

Industrial Development in Sub-Saharan Africa: Opportunities and Challenges

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Success Stories



- ❧ Five of the larger Sub-Saharan countries have grown rapidly over the past decade... Ethiopia, Ghana, Mozambique, Tanzania, Zambia.
- ❧ This growth is broadly based across the several sectors of their economies
- ❧ If these growth rates can be sustained for another decade, these countries can become middle income countries
- ❧ But can these growth rates be maintained?

The change in size and composition of GDP

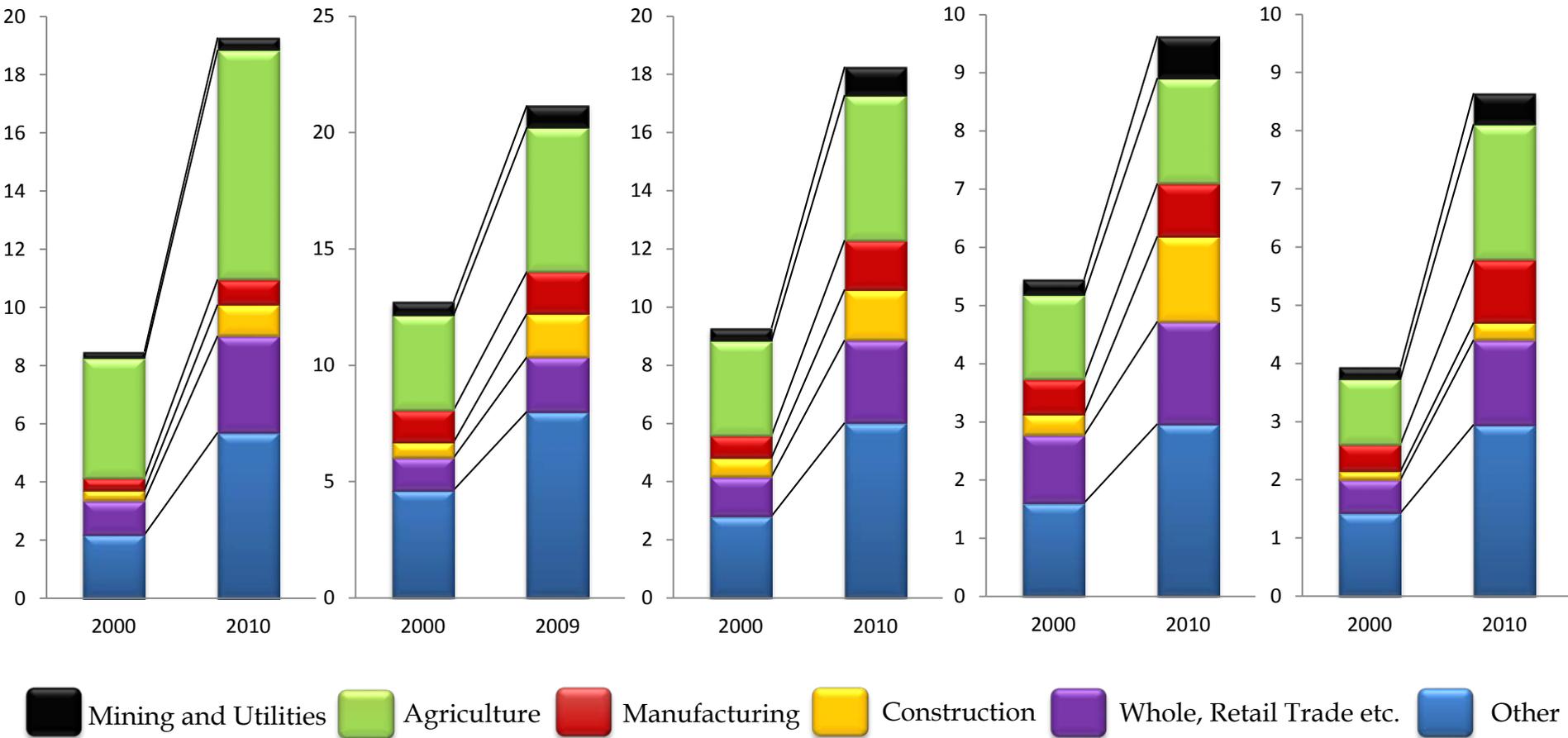
Ethiopia

Ghana

Tanzania

Zambia

Mozambique



(billions of real US\$; base year 2005)

Remark



- ❧ The rise in raw materials prices is best seen as a one-off step change in GDP levels, rather than an ongoing potential source of growth.
- ❧ The Agricultural sector will continue to be a key contributor to growth... but the shift of population out of agriculture will be a vital part of the process too (see below)
- ❧ The volume of industrial output has more-or-less doubled in a decade: my main focus in this talk lies in asking,
 - ❑ (How) Can this continue?

An Enterprise Map of **Zambia**



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John Sutton
and
Gillian Langmead

An Enterprise Map of **Ethiopia**



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John Sutton
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An Enterprise Map of **Tanzania**



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John Sutton
and
Donath Olomi

An Enterprise Map of **Ghana**



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Bennet Kpe

The Range of Industrial Activity



What are the industries we see (almost) everywhere?

- ❧ Food, Drink: Wide range, Sugar, Beer
- ❧ Metals: Drawn Wire, Galvanized Sheet
- ❧ Plastics: Moulded Products, Heavy Pipes
- ❧ Building Materials: Cement, Bricks, Tiles

Within this range of Industries, there are some really excellent companies...

- ❧ Bakhressa Flour Mills, Tanzania
- ❧ Lafarge Cement, Zambia

What do these industries have in common?



- There is no international supply chain with other firms whose quality standards you must meet

It is this last point that looms largest as we move to mid-ground manufacturing

A Central Challenge



The limited population of well-functioning mid-size firms:

- ❧ We have already seen that exports from (almost) all major export industries are dominated by at most a handful of firms.
- ❧ We have seen how mid-size companies can be important drivers of new industrial activity.
- ❧ The well-functioning mid-size firm is ITSELF the 'scarce resource': even if its market dies it still soldiers on.
- ❧ The large firm sector will be a key driver of growth ... but there is tremendous potential in building up the population of well-functioning mid-size firms.

Some Figures from Ethiopia



- ☞ Soderbom compares the wage levels of newly formed firms (8 years old) that employ 50+ people as compared with those employing 1-10 people: wages are higher by a factor of just under 4.

Where will good jobs come from? Broadening the Industrial Base

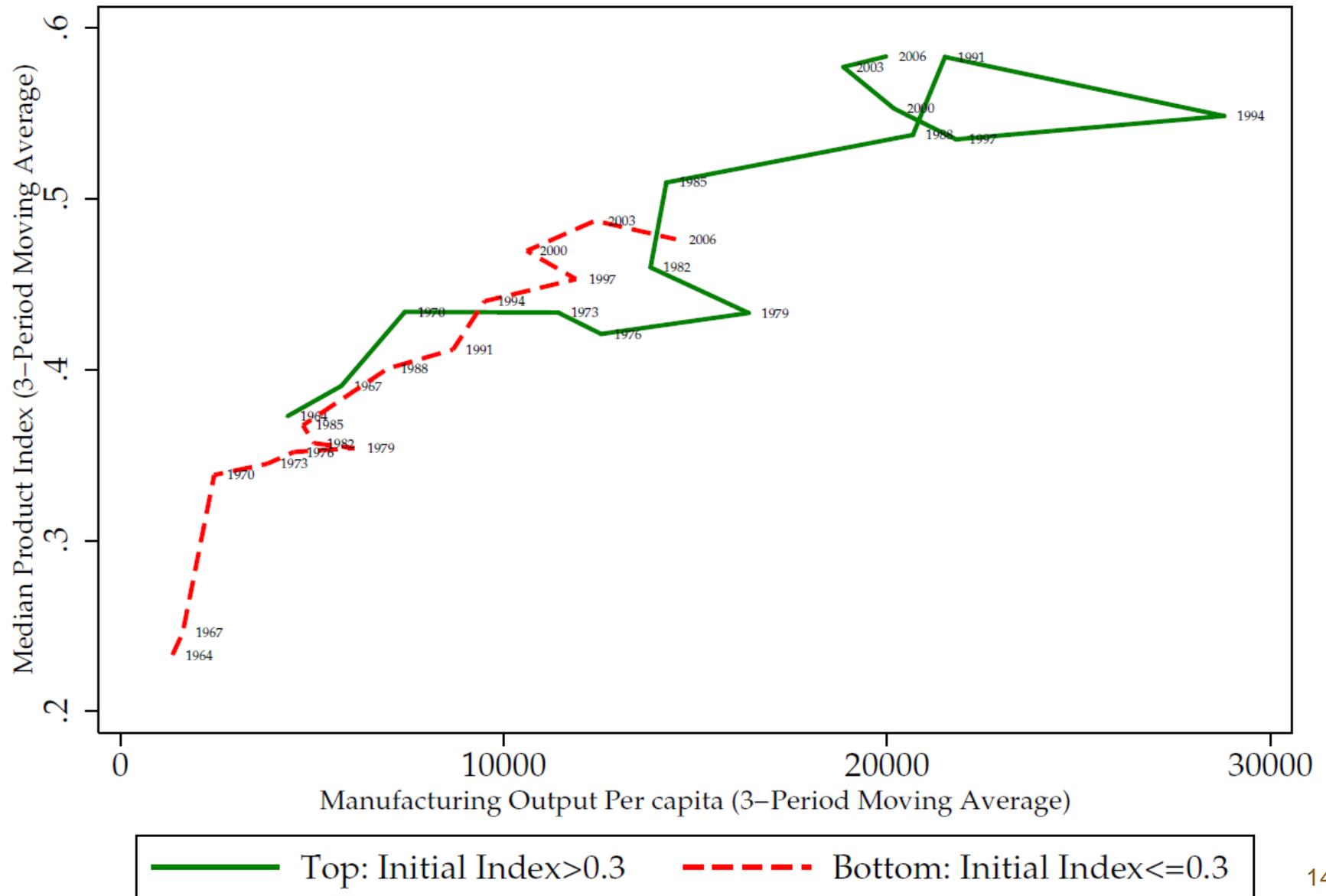


The next slide shows the share of a country's exports that come from "middle manufacturing", i.e. "Metals, Engineering, Electrical and Electronic, Chemicals and Pharmaceuticals, etc."

The next slide shows a similar relationship, but now the measure used on the vertical axis is an index of the fraction of manufacturing output that is 'middle manufacturing'.

In the past 40 years, some 17 countries moved from having a very low level of industrial output per capita, to having a very high level. In the next slide, we look at how this index for “middle manufacturing” changed over time. The message is: all these countries FIRST BROADENED THE BASE OF THEIR MANUFACTURING SECTOR, i.e. the rapid growth was created on a broad-based manufacturing sector.

Two Groups of Fast Growers



What Do The Pictures Suggest?



1. You *don't* have to broaden into middle-ground manufacturing to become a middle income country.

But ...

2. Every country that has broadened its industrial base into mid-range manufacturing is at least a middle income country
3. For these countries, future prospects rest heavily on broadening the industrial base.
4. Almost every country that has achieved this broadening has relied to a huge degree on FDI.

FDI and the New African Frontier



We are now on the threshold of a likely movement of middle manufacturing MNCs into setting up bases for their future operations across sub-Saharan Africa.

This is the most important Window of Opportunity for each country's Industrial Development.

What does FDI offer ?



Multinationals are catalyzing change right down along their supply chains ,as they shift to local sourcing over time, bringing the capabilities of local companies and the capacities of individual employees , up to the best global standards.

The Surge in Imported Inputs



In Middle Manufacturing , the role of imported inputs is much greater , with final products being put together from raw materials, components and sub-assemblies coming from different countries.

As the Industrial sector expands, there will be a huge surge in imports of intermediate inputs.

A New Challenge



This means that the current difficulties faced by manufacturers in importing intermediate inputs will move from being a nuisance towards being a critical bottleneck in the country's development.

The problem is two-fold: (a) Import Procedures and delays, and (b) Foreign Exchange (paying for imported inputs).

Two Further, Central, Challenges



1. Reforming Investment Agencies
2. Integrating Domestic Firms into Oil and Gas Industry Supply Chains

Investment Agencies: Evidence



The literature provides strong and consistent support for the claim that Investment Agencies operating in developing countries that have a satisfactory investment climate are effective in raising FDI inflows. (Charlton and Davis, 2007), (Harding and Javorcik, 2011)

The Impact can be enhanced via:

☞ Good Website Design (Harding and Javorcik, 2013)

☞ Agency staff at overseas embassies (Lim, 2008)

☞ Direct links from the Agency to the Prime Minister (Morisset, 2003)

Ethiopia :The Pre-Reform EIA



- ❧ EIA emphasised the monitoring of all firms who obtain licences , and...
- ❧ It offered help on request to all firms , but...
- ❧ It did not actively seek prospects
- ❧ It did not emphasise relationship building
- ❧ This means it was not exploiting some of the key channels of job creation

Leverage



- ❧ The few largest foreign firms are well served
- ❧ The issue is how to get leverage, going from 20 firms to 200 or 300
- ❧ This requires a major organizational and cultural change in the Agency
- ❧ How can this be achieved

An IGC – supported Reform: Relationship Building



☞ The key to expanding, reshaping and focusing on relationship building is:

1. A drastic re-assessment of priorities
2. New staff hires, and training
3. A cultural shift in the approach to relations: “anticipating problems” versus “putting out fires”

The Target



- ☞ Only 23% of Firms of size 10+ have become operational
- ☞ Changing this to 50% would double the number of jobs created
- ☞ Half of all jobs created in Ireland by foreign firms come from already established companies
- ☞ Relationship Building is the key to capturing this.

A New Issue : Local Content in Tanzania and Mozambique



- ❧ A Bargaining Power Reversal
- ❧ Building Industrial Capabilities through integration in the Supply Chain
- ❧ Learning from Global Best practice
- ❧ Misconceptions and False Trails

The Breadth of Local involvement



- ❧ Construction
- ❧ Services (helicopter leasing)
- ❧ Retail (port development)
- ❧ Catering (Safety Standards)
- ❧ General manufacturing (furniture)
- ❧ Engineering (lessons from Ghana; Finding foreign partners for local firms in the chain)

Looking at Examples



- ❧ Tullow Oil in Ghana and Uganda
- ❧ BP in Azerbaijan
- ❧ The Columbian Experience
- ❧ Zambia , China and the Downstream industries.

Timescale and Phasing



- ❧ The role and nature of a Local Content Unit
- ❧ The initial Phase: Ghana's Takoradi Port
- ❧ Understanding the huge breadth of opportunities
- ❧ The Offshore Phase

Firms and Prospects



- ✎ Using the Enterprise Map volume in Ghana
- ✎ Training centres (Business and Technical)
- ✎ The role of private and public agencies in firm training
- ✎ A 2 year timescale
- ✎ Shadowing Schemes

How to have openness AND efficiency



- ❧ Knowing local capabilities
- ❧ The concept of Approved Vendor Status
- ❧ How firms become approved Vendors
- ❧ The open tender for Approved Vendors

Summing Up : Broken Wheels



- ❧ In these 5 countries, the story is good...
- ❧ But there are several specific , fixable road-blocks
- ❧ These road-blocks can be subtle
- ❧ ForEx for Imports(Ethiopia)
- ❧ Land Rights (Tanzania)
- ❧ Supply Chain Inclusion (Mozambique)

Summing Up : Implementation



- ❧ Maintaining High Growth requires inter alia a Broadening of Industrial activity
- ❧ Broadening the range of activity demands a qualitative shift in industrial capabilities
- ❧ FDI is crucial to this , and fixing specific bottlenecks that inhibit FDI flows is urgent.
- ❧ Whether this transition can be achieved depends crucially on policy choices
- ❧ The central challenge lies in the successful implementation of a small number of key changes