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The Jobs Gap

Making inclusive growth work in Africa

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Private Sector Development
and Inclusive Growth Practice

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Executive Summary

Market-based sector development is essential to inclusive growth in Africa

Africa will face a shortfall of 50 million jobs by 2040.[1] That daunting number has serious implications: for the continent and its people, for the prosperity and stability of dozens of countries and even for the global economy and security. Recognizing this challenge is the easy part, but what can be done about it?

This paper explains how African governments and their international development partners can foster inclusive economic growth and create the jobs needed by the continent's growing number of young people. This paper has three aims:

1. to make the case for why the enabling environment approach

1. We estimated the expected jobs shortfall in Sub-Saharan Africa by 2040 by extrapolating in a linear fashion the current trends for two key variables: the labour force and total employment (which includes self-employment). The jobs shortfall is calculated as the gap between these two trend lines. The labour force is extrapolated based on its compound annual growth rate between 1990 and 2015 (which is 3%). On this trend, the labour force in Sub-Saharan Africa is expected to hit 823 million by 2040, up from 395 million in 2015. Total employment is extrapolated based on i) the compound annual growth rate of constant gross value added of agriculture, manufacturing and services between 1990 and 2015 and ii) the compound annual growth rate of the agriculture, manufacturing and services employment to GDP ratio as a measure of labour productivity between 1990 and 2015. By this analysis, total employment is expected to hit 773 million in 2040, up from 363 million in 2015. All data for this exercise was sourced from the World Development Indicators database of the World Bank.

Under construction: Efforts to reform the port in Freetown, Sierra Leone aim to foster economic growth

favoured by many developing country governments and international organisations is necessary but not sufficient: it needs to be complemented by politically smart market-based sector development
2. to assess why countries have often struggled to implement market-based sector development
3. to suggest how to undertake market-based sector development successfully

We draw on our work in ten African countries over the past decade, which includes extensive support to governments to shape and implement their private sector development strategies.

The case for market-based sector development

Lower-income African countries have sought to generate private sector development in recent years primarily through generic enabling environment policies that aim to level the playing field for all businesses through good governance, generic improvements in infrastructure, trade openness and a fair application of the rules. Yet many countries such as Ghana, Kenya, Liberia, Malawi, Nigeria and Sierra Leone have struggled to transform their economies fundamentally and generate inclusive growth.

Our experience points to several reasons for this. The enabling environment approach often fails to address the sector-specific challenges that firms face. Enabling environment interventions also require a broad capability that many governments in Africa do not have. And they do not effectively address the political economy challenges that hold back many economies. For example, many firms prefer countries in which they operate to remain less conducive to business, precisely because they can then use their relationships with the government to circumvent onerous rules and regulations.

Based on our work with governments, we argue that generic efforts must be complemented by market-based sector development – a concept that builds on the work of Dani Rodrik, Ricardo Hausmann and Effective States for Inclusive Development (ESID).[2] The key features of this approach are for governments, supported by their partners, to:

- focus on developing sectors that have strong economic potential for competitiveness in large markets at home or abroad and that create jobs for the majority of the labour force
- implement interventions that target the binding constraints in priority sectors and that are feasible given political economy and capability constraints

This approach has much in common with the successful growth strategies employed by many East Asian countries as well as Botswana, Lesotho, Mauritius and, currently, Ethiopia.

Why market-based sector development is difficult to achieve

Many countries have struggled to implement market-based sector development. Why?

First, the emphasis by governments and their partners on the generic enabling environment approach and not on modern industrial policy has meant that sector development efforts have not typically been owned, driven and managed by the centre of government. As a result, governments have often failed to coalesce around a single, workable plan for inclusive growth. Second, governments and partners have not explicitly accounted for political economy constraints in such efforts. Third, they have struggled to effectively implement their plans for inclusive

2. See Pritchett et al. (forthcoming) for an explanation of the ESID framework.

growth due to challenges such as the siloed design and implementation of projects and the lack of a strong coordination mechanism complemented by a delivery team.

International partners also contribute to these challenges. Donors often pursue piecemeal, uncoordinated interventions that fail to coalesce and contribute meaningfully to a country's growth strategy. They also fragment government attention and focus by pushing different government ministries and agencies to work on varied, and sometimes misaligned, private sector initiatives.

Doing market-based sector development successfully

How can countries overcome these challenges? We lay out four elements and a roadmap for governments and development partners.

— The four elements:

1 *Get the politics and economics right, simultaneously*

Balance short and long-term political considerations and align political and economic incentives within key sectors. The Government of Rwanda's collaboration with C&H Garments, which started exporting shortly after its creation and is also playing a catalytic role in the country's nascent domestic textile industry, is one such example.

2 *Understand and develop a strategic approach to fix the market system*

Treat targeted sectors as distinct market systems, diagnose root problems and design pragmatic interventions with in-built learning mechanisms. One good example is the Ethiopian Investment Commission's work, supported by TBIGC, to develop the strategy for the country's pharmaceutical sector.

3 *Establish a coordination mechanism in government*

Set up a mechanism to coordinate between government institutions, the private sector, development partners and other political entities. This body, such as Liberia's Presidential Task Force on Agriculture and Manufacturing, should have the political authority to bring together disparate ministries and agencies.

4 *Create a delivery team that is fit for purpose*

Establish a dedicated team that supports the coordination mechanism to manage processes such as gathering feedback from the private sector, aligning projects to the strategy, monitoring progress and capturing learning – a role played by Ethiopia's Agricultural Transformation Agency.

— The roadmap:

1 *Develop a clear vision for the country's inclusive growth*

This must be owned by the centre of government and – ideally – the wider political elite. This requires carefully balancing political and economic considerations and is essential to secure the required resolve, commitment and championing by local leaders.

2 *Translate this vision into an actionable cross-government strategic approach*

In this case being actionable involves several components: that key institutions – especially the finance and trade ministries and investment agency – are committed to the plan; that the plan is realistic and adequately resourced; that there are a small number of focus areas per ministry; and that it accommodates both short-term political pressures and the long-term vision and strategy.

3 *Create a coordination and implementation mechanism that is appropriate for the context*

The coordination mechanism brings together different government institutions and international partners so that politics, plans and resourcing are aligned. The implementation mechanism, or delivery team, helps drive government decision making, programme monitoring, issue escalation, problem solving and learning.

Conclusion

The failure of industrial policy initiatives in the 20th century is in large part responsible for the shift toward the enabling environment approach. Such interventions often seem less risky, particularly from the perspective of international development organisations, because they try to sidestep the challenges of elite capture and 'picking winners'. Yet these approaches alone have largely failed to transform African economies and deliver inclusive growth. The time has come for a modernised version of industrial policy: politically smart, market-based sector development.

We recognise that this approach is easy to discuss on paper and much harder to pull off in practice. It requires focus and perseverance from government and its partners over many years – not just months. Without it, Africa may continue to struggle to deliver the inclusive growth it needs. Nothing less than Africa's economic future is at stake.

Introduction

African governments will need to tackle a jobs gap of 50 million by 2040

Until recently 'Africa rising' was the dominant theme in conversations about development in Africa. The global commodity-price shock, however, has tempered this bullish perspective. During the boom years, many African countries failed to translate high commodity prices into small- and medium-sized enterprise (SME) growth, jobs and improvements in standards of living. As a result, our analysis suggests that Africa will have a shortfall of 50 million jobs and sustainable livelihoods by 2040.[3] Combine that with the fact that the continent's population will reach 1.7 billion by that year[4] and the number of extremely poor people is set to rise to 450 million. A decline in extreme poverty is not in sight.

Most economists agree that large-scale poverty reduction in Africa will only happen if economies undergo transformation in a way that promotes inclusive growth.[5] This has reignited the debate about

3. TBIGC Analysis.
4. UN DESA (2015).
5. See Pritchett (2017) for an elaboration on this point and on the wider debate.

Africa will have a shortfall of 50 million jobs and sustainable livelihoods by 2040.

whether governments and partners should focus on picking winners and targeting high-potential sectors – a strategy pursued by many emerging Asian countries[6] – or try to make generic improvements to the business environment by addressing market failures. Enabling environment efforts include openness to trade, generic infrastructure investment, fairer rules, tackling corruption, improved property rights and financial inclusion. This approach has been commonly pursued in Africa in recent decades, but it has not delivered the structural transformation needed to secure inclusive growth. As a result there is an increasing recognition of the importance of modern industrial policy: the need to undertake smart, adaptive market-led development of prioritised sectors that can compete in an evermore globalised economy and that can transform the structure of the economy to one that is inclusive.[7]

Drawing from our experience of working in a number of African governments for nearly a decade, this paper argues that modern industrial policy *is* essential in Africa as a complement, not a replacement, to generic efforts to improve the enabling environment. Choosing one or the other is a false choice; it is a matter of giving enough attention to the former and getting it right. This paper contributes to the discussion on how to do so successfully while recognising that there is no easy answer. It targets progressive thinkers in African governments, the private sector and development partners by suggesting how to build government capacity and align incentives to develop sectors that can drive inclusive growth effectively. It provides four elements and a three-point roadmap for how governments and their partners should tackle the problem in a way that accounts for challenges such as underlying political and economic incentives, policy inconsistency, poor coordination, fostering ongoing learning and adaptation, and limited technical and implementation capacity.

6. Khan (2010).

7. By 'inclusive', we mean a focus on developing sectors that allows for enough businesses to thrive that create permanent, well-paying jobs and improved livelihoods relative to the size of Africa's burgeoning labour force. Inclusivity does not mean including everyone and every sector in a development strategy from the outset, and it does not preclude working with business elites. In fact, working with elites is often essential, as they are the capital owners and how their capital is allocated is critical for growth.

Creating jobs and boosting exports: Countries such as Rwanda and Ethiopia are looking to horticulture

The Case for Modern Industrial Policy

Why supporting market-based sector development is essential to inclusive growth

First, the good news: governments and development partners in Africa are increasingly emphasising private sector development (PSD). They recognise the importance of shifting the structure of economies to drive inclusive growth. These are positive trends, even if there is little consensus on which policies and interventions are most likely to achieve these objectives.

This leads to the less good news: that the predominant approach to PSD in recent years has been to pursue generic 'horizontal' policies that seek to level the playing field for all businesses through good governance, infrastructure improvements, trade openness and a fair application of the rules. These approaches sound sensible. Yet, as we explore in this paper, many African countries that have pursued horizontal policies as a primary strategy such as Ghana, Kenya, Liberia, Malawi, Nigeria, Sierra Leone and Uganda have struggled to transform their economies fundamentally and generate inclusive growth.

The standard argument for pursuing generic enabling environment reforms is that

Generic enabling environment policies have not delivered the structural transformation needed to secure enough jobs and livelihoods in Africa.

the private sector knows best what business opportunities exist, rather than governments or the public sector; while there are market failures and government should in theory play a role, its limited capacity, its limited access to information and sometimes misaligned incentives may make it an ineffectual or harmful player. Thus, the argument goes, it is better for government to pursue generic, good governance-type reforms and let the private sector lead the search for promising opportunities in the economy.

The reality, however, is that generic enabling environment policies have not delivered the structural transformation needed to secure enough jobs and livelihoods at scale in Africa, for several reasons.

First, the enabling environment approach treats the private sector as a homogenous sphere made up of firms with the same growth constraints. This view is mistaken. Instead, the private sector in any given country is made up of different firms with different market incentives and business models. They might be locally owned or foreign owned; they might operate in a competitive or a captive market; they might be export-oriented or focused on the domestic market; and so on. Firms face different obstacles and thus require different types of support. If the goal is to change the structure of an economy to encourage inclusive growth, governments should want to treat firms that add value and create jobs differently – for example through trade facilitation and favourable regulations – than firms that generate profits from a preferential license to export raw natural resources.[8]

The enabling environment approach advocates for treating such firms equally but this often means failing to address specific bottlenecks in job-creating, export-competitive sectors. Liberia has a latent comparative advantage in cocoa, oil palm and a certain type of rubber processing, but the most significant binding constraints to developing these crops – access to finance for SMEs in these sectors, SME management capacity and the crop-specific regulatory framework – remain largely unaddressed 10 years after the country embarked on a generic enabling environment approach.

Second, governments are 'doomed to choose'[9] specific sectors or areas of support. One myth about the enabling environment approach is that it is neutral across sectors and firms. In reality, this approach leads to interventions such as establishing property rights and building infrastructure that, in their specific design, will benefit some firms more than others. Governments have no way to 'disengage from specific policies and just focus on providing broad-based support to all activities in a sector-neutral way.'[10]

Development partners are also 'doomed to choose', even when adopting a generic enabling environment approach. For example,

8. Pritchett and Werker (2012).
9. Hausmann and Rodrik (2006).
10. Ibid.

the Doing Business Indicators[11] – an example of the enabling environment approach applied across many developing countries – makes explicit assumptions about what the main binding constraints are. This programme has done well to shine a light on some of the barriers that firms face in starting up and operating efficiently, but it is far from clear that these are the main obstacles preventing the emergence of a productive private sector in many countries. Instead, low productivity and weak linkages with other firms; poor access to information, markets and capital; and inadequately skilled labour often play a bigger role.[12] Rwanda has significantly improved in the Doing Business rankings over the past decade. This in itself, however, has done little as yet to address binding constraints such as the transport costs, barriers to entry or lack of affordable finance that hamper sectors with the potential to drive export and job growth.

Those who prioritise the enabling environment approach often push for generic reforms that target the broadest, most sector-neutral impact. But this misses opportunities in key sectors. In the Liberian case above, economy-wide growth diagnostics failed to pick up the specific binding constraints faced by the sectors with the biggest job creation potential. In Sierra Leone, large investments in bio-energy and oil palm in the past five years have only led to modest localised value chain development because the government has not been able to allocate sufficient resources to address specific challenges in these industries.

Third, generic enabling environment approaches are cross-cutting and thus require widespread government capability, which many countries in Africa do not have. This approach aims to reduce the cost of doing business for all sectors at the same time. If the regulatory framework is to be made conducive, a fair playing field provided to all and rent-seeking sufficiently reduced, then the capacity of multiple ministries and agencies must be strong enough that they can meet their mandate (which often has little to do with promoting job-creating business) in a way that makes it easier for businesses to operate. This is a highly complex task for low capacity governments. This approach lumps multiple problems into one, failing to break the problem down into manageable chunks that can make implementation more feasible and thus maximise impact for job-creating businesses. Levelling the playing field for all businesses in a country may be justifiable in principle, but in practice there is little evidence to suggest that enabling environment reforms have achieved this.

Finally and most importantly, enabling environment approaches fail to address effectively the political economy challenges that hold back many economies and states' capabilities. Typically, enabling environment interventions do not account for the political economy dynamics that determine the incentives of businesses and politicians to invest in productive sectors and in complementary government capacity. In many cases, political incentives are not conducive to undertaking the structural transformation required to achieve sustained broad-based growth. If politicians can earn incomes in the existing environment with the current economic structure, why change it? Why expend political capital and limited bandwidth to build the capacity of your ministry – a critical input to good governance and fair rules – if it will not help you, and may even hurt you politically?

On the business front, firms that 'outperform' the Doing Business measurements, for example, are likely to have political connections and influence. In many developing countries, these firms, which include many import cartels across Africa, may prefer the enabling environment to remain *less*

11. www.doingbusiness.org.

12. Hallward-Driemeier and Pritchett (2015).

Those who prioritise the enabling environment approach often push for generic reforms that target the broadest, most sector-neutral impact. But this misses opportunities in key sectors.

conducive for business, precisely because they know they can use their relationships with the highest levels of government to circumvent onerous rules and regulations, while other firms cannot. The result is that enabling environment policies become even more challenging to implement and that these 'powerbroker' firms can continue to make large profits due to lack of competition.[13]

At the same time, firms that benefit from generic enabling environment measures often operate in sectors such as extractives that do not create quality jobs at scale or contribute to the acquisition of new capabilities and knowledge by the private sector. In Liberia, iron ore mining has a high import bill and has created less than 19,000 jobs compared to agriculture, which supports 500,000 people.

Granted, these 'rentier' firms, along with 'powerbrokers', may be able to kick-start short-run growth. In doing so, however, they can accumulate influence to push for government measures that specifically benefit them, as opposed to the private sector ecosystem as a whole. These measures, in turn, reinforce these firms' economic power and thus decrease the chance that growth will become more inclusive and will be maintained into the medium run. Enabling environment reforms primarily generate growth benefits in the long run,[14] so they are ill-suited to combating this negative feedback loop in the short run.

Furthermore, the appeals that these types of firms make to government, such as for tax breaks, do not require an investment in state capability. Consequently, not only does this phenomenon hinder a country's private sector from becoming more competitive, it also holds back governments from developing the capabilities needed for sustained inclusive growth. As aptly stated in the Effective States for Inclusive Development (ESID) framework:[15]

'The underlying economic structure and the sources of income it provides to businesses determines the economic interest of different industries. And in turn these interests drive the 'asks' of government, which then drives economic policies and the incentive to invest in government capacity – or otherwise – to deliver those policies.'

A key weakness of the enabling environment approach is that, in many instances, it assumes that government capacity develops independently of the economy and polity. It thus leads to efforts to build government capacity (e.g. to improve the rule of law and level the business playing field) that are blind to the political incentives of the government to invest in that capacity.

Although the generic enabling environment approach ignores these factors, it is not immune to the realities of political economy.

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13. Pritchett and Werker (2012).
14. McMillan et al. (2017b).
15. Pritchett et al. (forthcoming).

Liberia has historically exported only crude rubber; this new Bright Farms initiative seeks to change that

It would be better to account explicitly for their root causes than to apply good governance solutions blindly, which may fail to fix the problem or inadvertently make things worse. As a result, the singular focus on the enabling environment without a complementary modern industrial policy has contributed to the failure of countries to transform their economies structurally. Ultimately, sustained growth and economic convergence (i.e. closing the income gap) require both, as East Asian countries have shown.[16]

Focused efforts to develop sectors in a market-led way are more likely to create jobs and foster competitiveness in the global economy

Dani Rodrik has written that

'long-term sustainable development can only be achieved with strong institutions, allowing markets to function correctly.'[17]

He also stated that

'market forces and private entrepreneurship would be in the driving seat... but governments would also perform a strategic and coordinating role in the productive sphere beyond simply ensuring property rights, contract enforcement and macroeconomic stability.'

The message is clear: efforts to improve the business environment are necessary but not sufficient to generate economic development. The crucial area of intervention lies at the intersection of public institutions, to make them more capable, and markets, to improve their functioning.

The remainder of this paper examines this approach, which we call market-based sector development. One key element is the focus on specific sectors as opposed to generic support across the economy. In addition, we use the term 'market-based' to emphasise the importance of focusing on sectors in which there is a strong economic case based on potential competitiveness in large markets domestically or internationally. Governments should also prioritise sectors that generate high economic spillovers (e.g. sectors that show high potential in the product space,[18] a model ignored by the generic enabling environment approach) and that can create jobs at scale.[19]

Our concept of market-based sector development incorporates the cluster work of Michael Porter,[20] Dani Rodrik's industrial policy for the 21st century and Ricardo Hausmann and Cesar Hidalgo's product space, while putting particular emphasis on:

- working with local, reform-minded leaders in government and the private sector;
- improving government's delivery capacity for structural transformation; and
- navigating political economy dynamics by incorporating the constituencies-for-reform model from the ESID framework[21]

Finally, we see market-based sector development as complementing and guiding generic enabling environment efforts such as infrastructure prioritisation, skills development and institutional reform. For instance, in Liberia, enabling environment interventions such as rehabilitating feeder roads, establishing electricity connections and creating a technical and vocational education policy have been going on for a while and in isolation

16. McMillan et al. (2017b).
17. Rodrik (2004).
18. Hausmann and Klinger (2006).
19. Scale here needs to be measured relative to the welfare needs of the population.
20. Porter (1998).
21. Pritchett et al. (forthcoming).

of each other. When the government identified priority sectors in 2016, this decision allowed each of these initiatives to be prioritised around the same benchmark and geography in a more coordinated fashion than before.

Many East Asian countries pursued this approach[22] – we could name it 'growth-enhancing governance policy' – using a more active government role to change the political distribution of economic incomes by actively developing market-facing industries.[23] They focused on developing sectors in which they could be competitive in domestic or, more typically, export markets. Some African countries have followed the same course. Mauritius, widely regarded as a development success story,

'was able to segment the export and import competing sectors... which were led by strong government intervention... [and] tailored their design and implementation to the nation's competitive advantages and political economy.'[24]

Similarly, whether in diamonds, textiles or sugar, countries such as Botswana, Lesotho and Swaziland have focused on developing sectors in which they could compete. Ethiopia's rapid growth in gross domestic product (GDP) per capita – from US$117 in 2002 to US$760 in 2016[25] – is a result of efforts over 20 years to develop agricultural value chains with large market potential such as coffee, flowers, oil seeds and cereals.

Despite these success stories, other countries have tried this approach with less encouraging results. The next section explores some of the reasons behind the challenges they faced.

22. Khan (2007).

23. Khan (2010).

24. Vandemoortele and Bird (2011).

25. IMF (2016).

The Challenges of Implementation

Many governments struggle to implement market-based sector development, and donors often don't help

Whether you are in Sierra Leone, Malawi, Mozambique, Ghana, Guinea or Liberia, the President and top government officials inevitably will say they need to attract investment and grow the private sector. They will tell you that agriculture, manufacturing, tourism and services are important. Yet, in our experience, most countries lack a plan for market-based sector development or, if they have one, they struggle to implement it. Why is this the case?

First, top levels of government have not championed modern industrial policy. Although many government and donor programmes focus on specific sectors, these are often not driven by the centre of government, which may instead be focused on generic enabling environment efforts. Sector-specific initiatives often end up being driven by individual ministries, or specific donor departments, with a degree of disconnect from central thinking and limited cross-ministry political authorisation. For example, agriculture efforts may be owned by the Minister of Agriculture and agriculture specialists, but not by the President (and not by donor

It may take decades to shift the structure of an economy; it requires a sustained, focused effort and a coherent policy that spans multiple electoral cycles.

country managers). It is essential, particularly in low capacity governments, for the highest political authority to be in the driver's seat. This is critical in order for governments to coalesce around a single, practical and politically smart plan for market-based sector development, with clear roles and responsibilities assigned to various ministries and development partners.

Although governments and development partners are increasingly allocating importance to sector development,[26] it is often not centrally owned, designed and managed. In our experience, Presidents and core ministers who have a desire for inclusive growth – and they often do – unfortunately struggle to translate this aim into a workable strategic approach to develop sectors in a market-oriented way. Botswana, Ethiopia and Mauritius are exceptions to this rule and have made significant progress in recent decades as a result. These countries' national visions have included market-based sector development as shaped by their top political leaders, who have cultivated the necessary support from stakeholders and development partners.

Second, many countries have struggled to account explicitly for an unfavourable economic structure and political incentives. Earlier, we described how 'powerbroker' and 'rentier' firms can create political pressure that opposes inclusive economic reforms. In Malawi, the government had trouble reducing massive state subsidies for farm inputs – which created dependence from farmers and a burden on the budget – because political elites earned income from businesses that distributed these inputs. There is no easy solution for this type of problem. It may take decades to shift the structure of an economy; it requires a sustained, focused effort and a coherent policy that spans multiple electoral cycles.

Many governments and partners succumb to short-term pressures to deliver visible outcomes to citizens and patrons. This is not bad in itself, but it tends to be done without consideration for long-term goals, such as large-scale job creation and exports. Without this long view, reform-minded government leaders, the private sector and development organisations are unable to set manageable goals in the short-term (e.g. up to a five-year horizon) that work politically and that align to the long-term objectives. This also makes it more difficult for centres of government to own market-based sector development efforts.

Third, governments struggle to implement their inclusive growth plans effectively. We have observed several common challenges when it comes to making these plans a reality, even when political conditions for implementation seem favourable.[27]

26. See for example: World Bank (2015) and DFID (2017).

27. Even though the political economy challenges with respect to policy (e.g. which sectors to support, which policy instruments to use to support them, etc.) are less prominent in dominant party political settlements (e.g. Rwanda, Ethiopia), these challenges also play a role when it comes to implementation. Often, these problems are micro in nature and thus come down to the organisational cultures and capabilities of various parts of the bureaucracy, which renders them less tractable to top down political authority.

Job creation in action: Expansion of the textile industry in Ethiopia is creating jobs for young people

Many governments lack functioning coordination structures.

First, government technical staff struggle to consolidate the extensive analyses typically conducted by external experts into sequenced, pragmatic plans; not surprising when ministries are often bombarded with donor-driven studies. These analyses also end up sitting on shelves because they fail to find political champions to adopt them. In post-conflict Liberia and Sierra Leone, capacity constraints and poorly targeted external support meant it was easier for politicians to grab on to tangible but uncoordinated[28] projects than to develop agriculture value chains, which hold more promise for their economies.

The aforementioned critique of industrial policy – that government cannot know in advance which sectors and policy interventions will perform best – implies that any analysis need not be perfect but rather 'good enough', and that it should be complemented by an effective learning mechanism that fosters adaptation of implementation over time. Yet such a mechanism is often absent or poorly functioning when governments carry out their inclusive growth strategies.

Furthermore, many governments lack functioning coordination structures. Because developing and implementing an effective strategy requires numerous ministries and agencies to work in sync with each other, effective coordination is critical, yet our experience suggests that this is a major weakness in many countries. Unless an entity whose authority is respected by powerful ministers and bureaucrats is tasked with coordination, the challenge of aligning interests and holding officials accountable will never be overcome.

In Ethiopia, for example, the government had created a coordination mechanism for implementation of its pharmaceutical manufacturing strategy. This body did not function as planned however because it did not have a high-level political authoriser; it was unable to make practical links between the strategy and the priorities of different line ministries; and it suffered from weak buy-in by all of the key stakeholders. Consequently, it was only able to convene three meetings on the strategy in two years and could not compel participation and follow-up by relevant ministries and agencies. In other words, although a potentially useful forum was established – the sector coordinating body – it failed to fulfil the function for which it was responsible i.e. the coordination of government and other actors in the sector.

Finally, governments often do not set up effective systems to manage resources and activities for their economic strategy. A common challenge is that budgets and programmes are not devised to align with the country's strategy, causing significant implementation problems.[29] In Sierra Leone, the early stages of post-Ebola recovery struggled to align a new delivery unit with wider government systems and financial resources. For most of 2016, Sierra Leone's national budget was not connected to the government's post-Ebola recovery priorities. This slowed progress significantly. The delivery unit, known as the President's Delivery Team, was eventually able to re-establish links to the regular national planning and budget process, which allowed government to spend its money on its recovery priorities.

28. Uncoordinated in the 'industrialisation' sense, by failing to link enabling environment investments, such as roads and power, with down stream value addition and supply chain interventions.

29. ACET (2014).

The morning's delivery arrives: Most rice in Sierra Leone is imported, but this new firm is bucking that trend and buys only locally grown rice

How partners make it harder to do sector development

How do international development partners fit into this picture? We have found that many international organisations still struggle to navigate political economy issues around sector development despite a now prevalent view that politics matters. In addition to this overarching challenge, there are two more specific ways that international organisations' work in this area is problematic.

First, donors often pursue piecemeal, uncoordinated interventions that fail to coalesce and contribute meaningfully to a country's growth strategy. This may be due to the constraints on funding used for sector development (e.g. food security funds to improve agriculture livelihoods are often disconnected from programmes that seek to develop commercial agriculture); flawed problem diagnoses that point to less promising sectors (e.g. low profitability and potential for growth) or less important constraints in those sectors (e.g. not key causes of low returns or high costs); or incompatible analyses and recommendations by different teams of 'fly-in, fly-out' consultants.

But it is not just *what* donors do that matters; it also matters *how* they do it. Donors' sector-specific interventions can be too piecemeal in nature to contribute significantly to broad growth objectives. For instance, agriculture projects that provide inputs and extension training to farmers to promote food security often do not include demand-driven strategies to link these farmers to larger, downstream market opportunities. As we have seen in Liberia, Malawi and other countries, focusing only on production without linking produce to markets results in warehouses of rotting rice. The key issue here was that such projects were planned and executed in isolation of other efforts to develop the agriculture sector, so that many major constraints, such as Liberia's capacity to process rice paddy and get it to markets, remained unresolved.

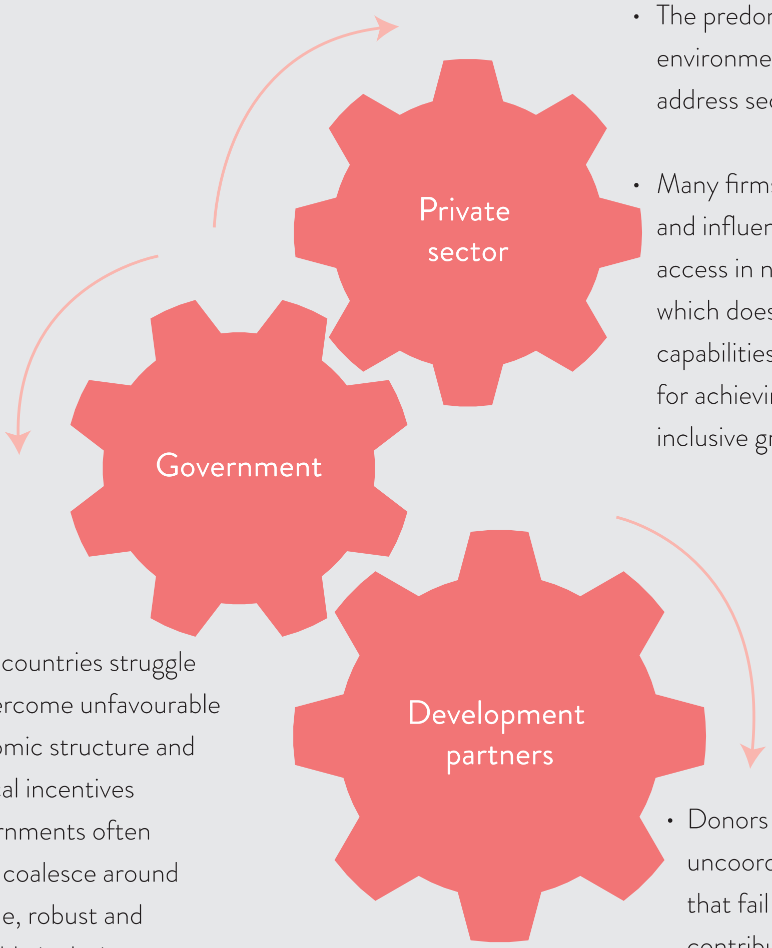
Second is the fragmentation of government attention and effort due to donors' disparate agendas in PSD. Specialisation among donors may be useful, insofar as it minimises duplication of efforts and enables donors to focus on the areas in which they have helpful comparative expertise. However, in pursuing their specific agendas, donors often inadvertently pull governments in different directions. Almost simultaneously, various parts of low capacity governments are being asked to focus on investment climate, trade facilitation, governance reforms, corruption, tax reforms and food security. Cash-strapped ministries – many of which get the majority of their budget from development partners – inevitably follow the money offered to them; government ends up doing too many things at the same time with little progress.

In Liberia, as in other donor-dependent countries, the Ministry of Commerce follows the World Trade Organization-led agenda, while the Ministry of Agriculture is driven by the UN- and US-led food security agenda, the Ministry of Labour the International Labour Organization-led labour standards agenda and the Ministry of Finance and the Revenue Authority the International Monetary Fund/World Bank agenda focused on public financial management. The result is limited policy coherence across ministries on issues that shape the enabling environment for PSD, which directly undermines economic transformation efforts.

One important implication of this fragmentation is that local political leaders who recognise the misaligned political economy – and there are many – often lack the tools, resources and support to do anything substantial about it. As a result, meaningful reforms tend to be sidelined, even when political leaders may have the drive to deliver them.

A few issues underpin this problematic support for market-based sector development from international organisations. Many

FIG.1 *Challenges of pursuing market-based sector development*



- The predominant enabling environment approach often fails to address sector-specific challenges
- Many firms use political connections and influence to gain preferential access in non-productive sectors, which does not reinforce state capabilities that are required for achieving balanced and inclusive growth

- Many countries struggle to overcome unfavourable economic structure and political incentives
- Governments often fail to coalesce around a single, robust and workable inclusive growth plan
- Analysis, coordination and implementation capacity is often insufficient

- Donors often pursue piecemeal, uncoordinated interventions that fail to coalesce and contribute meaningfully to a country's growth strategy
- Donors' disparate agendas in PSD also lead to fragmentation of government attention and effort

partners see market-based sector development as too risky, since it opens the door to elite capture, poor sector prioritisation and mistargeted interventions, and may lead to some groups feeling excluded. Development partners have pointed to these risks, as well as to limited government capacity, as justification for favouring the generic enabling environment approach. But this does not address the political challenges, and the problem of limited government capacity cannot be circumvented.

In our view, because the central thought process of international partners focuses on the enabling environment approach, they do not contribute as much as they could to supporting workable inclusive growth strategies. In the next section, we identify four key elements and a roadmap that governments can follow – with support from development partners – to undertake market-based sector development successfully.

Doing It Better

Four elements and a roadmap for governments and development partners looking to do sector development

We have set out the reasons why the generic enabling environment approach has largely failed to deliver structural transformation, and hence inclusive growth, in Africa in recent decades. This paper has acknowledged the increasing awareness in governments and partners of the importance of modern industrial policy, or market-based sector development, as a complement to generic enabling environment efforts. Without it, inclusive growth likely cannot be achieved at scale in Africa. But it has also recognised that, despite the renewed attention to this approach, it is only being applied well in a handful of African countries. Many government leaders, development partners and private sector actors are struggling to put market-based sector development into practice.

Four key elements of market-based sector development

Governments and development partners need to account for four key elements to carry out successful market-based sector development.

1 *Get the politics and economics right, simultaneously*

2 *Understand and strengthen market systems*

3 *Establish a functional coordination mechanism*

4 *Create a delivery team that is fit for purpose*

There is no template for putting these elements in place effectively; here are our reflections on where and how we have seen them done well.

— 1) Get the politics and economics right

Getting the politics and economics right has numerous parts to it, and all are equally important.

First, develop constituencies for reform,[30] no matter how long it takes. In other words, invest in creating the local demand that will shift the economic and political incentives in favour of job-creating sectors and the government capacity that goes with it. We described in the last section how the structure of many countries' economies makes it politically difficult to move towards inclusion. One potential response is to find creative ways to align short- and long-term politics and economics. This requires:

- understanding what determines political competition as well as whether the structure of the economy is conducive to inclusive growth
- analysing how money shapes the political landscape and politicians' behaviour
- taking a long-term perspective on inclusive growth – not merely a five-year horizon – but also delineating time periods that suit short-term political cycles

It is essential for governments to focus on both the short and the long term. Governments are unlikely to stick to a long-term strategy if they do not see concrete progress within political cycles such as elections, particularly if the strategy involves developing nascent industries with weak political constituencies. On the flip side, countries will not achieve transformational results if short-term actions are not grounded in an economically sound long-term development plan. This tension is often a source of policy incoherence, which holds countries back from inclusive growth. Developing sectors so that they transform an entire economy requires a consistent focus over many years: Mauritius spent 10 years focusing on textiles and a subsequent 10 on tourism. Ethiopia and Botswana focused on agriculture and services, respectively, for 20 years.

So how does one get the balance right? One tactic is to invest in promising sectors:[31] those that have potential for scale, job creation, local spillovers and backward and forward linkages, and those that can build more favourable political dynamics that would encourage the necessary investment in government capacity. It is essential to seek out investment cases that deliver quickly and are strategic, that have strong management behind them, and that align to the long-term vision through a sound economic case. C&H Garments in Rwanda is an example of such an investment. C&H started exporting within just a few years of being set up and, at the same time, is playing a catalytic role (e.g. through training local staff) in the government's pursuit of a domestic textile industry.[32]

Buoyed by their development partners, many African countries have failed to focus

30. Pritchett et al. (forthcoming).

31. One useful tool to identify the right sectors is the ESID Framework, which builds on the product space, the rent space and the nature of deals.

32. Kuo (2016).

Making cosmetics from waste: In Liberia entrepreneurs are developing a diverse range of products from palm oil kernels

It is crucial to view each sector as a self-sustaining market system so that root problems can be diagnosed and pragmatic and sustainable interventions to strengthen the system identified.

consistently on investments with these characteristics. Take agriculture, where many development initiatives are tied to food security. Governments and partners have paid too much attention to staple crops at the expense of crops with more potential for growth and inclusivity, such as oil palm, rubber, sugar and cocoa. Liberia, Sierra Leone and Malawi have all followed this trend.

Second, get the politics and economics right *within* sectors as well. Even when priority sectors and key constraints have been identified, addressing them requires significant political courage and economic resolve. In Liberia and Sierra Leone, after a decade of not making investments in their rice value chains, both governments are now reducing their dependence on imports through targeted interventions. These governments are deliberately doing this in a way that builds gradual political momentum to overcome powerful opposition to these initiatives. Sierra Leone is using subsidised institutional feeding schemes that link local processors to government entities, and Liberia is investing in local milling capacity.

Third, support government reformers to navigate political constraints. Getting the politics and economics right is essential but difficult. Reformist leaders in government and the private sector must be supported to balance delicate political considerations in a way that permits the development of a plan that can stand the test of time. The centre of government and development partners both need to be savvy enough to understand these political factors and willing to accept government's short-term political needs – and therefore second-best policy solutions – in the name of long-term sustainability. Working under the political mandate of the centre of government and accounting for its political and economic incentives is critical to secure sustained commitment and policy coherence and consistency.

— 2) Understand and develop a strategic approach to strengthen the market system

Once government and its partners have identified sectors that can drive inclusive growth within the context of the local political settlement and economic structure, they need to understand the challenges and opportunities in and around those sectors. It is crucial to view each sector as a self-sustaining market system so that root problems can be diagnosed and pragmatic and sustainable interventions to strengthen the system identified.[33] These interventions must be feasible with the resources available and within the existing level of government capability. This seems straightforward, but for reasons already set out, many political leaders and development partners continue to struggle with it.

33. The increasing use of the Making Markets Work for the Poor (M4P) approach is an encouraging development in this regard, although such programmes should be explicitly linked to the centre of government's vision and strategy to secure inclusive growth and to the realities of the underlying political dynamics.

Importantly, 'diagnosis' does not mean a glossy report or slide deck written by an external actor with little collaboration with government and private sector actors. Instead, it requires regular dialogue with stakeholders – especially political and business leaders – such that the root causes of binding constraints are identified and relevant stakeholders 'own' these constraints. Furthermore, diagnosis is not a one-off exercise carried out at the start of a programme; it is an iterative process that should feed into, and be shaped by, ongoing efforts to resolve key bottlenecks.

This diagnosis then needs to be translated into a strategic approach around which disparate ministries, agencies and development partners can coalesce. A key advantage of modern industrial policy in low capacity governments is that it provides such a focal point for coordination. It is much easier to ask a country's revenue authority to facilitate business operations[34] in a handful of sectors, rather than in all sectors, when their sole goal is to meet their revenue targets for the current fiscal year. This strategic approach also needs to clarify the roles of each ministry, agency and partner, to minimise duplication and turf wars.

Crucially, because market systems are complex, sector strategies, no matter how well-designed, must be adapted as they are implemented. In order to make these course corrections, strategies must incorporate:

- learning mechanisms that facilitate the flow of information between government, firms in the sector, and other relevant players
- up-front flexibility in the design of the strategy that enables adaptation based on this learning
- resources – financial, technical and political, as well as strategic allies – that align with this approach

In many cases, governments may need to set up a nerve centre to join up diagnosis and strategy design.

SUPPORTING ETHIOPIA'S PHARMACEUTICAL MANUFACTURING SECTOR

Our work in Ethiopia is an example of where these ingredients have come together effectively. We (TBIGC) are supporting the government to develop and implement a revised strategy for its pharmaceutical manufacturing industry. Ethiopian Investment Commission (EIC) and TBIGC staff formed the nerve centre – authorised by and working closely with the Prime Minister's Office (PMO) – for the pharmaceutical manufacturing sector. We worked alongside a broad range of Government of Ethiopia (GoE) stakeholders to uncover sector-specific challenges. Our embedded position enabled us to devise recommendations that are more politically feasible and more likely to be implemented by these stakeholders than they would be otherwise. The approach explicitly sought to strike a balance between conducting thorough analysis and framing the strategy in an action-oriented way such that senior politicians feel that the government can actually deliver. The traction that we have gained in this process has led the PMO to ask for our support in developing strategies in several other sectors – a sign that the government values this approach.

A key advantage of modern industrial policy in low capacity governments is that it provides a focal point for coordination.

34. Facilitation of business in this context means: a) making it easier for businesses to meet their tax obligations (e.g. reducing the time burden of paying taxes or receiving refunds); and b) aligning tax policy to ensure the competitiveness of those sectors (e.g. by ensuring minimal rates for critical imported inputs).

— *3) Establish a coordination mechanism in government*

Too often governments struggle to coordinate effectively across different ministries, the private sector, development partners and other political entities. Within government this leads to situations such as that in Liberia where at one point four key ministries each had separate PSD strategies. The result is that different parts of government pursue distinct and sometimes even conflicting plans. Governments also do not engage enough with a representative cross-section of the private sector (to understand the constraints to growth), and often fail to work collaboratively to identify practical solutions. When governments do reach out to the private sector, it is typically the powerbrokers and rentiers who show up – their profits are more directly affected by government actions, so they are the firms that have cultivated relationships with government officials.

As we have seen in this paper, when governments do not have a strong coordination mechanism in place, international partners struggle to harmonise their PSD initiatives. This limits partners' impact and, as described earlier, fragments government's attention and effort.

Governments need a strong coordination body to address each of these issues. What are the key features of an effective coordination mechanism? It needs to be embedded in or accountable to the centre of government. It needs to have the political authority to be able to bring disparate ministries and agencies – such as ministries of finance, trade, agriculture, energy, public works and labour, as well as the revenue authority, investment promotion and ports agencies – into line. If government is not working in a unified way, then non-government actors will follow suit.

There is no single structural solution for this, but the key is an ongoing effort to forge consensus.[35] Sometimes it can be achieved through a top-down engagement, such as the Presidential Task Force on Agriculture and Manufacturing that TBIGC helped to set up and run in Liberia. This Task Force aligned key ministries such as agriculture, trade and finance behind a unified approach from 2015 onwards. Other times it is necessary to carve out the space for government officials at the technical and political level to find compromises.

To coordinate with the private sector, this mechanism should facilitate interaction with firms that the government wants to succeed in its strategy, not just the firms that it already knows. Not only are business perspectives critical in identifying the most promising sectors on which a country's economic strategy should focus, but an effective public-private dialogue can offer government officials a worm's-eye view of the day-to-day operations of businesses in the country and a particular sector.[36] This level of granularity is required in order to identify specific, actionable interventions aligned with sector strategies.[37]

Rwanda offers an example of a promising coordination effort: the National Agricultural Export Development Board's (NAEB) work to develop the Rwandan floriculture industry. It fosters collaboration with firms, donors (e.g. the International Finance Corporation) and other government entities (e.g. the Rwanda Development Board) to implement coordinated activities promoting investment that are expected to bring new investors to the sector. Effective coordination mechanisms in other countries include the National Economic

35. For several African case studies on state-business coordination, see Page and Tarp (2017).

36. ACET (2014).

37. The classic dilemma here is how to achieve 'embedded autonomy' – that is, productive interactions between government and business that are close enough that government officials understand the specific barriers impeding business growth but distant enough to avoid rent-seeking among the two parties. Whether or not this ideal is achieved comes down to the mechanism for governing these interactions. While risky, we support this approach over generic efforts to improve the enabling environment, which are unlikely to drive structural change even if successful.

FIG. 2. *The difference between a coordination mechanism and a delivery team*

	Coordination mechanism	Delivery team
Purpose	• Forge political consensus and maintain political authorisation for strategic approach; equivalent to a company's board	• Drive day-to-day implementation with authorisation from political leaders; equivalent to a company's management
Composition	• Political leaders and policymakers (centre of government and/or core ministries)	• Managers and technical staff from core ministries or as part of 'island of effectiveness'; external expertise as needed
Responsibilities	• Set strategic direction and define priorities • Ensure clear division of responsibilities • Monitor and troubleshoot bottlenecks in implementation • Make necessary decisions on policy and implementation	• Develop performance indicators • Track implementation and report on progress to coordination body • Reflect on strengths and weaknesses of implementation and adapt as necessary • Work alongside line ministries to solve problems

and Social Council in Mauritius, the National Industrial Development Council in Brazil and the Trade Sector Wide Approach in Cambodia. The crucial ingredients are ownership by the centre of government, buy-in from key ministries, an effective convening mechanism and politically smart technical support.

When governments do not have a strong coordination mechanism in place, international partners struggle to harmonise their PSD initiatives.

— *4) Set up a fit for purpose delivery team*

Similar policies to promote growth have produced different effects across countries. This implies that how countries implement growth strategies matters immensely.[38] One explanation for the hit-or-miss nature of PSD strategies is that it is difficult to know what a country will be good at producing before it starts producing it. This is the predicament of self-discovery.[39] Because there is no foolproof way to identify which sectors and policies will perform best, government must establish processes that foster adaptation of sector strategies as this discovery process plays out. These processes should include coordinated government action, ongoing exchange between public and private actors and learning from these actions so that course corrections can be made over time.

38. Rossignol (2016).

39. Hausmann and Rodrik (2003).

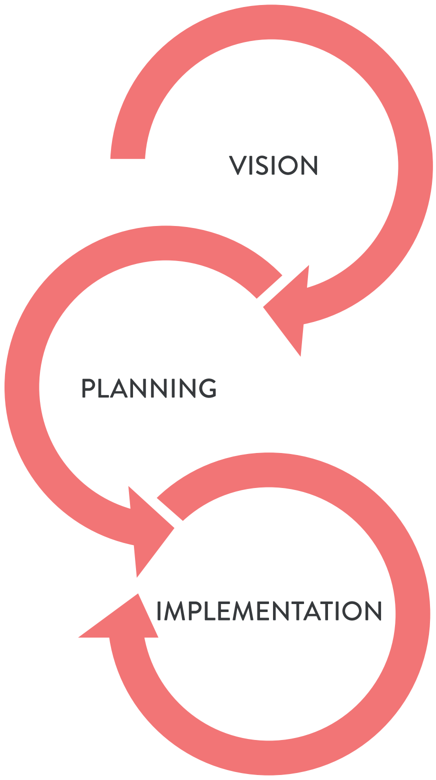
FIG.3 *Components of market-based sector development approach*

Politics and economics
Secure sustained commitment and drive by building constituencies for economic reform and aligning short and long-term incentives

Strategic approach
Understand market constraints and opportunities and devise pragmatic and sustainable systemic interventions backed by coherent government policies

Coordination
Commit to a unified, coordinated approach supported by effective problem-solving, public-private dialogue and strategic communication

The Team
Achieve focus and prioritisation by building a team of effective and dedicated decision-makers and technicians



A **clear and workable strategic approach** for inclusive growth that is economically sound, that can secure private sector buy-in and be accepted by the country's political elite

An **actionable and resourced cross-government plan** championed by the centre and key line ministries and agencies (i.e., finance, trade, agriculture, investment)

Effective **government coordination, monitoring and learning mechanisms** to guide decision-makers, leverage collective impact from partners and focus on incremental results

Consequently, what is crucial for successful implementation is a strategic 'action and learning' mechanism, which in turn is brought to life by a fit for purpose delivery team focused on inclusive growth. Just as there is a need for a nerve centre to own a strategy for inclusive growth, there is also a need for a nerve centre to drive the implementation effort (in many cases, these groups may overlap). While we are agnostic as to structure, this team should fulfil a number of functions:

- navigating local politics
- ensuring economic robustness and coherence
- effectively managing processes (such as gathering feedback from the private sector and communicating problems and options for solutions to political leaders and monitoring and learning)

Such a team should be situated within government. It needs to be embedded in the political and economic decision-making system and process. It should fall under the political mandate of the leaders of the inclusive growth vision. And it needs to be fit for purpose, building on skills and structures already existing in the government, and bringing in technical inputs as needed, either from local or foreign experts.

What some countries have done is to create 'islands of effectiveness': units or agencies staffed with technically competent employees who have high-level political authorisation to coordinate and guide implementation of sector strategies. Ethiopia's Agricultural Transformation Agency is an example. Such 'islands of effectiveness' are often bolstered by outside support to fill gaps in capacity. What matters is not the structure *per se*, as different forms will work in different contexts, but the existence of a dedicated function.

SUPPORTING LIBERIA'S ECONOMIC DIVERSIFICATION STRATEGY

We supported the Government of Liberia to apply this road map. First, to get clear on the vision, we worked with our government colleagues to consult with a range of stakeholders in the centre of government, in key ministries and agencies, in the private sector and among development partners. Many of these players were not working together in a structured way. As a result, each had their own plans, which were not synchronised, and major private sector bottlenecks were going unaddressed. We identified the common elements across these plans and worked with stakeholders to forge a consensus for how to diversify the economy. This exercise pointed to the importance of investing in agriculture value chain development.

We then worked with the key ministries and agencies to turn this into an actionable strategic approach by merging their visions and plans, including identifying what each of their roles should be. After a year, the President established a Task Force on Agriculture as a forum to coordinate ministries and agencies and achieve coherence across their efforts. We supported the secretariat of this forum to secure agreement across ministries on a single strategic plan. These steps have led to tangible progress, such as allowing Liberia to restart fish processing, exporting for the first time since the country's conflict and providing a benchmark for development partners to plan around. The next step will be to establish an implementation mechanism to roll out the strategy.

While technical capability is important, these teams also need to be good at managing people and conflicting interests, and fostering co-operation across stakeholders, all of which are equally essential for implementation. The range of issues that sector strategies touch on means that these entities can only play a central coordinating role to help various ministries and agencies to carry out their functions as they relate to the strategy in a synchronised way.

A different approach to building this team is to draw together a small group of staff from the key agencies responsible for putting the strategy into practice.[40] Again, the team must be authorised by the political champions of the strategy, and should ideally include members who can play complementary roles. As we embark on implementing the pharmaceutical manufacturing strategy in Ethiopia, forming and supporting such a team is a critical task that TBIGC will be working with Government of Ethiopia on in the coming months.

In countries where such a nerve centre – for strategising, coordinating and driving implementation – is missing, it may be necessary to take a step back and build one up, by working with political visionaries in government. In Liberia, TBIGC worked with five ministries over two years to align their fragmented PSD efforts gradually. The result was a consensus plan, the Liberia Agriculture Transformation Agenda, coordinated through a new Presidential task force. The next step is to establish a delivery hub that works across these ministries to roll out gradually a wider inclusive growth agenda by testing, learning and adapting.[41]

Roadmap for successful market-based sector development

Based on these four elements, we set out a three-point roadmap for effective market-based sector development.

1 *Craft a clear vision for the inclusive growth of the country that is owned by the centre of government and, ideally, the wider political elite*

40. CID at the Harvard Kennedy School is working with the Sri Lankan government in this way. While their effort is currently focused on analysis and strategy development, the approach could just as well be applied to strategy implementation. See: Andrews et al. (2017).

41. Liberia will hold its election in October 2017 and the new President will take office in January 2018.

2 *Translate this into an actionable cross-government strategic approach*

3 *Develop an implementation mechanism fitted to the context and with built-in levers for learning and adaptation*

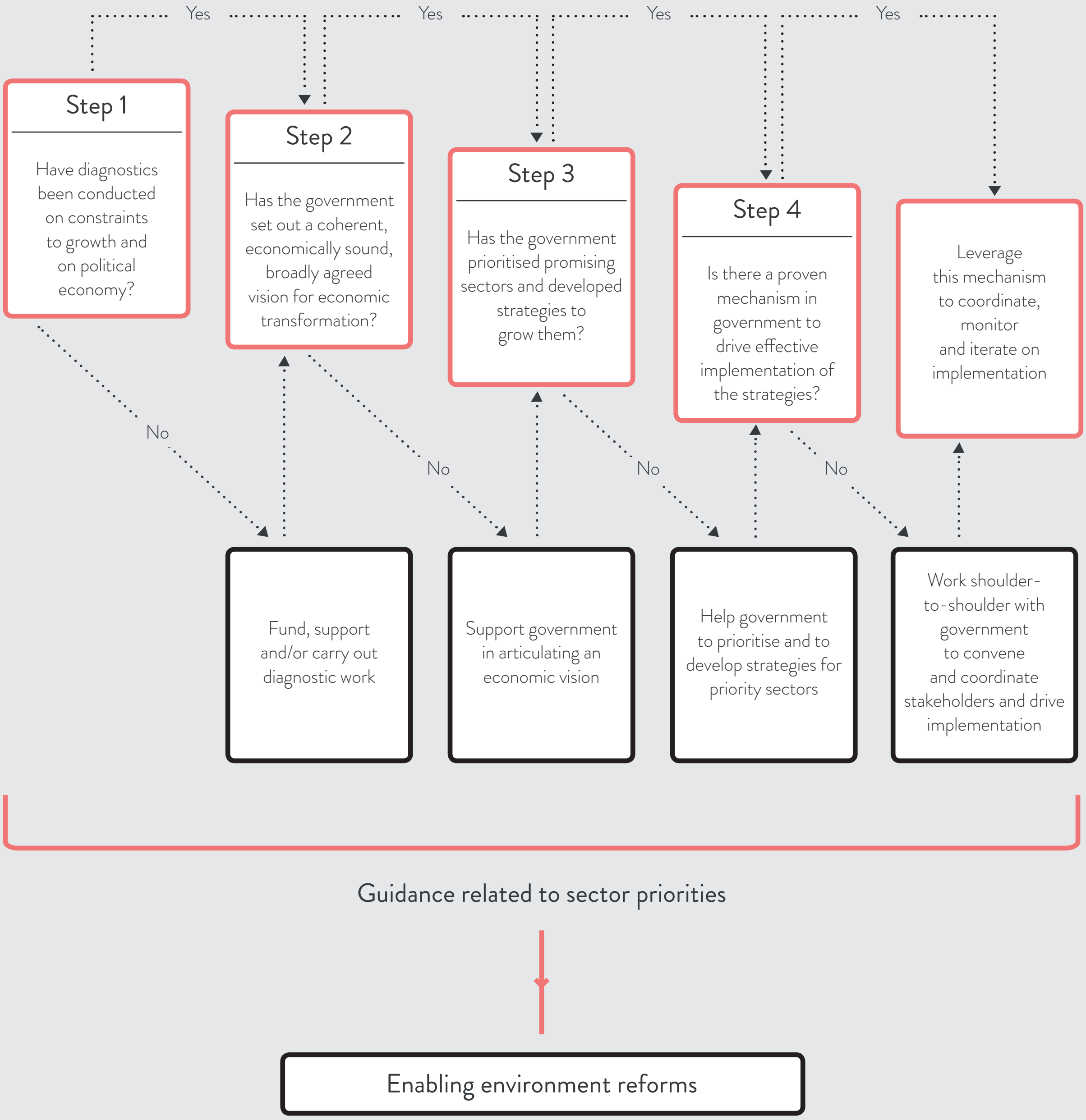
It is important to begin by articulating a clear vision for inclusive growth that is economically sound, can secure private sector buy-in, and can be accepted by the country's political elite. This requires getting the politics and economics right and so calls for technical government officials, and sometimes development partners, to work with top political leaders. This does not necessarily mean developing a 100-page document. What is more important is that political leaders and partners genuinely own the vision.

The next step is to translate this vision into an actionable cross-government strategic approach that key institutions, especially the finance and trade ministries and investment agency, buy into jointly, and which is both realistic and sufficiently resourced. This plan needs to be based on appropriate *diagnosis* of the problem in the context of a market system. It should assign a small number of activities per government institution, a rule of thumb that is particularly important in the lowest capacity governments. These activities must be synchronised where necessary, and the ministries and agencies charged with implementation should feel vested in working together. In addition, the plan must have deliverables that fit the short-term political exigencies of the government while remaining consistent with the long-term vision and strategy.

It is important to roll out this plan through a coordination mechanism that is linked to the centre of government, bringing various agencies and partners together, so that the politics and resourcing are aligned. With the vision and actionable strategy in place, implementation of the plan must be driven through effective government decision-making, ongoing diagnosis, coordination and programme oversight mechanisms, strategic communication, monitoring and learning mechanisms to guide decision-makers on how to course-correct over time, and targeted, flexible support from partners. This all needs to be supported by a delivery team that is fit for purpose to maintain a focus on results.

The decision tree below lays out these steps visually. We acknowledge that this approach requires patience from the outset; one cannot skip straight to planning without a clear vision that is genuinely owned by the centre of government. Achieving inclusive growth is hard and takes years, even decades; it requires a long-term outlook that works with the grain of short-term political pressures and horizons.

FIG. 4. *Deciding how to promote private sector development*[42]



42. This approach has similarities with that laid out by Overseas Development Institute's Supporting Economic Transformation (SET) programme – see: McMillan et al. (2017a). We, however, seek to emphasize the 'how' of promoting economic transformation.

Conclusion

Effective sector development is a long and challenging path, but it's essential in order for countries to achieve inclusive growth

This paper details an approach for governments to pursue to promote inclusive growth, supported by their partners. It centres on providing focused support to sectors in which there is a strong economic case that a country can compete in domestic and global markets.

Industrial policy efforts in the second half of the 20th century led to many failures, which partly explains why there has been a shift toward generic enabling environment support: the latter is viewed as less risky. However, we have argued that enabling environment reforms are not sufficient. We contend that market-based sector development, done well, substantially increases the likelihood that a country can generate quality jobs and economic productivity on a large scale.

What is more, government activity in most economies already goes beyond simply levelling the playing field. In this regard, we have underscored several factors that have impeded efforts to support market-based sector development: lack of central ownership, failure to account for the political economy, and lacklustre implementation. To address these challenges, we have outlined the four elements that governments should take into account: align the politics and the economics; diagnose sector-specific challenges and develop an adaptable strategic approach to address them; establish a mechanism to foster coordination, both in terms of information flow and actions of different parts of government; and set up a fit for purpose delivery team to drive implementation of the strategy. Finally, we have set out a roadmap for market-based sector development that incorporates these four elements.

We recognise that the approach we are proposing is neither easy nor foolproof; indeed, no approach to promoting inclusive growth is. Nonetheless, we feel that to promote economic development, it is not simply enough to *do things right*; it is equally critical to *do the right things* – the things that genuinely increase Africa's chances of transforming its economies, achieving inclusive growth and addressing the 50 million jobs shortfall. Complementing enabling environment initiatives with politically smart market-based sector development is the right thing to do.

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About the Practice

The Private Sector Development and Inclusive Growth Practice of the Tony Blair Institute for Global Change works across seven countries. The practice provides unique advisory support to governments seeking inclusive growth through four product offerings: inclusive growth visioning and strategic support, agriculture development, manufacturing development and bespoke support. The practice is presently supporting the Government of Ethiopia to develop the textile, garments and pharmaceutical industries and the Government of Rwanda to roll out its National Export Strategy. In Liberia, it is helping the government to formulate its economic diversification agenda – focused on agriculture and light manufacturing. In Sierra Leone, it is assisting in the development of agriculture value chains such as rice, while also improving the support mechanism for small and medium-sized businesses. The practice also supported setting up the Development Bank of Nigeria which aims to give 200,000 loans to small and medium sized businesses in its first five years. Building on this paper, the practice plans to do more to share lessons from our experience working with governments and with the global development community.

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Africa faces a daunting challenge. If current trends continue, the continent will face a shortfall of 50 million jobs by 2040. This has serious implications for the continent and its people, the prosperity and stability of dozens of countries, and even for the global economy and security. This report explains what African governments and their international development partners need to do to avoid this.

The Jobs Gap argues that the enabling environment approach favoured by many developing-countries and international organisations is not sufficient to foster inclusive economic growth and create the jobs needed by Africa's growing number of young people. It shows why these efforts need to be complemented by politically smart market-based sector development, and outlines how to do this successfully.

This is the first publication of TBIGC's Private Sector Development and Inclusive Growth Practice. It draws on our experience of working in ten African countries over the past decade, which includes extensive support to governments to shape and implement their private sector development strategies.

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