, earth, cement, etc.	2
Iron and steel	2
Ceramic products	2
Leather	2
Edible fruit, nuts	2
Inorganic chemicals	2
Meat, fish, food preparations	1
Animal, vegetable fats and oils	1
Paper & paperboard	1
Boilers, machinery, etc	1
Plastic articles	1
Tobacco	1

Source: International Trade Centre (ITC) Country Market Analysis Profile (Country Map): [www.intracen.org](http://www.intracen.org)

Salient features of Kenya's industrialisation efforts are a comprehensive set of measures to boost investment and exports, and the anchoring of industrial development within a larger Development Vision. These features are described below.

#### ***III.4.1 National Industrial Policy***

Notwithstanding the importance of agriculture in Kenya's production, employment and exports, industrialisation has historically been considered a strategic instrument for employment and the attraction of FDI. It is seen as a central element of a labour-intensive development strategy.<sup>26</sup> Nevertheless, it is widely admitted that the sector's performance over the past 30 years has been modest and well below its potential. While poor industrial performance in SSA is often attributed to exogenous shocks such as wars, droughts and adverse terms of trade, a poor policy environment has also been identified as a hindering factor. In Kenya, as in other developing countries, there is need to question the legal and institutional capacity that define the scope and effectiveness of industrialisation policies.<sup>27</sup>

After the implementation of import substitution strategies in the 1960s and 1970s, the Kenyan government took decisive steps towards export-led industrialisation. That intention, already evident in earlier development blueprints, was consolidated in subsequent industrial visions (e.g. the 1996

<sup>26</sup> "Why Kenya must industrialise", in Government of the Republic of Kenya (1996)

<sup>27</sup> "Kenya: Formulation and Implementation of Strategic Trade and Industrial Policies" in Soludo, C. Ogbu, O. & Chang H.J. (2004)

Sessional Paper on "Industrial Transformation to the Year 2020"). The government strengthened export orientation through the Manufacturing Under Bond (MUB) and Export Processing Zones (EPZ) schemes, as well as the establishment of the Export Promotion Council (1992) and the Export Processing Zones Authority (EPZA) (1996). This was accompanied in the 1990s by the privatisation of parastatals, liberalisation of finance and energy, price decontrols, elimination of import restrictions and tariff reduction under Kenya's Structural Adjustment Programme.<sup>28</sup>

This policy orientation has had mixed results. While a quite large number of micro- and small-scale industries has developed, these have remained largely informal (about 85 per cent of the manufacturing sector is made of informal micro- and small-scale industries, commonly referred to as 'Jua Kali' industries<sup>29</sup>) and have few linkages with larger exporting industries. In any case, since the early 1980s industries have suffered from the macro-economic degradation of the Kenyan economy. To redress the economy, an Economic Recovery Strategy for Wealth and Employment Creation was implemented from 2003 to 2007, which succeeded in boosting economic growth (real GDP grew steadily from 2.9 per cent in 2003 to 7.0 per cent in 2007) and manufacturing output (industrial output expanded by an average of 5.3 per cent over the period 2003-07).<sup>30</sup>

Building on the momentum generated by economic recovery and the new grand coalition government, *Kenya Vision 2030* was launched in June 2008 by President Mwai Kibaki as the country's new development blueprint. Its stated objective is to transform Kenya into a newly industrialising, middle-income developing country by 2030.

Manufacturing is one of the components of the overall Vision. According to the Vision, the Government should strive to transform Kenya into the provider of choice for basic manufactured goods in eastern and central Africa through improved competitiveness in manufacturing. Priorities were identified accordingly for a first Medium Term Plan covering the 2008-2012 period. The plan was produced through wide stakeholder participation involving government, the private sector, civil society and development partners. It sets the objective of achieving economic growth of 10 per cent by 2012 and details policy and sectoral priorities to support that objective. The Vision and its first implementation plan build on existing instruments but combine an export-led orientation with objectives for import substitution (Box 4). Moreover, emphasis is given to utilising more fully the potential of Eastern and Central African regional markets. These objectives should be achieved through improved efficiency and competitiveness at firm level. The government will invest in training, research and development.

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<sup>28</sup> *Ibid.*

<sup>29</sup> The term 'Jua Kali' is Swahili for 'Hot sun' referring to the open air working conditions of the entrepreneurs. According to Amollo (2008), most *Jua Kali* industries start off and remain as informal enterprises as their owners often cannot afford the process of registering with Government bodies. This means that the *Jua kali* businesses have found it hard to access business development services or export markets.

<sup>30</sup> Government of the Republic of Kenya (2008b)

**Box 4: Kenya's Vision 2030, 2008-2012 Medium Term Plan: Manufacturing**

The goal for 2012 is to increase the industrial contribution to GDP by at least 10 per cent annually. To achieve this objective, the Plan identifies the following general and specific priorities:

- Support manufacturing firms that were adversely affected by the post-election crisis of 2008 as a matter of emergency;
- Promote small-scale firms and regularise informal SMEs, assisting them in securing property rights, licences, tax and labour law compliance etc.
- Produce consumer goods to compete with imports in key local industries (without resorting to import restrictions), and raise market share in the regional market from 7 per cent to 15 per cent.
- Increase the generation and utilisation of R&D
- Attract large strategic investors, restructure industries that use local raw materials but lack a competitive edge (for instance sugar and paper manufacturing) and exploit opportunities in adding value to imports for re-exporting (e.g. in metals and plastics).
- Increase value addition for niche exports by additional processing of local agricultural products.
- Work towards the establishment of at least two "Special Economic Clusters", that is, industries located together to gain from economies of scale. Pilot sectors will concern the blending and packaging of fertilisers, teas and coffees and processing of meat and fish (Mombasa), and the cement, chemicals and metal industries and horticultural processing (Kisumu);
- The creation of at least five SME parks in agro-processing industries).

In addition to Vision 2030, other policies have a direct bearing on Kenya's industrial efforts. These include the Support for the Development of Micro- and Small Industries Micro Enterprise Support Project, the Private Sector Development Strategy (2006-12) and the Master Plan for Kenya's Industrial Development. A National Industrial Policy is being prepared.<sup>31</sup>

**III.4.2 Specific Instruments and Institutions**

The Ministry of Industrialisation is responsible for industrial promotion. It aims to achieve at least 50 per cent capacity utilisation in industrial sectors where Kenya has a comparative advantage, such as: textiles and clothing, leather and leather products, electronics, iron and steel, pesticides, pharmaceuticals, motor vehicles and spare parts, glass, ceramics and other building materials.

As has been noted, it is intended that the first phase of Kenya's Vision 2030 will build on existing institutions and policy instruments, including:

1. Kenya's Investment Authority: is responsible for promoting and facilitating both foreign and domestic investment in Kenya, particularly by assisting investors in obtaining permits, licences, incentives and exemptions; marketing Kenya as an investment destination, advising the Government on improving the investment climate; and facilitating and managing investment sites, estates and land. The Authority manages a number of incentives to attract investors, including: an investment allowance of 60 per cent in

<sup>31</sup> Speech by the Minister for Industrialisation during the official opening of the stakeholder consultative workshop for development of the Ministry's Strategic Plan (19 August 2008): <http://www.tradeandindustry.go.ke/speech.asp?ID=78>



manufacturing and 100 per cent for manufacturing under bond (see Box 6); liberal depreciation rates based on book value; offsetting of losses by future taxable profits; remissions from custom duties on capital goods; and export promotion programmes, which include EPZs and manufacturing under bond.

**Box 5: Kenya's Ministry of Industrialisation, institutional set-up**

The Ministry is divided into two main divisions:

1. Industrial Registration and Management Division, running two sections:

- *Industrial Registration and Information Section*: responsible for information required by policy makers, statistics and general information regarding industry;
- *Industrial Support Services and Rehabilitation Section*: responsible for identifying the causes of factory closures, reduced capacity utilisation and downsizing, and proposing remedies. It promotes the harmonisation and rationalisation of taxes and tariffs between local manufactured products and imported products

2. Industrial Promotion Division also comprising two sections:

- *Medium and Large-Scale Industrial Projects*: identifies industrial investment opportunities by sector and product; conducts feasibility studies; formulates and promotes industrial projects; gives guidance and assistance to entrepreneurs on acquisition of technology and implementation of projects. It focuses on three sectors: agro-based industries, the chemical and mining industries, and engineering and construction.
- *Small-Scale Industrial Projects and Field Services Section*: responsible for the formulation of district industrial plans; monitoring of entrepreneurial development and business creation programmes in the districts; provision of consultancy services to micro- and small-scale enterprises; and promoting small-scale industries in rural areas.

2. Kenyan Bureau of Standards

3. Economic Processing Zones: The number of companies the EPZs attracted rose sharply after the US passed AGOA in 2000. By 2006, 71 companies employed 36,767 people in EPZs (14.5 per cent of manufacturing jobs, but only 0.42 per cent of employment in Kenya). EPZs account for 42.6 per cent of non-food manufacturing exports, mostly in the garment industry.<sup>32</sup> The Kenyan EPZs offer investors a variety of advantages, including fiscal incentives (e.g. ten years' tax holiday and a flat 25 per cent tax for the next ten years; exemption from all withholding taxes during the first ten years; exemption from import duties on machinery, raw materials, and inputs; no restrictions on management or technical arrangements; and exemption from stamp duty and value added tax (VAT) on raw materials, machinery and other inputs).

<sup>32</sup> Export Processing Zones Authority's Website: <http://www.epzkenya.com>

4. Export Promotion Council: Established in 1992, EPC is the focal point for export promotion. The EPC focuses on priority sectors, manufacturing being one of them. Services include:
  - a. National Export Strategy: aims to deepen export markets, open up new markets, diversify away from traditional exports, enhance market access and strengthen institutional support.<sup>33</sup> The EPC focuses on six sectors: horticulture and agriculture (mainly tea and coffee), textiles and clothing, commercial crafts and SMEs, fish and livestock, other manufactures, and services other than tourism;
  - b. Export Market Development: identification of export opportunities and formulation of market penetration strategies;
  - c. Product Development and Adaptation: assists exporters to adapt their products to market requirements;
  - d. Development of Exporting Skills: seminars and workshops;
  - e. Duty remission facility.

**Box 6: Kenya's Manufacturing Under Bond (MUB) scheme**

The Manufacturing Under Bond (MUB) scheme has operated since 1986. The scheme grants most of the incentives of EPZs without the requirement of location at predetermined sites. The only requirement for the manufacturer is to reimburse the government all costs of the customs officer and guards at site. Enterprises operating under this programme are offered exemptions from duty and VAT on imported plant, machinery, equipment, raw materials and other imported inputs; and 100 per cent investment allowance on plant, machinery, equipment and buildings. Benefiting firms must export products produced under the scheme. The system can attract firms interested in the assembly of products wholly obtained abroad and destined for export.

5. Industrial and Commercial Development Corporation: The Company was incorporated in 1967 with the objective of facilitating the acquisition, by indigenous Kenyan investors, of shares in profitable companies. It offers venture capital, loans and export finance.

### ***III.3.3 Trade and Tariff Policy***

Kenya's tariff policies are determined by its membership in the East African Community (EAC) and the EAC's CET. This has reduced tariff protection in Kenya: the simple average fell from 16.8 per cent in 2004 to 12.9 per cent under the CET. Kenya's MFN simple average applied to non-agricultural imports was 11.7 per cent in 2007.

Over 75 per cent of imports were imported duty-free into Kenya in 2005, and more than 40 per cent of tariff lines are zero-rated. Nonetheless, Kenya's tariff profile presents escalation and tariff peaks to protect local products, especially manufactures. For instance, the simple average rate

<sup>33</sup> Government of the Republic of Kenya (2008a).

applicable to imports of textiles is 19.7 per cent and for clothing, 25.2 per cent. Tariff rates in these sectors are not bound at the WTO, which could denote willingness by the Government to maintain its decisional latitude. Some textiles and clothing products are subject to higher tariffs, such as cotton bed, table and toilet linen (50 per cent). In addition, other industrial products are subject to higher rates, including cement (55 per cent), matches (35 per cent) and batteries (35 per cent). Fish and fish products are subject to duties close to 25 per cent as are several agro-industrial products (dairy, sugar, beverages, and tobacco).

Kenyan export regulations are generally liberal and contain few restrictions, in line with the Government's intention to achieve export-led growth. However, certain products are subject to an export tax, for instance raw hides and skins.<sup>34</sup>

There are, finally, accounts that the Government utilises its public procurement to promote Kenyan firms (WTO, 2000).

#### ***III.4.4 Sectoral Policies***

Industrial promotion in Kenya has a prominent sectoral focus, even if sometimes the number of incentives for each sector is large and there is little clarity regarding prioritisation and institutional responsibilities.<sup>35</sup> Priority sectors were identified in a series of instruments and international cooperation agreements (e.g. UNIDO's Integrated Programme for Kenya). The sectors identified do not always coincide. For instance the 1996 Sessional Paper on Industrial Transformation identified short-, medium- and long-term sectoral priorities.<sup>36</sup> Phase One industries included: agro-industries, cotton, sisal and textiles, skins, hides and leather, horticultural produce, fish, sugar, coffee, tea, industrial and edible, vegetable oils, pyrethrum, paper, building and construction brick manufacture, glass, tools, cement, ceramics, and timber and furniture. Phase Two industries included: metallurgy, chemical and pharmaceutical products, machinery and capital goods, telecommunications, transport engineering, electronics, and engineering and construction.

By contrast, the Master Plan for Kenya's Industrial Development in 2007 included recommendations for the development of the agro-processing sector, agro-machinery, and electronics and ICT. Sectoral priorities enumerated in the National Export Strategy were: horticulture, tea, livestock, fish, food and beverages, commercial crafts, textiles and clothing.

Agro-processing industries, including beverages and food preparations, due to their employment importance and the potential to create linkages with local agricultural production are a major sectoral priority. Fish industries and the leather industry are also sectors with constant emphasis in industrial policies and Vision 2030.

Comprehensive incentives are not in place for all identified sectors, but in some cases are quite detailed and functioning. For instance, the leather industry has international support (ITC, UNIDO) and specific support institutions. Besides export programmes and investment incentives, the sector benefits from tariff protection and raw skins are subject to export duties.

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<sup>34</sup> "Kenya: leather industry in need of incentives", July 2008, All Africa.com: <http://allafrica.com/stories/200807040074.html>

<sup>35</sup> Section 4.4.2 of the First Medium Term Plan of Vision 2030.

<sup>36</sup> Tables 4.2 and 4.4 in Government of the Republic of Kenya (1996)

### ***III.4.5 Other Measures to Promote Industrial Development***

The Kenya Industrial Research & Development Institute (KIRDI) is the key agency for industrial R&D in the country. KIRDI was established in 1979 and mandated to undertake multi-disciplinary research and development in industrial and allied technologies. The institute's core objectives are handled by the R&D and Technology Transfer departments. The major R&D departments are the engineering, energy and environment, ICT, leather and textiles, and food technology divisions. KIRDI has developed over 40 technologies in these fields. KIRDI has developed a programme of technology transfer, innovation and extension services to enhance access to technology by Kenyan enterprises. KIRDI works with enterprises to support product development and diversification, quality and productivity improvement and policy development. The overall objective is to stimulate innovation and enhance competitiveness of the enterprises.

### **III.6 Rwanda**

The Government of Rwanda's "Vision 2020" strategy<sup>37</sup> and its most recent medium term roadmap<sup>38</sup> envisage moving Rwanda from a predominantly agricultural economy to a knowledge-based service hub by 2020. This is a challenging objective considering that Rwanda's economy is currently dominated by exports of coffee and tea (62 per cent of exports) and mineral products (28.5 per cent). The manufacturing sector is in its infancy. The sector employed fewer than 2 per cent of the active population (2001) and its contribution to GDP was 6.8 per cent (2001-06 average). Exports of manufactured goods are limited and consist almost exclusively of agro-industrial products, mainly tea, coffee and pyrethrum.<sup>39</sup>

However, the government's vision is clear and reaffirmed in different instruments, the most important of which are reviewed below.

#### ***III.6.1 National Industrial Policy***

Industrial policy in Rwanda is anchored in poverty reduction objectives. The economic growth and poverty reduction policies are structured around three "flagship" programmes:<sup>40</sup> Growth for Jobs and Exports; Vision 2020; and Governance. The priority policies under these programmes relate to improving infrastructure (energy, transport and telecommunications), reducing the costs of doing business, promoting innovation and technology absorption (e.g. in raising agricultural productivity) and strengthening the financial sector. These interventions do not relate specifically to industrialisation.

The industrial component of these policies lays out these main objectives:

1. Enhancement of the performance of the manufacturing sector (e.g. food processing and textiles), particularly through efforts to improve productivity and quality and encourage processing;
2. Development of new product lines, particularly by adding value to existing resources.

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<sup>37</sup> Republic of Rwanda (2000).

<sup>38</sup> Republic of Rwanda (2007).

<sup>39</sup> WTO, Trade Policy Review for Rwanda (2004)

<sup>40</sup> Republic of Rwanda (2007)

This entails resource-based manufacturing (e.g. processed food, wood products, tea and coffee, leather products, textiles and simple metal products);

3. Export promotion: particularly to assist local firms to seize opportunities in the COMESA and EAC regional markets. The incentives include the development of industrial parks and free export zones to facilitate new industries and new manufacturing lines; and,
4. Attraction of FDI through incentives (e.g. industrial parks, privatisation) to encourage the transfer of capital, know-how and managerial skills, as well as job creation.

### ***III.6.2 Specific Measures, Instruments and Institutions***

Most instruments in place to encourage industries relate to private investment (mobilisation of both FDI and national savings) and export promotion. Rwanda has one of Africa's most open FDI regimes<sup>41</sup> as it does not place restrictions on FDI entry and establishment. All foreign investments are allowed without screening or restriction of amount or sector, and foreign investors are granted national treatment for most intents and purposes.<sup>42</sup>

Investors (local or foreign) who register with the Rwanda Investment and Export Promotion Agency (RIEPA) can apply for additional benefits. RIEPA started operating in 2000 as a one-stop centre providing support services for incorporation, licensing, customs clearance, access to land and immigration. The benefits provided to holders of RIEPA certificates consist mostly in access to facilitation services; fiscal incentives; entitlement to work and residence permits for foreign citizens; and investment protection and guarantees for the repatriation of funds. The Investment and Export Promotion and Facilitation law of 2005 defines a number of priority sectors, which are eligible to additional tax incentives. These sectors are ICT, tourism, energy, agriculture and agribusiness, industry, re-export, mines, R&D, education and human resources development, and infrastructure.

The RIEPA-linked fiscal incentives comprise customs duty exemptions or reductions, VAT exemption on imported capital goods and raw materials, and favourable corporate income tax. Benefits may be conditional on the characteristics of each investment (volume of capital, employment created, export orientation, etc.).

As far as export promotion is concerned, an EPZ scheme was established under Law 14/98, but no zone has been set up so far. Further legislation in 2005 reformulated the incentives under a new EPZ scheme. RIEPA has identified an area near Kigali to set up an EPZ, and it estimates the development cost at around \$70 million, of which the public sector would cover around \$45 million. The targeted uses and sectors are wide, including logistics, warehousing, manufacturing and services.

Under the new scheme, RIEPA is responsible for the supervision of EPZs, which can be privately or publicly established. Single-enterprise zones are also allowed, and investments in industrial, commercial and service activities are permitted on the condition that a minimum of 80 per cent of output be exported. Professional and financial services are allowed in the zones. The main incentives to locate companies in EPZs are exemptions from import and excise duties and VAT on imported capital goods and production inputs, exemption from withholding taxes on dividends, tax-free repatriation of profits and a perpetual exemption of corporate income tax. These incentives provide a virtually tax-free operating environment for firms in EPZs. In assessing requests for EPZ licences, RIEPA considers whether investments will provide high-quality jobs, transfer of technology

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<sup>41</sup> UNCTAD, Investment Policy Review for Rwanda (2006).

<sup>42</sup> The 2005 Investment and Export Promotion and Facilitation law states that "foreign investors may invest and participate in the operation of any business in Rwanda, and they shall enjoy incentives and facilities no less favourable than those enjoyed by local investors."

and knowledge, export diversification, and linkages with the local economy.

Rwanda aims at gradually shifting productive activities to the private sector (a process which has already been completed in many African countries). Recognising the private sector as the engine for economic and industrial growth, the Government of Rwanda, starting in April 1996, enacted a Privatisation and Public Investment law, which directed that 46 enterprises be privatised as soon as possible and government shares in an additional 18 enterprises be ceded to the private sector.

### ***III.6.3 Trade and Tariff Policy***

Rwanda has gradually reduced the level of protection granted to domestic producers, with the weighted average MFN duty rate falling to 10 per cent in 2003 from 25 per cent ten years earlier. It maintains escalation in duty rates, with capital goods subject to an MFN tariff of 0, raw materials taxed at 5 per cent, intermediate goods at 15 per cent and final consumer goods at 30 per cent. Leather, clothing, electrical equipment and beverages are among the most protected sectors (sectoral average tariff rates between 20 and 30 per cent).

Rwanda's entry into the EAC and the implementation by 2009 of its customs union will require lower EAC rates, which entails a shift in the sectors protected (reflecting regional and no longer exclusively national priorities). EAC CET rates are 0 for raw materials and capital goods, 10 per cent for intermediate goods, and 25 per cent for final consumer goods.

Rwanda has been eligible to the preferential market access granted by the United States under AGOA since its inception in October 2000. The preferences, initially scheduled to end in September 2008, were extended to September 2015 under the second AGOA amendment in July 2004. The United States also granted special preferences to Rwanda for apparel exports<sup>43</sup> starting in March 2003. AGOA exports to the USA are predominantly agricultural, however as Rwanda has not been able to utilise preferences on industrial sectors.

As a new member to the EAC, Rwanda has also initialled the EU-EAC Economic Partnership Agreement.

### ***III.6.4 Sectoral Policies***

The Rwandan Government is striving to launch an ICT-based economy. The ICT sector was the first for which a systematic development strategy was elaborated. In 2001, the Government released the first National Information and Communications Infrastructure plan, for ICT development between 2001 and 2005. This was the initial stage of a drive by the Government to convert the country into a knowledge-based economy by 2020. Subsequent second, third and fourth phase plans are projected to guide ICT policy until 2020. The plan is based around eight pillars: development of qualified labour, promotion of ICTs in education, development of the private sector, ICT infrastructure development, attraction of ICT-related FDI, and the deployment and spread of ICTs in society.

The Rwandan Information Technology Authority was set up in 2002 to implement policy under the supervision of the National Information Technology Commission.

In addition to ICT, some traditional sectors of the economy also have sectoral promotion policies (coffee, tea). The Ministry of Trade & Industry prepared a paper on the craft industries sector

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<sup>43</sup> These preferences allow duty-free access to the United States for six types of apparel, subject to certain quantity limitations. Duty-free access is granted to apparel made from fabrics imported from non-AGOA countries.

within Vision 2020, focusing on the promotion of these activities, also as a means of strengthening tourism.

### III.6.5 Other Measures to Promote Industrial Development

The National Science, Technology and Innovation Policy (2005) recognised that an effective approach to science, technology and innovation capacity-building would have to include policies to promote knowledge and innovation. The policy includes the development of links with “best in field” technical and professional institutions internationally. Vocational and Technical Training Centres are to be equipped with business enterprise units to match students with employers and industrial attachment programmes. Continuing professional education will be developed, such as high-level certification courses in ICT. The policy reinforces research units in higher learning institutions, invests in training and develops international partnerships in high-quality research. Specific interventions include the establishment of a science and technology capacity-building fund and science and technology centres of excellence.

### III.7 South Africa

The Government of South Africa formulated a range of strategies for a knowledge-based economy. The overarching instrument is the Accelerated and Shared Growth Initiative (ASGI-SA). Manufactured exports are seen as essential to economic and employment growth and a series of industry analyses have been undertaken to identify competitive strengths and weaknesses, and to design measures to make key sectors globally competitive. To complement the ASGI-SA, the Department of Trade and Industry (DTI) completed a National Industrial Policy Framework (NIPF) and an Industrial Policy Action Plan (IPAP) in 2007.<sup>44</sup>

**Table 6: South Africa’s export structure**

Export sector	Exports as a share of total exports
Platinum, unwrought or semi-manufactured	15
Diamonds, not mounted or set	5
Ferro-alloys	4
Flat-rolled products of stainless steel	3
Boilers, machinery; nuclear reactors, etc	9
Mineral fuels, oils, distillation products	10
Vehicles other than railway, tramway	9
Ores, slag and ash	7
Aluminium and articles thereof	4
Electrical and electronic equipment	2
Edible fruit, nuts, peel of citrus fruit, melons	2
Inorganic chemicals	2
Organic chemicals	2
Articles of iron or steel	2

Source: International Trade Centre (ITC) Country Market Analysis Profile (Country Map): [www.intracen.org](http://www.intracen.org)

<sup>44</sup> Republic of South Africa (2007a) and Republic of South Africa (2007b)

While the DTI plays a central role in industrial promotion, initiatives on trade and investment come from other agencies, reflecting a high level of administrative capacity. Collaborating institutions include the Departments of Finance, Agriculture, Health, Mineral and Energy Affairs, as well as the South African Reserve Bank. Proposals to the DTI may also come from the private sector, including through the National Economic Development and Labour Council, International Trade Administration Commission, and the Industrial Development Corporation. The IDC and Parliamentary Committees assist the DTI in periodic reviews of trade policies.

### ***III.7.1 National Industrial Policy***

The industrial strategy adopted in 2007 seeks to consolidate the competitiveness of existing industries and foster the emergence of new, technology-intensive industries. The objectives of the NIPF include not only diversification and greater value addition, but also employment and the inclusion of marginalised segments of the population. It promotes "a more labour absorbing industrialisation path with a particular emphasis on tradable labour-absorbing goods and services and economic linkages that catalyse employment creation".

The policy's instruments include areas less commonly found in national industrial blueprints, such as trade, regional integration, competition policy and public procurement. In that respect, the NIPF claims not to be a blueprint (with detailed instruments) but a vision paper, which is to be complemented by more operational documents such as IPAP. It is structured around 13 strategic papers:

1. Sector strategies: identify four clusters where South Africa has a competitive edge: natural resources, medium-technology sectors (e.g. chemicals and plastics, jewellery, metals fabrication; machinery and equipment, paper and pulp, and oil and gas), advanced manufacturing, and labour-intensive sectors (agriculture, forestry, fishing, certain parts of mining, clothing and textiles, footwear, food, beverages and furniture);
2. Industrial financing: mandates the reform of national financing instruments with a rigorous selection process, targeting investments that have spill over effects, which contribute to the production of non-traditional products, and which are sustainable and generate employment. New-generation financing should cover industrial upgrading (including industrial infrastructure), innovation and technology, trade facilitation, and SMEs (including cooperatives);
3. Trade policy: calls for greater coherence between industrial goals and trade instruments. For instance, it calls for a review of South Africa's tariff profile to adjust rates to the needs of each industry. It also vows to utilise the WTO and bilateral trade agreements for the expansion of existing industries. Export promotion and FDI attraction are also envisioned as useful instruments;
4. Skills and education;
5. Competition policy: the reinforcement of competition policy and the competencies of South Africa's Competition Authority are seen as a prerequisite in the promotion of a competitive industrial fabric;
6. Public expenditure: purchases of government agencies and public enterprises are to be utilised to promote local companies through local content requirements;



7. Industrial upgrading instruments: are aimed at enhancing the competitiveness of existing industries. The first element is a Manufacturing Excellence Programme aimed at providing support for a variety of firm-level upgrading efforts (e.g. product, process and value-chain upgrading) through benchmarking against peers in the industry, both domestically and internationally. The second component is a Technological Infrastructure Fund to assist firms upgrading technologies and equipment where costs are high. The third component relates to standards, quality, accreditation and metrology. These can assist firms to export into demanding foreign markets and ensure that low-quality imports do not undercut the manufacturing sector;
8. Innovation and technology;
9. Spatial and industrial infrastructure: with priority projects to mitigate the historical concentration of industries in only three urban areas;
10. Support to small enterprises;
11. Empowerment of the marginalised segments of the South African population, particularly in complement to the Black Economic Empowerment programme;
12. Regional and African Industrial and Trade Framework: the identification and development of regional and continental value chains; and
13. Coordination, Capacity and Organisation: coordination among governmental agencies and departments.

### ***III.7.2 Specific Measures, Instruments and Institutions***

Some of the specific instruments in the NIPF merit a separate mention. Four initiatives stand out:

- Industrial Development Zones: purpose-built estates providing facilities for export-oriented industries (e.g. easy access to international airports or ports). They are similar to EPZs and able to import items free of customs, benefit from VAT exemptions, and utilise export-gearred infrastructure (rapid customs clearance and on-site export services). Some of the sites pursue social development goals in mitigating industrial concentration and creating employment in disadvantaged geographical areas.
- Small and Medium Enterprise Development Programme: designed to generate employment and create opportunities for the introduction of advanced skills to South Africa, as well as to encourage foreign investment. It provides incentives for those planning to expand South African-based enterprises or start new projects in a range of sectors, including manufacturing, tourism, business services, ICT and high-value agricultural projects. Eligible projects can claim a tax-free cash grant of up to 10 per cent of the investment cost.
- Strategic Investment Project Programme: offers a tax allowance of up to 100 per cent (subject to a maximum allowance) on the cost of buildings, plant and machinery, for strategic investments. According to the DTI, the programme strives to attract private investment from both local and foreign entrepreneurs.
- Foreign Investment Grant: cash grants to foreign investors in new manufacturing businesses in South Africa. The foreign investor (50 per cent foreign equity) can be compensated for the costs of moving new machinery and equipment from abroad. The

grant covers up to 15 per cent of the costs of new machinery and equipment.

As far as export promotion is concerned, a number of incentives are in place, including:

- Export Marketing & Investment Assistance (EMIA), which compensates exporters for costs involved in developing export markets. It reimburses the costs of contact with potential clients in international markets. Administered by the DTI, the EMIA offers financial assistance with market research, trade missions, and showcasing products and services at international exhibitions, among other things.
- Export credit incentives, granted by the Industrial Development Corporation (IDC), are funds available at reduced rates for schemes that are expected to result in foreign exchange earnings.
- Export credit insurance to small, medium-sized and micro-enterprises protects against non-receipt of payments to an exporter for goods and services delivered. The guarantees are reinsured by the DTI. To qualify, the export must include substantial South African content.
- Customs and Excise duty refunds are available to exporters and firms which import goods for re-export.

Additional instruments target other aspects of manufacturing, particularly the risks of innovating and establishing new ventures. For instance, the Support Programme for Industrial Innovation was introduced in 1993 to assist technology development through financial assistance for projects that develop innovative products or processes. The IDC manages the programme on behalf of the DTI. The Product Process Development Scheme assists small, very small and micro-enterprises with grants of between 50 per cent and 85 per cent of the costs of technical development. The grant is larger for enterprises with female, physically challenged, and black shareholding.

Finally, the Technology and Human Resources for Industry Programme was founded in 1992 by the DTI and is managed by the National Research Foundation. On a cost-sharing basis with industry, THRIP supports research collaborations addressing the technology needs of participating firms. THRIP is considered to be one of DTI's most successful supply-side support initiatives and boasts some impressive success stories. One of these is a research project co-funded to the value of R300,000 (US\$37,500), which led to a body-scanning machine which is the only one of its kind in the world and is expected to generate substantial profits for the De Beers company.

### ***III.7.3 Trade and Tariff Policy***

Trade policy is fully inserted in the NIPF. Regional integration and tariff rationalisation are explicitly mentioned as industrial instruments, at par with other promotion tools. On one hand, tariff protection may be selectively afforded to local producers. On the other hand, industrial inputs not produced (and not likely to be produced) in South Africa are being liberalised to improve the competitiveness of local industries.

As a member of SACU, South Africa's import regime is determined by SACU's CET. Applied MFN tariffs averaged 7.8 per cent (2007) with a non-agricultural trade weighted average of 6.3 per cent. The most protected manufactured products are clothing (37.9 per cent sectoral average rate), footwear and leather products, textiles, tires, wooden furniture, and some aluminium products (tariff peaks of 30 per cent). However, 70 per cent of non-agricultural products are imported duty-free.

South Africa also utilises temporary safeguard measures when import surges threaten local industries. For instance, a safeguard duty was imposed on textile and clothing imports from China to accompany other measures in support of local producers.

South Africa has maintained export controls on certain agricultural, mineral and industrial products. It applies export taxes on a limited number of products, either to encourage local processing (e.g. 15 per cent on exports of unpolished diamonds) or to ensure their availability for local industry (e.g. scrap metal).<sup>45</sup>

South Africa utilises its insertion in global and regional markets as a tool to expand industrial production. For instance, IPAP intends to promote the consolidation of South Africa's automotive production through exports to the region. In addition to SACU, South Africa is a central engine of SADC, which launched its free-trade area in August 2008.<sup>46</sup>

Moreover, South Africa has concluded a preferential trade agreement with MERCOSUR and a Trade, Development and Cooperation Agreement with the EU, which covers around 90 per cent of bilateral trade between the two parties. In order to protect vulnerable sectors, certain products are excluded from the agreement and others have been only partially liberalised. For the EU these are mainly agricultural products, while for South Africa they are industrial products, such as motor vehicle, textile and clothing products. The agreement foresees temporary safeguard measures when an imported product threatens to harm national industry. Finally, South Africa is engaged in discussions with the EU to further liberalise trade under the EPA.

#### **III.7.4 Sectoral Policies**

There are sectoral priorities in IPAP: capital equipment, transport equipment and metals; automotive assembly and components; chemicals, plastic fabrications and pharmaceuticals; and forestry, pulp and paper and furniture.

The Motor Industry Development Programme was historically available to the light motor and heavy commercial vehicle industries (responsible for close to 8 per cent of South Africa's GDP). Registered exporters benefited from its import rebate scheme but it was terminated in 2000 for commercial vehicles and 2002 for motor cars and light commercial vehicles. It is currently being reviewed under IPAP. The MIDP is seen as a success by the DTI as it ensured the viability of the South African automotive industry, preserving employment and generating significant linkages to other sectors (e.g. leather and plastics). Its incentives helped a range of stakeholders to increase product specialisation and upgrade industry. This was led by local content requirements.<sup>47</sup>

Textile, clothing and footwear firms (11 per cent of manufacturing employment) also benefit from support schemes, which assist the sector in modernising and withstanding import competition. Textile firms are eligible for the Duty Credit Certificate Scheme and the World Player Scheme. The Duty Credit Certificate Scheme was available to exporters of certain textile and clothing products as a temporary measure aimed at export competitiveness. Eligible exporters were required to use yarns and fabrics manufactured in SACU, to increase their workforce training expenditure to at least 4 per cent of their wage bill, and to participate in productivity performance monitoring.

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<sup>45</sup> "South Africa imposing export tariff on scrap", *Recycling Today* (October 2008): <http://www.recyclingtoday.com/news/news.asp?ID=14025>

<sup>46</sup> <http://www.sadc.int/>

<sup>47</sup> Republic of South Africa (2007a) at paragraph 3.5.1.

### ***III.7.5 Other Measures to Promote Industrial Development***

A number of specialised institutions provide finance for adjustment and development, and promote research. The Council for Scientific and Industrial Research (CSIR) receives financial assistance from the Government to apply scientific and technological expertise to local industry, commerce, and the environment. CSIR identifies scientific and technological market needs and makes research results available at market prices. Technifin (Pty) Ltd, a joint venture between IDC and the South African Inventions Development Corporation (a subsidiary of CSIR), supports the commercialisation of new technology and products, and provides management for innovation projects.

The Industrial Restructuring Project provides research, training and assistance on globalisation, value chains, clusters and collective efficiency amongst South African firms. The rationale lies in supporting local industries to withstand the pressures from international competitions, the liberalisation of the trade regime and the need to increase exports through linking firms into international value chains.

Finally, the Government aims to use its purchasing power to support its industrial objectives. In awarding state contracts, the policy grants preferences to locally manufactured goods, previously disadvantaged individuals, and SMEs. Successful tenderers of state and parastatal purchases with an imported content above US\$10 million are obliged to contribute to the development of the South African economy through new investment, joint ventures, export promotion, sub-contracting work, technology upgrading etc.

## **III.8 Uganda**

Uganda's economy is predominantly agricultural and heavily reliant on the export of a small number of products. Agriculture employs close to 70 per cent of the population while coffee accounted for close to one-fifth of exports in 2006. The Government considers manufacturing to be important to diversify production and to add value to the existing resource base. As a result, Uganda's "Vision 2025" (1999) emphasises the diversification of production patterns and production of high-quality goods for export, as its core objectives. Various plans have been developed to increase competitiveness, mostly aimed at the agricultural sector. Some policies are cross-sectoral and benefit manufacturing indirectly. Some of the main elements of industrial promotion in Uganda are described below.

### ***III.8.1 National Industrial Policy***

The Medium Term Competitiveness Strategies (MTCS, 2000-05 and 2005-09) were crucial in promoting industrial investment in Uganda. They were formulated in consultation with the organized private sector such as the Private Sector Foundation Uganda and the Uganda Manufacturers Association. The objectives were to improve the business environment so that the private sector could compete effectively. Cluster development was encouraged with possibilities of linking SME activities to large firms in the formal sector. The following were identified for immediate action:

- Improvement of infrastructure to bring down the cost of services like electricity, water, transport and communications, improve business support services and link rural to urban areas. The Government is developing a number of industrial parks to provide infrastructure to investors in central locations. Three are under development (Kampala

Industrial and Business Park, Luzira Industrial Business Park, and the Bweyogerere Industrial Estate);

- Strengthening the financial sector, in order to ensure improved access to finance at reasonable cost. Objectives included reducing the risks of lending to private firms, promoting savings and restoring public confidence in the sector, and improved credit services for SMEs;
- Institutional framework for investment and export promotion. In terms of investment, the focus was not only on investment promotion but also ensuring the completion of investment proposals. In terms of export promotion, measures were introduced for export finance and guarantees, with emphasis on attracting FDI, generating more domestic investment, improving access to regional markets, producing products that could compete in the global market, and developing EPZs and business parks;
- Skills development and training, fostering the availability of skilled labour for micro-enterprises and focusing on coordination between vocational training and private demand;
- Business Regulation, including land reform, a competition law and reduction of regulations;
- Promotion of linkages and value chains through a Pilot Business Linkage Programme to enhance linkages between multinational corporations and local SMEs. These linkages are expected to be particularly beneficial in telecommunications, property development, building and construction, garments and textiles, agro-processing and the petroleum industry.

**Table 7: Uganda, export structure**

Export sector	Exports as a share of total exports (%)
Coffee, tea, mate and spices	26
Fish, crustaceans, molluscs	15
Pearls, precious stones, metals, coins, etc	13
Electrical, electronic equipment	6
Mineral fuels, oils, distillation products, etc	4
Live trees, plants, bulbs, roots, cut flowers etc	3
Tobacco and manufactured tobacco substitutes	3

Source: ITC

### ***III.8.2 Specific Measures, Instruments and Institutions***

A number of initiatives have been introduced to eliminate barriers to private investment. Emphasis is given to FDI with incentives to attract FDI and lure back Uganda's Asian business community. Privatisation has played an important role in attracting FDI into Uganda. The central investment entity is the Uganda Investment Authority, a government agency acting as a one-stop facilitator for investors. The UIA provides incentives to domestic as well as foreign investors, provided they qualify in terms of investment amount. Foreign investors engaged in activities such as wholesale and retail commerce, public relations and food processing for the domestic market are not eligible. Benefits include temporary exemption from corporate tax, tax deductions for costs related to start-up, R&D, training,

and mineral exploration; exemptions from import duties and sales tax for machinery and construction materials; and fiscal rebates for depreciation of capital goods.

There are a number of incentive schemes to support export-oriented companies. These include classic instruments such as a Fixed Duty Drawback Scheme (which allows exporters to draw back up to 100 per cent of duties paid on inputs imported to produce for export), a Manufacturing Under Bond Scheme (there are some restrictions on the items that can be exported, e.g. timber, charcoal, and whole fresh fish) and Foreign Exchange Liberalisation (exporters are entitled to retain all the foreign exchange accruing from their export transactions).

Finally, measures to support enterprise development aim to increase investment in skills, including skills for women, raise productivity and improve the quality, standards and reliability of small producers. SMEs employ 40 per cent of the urban population and 12 per cent of the rural population. This uses a matching grant scheme.

### ***III.8.3 Trade and Tariff Policy***

Uganda's tariff regime is determined by membership of the EAC and its CET. The common tariff on imports from third countries contains three bands: 0 on raw materials and capital goods, 10 per cent on semi-processed and intermediate products and 25 per cent on finished imports. The industrial sectors subject to tariff protection are clothing (25.2 per cent sectoral average rate) and textiles (19.7 per cent). For 59 sensitive products, CET is above the maximum CET band of 25 per cent, reaching 100 per cent for some products. Sensitive products include: agricultural products, wines and spirits, chemicals, plastics, wood-based paper, textiles and clothing, footwear and glassware. The reason is the desire to protect infant industry.

Uganda is also a member of COMESA. Uganda is a signatory of AGOA. As a member to the EAC, it also initiated the EAC-EU EPA text at the end of 2007.

Finally, a 20 per cent export tax on raw hides and skins has been levied since 2001, to encourage the development of a domestic tanning and leather industry.<sup>48</sup>

### ***III.8.4 Other Measures to Promote Industrial Development***

Uganda has initiated efforts to improve productivity and encourage innovation. For instance, the Uganda Industrial Research Institute, a parastatal formed under the Ministry of Tourism Trade and Industry, undertakes applied industrial research and develops appropriate technology. It contributes to creating a stronger and more competitive industrial sector. It supports food science and technology (e.g. dairy, meat, bakery, fruits and vegetables); ceramics; engineering and manufacturing; and entrepreneurship training.

Similarly, the Government recognises education and training as a priority, to match the economy's need for skills, especially in the industrial sector. The PRSP calls for balance within post-primary education between academic and vocational education. In this regard, the secondary school curriculum is being reviewed to make it more responsive to labour demands, and 56 secondary schools are being transformed into vocational schools. The Education Sector Plan envisages that this will become an alternative to academic education in the last two years of secondary level, rather than an

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<sup>48</sup> In addition, there is a cotton cess of 2%, a coffee cess of 1% and a proposed levy on fish exports of 2%, which go to funding the activities of the Cotton Development Organization, the Uganda Coffee Development Authority and the proposed Uganda Fisheries Authority, respectively.

alternative to the early years of secondary education. The introduction of short modular courses should also make it easier for adults to acquire skills over their lifetime.

## **IV. TRENDS AND COMMONALITIES**

The description of industrial policies and promotion instruments reveals certain trends in policy making in African countries. In addition, the analysis of sectoral priorities allows comparisons with the guidelines agreed at the continental level by African heads of states and ministers. Some of the main commonalities and differences in the reviewed African countries are commented upon in this section.

### **IV.1 Policy Making**

As illustrated by the national policies reviewed above, governments must balance the interests of various productive groups (SMEs, agriculture, manufacturing, import and export sectors, etc.). The rent-seeking behaviour of national firms is often cited as the main deterrent of an effective industrial policy and is typically advanced as a reason why governments should refrain from any type of active industrial policy. It can indeed compromise policy efficiency and credibility. This is a difficult exercise, particularly in African countries where institutions are young and financial and administrative capacities are lacking. Transparent, participatory policy making can be even more difficult given the lack of organisation and capacity of critical stakeholders, such as both the private sector and workers. Lack of policy implementation and follow up indeed helps to explain poor performance for policies at the country and continental levels.

Nonetheless, most policies reviewed claimed the participation of a large base of stakeholders. Some of the countries have anchored their industrialisation goals within a wider development agenda (Kenya, Rwanda, South Africa and Uganda). Some have institutionalised inter-agency and public-private dialogue in the day-to-day administration of policies (e.g. Kenya, Mauritius and South Africa). This echoes (and perhaps informs) the more recent consensus in continental action plans, which reaffirms the need for greater involvement of private actors in policy making and administration (see, for instance, the participation of the private sector at the 18<sup>th</sup> CAMI).

The difficulties for governments are to identify the market failures and bottlenecks, establish priorities and sequence policy responses accordingly. Industrial policy relies on the quality of the alliance between government and economic operators (Rodrik 2004). It is therefore no surprise if countries that have better institutional capacity also have more robust and complex industrial policies. In this sense, the South African example stands out from the others, since it translates a clear strategy, deploys concrete policy instruments, is comprehensive and emphasises coordination and policy coherence.

Effective policy, especially related to industrialisation and the productive transformations that it entails, requires a solid anchorage within larger national development visions. Despite calls for industrial policy making at the highest political level (such as the AU Summit of Heads of State on industrialisation of early 2008), competing priorities make it difficult to translate ambitious industrial objectives into concrete mobilising projects (Cameroon, Kenya, Rwanda).

**Table 7: National Industrial Policies**

<b>Country</b>	<b>Title (Year)</b>
<b>Botswana</b>	Industrial Development Policy (1998)
<b>Cameroon</b>	NO
<b>Ghana</b>	NO
<b>Kenya</b>	Industrial components of "Kenya Vision 2030" (2007) and "Master Plan for Kenya's Industrial Development" (2007)
<b>Mauritius</b>	NO
<b>Rwanda</b>	Industrial components of "Vision 2020" (2000)
<b>South Africa</b>	National Industrial Policy Framework (2007)
<b>Uganda</b>	Industrial components of "Vision 2025" (1999)

The presence of an explicit industrial policy, however, is not a sufficient parameter to attest the importance of industrial objectives in the countries reviewed (Table 7). In fact, all countries in the sample without exception either expressed their industrial ambitions in a wider development framework (Kenya, Rwanda, and Uganda) or had specific measures in place to foster productive diversification (Mauritius). The only exception, at least to some extent, is Cameroon, whose industrial ambition is more difficult to trace back to specific measures or policies. Moreover, the recent adoption of some of these blue prints clearly reflects a revived interest for industrial promotion measures.

Similarly, the extent to which previous industrial policies have succeeded in developing an industrial base is directly contingent on the level of policy implementation and hence on the administrative and financial capacity of key institutions involved (e.g. Ministry of Trade and Industry, Export Processing Zone Authority, Investment Promotion Centre etc.). Mauritius and South Africa unsurprisingly differentiate themselves from the other countries reviewed in so far as their implementation record and clear vision are concerned. Because of the weak institutional capacity in some countries, some authors suggest that governments should focus on a limited number of sector-specific interventions instead of large visionary industrial policies. This seems to be the preferred path, for instance, of Uganda.

Finally, there is a critical element which is largely absent in the national policies reviewed: transparency, monitoring and accountability. While policy experimentation is needed, authorities should not act in an erratic or discretionary manner. One instrument to avoid corruption and rent-seeking is independent monitoring of industrial policies and institutions on the basis of defined benchmarks. Only in South Africa, and to a lesser extent in Kenya, did policies have some elements of review. Both had qualitative and quantitative benchmarks for the policies being implemented.

## **IV.2 Emphasis on the Attraction of FDI**

A comparison among the policies reviewed in this study reveals a consistent preference for export-led growth and the attraction of FDI. Investment regimes are generally very open (Mauritius, Rwanda, Uganda) and offer attractive tax, customs and locational benefits. While private investment should undoubtedly be a major, if not the main, engine of entrepreneurship and economic activity, the emphasis on FDI, particularly for export activities, raises several questions.

First, FDI flows to Africa have tended to accentuate productive patterns by concentrating on enclaves of export-oriented primary production or natural resources using imported technology and with limited linkages to the rest of the economy (Milberg, 2004). The examples of mining, oil, agro-processing and more recently textiles and clothing (owing to the AGOA) are cases in point (particularly telling in Mauritius and Kenya, but also in Ghana). For this reason, restricting benefits to



priority investments (technology) or non-traditional sectors and technologies can prove very strategic. However, few of the national policies reviewed had a clear "pick and choose" approach to exclude traditional activities (e.g. Botswana, Mauritius) or attract specific technologies (Ghana, Mauritius). An important question is whether investments would occur anyway in traditional activities, even in the absence of incentives. Incentives could ultimately diminish the public benefits of such investments.

Second, the oil and mining sectors tend to be more volatile than other sectors, particularly manufacturing, given the combination of capital-intensive projects and the sensitivity of profits to world commodity prices. Moreover, because much of the technology is brought into a country through imported parts and components, with limited local value added and linkages, there is an added threat from external shocks. This pattern of integration, which illustrates the features of commodity enclaves, can actually hinder development of domestic supply capability and risks locking countries into their current trading pattern based on exports of raw materials and a reliance on unskilled and semi-skilled labour-intensive activities. The realisation that export processing zones were parallel and not integrated into the economy was noted for Kenya and was a major motivation for the regulatory reforms undertaken by the Mauritian government.

Moreover, many TNCs do not transfer the most valuable activities outside their home country. Therefore it is common to find that FDI in Africa is in what Erik Reinert, the Norwegian economist, refers to as technological dead-ends (automotive assembly in Botswana or textiles elsewhere). These are production activities where there is no more room for innovation in skills and technology, and which are therefore characterised by diminishing returns, for example textiles, leather goods and food processing.

FDI should be used selectively as a tool for industrialisation and export expansion. It is important for countries to be able to control foreign exchange earnings and spending by foreign companies, for example, by ensuring that a proportion of their inputs are purchased locally. Only South Africa, out of the countries reviewed, utilised local content requirements to develop local production. Ghana and, to a lesser extent, Uganda utilised FDI to promote the development of peripheral regions.

Thirdly, most classical FDI attraction instruments consist of generous fiscal incentives (sometimes perpetual tax holidays), which deprive poor governments of much needed tax income. Transfer pricing by TNCs is another concern. Companies with operations in several countries can cut down significantly on their tax obligations by shifting their biggest profits to those subsidiaries where tax rates are lowest. Finally, there is a question regarding the generosity of fiscal packages provided to investors. Countries' ability to attract foreign investment does not necessarily depend on these fiscal packages but possibly more on other factors such as governance, macro-economic conditions and infrastructure. At the very least, the disappointing levels of FDI in some of the countries reviewed contrast sharply with the openness of their investment regimes and privatisation plans.

FDI policies need to be linked to a wider national development strategy with policy measures for upgrading activities and integrating new value chains. Such measures can include reverse engineering of imported goods, technology screening, performance criteria, domestic content agreements, prohibited entry into infant sectors, and exchange controls. To ensure that the host country derives substantial benefits from FDI, it is important also to impose performance or qualitative requirements for foreign firms to hire and train local manpower, transfer technology and skills, use local inputs and so on. Few of these conditions were found in the case studies reviewed (Chang and Green, 2003). This type of requirement was found more commonly in public procurement than in investment policies.

### IV.3 Prevalence of Export-Oriented Strategies

Another commonly observed pattern in the policies reviewed is the priority accorded to export-led growth and hence to instruments that encourage production for foreign markets (sometimes exclusively). This bias has been entrenched by the institution of EPZs (see table 8). These EPZs are characterised by a wide array of incentives and concessions, for example tax holidays, majority foreign ownership, lax profit repatriation laws, free land and factory premises, subsidies on inputs, favourable credit terms and protection from labour action (by enacting laws which weaken the ability of workers to unionise).

**Table 8: Industrial policy instruments, comparative table part 1**

Instrument	BO	CA	GH	KE	MA	RW	SA	UG
Incentives for export activities	X	X	X	X	X	X	X	X
Export processing zones		X	X	X	X	X	X	X
Export promotion with a particular emphasis on manufacturing exports	X	-	X	X	X	X	X	-
Standardisation and quality improvement for exports	X	X	-	X	-	X	X	X
Measures to attract FDI for export activities	X	X	X	X	X	X	X	X
Measures to attract FDI particularly in manufacturing activities	X	X	X	-	X	-	X	-
Facilitated credit for non-traditional manufacturing activities	X	-	-	-	X	-	X	-

These generous overtures have led to a situation where governments are continually injecting their own revenues into these projects, while simultaneously foregoing tax revenues. Some of these zones were slow to develop (Cameroon, Ghana and Rwanda) or owed their development almost exclusively to the textiles and clothing sector and AGOA preferences (Mauritius and Kenya). Moreover, the revenue foregone through such schemes also appeared to be a concern in at least two of the reviewed countries (Cameroon and Ghana).

Moreover, there is significant controversy over the effectiveness of EPZs in fostering growth, particularly because of the absence of forward and backward links with domestic firms and the rest of the economy. Blecker (1999) noted that export-led growth cannot be pursued by all countries at the same time. Export promotion requires that at the other end there is a country with an appetite for imports. The export-driven strategy is once again being questioned, with China and other export-dependent countries being hit by the slump in US and global demand.

Also China's integration into the world economy with relatively low labour costs makes it more difficult for countries with higher labour costs to pursue export-oriented development. The imbalances that result from simultaneous export promotion efforts around the globe are a threat to the stability of the world economy. In the East Asian economies, protection, conditional on export promotion, allowed import-substituting infant industries to become internationally competitive export-oriented industries.

There is hardly any transfer of production and management skills and technology from foreign investors since most of their investments are in the production of low-technology goods and processing of primary inputs. Most of the foreign-owned companies fly in their own management, and other top and middle management are recruited in countries such as China and India. The case of textiles and clothing production is particularly illustrative in that respect. After the MFA was ended at

the beginning of 2005,<sup>49</sup> a substantial number of companies closed down, many leaving large debts unpaid.<sup>50</sup> The struggle of the EPZ sector in Mauritius and its consequential employment losses attest to the challenges that these enclaves create.

While the bias towards export-led growth is evident in all national policies reviewed, it is also a consistent pattern of continent-wide calls of action and is an important element of the approach to industrialisation being pursued by UNIDO. Since the markets targeted are typically the EU and the US, there is also a focus on increasing product quality and conforming to standards. There are two sides to this strategy. While it can help add value to natural resources (and therefore require "minimum" diversification efforts), it may also accentuate traditional patterns of production (agriculture and low value-added products) rather than creating incentives for non-traditional exports.

#### **IV.4 Absence of Coherence with Regional Integration Objectives**

In relation to the export bias, rarely are sub-regional African markets identified as possible engines of growth. Kenya's and South Africa's were the only policies which emphasised that the regional context might provide testing ground and economies of scale as a first step towards global competitiveness.

Nonetheless, review of export data reveals that regional trade tends to be of a much higher quality (i.e. more diverse and of greater value added) than traditional trade towards developed countries. For instance, Ghana's non-traditional exports are destined exclusively to neighbouring countries of ECOWAS (cotton woven fabrics, plastics and footwear). This pattern is also found for other countries reviewed (e.g. Kenya, Mauritius).

#### **IV.5 Tariff Policy and other Trade Instruments**

Globalisation allows governments in developing countries reduced room for manoeuvre in industrial policy experimentation. Some of the policies that were central to the success of the miracle growth economies are no longer permissible or have been regulated under the WTO agreements (for instance, ul Haque, 2007; Chang, 2005).

However, this research shows that tariffs as instruments of industrial development are still very commonly utilised. Despite having generally low industrial tariffs, all the countries reviewed apply higher tariffs (peaks) to protect local production and infant industries from import competition. Even Mauritius, where tariffs have been considerably lowered recently, maintains a tariff structure cleared geared to shield strategic or sensitive industrial sectors (Table 9). However, the availability of tariffs as an industrial instrument is becoming narrower. This is mainly a result of bilateral and multilateral trade commitments. In some cases, regional integration and the establishment of customs unions have necessitated tariff reductions (e.g. EAC and SACU). In other cases, free-trade agreements, particularly the EPAs, further limit the utilisation of tariffs to cushion local firms from imports.

The rapid and across-the-board elimination of tariffs poses several difficulties to the countries reviewed and also raises the question of policy coherence. While, on one hand, governments identify sectors to be promoted, on the other, they agree to expose producers in these sectors to greater import competition. Moreover, with the exception of South Africa, all the countries reviewed still rely on tariffs to a large extent to finance their expenses.

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<sup>49</sup> The MFA had enabled the development of textile and clothing industries in developing countries which were not affected by quota restrictions. Thus the end of the MFA meant that quota or quantity restrictions that had been placed on textile products from Asian countries no longer applied.

<sup>50</sup> There are reports of such accounts, for instance, in Kenya, Tanzania and Uganda.

**Table 9: Industrial policy instruments, comparative table part 2**

<b>Instrument</b>	<b>BO</b>	<b>CA</b>	<b>GH</b>	<b>KE</b>	<b>MA</b>	<b>RW</b>	<b>SA</b>	<b>UG</b>
Selective tariff protection (peaks and high tariffs)	X	X	X	X	X	X	X	X
Utilisation of other trade defence instruments (anti-dumping, countervailing or safeguard measures)	X	-	-	-	-	-	X	-
Export duties to favour local manufacturing	-	X	X	X	-	-	X	X
Promotion of SMEs in non-traditional manufacturing sectors	X	-	X	X	-	-	X	X
Competition							X	
Government procurement practices favouring local manufacturers	X	-	X	X	-	-	X	-

Notwithstanding the pressure that trade liberalisation exerts on national firms and industrial employment, only South Africa had a mechanism dedicated to delivering trade adjustment assistance to help firms cope with the negative effects of foreign trade. Moreover, South Africa also implemented policies to assist the sectors most detrimentally impacted by international trade. Mauritius also implemented industrial restructuring and adjustment policies, although they were a response to changes in global competition (elimination of textiles quotas). Kenya had programmes to recover manufacturing firms, but its intention was to support firms affected by the violent post-election riots. None of the other countries reviewed made compensating adjustments to accompany their import liberalisation process.

Similarly, industrial efforts are pursued in some countries through the utilisation of export taxes in order to discourage the export of raw resources and foster local processing. Export taxes proved to be much more commonly applied than one might think (five of eight reviewed countries). Moreover, export taxes are not applied across the board or in an indiscriminate manner, which confirms their clear intent to promote local processing of natural resources. Like tariffs, export taxes could be prohibited under the EPAs being negotiated with the EU.

One rather consistent pattern observed is that very few countries reviewed applied trade defence instruments (e.g. safeguards or temporary tariff increases). Few of them even have national legislation on the utilisation of safeguards or anti-dumping measures. Examples of utilisation of these flexibilities (afforded under FTAs such as SACU and under WTO Agreements) were only found in Botswana and South Africa.

Finally, while only partially reviewed under this review, public procurement practices appeared quite consistently as an instrument to promote local manufacturers and producers. Even if procurement practices containing guidelines in favour of local producers are not widespread, their utilisation by four of the reviewed countries calls for caution when negotiating restrictions to these practices in FTAs.

#### **IV.6 Privatization and Finance**

Another common characteristic of industrialisation policy in the countries surveyed is the diminishing government role in production. This is seen in the privatisation of state-owned enterprises, where the state's stake in major sectors like mining, public utilities (water, electricity, railways, airlines, telecoms) and even public land, forests and fisheries have been auctioned off to private investors. The reason advanced for these policies is that state-owned enterprises are inherently inefficient and their subsidisation by government places an unnecessary burden on taxes. It is argued that by privatising

them, competition will encourage more efficient products and services.

There are few examples of public enterprises engaged in manufacturing which have not been privatised (Cameroon, Ghana, Kenya, Mauritius). Their presence is more common in service sectors. In all the countries reviewed, the trend is towards supporting and developing the private sector so that industrialisation is led by private operators. Only the policies and institutions in Botswana (BDC) and Mauritius (National Equity Fund and the Mauritius Venture Capital Fund) showed some openness to equity participation by the government in specific ventures.

However, some governments (e.g. Kenya, Mauritius, South Africa) also facilitated access to the financing of new activities. Access to finance is indeed crucially important. All governments recognised access to finance as a major stumbling block to the acquisition of technologies, initial investment costs and exports. Improved access to finance is also a clear area of convergence between national and continental policies (it is mentioned in several continental declarations), and several studies have reported poor finance as a hindering factor for industrial development. For instance, Cameroon was ranked as one of the most difficult countries on the globe to obtain credit.<sup>51</sup> In the absence of a sophisticated financial service sector able to provide finance to economic operators, governments may need to intervene to bridge the investment gap.

#### IV.7 Sectoral Focus, non-Traditional Exports and Innovation

A positive element confirmed by this review is that all the reviewed countries have identified sectors that present investment and diversification opportunities. That is an important step towards better policy implementation. The emphasis is on building on existing natural resources, particularly agriculture (food processing and tannery), forestry (wood, furniture and paper) and mining (see Table 10).

**Table 10: Industrial Policy Sectoral Priorities, comparative table**

<b>Botswana</b>	automotive, beverages, textiles and clothing
<b>Cameroon</b>	textiles and clothing, wood, energy and hydrocarbons, agro-processing, pharmaceutical products
<b>Ghana</b>	agro-processing, ICT, metal-based industries
<b>Kenya</b>	agro-processing, fertilisers, cement, fish, leather, pulp and paper, metals, plastics, textiles, clothing and footwear, ICT, electrics
<b>Mauritius</b>	ICT
<b>Rwanda</b>	agro-processing, ICT
<b>South Africa</b>	automotive and components, textiles and clothing, pharmaceuticals, plastics, metals, pulp and paper, furniture, chemicals
<b>Uganda</b>	agro-processing, textiles and clothing
<u>Note:</u> The list of sectors for each country is not exhaustive	

It is strategically sensible to focus industrial efforts on existing resource bases. There is a clear trend in this direction in the continent, with explicit mention of that orientation in the policies of Botswana, Ghana, Cameroon and Kenya, for instance. This is undoubtedly also the reason why continent-wide action plans, such as the declarations of CAMI, call for the addition of value to agricultural products (food industries, beverages) or to existing resources (hides and leather utilising cattle).

<sup>51</sup> World Economic Forum (2006).

Almost all the countries analysed are involved in the manufacture of light consumer goods like apparel, leather products, wood and furniture products, food and beverage products and paper products, and the processing of primary mineral and agricultural resources. While this provides the easiest inroads into industrialisation, in some cases there is minimal value addition and technological innovation. Even the more successful examples of diversification, like Botswana and Mauritius, are still largely dependent on traditional sectors. The exception is South Africa, which already has a much more diverse and complex production base.

This notwithstanding, most countries identified the need to move towards a more knowledge-based economy, based on greater productivity and use of ICT. However, only in the cases of Mauritius and South Africa was that objective spelt out concretely. In fact, overall, many sectoral policies are inconsistent (too many sectors identified) or lack translation into concrete incentives (although it must be noted that tariff structures generally follow sectoral priorities).

**Table 11: Industrial Policy Instruments, comparative table part 3**

<b>Instrument</b>	<b>BO</b>	<b>CA</b>	<b>GH</b>	<b>KE</b>	<b>MA</b>	<b>RW</b>	<b>SA</b>	<b>UG</b>
Finance for access to industrial technology, equipment or machinery	X	-	-	-	X	-	X	-
Industrial research, technology diffusion	X	-	X	X	X	-	X	X

A related difficulty for African countries is that, as latecomers, they need to plan their integration into global trade. In South Africa, the highly competitive global environment poses a major challenge to employment-intensive industrialisation. Trade and investment liberalisation coupled with improved logistics and ICT systems have made it easier to outsource parts of value chains to lowest-cost destinations. The rapid expansion of China and India in the global trading system has driven down costs and increased the commoditisation of a number of manufacturing products and even services. Conversely, advanced economies generally dominate the intellectual property associated with high-technology production. South Africa finds itself sandwiched between these two sets of countries.<sup>52</sup>

#### **IV.8 Informal Sector**

One recognised deficiency of the industrial sector in most African countries is that it is composed mainly of micro- and small enterprises, mostly in the informal sector. Government support institutions and programmes may not be able to reach these firms. While all the countries reviewed deployed policies to support entrepreneurship and SMEs, only Kenya had an explicit focus on graduating companies from the informal to the formal sector (through the licensing and registration of "Jua kali" entrepreneurs).

<sup>52</sup> Republic of South Africa (2007a) at paragraph 4.1.4.

## V. CONCLUSION

The analysis of national, regional and continental industrial policies in this study shows that the objectives of industrialisation and the enhancement of manufacturing capacity are remain very much alive in Africa. All the countries reviewed either have explicit industrial policies or are implementing specific measures to promote industrial development.

Nonetheless, these policies often lack consistency with other development roadmaps, such as national PRSPs. Despite the presence and comprehensiveness of some national industrial policies, there is a serious lack of policy coordination with other areas (e.g. trade, finance, education, agriculture). Virtually none of the policies reviewed referred to the objectives of NEPAD, the African Union or APCI, which diminishes the effectiveness of continental cooperation. Yet policy coherence is of fundamental importance if the intended structural changes are to succeed. With respect to trade, this would entail, for instance, approaching regional trade integration in a strategic manner, that is, as a viable tool to foster competitiveness, economies of scale and regional value chains.

This would also entail negotiating FTAs with caution, so as to protect strategic industrial sectors and avoid restrictions on the use of policy measures for industrial promotion. The presence of a clear sectoral focus is a first step in accommodating these measures under FTAs. In addition, a map of industrial measures being implemented may also help to formulate national demands and “red lines” in the context of trade liberalisation agreements. The presence of tariffs, export taxes, government procurement limits etc., as shown in this study, confirms that the elimination of industrial instruments under FTAs would have a real impact.

While industrial promotion objectives translate into different measures in the different countries reviewed, the policies also have some resemblance, particularly with relation to some of their themes (export promotion and attraction of FDI) and sectoral priorities (resource-based industrialisation). Specific policy measures commonly deployed include fiscal incentives to attract FDI and promote exports, selective tariff protection, export taxes and public procurement practices. While there is clearly scope to improve consistency and coherence, there are some very positive elements in the implementation of the industrial policies surveyed in this study. The promising trends include:

- Increasing embeddedness of industrial policies within wider national development policies, exploiting synergies (e.g. in employment, agriculture and education) and enhancing the visibility of industrial objectives;
- A better targeted sectoral focus, with sometimes a clearly defined prioritisation of strategic sectors and products. Prioritisation is a crucial requirement in order to map needs and formulate national positions in international trade negotiations (e.g. identification of sensitive products in FTAs);
- A quite consistent match between national and continental policies relating to resource-based manufacturing as the easiest road into manufacturing and product diversification. This realisation gives direction (with the assessment of natural resources and the need to add value to exports) and provides a good opportunity to establish a fruitful public-private dialogue;
- Policy measures that go beyond simple macro-economic stability and export promotion. Without underestimating the need for investments in infrastructure and private sector development, the presence of concrete policy reflects translates the acceptance of a larger governmental role in the promotion of productive restructuring;
- A common utilisation of tariffs (and sometimes export taxes) in a strategic manner, sometimes matching strategic products for development and tariff peaks;

- Some limited emergence of regional markets – as opposed to global markets only - as a possible environment to promote economies of scale and competitiveness;
- The wide recognition that the acquisition and diffusion of information technologies is a fundamental aspect of modern manufacturing, a consequential redesign of education policies and a sometimes clear identification of opportunities for technological leap-frogging;
- The understanding that access to finance is critical for the advancement of the industrial process, and hence that governments might need to intervene in a deficient financial services sector.

These are promising elements as they indicate that, after the import substitution and structural adjustment policy prescriptions, governments are striving to find a policy mix that best suits their needs. Unlike other regions of the world, the primary challenge in Africa remains to initiate and build productive capacity. This requires governments to eliminate hindering factors and to identify leverage elements that accelerate that process. This entails promoting private initiative in a framework of public action that encourages restructuring, diversification and technological dynamism beyond what market forces alone would generate. Market forces and private entrepreneurship are at the centre of this agenda, but governments must also perform a strategic, coordinating role in the productive sphere beyond simply ensuring property rights, contract enforcement and macro-economic stability (Rodrik 2004).

Countries must find the specific paths that correspond to their institutional, economic and social circumstances. In fact, there are no single policy templates to spur industrial development. Economic history shows that policy experimentation, policy innovation and the ability to continuously adapt policy measures to objectives are more important than implementing a readily transferable template. This is a concrete manifestation of the need for policy space. It is also a lesson for Africa's trade, finance and technical cooperation partners.



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