

"The Africa Growth Initiative"

SMEs/SMIs centered industrialization for inclusive and sustainable growth in Africa – How can Japan help?

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Presentation outline



- ❑ *Definitions and context*
- ❑ *Implementation outcome*
- ❑ *Winds of change*
- ❑ *SMEs centered industrialization*
- ❑ *How can Japan help?*

Definitions and context

Small and Medium Scale Enterprises (SMEs)

Firms that employ between 10 and 100 persons.

Based on definition in 10 countries in Sub-Saharan Africa (SSA)

(Nigeria, Sudan, the DRC, Kenya, Ethiopia, Ghana, Uganda, Cote d'Ivoire, Tanzania and Zimbabwe)

Industrialization

Transition from the primary sector of the economy (Agriculture, mining, etc.) to the tertiary sector (services and expand to knowledge economy), through the secondary (processing, manufacturing, etc.)

Economic growth

Economic growth is the increase in the value of goods and services produced by the Economy; generally referred to as the increase in the gross domestic products.

Economic development (*inclusive growth*)

A measure (by various indicators) of improvement in the economic well being and quality of life of a set of people. In our context, a reduction and elimination of poverty. More restrictively, income poverty.

Definitions and context (cntd.)

Biased economic and political world order
geared to preserve the **dominance** of Western
Countries (UN/World Bank/IMF/WTO...)

Post colonial governments recognized importance of industrialization

Import substitution (60-70s)

- *Inexperienced leaders*
- *Inherited enclave economies*
- *Fragmented continent*
- *Endowed with vast natural resources*
- *Abundant (unskilled) cheap labor*
- *Through state owned enterprises*

SAPs

- *Macro-economic stability*
- *Enormous negative legacies*

Export-oriented industrializ.

- *Globalization*

**Externally engineered
to leapfrog at one bound
the long and laborious
path to industrialization.**

Implementation outcome

Over four decades, many industrialization strategies have been tried, but most have **failed**.

Failure of governance

From independence

1. Weak institutional capacity
2. Weak regulatory framework
3. Inadequate/imported policies
4. **Poor implementation**

The causes interpenetrate



Policies should be complemented by effective and operational policy implementation strategies (*country specific*)

Repeated failures have created a self-confidence deficiency syndrome

Need for new strategy to build the industrial sector from the ground up to achieve sustainable economic growth.

SMEs should become the prime agenda as they generate value adding activities based on existing domestic resources

Winds of change

Recent world trends offer a **unique opportunity** to change Africa's predicament

1. Increased economic growth

- *Without much diversification (non-inclusive)*
- *Fueled by high commodity prices and windfall investments from India and China*
- *Macro-economic reforms*

2. New non-conditional donors

- *They understand Africa's challenges*
- *Big competitors at the same time*

3. Renewed focus on growth (DAC)

- *Growth diagnostics*
- *Infrastructure development*

Leverage the new relationship to diversify their economies and convert their comparative advantage into competitiveness.

The goal being to reduce vulnerability to fluctuations of World commodity prices
(*e.g. extractive final stage processing locally in Africa*)

To realize the objectives of economic growth through Competitiveness on the one hand and employment generation and income distribution on the other hand, SMEs assume a critical role

SMEs centered industrialization

SMEs represent the biggest share in business establishments in practically all countries and **play a key role** in industrialization of developing countries

The case of Botswana

Botswana statistical report 2003

1. >50% of consumer goods imported

- Food / beverage / tobacco / etc.
- Textile / footwear
- Wood / paper
- Metal / metal products

2. Large amount of hard currency used

- On goods that could be produced locally
- Diverting uses of valuable funds

3. ~80% of dairy/milk products import

- Though Botswana is famous for livestock
- They export meat

**>90% of export
primary products**

During the same period

This reflects
most of African
countries

SMEs centered industrialization

Intra-Africa trade has **tremendous potential** and is yet to be fully exploited, for Africa this is a matter of survival

Intra-Africa trade

1. Regional cooperation

- To enlarge markets
- To build complementarity
- Attract investors

2. Intra-African trade (% export)

- 2005 → 9.8% } - Comparative to other region's internal trade
- 2005 → 8.9% } WTO 2006 data

3. >43% manufacture products

- 20% annual growth
- Great potential for SMEs

**Trade is an important
leverage for growth as it
increases country's income**

Challenges

- ✓ **Structural deficiencies**
- ✓ **Economic performance**
- ✓ **Half hearted measures**
- ✓ **WTO accession**

SMEs centered industrialization

It is **economic freedom**, especially for those at the bottom of the economic ladder, that offers Africa hope.

Why SMEs for Africa?

Because

1. Gradual industrialization

- Better use of existing local capacity
- Supporting for future high-tech develop
- Invisible colleges (skills training)
- Provide for structural change of ecie.

2. Labour intensive/create jobs

- Equitable distribution of income
- Expand economic space

3. Mostly locally driven

- Increased measure of self-reliance
- Easy to start with minimum financing
- Focused on local and regional markets

Though **mega-projects** are still welcomed, especially to provide infrastructure. However, as long as mega-project centered industrialization strategy's causes of past failures still prevail, **mega-project centered** industrialization will not deliver.

How can Japan help?

In a changed international context, and an increasingly inter-dependent world, Africa has assumed **new importance** to Japan

During SAPs in the 1980s

1. Japan as late comer donor

2. No constructive participation

- Content as a silent donor
- Neither academia nor government was intellectually or practically prepared



1. Today major donor

2. Influential DAC member

- Self-help = ownership
- Focus on growth drivers
- Aid, trade and investment

3. TICAD process

- A major donor to intellectually take the leadership in assistance to Africa

4. Past recipients mostly success

- Understand the development challenges
- Favorable circumstances

5. No historical baggage

How can Japan help?

Arguably, there is in fact a good deal of **common ground** between Japan's sustained focus on economic growth, and the concentrated, cross-sectoral approaches of China in so many African countries.

Japan

China is still a difficult place to do business

China

1. Integrated approaches to aid, trade and investment by Japan

Complementarity of initiatives

2. Substantial number of technical cooperation experts

3. TICAD and China's Africa policy very similar

- *New strategic partnership for sustainable development based on the self-reliance*
- *Almost no (World Bank/IMF type) conditionalities*

4. Jap. Overseas Coop. Volunteer

- *>40 years experience*

4. Non-aligned movement years

- *Not a donor but a partner*
- *Win-win not poverty reduction*

5. Schools/Hospitals

5. Range of activities

Can Japan and China learn from each other about how Africa can move from poverty to growth.

How can Japan help?

Besides, (i) supporting **infrastructure** development, (ii) providing **market access** to African products, (iii) supporting **human capital** development - vocational and tertiary education

Areas to for assistance

1. Increasing the number and tenure of "Africa specialists"

2. Help reshape Africa's image in Japan

- *Mapping out a detailed framework of risk in Africa*
- *Promote transcultural education*

3. Promote Japanese SMEs investment in Africa

4. Collaborate on green and bio-technologies



Increased involvement of Japan in Africa, at bilateral as well as multi-lateral levels



Conclusion

1. There is need to go beyond acknowledging historical injustices to determining where Africa's self interests lie and steer the world appropriately by establishing stronger economic blocs within Africa and mutually beneficial partnerships outside Africa.
2. Africa needs to determine an adequate framework for herself a framework that is sensitive to international realities and opinions and which can get the buy-in from the rest of the World.
3. There is window of opportunity to redefine Africa's role in the global community and Africa is looking to partners for not charity, to realize her full potential.



Thank You