

EMBRACING THE CHALLENGES OF SUSTAINABLE INDUSTRIAL DEVELOPMENT

COVID-19 | EMPLOYMENT | ENERGY TRANSITION MADE IN | TECHNICAL ASSISTANCE

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Grégory Clemente CEO, Proparco he debate concerning the impacts of globalisation, which was previously the preserve of economists, is now of interest to a much broader section of the population. People are starting to ask questions about the ways in which we consume and exchange industrial goods in an interconnected world and to highlight increasing concerns over climate-related challenges. Cure-all for African unemployment? The Asian miracle? Responsible for climate change? A solution for (in)dependence and national resilience? While industry is a source of much controversy, it is also frequently touted as an indispensable stage in a country's economic development.

Consequently, AFD Group, via its private sector financing arm, Proparco, has decided to support carefully-vetted projects in promising sectors of industry such as consumer goods, packaging, textiles and construction materials. Partnering these sectors is contingent on strict stewardship of the related corporate social responsibility risks. This is why Proparco focuses on a limited number of known players renowned for their best practices and selects impactful projects in areas such as energy efficiency, creating decent jobs and bringing environmental practices into line with international standards. As a means to this end, Proparco has chosen to help players in certain sectors with their energy transition (in the cement sector) or to achieve social progress (textiles).

Industrial sectors continue to face many complex challenges, highlighting the transformations necessary for achieving compliance with strict social and environmental guidelines that guarantee sustainable and more equitable development (i.e., the creation of decent jobs, harnessing clean technology, shared innovation, etc.). These transformations help underpin the Paris Agreement to tackle climate change. As well as causing economic hardship across the planet, the health and economic crisis triggered by the Covid-19 epidemic has also brought these questions into clearer focus.

In this issue of *Private Sector & Development*, Proparco attempts to conduct a non-exhaustive analysis of these issues by letting researchers, entrepreneurs, NGOs and experts in providing technical assistance have their say.

Enjoy your reading!

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The role of the manufacturing sector in Asian economic development

I Jean-Raphaël Chaponnière, Researcher and economist, Asie 21 Marc Lautier, Professor of Economics, Rennes 2 University

When studying industrial development dynamics and their impacts on the economy worldwide, the Asian case is an obvious example. Huge investments in the manufacturing sector have brought about rapid structural changes in Asian economies more than policies for opening up. Through the prism of Asia, Marc Lautier and Jean-Raphaël Chaponnière take a look at the impact of industrial growth on economic development.

> ince the catching-up of Japan, the take-off of the "new industrial countries" (NICs) and the emergence of Southeast Asia and China, Asia's development has been shaking up the structures of the world economy. It is the main change to have occurred in the developing world over the last fifty years. This tidal wave, which has pulled almost half of the world's population out of poverty, is often presented as a series of cyclical or even "miraculous" episodes. However, Asia is not simply a series of of exceptions but a reference for development economics, and the dynamic of industrialization are at the forefront of these processes.

Yet at the time of independence, Asia did not look as if it was on track for development and "Asia-pessimism" dominated. In 1960, South Korea was poorer than Ghana and in Seoul,

American advisors despaired over its future. In 1964, an economic journalist concluded in his analysis: "Korea is a very poor nation and a series of miracles, as well as good judgement, and a lot of work will be necessary to give this country a viable economy."1 Per capita income in Taiwan was lower than in Brazil and four times lower than in Argentina; Hong Kong and Singapore were barely richer. In this decade, these four economies gradually entered into unprecedented growth dynamics: in less than a generation (1960-1980), there was a fourfold increase in per capita income. The growth was even more spectacular than in Japan and gathered pace during the 1980s, which were regarded as a (first) lost decade in Latin America and Africa. As the 1990s approached, Taiwan and South Korea achieved the fastest economic development in history! The spread of growth continued in Asia in countries that are not isolationist and, in the 1980s, was marked by the





^{1.} J. Reday, Japan Times, 2 May 1964

emergence of Indonesia, Malaysia and Thailand, then during the following two decades by the growth of China and Vietnam. Over the last three decades, growth has been almost three times more rapid in East Asia than in Latin America or Sub-Saharan Africa. It has been combined with an improvement in human development indicators, which are now among the highest in the developing world.

GROWTH AND DYNAMISM OF INDUSTRIES IN ASIA

The region's dynamism caused surprise for a long time. It was not foreseen by the experts and contradicted most of their forecasts. This led to a lot of confusion in the interpretations. Indeed, these take-offs shake up the traditional paradigms, both Marxist (the inconceivable development of the periphery) and orthodox, which foresee a bright future for major countries with a wealth of raw materials, then for countries whose "governance" and institutions are the most similar to those in the USA. This embarrassment accounts for the insistence on the singularity, the exceptional or even cyclical nature of the experiences of rapid growth in Asia, which is shown by the addiction to the term "miracle". Indeed, following the Japanese post-war "miracle", reference is made to the "miracles" of Korea, Taiwan and Singapore, then of East Asia in general, in a World Bank publication of the same name (1993), which, however, does not yet include China's take-off! Miracles are rare and inexplicable events. They are not reproducible and it is difficult to learn lessons from them, for example, in terms of economic policy.

Yet these dynamics have the same driver and use similar recipes. The development of poor East Asian countries is based on the expansion of investments, production and exports in the manufacturing sector. From a comparative perspective, East Asian economies stand out for their rapid industrialization and strong **G** Over the last three decades, growth has been almost three times more rapid in East Asia than in Latin America or Sub-Saharan Africa. It has been combined with an improvement in human development indicators. **99**

industrial diversification. Back in the 1990s, the industrial development of Singapore, which was stronger than the USA (the world industry leader at the time), was even more rapid than in Korea. In the 1970s, Malaysia and Thailand were as non-industrialized as North Africa, but have now overtaken Brazil and Argentina, which were initially much more advanced. Industrial production is also taking off in Indonesia, Vietnam and Cambodia. In the early 1990s, Korea's manufacturing added value stood at half the level in France, but is now 50% higher (in current dollars). Similarly, Thailand's manufacturing added value was half the level in Argentina in the late 1980s and is now double, while back in 2010, China became the leading industrial country, ahead of the USA.

In short, while the initial situations were often close to industrial underdevelopment, the levels of industrialization in East Asia now far exceed Latin America, North Africa, India and, of course, Sub-Saharan Africa.

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INDUSTRY AS A DRIVER FOR ECONOMIC DEVELOPMENT

From Smith to Kaldor, economists have long identified and explained the driving role of industry (manufacturing) in structural change and economic development. It is based on an increase in labor productivity. In this respect, the transformations brought about by industrialization are unparalleled: the economies of scale and dynamics of the division of labor produce high productivity gains, with apparently unlimited potential; innovation focuses on industry, which is also the main area where technical progress is disseminated, before its transfer to other sectors; the long-term trend for international demand for manufactured goods is particularly dynamic, etc.

Growth in the manufacturing sector leads to growth in productivity in other sectors of the economy and drives a cumulative process of growth in production and productivity. For

INDUSTRIAL TRANSFORMATION

Consequently, the key question does not concern the direction or driver of economic development, but the implementation. The transformation of a poor and predominantly agricultural economy into a more advanced economy is based on industrial diversification. The speed of this transformation depends on the level of investment and the quality of the investment. The experiences of the Soviet Union and Maoist China show that even a massive increase in the volume of investment gives poor results if the quality of these investments, i.e. their productivity, is inadequate.

In East Asia, the take-off in the levels of investment happened early on: back in the 1970s in Korea and in the 1980s in Malaysia, Thailand and Indonesia. Krugman made an ironic comment about "growth by perspiration", i.e. the accumulation of labor and capital, and the lack of "inspiration" of development in Asia. His criticism missed the essential point: How have a poor country, the transition of agriculture towards industry thereby offers the opportunity of large-scale job creation, with higher productivity than the initial level. The convergence between job creation in industry and the increase in productivity is even closer when the discipline of international trade is applied.

There is a close correlation between industrial production and per capita income, which is a logical consequence of this leading role of the manufacturing sector. Switzerland and Singapore, today the two richest countries in terms of per capita income, also have the highest per capita manufacturing added value in the world. While the manufacturing sector now only accounts for a small share of their GDP, it was the reason for their economic development. Conversely, the poorest countries are the least industrialized.

Asian countries managed to mobilize so many productive resources? Why is investment so dynamic in Asia, in particular private industrial investment, whereas it is sluggish in most developing regions?

Behind Asia's investment and industrialization dynamics there are industrial policies which, without being the same or as effective everywhere, share several common structural features. The aim of industrial policies is to direct the economy towards activities with higher levels of productivity. Initially "in their infancy", these industries are less competitive and less profitable than more traditional activities. Their initial lack of competitiveness means that they need to be protected and their low level of profitability deters banks and private investors from financing them. The market channels its financing towards (traditional) activities where the profits are known and attractive, rather than towards unknown or uncertain sectors. Yet the speed of



Per capita income as a % of the level of the USA (PPP) 🔻

Share of manufactured products in exports 🔻



Source: Cepii, Harmonized accounts on trade and the world economy (Chelem).

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Marc Lautier is Professor of Economics at Rennes 2 University, where he manages the Master in Europe-Asia Trade and Economic Relations (CREEA). With Jean-Raphaël Chaponnière, he has published Économie de l'Asie du Sud Est (2019, 2nd edition, Ed. Bréal) and Les Économies émergentes d'Asie, entre l'État et le marché (2014, Ed. Dunod). sectoral change depends on the investment effort in new sectors and therefore on the financing it benefits from. Without public intervention, this will be low.

Consequently, the main challenge for industrial policies lies in providing incentives to stimulate investment in businesses in industry, when they have little experience or competitiveness, while avoiding putting them in a situation of monopoly and forcing them to improve their productivity, technical level and competitiveness. To simultaneously achieve these objectives, Asian countries have implemented series of measures, which always comprise a specific sectoral target, financial support, a dose of protection and a systematic export focus. The "discipline" of exports has been applied with more (Korea, Taiwan) or less (Malaysia, Thailand) intensity. It reduces the usual drawback of interventionist policies of targeting and supporting the "wrong" entrepreneurs (ineffective but close to the government) and wrong sectors (where the country does not have competitive potential), and wasting scarce resources. While industrial policies have not experienced the same success everywhere, they have been more coherent and effective in Asia than in other developing regions, particularly Latin America. From Japan to China, and including Korea, Malaysia and Singapore, East Asia offers a wide range of experiences and lessons to be learned for development policies.

CONCLUSION V

These experiences confirm that it is not opening-up that brings about industrialization and rapid growth. The opening-up of West Africa and the Middle East occurred earlier and has sometimes been more marked. It is the industrial investment effort, where returns are stimulated by opportunities for opening-up, that creates the structural change and catch-up. The main issue is not the need for an industrial policy, but its implementation and effectiveness. Without this, the opening-up of trade only leads to primary specialization, in Africa and the Middle East, as well as in Argentina and Brazil. These experiences are also a reminder that no country has emerged based only on services. In Asia, as elsewhere, no country has experienced strong and sustainable growth and achieved a high level of wealth and development without industrialization. Rapidly growing countries also have expanding industrial sectors. Similarly, to date, there has been no example of a country that has developed by a direct transition from the agriculture or primary sector towards to the service sector (with the exception of tax havens).

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Key questions concerning African industrial development policies

Ile Pierre Jacquemot, Economist and diplomat, senior lecturer at SciencesPo-Paris

African industrial development is a major challenge for the Continent and it is currently a key focus for governments, financial backers and investors. Although still in the early stages of development, industry offers significant opportunities for absorbing the millions of new workers entering the African labour force every year. However, this industrial development must be consistent with a carbon-light approach as well as respect for biodiversity and ecological concerns.

alls to industrialise the African Continent have never been as urgent. Governments, investors, consultants and financial backers – everyone appears to recognise the potential here. And there is a

THE NEW INDUSTRIAL PACT

The bulk of African countries have to contend with a tough business environment. Their almost exclusive dependence on commodities, price volatility and the modest level of technology in their manufacturing activities tend to leave the Continent in a vulnerable situation. With the exception of the Maghreb region and South Africa, African countries have a manufacturing value added (MVA) of less than 100 dollars per inhabitant². And this African MVA is directly linked either to natural resources or to lowlot at stake: Africa currently contributes less than 2% of global manufacturing and industry and only accounts for 5% of African jobs. Yet, neither agriculture nor services will be able to absorb the millions of new workers entering the African labour force every year¹.

tech activities with limited productivity. Nevertheless, a new argument is gaining traction: Africa's underdeveloped industry should be considered a strength rather than a handicap. Not having gone through the different stages of industrialisation means there are no scars from the past: the technological leap makes it possible to jump directly to the production methods most compatible with decent labour standards, a low-carbon approach and resilience to climate disruption³.

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^{1 •} The number of people entering the African labour market is set to rise from 20 million in 2020 to 30 million in 2050 (World Bank Africa's Pulse, n° 18: An Analysis of Issues Shaping Africa's Economic Future, Washington, DC, 2018).

Annufacturing value added corresponds to revenue from the sale of manufactured goods, less the cost of materials and supplies.
L. Signé, "The Potential of Manufacturing and Industrialization in Africa. Trends Opportunities and Strategies", The Brookings Institution, September 2018.

Industrialisation has become a big theme in all programmes associated with the "African emergence"⁴. In particular, it is a central plank in achieving the goal of Agenda 2063 ("The Africa we want") adopted by the African Union. This new-found enthusiasm for industrial strategy may be found in the official plans or national industrial strategies of all African countries: the Industrial Policy action Plan (2014-2030) of South Africa, Cameroon's *Plan directeur d'industrialisation* (Vision 2035), the Kenya National Industrial Policy Framework (Vision 2030), *Plan d'accélération industrielle du Maroc* (Morocco), Industrial Policy Implementation and Strategic Framework (2012-2030) for Namibia, Rwanda Industrial Plan (Turning Vision 2020 into Reality), and the Integrated Industrial Development Strategy (2011-2025) for Tanzania, etc. These strategies have identical features such as capitalising on mining, timber or agricultural resources, creating the conditions for an improved business climate (business start-up procedures, one-stop shops, online tax declarations, etc.), focusing on public-private partnerships, promoting joint ventures or harnessing the technologies of the 4.0 industrial revolution⁵.

Three questions predominate in the discussion about future industrial strategy for Africa and the responses help shape the policies of the different states.

THE RETURN OF IMPORT SUBSTITUTION

In the face of the constraints of integrating global value chains, *import substitution* is in fashion once again. At present, the model of reference is most often designed on a regional basis. The movement is a promising one, with the launch in 2019 of the African Continental Free Trade Area (AfCFTA). In March 2020, the Economic Commission for Africa (ECA) encouraged

states to accelerate the process of getting the free trade area up and running, battling the impact of the coronavirus pandemic and curtailing the Continent's dependence on outside partners, particularly for pharmaceuticals and food. The opportunity for coming up with a new development model has been clearly set out. Reducing regulatory and customs barriers

In the face of the constraints of integrating global value chains, import substitution is in fashion once again. At present, the model of reference is most often designed on a regional basis. 99



 ^{4 •} See the issue of Contemporary Africa, Dossier: Les trajectoires incertaines de l'industrialisation, n°266, 2018/2, Agence française de développement (AFD).
5 • J.-M. Huet, Industrie en Afrique, les raisons d'un renouveau, Bearing Point, 2019.

should help, together with the emergence of a middle class to actively participate in shaping a proper internal market that is already worth some US\$ 250 billion⁶.

A number of countries are setting up clusters focused on vertical technology transfer and reducing transaction costs – especially tax-related costs – within an innovation-conducive industrial space. Such projects may involve diverse arrangements. Export Processing Zones (EPZ) represent the most complete examples and there are around a hundred of these in 20 countries including Algeria, Egypt, Ethiopia, Mauritius and Zambia. EPZs are a widely-used system, especially by China in Africa. Otigba Computer Village in Lagos, Nigeria, represents a different type of model. It was created spon-

PRIORITY FOR "LOCAL CONTENT"

Local content here refers to measures requiring foreign investors to use a certain proportion of local resources in the production of goods and services.

In Africa, local content obligations have been implemented, especially in the operating codes of mining and oil companies. Most industrial conventions include a requirement that operators give priority to national suppliers on condition that their prices, quality, quantities and terms and conditions of delivery do not make them more expensive than foreign suppliers. Most conventions also contain clauses to promote the employment and training of local people - the operating company should at the very least give priority to hiring local labour when it is just as skilled as expatriate labour. Certain conventions provide for a gradual replacement of expatriate with local workers. Some legislation goes even further: since 2016, Cameroon has imposed quotas of 90% of local people for unskilled positions.

Most industrial conventions include a requirement that operators give priority to national suppliers on condition that their prices, quality, quantities and terms and conditions of delivery do not make them more expensive than foreign suppliers. **JJ**

taneously by the stakeholders themselves and focuses on Information and Communications Technology (ICT) and promoting SMEs. But clusters are not necessarily the wonder solution when competition between different countries leads to "a race to the bottom" and the zones themselves become a lawless jungle for workers.

Local content obligations are reflected in regional industrialisation programmes (see insert) and they are underpinned by rules of origin. Companies based in certain regions – often linked to big international groups – find it easier to import pre-processed products, which they then package locally and stamp as manufactured in the free trade area, before distributing them within the region. Nigeria considers itself a victim of this type of Trojan Horse and it has gone as far as to close its borders to imports from neighbouring countries since August 2019. If such products get the same tax breaks as locally manufactured products, regional preference will lose all of its meaning and impact.

But there is a counter-argument. For example, within the Economic Community of West African States (ECOWAS), a product may be deemed as having been produced in the Community if the manufacturing value added of the raw materials from outside used in its production account for less than 30% of the ex-works cost price, and if the producer company reaches a

^{6 •} Before the Covid-19 pandemic, it was estimated that by 2040 there would be 240 million "solvent consumers" comprising a market of US\$ 1,750 billion, i.e., more than the 300 million Chinese city dwellers who currently consume between US\$ 1,300 billion and US\$ 1,400 billion each year.

Local preference 🔻



The challenges of African industrialisation can only be met through effective public institutions and a concerted public and private sector approach. Industrial policy can be enhanced by including a significant component of decent jobs and introducing an ecological focus before technological options are factored in. pre-agreed level of local participation. But we need to be careful here. If rules of origin are too restrictive, they may prevent imports of intermediate inputs from outside countries, thus jeopardizing both specialisation and competitiveness. For these reasons, the African Continental Free Trade Area (AfCFTA) will probably use a more straightforward rule such as requiring that 50% of the added value must come from Africa. The aim is to turn rules into regional development instruments that will drive job creation and innovation.

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THE GREENING OF INDUSTRIALISATION

Could Africa become the poster-child of a "carbon-light" and biodiversity-centric industrial development model? The Economic Commission for Africa (ECA) believes it can⁷. It has identified four measures that need to be deployed: 1) incorporating environmental standards into national regulations; 2) "greening" public infrastructure and incorporating resilience into both projects and standards; 3) phasing out subsidies for fossil fuels; and 4) "decoupling" economic growth and the consumption of raw materials and fossil fuels. The ECA considers that central government should play a major role in formulating and promoting a new type of industrial vision between now and 2030. The challenges of African industrialisation can only be met through effective public institutions and a concerted public and private sector approach. Industrial policy can be enhanced by including a significant component of decent jobs and introducing an ecological focus before technological options are factored in. In the challenging post-Covid-19 period, setting up platforms for sharing best practices, underpinned by powerful regional momentum could be a very useful strategy.



"Local preference" policies have been successful in a number of areas. For example, in 2016 Ghana launched a Made in Ghana programme together with an industrial "revitalisation" policy with a local focus under the title "One District, One Factory". The law on "local content" gives priority to Ghanaian companies in public procurement contracts and requires foreign firms to make 30% of their capital available to local entrepreneurs. National preference clauses are also flourishing in several other countries. In Gabon, which exports around 60 essences to Asia, Europe and the Middle-East, local first-stage processing of logs has been obligatory since 2010. In the Nkok Special Economic Zone (set up with the Singapore-based Olam Group), 72 production units, sawmills, veneering and solid wood furniture manufacturing units now cover 2.5 million cubic metres and the number of jobs has doubled. To make up for lost time, Côte d'Ivoire is seeking to process all of its cocoa into first stage butter and cocoa paste, and 30% into second stage chocolate within very tight deadlines. In Botswana, diamond cutting and polishing now takes place in the country, employing several thousand people. Diamonds were previously exported uncut. Mozambican SMEs have integrated the aluminium value chain at the Mozal smelter, which uses imported inputs (i.e., alumina from Australia, coke from the United States and electricity from South Africa) and is one of the largest industrial complexes in Southern Africa.

Is industry compatible with climate?

I Golles David, Co-founder and CEO, Enertime

The industrial sector is a major consumer of fossil fuels and the biggest emitter of greenhouse gases (GHG), however there are not as many energy efficiency projects – the key to cutting GHG – as there could be and while poor access to funding is one of the main obstacles to their development, it is not the only one. So how can we move the energy transition forward in the industrial sector in these circumstances, especially in developing countries?

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hile industry accounts for 25% of final energy consumption on a global scale, because of all the electricity it consumes –

frequently driven by its use of fossil fuels – it consumes around 40% of the world's primary energy. Consequently, it is one of the biggest GHG emitters.

To cut these emissions, the focus is usually on energy efficiency in buildings or the production of intermittent renewable energy, however the latter will not be able to power the industry of the future, especially in developing countries. At the same time, in the absence of a proper market and sufficient resources, progress in cutting the carbon footprint of industrial processes is painfully slow. In the past 40 years, industry's share in French GDP has halved, reflecting a pattern observed in practically all OECD countries. This decline has resulted in a lack of interest in industrial innovation, which has been supplanted by digital and service sector innovation. The neglect of innovation in "carbon-light" technologies is also reflected in the failure of its funding model (Gaddy *et alii*, 2016). The system of carbon credits set up as part of the Kyoto agreement does not provide sufficient incentives and at the present time, investment aid and capital expenditure programmes designed to reduce the carbon footprint of industry and energy production in developing countries are virtually non-existent.

The whole question of financing is key and constitutes one of the major obstacles to the energy transition in the industrial sector. But it is not the only one.

To cut these emissions, the focus is usually on energy efficiency in buildings or the production of intermittent renewable energy, however the latter will not be able to power the industry of the future, especially in developing countries. **99**

OBSTACLES TO CHANGE

Industrial energy efficiency is not really a key priority for energy sector stakeholders for the moment. This lack of interest affects both energy production (especially oil and gas) and the general preference for creating new production capacity.

Industrial manufacturers often produce their own energy in developing countries. The savings achieved through electrical energy efficiency only concern the fuel saved in producing that electricity. Since power plants are usually thermal and run on coal or heavy fuel oil, the fuel is generally not very expensive, meaning that the energy efficiency gains are relatively meagre in financial terms. Therefore, the main obstacle to replacing fossil fuels with carbon-free alternatives is the low cost of this fuel.

Carbon-light solutions need to be more profitable if they are to emerge. Although levying a carbon tax could help in principle, developing countries cannot afford to tax fossil fuels. Support programmes therefore need to protect new tech sectors from fluctuating oil prices, at least for a while.

The concentration of industrial activity is not always conducive to the deployment of innovative energy-saving solutions. There are numerous reasons for this: manufacturers are reluctant to use outside technologies and expertise or team up with sometimes fragile young industrial SMEs.

In any case, to gain traction, industrial energy efficiency and carbonless fuel technologies require advocates. Certain engineering consultants who Carbon-light solutions need to be more profitable if they are to emerge. Although levying a carbon tax could help in principle, developing countries cannot afford to tax fossil fuels. **J**

know how to identify needs and resources and are familiar with new technologies are able to advise industrial companies. But without the initial contracts that enable them to acquire useful references and the necessary skills, these prescribers are currently thin on the ground and poorly trained. At the other end of the chain, industrial firms need energy service companies (ESCO) to get these technologies up and running. ESCOs are rare outside of China and fail to capitalise to any great extent on an innovative and targeted tech offering.

Whether we are considering replacing coke by carbonless hydrogen in blast furnaces, converting flared gas into electricity, or recovering unavoidable heat¹ from cement plant stacks, deploying new technologies is a risky business. The small number of ESCOs and industrial firms themselves are not in a good position for bearing these risks on their own. Financing must be made available to enable them to bear these project-related risks and enter into long-term partnerships with new tech sector businesses, for example. This will in turn strengthen their own businesses.

FOCUS ENERTIME

Enertime is an industrial SME located in the Paris region manufacturing turbomachinery and thermodynamic systems (in France) that boost energy efficiency and facilitate decentralised production of renewable energy. The offering essentially comprises Organic Rankine Cycle (ORC) machines used in geothermal power generation and for converting the waste heat produced during industrial processes into energy, high-temperature/highoutput heat pumps used in renewable heat production, and gas expander turbines.

1 • Unavoidable energy (or energy recovery) refers to the quantity of energy inevitably present or trapped in certain processes or products, which may sometimes be – at least partially – recovered and/or reclaimed. This energy may take different forms (i.e., heat, cold, gas, electricity). Source: Wikipédia, *Energie recovery* article (consulted on 05/09/20).

FAVOURABLE CONDITIONS FOR DEVELOPING INDUSTRIAL ENERGY EFFICIENCY PROJECTS

It would appear inevitable that, for a time at least, reducing the sector's carbon footprint will require subsidies that provide investors with a return on currently unprofitable technologies. Whether this support takes the form of feed-in tariffs, taxes, carbon tariffs or energy savings certificates, the only other alternative is regulatory restrictions – and industrial firms don't like these. Green bonds and impact funds would appear to be relatively ineffective here if they are not combined with these types of mechanisms².

Feasibility studies will also need to be funded to highlight the benefits of improved energy efficiency in certain industries in countries with a restricted energy supply. A programme to provide assistance to energy efficiency projects in industry, similar to the existing Program for Energy Efficiency in Buildings (PEEB) would provide a real boost here. Industrial energy efficiency programmes will not happen without third-party financing³ that enables ESCOs – i.e., energy service companies – to rapidly deploy complex technologies (see Insert). We need to support the creation and funding of this type of player, otherwise it will be impossible to develop new industrial energy efficiency technologies. China is currently a pioneer in this domain: in 2017, it accounted for 58% of all global ESCO-type business, worth approximately \$US 17 billion (IEA, 2019). Europe needs to forge partnerships with China in this area to develop the competitive solutions that Southern countries so badly need.

The industrial conglomerates created over the past few decades have resulted in major groups with a global reach. They should be receptive to a global approach to managing energy consumption, particularly through partnerships that include development stakeholders like Proparco,

Example of an energy efficiency project led in Thailand

Enertime, in partnership with the Thai company Ensys, has supplied Bangkok Glass with a thermodynamic ORC machine (Organic Rankine Cycle) that produces 1.8 MW of electricity at its Kabin Buri site in Thailand. Heat is recovered from the glass furnace to produce electricity which is then sold back to the factory at a cheaper rate compared to the grid. The project has been developed by an ESCO-type business, Bangkok Glass Energy – a subsidiary of Bangkok Glass – and rolled out by a Special purpose vehicle (SPV), and it is a perfect illustration of how to deploy highly effective industrial energy efficiency solutions. The SPV set up and funded by Bangkok Glass Energy and Ensys is also developing a solar power project that sells electricity back to the factory.

2 • On this topic, see the following (in French): https://www.xerficanal.com/economie/emission/Anton-Brender-Le-capitalisme-ne-s-adaptera-au-deficlimatique-que-par-la-contrainte_3748380.html (consulted on 05/09/20).

3. The concept of "third-party financing" means providing an energy retrofit offering that covers funding for the operation and subsequent project monitoring so that the owner does not have to finance anything because future energy savings gradually pay back all or part of the investment (source: http://www.planbatimentdurable/fitiers-financement-r210.html (consulted on 05/09/20). tech SMEs, ESCOs and engineering consultants. These types of partnership combine co-financing of studies with third-party financing projects via ESCO-type entities. Through an obligation to set aside part of the resulting energy savings, they could help supply public facilities located in or around the factories in question with electricity.

Moreover, all new investments in industrial firms, which are financed or guaranteed by bilateral agencies, need to be able to offer the best energy efficiency technologies available. No sawmill, rice mill or oil mill should be without biomass cogeneration, and no diesel power plant, incinerator or gas compressor station should be without unavoidable heat recovery facilities, etc.

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International Energy Agency,

2019. World Energy Outlook report. Available online: https://www.iea.org/ reports/world-energy-outlook-2019 (consulté le 05/09/20)

CONCLUSION V

So industry and climate are compatible! We should not forget that while industry is a big energy consumer, it is itself a potential source of "circular" energy. This is already the case in agribusiness for example, where rice husks, sugarcane bagasse and cotton stalks are important sources of energy that are recovered locally. In the cement, glass and natural gas transportation sectors, it is the energy recovered from the flue gas that can be converted into heat and then electricity. All of this potential can be harnessed if governments, international organisations, businesses, the countries concerned, their populations and NGOs work together to support energy efficiency projects. Factoring in both the needs of industry and the climate emergency will be easier if China and India participate in international partnerships to deploy innovative technologies that help to drive the indispensable energy transition. The environment is a common good and all stakeholders need to move forward in a concerted manner to protect it.

The industrial conglomerates created over the past few decades have resulted in major groups with a global reach. They should be receptive to a global approach to managing energy consumption, particularly through partnerships that include development stakeholders like Proparco, tech SMEs, ESCOs and engineering consultants. **99**

Textile industry: Towards a new economic model to stamp out human rights violations in the workplace

16 Nayla Ajaltouni, Delegate General, Collectif Éthique sur l'Étiquette

The textile industry employs millions of people in developing countries. Yet its economic model (pressure on costs and lead times, large volumes, frequent renewal of collections, low prices) leads to a number of human rights violations in the workplace. Legislation is gradually being introduced to hold companies in the sector accountable and allow them to participate fully in the development of the countries where they are located.

AN ARTICLE BY

Delegate General, Collectif Éthique sur l'Étiquette

Nayla Ajaltouni trained as a development economist and has been working in the international solidarity sector for some fifteen years. She conducted advocacy activities on the issue of development finance for several years in the Debt and Development platform. She has also coordinated various national opinion campaigns within NGOs and platforms. Since 2007, she has been coordinating Collectif Éthique sur l'Étiquette, an NGO that works to defend human rights in the workplace across the globalized subcontracting chains in the garment industry and to strengthen a binding framework for the activity of multinational companies.

	he textile industry is a major
V	source of employment in deve
	loping countries. While it has
	pulled several million workers
	out of extreme poverty - inclu-

ding women workers who make up 85% of the global workforce in the sector –, these workers have swelled the ranks of poor workers around the world. The extension of value chains, driven by liberal globalization, outsourcing by multinational companies seeking lower production costs, the lack of regulation, and overconfidence in the proactive action of companies have also led to persistent systemic violations of fundamental rights in the workplace. Both nationally and internationally, binding legislation called for by consumers and civil society is being introduced and should eventually be critical to the emergence of a responsible industry.

This is an essential move, as subcontracting in the garment industry has led to a widespread deterioration in working conditions and wage stagnation in production countries. The end of the Multifibre Arrangement in 2005¹ completed the liberalization of the sector and accelerated competition between workers and social dumping. Human rights in the workplace, which are in particular governed by the conventions of the International Labour Organization (ILO), are frequently violated.



WIDESPREAD VIOLATIONS OF HUMAN RIGHTS IN THE WORKPLACE

The collapse of Rana Plaza² in Bangladesh in 2013 is emblematic of the broken promises of the clothing industry. With a very cheap labor force and a substantial production capacity, in the 2000s the country became the new El Dorado for international ordering parties.³ Still today, the minimum wage in the sector remains one of the lowest in the world (USD 80 a month). The tragedy of Rana Plaza calls into question the relevance of development models, as instead of investing in an industry creating well-paying jobs, Bangladesh, encouraged by bilateral free trade agreements, has based its comparative advantage on the cost of its labor. Indeed, while the textile sector accounted for 45% of industrial employment in 2012, its contribution to the country's national income only stood at 5%. This model shows the limits of the hyperspecialization of countries, driven by liberal globalization, in sectors with low added value focused on export.

The persistent and widespread violations of human rights in the workplace in the subcontracting countries of the textile industry demonstrate the failure of Corporate Social Responsibility (CSR) policies. The tragedy of Rana Plaza happened almost 20 years after the widespread adoption of codes of conduct and social audits, triggered by the Nike scandal in 1996.⁴ The non-binding codes of conduct of the major international ordering parties generally shift the risk and responsibility onto third parties, the supplier or subcontractor. By refusing to interfere with the highly lucrative economic model of the sector - pressure on costs and lead times, just-in-time production, volumes, etc. the proactive initiatives of CSR have therefore only led to minor improvements.

G It is today essential to introduce binding rules to bring about a responsible industry. **99**

Furthermore, poverty wages are the norm in production countries and are well below the living wage that allows workers to provide for their basic needs and those of their family (accommodation, health, food, education, transport, savings, etc.). According to the Fair Wage Network, regardless of the living wage indicator selected, the minimum wages in textile producing countries are two to five times lower than the living wage. Poverty wages are intrinsically linked to the current economic model of the garment industry. It is based on the production of constantly renewed low-cost collections – fast fashion –, which therefore have a low production cost.

The news constantly reminds us of the violations of workers' rights in the sector. For example, in 2019, in its Uyghurs for Sale report,⁵ the think tank Australian Strategy Policy Institute (ASPI) revealed the existence of Uyghur forced laborers manufacturing clothes in China for leading retailers on the Western market. In addition, the Covid-19 pandemic has given a reminder of the extreme vulnerability of textile industry workers: in Asia, many millions of them,⁶ with no wages following the cancellation of orders, are on the verge of famine.

Consequently, the capacity of the sector to contribute to the empowerment of people in developing countries is legitimately called into question. It is today essential to introduce binding rules to bring about a responsible industry.

^{2 •} This building in the suburbs of Dhaka, which housed textile workshops, collapsed on 24 April 2013 killing 1,138 garment workers. Leading international retailers subcontracted their production there.

³ An ordering party is a company or economic entity that places orders with a subcontractor

⁴ In a 1996 survey, Life Magazine revealed child labor in Pakistan for the brand Nike, paid a few cents per hour

^{5 •} https://www.aspi.org.au/report/uyghurs-sale (consulted on 05/09/20).

^{6 +} It is difficult to get a global estimate, but several NGOs have documented this fact: https://www.workersrights.org/issues/covid-19/;

https://cleanclothes.org/news/2020/live-blog-on-how-the-coronavirus-influences-workers-in-supply-chains (consulted on 05/09/20).

A BINDING FRAMEWORK TO CHANGE THE MODEL

Faced with the lack of proactive measures to prevent violations of fundamental rights and the environment, there is growing consensus on the need for binding regulations, but many economic players are still opposed to this.

In this context, the current lack of legal responsibility between the ordering party and its subcontracting chain is an aberration.⁷ French law on the duty of vigilance of parent companies and contracting companies, adopted in March 2017, provides an initial response to this shortcoming. It is based on the UN Guiding Principles on Business and Human Rights. Adopted in 2011, they establish the responsibility of countries to protect people from violations related to economic activities and the responsibility

of companies to respect fundamental rights. In particular, they especially recognize a duty of vigilance for multinational companies in all their business relationships.

Consequently, French law now requires large companies located in France⁸ to identify and prevent violations of human rights and the environment resulting from their activities, as well as the activities of their subsidiaries, subcontractors and suppliers. Collectif Éthique sur l'Étiquette believes that the implementation of their obligations under the law on the duty of vigilance should also be a prerequisite for any public financial support to the companies concerned.

ENSURE THE TEXTILE INDUSTRY CONTRIBUTES TO THE DEVELOPMENT OF COUNTRIES

FOCUS COLLECTIF ÉTHIQUE SUR L'ÉTIQUETTE

Collectif Éthique sur l'Étiquette (ESE) was set up in 1995 at the initiative of a French group of NGOs, unions and consumer associations. The Collectif's objective is to change the practices of multinational apparel companies to ensure that human rights in the workplace are respected throughout the subcontracting chains, and to strengthen the binding framework for the activity of multinational companies. Collectif ESE has made a set of recommendations for multinational companies based on this new international and national framework.⁹ They aim to put an end to the continuing lack of transparency in value chains, which encourages bad practice and does not allow the consumer to make informed choices. At a minimum, it is necessary to provide clear and detailed information about the level of wages, the weekly working hours, overtime and the presence of trade union organizations. This information must concern the company and all its suppliers and subcontractors.

Furthermore, multinational companies must comply with their duty of vigilance: procedures to identify, prevent and remedy violations of fundamental rights and the environment throughout their value chain. They must publish a comprehensive mapping of the risks, country by country. Cascade subcontracting and poverty wages are among the risks inherent to the economic model established by apparel ordering parties, meaning they must be identified.

No company can claim to perform its duty of vigilance if it does not identify how its model allows, encourages or benefits from situations of social dumping in the countries where it operates.

A crucial issue is that multinational companies must ensure the right to a living wage for garment workers by ending purchasing practices that put pressure on wages. They must set their prices based on the living wage, which can be determined using a credible and transparent indicator, for example, the one developed by Asia Floor Wage Alliance.¹⁰ They must also encourage tripartite negotiations to increase wages in production countries. More generally, the economic model based on fast fashion has to be done away with.

^{7 •} https://www.ituc-csi.org/IMG/pdf/pdffrontlines_scandal_en-2.pdf (consulted on 05/09/20).

^{8 •} https://ethique-sur-etiquette.org/Devoir-de-vigilance-des-multinationales (consulted on 05/09/20).

^{9 •} C.f. the report: https://ethique-sur-etiquette.org/IMG/pdf/etude_devoir_de_vigilance_annee_1-2.pdf (consulted on 05/09/20). 10 • https://asia.floorwage.org (consulted on 05/09/20).

TEXTILE INDUSTRY: TOWARDS A NEW ECONOMIC MODEL TO STAMP OUT HUMAN RIGHTS VIOLATIONS IN THE WORKPLACE

Finally, they must ensure that freedom of association and the right to collective bargaining are respected: experience shows that the most effective oversight mechanisms include workers' representatives. International agreements and sectoral agreements, such as the agreement signed in 2013 on safety in factories in Bangladesh,¹¹ are tools to improve rights. Ordering parties must use their

on safety in factories in Bangladesh,¹¹ are tools to improve rights. Ordering parties must use their influence to demand the application of these rights among their suppliers and subcontractors, or give preference to the ones with independent unions.

The development of standards to hold economic players accountable is now being discussed at European level, via a directive on the duty of vigilance, and international level, via the treaty on transnational corporations and human rights

CONCLUSION V

To bring about an increase in the standard of living of the most vulnerable populations, a radical transformation of the industry is required. Beyond the duty of vigilance, it is necessary to call into question models based on the combination of low cost/large volumes which, to focus on financial performance, lead to widespread violations of international labor standards and environmental crime. The textile industry is today synonymous with considerable social and environmental impacts. However, as we can see from many initiatives, it can also be a crucible for alternative models and best practices. Consumers are well aware of this and are increasingly turning away from retailers whose models have an excessive impact on people and the environment to encourage those with responsible practices.

Consequently, French law now requires large companies located in France to identify and prevent violations of human rights and the environment resulting from their activities, but also the activities of their subsidiaries, subcontractors and suppliers.

that has been under negotiation at the United Nations since 2014. Rather than hindering development, they have every interest in supporting initiatives to regulate globalization, otherwise they may find themselves at cross purposes with growing international awareness.

11 https://bangladeshaccord.org/ (consulted on 05/09/20).

Joining in the fight against Covid-19 and diversifying activities: The case of SERMP in Morocco

1 Badre Jaafar, Manager, Société d'Étude et de Réalisations Mécaniques de Précision (SERMP)

SERMP is a Moroccan aeronautical subcontracting company. Like the entire sector, it is feeling the economic repercussions of the Covid-19 crisis. To both contribute to the national effort and diversify its activities, SERMP has successfully launched the production of ventilators as part of a consortium of companies with complementary expertise. The company is now considering developing its activities in the medical sector.

AN ARTICLE BY

Manager, Société d'Étude et de Réalisations Mécaniques de Précision (SERMP)

Badre Jaafar has been Manager of SERMP, a subsidiary of Le Piston Français Group, since 2016. He previously held several positions in LPF Group. Badre Jaafar graduated from the Arts et Métiers engineering school.



manufacturers. SERMP has experienced strong growth since it was set up 20 years ago and has more than doubled its industrial facilities, showing the same dynamism as its parent company, Le Piston Français, which operates on six sites in France and Poland and employs some 700 people. With a turnover multiplied by 1.6 since 2012, the Group has benefited from the good health of the aviation industry. Indeed, with an annual increase in traffic of about 6%,¹ there was strong demand from aircraft manufacturers, the Group's main ordering parties. Significant investments were made in both increasing the production capacity and innovation (with an environmental focus to reduce the carbon impact of engines, for example).

But the Covid-19 crisis has disrupted these dynamics.

PRODUCE LOCALLY TO MEET URGENT NEEDS

The best-case scenarios for the industry now forecast that it will take three years to recover to 2019 traffic levels. Furthermore, demand for aircraft is expected to drop by about 50% over the next five years,² leading to a major reorganization of the aviation industry. The entire value chain, including many SMEs and mid-cap companies, is affected.

In these circumstances, SERMP wanted to take up a twofold challenge: respond to the urgency of the situation by contributing to the national effort to tackle the pandemic and reconfigure its strategy to cope with the crisis.

According to the World Bank, the response of the Moroccan authorities was "swift and decisive".³

 https://theconversation.com/trafic-aerien-mondial-une-croissance-fulgurante-pas-prete-de-sarreter-116107 (consulted on 05/09/20)
https://www.latribune.fr/entreprises-finance/services/transport-logistique/transport-aerien-dix-ans-au-mieux-pour-rattraper-la-courbe-decroissance-d-avant-crise-844872.html (consulted on 05/09/20)

3 + http://documents1.worldbank.org/curated/en/278731594708906277/pdf/Morocco-Economic-Monitor.pdf (consulted on 05/09/20)

While the country is set to experience its first recession since 1995 (negative growth of 4% is forecast), a number of measures have been put in place to support activities weakened by the crisis and vulnerable people, and mobilize Moroccan industry to contribute to the fight against Covid-19. Many projects have been set up to locally produce protective products: hand sanitizers, face shields, masks... The objective was to meet local demand without exacerbating the increasing tensions on global supply chains.

It is in this context that SERMP, Aviarail (engineering company) and other aviation indus-

POOLING EXPERTISE: THE KEY TO SUCCESS

To achieve this ambitious objective, it was necessary to put together a multidisciplinary team able to quickly and effectively learn how to manufacture medical equipment. The roles of the various stakeholders were carefully defined.

SERMP handled the project management, from the design of the mechanism to the final assembly of the ventilator, as well as the controls and tests. It was also involved in the production of parts (in-house and through two other machining specialists, UMPM and Halmes). Aviarail handled the electronic engineering (design of the

REINVENTING THE STRATEGY

From a project to respond to an emergency to an opportunity for diversification, the medical and biomedical sector could become a permanent business line for SERMP. This is especially because order books in the aerospace industry have been heavily impacted by the crisis and diversification has become an obligation to ensure the survival of many companies. Morocco's experience has also been an inspiration and other subsidiaries of Le Piston Français Group are considering this type of diversification. try partners, under the leadership of the Ministry of Industry and coordinated by Gimas,⁴ decided to produce a ventilator "Made in Morocco". An idea that became a collaborative industrial project bringing together some fifteen companies, as well as researchers, academics and doctors.

It was necessary to develop and produce ventilators in a short space of time – the first version was designed in a week, and it took six more weeks to produce the fourth version, while manufacturing all the parts and purchasing local components, in view of the border closures and global tensions on the supply of these products.

FOCUS SERMP

SERMP is a subsidiary of LPF Group, a specialist in hard metal machining and mechanical assembly. The Casablanca plant, the third largest aerospace factory in Morocco, employs 181 people and generated a turnover of EUR 23m in 2019. SERMP has experienced significant development since it was set up in 1999. From a relocated workshop, it has become an autonomous plant and a leader in its sector, employing 100% Moroccan staff.

circuit board) and software development, in partnership with Tronico. Crouzet worked on the pneumatic diagram and developed the ventilator motor, Valtronic manufactured the circuit boards, OB Electronics worked on the wiring and Efoa handled the production of the casing, packaging and antibacterial treatment for the machine components. Finally, the technical centers Cetim, Cerimme and Cetiev took responsibility for approving these ventilators in order to obtain certifications and qualifications for "CE Medical" standards.

Furthermore, to permanently establish this

production of 100% Moroccan ventilators and

consider the longer-term future, SERMP has

helped to create an MMI (Moroccan Medical Biomedical Industry) cluster. The aim is to launch

collaborative and innovative industrial projects in the medical sector and develop this industry

in Morocco.

^{4 •} Groupement des Industries Marocaines Aéronautiques et Spatiales, an inter-branch organization gathering 97% of Morocco's aeronautics supply chain.

What do we mean by industry?

Industry refers to production activities related to the more or less sophisticated processing of materials using machines. It therefore covers a wide range of situations: extractive and manufacturing industries, power generation, etc. This review mainly focuses on manufacturing activities including, for example, the apparel industry, agribusiness, metal industry, building materials, packaging (glass, plastic, cardboard, etc.) and the cement.

Manufacturing output unevenly distributed worldwide 🔻

China alone accounts for 28.4% of world manufacturing output and the USA 16.6%.



...which requires infrastructure development **v**

The fact that Africa is lagging behind in the industry sector is mainly due to the lack of infrastructure (power, transport, ICT, etc.) on the continent. This has a direct impact on productivity, economic growth and the sustainable development of the region. AfDB estimates that the lack of infrastructure accounts "for 30% to 60% of productivity losses of African firms".



Source: African Development Bank (AfDB), Africa's infrastructure financing reaches an all-time high in 2018, surpassing \$100 | (ICA), November 2019. Available here: https://bit.ly/2YG3Y6f (consulted on 11/09/20). assina \$100 billioi

Industrial sector and employment

Strong potential for youth employment in Africa 🔻

According to World Bank projections, annual entrants to the labor market in Africa are expected to increase from 20 million in 2020 to 30 million by 2050. While the industrial sector cannot singlehandedly absorb this future labor force, it can play its part.





Source: World Bank, Africa's Pulse n°18, An Analysis of Issues Shaping Africa's Economic Future, October 2018.

78%

ALL NATIONAL

LEGISLATION

85 million

LOW-SKILLED

JOBS TO LEAVE CHINA

IN THE COMING

YEARS

Industry, a gateway towards formal employment? 🔻

Informal employment still has a bright future ahead. According to an International Labour Organization (ILO) report, in Africa alone, in 2018, 78% of jobs continued to escape all national legislation. Due to the informality of work in Africa, the development of a local industry is seen as a major step in contributing to the creation of formal jobs, as was the case in Southeast Asia. In addition, industry (the garment industry in particular) employs unskilled people who are trained and ultimately benefit from a formal job while developing professional skills. This is an asset in developing countries where the population is often low-skilled and may have difficulties entering the labor market.

Source: International Labour Organization (ILO), Women and Men in the Informal Economy: A Statistical Picture, 2018.

Africa, a new industrial El Dorado to compete with China? 🔻

According to some experts, the increase in labor costs in China could cause some 85 million low-skilled jobs to leave the country-continent in the coming years. This issue is a matter of debate, but some consider that African countries, with their low labor costs, would be well placed to absorb part of this relocated industrial labor force.

Source : Eric Olander and Cobus van Staden, "In The Future, 'Made In China' Could Become 'Made In Africa'", Huffington Post, 2016. Available here: https://bit.ly/2R2zivv (consulted on 11/09/20).

26 PS&D

KEY FIGURES

Local manufacturing production still underdeveloped

Sub-Saharan Africa continues to suffer from shortcomings in local manufacturing production. This is a very important issue for job creation, poverty reduction and added value creation. According to World Bank data, in 2018. manufactures imports in Sub-Saharan Africa stood at about 62% of total imported goods.

Source: World Bank, 2020.



Industrial sector and Covid-19

What impact has Covid-19 had on industrial production? 🔻

In Europe, the Covid-19 health crisis has had a major impact on industrial production. In March and April 2020, at the height of the crisis and lockdown measures, industrial production fell by 10.8% and 18.2%, respectively. Despite an upturn in May and June, industrial production in Europe has fallen by a total of 11.1% since February 2020.



Industrial sector and climate

Industry, one of the main greenhouse-gas emitting sectors... 🔻

According to data* from the Intergovernmental Panel on Climate Change (IPCC), industry (petrochemicals, heavy industry, manufacturing industry, etc.) is one of the largest greenhouse-gas emitting sectors in the world. It accounts for 21% of emissions.



Source: Intergovernmental Panel on Climate Change (IPCC), Working Group III Contribution to the Fifth Assessment Report of the Intergovernmental Panel on Climate Change, 2014. Available online: https://www.ipcc.ch/report/ar5/wg3/ (consulted on 11/09/20).

...which explains the issues behind energy recovery (or waste heat) \checkmark

Waste heat or energy recovery (mentioned on pages 16-19 in the review) is the quantity of energy from an industrial process (in the form of liquid, steam, heat radiation, etc.) that is not used but can be partly recovered and developed. One of the issues facing the industrial sector for the energy transition is consequently to implement the processes required to recover this waste heat.



Source : Ademe seminar « Efficacité énergétique dans l'industrie, R&D et l'innovation au service de la transition énergétique », 2016, Available online; https://bit.lv/3hDXTvg (consulted on 11/09/20)

Source: Eurostat. 2020.

African and Asian economies faced with Covid-19 \checkmark

As expected, the Covid-19 health crisis will have a heavy impact on African and Asian economies. According to the African Development Bank projections made between the beginning of the crisis and the summer of 2020, the continent's GDP is expected to fall heavily in 2020: a contraction of 1.7% according to the least pessimistic scenario, or 3.4% according to the most pessimistic scenario. For emerging economies, the Asian Development Bank forecasts a GDP contraction of -0.7% in 2020, a historic first since the 1960s. South-East Asia alone is expected to see a 3.8% decline in GDP

Contraction of

of African GDP according to the least pessimistic scenario,

or 3.4% according to the most pessimistic scenario

Source : African Development Bank (AfDB), 2020; Asian Development Bank (ADB), 2020.

Contraction of

in Asian GDP. a historic first since the 1960s

KEY FIGURES

> Permanently lost waste heat

> Waste heat used externally

Heat networks Electricity production

On-site energy efficiency actions

Dolidol: a showcase for "Made in Morocco"

Illi Skali, Chief Executive Officer, Dolidol

The CEO of Dolidol tells us about how attached Moroccans are to a traditional product, the Moroccan lounge (comprising L-shaped or U-shaped sprung sofas), and to a local brand, especially in these times of crisis. While "Made in Morocco" is clearly a success factor in its own right, the company will be facing major economic challenges over the next decade. It intends to address them by strengthening its brand policy and increasing its profitability, while continuing to innovate and develop.

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the country is expected to experience its worst recession since 1996, with a contraction in its GDP of over 5.8%, according to the World Bank². Almost all Moroccan industries had to shut down without notice, causing a deep economic recession.

Paradoxically, it is also a unique period for questioning and strategic reflection. Indeed, many industries in a position to weather the financial crisis related to Covid-19 have had to rethink their strategies to adapt to the current developments and new consumption patterns.

Dolidol, like other industries, has been hard hit by this unprecedented health situation. At the height of the crisis, the company's 80 stores were closed for two months, and the factory in Casablanca for one and a half months. During these difficult times, the company – as a national leader in polyurethane foam, mattresses and Moroccan lounges – needs to capitalize on its assets and review its organization and processes to further strengthen the reputation of its brand.

ATTACHMENT TO "MADE IN MOROCCO"

Moroccan industries like Dolidol have had to adapt their production equipment – as a result of the health crisis – in record time, to manufacture masks. This period has thereby increased the attachment of Moroccans to "Made in Morocco" brands. During the lockdown, from mid-March to mid-July, all Moroccans were able to enjoy being at home, meaning Moroccan lounges had an even more central place in households. Although Moroccan lounges are manufactured industrially, they are still considered to be a craft-trade product, custom-made and ultimately adapted by an upholsterer, depending on the clients' tastes.

According to data from the Ministry of Health of Morocco available as of September 16, 2020.
http://pubdocs.worldbank.org/en/954841597690094449/Note-Strate%CC%81gique-conjointe.pdf (consulted on 16/09/20).



Today, the popularity of purchasing custom-made Moroccan lounges can be clearly seen. It provides a comparative advantage that strengthens the link between consumers and the Dolidol brand. The brand image is also central to the company's strategy: the "capital of confidence" of consumer confidence is an asset that needs to be capitalized on.

AVOID RELOCATING THE PRODUCTION OF EMBLEMATIC LOCAL PRODUCTS

As they are rooted in the national culture, Moroccan lounges are a local peculiarity. Everyone has one at home, and many people consider them to be a symbol of their heritage. As such, it would be difficult to relocate their production. In terms of employment, the value chain of Moroccan lounges involves a considerable number of labor-intensive production stages. It directly or indirectly generates some 40,000 jobs in the industry and the craft sector. While they are copied by some countries with low production costs, "Made in Morocco" lounges still figure prominently in the consumption patterns of Moroccans. As it is a real investment, the purchase of a lounge requires advice and human contact. The purchasing process for this furniture generally involves several stages, with customers often asking neighbours, friends and family for their opinions, before choosing a model. Both the custom-made production and final intervention of the upholsterer/interior designer also require customer assistance.

In fact, families invest more in the purchase of a Moroccan lounge than in the other living spaces in their homes. It is a place where they receive people, and it must give the best possible image of the family, to ensure they are valued and have social prestige.

INNOVATION AND INVESTMENTS TO SAFEGUARD JOBS

Brand policy is central to the strategy of Dolidol Group. It is a major intangible asset that meets the company's three objectives: embodying Moroccan culture and heritage, increasing economic profitability and developing through innovation.

Yet the decade ahead is set to hold many economic challenges. In this context, the company needs to safeguard the jobs created, while maintaining a level of profitability in line with the objectives agreed with shareholders. These challenges can be addressed thanks to consumers who are increasingly aware of the issues, leading to the growing popularity of "Made in Morocco" in their purchasing decisions.

At the same time, manufacturing processes are regularly reviewed so that they can be adapted to market conditions. It is not always easy to maintain this balance, but innovation and investment in machines with high added value enable the company to be resilient. This is how Dolidol has managed to preserve its ecosystem, despite the Covid-19 crisis, and even invest to better prepare for the future. An ambitious EUR 90m development plan is under consideration, aimed at increasing investments in upstream activities (recycling of PET bottles into polyester fibre) and in products for the automotive industry. The company is also strengthening its presence in sub-Saharan Africa by acquiring industrial units for manufacturing polyurethane foam and mattresses.

FOCUS DOLIDOL

Dolidol was set up in 1973 and is the leader in Morocco for mattresses and polyurethane foam products. Its 1,400 employees produce 300,000 mattresses a year on its industrial site in the suburbs of Casablanca. In 2019, its sales stood at EUR 85m.

Geographical indications and quality brands: An effective tool to promote industrial SMEs' market access

Ile> Fabio Russo, Senior Officer, UNIDO

Agri-food production remains at the core of African industry, representing up to 18% and 30% of the industrial revenues in countries like Tunisia and Morocco. Demand for local products has presented opportunities for African agri-food producers. Competition is limited, and the rewards correspond. Yet consumers need to identify and differentiate products. Geographical Indications (GIs) and certified quality labels facilitate this. These are among the tools and methodologies used by UNIDO to assist in developing value chains in Africa and in promoting market access. Supporting these producers enables sustainable, inclusive industrial development. Working with country-sponsored programmes, UNIDO supports agri-food value chains in Morocco and Tunisia.

This article was written in collaboration with Ebe Muschialli, Nuria Ackermann and Manuela Eyvazo, project experts at UNIDO. n most African countries, the agrifood industry is the largest industry. It therefore has the potential to drive the continent's future socio-economic development. Building an inclusive

and sustainable agri-food industry remains a developmental challenge, but also constitutes an opportunity for African small- and mediumsized enterprises (SMEs).

Consumers are increasingly interested in traditional products that are deeply rooted in their territories of origin. This trend is a major opportunity for producers (particularly SMEs), as it removes the pressure of competing with generic and standardized products. It rewards them for what they have always done: producing traditional products whose quality, attributes and reputation are linked to ancestral know-how and the places where they are produced.

In the marketplace, these origin-linked products¹ can secure premium prices, provided they are clearly differentiated and identifiable to consumers. Geographical Indications (GIs) and certified quality brands are tools that can help producers to unlock the value added of origin-linked products.

SUPPORTING RECOGNITION OF TRADITION WITH A HOLISTIC APPROACH

The United Nations Industrial Development Organization (UNIDO) promotes industrial development to reduce poverty, and to promote sustainability and inclusive globalization. It has long implemented technical assistance in developing value chains in Africa and elsewhere: fostering business linkages, improving quality compliance, enhancing productivity, and promoting market access. UNIDO has drawn on the experiences of more than 20 countries to

1. Origin-linked products can be defined as local products based on a territorial identity and reputation and/or products based on specific modes of production whose quality, reputation or any other characteristics are attributable to their geographical origin.



develop tools and methodologies for preserving and promoting origin-linked products, with the goal of sustainable and inclusive industrial development. Its integrated approach ensures that SMEs can maximize the potential of agri-food products, and that benefits are fairly distributed along the value chain.

Launched in 2013, the Programme for Market Access of Typical Products (PAMPAT), financed by the Swiss Secretariat of Economic Affairs (SECO), aims to improve the performance, market access and socio-economic conditions of SMEs in various agri-food value chains in Morocco and Tunisia. The project's activities focus on strengthening the organization of the selected value chains; on improving the productivity, quality compliance and product development of SMEs; and on enhancing their positions in domestic and export markets. It also helps to ensure that products comply with the requirements of Geographical Indications and Quality Marks, in order to position them in niche markets. This allows producers to obtain premium prices and higher revenues. PAMPAT also strengthens national and regional capacities for developing and promoting local products. Within these activities PAMPAT supported the setup and organization of the Moroccan and Tunisian Contests for Typical Food Products, and facilitated exchanges of experience and regional best practices.

In implementing programmes like PAMPAT, UNIDO applies a holistic approach, including broadly related areas of intervention. The key element is "Quality and Origin", which involves compliance with quality and safety specifications, and promoting labels across the value chain, buyers and consumers.

AN ARTICLE BY

Senior Officer, UNIDO

Fabio Russo is a senior officer in the Quality Infrastructure and Smart Production Division of the Department of Digitalisation, Technology and Innovation (DTI), in the United Nations Industrial Development Organisation (UNIDO). Since joining UNIDO in 1992, Fabio Russo has been managing various private sector development projects worldwide. His main area of expertise is in Small and Medium Enterprises (SMEs) clusters/networks and value chains development. He is responsible for UNIDO's programme on SME export and origin consortia and has established various partnerships with other UN Agencies, universities and international organisations for the promotion of origin-linked products.

UNIDO's holistic approach



GOVERNANCE

Strengthening the capacity of public and private actors. Establishing a working group of key actors in the value chain to develop a shared vision and joint action plan.



QUALITY & ORIGIN

Ensuring compliance with quality, safety and origin labels. Promoting labels among different actors in the value chain, and between buyers and consumers.

Source: UNIDO, 2020.



COMPETITIVENESS

Upgrading different links in the value chain (improving quality, optimizing resource use, increasing productivity and production capacity).



MARKETING

Improving market access and the Marketing Mix of companies and consortia (from branding and product development to negotiating new sales contracts).



LINKAGES Strengthening alliances (e.g. cooperatives, consortia) and formalizing linkages between the different actors in the value chain (e.g. supply contracts).



DIVERSIFICATION

Diversification and innovation along the value chain (including creation of new entrepreneurial initiatives and new product development).

G In developing the value chains of typical products, an approach centered around GIs and quality labels advances the achievement of the Sustainable Development Goals. **9**

HELPING TO MEET STANDARDS FOR MOROCCAN ARGAN OIL

In Morocco, UNIDO applied this approach to the argan oil value chain, with a view to promoting the Protected Geographical Indication (PGI). There it assisted the interprofessional body Fédération Interprofessionnelle de la Filière de l'Argane (FIFARGANE) to develop traceability software to ensure that producers respect the PGI code of practice. The software ensures that all of the steps along the value chain are PGI compliant: producers have been trained in PGI compliance, as well as in compliance with national food safety and hygiene laws. Assessments were conducted and in many cases upgrades to production facilities were required. Coordination and partnering with the Ministry of Agriculture enabled producers to undertake the upgrades, and the number of producers certified by PGI increased by 150% between 2013 and 2019.

The Programme also focused on strengthening and promoting collective branding focusing on the argan oil PGI, to increase market access potential for SMEs, cooperatives and consortia producing high quality and PGI certified products. An example of this intervention is the establishment of the Vitargan consortium, along with support for the development of their marketing strategy and materials together with brand promotion.

Additionally, the Programme has trained women in entrepreneurship and marketing, to support women's cooperatives, impacting the livelihoods of members.

FINDING THE NICHE IN TUNISIA

FOCUS

The United Nations Industrial Development Organisation (UNIDO) is the specialised agency of the United Nations that promotes inclusive and sustainable industrial development. UNIDO's mandate is fully recognised in the Sustainable Development Goal (SDG)-9, which calls to "Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation". UNIDO's programmatic focus is structured in four strategic priorities: Creating shared prosperity; Advancing economic competitiveness; Safeguarding the environment; Strengthening knowledge and institutions.

In Tunisia, the approach was applied in the prickly pear (cactus) value chain, to position the products in niche markets, enabling the country to tap the potential of the sector. In 2014, Tunisia had only five prickly pear processors; by 2019, there were over 30 firms, operating mainly in the organic cosmetic and para-pharmaceutical sectors. To achieve this, PAMPAT assisted entrepreneurs to develop business plans, gain access to finance and improve their production, marketing and sales skills. As a result, around 1,000 jobs were created.

The growing number of processing companies in the sector has also driven demand for certified organic prickly pears. The Programme has linked organic businesses with farmers, and supported producers in becoming organically certified. As a result, the size of certified organic cactus plantations and the prices paid to farmers have doubled.

An initiative was also set-up to promote the sector's flagship product, cactus seed oil, under the collective brand "Organic Cactus Seed Oil – Origin Tunisia". Progressive organization of the sector led to the creation of the National Cactus Development Association (ANADEC), representing most companies. Today, prickly pear products rank fifth among Tunisian certified organic exports.

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MEETING SDGs

In developing the value chains of typical products, an approach centered around GIs and quality labels advances Sustainable Development Goals. Territorial products are often produced by marginalized populations, particularly women. Thus, supporting them will have a positive impact on reducing poverty (SDG 1) and enhancing gender equality (SDG 5). With an awareness of the importance of biodiversity and the sustainable utilization of resources for showcasing territorial assets, collaborative decision-making and governance structures foster regional development and preserve natural and cultural heritage. Improved demand and market access for territorial assets positively impacts income generation and job opportunities, contributing to inclusive and sustainable economic growth (SDG 8). Most importantly, this approach contributes to inclusive and sustainable industrial development (SDG 9).

G Improved demand and market access for territorial assets positively impacts income generation and job opportunities, contributing to inclusive and sustainable economic growth. **99**

The *Continental Strategy for Geographic Indications in Africa 2018-2023*, commissioned by the African Union, was developed in line with the vision of African leaders of a prosperous Africa, based on inclusive growth and sustainable development, underpinned by three main objectives: to (1) enhance GI stakeholder networking nationally; (2) preserve and promote traditional products in local markets and (3) position them in international markets. It defines the policy framework that will help the continent protect and capitalize on African commodities in the context of GIs and intellectual property. The strategy and its action plan presents a transition in approach towards articulating the following interdependent and mutually reinforcing key strategic focuses: production and productivity; agri-businesses, agro-industries and agricultural markets; and sustainable environmental management.

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Short-term impacts of the Covid-19 crisis on the African manufacturing sector

Ile Michaël Goujon, Lecturer and researcher, CERDI Edouard Mien, PhD student, CERDI

Initial reports and data on the impacts of the Covid-19 crisis between March and June 2020 highlight the relative resilience of African countries when compared to other emerging countries such as Brazil. While the economic crisis is generally affecting all sectors (apart from healthcare), the manufacturing sector would appear to be holding up fairly well – and even recovering in certain countries at end-June 2020.

AN ARTICLE BY

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Michaël Goujon is a development economist specialised in global economic integration, development financing, vulnerability to climate change and natural disasters and island economies. He has also acted as consultant for AFD, the World Bank and the GDN and he heads up the FERDI's indicators programme. easuring the vulnerability of the African manufacturing sector to the fallout from the Covid-19 pandemic is a complex task. Context is

the overriding factor in the analysis so it is difficult to use the experience of other continents to understand the phenomenon. Because African countries were affected later, only partial information is available for the moment. Added to that, the Continent is not as well "covered" by international data and national data is not produced as quickly as it is elsewhere. Nevertheless, certain trends are already emerging at the end of the first wave which hit Africa between March and June 2020.

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INITIAL ASSESSMENT

In spring 2020, initial reports published by the IMF, the World Bank and the United Nations show that most African countries remain relatively unaffected by the health impacts of the crisis. This can be explained by the fact that they are not as well integrated into the global economy, a younger population and lower population density than in other continents, and more rapidly deployed preventive measures (IMF, 2020 and World Bank, 2020). For example, as of 1 April, 28 out of 50 African countries for which data was available had introduced at least local restrictions, and eight countries were encouraging their populations to self-isolate (UNECA, 2020). Although they differ greatly between countries, medium-term forecasts are more fraught, due to the shortcomings of health systems and problems enforcing lockdowns and barrier gestures among poor populations.

Although they differ greatly between countries, medium-term forecasts are more fraught, due to the shortcomings of health systems and problems enforcing lockdowns and barrier gestures among poor populations.

So in the first few months at least, the economic fallout appears to be greater than the health impact. International demand for the raw materials exported by Africa is down, domestic production and supply chains requiring imported inputs have been prone to disruption, and income originating outside the country (i.e., investment, international aid, migrant remittances, etc.) is expected to decline. Governments ultimately have less money to help businesses suffering from the effects of health restrictions.

AN ARTICLE BY

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RELATIVELY UNAFFECTED MANUFACTURING SECTOR?

While the crisis has hit nearly all areas of the economy, manufacturing appears to be less affected than services – especially tourism and transport – or raw materials. In April, using an economic simulator for Sub-Saharan Africa, the World Bank (2020) even estimated that the impact of this crisis on value added would be positive in 2020, with a 5% gain in manufacturing output – due to the substitution of local products for imported products – while agriculture would contract by around 3%, services by 6% and the energy sector by 21%. However, this positive impact needs to be kept in perspective given the lesser role of manufacturing in the African economy. It undeniably exports less (especially to Chinese and European markets), is less integrated within value chains and is more informal than elsewhere, even though the Continent is characterized by considerable diversity in this respect (Contemporary Africa, 2018).



Source: Authors, based on data from https://tradingeconomics.com/country-list/manufacturing-pmi (consulted on 29/07/2020)

The Purchasing Managers' Index (PMI) for manufacturing is an advanced composite indicator put together from monthly business outlook surveys. Less than 50 signals a predominant decline while more than 50 points to an improving situation. The index covers four African countries – Egypt, Kenya, Nigeria and South Africa – all of which have been severely affected by the epidemic.

The pattern appears similar for all of the countries represented in the graph: a sharp deterioration in April/May as all countries report a decline, generally followed by a recovery in May/ June, although the sector is continuing to contract in most countries. This is the case with Kenya and Egypt (the latter was already reporting a deterioration in January/February), mirroring trends in Thailand and Vietnam (i.e., countries deemed to have handled the crisis effectively). The recovery witnessed in Kenya and Egypt is apparently due to the relaxing of restrictions and lockdowns and the resumption of sales in certain sectors and export markets, particularly to Europe. However, South Africa – which like Egypt was already reporting a deterioration in January/February – did not witness a sharp drop in its PMI. It initially continued to decline before experiencing a marked recovery in June, reporting an overall improvement, just like Turkey. Despite the severity of the health crisis in South Africa, the recovery here also appears to have been driven by the relaxation of lockdown-related restrictions. Nigeria on the other hand is a bit different: it was reporting a clearly improving outlook in January/February, followed by a less severe drop than other countries in April/ May but no recovery in May or June, mainly due to a continued decline in export orders. The pattern in Nigeria is similar to that in Mexico, one of the countries most severely affected by the pandemic. Therefore, the initial (short-term) severity of the crisis or related measures does not appear to trigger a bigger decline in, or to hamper a recovery of the PMI index. This apparent mismatch between the severity of the crisis and how it is handled, and changes in the PMI index highlights the specific features of each economy, the complex interplay between the various factors and specific manufacturing sector trends.

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THE MOST SEVERELY AFFECTED SECTORS BY COUNTRY

Various business surveys provide us with information on the most severely affected manufacturing sub-sectors by country. In Morocco, surveys conducted in 2020 by the General Business Confederation (Confédération générale des entreprises) and the High Commissioner for Planning (Haut-commissariat au Plan) (2020) show that the textiles, metallurgy and mechanical engineering sectors (i.e., export-driven), together with construction, were hardest hit. The UNDP-Tunisia development programme reports that the most severely exposed sectors in Tunisia are tourism, transport and textiles and that micro-businesses have become more vulnerable financially. In Cameroon, while research conducted by an inter-employer body, Groupement inter-patronal (2020), points to a negative impact for industrial businesses, this is not as pronounced as for service companies. The Togolese Chamber of Industry and Commerce survey (2020) reports on the many difficulties being experienced by industrial companies, mines and the construction and civil engineering sector. In Burkina Faso, the "Covid-19 Impact" study carried out by the Chamber of Industry and Commerce (2020) stresses that the industrial sector has been just as badly affected as services and the "Forge Afrique" research unit (2020) demonstrates how the textile sector has been the most severely affected manufacturing activity.

Although UNECA (2020) and UNIDO (2020) reports unsurprisingly reveal that large exportdriven companies have suffered most, analyses also indicate that many small businesses (especially trades and crafts) have been badly hit, and – just as importantly – that these appear less resilient than much larger structures. This mirrors the findings of the studies conducted by the Ivorian Ministry for Economic Planning and Development (2020) into the formal and informal sectors. To round out these findings, we surveyed African experts, economists from academia and senior managers in government departments via the network of CERDI alumni. The questionnaire was designed to flesh out their analyses concerning the short-term impact of the crisis on their country's manufacturing industry. Between 14 May and 13 June 2020, 86 African experts from 19 countries¹ replied to this questionnaire (see graphs 2a and 2b).

FOCUS CERDI

CERDI, the Centre for Studies and Research on International Development, was created in 1976 to focus on development economics It conducts research in three areas: development financing paths to sustainable development and integrating developing countries into the global economy. CERDI is under the joint control of Université Clermont Auvergne and the French National Center for Scientific Research (CNRS) and it also has links to the French Research and Development Institute (IRD) since 2018





Participants were asked: "In your opinion, the economic impact in your country is mainly due to...(several answers possible)". On average, the 86 respondents selected 3 causes out of a possible 6.

Source: Goujon and Mien, 2020.

¹ Algeria, Benin, Burkina Faso, Burundi, Cameroon, Democratic Republic of the Congo, Côte d'Ivoire, Djibouti, Guinea, Mali, Madagascar, Morocco, Mauritania, Niger, Uganda, Senegal, Chad, Togo and Tunisia.

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🗾 Graph 2b – Survey of African experts: impact on manufacturing output 🔻

Source: Goujon and Mien, 2020.

The responses generally bear out the trends observed previously while also highlighting the variability in findings together with the complexity and context specificity (Goujon and Mien, 2020). While the experts generally considered the impact on manufacturing output to be negative, it was much more marked for export-driven production. Moreover (and although the trend is less clear-cut here), output has been hardest hit in urban areas, in the formal sector and in very large businesses. The most severely affected sub-sectors are "food, beverages" and "machines, equipment and transport vehicles", followed by "construction materials, cement" and "textile, clothing and leather." The experts believe that government restrictions and interruptions to production chains are the main negative factors affecting production - even before the decline in non-domestic demand is factored in.



CONCLUSION V

While Africa faces an uncertain health outlook, the economic consequences could well be drastic as they are driven by specific context-related factors, namely, economic or even political vulnerability, the proportion of the population living below the poverty line, high under-employment rates, and limited financing resources, etc.

Based on IMF estimates from June 2020, African growth in 2020 is expected to fall by around six percentage points year on year, equivalent to the decline being recorded in the Middle East, Central Asia, and in developing Asian countries, but less than that being reported by Latin American, Caribbean and developing countries.

It remains to be seen whether the African manufacturing sector will prove resilient in the medium term in the face of a crisis of an unprecedented nature and size. Maybe there is even a possibility that it will be able to reap some of the benefits of replacing imports by locally produced goods.

While Africa faces an uncertain health outlook, the economic consequences could well be drastic as they are driven by specific context-related factors, namely, economic or even political vulnerability, the proportion of the population living below the poverty line, high under-employment rates, and limited financing resources, etc.

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Supply chain diversification due to Covid-19 to benefit Africa?

Ile Franziska Hollmann, Director Corporates Africa, DEG

With its booming population, Africa may have no choice but to rapidly expand its industrial base. Doing so has been given impetus by European companies' desire to bring their supply chains closer to producers – a lesson learnt from the Covid-19 pandemic. African countries with a higher level of integration into global markets may benefit, as well as countries with a large work force and comparatively low labor costs.

AN ARTICLE BY

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he UN General Assembly has declared 2016-2025 the Third Industrial Development Decade for Africa. Industrialisation and innovation are also specifically

reflected in the Sustainable Development Goals (SDG) of the UN's 2030 Agenda for Sustainable Development (SDG9 – Infrastructure, industrialization and innovation).¹

With its booming population, Africa may have no choice but to rapidly expand its industrial base. However, industrialization often goes with increasing use of natural resources and energy, with pollution and the generation of waste. The "industrial revolution" in Europe in the 19th century and the Chinese economic "miracle" in the last 30 years have played vital roles in the economic development of these regions. They are also said to have started and accelerated global warming. Hence, it would be in the interest of all investors in Africa and other emerging markets to have the option to choose green and state-of-the-art technologies.



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REGULATING FOR OPTIMAL OUTCOMES

While DFIs would be more than happy to provide adequate financing for investment in green and modern technology, there are two main factors countering this: incentives and costs. Regarding incentives, companies are in most cases not directly affected by the positive or negative environmental effects of their technologies – investing in lower CO² emission does not pay off. Unless governments apply relevant regulations, there is no incentive to produce at higher costs.

This leads to the second – and more important – factor for investors: costs. Modern technology often comes at a substantially higher price compared with standard technology – usually within the context of a limited budget. When comparing bids, the cost aspect is of high importance.

However, the short-term view of investment cost does not take into consideration the longterm positive effects of energy and resource savings, the longer durability of machinery and equipment, and thus lower maintenance and

TAKING THE LONG ROAD TOGETHER

DFIs offer various measures to support and encourage entrepreneurs to invest in the best available technologies. These are long-term arrangements, access to networks, consulting and advice and co-financing, as detailed below.

Long-term financing that is tailored to the degree of risk involved (equity, mezzanine financing or loans with suitable repayment schedules) provides security for the investor. DFIs are prepared to finance and support entrepreneurs who can replacement costs. In DEG's experience, many African entrepreneurs prefer modern technology – but this is a tough decision if investment costs are up to 30% higher.

DEG, like all DFIs, supports choosing modern, green technology, for additional reasons. The best available technology substantially reduces environmental risks – including changes to regulations, which might help drive improvements in technology and standards; reputational risks related to impacts on communities and quality requirements by off takers; and long-term market risks, as clients increasingly demand better production standards.

While DFIs would be more than happy to provide adequate financing for investment in green and modern technology, there are two main factors countering this: incentives and costs.

and want to invest in green and best available technologies, even during the Covid-19 crisis.

Access to networks refers to a large network of European technology providers and other entrepreneurs in emerging markets helping potential investors to compare technologies, talk to technology leaders and learn from experiences. With this support, investors can take decisions on a well-informed basis.

Even if many economies go through deep recessions, the risks of global warming and climate change are higher for humankind in the long term. **J**

Consulting and advice are provided through DEG's Business Support Services (BSS) in different ways and stages: developing a business plan or financial model; providing information on state-of-the-art technologies and equipment; advising on current innovative production methods to address clients' specific needs; identifying potential for resource and efficiency gains and cost reduction; connecting companies with external experts to implement tailor-made advisory solutions and helping customers to design and implement coherent development projects; and identifying resource and energy efficiency potential, including designing renewable energy projects.

DEG offers promotional programs that help companies to enhance their sustainability. Fundable are support for vocational training and training centres; know-how and technology transfer can be co-financed with non-repayable funds through the develoPPP program, which is financed by the German Federal Ministry for Economic Cooperation and Development (Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung, BMZ).

LONG-TERM HEALTH

In view of the Covid-19 crisis, the question is Are the above aspects still a priority? Should entrepreneurs not be concentrating on the health of their employees and on prudent and careful liquidity management? The answer for the coming months is yes, definitely.

Yet during and after the Covid-19 pandemic, there will be opportunities for African entrepreneurs. For example, one of the lessons learned from this crisis by European industries is to diversify supply chains and to develop suppliers in closer proximity to producers. Northern and sub-Saharan African countries with higher levels of integration within global markets may benefit, as well as countries with large work forces and comparatively low labour costs. Likewise, international and African producers that depend on external supplies of raw materials or semi-finished products will foster national supply – an opportunity for local producers.

Even if many economies go through deep recessions, the risks of global warming and climate change are higher for humankind in the long term. Green technology, high quality and high environmental standards will be a key requirement for producers in the future. Importantly, digitalization has been boosted as a result of Covid-19, with opportunities for leapfrogging, even for small businesses.

Case study: Transfer of technology through sustainable building techniques

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Work and income are decisive factors in providing people with prospects. This is particularly true for African countries, with young, growing populations and economies on a growth trajectory.

This is where the Africa initiative set up by Knauf International GmbH – a German familyowned company and one of the world's leading manufacturers of building materials and construction systems – and DEG serves as a case in point: they established eight drywall construction training centres in seven African countries (Egypt, Algeria, Ghana, Nigeria, Kenya, Tanzania and Tunisia) to address the lack of specialist expertise and well-trained, skilled labour in the construction sector and to promote sustainable building techniques.

Drywall construction is indeed considered to be environmentally friendly and resource-saving since it works without or with very little water compared with the classical brickwork. This is an important advantage in regions with a shortage of water. In addition, the production of bricks in ovens requires a lot of energy and the greenhouse gas output is high.

Knauf's training centres provide a mix of theoretical and practical training in drywall construction. Modules are geared towards young people without qualifications, as well as students, construction workers, architects and instructors. Depending on the target group, training content includes, for example, the physical, chemical and structural basics; the installation of ceilings and walls; noise and fire protection; and industrial health and safety.

The first Knauf training centre in Algeria was opened in 2008. Around 8,000 participants have completed training there so far. One of them is Seghier Larbi. After successfully completing the training, he founded his own interior construction company. Today, he employs 20 people. Looking back, he praises especially the versatile and thorough training he received at the training centre, which enabled him to work independently, and prepared him for the challenges that lay ahead.

FOCUS DEG

DEG, a subsidiary of the KfW Group, is a German development finance institution dedicated to the private sector, as is France's Proparco, a subsidiary of Agence Française de Développement (AFD). With a portfolio of around EUR 9 billion in approximately 80 countries, DEG is one of the world's largest privatesector development financiers. Q

Enhancing the export competitiveness of the textile and clothing sector in developing countries

Ille Matthias Knappe, Senior Officer and Programme Manager, ITC

Over the years, assembling clothing has become a commodity. However, mere cut and sew operations are no longer a sustainable offering. To achieve the employment targets envisaged by governments, companies must provide additional services and diversify their client portfolios, possibly also developing their own products. To do this, they must move up the value chain. The GTEX Programme provides a theory of change for doing this – the 'smiley-curve' for value addition – and supports its implementation in the six countries it focuses on.

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he Global Textiles and Clothing (GTEX) Programme addresses common sectoral challenges observed in many developing countries. These relate to and retailer requirements. Relying mainly on proximity and preferential market access is no longer enough to serve clients who increasingly follow a full costing approach, selling garments at full, non-discounted prices to consumers.

changing trade patterns due to shifting brand



The various projects of the programme are at different stages of implementation. While work in Central Asia is already in its third phase, activities in Tunisia commenced in early 2018, work in Morocco in late 2018, Jordan in mid-2019 and Egypt in October 2019. The projects were scheduled to end in December 2021 but will likely be extended, in part due to Covid-19 disruption. Other countries with different timelines are being included – such as Madagascar in late 2019 – as opportunities arise.

The GTEX MENATEX Programme is funded by the State Secretariat for Economic Affairs (SECO) of the Swiss Confederation and the Swedish International Development Cooperation Agency (Sida), and focuses on six priority countries (Egypt, Morocco, Jordan, Kyrgyzstan Tajikistan and Tunisia). The project in Madagascar was funded by the Department of International Development of the United Kingdom.

Common challenges include low market diversification; dependence on simple cut and sew operations, with low service provision, low productivity levels and inadequate engineering approaches; missing national backward integration with fabrics and trims being imported; as well as social and environmental sustainability concerns. Moreover, middle management is often filled with expatriates, as companies cannot find sufficient local expertise. Also, textile- and clothing-related trade and investment support institutions are too weak to effectively enable the challenges to be addressed. Hence, the Programme works at both enterprise and institutional levels.

THEORY OF CHANGE

The 'smiley-curve' for value addition in the global apparel value chain provides the basis for the Programme's theory of change. It provides a succinct overview of where and with which service offerings companies can capture value from, and add value to their operations. It also shows opportunities for closer collaboration at the regional level, to address the missing links in the value chain. The figure below shows that the most important value-adding stages are the intangible services at the pre-production (left side of the 'smiley-curve') and post-production (right side of the 'smiley-curve') stages.

AN ARTICLE BY

Senior Officer and Programme Manager, ITC

Matthias Knappe has over 25 years of diversified professional experience in international trade and development. He has worked at the enterprise, institutional and governmental levels. Matthias is presently leading the fibres, textiles and clothing programme of the International Trade Centre. Over the last 15 years, he has been working with the T&C sector around the world to increase its export competitiveness. Understanding the needs of the market, he designed ITC's Global Textiles and Clothing programme and created the ITC African Cotton Development Initiative. He holds two master's degrees, in economics and development economics.

The GTEX theory of change Extracting value added from the textile and clothing value chain 🔻



Source: GTEX, 2020.

FOCUS GTEX

The Global Textiles and Clothing Programme (GTEX) and its related work in the Middle East and North Africa (MENATEX) promotes textile and clothing exports from Kyrgyzstan and Tajikistan, as well as from Egypt, Jordan, Morocco and Tunisia. By enhancing the export competitiveness of the sector, the Programme expects to increase exports and subsequently employment. Over the years, assembling clothing has become a commodity. Consequently, the 'smiley-curve' has become increasingly steeper, reflecting a declining share of value addition in assembly tasks. Hence, performing only simple cut and sew operations is not a desirable and sustainable position for many companies. While productivity, lean processes and social and environmental compliance on the factory floor are necessary to consolidate the existing client base and to lay the foundation for starting to move up the value chain, they are not sufficient to grow and to achieve the employment targets envisaged by the respective governments. In fact, relying only on temporary cost advantages would be dangerous. Thus, companies must move beyond production, and provide additional services, while diversifying their client portfolios.

BUILDING SME COMPETITIVENESS TO MOVE UP THE VALUE CHAIN

Applying these insights, GTEX/MENATEX helps companies in developing countries to build the capacity to fulfil critical functions along the value chain, to meet identified market requirements. Taking over additional functions, companies will be able to move from simple cut and sew operations toward a full package offering and, in some cases, to developing their own products. Value addition through service provision starts with production processes, by introducing lean manufacturing techniques and ensuring companies' social and environmental performance. Pre-production, the Programme builds the skills to start sourcing the fabrics and trims they require in new sourcing destinations, and provides product development and design training. Post-production, it focusses on creating marketing and branding know-how, and creates linkages to new clients in diversified markets.

Moving up the right side of the 'smiley-curve' requires in-depth market and consumer knowledge, a known brand name in the targeted consumer segment, and physical or virtual sales outlets in target markets. Hardly any companies have the required knowledge, skills, and sales networks in traditional export markets. Therefore, the Programme helps a few companies with their own product offerings to add value at the post-production stage, by focussing on the home country and gradually expanding within the region. In Tajikistan – an early starter with the Programme – beneficiary companies have reported additional exports of USD 18.6 million since 2018. This represents 15% of the sector's employment, with an average salary increase of 10.5% in 2019.

The Programme also fosters collaboration among companies, based on strong synergies, representing an attitudinal shift away from working in isolation. In Tunisia, companies created two collaboration consortia. One among lingerie manufacturers jointly sourced material, leading to a 10% reduction of input costs. Another jointly assembled a collection for presentation at the next trade fair.

The Programme also supports a mentoring approach between large 'champion' and smaller companies. Champions gain, as they create additional trustworthy opportunities for outsourcing, with the programme incentivising additional linkages. Initially perceived as challenging, the Covid-19 crisis has shown that this novel approach can work. In Morocco and Tunisia, some larger companies that had access to the right PPE fabrics and skills coached smaller ones to produce regulation-compliant facemasks.

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The Programme can work with only a small sample of companies in each country, so to ensure sustainability, it builds the capacity of T&C (textile & clothing) support institutions. Following assessment, the Programme supports institutions in preparing performance improvement roadmaps and new service portfolios for companies. Academic and vocational training institutions are also sustainably linked to the industry through closer partnerships. For example, in Tunisia a partnership between the sector association (FTTH) and the ESSECT business school allowed master's and PhD students to work with T&C companies, while providing the sector with scientific research work. Also, the Programme facilitated collaboration between FTTH and l'École nationale d'ingénieurs de Monastir (ENIM) to adapt the 'Ingénieur en Habillement' diploma to the changing needs of the industry. In Kyrgyzstan and Tajikistan, local universities established garment training centres to serve the industry, providing academic and technical education.

A GLOBAL COMPONENT ON KNOWLEDGE MANAGEMENT AND REGIONAL COLLABORATION

For MENA countries, the approach also offers opportunities for closer collaboration at a regional level, as none of the countries, with the partial exception of Egypt, can offer an integrated national value-chain. This is challenging, though, since stakeholders see themselves as competitors, rather than collaborators. At the enterprise level, however, the Programme has created a number of promising linkages. These include a Tunisian company setting up production facilities in Egypt to export dutyfree to the US market, as well as Moroccan and Tunisian companies sourcing fabrics from Egypt to benefit from regional cumulation, to fulfil the EU market's double-transformation Rules of Origin requirements. The Programme highlights these benefits to encourage mutually beneficial collaboration at a larger scale.

COVID-19 RESPONSE AND ADJUSTMENTS

The global pandemic and its related supply and demand shocks will have implications for the Programme. Targets will need to be adjusted, as markets are heavily disrupted and clothing sales are expected to remain low in the months to come. Nevertheless, the overall approach remains valid as it addresses the major weaknesses in the T&C industry, making suppliers more competitive and resilient to shocks. The crisis requires companies, brands and retailers to innovate with new processes, and to develop partnerships. Hence, the Programme advises companies on how to modernize their costing and pricing systems, among others, enabling them to work with brands and retailers so that garments can be sold to consumers at non-discounted prices.

By Romain De Oliveira and Amélie Pierre Milon, Deputy Editor of PS&D and coordinator of this issue

This 34th issue of the *Private Sector & Development* review takes a look at the questions raised by the industrial sector, in Africa and elsewhere, and its compatibility with sustainable development. There are many issues involved and the questions about them are legitimate in terms of job creation, respect for workers' rights, the resilience of economic development, impacts on the environment and climate... Without aiming to be exhaustive, we wanted to highlight some of the questions raised today in this sector by giving experts, lecturer-researchers, business leaders and NGOs the opportunity to take up these issues.

To inform the reflection, we wanted to take a historical perspective by presenting the case of Asia and the role that industrialization has played in its spectacular economic development since the 1960s. While the methods for this development may not escape criticism, Jean-Raphaël Chaponnière and Marc Lautier point out (pages 6 to 10) that the Asian model is often held up as an example. For the two researchers, the efforts towards industrial investment, especially in the manufacturing industry, have brought about this economic development in the region more than the policies of openness. They also point to the fact that to date, no country has experienced strong and sustainable growth without going through the industrialization phase.

We also felt that it was important to address the issue of the industry's impact on the environment and climate. The cofounder of the SME Enertime, Gilles David, provides some answers on the issue (pages 16 to 19). He believes that while there appears to be fertile ground for the implementation of innovative energy efficiency projects, obstacles remain. Financing is obviously a key issue, which explains the importance of subsidies to the sector. But there are still other barriers: a certain lack of interest by the sector in the issue of energy efficiency or the high level of concentration of industrial activity, which is not conducive to change. However, the situation is not necessarily as daunting as it might sound and Gilles David points out that this change will occur even more rapidly if "governments, international organisations, businesses, the countries concerned, their populations and NGOs work together to support energy efficiency projects".

Addressing the role that industry plays in developing countries also required taking a look at the issue of employment, especially concerning decent working conditions. For example, the garment industry is a major source of employment and offers positive prospects for employment formalization in emerging countries. In its article (pages 20 to 23), Collectif Ethique sur l'Étiquette points out that there are still abuses in the garment industry and makes recommendations to multinational companies: duty of vigilance, respecting the working conditions of workers, transparency over suppliers. This is to ensure that the sector contributes more to improving the standard of living of these workers. Industry players can do more to increase added value: for example, the article on the GTEX program (pages 46 to 49) shows that garment industries must work on a more comprehensive range in order to carry weight *vis-à-vis* their ordering parties. The theory of change developed by GTEX suggests that these players should improve their value creation by developing their services upstream and downstream from production.

At the time of writing, all economies around the world have already been hard hit by the Covid-19 pandemic. We consequently felt that it was essential to include this new situation in the issues addressed. At this stage, the data is still too patchy to have the perspective required to make an exhaustive diagnostic of the impact the crisis has had on industry. However, based on the Purchasing Managers' Index (PMI) in Africa, the analysis of the two researchers Michaël Goujon and Edouard Mien (pages 36 to 41) suggests that the manufacturing sector has been relatively resilient compared, for example, to the service and commodity sectors.

This completely disruptive period has also provided the opportunity to adapt. For example, the Manager of Société d'Étude et de Réalisations Mécaniques de Précision (SERMP) explains to us that at the height of the crisis, his company launched into the production of ventilators (pages 24 to 25). This was firstly a way of contributing to the fight against the disease, but also an opportunity to diversify its strategy. The article of the Moroccan company Dolidol (pages 30 to 31) highlights a positive impact which they intend to capitalize on: consumer attachment to "Made in" locally manufactured products.

In this context, Franziska Hollmann, Director of DEG's Corporate Department for the Africa region, points out (pages 42 to 45) that this crisis must not put a stop to the continuation of investments in the best technologies, despite its additional cost. *"There will be opportunities for African entrepreneurs"*, which they will be able to seize if they are technologically ready to meet the needs of European industries, for example. These industries have learned the lesson from this crisis that they must now *"diversify supply chains and develop suppliers in closer proximity* to producers".

Adapt, innovate and reinvent to cope with crises. This pandemic is maybe giving the industrial sector the opportunity to show that it has all the keys to address its current challenges.



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