SUPPORTING ECONOMIC TRANSFORMATION

# PAN-AFRICAN COALITION FOR TRANSFORMATION: MANUFACTURING CHAPTER WORKING SESSION

## Event report

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On 11th December 2017, ACET in partnership with the Overseas Development Institute (ODI), held the first substantive working session for the Manufacturing Chapter of the Pan-African Coalition for Transformation (PACT). The session aimed to foster discussions between government officials, the private sector and other stakeholders in order to build a consensus on core Chapter objectives, identify regional and country-specific issues, discuss actions taken by countries to date, and obtain feedback on challenges faced. Those in attendance sought to identify workable solutions to common problems faced by African countries in industrialising. Progress made in PACT will be presented at the African Transformation Forum in 2018, to be attended by global thought leaders, key private sector actors, active civil society groups, and high-level governmental and intergovernmental organisation representatives, with the aim to inform policy.

The session heard from representatives from the Ethiopian Investment Commission, Nigeria's Federal Ministry of Industry, Trade and Investment, Ghana's Exporters Promotion Authority, Uganda's Ministry of Trade, Industry and Cooperatives and the Rwanda Manufacturers Association. Chapter partners such as ODI, the Department for International Development (DFID) and the World Bank were also represented at the meeting.

ODI

ACET African Center for Economic Transformation

UKaid from the British people

# INTRODUCTION

Economic transformation in African countries is a multi-dimensional process, based not only on growth but also on 'DEPTH': diversification, export competitiveness, productivity, technological upgrading and human well-being. To translate these concepts into a practical policy agenda and to address the challenges of industrialisation facing African counties, the Pan-African Coalition for Transformation (PACT) was formed. The central purpose of PACT is to drive economic transformation by serving as a platform where African countries can share ground-level experiences and knowledge on industrial policy, address common problems collaboratively and frame the policy dialogue at the African Transformation Forum in 2018.

To facilitate preliminary discussions between government officials and the private sector on African transformation, ACET in partnership with ODI launched the Manufacturing Chapter of PACT in June 2017 in Addis Ababa. The meeting identified the need to promote the manufacturing sector, in combination with infrastructure and affordable finance. It acknowledged the importance of effective provision and regulation of special economic zones (SEZs) and industrial clusters, effective investment facilitation, local-capability building, supportive infrastructure planning, involving the private sector to address constraints, and selective and conditional support to build firm capabilities. The importance of experimenting, adjusting and learning was also emphasised.

To discuss country-level experiences, a working session for the PACT's Manufacturing Chapter was held in Accra on 11th December, attended by government and business representatives from Ethiopia, Ghana, Nigeria, Rwanda and Uganda, as well as members from ODI, DFID and the World Bank. The main objective of this meeting was to attain consensus on common and country-specific issues which would form part of the Chapter's work program, and identify actions and deliverables to be undertaken before the next ATF.

Introductory remarks on ACET's work on Africa's economic transformation were given by Dr. Edward Brown, Director of Country Engagements and Operations. This was followed by a presentation on PACT and the Manufacturing Chapter by Fred Yawson (ACET), highlighting the effectiveness of PACT as a platform for peer-to-peer learning and for contributing to the achievement of DEPTH.

# COUNTRY PRESENTATIONS

Introductions were followed by country presentations, in which each country presented the key tenets of their industrial policy, any strategic interventions made by the government, issues and challenges faced in the implementation of these interventions, and policy actions being planned or implemented over the next 12-18 months to drive growth in the manufacturing sector.

## ETHIOPIA

The presentation given by the Ethiopian Investment Commission (EIC) revealed the key role played by the government in bringing about economic transformation. Currently Ethiopia is pursuing its 2020 economic transformation plan, which includes a target of 11% annual GDP growth primarily by focusing on the manufacturing sector. To achieve this vision, the EIC is working closely with the Prime Minister's office and has identified 14 key sectors, including leather, textiles and apparel, for attracting foreign direct investment (FDI). Along with sector-specific policies for attracting FDI, the EIC is targeting a small number of large international buyers who can draw in manufacturers to sites such as the Hawassa Industrial Park. To promote exports, industrial parks are made to follow sector-specific policies; for example, textile producers must export 100% of goods manufactured, while for agro-processers, the target is 60%.

One of the major challenges faced by these industrial parks is the lack of efficient logistics and customs practices. To tackle this, in some cases one-stop service centres have been set up to enable expedited customs. Another important challenge facing Ethiopia is the changing nature of urbanisation as industrialisation takes place. Industrial parks such as Hawassa create jobs at a large scale; Hawassa at its full capacity can employ around 60,000 people. However, large-scale migration to these parks raises questions about the availability of affordable housing for workers and the impact this may have on city plans more widely. With three industrial parks already operational and a further 10 in development, city planning has become a significant challenge, along with retention of labour and deployment of technology. Key priorities for Ethiopian policymakers and private firms over the next 12-18 months include finalising the construction of upcoming industrial parks, attracting greater numbers of investors into the identified key sectors, and industrial-skills development.

## NIGERIA

Nigeria was represented at the event by the Federal Ministry of Industry, Trade and Investment and the Manufacturers Association of Nigeria. As part of Nigeria's Industrial Revolution plan, the Backward Integration Policy (BIP) has proved to be successful, particularly in the cement sector. With increasing demand for cement in Nigeria, domestic production fell short, resulting in a price hike. In 2002, the government adopted the BIP, under which the license to import cement was only given to those importers who could provide proof of building factories for local cement manufacturing in Nigeria. Incentives under the policy included a waiver of VAT and custom duty for cement production equipment. The BIP has succeeded in encouraging local sourcing, improving capacity utilisation and generating local employment.

As part of Nigeria's wider industrial policy plans, efforts are being made to improve capacity, infrastructure, skills, the investment climate, standards, finance and capital formation. To ensure greater accountability, distinct institutions are made responsible for different elements of the policy plan (such as the Standards Organisation of Nigeria (SON) for meeting of standards and the Industrial Training Funds (ITF) for skill-development), and for different sectors (such as the Sugar Development Council and the National Automotive Council). To promote investment, the One-Stop Investment policy has been deployed and for export promotion and revitalising the rural economy, the scheme of 'One-Local Government-One Product' has been adopted. These initiatives have contributed to improvements in employment opportunities and the alleviation of poverty in rural areas. However, challenges remain, including the implementation of incentives, poor customs and logistics arrangements, poor connectivity of ports and the deployment of technology.

## UGANDA

Uganda (represented by the Uganda Manufacturers Association and the Ministry of Trade, Industry and Cooperatives) is amid the implementation of a 30-year development plan, which aims to industrialise the Ugandan economy by 2040. Under this plan, one crucial strategic intervention has been the setting up of the Export Promotion Board to boost exports and regulate the country's two export-processing zones. Efforts are also being made to set up SEZs, attract FDI, develop small- and medium-sized enterprises (SMEs) and incentivise the local production of goods in certain sectors. The 'Buy Uganda, Build Uganda' plan has been implemented to boost domestic production and high licensing fees are charged on certain products, such as foreign pharmaceuticals. However, access to finance and skills remain key challenges for the successful implementation of these various policies and programs.

## RWANDA

Rwanda's country presentation, by the Rwanda Manufacturers Association, highlighted it's 2020 Vision, as part of which the government is working towards deeper integration into regional and international markets. Consistent with this, the country has become a member of the East African

Community (EAC) and has implemented the Common External Tariff (CET). Along with many policies targeting industrialisation, such as the National Industrial Policy and the Trade Policy, the government has also introduced the Domestic Market Capture Strategy, with the aim of reducing Rwanda's trade deficit by supporting local production.

As part of upcoming changes to the industrial and trade policies, the government is pushing for a ban on the import of second-hand clothing to be implemented within the next two years, in the hope of encouraging local sourcing and production. Access to skills and good infrastructure however remain major challenges for transformation in Rwanda.

## GHANA

In Ghana (represented by Ghana Export Promotion Agency and the Ghana Investment Promotion Council), the government has developed Industrial and Trade policies, which are currently being reviewed. A 10-point plan for industrial transformation has also been introduced, which has led to an increase in both exports and FDI have increased, setting up of export-processing zones and growth in non-traditional exports. Under Ghana's National Export Strategy, leading export products now include garments, processed cocoa and shea and cocoa butters. Interventions by United Nations Industrial Development Organisation (UNIDO) have also been important, particularly in the automobile sector. For rural development, policies such as 'One District, One Factory' have been implemented, which aim to put the natural resources of the districts to use, produce for both export and local production and relocate at least one manufacturing or processing facility to each district. The 'One District, One Exportable Product' Policy has also been implemented, which has contributed to the creation of rural jobs and the minimising of rural-urban migration. Tax cuts and incentives are identified as important drivers in preparing companies for foreign competition, while challenges remain in the distribution of technological innovation, access to skills, capital and high-quality infrastructure.

# ACTION PLAN

Following individual country presentations, an action plan working session took place, with the aim of identifying shared challenges and potential solutions.

## ACTION PLAN FOR THE MANUFACTURING CHAPTER

| Common problems | Proposed solutions | Proposed chapter support |
|---|---|---|
| 1. Lack of skills, both operational and technical<br><br>(Ethiopia, Rwanda, Ghana) | • Re-align the education system with a focus on engineering-related subjects and technical skills.<br>• Allow for private sector collaboration in structuring the curriculum.<br>• Introduce internships in the private sector for final-year students.<br>• Re-tool and re-skill the workforce by focusing more on Technical And Vocational Education and Training (TVET) and introduce more technical institutions. | • ACET/ODI to identify, discuss and share the best practices on how the skills gap can be addressed.<br>• Rwanda to share its Workplace Learning Program. |

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| 2. Poor logistical and customs systems.<br><br>(Ghana, Uganda, Nigeria) | • Improve port logistics to increase competitiveness in global value chains (GVCs); 'one-stop-shops' are important.<br>• Improve postal logistics to become competitive in e-commerce.<br>• Improve connection of ports with railways.<br>• Introduce paperless systems. | • Best practices from other countries for one-stop shops.<br>• Case study on Ghana's paperless system. |
| 3. Poor technological upgrading due to lack of good infrastructure and poor access to capital.<br><br>(Ghana, Nigeria) | • Encourage FDI for technological upgrading to increase efficiency.<br>• GVCs and R&D are important drivers. The public sector has a key role to play in R&D.<br>• Develop a targeted approach; sector-specific policies and dedicated funding for infrastructure.<br>• Give incentives to the private sector companies based on their performance. | • Government to play an important role in the re-tooling of industrial processes. |
| 4. Lack of effective collaboration between public and private enterprises | • Public-private partnerships (PPP) are important for monetary and evaluation processes (as in the case of Nigeria), infrastructure projects, developing green economy and standards.<br>• Adopt more creative public-private partnerships (as in Nigeria), where the private sector built roads and was paid by way of tax incentives.<br>• Improve communications and dialogue in real-time (for example; the Ethiopian government has been involved in recent Investment Association meetings).<br>• Encourage agency collaboration by introducing a single window clearing system (like Ghana) or regulation change, where one single institution is given the mandate to coordinate (like Nigeria). | • Ethiopia, Rwanda and Nigeria to share best practices for improving communication in PPP.<br>• Nigeria to share best practices for creative PPP relationships. |

To deal with country-specific issues, it was agreed that the next step would be for countries to provide a further detailed action plan and feedback on the indicators for economic transformation. ACET will then consolidate these action plans with refined indicators to share with countries. Based on the country feedback received, ACET and ODI will formulate a plan for chapter support.

# THE FUTURE OF MANUFACTURING

The discussion of the action plan for the Manufacturing Chapter was followed by ODI's presentation on what the future of manufacturing may look like for Africa, in the context of an ever-expanding digital economy.[1]

While globally, digitalisation has increased at a fast pace, there is a significant digital divide between developed and developing economies; ODI's forthcoming research finds that the African share of the total number of robots sold in 2014 was almost 10 times lower than its share in global GDP.

[1] ODI's research conceptualises the digital economy as an interaction of digital technologies (such as machine learning and AI) with physical infrastructure (such as routers and sensors), giving rise to a) Smart Machines (such as robots and 3d printers), Smart Platforms (including e-commerce platforms such as Amazon) and Smart Products (such as electronically transmitted goods, RAM products etc.).

Since the level of digitalisation is still very low in African countries, there is no need for these countries to be alarmed by the global technological surge in the short term. However, growing digitalisation may alter the global manufacturing landscape, indirectly creating challenges for African countries. This include re-shoring of manufacturing activities back to the developed world, production of digitally-advanced goods becoming concentrated in developed countries and a gradual exclusion of digitally-backward countries from GVCs. At the same time, if African countries manage to digitalise manufacturing, important opportunities can be realised, such as lowered costs of trading and communication. This will allow African countries to strengthen their GVC linkages and will also create opportunities for SME development.

ODI's research has found two interlinked problems challenging the future of manufacturing in Africa:

1. There are still low levels of digitalisation in African countries.
2. The impact of digitalisation on sub-Saharan African countries is significantly lower than on other countries.

To tackle these issues, ODI's research is proposing a two-pronged approach:

1. African countries to invest in improving their digital-readiness by skill and infrastructure development.
2. Meanwhile, to use the current window of opportunity to shift resources into sectors less affected by global changes, and move towards higher value-added exports and services.

*SET is an applied research and advisory programme at the ODI, funded by DFID. The programme's reports, dialogue sessions and events cover four dimensions of a country's experience in economic transformation: (i) what is happening? (ii) why is it happening? (iii) what should be done? and (iv) how to make it happen. For more information, visit set.odi.org.*