



Concept Note – Session 1 Can entrepreneurs drive Africa’s industrialisation?

After a year 2016 characterised by falling commodity prices, unfavourable weather patterns and China’s economic slowdown, Africa’s economic growth stagnated at 2.2%.¹ However, projections for 2017 look positive, placing African growth at the same rate as the IMF’s predicted world growth of 3.4%.² While Africa’s net commodity exporters faced a difficult year, the majority of the continent’s more diversified economies continued to grow, consolidating previous years’ gains. Moreover, the consumption demand boosted by a growing middle class will contribute towards the positive trend in African economic growth.

The strong and resilient growth of non-commodity based African economies highlights the mounting need to promote industrialisation. Industrialisation is a driving force of innovation, high productivity and job creation. The establishment of new industries can unlock the potential of manufacturing and other sectors to achieve structural transformation across Africa. The industrialisation strategies already in place in over 26 African countries, coupled with today’s technological progress and global economic condition can bring about new opportunities to harness the high growth potential of non-commodity based sectors.

More developed regions have managed to shift their labour force from agriculture to manufacturing, thus increasing their overall productivity. Nevertheless, in many African countries, the surplus of labour that emerged from the agricultural sector has been absorbed by low productivity sectors such as retail rather than being channelled in the manufacturing sector³. Besides manufacturing, tradable services and farming activities such as horticulture and the agro-industry can enhance economic growth. Non-farm entrepreneurship can benefit rural households by diversifying their income sources and provide a steady source of income during difficult agricultural seasons.

Industrialisation strategies can serve as a platform to tap into the large continental base of entrepreneurs. Africa is the continent with the highest proportion of entrepreneurs, as 22% of working-age Africans start their own business. These entrepreneurs are essential agents of industrialisation as they take on innovative yet risky activities, create jobs and demand for skilled workers. Firms with less than 5 years and fewer than twenty employees provide most of the new jobs in Africa’s formal sector. While most African entrepreneurs (55%)⁴ focus on low skill sectors such as retail trade, hotels and restaurants, efforts must be made to link young workers to sectors of high productivity potential such as manufacturing, tradable services and agribusiness.

Africa is also the continent with the highest rate of young female entrepreneurs (women are twice more likely to start a business than women elsewhere). They however encounter severe

¹ AfDB/OECD/UNDP (2017), African Economic Outlook 2017: Entrepreneurship and Industrialisation, OECD Publishing, Paris. <http://dx.doi.org/10.1787/aeo-2017-en>

² Ibid.

³ OECD, et al. (2013), African Economic Outlook 2013: Structural Transformation and Natural Resources, OECD Publishing, Paris. <http://dx.doi.org/10.1787/aeo-2013-en>

⁴ AfDB/OECD/UNDP (2017), African Economic Outlook 2017: Entrepreneurship and Industrialisation, OECD Publishing, Paris. <http://dx.doi.org/10.1787/aeo-2017-en>



disadvantages such as gender-biased legal restrictions that may prevent them from owning property as well as limited financing options as many countries restrict women's ownership and use of land as collateral.

In terms of financing, Africa lags behind other regions as African firms are 19% less likely to obtain a bank loan than firms in other developing regions⁵. The continent's micro, small and medium-sized enterprises (MSMEs) face a credit gap of USD 136 billion due to limited capital and poor banking systems. Financing programmes set up by multilateral banks have been successful in the past, but the continent is in need of developing new financing instruments for private investment.

Moreover, improving vocational training and skills for workers and entrepreneurs will be essential to keep up with the growing demands of globalisation and labour market needs. Some national programmes that help promote youth education, vocational training and entrepreneurship have been successful at promoting productive entrepreneurship and employment as well as pairing local firms with industrial associations.

Participants to this session will discuss the different industrialisation strategies implemented in the continent and how entrepreneurs feature in them, taking into account each country's comparative advantages. They will also analyse the role of high-growth entrepreneurs in the continent's industrialisation, with a special focus on how to support them with appropriate financing, training and regulations.

Questions for discussion

- Which strategies should governments prioritise to foster industrialisation?
- How can entrepreneurs contribute to Africa's industrialisation? What are their main challenges to grow?
- What new financing mechanisms can be put in place to support entrepreneurs in Africa?
- Which skills are the most relevant for entrepreneurs and how can governments successfully incorporate vocational training into their industrialisation strategies?

⁵ Ibid