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Zusammenarbeit (GIZ) GmbH

EQuIP



Enhancing the Quality of Industrial Policies



Policy framework for Sustainable Industrial Areas - Toolboxes

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SME promotion reloaded

Approaches for an employment initiative for Africa

Germany pursues three approaches in its cooperation with African countries:

1. Industrial zones as drivers of structural transformation in Africa
2. Encouraging investment in African SMEs
3. Empowerment: A job that only assures daily survival cannot bring about lasting

Encourage investment. Strengthen the middle class. Create jobs.



Strengthen the middle class

- **1. Large-scale projects as an opportunity to involve local SMEs in existing investments**
- **2. Financially support African SMEs and provide them with holistic advice**



Large-scale projects as an opportunity to involve local SMEs in existing investments

- Analyze and identify existing large-scale investment projects that offer **high potential for the integration of local SME**
- In addition to individual international and local private investors, the **state continues to be one of the most important investors** in Africa
- **Identify the relevant (supplier) industry**, the necessary work areas and occupations together with the investors, but also through local associations, chambers and service providers.
- **Matchmaking** - between the investors and local suppliers
- Build the necessary **training centers** to train and educate employees in relevant (and missing) expertise
- Build up necessary **management skills**
- Dialogue with the partner government on the **legal and regulatory framework**



Financially support African SMEs and provide them with holistic advice

- Bundle the necessary expertise in the partner country in one **hub**
- Support companies of the local middle class through (transparent) **support programs**
- Coordinate and design **funding approaches** and **state framework conditions** for SMEs
- Systematically identify and address **obstacles to business and investment** at short notice
- Support small and medium-sized enterprises in gaining **access to capital and financial services** (bankability)
- Support international and national private investors as well as financial service providers to tap into the **SME customer segment**

Principle 1: Self-Determination

Situation: **The task of developing an industrial strategy**

Two options: 1) hire someone else to do it
2) do it yourself

Why you should DO INDUSTRIAL POLICY YOURSELF:

1. Relying on others to develop strategy/policy is expensive, not in line with national context and no one in the country will fully understand and appreciate
2. Doing it yourself may not result in the “prettiest documents” but will enhance effectiveness, feasibility and sustainability



Take Control of your Development

Capacity Development for IP

Old approach to industrial policy design

Objective: Best possible policy document

Responsibility: International expert taking lead

Priorities: growth and export competitiveness

Challenge: limited implementation, no sustainability



New approach (self-determined)

Self-sufficient policy-making process

Building local capacities for industrial policy design

Allows consideration of more holistic development notion

Fully owned policy that will be implemented



EQulP Goals

- **Inclusive and sustainable** industrial development
- **Including tools on employment promotion and energy efficiency**
 - Enable countries to **manage their own future**
 - Move from supply-driven to demand-driven IP
 - Non-deterministic and transparent
 - Building local capacities for public policy
 - **Evidence-based** IP decisions
 - Address practical challenges with appropriate tools
 - Help make sure different policies are aligned
 - **Holistic** notion of development

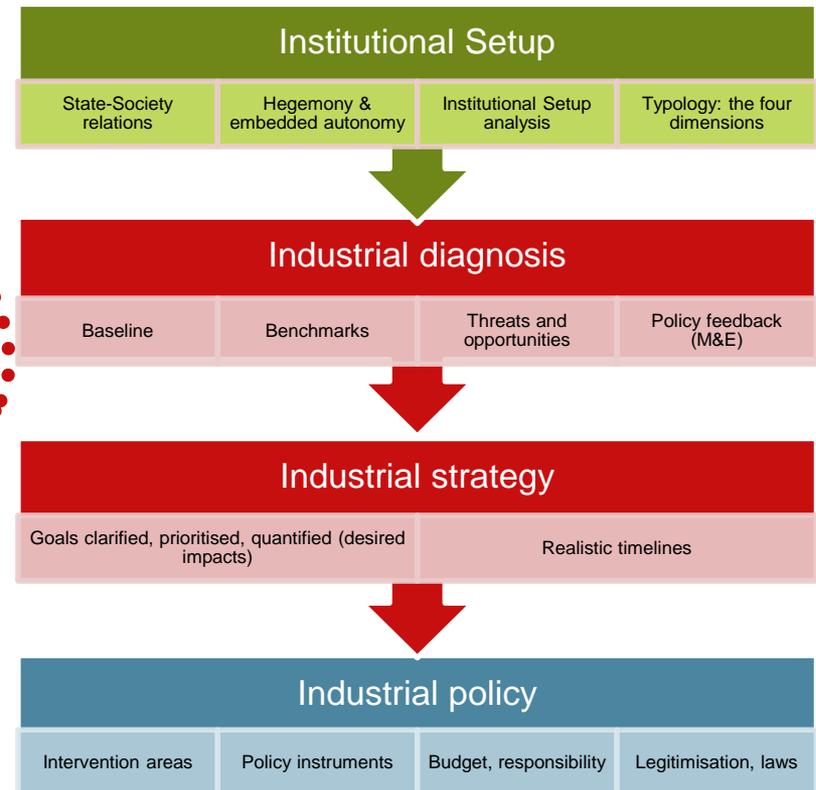
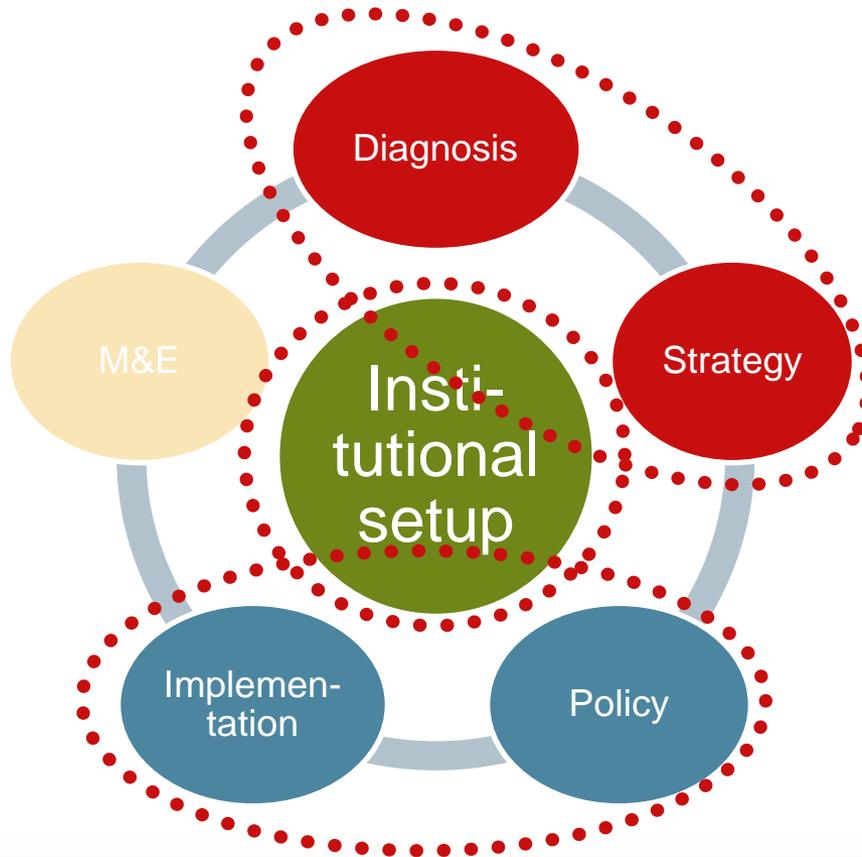


What EQUiP can offer

- Quantitative and performance based diagnostic methods (not qualitative and perception based!)
- Tools are simple and intuitive
- Capacity building package for public servants and analysts, first steps can be flexible,
 - e.g. starting with a self-guided e-learning course,
 - individual usage of the tools from the internet,
 - or a full fledged training
- Modular structure can be adapted and targeted to the specific needs of the country, e.g. growth, structural transformation, job creation
- Based on the long standing experience of UNIDO in industrial development and of GIZ in stakeholder and policy dialogues

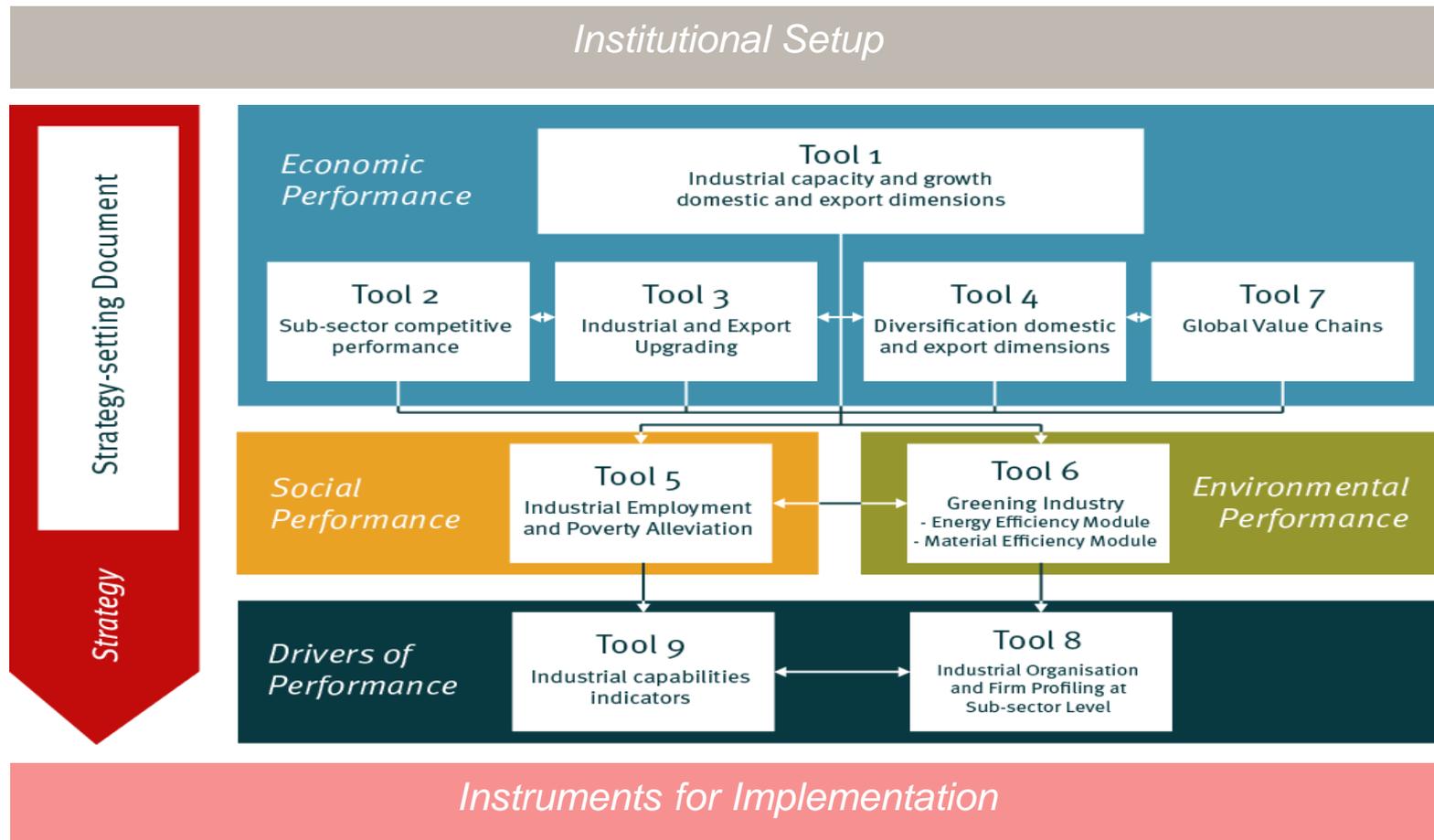


The Policy Cycle



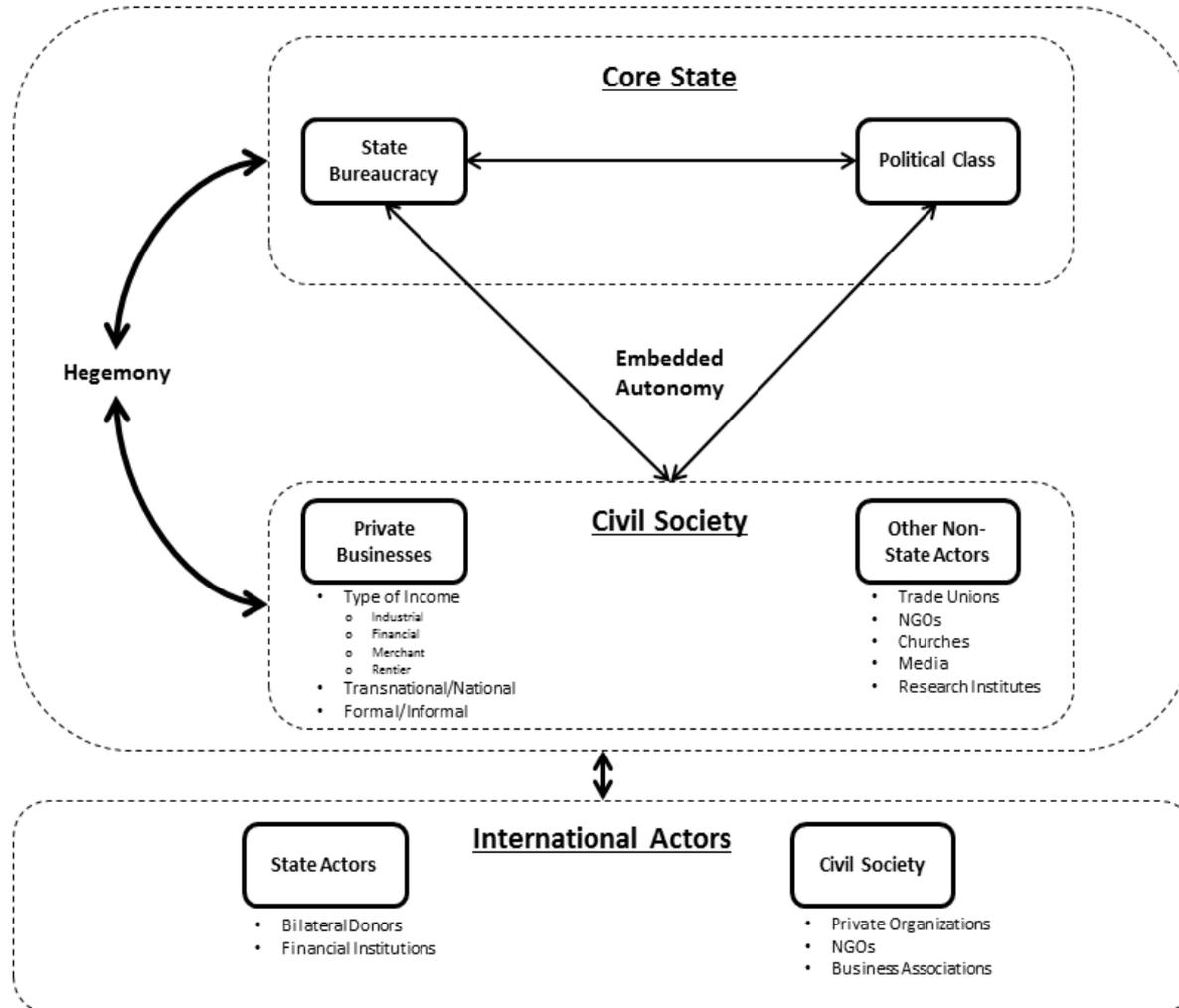


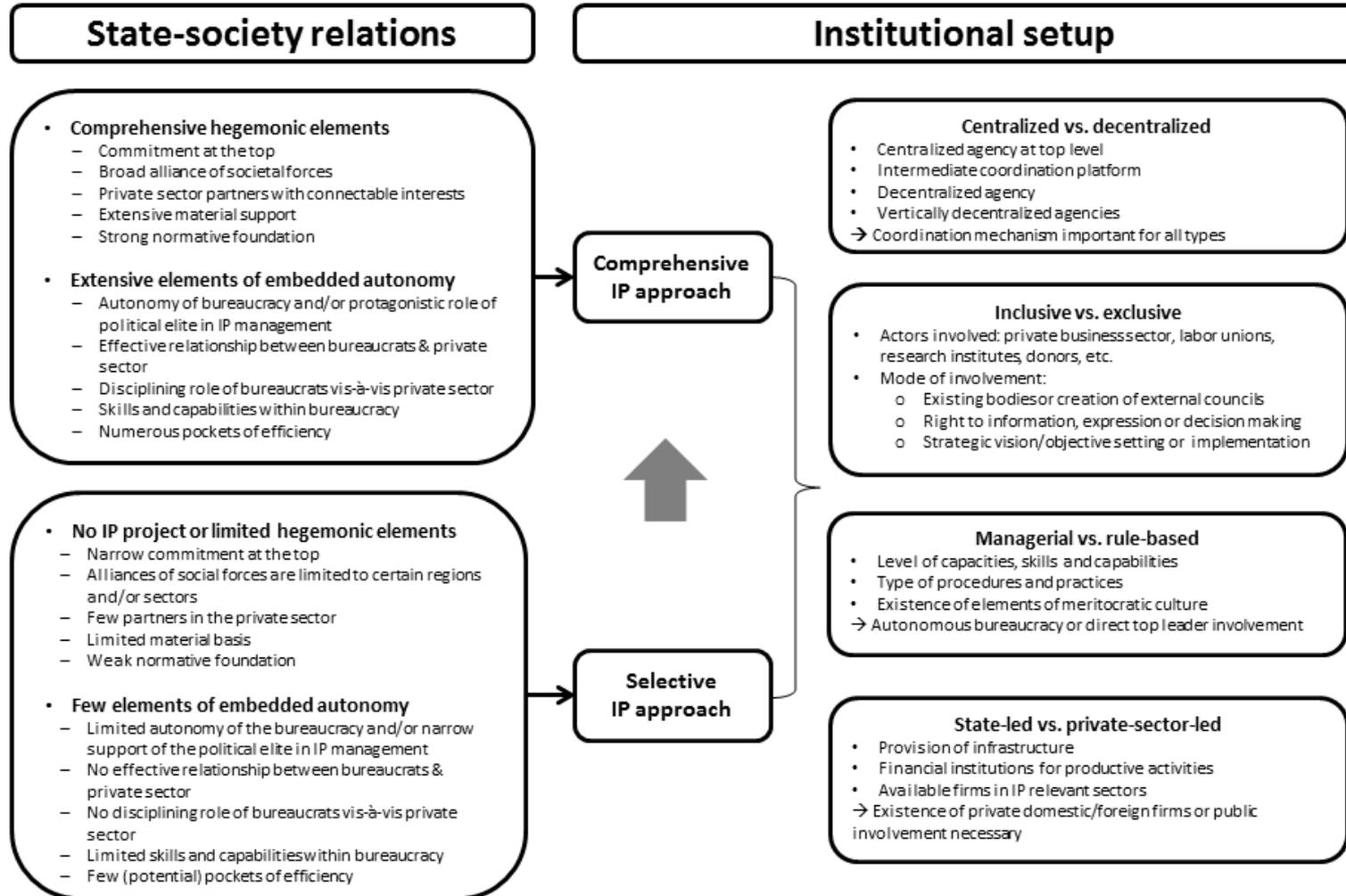
EQuIP Tools





Institutional Setup as the Framework for Industrial Policy







The variety of industrial policy objectives

1. Increase productive activities

2. Deepen global market integration

3. Maximize domestic value capture

4. Generate productive employment

5. Improve quality of Employment

6. Ensure inclusive production

7. Build economic resilience

8. Promote self-sufficiency

9. Improve resource efficiency & management

10. Reduce pollution

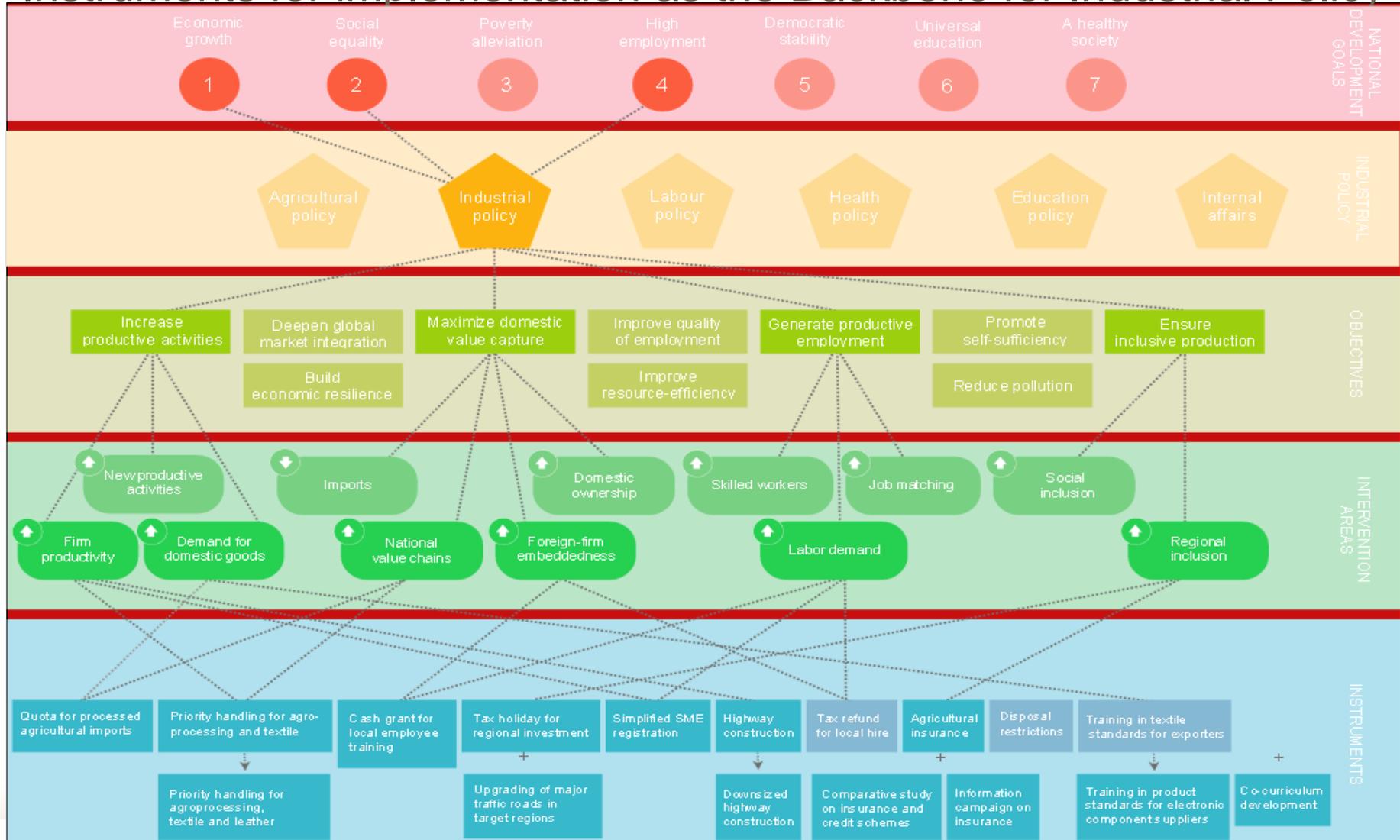


Analysis as the Foundation for Industrial Policy

- **Transparent** and **evidence-based** policymaking
 - Understand **status quo**
 - Learn from **other** countries
 - Consider **trade-offs** and **synergies between economic, social and environmental dimensions of sustainability**
 - Derive **feasible** targets and timelines
 - **Monitor** progress and stay flexible
 - **Evaluate** and learn from achievements and failures



Instruments for implementation as the Backbone for Industrial Policy



Example: instruments to increase Production

- ◆ Intervention area: Increase **demand** for domestic goods
- ◆ Target group: **Food sector & SMEs** that produce agricultural products

Regulation	Incentive	Information	Public ownership
<ul style="list-style-type: none"> ◆ import ban on processed agricultural goods ◆ domestic procurement requirements for super-markets ◆ domestic sourcing requirements for FDI 	<ul style="list-style-type: none"> ◆ consumption subsidy for domestically produced food ◆ sales tax reduction on domestically produced foods ◆ higher tariff on food imports 	<ul style="list-style-type: none"> ◆ buy-local campaign ◆ database/trade-fair of potential suppliers for large food producers ◆ seminars on packaging & marketing 	<ul style="list-style-type: none"> ◆ public procurement of domestic food ◆ government run agro-processing plant for SMEs ◆ infrastructure development to connect rural agricultural areas

Final selection of instruments considers strategic relevancy & institutional feasibility of implementation (institutional capacities and budget?)



Types of industrial policy instruments and examples

Regulations: Formulated rules and directives that mandate economic participants to act in accordance with what is ordered in those rules or directives.

- *business start-up regulations*
- *environmental regulation*
- *export bans*
- *anti-trust laws, labour regulations*
- *intellectual property laws*

Incentives/Disincentives: The handing out or taking away of material resources to encourage certain behaviors by economic participants.

- *cash grants*
- *preferential lending*
- *tax exemptions, asset depreciation*
- *tariffs and customs duties*
- *sales taxes*

Information: The collection, dissemination and publication of information in an effort to promote particular economic activities

- *trade fairs*
- *economic and business information*
- *data banks*
- *technology and management services*

Public goods and services: Government's establishment of enterprises and/or direct supply or demand of particular goods and services

- *State-Owned Enterprises*
- *public procurement*
- *infrastructure development*
- *industrial zones/parks*
- *public works employment*
- *public universities and training institutions*



Example: instruments to improve resource-efficiency and management

	Regulation	Incentive / Disincentive	Information	Public goods and services
Resource-efficient technology	<p>Credit requirement for green technology</p> <p>The government places a minimum lending quota on commercial banks. Banks are required to provide a percentage of their lending to green technology projects or technology upgrading in firms.</p>	<p>Tax on material inputs</p> <p>A surcharge is levied on specified production inputs, for example toxic substances or scarce resources. Material input taxes aim to encourage upgrading of technology to more resource-efficient production.</p>	<p>Ecological rucksack label</p> <p>Ecological rucksack labels give consumers information on the life cycle of a product. Labels aim to raise public awareness, facilitate resource-use monitoring, and encourage the use of resource-efficient technology.</p>	<p>QI institute</p> <p>Institutes for Quality Infrastructure offer a range of services from certification, quality control, inspections, to topic-specific tests of firm equipment, procedures or products.</p>
Sustainable resource management	<p>Production ban in resource-intensive sectors</p> <p>Production bans prohibit the expansion of old production sites and the construction of new ones. Production bans are often part of a broader strategy to phase out or substitute away from resource-intensive sectors.</p>	<p>Cash grant for development costs in substitute sectors</p> <p>When phasing out production or funding for resource-intensive sectors, governments fund substitute sectors to replace lost revenue. Funding aims to contribute to capital-intensive development of direct subsidies, for example renewable energy for fossil fuels.</p>	<p>Life cycle analysis study</p> <p>Life cycle analysis studies establish the environmental impact of a product during its entire life cycle, from resource extraction to disposal. Studies help identify resource-intensive sectors and the extent of negative externalities.</p>	<p>Public-private partnership</p> <p>Public agencies enter a business relationship with a private sector entity to realize a project in a new, less resource-intensive sector.</p>



EQulP in transformation economies

Examples: Ukraine, Serbia, Moldova

Common characteristics:

- Old industrial infrastructure in a bad condition
- Orientation on agriculture after the collapse of the Soviet and Yugoslav system
- Budgetary restrictions due to high indebtedness
- Strong fluctuation of governments and as a result diverging policies
- High unemployment rates
- Only rudimentary integration into global value chains



EQulP in transformation economies

Experiences:

- High expectations and orientation on low hanging fruits
- Budgetary restrictions and old structures and thinking
- Conflicts with neighbours and disruptions between orientation on the European/Western markets and the Russian market
- Long way to go!



EQulP in resource based economies

Examples: Oman, Saudi Arabia

Common characteristics:

- Strong motivations during downturns in commodity prices usually fades
- Dutch disease and high labor costs as critical conditions
- High value infrastructure (both governance and physical)
- Evidence-based recommendations as drivers of political debate
- Stable political setup and yet emphasis on quick-wins



EQulP in African countries

Examples: Tunisia, Namibia, SADC

Common characteristics (but high diversity!):

- Industrialisation of African economies is a focal area of donor countries (G20 initiatives)
- In most countries there is a very weak industrial base

Experiences:

- Business environment is still an important challenge
- Strategies go from strengthening of regional trade and cooperation to export orientation and integration into global (or European) value chains
- Foreign Direct Investments are still far to weak



EQulP as a tool to support the introduction of Green Industries

Examples: Morocco, Mexico, Costa Rica, Ukraine, Georgia, Vietnam

Experiences GIZ:

- Germany supports several countries in developing a green growth strategy. Green Industries is in most cases part of these strategic orientation
- Some countries focus on Sustainable Industrial Areas for which the German Development Cooperation offers tools
- For Green Industries, the Institutional Setup is even more important, also public private dialogue plays a role
- The development of an Industrial Policy is not in the main focus of our partner countries, therefore we didn't use EQulP in this respect



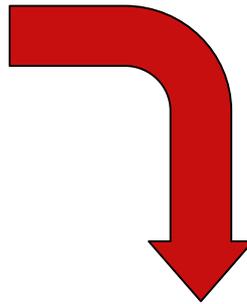
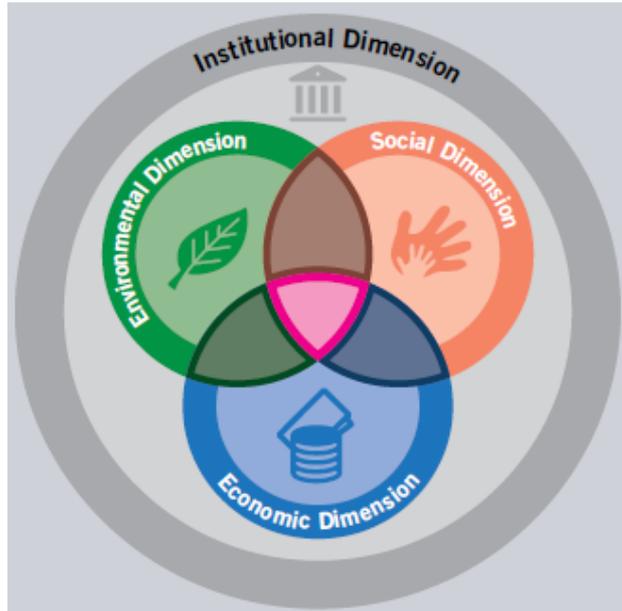
Guidelines for Value Chain Selection (GIZ / ILO 2016)



<https://www.giz.de/fachexpertise/downloads/giz2015-en-guidelines-value-chain-selection.pdf>



Sector Selection Tool (GIZ / ILO)



Total score economic dimension:	0.83			0.97	
Total score environmental dimension :	0.5			0.6	
Total score social dimension :	0.76			1	
Total score Institutional dimension :	0.3			0.33	
TOTAL	2.39			2.9	



Criteria (examples)

Economic criteria :

- opportunities for employment
- (unmet) market demand (local –export)
- competitiveness

Social criteria:

- potential for income generation by women or youth
- potential of generating products affordable for poor (BoP)

Environmental criteria:

- low level of negative impact of sector on the environment
- Potential for products that compensate GHG emission

Institutional criteria:

- Tangible government support is provided or expected



Project Examples

- Sector Selection in Yemen lead to the Matrix (see next slide)
- Sector Selection Process in Egypt select among 10 sectors some for an ELMA
- In process : Selection of a 2nd Value Chain in Indonesia
- Planned: Support sector selection for intervention in Jordan (Nov- Jan)



Example: Analysis Process in Egypt:

Sector Longlist and definition of Selection Criteria

Desk study for 12 sectors: Data and Reports

Expert workshop for verification of findings

Selection in agreement between MTI, GIZ and BMZ

Analysis of selected 3-4 sectors





12 Manufacturing Sectors – ISIC Classification (2 digit)

**Manufacture of
food products
(ISIC 10)**

**Manufacture of
textiles
(ISIC 13)**

**Manufacture of
wearing apparel
(ISIC 14)**

**Manufacture of
paper and
paper products
(ISIC 17)**

**Printing and
reproduction of
recorded media
(ISIC 18)**

**Manufacture of
chemicals and
chemical
products
(ISIC 20)**



12 Manufacturing Sectors – ISIC Classification (2 digit)

**Manufacture of
pharmaceuticals,
medicinal chemical
and botanical
products
(ISIC 21)**

**Manufacture of
rubber and
plastics products
(ISIC 22)**

**Manufacture of
fabricated metal
products (except
machinery and equipment)
(ISIC 25)**

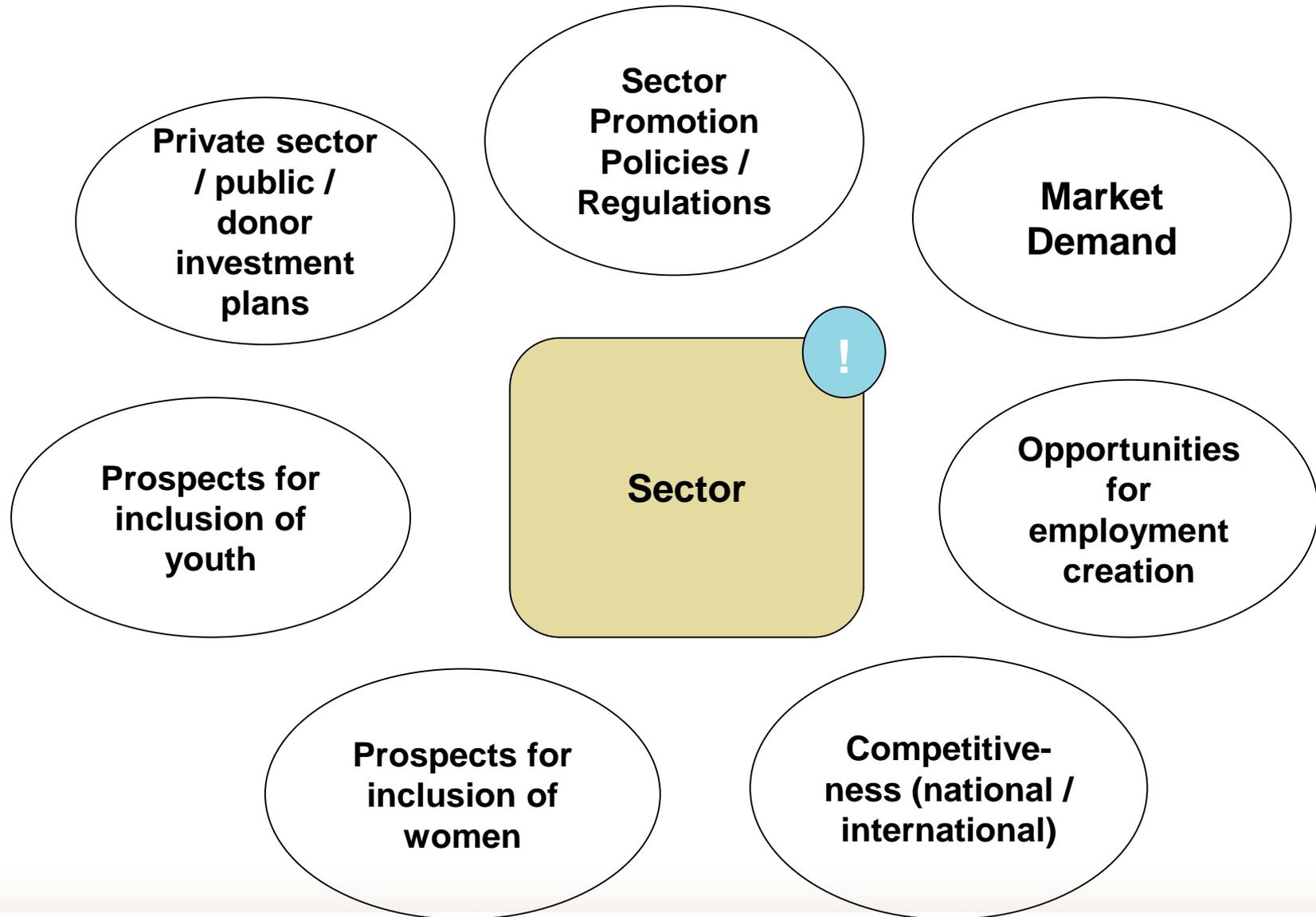
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**Manufacture of
electrical
equipment
(ISIC 27)**

**Manufacture of
motor vehicles,
trailers and semi-
trailers
(ISIC 29)**

E

**Manufacture of
furniture
(ISIC 31)**

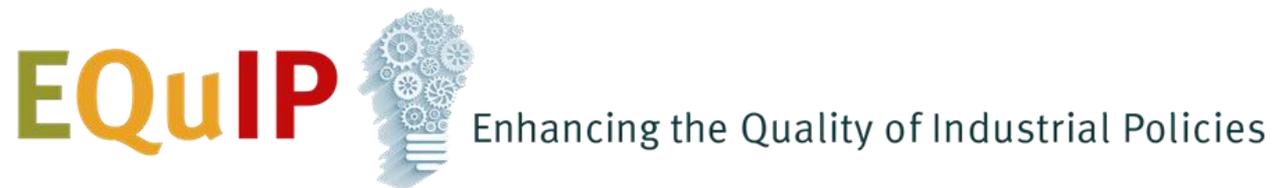




Sector Selection Results Overview

Criteria →	ECONOMIC				ENVIRONMENTAL		SOCIAL		INSTITUTIONAL		
	Market demand	Employment potentials	Competitiveness (nat./internat.)	Structural Characteristics	Impact on environment	Impact of environment	Disadvantaged groups	Working conditions	Need for public investment	Investment plans and regulation	Collaboration and feasibility
Wearing Apparel	Yellow	Yellow	Yellow	Green	Green	Green		Red	Green	Green	Green
Food Products	Green	Green	Green	Yellow	Yellow	Yellow		Red (Child labor)	Green	Green	Green
Electrical Equipment	Green	Yellow	Yellow	Yellow	Yellow	Green	Green	Red	Green	Yellow	Green
Rubber and Plastics	Green	Red	Yellow	Green	Red	Green	Yellow	Red	Green	Yellow	Green
Chemicals	Green	Green	Green	Yellow	Red	Green	Green	Red (Surr.Comm)	Red	Green	Red
Motor Vehicles	Green	Yellow	Yellow	Green	Yellow	Green	Yellow	Red	Green	Green	Red
Pharmaceuticals	Yellow	Green	Yellow	Green	Red	Green	Yellow	Red	Yellow	Yellow	Red
Printing	Yellow	Red	Yellow	Green	Green	Green	Yellow	Red	Yellow	Red	Red
Metal Products	Yellow	Yellow	Yellow	Green	Red	Green	Yellow	Red	Green	Red	Green
Textiles	Green	Yellow	Yellow	Green	Yellow	Red	Green	Red (Child labor)	Red	Green	Yellow
Furniture	Yellow	Red	Yellow	Green	Yellow	Yellow	Yellow	Red	Green	Yellow	Red
Paper Products	Red	Yellow	Red	Green	Red	Red	Yellow	Red	Yellow	Red	Red





Thank You for Your Attention

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