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EXPLORING RECENT EXPERIENCES WITH POLICY INSTRUMENTS TO SUPPORT FIRM CREATION IN LOW AND LOWER-MIDDLE INCOME COUNTRIES

DEPARTMENT OF POLICY, RESEARCH AND STATISTICS

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**Exploring recent experiences with policy instruments
to support firm creation in low and lower-middle
income countries**

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UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION

Vienna, 2016

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Abbreviations and acronyms

ANPME	Agence Nationale pour la Promotion de la Petite et Moyenne Enterprise, Morocco
BDS	Business development services
BOT	Build-Own-Transfer
BOTr	Build-Operate-Transfer
CCG	Caisse Centrale de Garantie, Morocco
DBE	Development Bank of Ethiopia
DFI	development finance institutions
ECBP	Engineering Capacity Building Programme (Ethiopia)
EMCE	Euro-Mediterranean Charter for Enterprises
EMFTZ	Euro-Mediterranean Free Trade Zone
ENDE	National Strategy for Development, Mozambique
EoDB	Ease of Doing Business
EPZs	Export Processing Zones
ETI	Emprende tu idea, El Salvador
FDI	Foreign direct investment
FNEJ	National Fund for Youth Employment, Senegal
FTA	Free trade agreement
GAFI	General Authority for Investment
GNP	Gross National Product
GUFE	Guichet Unique de Formalisation des Entreprises
IDBP	Industrial Development Bank of Pakistan
IPR	Intellectual property rights
MCPSDP	Mozambique Competitiveness and Private Sector Development Project
MDTF	Multi-donor Trust Fund
MEDA	Middle East and Developing Africa
MENA	Middle East and North Africa
MIC	Ministry for Industry and Trade's
MICNT	Ministry of Industry, Commerce, Investment and the Digital Economy and New Technologies, Morocco
MIED	Ministry of Industry and Enterprise Development Kenya
MSE	Micro and small enterprises
MVA	manufacturing value added

NEDEP	National Enterprise Development Program
NGO	Non-governmental organization
NIRP	Nigeria Industrial Revolution Plan
NLPA	Nairobi Leather Products Accelerator
OCC	Orientation and Concertation Council
OHADA	Organization for the Harmonization of Business Law in Africa
P2i	Integrated industrial Platforms program
P2I	Integrated industrial platforms, Morocco
PCE	Philippine Center for Entrepreneurship
PCE	Philippine Center for Entrepreneurship
PICIC	Pakistan Industrial Credit and Investment Corporation
PNEI	Pacte National pour l'Emergence Industrielle, 2009-2015, Morocco
PODE	Project for Entrepreneurial Development
PPP	Public–private partnership
PSD	Private sector development
SACU	Southern African Customs Union
SEZ	Special economic zones
SFD	Social Fund for Development, Egypt
SIYB	Start and Improve Your Business
SME	Small and medium size enterprise
SMEPol	Small, Medium and Micro Enterprise Policy, Egypt
SMI	Small and medium size industry
SPP	Sites and Premises Programme
SSA	Sub-Saharan Africa
TTO	Technology transfer office
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Program
UNEDEP	University Entrepreneurship Development Programme
UNIDO	United Nations Industrial Development Organization
USAID	United States Agency for International Development
VC	Venture capital

1. Introduction

Renewed interest exists in industrial policy as a factor that contributes to structural change, economic growth and long-term development dynamics (Crespi et al., 2014; Primi, 2015; Reiner and Staritz, 2013). Whereas highly industrialized countries stride to maintain global leadership, developing countries seek to tap into emerging windows of opportunity to bridge the gap in terms of productivity, innovation performance and employment creation (Crespi et al., 2014). The group of low and lower-middle income countries in particular, remains trapped in unfinished transformation processes, from natural resource-based to manufacturing-driven economies (Almeida Santos et al., 2012; Kolavalli et al., 2011; NDPC, 2010; Noman and Stiglitz, 2015a). Challenges affecting the entrepreneurial environment in those countries result in low levels of entry of formal firms into local markets (Table 1); these countries tend to rank at the bottom of the pack in the World Bank's Doing Business index (DB) (Table 2). Moreover, low and lower-middle income countries face significant challenges in terms of inequality and poverty, which directly affect the sustainability and viability of the local socioeconomic fabric (Table 2). In summary, industrial policy in these countries occurs within volatile, resource-constrained framework conditions.

The logic for industrial policy builds on the notion that the development of a productive manufacturing sector cannot be left to the market alone, governments play a major role in the transformation from an agriculture-based to an industry-driven economy (Basnet et al., 2014; Brixiova, 2010; Hewitt and Wield, 1997; Mingo and Khanna, 2014). Public interventions assist in addressing market failures pervasive in developing countries (Naudé, 2010a; OECD, 2014; Rodrik, 2013). Moreover, recent contributions to the literature document that the economies ranking highest on the EoDB index “are not those with no regulation but those whose governments have managed to create a regulatory system that facilitates interactions in the marketplace and protects important public interests without unnecessarily hindering the development of the private sector. It is generally the bigger governments (as measured by government consumption expenditure as a percentage of GDP), not the small ones, that tend to provide more of the protections and efficient rules promoted by Doing Business.” (World Bank, 2014:2).

Table 1: Entry density* of firms across economies classified by level of income, average 2004-2009

Low income		Lower-middle income		Upper-middle income	
Burkina Faso	0.07	Armenia	1.49	Brazil	2.10
Cambodia	0.23	Bhutan	0.04	Chile	2.18
Ethiopia	0.03	Bolivia	0.34	Hong Kong, SAR	15.25
Madagascar	0.10	Egypt, Arab Rep.	0.13	Mexico	0.62
Malawi	0.07	El Salvador	0.67	Thailand	0.64
Niger	0.00	Georgia	1.89		
Rwanda	0.19	Guatemala	0.69	High income	
Togo	0.02	Ghana	0.59	Australia	6.33
Uganda	0.62	India	0.07	Belgium	4.15
		Indonesia	0.17	Canada	8.00
		Kenya	0.56	Israel	4.66
		Kosovo	0.14	Japan	1.43
		Kyrgyz Republic	0.95	Turkey	0.99
		Moldova	1.60	Singapore	6.55
		Morocco	0.98		
		Nigeria	0.55		
		Pakistan	0.04		
		Philippines	0.23		
		Senegal	0.21		
		Sri Lanka	0.32		
		Tajikistan	0.26		
		Ukraine	0.91		
		Uzbekistan	0.56		
		Zambia	0.76		

Source: Information taken and modified from Klapper and Love (2010).

Note: Entry density is defined as new firms registered per working age population (normalized by 1,000). Country selection based on Appendix 1; the sample of upper-middle income and developed economies is presented for comparison purposes only.

Table 2: Ranking of low and lower-middle income economies according to the ease of doing business and the fragile states index, 2015.

Economy	Ease of Doing Business Rank	Fragile states	Uneven Development	Poverty and Economic Decline
Ukraine	83	67.2	5.0	5.5
Samoa	96	69.3	5.7	6.2
Ghana	114	70.7	6.8	6.0
Armenia	35	71.3	5.3	5.8
El Salvador	86	72.0	6.9	6.2
Viet Nam	90	72.7	5.8	5.7
Cabo Verde	126	74.1	7.2	6.2
Morocco	75	74.4	6.6	5.6
Moldova	52	75.1	5.6	6.6
Indonesia *	109	76.8	6.6	5.5
India *	130	76.9	7.8	5.7
Honduras	110	77.9	7.8	6.6
Benin	158	78.2	7.2	6.9
Nicaragua	125	78.4	7.6	6.5
Lesotho	114	78.6	7.0	8.2
Bolivia	157	78.9	8.6	5.9
Guatemala	81	80.3	7.9	6.1
Tanzania	139	80.8	6.7	6.7
Bhutan	71	80.9	7.2	6.0
Georgia	24	82.7	6.2	6.3
Senegal	153	82.8	7.0	7.0
Madagascar	164	83.1	8.2	7.9
Gambia	151	83.1	7.1	7.5
Kyrgyz Rep.	67	83.9	6.7	7.3
Papua New Guinea	145	84.1	9.3	6.6
Comoros	154	85.1	6.7	8.3
Philippines	103	85.3	6.3	5.7
Swaziland	105	85.8	7.8	8.9
Mozambique	133	85.9	8.3	8.1
Zambia	97	86.2	8.3	8.0
Uzbekistan	87	86.3	7.3	7.1

Economy	Ease of Doing Business Rank	Fragile states	Uneven Development	Poverty and Economic Decline
Solomon Islands	112	86.4	8.6	7.5
Djibouti	171	87.1	7.5	7.2
Togo	150	87.8	7.8	7.1
Libya	188	87.8	6.4	6.1
Cambodia	127	88.5	7.4	6.1
Burkina Faso	143	89.0	8.1	7.4
Malawi	141	89.1	8.1	8.3
Congo, Rep.	176	89.6	8.1	6.7
Mali	143	89.8	7.1	7.9
Sierra Leone	147	89.9	8.5	8.3
Rwanda	62	90.5	7.9	6.7
Nepal	99	91.0	7.8	7.1
Timor-Leste	173	91.0	6.4	8.2
Egypt, Arab Rep.	131	91.0	6.8	7.9
Sri Lanka	107	92.6	7.5	6.2
Mauritania	168	93.0	6.8	7.7
Cameroon	172	93.1	7.5	5.9
North Korea		94.0	8.0	9.0
Liberia	179	94.3	8.0	8.0
Myanmar	167	94.3	8.1	7.0
Eritrea	189	95.5	7.2	8.0
Uganda	122	96.0	7.6	7.3
Burundi	152	97.1	7.5	8.8
Ethiopia	146	97.9	7.3	7.4
Niger	160	97.9	7.9	8.1
Kenya	108	99.0	8.0	7.9
Nigeria *	169	99.7	8.9	7.3
Guinea-Bissau	178	100.6	8.1	8.4
Syrian Arab Rep.	175	101.6	6.9	6.7
Guinea	165	102.7	7.9	8.9
Zimbabwe	155	102.8	8.3	8.3
Pakistan *	138	103.0	7.6	7.5

Economy	Ease of Doing Business Rank	Fragile states	Uneven Development	Poverty and Economic Decline
Haiti	182	104.3	9.3	9.4
Yemen, Rep.	170	105.4	7.8	9.1
Afghanistan	177	106.5	7.5	8.3
Chad	183	108.7	8.8	7.7
Sudan	159	110.1	8.2	8.1
Congo, Dem. Rep.	184	110.2	8.5	8.2
Central African Rep	185	110.6	9.4	7.8
Somalia		112.6	8.7	9.1
South Sudan	187	112.9	8.9	8.8
Kosovo	66	NA	NA	NA
Vanuatu	94	NA	NA	NA
West Bank and Gaza	129	NA	NA	NA

Notes: * The rankings of economies with populations over 100 million as of 2013 (India, Indonesia, Nigeria, Pakistan) are based on data for two cities. For the Fragile States index, countries that score between 90.0 and 120.0 are classified in the red “Alert” category; countries that score between 60.0 and 89.9 are classified in the yellow-orange “Warning” category. NA: Not available.

Source: FFP (2016) and World Bank (2014, 2013).

Developing countries expect industrial policy to help them adjust and respond to an ever changing environment; what was possible for the industrializing nations of Asia 50 years ago is now constrained by globalization, the dynamics of innovation and the governance of international trade and investment (Primi, 2015); whereas learning is possible across regions, the need for policy frameworks better adapted to local conditions is evident. All of this invites reflection and experimentation as part of continuous policy learning processes (Reiner and Staritz, 2013). Policy interventions should consider the history and cumulative path-dependent nature of industrial development, as well as the challenges and opportunities induced by an interconnected world. The perception of industrial policy as essentially experimental suggests that “it is less about picking winners than picking possible winners and dropping losers, while maximizing learning from their failures.” (UNCTAD, 2014:123). The goal is to move away from survival strategies for entrepreneurs to promote industrial and entrepreneurial activities that are better tuned for high growth and productivity (Brixiova, 2010).

Naudé (2010a) and the OECD (2014) stress the importance of institutional settings around policy, the increased complexity in policy design and the importance of flexible approaches to

industrial policy. They assert that industrial, competition and innovation policies are closely interconnected; an observation that fits squarely with the ideas proposed in the literature on learning, industrial and technology policies (Greenwald and Stiglitz, 2014; Noman, 2015; Noman and Stiglitz, 2015a). The emphasis on innovation and technological upgrading also draws attention to the role of industrial policy in the promotion of national innovation systems. In a similar vein, Chandra et al. (2001) contend that while macro instruments of fiscal and monetary control used to lever economic growth are necessary, they are insufficient; additional interventions at the micro level should address market failures that constrain industrialization.

This paper explores recent experiences with industrial policy interventions intended to promote and support the creation of new manufacturing firms in low and lower-middle income economies.¹ It addresses the following questions: what can we learn from recent attempts at expanding the base of manufacturing firms in low and lower-middle income economies? What kind of policy interventions, or combinations of policy interventions, should be implemented to address what kind of challenges? To answer these questions, we build on Weiss (2015), who proposes a framework to analyse how industrial policy helps address failures in markets for products, technology, labour, land and capital in countries at different stages of economic development. We are interested in policy interventions in the context of their implementation, while keeping a balanced view between positive and less positive experiences. The paper is primarily intended to inform policymaking in low and lower-middle income economies.

The remainder of the paper is organized as follows. Section 2 describes the sources of information used for the analysis in this paper; we begin with a review of the academic and grey literature, followed by an exploration of government websites, ministries of industry and related bodies, when these were available. Section 3 presents the analytical framework used to guide the discussion; the emphasis is placed on recent debates around industrial policies that combine supply- and demand-driven interventions; to what extent is it possible to find examples of such policies in the countries of interest? Section 4 represents the core of the analysis; we discuss different industrial policy interventions implemented in the context of low and lower-middle income developing countries. Based on (Weiss, 2015), we are interested in five types of markets, namely product markets, labour markets, capital markets, land markets and technology markets. Section 5 comprises a brief discussion followed by some conclusions and recommendations.

¹ See Annex 1 for a list of countries included in this review, identified according to the World Bank's (2013) classification.

2. Data sources

This study builds on a review of different strands of literature. In addition to scholarly literature, we relied on two other relevant sources. First, the implementation of industrial policy in low and lower-middle income countries is often backed up—indeed promoted—by international donor organizations, including regional development banks (Crespi et al., 2014; David Irwin, 2011; Krause and Kaufman, 2011; Stevenson, 2010). Accordingly, the design and implementation of industrial policy often depends on the actions of agents other than local governments; support for new and growing businesses is channelled through non-governmental organizations (NGOs) and other philanthropic or social organizations (David Irwin, 2011; TEF-TAI, 2015). This review includes reports, programme evaluations—when available—and other documentation produced by international development agencies and some NGOs. Second, we include policy documents, industrial development plans, reports and other materials collected from government sources ministries of industry and related bodies—from the countries of interest.

The search consisted of a web scan of article titles using advanced search features in Google scholar as well as standard google search engines for terms such as ‘business creation’, ‘business incubator’, ‘capital market’, ‘small and medium enterprises policy’, ‘entrepreneurship policy’, ‘entrepreneurship promotion’, ‘firm creation’, ‘firm entry’, ‘industrial policy’, ‘industrialization’, ‘innovation policy’, ‘labour market’, ‘land market’, ‘market failure’, ‘new firm’, ‘new manufacturing firm’, ‘new venture’, ‘private sector development’, ‘product market’, ‘start-up’, ‘technology market’, ‘young firms’ and their cognates in three different languages, namely English, French and Spanish. We searched these terms in connection with ‘developing country’ or ‘countries’, geographical designations by continent (Africa, Asia or Latin America) or specific names for the countries presented in Annex 1. The timeframe for the articles included in our analysis was 2000-2015, although some earlier documents were included which provided some background information to more recent experiences. Articles that seemed promising were retrieved for closer examination. Approximately 200 documents were inventoried and surveyed for evidence (see Annex 2).

A large body of literature identified in this review refers to policy reforms and measures to improve the business-enabling environment, with an emphasis on deregulation and efficient functioning of markets. These policies seek to promote the ease of doing business (EoDB) and to foster private sector development (PSD). Fuelled in part by disappointing results after decades of implementing orthodox economic policies under the umbrella of structural adjustment programmes, low and lower-middle income economies continue their efforts to

create or improve the framework conditions for industrialization² (Altenburg and von Drachenfels, 2008; Chete et al., 2014; Hewitt and Wield, 1997; Rodrik, 2013; UNECA, 2001). Accordingly, and in line with the World Bank's EoDB framework, national development strategies, and industrial development plans, in particular, stress policy reforms and the promotion of PSD. The EoDB framework helps countries identify institutional bottlenecks that constrain entrepreneurship; at the same time, international league tables shed light on existing gaps relative to international best practice (see Table 2).

Additional evidence was found interspersed in the vast bodies of literature on entrepreneurship, policies to support small and medium size firms (SMEs) or local economic development. A growing body of work stands at the crossroads of innovation policy and industrial policy (Santiago, 2015), with emphasis on interventions such as business incubators, clusters and technology parks and others. From a geographical perspective, Africa attracts significant attention in the literature. We queried these different strands of literature for concrete examples of industrial policy interventions that promote and support the establishment of manufacturing firms in low and lower-middle income countries.

A second step consisted of a more targeted web search to identify more up-to-date information on some of the policy programmes, specific policy instruments or experiences identified in the literature and document reviews. A list of websites used for this paper is presented in Annex 3.

3. Analytical framework

This paper builds on and contributes to an analytical framework that is useful for a practical discussion on the application of industrial policy across countries at different stages of industrial development (Weiss, 2015). The framework identifies five policy domains spanning markets for products, capital, land, labour or technology; developments in these markets influence the emergence, growth and competitiveness of manufacturing firms. Our focus lies on industrial policy interventions that support the creation of manufacturing firms by addressing constraints in any of those five markets in low and lower-middle income countries. While a new firm can be an SME, this is not the only case.

Our analysis looks at industrial policy interventions from a combined supply-demand perspective (Santiago, 2015; Stevenson, 2010); we expected to learn whether and if so, how industrial policy helps close the loop from the establishment of a new manufacturing firm to the promotion of a market for the products delivered by the new firm (Uyarra and Flanagan, 2010).

² Industrialization efforts are not without its critics. Arguably, industrialization may not be the way out of poverty, particularly in Africa; low and lower-middle income countries simply lack the conditions that allowed some Asian and Latin American countries to industrialize (Rodrik, 2013).

The Brazilian and Chinese aerospace industries are examples of this approach to industrial policy design (Santiago, 2015). Governments in both of these countries have actively promoted the emergence of local value chains around local aircraft manufacturing firms specialized in very specific segments of the industry. At the same time, concrete incentives ensure, even compel, the purchase of locally assembled planes through public procurement, import taxes and other interventions that protect and enhance the domestic market for the locally assembled aircrafts (Goldstein, 2002; Pritchard, 2012; Vértésy, 2014).

The purpose of supply side policies, according to Elder (2013), is to support firms, intermediaries, third sector organizations and public bodies in their capabilities and efforts to generate and expand the country’s productive base; these measures may be defined in specific technology areas or sectors, and leave the decision-making to the recipients of the support. Box 1 presents some supply-driven policy interventions from a PSD perspective intended to support private sector agents and entrepreneurs. This ‘catch-all’ list illustrates the diversity and complexity of interventions available to decision makers.

Box 1 Examples of supply oriented industrial policy interventions

<p><u>Institutional environments</u></p> <ul style="list-style-type: none"> -Privatization -Macroeconomic, legal, regulatory and investment frameworks conducive to business growth -Governance and anti-corruption -Foreign direct investment laws -Financial sector reform -Industrial and trade policy -Sectoral productivity and competitiveness plans -Competition policy -Corporate governance -Science, technology and innovation policies -Promotion of structures that represent the views of private firms in dialogue with the government. 	<p><u>Structural conditions</u></p> <ul style="list-style-type: none"> -Physical infrastructure development -Vocational education and training <hr/> <p><u>Direct interventions</u></p> <ul style="list-style-type: none"> -Structures that offer specialized services to private sector enterprises -Institutional capacity building of intermediary organizations -Financial and non-financial services for SMEs -Support for microenterprises and actors in the informal economy -Entrepreneurship development -Business-to-business cooperation activities, networks, supply chains and clusters -SME development and growth
<p><i>Source:</i> Taken from Stevenson (2010).</p>	

Recent contributions to the literature document debates around demand-driven innovation policies (COTEC, 1998; NESTA, 2007) and invite reflection on the mechanisms that allow governments to boost demand for the products and services introduced by new manufacturing firms. Box 2 presents a typology of demand-based measures which can be adapted to study industrial policy interventions underpinning firm creation and growth.

Box 2 A proposed typology of demand-based policy measures

- **Direct use of public demand through public procurement.** Government organizations become key customers of the newly created firms, either for their own use or in combination with private sector actors to trigger broader demand.
- **Support for private demand through financial and non-financial instruments.** The former seek to lower the entry costs (subsidies, tax waivers) or life cycle costs of an investment (various forms of tax instruments) to enhance competitiveness and the ability to survive in the market place. Non-financial instruments aim to reduce information asymmetries.
- **Capability building strategies to improve the capabilities of costumers to use certain technologies and products.** These measures are far-reaching, from training and education, to marketing and awareness building about new products or new suppliers in the market.
- **Catalyst or brokering role to improve user-producer interactions.**
- **“Regulation of demand or of the interface demander–producer.”** Examples of this include the introduction or reform of regulations and standards which may influence both demand and supply.
- **Deliberate mix of demand and supply measures** which may include pre-commercial procurement schemes or contract R&D services, with the intention “but not prior binding commitment, to purchase the product subsequently should the R&D contract be successful.”

Source: Adapted from Elder (2013:7).

From the above, Table 3 summarizes three possible approaches to analyse industrial policy interventions that support the creation of new manufacturing firms; these are organized in accordance with the type of market failure they seek to address.

This analytical approach resonates well with some recent contributions to the literature. For example, Rogerson (2001) asserts that enterprise start-ups occur because of supply-push or demand-pull considerations; Reiner and Staritz (2013:59) emphasize that “industrial policy can be understood as an umbrella term which encompasses policy elements from very different policy fields such as education and skill development, infrastructure, trade, investment or competition policy.” In a similar vein, OECD (2014) indicates that some features of new industrial policies include their focus on improving framework conditions for business-driven innovation, support for productive and innovative linkages between multiple actors, the use of a

variety of instruments and attempts to optimize the policy mix with particular attention to demand-side interventions, among other characteristics.

Table 3 Policy interventions implemented to address market failures affecting the emergence of selected industries in advanced developing countries

Policy domain / locus of market failure	Policy instruments		
	Supply-driven (supply push)	Demand-driven (demand pull)	Supply-demand mixes (co-evolutionary public policies)
Product			
Labour			
Capital			
Land			
Technology			

Source: Author.

Failure to recognize the vertical linkages between macro- and microeconomic determinants of industrial policy and the horizontality of industrial policy vis-à-vis other policy domains—innovation or competition policies, for example—raises questions on the extent to which least developed countries can deal with issues of complementarity, or overlap, across policy interventions (Flanagan et al., 2011; Mohnen and Röller, 2001; OECD, 2010). Looking at the case of Nepal, Basnet et al. (2014) observe that whereas the country provides industrial policy measures including export credits, subsidies and tax incentives, this is done in a haphazard and uncoordinated way. The authors argue that Nepalese authorities seem to be convinced not only that they lack the capacity to manage industrial policy, but that the country cannot industrialize. Similarly, although the strategic approach towards SME development in Sudan features a number of positive elements—a strategy of planning, managerial and financial services, specialized training programmes on product designs and standards, support for industrial clusters and facilitation of FDI for technology transfer to local enterprises—the lack of a well-articulated vision or strategy for implementation remains a concern (Stevenson, 2010).

In Egypt, the first national SME policy framework was drafted in 1998, followed by the implementation of the Small, Medium and Micro Enterprise Policy (SMEPol) Development Project with funding and technical assistance from the Canadian government during 2000–2008. The SMEPol aimed to conduct research and formulate policies to remove regulatory barriers to the development of SMEs and to enhance access to financial and non-financial support and services. In 2004 the Small Enterprises Development Law (SME Law 141/2004) laid out

provisions to enhance the activities of firms with less than 50 employees, and granting the Social Fund for Development (SFD) full implementation and coordination powers for SME policies. One challenge Egypt faces are the multiple SME strategies drafted by different government organizations without clear government-wide mechanism for coordination (Stevenson, 2010).

4. Product markets

4.1. Supporting the creation and development of SMEs

Adoption of SME policies involves the creation or restructuring of specialized government organizations responsible for implementing these policies. According to Stevenson, (2010), Sudan was one of the first countries in the Middle East and North Africa (MENA) region to create a government unit in charge of implementation of SME policies. The Small Scale Industries Department was established at the Ministry of Industry in 1988, while the Ministry of Social Planning in cooperation with the Ministry of Industry established the Supreme Authority to Promote Small-Scale Enterprises in 1995. Today, the Ministry hosts an Industrial Policy Unit (Ministry of Industry), but information on its mandate, resources and achievements was not available online at the time of this review.

In Morocco, the Ministry of Industry, Commerce, Investment and the Digital Economy and New Technologies (MICNT) is responsible for the coordination of industry policy. The supporting policies include the release of a White Paper on SMEs in 2000, adoption of an SME Charter in 2002 and the establishment of l'Agence Nationale pour la Promotion de la Petite et Moyenne Entreprise (ANPME), adoption of the Euro-Mediterranean Charter for Enterprises (EMCE) in 2004, and in 2005, the integration of a National Committee on Support for Enterprise Creation, which called for interventions to reduce the mortality rate and support the development of existing SMEs (MICMANE, 2005; Stevenson, 2010). The ANPME plays a coordination role in the delivery of support services to SMEs, including technical assistance for the creation, promotion and modernization of SMEs.

In Kenya, the adoption of a new strategic plan for industrialization for the period 2013-2017 includes the creation of the Ministry of Industrialization and Enterprise Development (MIED), established under Executive Order No. 2/2013 of May 2013. The MIED integrated the two former Ministries of Cooperative Development and of Marketing and Industrialization, and the Department of Enterprise Development of the Ministry of Labour. The Executive Order reorganized parastatals, placing 17 of them under the MIED (MIED, 2013). The MIED has a broad mandate, including the implementation of industrialization policy, intellectual property policy, PSD strategy and SME development, among other issues.

Support for new business creation is embedded in strategies to improve the competitiveness and development of SMEs. Vivarelli (2012) asserts that from the perspective of industrial organization, entrepreneurship is the process by which new enterprises are founded and become viable. In low and lower-middle income countries, entrepreneurship policy is still at an early stage, but significant efforts are underway. Stevenson (2010) and Oukil (2011) find that governments in the MENA region have set targets for new enterprise creation in national development plans, together with strategies and agencies mandated to achieve those targets. The authors conclude that in practice, the environment remains only poorly conducive to facilitating accelerated entrepreneurial activity. Important barriers remain in areas such as start-up financing, start-up procedures and development of BDS; furthermore, a poor culture for entrepreneurship resulting from a history of government-controlled economies is also prevalent.

From a Latin American perspective, Hidalgo et al. (2014) criticize entrepreneurship policies, which have traditionally focused on assisting SME operations without sufficient attention to SME growth and development. This criticism accompanies the finding that a large share of entrepreneurial activity in low and middle-income economies—Guatemala, for example—reflects survival and self-employment strategies rather than opportunities for growth (Hidalgo et al., 2014).

Some countries strive to better support SMEs by targeting specific segments of firms. In the context of the Pacte National pour l'Emergence Industrielle (PNEI) 2009-2015 in Morocco (Royaume du Maroc, 2008), the ANPME manages programmes tailored to the needs of firms with high growth potential and those in a restructuring or modernization phase (Box 3).

SME policies are often linked to the adoption of international SME policy agreements or participation in international cooperation mechanisms with an influence on local SME policies. According to Stevenson, (2010), several MENA countries benefit from participation in EU-led SME policy exercises. Countries such as Egypt, Morocco, Palestine and Syria became signatory parties to the Euro-Mediterranean Charter for Enterprises (EMCE) in 2004. “These charters are designed as tools to structure policies in support of SMEs and enterprise development at the national level, help foster an entrepreneurial culture and build a framework for private sector reforms.” (Stevenson, 2010:60). The EMCE seeks to set up the necessary conditions for businesses to comply with common standards and technical regulations and ultimately, to benefit from the Euro-Mediterranean Free Trade Zone (EMFTZ). Countries that have adopted the EMCE usually introduce microeconomic reforms intended to boost business creation, competitiveness, entrepreneurship and innovation (Stevenson, 2010).

Box 3 Pacte National pour l'Emergence Industrielle (PNEI) 2009-2015: Dedicated programmes to support competitiveness and development of Moroccan SMEs

The PNEI aims to boost SME competitiveness by targeted support to SMEs with a high productivity and growth potential. The ANPME has set in place several flagship programmes:

The Imtiaz Programme supports growth plans for promising SMEs. Target firms are those interested in scaling up in terms of size, profitability, employment creation and value added under a Contract for Growth. The programme offers:

- Direct investment allowance of up to MAD 5 million per company, and representing 20% of the company's financial needs
- Improved access to bank credit.

Selection process:

- Beneficiaries are selected based on a national competition sanctioned by a committee of representatives from the public and private sector
- A banking institution partner of the programme validates the applicant's dossier and then sends it to the ANPME
- The timing of the announcement of decisions is included as part of the calls for proposals
- Projects can be self-financed by the firm or with support from commercial banks.

ISTITMAR-Croissance is a programme that offers a prime on investments made by micro enterprises with annual sales of \leq MAD 10 and which proposes:

- A project for industrial transformation or valorisation, or
- A project aiming at strengthening the linkages with an important donor/client in terms of sponsorship, spin-off, subcontracting, or
- An investment project with a strong potential for growth and upscaling, or
- An innovative economic or business model intended to respond to an identifiable market need.

The Moussanada Programme aims to improve SME productivity. A novel feature of the programme is that it allows SMEs to select benefits that meet their specific needs from a predefined list. The options include specialized training programmes, adoption of information systems and integration of new technologies, as well as accompaniment services.

- Support targets both support functions (strategy, business function, quality, organization) and core business activities (production processes, design, R&D, etc.)
- Government contribution of up to MAD 1 million.

Public / private funds to cover capital needs of SMEs with high growth potential; these include about three different funding mechanisms, namely venture capital (VC), capital development and transmission. The objectives of this initiative are to:

- Address under-capitalization problems that affect SMEs
- Improve access to long-term financing from commercial banks
- Assist SMEs via the provision of advisory services related to different aspects of management and operations
- Facilitate the processes of transmission and recovery of SMEs
- Accelerate the creation of SMEs.

The Moroccan government committed to mobilizing around MAD 2 billion to support these programmes, including a State contribution of MAD 350 million for the creation of public / private funds. In the case of Moussanada and Imtiaz, effective implementation requires close collaboration and commitment from private partners and State banks; this collaboration was particularly important for the establishment of competitive mechanisms to identify and select beneficiary enterprises and to facilitate their access to credit.

Entrepreneurship development intends to support the development of entrepreneurial skills within higher education institutions, programme management of SMEs as well as executive Master's in Business Administration (MBA) programmes.

Source: PNEI (2016) and MarocPME (2016).

Based on the experience of 16 African countries members of the Organization for the Harmonization of Business Law in Africa (OHADA), the World Bank (2011a) illustrates how

business registration requirements can be improved through international collaboration and harmonization (Box 4).

Box 4 Simplifying and harmonizing requirements for firm registration in Africa

Establishing a new business in Africa requires entrepreneurs to provide company registers with a company seal or extracts of criminal records and medical certificates prior to registration. Obtaining such documentation is cumbersome, costly and lengthy; the process frequently requires travel and long waiting times before all the necessary documentation is obtained. The 16 members of the Organization for the Harmonization of Business Law in Africa (OHADA)³, which share similar laws on company incorporation, are reviewing and updating the requirements related to the establishment of a new business at the regional level.

In December 2010, the OHADA Council of Ministers adopted a new Uniform Act on General Commercial Law. Now, entrepreneurs have 75 days after incorporating their company to submit copies of their criminal records. They can start operations after providing a sworn declaration that they have committed no crime and are not subject to any restrictions to commercial activity. Countries such as Benin and Guinea-Bissau have already started implementing the revised OHADA law.

Source: Taken from World Bank (2011a).

4.2. Improving the business environment

Improving infrastructure and regulations related to the participation of local firms in foreign markets. The World Bank (2014) identified Benin as one of the best performers in this area. The local government implemented a series of changes to help reduce delays by 10 per cent in the processing of export and import procedures in 2012/13 alone. Some of these improvements started as early as 2007 when Benin began renovating its ports and setting the necessary conditions to allow 24-hour operations, secure payment systems and an expanded container terminal in Cotonou. “In 2010 an Automated System for Customs Data (Asycuda++) was installed, allowing for electronic submission of the documents required to export and import. In 2012 an electronic single window and electronic payment system was introduced, further reducing document preparation times.” (World Bank, 2014:107). Examples of initiatives to support participation in international trade are presented in Table 4 .

Table 4 Initiatives intended to improve cross-border trade, 2012-2013

³ The members of OHADA are Benin, Burkina Faso, Cameroon, the Central African Republic, Chad, the Comoros, the Republic of Congo, Côte d’Ivoire, Equatorial Guinea, Gabon, Guinea, Guinea-Bissau, Mali, Niger, Senegal and Togo.

Action	Economies	Highlights
Improved customs administration	Benin, Burundi; Republic of Congo; Swaziland; Ukraine, Uzbekistan	Uzbekistan abolished the need to register import contracts with customs
Introduced or improved electronic submission and processing	El Salvador; Madagascar; Sri Lanka	---
Introduced electronic single window to process documentation	El Salvador, Mozambique, Rwanda	----
Strengthened transport and port infrastructure	Benin, Central African Republic	The Central African Republic rehabilitated the key transit road at its border with Cameroon
Improved port procedures	Benin; Guinea	----
Introduced or improved risk-based inspections	Mauritania	Mauritania introduced a risk-based inspection system with scanners

Source: Adapted from World Bank (2014:107).

In line with PSD strategies, regulatory reforms seek to ease business registration and the acquisition of business licences. Several countries have created one-stop-shops to facilitate incorporation/registration of new firms and, in some cases, access to additional business development services (BDS). According to the World Bank (2014:1), “on average around the world, starting a business takes 7 procedures, 25 days and costs 32 per cent of income per capita in fees. But while it takes as little as 1 procedure, half a day and almost nothing in fees in New Zealand, an entrepreneur must wait 208 days in Suriname and 144 in República Bolivariana de Venezuela.” Significant barriers to firm creation in low and lower-middle income countries result from cumbersome requirements to register a new or informally existing firm.

Inspired by the World Bank’s EoDB framework, the literature focuses strongly on policy reforms geared to reduce the time and costs associated with registering a new business; in addition to stimulating formalization of existing informal businesses, reforms are expected to boost the creation of formal firms and enhance competitive pressure to crowd out inefficient firms, thereby accelerating the diffusion of new business practices and raising productivity (Altenburg and von Drachenfels, 2008). The World Bank (2011b) describes the experience of 58 economies at different stages of development, which have benefited from the introduction of ICTs to facilitate business start-up and registration processes. A first step is to make registration records available electronically, as it helps to improve security and prevent potential losses of data; it also enhances transparency and information sharing and makes it easier to introduce new online services.

Stevenson (2010) documents the existence of one-stop-shops for business registration and licensing with different levels of operability and experience in MENA; unfortunately, she also noted that knowledge-sharing remains limited throughout the region. Countries such as Egypt and Morocco have dramatically reduced the paid-in capital requirements for new limited liability companies. Progress is heterogeneous with regard to the implementation of regulatory reforms to improve the business and investment climate, such as the modernization of company laws, competition laws, bankruptcy laws and taxation regimes.

In the specific case of Egypt, Stevenson (2010) notes that the SFD established one-stop-shops for micro and small enterprises (MSEs) in each governorate to reduce the time and cost of registering an enterprise. The General Authority for Investment (GAFI) implemented similar initiatives in major cities with the goal of streamlining business registration and licensing processes for investors. GAFI has also reduced the costs of incorporating a limited liability company from EGP 50,000 to EGP 1,000, which, according to the author, has resulted in an increase in the number of incorporations of joint stock companies.

In Benin, the creation of a one-stop-shop for the formalization of enterprises (Guichet Unique de Formalisation des Entreprises - GUFÉ) (Box 5) in 2012 was followed by additional dispositions in 2014 to reduce the costs associated with the GUFÉ by 61 per cent, and the suppression of minimum capital requirements for a new incorporated firm. The immediate result was a reduction in costs and time required to establish an enterprise. To some extent, this can explain Benin's advance in the World Bank's 2015 Doing Business ranking, up 16 places to position 151 out of 189 countries. On average, the time needed to start a new business reduced from 18 to 12 days (Ndoye and Fall, 2012); in some cases, registration procedures may take as little as an hour (Table 5).

Box 5 The GUFÉ in Benin

On 26 March 2012, the Government of the Republic of Benin adopted Decree 2009-542 of 20 October 2009 on the creation of the Guichet Unique de Formalisation des Entreprises (GUFÉ). GUFÉ is an online, single window that integrates all government procedures required to create a firm; its mandate is to reduce the time—to 24 hours or less—and costs required to establish a firm in Benin.

In 2014, under Decree 2014-194 of 13 March 2014, the GUFÉ was placed under the Ministry of Industry, Commerce and SMEs (MICPME). The GUFÉ was given full organizational and financial autonomy as well as an expanded mandate to follow up on enterprise performance. GUFÉ anchors the government's efforts to improve competitiveness and positioning within the Doing Business ranking as measured by the procedures necessary to create a new enterprise.

GUFÉ's governance structure builds on the Orientation and Concertation Council (OCC) and the Director General's office. The OCC is responsible for defining, following up and evaluating GUFÉ's performance and for dealing with some general administrative, financial and employment conditions for staff. Membership to the OCC includes representatives from government organizations of direct relevance for firm registration, namely fiscal, international trade, investment and the official registry related to land use and property rights. The Director General is responsible for the daily operations of the GUFÉ. Funding for GUFÉ stems from the applicable fees for firm registration or formalization, government allocations, donor funding, and other revenue from GUFÉ's activities.

GUFÉ operates at two levels, namely: (1) the creation of new single establishments or incorporated enterprises and (2) the formalization of firms operating in an informal market.

Incentives to formalize firms include facilitating access to a series of tools developed by the government to support firms in Benin; these include:

- Programmes operated by the National Agency for the Promotion of Employment (Agence Nationale pour la Promotion de l'Emploi, ANPE),
- The Technical Assistance Cell (Cellule d'Appui Technique, CAT),
- The National Funds for the Promotion of Enterprise and Youth Employment (Fonds National pour la Promotion de l'Entreprise et l'Emploi et des Jeunes, FNPEEJ),
- The Fund for the Development of Continuous Professional Training and Apprenticeship (Fonds de Développement de la Formation Professionnelle Continue et de l'Apprentissage, FODEFCA),
- The Center for the Promotion and Organization of SMEs (Centre de Promotion et d'Encadrement des Petites et Moyennes Entreprises, CEPEPE),
- Authorized Management Centres (Centres de Gestion Agréés).

GUFÉ offers individuals the incentive to register as entrepreneurs at zero cost and the possibility to access loans from commercial banks or from the African Development Bank.

Performance data for the first half of 2015 indicates that the GUFÉ registered a total of 7,041 new firms, of which 72.5 per cent were individual firms, while the rest were incorporated businesses. The General Directorate of Cotonou alone represented about 49.5 per cent of the new enterprises, including both single establishments and incorporated firms. In second place, the Antenne GUFÉ Abomey Calavi represented about 15.0 per cent of new registered firms; the remaining registrations were distributed across other provinces.

Figure 1 Number of new firms created in Benin, 1 January - 3 July 2015

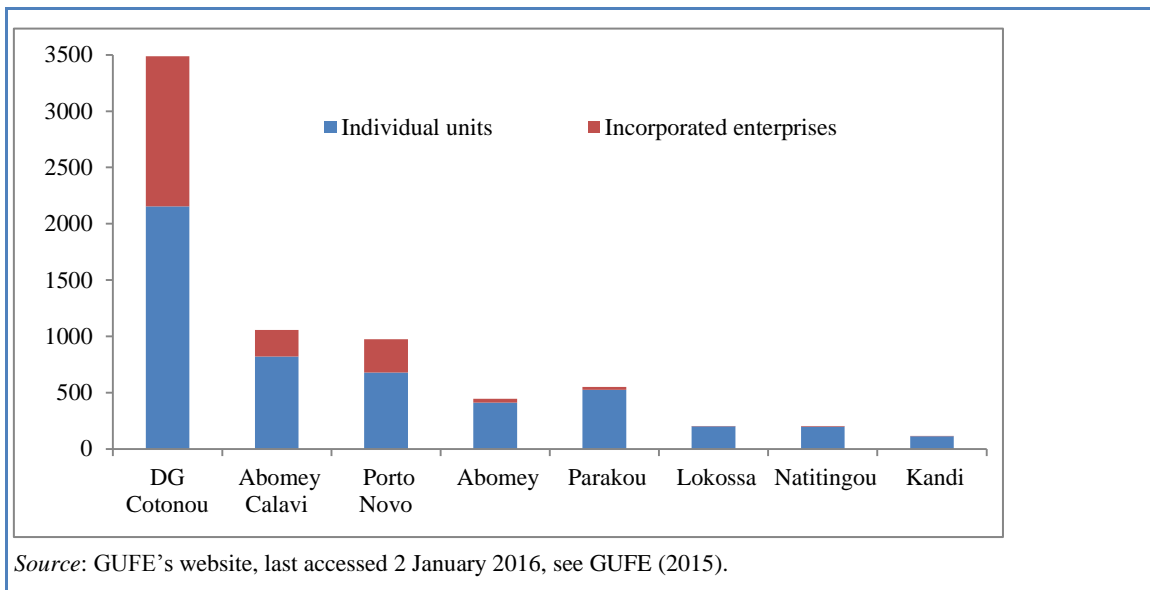


Table 5 Procedures and costs associated with the creation of a new firm in Benin

Procedure	Cost (Francs)	
	Incorporated firm	Single establishment
Registration documentation	Free of charge	----
Registration of company journals	Free of charge	----
Inscription to the Registre de Commerce et de Crédit Mobilier (RCCM)	12,000	5,000
Letter of commerce / letter of importer	5,000	5,000
Publication online, GUFÉ	Free of charge	Free of charge
Inscription Unique Fiscal Identifier (Identifiant Fiscal Unique)	Free of charge	Free of charge
GUFÉ services	Free of charge	Free of charge
Total	17,000	10,000

Notes: Fees applicable to nationals and foreigners; expected waiting time from submission of application until actual registration: 1 hour.

Source: GUFÉ's website, last accessed 2 January 2016.

Burkina Faso offers a different story. In 2014 the country passed a decree that reduces the costs and procedures relating to the incorporation of new firms; the minimum requirement of social capital decreased from CFA 1 million to CFA 100,000. This notwithstanding, the country lost six places in the 2015 Doing Business ranking, down to position 167 out of 189 countries. As regards the regulations around the creation of new firms, the country dropped from position 149 to 153. Registration of a new firm can take up to around 13 days (Dayo et al., 2012:9).

Between 2013 and 2014, the procedures to incorporate a new company were simplified in Cameroon. This includes the establishment of Centres for the Formalization of New Enterprises (Centres de formalités de création d'entreprise, CFCE). Such centres currently exist in metropolitan areas—Yaoundé, Douala, Bafoussam, Bamenda et Garoua—and will be replicated in other locations (Doffonsou et al., 2012:9).

In the Congo, the government has announced that the maximum delay to register a new business should be 48 hours (Dia et al., 2012).

In Côte d'Ivoire the creation of a one-stop-shop at the Center for Investment Promotion (Centre de promotion des investissements en Côte d'Ivoire, Cepici) is expected to facilitate the incorporation of new firms and the reduction of costs and time to establish a new business. It includes a total of 34 reform initiatives around matters related to the judiciary, import-export and energy, among others. The objectives include expanding support channels to facilitate the creation of new firms, cut fiscal costs and waivers on minimum capital requirements for SMEs (Yembiline et al., 2012).

In Mauritania, reforms related to the creation of new firms have reduced the time needed to incorporate a company from 19 days to 48 hours only. The associated costs also decreased to around MRO 35,000 (about EUR 100), or 11.5 per cent of gross national product (GNP) per capita, from the previous MRO 130,000 MRO (about EUR 380) or 46 per cent of GNP per capita. The government has created a one-stop-shop that joins the seven different government instances involved in establishment of new companies (Ndong Ntah, 2012).

Based on a survey of African entrepreneurs, TEF-TAI, (2015:9) documents the relevance of business registration and regulatory compliance initiatives for aspiring African entrepreneurs, such as those related to one-stop-shops. The report recommends the creation of single entities, either physical or online one-stops-shops that facilitate all necessary paperwork to legally register a business or to establish a new enterprise. The initiative is expected to reduce costs and time to file the necessary documentation and to help curb corruption.

Notwithstanding the widespread efforts to ease the costs of new business registration, actual results on the dynamics of new manufacturing firms has yet to be documented. The evidence suggests that policy reforms have assisted some countries in climbing up in the global Starting a Business index (World Bank, 2014, 2011a, 2011b). However, critics of the EoDB framework assert that our understanding of what precisely constitutes a reform, or the effects of reforms on entrepreneurship, employment creation and the general economic dynamics is still limited (CIPE, 2014; Klapper and Love, 2010).

Klapper and Love's (2010) study on reforms involving 91 countries at different levels of development concluded that the costs and necessary days and procedures to start a business are important predictors for the number of new firm registrations. However, they found that minor reforms generally have no statistically significant effect on new firm registrations. For a single reform to boost new firm registrations, it must reduce the costs and number of days needed to establish a business by 50 per cent to -60 per cent. A 40 per cent reduction in procedures can help stimulate new firm registrations. The authors found synergies in multiple reforms of two or more business environment indicators, with simultaneous reforms being preferred to sequential reforms. Notwithstanding these results, the authors assert that "an outstanding question is whether, and to what degree, there exists an economically meaningful relationship between the costs, days and procedures to start a business and the actual number of new firms that register each year." (p. 2).

Building on the experience of Benin, CIPE (2014:26) poses some additional questions, many of which are consistent with the scope of this paper: "What do [policy] reforms mean in practice? [Do they] spur new business registrations? If so, how large [is] the effect? Could a smaller reform have generated the same impact? Do reforms that simultaneously affect more than one aspect of the registration process — such as by reducing both the cost and the number of procedures — pack an especially large punch?"

4.3. Promotion of business activities and persistence of picking the winners kind of strategies

Support to a specific industry or sectors of economic activity. Stevenson (2010) identifies different national sector strategies to increase the performance of industries and enterprises in MENA. In Morocco, for example, the PNEI 2009-2015 proposed a set of six specific industries including, offshoring, auto parts, aeronautics and space, specialized electronics, textiles and leather, and agrifoods (Royaume du Maroc, 2008). The PNEI consists of over 100 specific measures to promote industrial activity, many dealing with the competitiveness of SMEs, the provision of training and the development of markets for capital and land (Royaume du Maroc, 2008; Stevenson, 2010).

Kenya has identified specific industries, such as leather and leather products, food processing, textiles and apparel as relevant for addressing high levels of unemployment; in practice, support is targeted at the creation of small processing enterprises or the formation of cooperatives and other forms of entrepreneurship (MIED, 2013). The strategic approach to improve and upgrade the productivity of leather and leather products producers in both the formal and informal sectors is expected to include the creation of two leather product accelerators: 1), the Nairobi

Leather Products Accelerator (NLPA) in the formal sector, and a satellite accelerator for the informal sector in Kariokor Market (World Bank, 2015). The proposed NLPA is intended to “promote technology absorption, greater flow of information, collaboration among firms, and remove binding constraints on the competitiveness of leather products firms. It will offer common machinery for prototyping, training in production, marketing, and business management, and a nurturing environment for leather goods and services start-ups.” (World Bank, 2015:70). Both these accelerators are expected to operate at a minimum cost-recover basis. Despite the large amount of policy documents containing specific measures in support of the aforementioned sectors, progress is often hampered by the disconnection between industrialization plans and actual implementation capacities (Box 6) (MIED, 2013; Ronge and Nyangito, 2000).

The picking the winners approach recognizes the pending economic transformation of low and lower-middle income economies; industrial policies seek to promote an agriculture-driven industrialization. The midterm development goal of Ghana’s Medium Term Development Policy Framework is to lay the foundation for the structural transformation of the economy by 2020 (Kolavalli et al., 2011; NDPC, 2010). The transformation is expected to build on industrialization, a modernized agriculture sector and the sustainable exploitation of Ghana’s natural resources, particularly minerals, oil and gas (NDPC, 2010). Wangwe et al. (2014) document similar objectives around agriculture-led industrialization in the case of Tanzania; the building of a competitive industrial sector includes the promotion of a competitive business environment and improvement of the existing development corridors and infrastructure.

Ethiopia is one of the African countries where the linking of the agriculture and the industrial sectors has achieved significant progress. Building on what he terms the ‘creation of islands of success’, Noman (2015) provides examples of the leather and floriculture industries as fairly consolidated success stories (Box 7); in the author’s view, other industries such as textiles and garments as well as wine are also beginning to show very promising development dynamics. An active industrial policy and strong commitment at the highest political level help explain this positive performance of selected Ethiopian industries.

Box 6 New industrialization policy in Kenya

The Kenyan government intends to transform the country into a newly industrializing economy by the year 2030 (MIED, 2013; Ministry of Industrialization). The government's strategy emphasizes selective encouragement of industries to produce for export and increase their employment potential. In addition, it introduces two novel features compared with previous approaches. First, industry is identified as the leading sector in economic development; second, specific industries are earmarked for government support; the metallurgical, non-petroleum-based chemical, petro-chemical, pharmaceutical, machinery and capital goods industries are expected to initially produce for the domestic market and eventually for the export market. If successful, this strategy should help diversify and induce positive dynamics to the industrial base by the year 2030. Whereas manufacturing GDP is expected to grow at a sustained pace of 10 per cent per annum, GDP per capita should multiply by five times relative to its 1996 level (MIED, 2013; Ronge and Nyangito, 2000).

In its first phase, the industrialization programme focused on promoting SMEs with strong links to the agricultural sector and use relatively simple and labour-intensive technologies, which are expected to increase the employment impact of industry. Once infrastructural and other constraints have been overcome, the second phase aims to promote large-scale intermediate and capital goods industries (Ronge and Nyangito, 2000).

For the period 2013-2017, the priorities include: (i) to develop policy, initiate legal and institutional reforms for industrialization, co-operatives and enterprise development; (ii) enhance FDI for industrialization; (iii) to mobilize savings and investments for industrialization and firm development; (iv) to enhance SMEs' capacity for growth; (v) to promote R&D, innovation and technology adoption; (vi) to build capacity for industrial and enterprise development and quality service delivery; (vii) to promote high value addition, product development and diversification; (viii) to enhance standards, quality infrastructure and intellectual property rights (IPRs) protection; (ix) to improve productivity and competitiveness, including in the cooperative sector; and (x) to create a conducive business environment for PSD and competitiveness.

Some perceived weaknesses of this ambitious industrialization strategy include its emphasis on picking winners, as was the case in the Republic of Korea and in Taiwan (ROC), without sufficient reflection on the existing preconditions in Kenya. The proposed two-phase industrialization strategy implies a reversal in the second phase of the trade liberalization measures undertaken in the first phase. In addition to reducing the credibility of the initiative, the risk of macro incompatibility is high. The fiscal cost associated with the implementation of phase two contrasts with the government's goal of maintaining a balanced budget and eventually, achieving a surplus. From a regional development perspective, the new policy maintains the current regional concentration of industries but seeks to expand industrialization to rural areas by subsidizing private investment and improving infrastructure in those areas. This approach could be constrained by insufficient financial capacities of local authorities and the expected negative impacts on rural SMEs, as infrastructure development tends to favour access to markets by urban firms.

Source: Ronge and Nyangito (2000) and MIED (2013).

Box 7 The development of the leather and floriculture industries in Ethiopia

Floriculture and leather processing have developed rapidly, with an overall significant impact on the economy. Exports of floriculture rose from less than USD 1 million in 1997 to USD 210 million in 2011. After a slow start, exports of leather goods rose gradually between 2005 and 2010, and are now soaring, led in part by Chinese investments in the industry. For instance, a major Chinese shoe producer, Huajian, has established a large factory in Ethiopia; by 2014, the factory had already begun producing some 2,000 pairs of shoes per day for designer labels and employed some 1,600 workers. Huajian is implementing an aggressive strategy to expand production, with targets around USD 4 billion in annual exports within a decade. Huajian is also enhancing the skill base of its local labour force by sending a significant number of them for training to its headquarters in China. Both leather and floriculture have contributed significantly to the increasing exports of Ethiopian manufactured products, totalling USD 3 billion in 2012.

Some common elements in the industrial policies supporting the floriculture and leather industries include:

- access to finance on fairly attractive terms through the Development Bank of Ethiopia (DBE),
- close government-business consultations, and
- flexibility in modifying the forms and degrees of support.

Industrial policies also addressed the two industries' diverging needs:

- the leather industry had to deal with coordination failures along the value chain that had to be tackled simultaneously to achieve global competitiveness.
- the floriculture industry faced significant challenges in areas such as logistics, land acquisition and initial capital (that needed to be financed at terms that were not too short-term and too costly for such investments).

The leather industry benefited from very active government support for the acquisition of technological capabilities, including the setting up of a leather training institute whose training programmes often involved foreign experts subsidized by domestic firms. The State provided land and semi-constructed factories as well as basic infrastructural facilities in industrial zones. Tax and regulatory policies used to encourage upgrading included a ban on exports of raw hides and skins and export taxes on minimally processed, low value-added products.

For cut flowers, land was provided at fairly modest prices in the proximity of the airport and reliable airfreight services, including the promotion of air-conditioned transport to the airport and coordination with Ethiopian Airlines, so that the flowers could be transported to overseas markets—especially Amsterdam—at the appropriate time.

At a more macro level, Ethiopia's success can be explained by the substantial improvement in physical infrastructure, especially in transport, communications and energy, and the effective mobilization and use of foreign assistance, driven by clearly articulated government priorities.

Source: Taken and adapted from Noman (2015) and Noman and Stiglitz (2015b).

Strategic promotion of local value chains and supplier development programmes, including some specifically targeted at SMEs. Examples of such interventions stem from the new industrial policy in El Salvador (Table 6).

Table 6 Strategic support for the integration of local value chains in El Salvador

Programme	Interventions	Target	Responsible organization	Website
Programa de Desarrollo de Proveedores (PDP) (Supplier development programme)	<ul style="list-style-type: none"> -Adoption of initiatives to promote forward and backward linkages between SMEs and large manufacturing firms -Improve the capacity to meet strict market standards -Identify and support anchor firms that are able to sustain the dynamics of the value chain 	Generalized to manufacturing sector	Programa de Desarrollo de Proveedores El Salvador (PDP/PNUD-CCIE).	www.pdp.com.sv
Programa de Encadenamientos Productivos (EP) (value-chain programme)	<ul style="list-style-type: none"> -Support access to new markets for existing firms -Promote the entry of new firms in existing markets -Development of strategic linkages within value chains -Diagnostic of bottlenecks and barriers to the integration of the value chain 	SMEs and producer associations	Dirección de Encadenamientos Productivos EP/MINEC	www.min.ec.gob.sv

Source: Adapted and translated from Ministerio de Economía (2011).

Start-up promotion through entrepreneurship networks: CIPE (2014) finds that in addition to the creation of institutions like chambers of commerce and industry clubs, entrepreneurship promotion in the Philippines has been mainstreamed via enterprise networks such as the Philippine Center for Entrepreneurship (PCE). PCE has the mandate to promote the creation of “Go Negosyo Communities”, as a mechanism to draw the academic, business and government sectors together to form a triple-helix type ecosystem in which continuous networking, mentoring and cooperation among academics, entrepreneurs, industry experts, venture capitalists and government takes place. Each of these communities is distinguished by its ability to produce a continuous stream of start-up ventures.

Open competitions help identify, select and support promising entrepreneurs. In the mid-1990s, El Salvador tried to introduce a start-up programme, *Emprende Tu Idea* (ETI) (Start Up Your Idea), based on a methodology developed by the McKinsey Company (Kantis et al., 2005). ETI's objective was to help low-income youth develop business ideas and to put these into practice (Box 8). Recent initiatives to promote entrepreneurship in the country include the launch of “*Emprende el Salvador*” as a country trade mark; the objective is to demonstrate the commitment of the government, universities and other organizations to entrepreneurship (CONAMYPE, 2015).

The recently adopted National Enterprise Development Programme (NEDEP) in Nigeria includes concrete strategies to promote entrepreneurship via the use of open competitions (SMEDAN, 2013). For example, the University Entrepreneurship Development Programme (UNEDEP) is expected to instil and develop entrepreneurship talent at the undergraduate level, and embed the enterprise development framework in all universities. Concrete strategies include:

- Running entrepreneurship clubs at every university,
- Facilitating a mentoring platform between the students and successful entrepreneurs, and
- Organizing a business plan / operations competition, with the potential of debt /equity investment at the end of the business operations cycle.

At the same time, UNEDEP will analyse, select and financially support existing student enterprises with scalable potential, as well as encourage the formation of new enterprises (SMEDAN, 2013).

Box 8 The Emprende Tu Idea programme in El Salvador

The ETI was launched around 1997 as an experiment run by the international non-profit corporation Technoserve. The experiment was part of Technoserve's strategy to fight poverty; the mechanism was to promote entrepreneurship in urban areas. Technoserve transferred and adapted a methodology previously used by McKinsey & Co. in South Africa. The El Salvador Programme was responsible for training local staff involved in a business plan competition ideas for new entrepreneurs. Technoserve also established an institutional alliance with the Salvadoran Foundation for Social Action (FUNDEMAS) which at the time served as a franchisee of another methodology for the development of entrepreneurial capacities under the name EMPRETEC, with support from UNCTAD. The Salvadoran government participated in ETI through the National Commission on Micro and Small Enterprises (CONAMYPE).

The first competition was carried out in 2002 based on a national call for submissions with a limit of 300 entries. Four finalists received cash prizes of USD 15,000. A second call, launched in 2003, allowed wider participation but awarded slightly smaller grants; five winners received USD 12,000 each.

The ETI competition was open to ideas with the potential of creating sustainable employment. Ideas could be presented by both new and established entrepreneurs. The objective was to contribute to the competitiveness of Salvadoran SMEs through training, consulting services and financing for the creation or expansion of dynamic businesses. The competition was open to all adults, both Salvadoran and foreign nationals, who had a business idea for starting up an SME or for expanding and/or diversifying an existing enterprise employing at least 100 workers. The participating businesses were expected to reach USD 30,000 in sales in their first year of operation, and create at least five new jobs in the first two years of operation.

Promotion of the entrepreneurial process involved five stages: motivation, training, identification of opportunities, access to resources and follow-up. The ETI competition included four of the five phases of the entrepreneurial process. The project's intervention model was based on completing three phases in succession over an eight-month period.

In terms of results and lessons learned, a look at the composition of the review panels responsible for selecting projects suggests that the majority of members came from banks and financial institutions, which was reflected in the results of the competition. The winning ideas were not necessarily the most innovative, but deemed the most bankable. The absence of entrepreneurs on the review panel tended to favour projects with low financial risks, relegating the innovative aspects of the projects.

Although the participants appreciated the quality and relevance of the training they received from the ETI, some gaps were identified in topics related to the enterprise implementation stage; for example: procedures and requirements for registering and formalizing an enterprise, procedures for staff selection and hiring and the design of sales strategies. Insufficient networking between entrepreneurs was also a major weakness of the ETI model. Similarly, female participation was notoriously low.

The programme's credit component was also said to have a low degree of effectiveness. Of all the finalists in the ETI competition, only 10 (33.3 per cent) submitted financing requests, of which only six were approved for a total amount of USD 63,857 (average loan: USD 10,643). In addition, of the six projects financed, only two established new enterprises. The perception was that the supply characteristics of the credit and/or the systems for evaluating credit risk were disconnected from the characteristics of the new entrepreneurs' demand for financial resources.

Arguably, the ETI's principal limitation from the standpoint of the entrepreneurs and organizers was the lack of follow-up on the enterprises that won the competition and on those created on the basis of their participation in the programme. The project failed to raise comprehensive awareness for the entrepreneurial process and/or capitalizing on the experience of new ventures and to use this as a feedback mechanism to improve the training provided to participants.

By 2008, four competitions had been held by the ETI. A total of 2,000 people had been trained, with 131 new businesses and about 760 new jobs created. Eventually, an alliance with the Inter-American Development Bank supported the creation of training manuals and the obtaining of an ISO 9001:2000 quality certification in 2004, renewed in 2007 for another 3-year period (Ruiz Funes, 2008).

Source: Kantis et al. (2005) and Ruiz Funes (2008).

5. Labour market

Sector development plans are accompanied by human resource development strategies which help identify the human resources needs and the organizations capable of addressing those needs. In Morocco, the PNEI 2009-2015 identified concrete requirements in terms of human resources to support the growth of six strategic industries. The goal was to train about 220,000 people by 2015, in collaboration with the systems of public and private education and training at different levels (Table 7).

Table 7 Morocco: Estimated labour requirements for the development of the six strategic industries identified in the PNEI, accumulated over the period 2009-2015

Industry	Managers	Engineers	Technicians	Operators and related	Total
Off shoring	1,000	3,000	10,500	55,500*	70,000
Automotive	1,500	7,000	29,000	32,500	70,000
Aeronautic and spatial	300	1,900	3,000	9,800	15,000
Electronics	200	1,400	2,700	4,700	9,000
Textiles and leather	300	2,000	5,700	24,000	32,000
Agribusiness	500	500	8,500	14,500	24,000
Total	3,800	15,800	59,400	141,000	220,000

Notes: * For off shoring, the Assimilated corresponds to Administrative I and Administrative II.

Source: Taken from PNEI (2016).

Training plans were developed taking into account:

- A list of training courses required to meet the priority needs of each industry
- A variation of staff to be trained according to industry, profile, sector and year
- A breakdown of staff in key training systems, either public or private.

To compensate for any inherent risk in the projected requirements, training plans were defined with sufficient flexibility so as to adjust targets based on actual market demand for employment.

Additional measures included the creation of specialized institutes to attend to the needs of specific industries. Many of these institutes are built and operated by private firms, for example, the Centre for Training Professionals Automotive Tangier Mediterranean (CFMA/TM) under a concession of Renault. Others benefited from existing infrastructure at local universities (PNEI, 2016).

Likewise, the Moroccan government has established a system of direct assistance, whereby the government partially recovers the investment made by firms in the training of employees. This is applicable for firms in offshoring, automotive, electronics and aeronautics and space. The objective is to promote the hiring of trainees and the continuous development of employees; a distinction is made between different levels, namely operators, technicians and engineers/management or their counterparts across the distinct priority industries (PNEI, 2016).

Business incubators and entrepreneurship promotion are expected to contribute heavily to employment creation; it is common to see such initiatives targeting specific societal groups, for example, women and youth. The relevance of supporting business incubators in low and lower-middle income countries cannot be understated. A survey by TEF-TAI (2015) conducted among African entrepreneurs found that 82 per cent considered access to a business start-up accelerator or resource centre was “very important” to establish a business.

In 2006, Morocco launched the Moukawalati programme, a national entrepreneurship programme targeting unemployed young graduates. Under the responsibility of ANAPEC, Moukawalati provides start-up training and a year’s worth of follow-up coaching for young people interested in establishing a microenterprise. ANAPEC has created a network of 100 ‘windows’ through partner banks to conduct business with Moukawalati participants, while the government provides guarantees for up to 85 per cent of the loan values. The programme delivered disappointing results during its first two years of operation. The Moukawalati enterprises faced difficulties finding suitable business premises, and many potential entrepreneurs failed to secure bank financing, notwithstanding support from special government

guarantees. The government introduced a revised programme in 2009, with adjusted targets for firm creation (10,000 new enterprises, down one-third from the original target), and an extension of the programme's eligibility criteria to young people without degrees from professional training institutions. The number of Moukawalati offices and trained advisors has been expanded, and partner banks have agreed to provide stronger financing commitments to participants (Stevenson, 2010).

The provision of specialized training addresses skill shortages of the industrial workforce.

Brixiova (2010) asserts that skill shortages, both on the part of workers and of entrepreneurs, are important constraints for establishing new firms in Africa. Naudé (2010b) expands the discussion to other developing countries, noting that market failures in labour and financial markets lead to disconnect between highly skilled individuals and entrepreneurial opportunities. According to Stevenson and St-Onge (2005), a 1999 baseline survey conducted among Kenyan enterprises revealed that only 7 per cent of participating micro and small enterprises (MSEs) had received any form of non-financial assistance in the previous four years. This figure contrasted with the increasing number of formal and informal organizations in the country that offer non-financial assistance by way of training in business skills and entrepreneurship, practical skills, technical assistance and marketing support (Box 9).

Adopted in 2014, the Nigeria Industrial Revolution Plan (NIRP) identifies seven supporting structures or enablers expected to help address systemic barriers to enhanced productivity and industrialization. The enablers include infrastructure, innovation, investment climate, standards, local patronage and skills better attuned to the needs of the industrial sector (

Box 10) (MITD, 2014).

Box 9 Milestones for training of engineers and technicians included in Kenya's Vision 2030 Manufacturing Sector

In Kenya, policies to improve the base of skilled labour for industrial firms include promotion of on-the-job training, increasing the private sector's role in government training institutes, enhanced government funding for training institutions, and offering postgraduate conversion courses to science graduates to increase the number of technologists (Ronge and Nyangito, 2000). Entrepreneurial, management and technical training is also important for enterprise development. Business start-up, survival and growth training is offered by a wide array of Kenyan government agencies, private consulting firms and NGOs, including the International Labour Office's Start and Improve Your Business training. Vision 2030 for the manufacturing sector proposes specific strategies to advance towards the achievement of skills-related goals for industrialization (Ministry of Industrialization).

- Facilitation of the setting up of Centres of Excellence that provide competency-based training for engineers and technicians to meet the skills requirements of the manufacturing sector;
- Identification of technology gaps within the training institutions;
- Linking up training institutions with the manufacturing sector for technology updates;
- Improving the curriculum of engineers and technicians by addressing the practical aspects of training and the inclusion of entrepreneurship subjects. Diversifying the training in terms of training places and including training exchange programmes with universities outside Kenya;
- Providing incentives to industries to promote industrial research between universities and industries for placement of engineering students in research fields and design;
- Improving linkages between training institutions and industry;
- Improving the level of funding for research and development in engineering through funds mobilization.

Source: Ronge and Nyangito (2000) and Kenya's Ministry of Industrialization.

Box 10 Nigeria’s approach to technical and vocational skills development aligned with industry needs

With the adoption of the NIRP, Nigeria aims to address three structural gaps affecting skills development in relation to industrial needs:

- Policy gap – multiplicity of public and private sector players and programmes without adequate connection with the labour market or industry needs;
- Relevance gap – skills development misaligned with labour market needs or the skills requirement of industry; and,
- Financing gap – which constrains resource allocation for skills development in the public and private sector.

In practice, the NIRP proposes a bottom-up approach to work with the private sector in each state to determine the industrial skills needs and ensure that interventions are relevant for the industry. Industrial skills councils will be created within each state and will consist of:

- the largest industrialists in each state,
- public sector agencies, and
- development institutions.

Skills councils will evaluate the skills needed at a subnational level and report to a single National Council on Industrial Skills Development. The objective is to provide training coupled with opportunities (or jobs) to practice the acquired skills. NIRP expects to leverage technology to consolidate information on trainees and reduce search costs for industrialists who are looking for specific technical skillsets.

The Industrial Training Fund will be reformed to better suit the development of industrial skill needs. Its curriculum will be streamlined to focus on fewer areas with increased depth, and to build up its capacity to create links to available jobs and internships. Likewise, active promotion of the use of private sector skills development centres under government sponsored programmes is proposed.

Source: MITD (2014).

The government has historically been the main source of jobs in Djibouti, which explains the mismatch between young people's skills and the needs of the labour market (AfDB et al., 2012). To remedy this situation, the government is promoting the provision of training which corresponds to the expectations of employers; additional initiatives include encouraging young people to start their own businesses as a way to absorb unemployment and to stimulate PSD (AfDB et al., 2012).

An example of a comprehensive programme to support young entrepreneurs is the Promise Programme in Senegal, where the minimum cost of setting up a formal business is 255 per cent of the annual average per capita income (Box 11).

Box 11 Senegal's Synapse Centre – an example of a comprehensive training and financing approach for young entrepreneurs

To reduce the cost of setting up a formal new business in Senegal, the government promoted the creation of the Synapse Centre in 2003. The Centre provides potential young entrepreneurs with the experience, support and advice they need to establish and run successful businesses and contribute to overall economic growth and job creation. One of the Centre's initiatives, the Promise Programme, is a highly intensive 14-month youth entrepreneurship training programme that combines traditional entrepreneurship theory with interactive case-based studies, practical experience, personal development retreats and professional business consulting and mentoring.

Participants have access to incubator facilities via office space, monthly training workshops, group learning, mentoring, and counselling (provided by some of the best-known companies in Senegal). The centre also serves as a link between young entrepreneurs with the government's National Fund for Youth Employment (FNEJ), thereby giving them access to low-interest loans for their businesses. The objective is to ensure that each participant establishes a successful business which, in turn, gives something back to society. By 2008, 17 promising entrepreneurs had graduated from the first class; nine young participants became entrepreneurs as founders of new companies and 35 business leaders were recruited to mentor young entrepreneurs. The nine successful entrepreneurs created 137 jobs. Synapse's annual budget of USD 80,000 results in one job created for every USD 584 spent. The experience of Synapse has shown that the increased self-confidence resulting from the mentoring initiative enables entrepreneurs to expand their personal vision through a leadership experience they otherwise might not have had.

Source: Taken and adapted from AfDB et al. (2012).

6. Capital markets

Governments have introduced simplified tax regimes to reduce the fiscal burden on private firms and improve investment climate. In Egypt efforts to improve the institutional

environment for start-ups include the adoption of tax reforms to simplify the methods of determining taxes levied from MSEs; at the same time, the Ministry of Finance has adopted international standards in simplified accounting and reporting systems for small firms (Stevenson, 2010).

Establishment of SME guarantee funds and/or SME development funds: According to Stevenson (2010), several MENA countries have tried to address deficiencies in formal lending markets by establishing various types of SME guarantee funds with different guarantee amounts, ceilings, terms and conditions that are generally processed through commercial banks. However, coverage of such instruments remains limited and with little substantial assessment of their impacts on overall credit conditions for SMEs. SME development funds often target start-ups and the upgrading of existing SMEs. Box 12 describes some funds available in the early 2000s to support the creation of SMEs in Morocco.

Box 12 Guarantee funds intended to improve access to bank credits by new SMEs in Morocco

Guarantee fund for the modernization of enterprises (FOGAM): This fund provided guarantees for up to 60 per cent of a commercial bank loan for the creation of a new firm. The investment value before the loan was capped at MAD 40 million. The fund was managed by the Caisse Centrale de Garantie (CCG).

Guarantee fund on loans for the creation of young enterprises. This fund targeted young Moroccan entrepreneurs working as individuals or organized in an incorporated firm or cooperative. The target population were those between 20-45 years of age on the condition they propose a viable project to establish a new business. The guarantee covered up to 85 per cent of the principal and normal interest or, if necessary, any default interests. The programmes that benefited from this guarantee fund could be funded by commercial banks up to 90 per cent of the global cost. The fund was managed by the Caisse Centrale de Garantie (CCG).

Guarantee fund on operating appropriations (OXYGENE). This fund guaranteed loans on operating appropriations granted by commercial banks to SMEs in operation for six months or less and with sales of up to MAD 15 million. The guarantee covered up to 60 per cent of the loan for the first year and up to 50 per cent in case of renewal, with a minimum guarantee of MAD 1 million. The fund was managed by Dar Ad Damane.

French guarantee fund for the benefit of Morocco: This fund was similar to FOGAM; it targeted loans granted by commercial banks for the modernization of SMEs. The fund was managed by the French Development Agency (AFD).

MEDA I guarantee fund (PAIGAM): This fund seeks to support the building of financial and technical capacities of organizations providing guarantee funds, in this case, the CCG and Dar Ad Damane. The guarantee covered up to 50 per cent of the loan, up to maximum of EUR 700,000.

Source: Taken and adapted and translated from MICMANE (2005).

Financing mechanisms linked to real estate development in the context of EPZ or other industrial agglomerations. Box 3 and Box 17 discussed specific funding mechanisms introduced by the Moroccan government as part of the NPEI 2009-2015. An additional instrument specifically designed to support the development of Integrated Industrial Platforms (P2I) (Box 17) is the Emerging Real Estate fund. It is an investment fund dedicated to real estate and industrial services, primarily engaged in acquiring properties within P2i in order to offer firms an interesting rental contract. The fund is operated by Attijariwafa Bank, BMCE Bank and the Banque Centrale Populaire, which have mobilized more than MAD 1 billion to support this financing instrument. In addition to managing rental property databases available to industry, the Emerging Real Estate fund also offers landscaping services (Moroccan Investment Development Agency, 2016; PNEI, 2016).

Public-private partnerships (PPPs) intend to improve the investment climate and the ease of doing business. In line with PSD goals, some governments have introduced specific legislation to strengthen the legal frameworks around PPPs in investment and funding of flagship industrialization programmes. This is the case in Kenya, for example. The new industrial development plan identifies PPPs as a mechanism to underpin the development of SEZs, Industrial and Science Parks, industrial clusters and incubators. Specific interventions include Build-Operate-Transfer or Build-Own-Transfer (BOT) mechanisms, corporatization, lease and/or management contracts and concessions (MIED, 2013).

In the case of Morocco, the PNEI 2009-2015 introduced a series of mechanisms to address the financial needs of the six strategic industries identified by the Pact. All banks operating in the country, members of the Groupement Professionnel des Banques du Maroc (GPBM), have committed to offer funding mechanisms to investors operating in each of those industries (PNEI, 2016). Three banks, Attijariwafa Bank, BMCE Bank and Banque Centrale Populaire, pledged to raise a total of MAD 3 billion specifically for this purpose. In terms of banking services, the preference is a “turnkey” approach to facilitate the installation and scalability of operations. These three banks have developed a comprehensive range of banking services ‘packaged’ around three main objectives (PNEI, 2016):

- To meet the financial needs of new firms (leasing, loans for onshore and offshore investments, assistance/ advice);
- To meet immediate operational needs (working capital, factoring, trade finance, capital markets, workflow management and insurance);

- To establish a suitable offer of financial services for employees of the new firms.

Markets for venture capital or risk capital remain underdeveloped, but progress is ongoing. VC is equity financing provided by either venture capitalists or institutional investors, generally in the early growth or expansion stages of a firm. Frequently, the aim is to take advantage of recently created firms with proven high growth potential. The bulk of venture capital comes from firms that run venture capital funds with participation of outside investors, mainly institutional investors, who provide the majority of financing. The venture capital firm provides professional managers for VC funds (UNCTAD, 2001).

Nigeria seems to be one of the most advanced countries as regards to policies intended to promote the development of a local venture capital industry. According to Daramola (2012), Nigeria has, at least on paper, attempted to build a policy system that closes the loop between supply-oriented and demand-side policies. The system includes interventions that are directly relevant for the creation of a segment of venture capitalists, while others are attuned to create the necessary background conditions for the venture capital market. The author characterizes supply side policies as government actions seeking to increase the benefits of private sector participation in (new) technology-based firm creation. Those policies directly and indirectly facilitate the creation of VC as well as the provision of finance for technology-based firms. From a demand side perspective, some policies that are already in place, though their implementation needs improvement, seek to create a pool of technology entrepreneurs and suitable capital markets. Both supply and demand side policies related to VC markets in Nigeria are presented in Table 8.

Table 8 Nigeria: policies and programmes to support the creation of venture capital markets

Policies and programmes	VC-directed policy	VC-related policy
Financial incentives (tax)	√	
Venture Capital (Incentives) Decree No.89 1993 Act	√	
The Small and Medium Enterprises Equity Investment Scheme (SMEEIS) 2001	√	
Science, Technology & Innovation Policy Draft (2011)		√
Entrepreneurship Development Syllabus introduced at primary and secondary university (2006)		√
Technology incubation centres		√
Clusters (Otigba, Nnewi)		√

Support agencies (SMEDAN, BOI, NOTAP)		√
Establishment of Intellectual Property and Technology Transfer Offices		√
Stable macroeconomic environment (1999-date)		√
Export processing zones		√
Educational and research organizations		√
Entrepreneurial characteristics of the diverse tribes in the country		√

Source: Taken from Daramola, (2012).

Morocco represents another case of a country that has managed to organize a fairly robust VC market, at least in the MENA region. Stevenson (2010) cites the presence of 18-20 privately owned VC companies and venture capital arms in most banks. Although growth in risk capital strongly depends on investments by the European Investment Bank (Box 13), changes in legislation introduced in 2006 improved the regulatory framework for VC and provided incentives to VC funds investing in SMEs.

Box 13 Development of risk capital in Morocco

Risk capital markets began emerging in Morocco in the early 2000s. The industry integrated some 15 companies with a capital value of about MAD 1.5 billion. Government support was channelled through the Caisse de Dépôt et de Gestion (CDG), setting the basis for the development of a number of private funds including Accès Capital Atlantique, the seed capital fund SINDIBAD and the fund Upline Technologies.

In the context of collaboration with the European Union, a line of risk capital for EUR 45 million was established as part of the programme MEDA. This credit line, managed by the BEI, was created as a line to support the operation of the different funds instituted by private investors.

Some challenges for the development of risk capital in the country include:

- Lack of an adequate legal framework suitable for the development of the market for risk capital. Development of regulations specific to the sector was ongoing in the early 2000s.
- Public interventions tended to focus on supporting the development of existing risk capital funds, with a much lower focus on the creation of new funds.
- The difficulties faced by SMEs to comply with the prerequisites in terms of organization and information about the firm, which result in a limited capacity to use the resources made available from risk capital funds.

Source: Taken and adapted and translated from MICMANE (2005).

Leasing laws to promote a private sector SME leasing market are in effect in Egypt and Yemen. Egypt has also launched second-tier stock markets to create opportunities for small and early-stage growth companies to raise equity capital (Stevenson, 2010).

Tax incentives for young firms aim to stimulate investment in areas with a perceived strong potential for growth and wealth creation. Chete et al. (2014) document the stratified structure followed by Nigerian authorities to stimulate investments in manufacturing activities:

- Firms with a turnover of <NGN 1 million are taxed at a lower rate of 20 per cent in the first five years of operation;
- Dividends from companies with a turnover of <NGN 1 million are not taxed in the first five years of operation; and,
- Dividends derived from the petro-chemical and liquefied natural gas sub-sector are tax exempt.

The use of guarantee systems is seldom accompanied by the development of additional financial instruments by private sector entities: Stevenson (2010) finds that banking systems in MENA countries have a low disposition to target SMEs, while there are few financial alternatives, especially for medium- and longer-term financing. In Morocco, for example, the government funds loan guarantees to help SMEs access financing; eleven loan guarantee schemes are operated by the CCG, a 100 per cent government-owned loan guarantee company that provides 60 per cent to 85 per cent guarantees for bank loans extended to qualifying SMEs. The author concludes that government-supported guarantee systems have had a limited impact on changing the lending behaviour of banks, and seed and venture capital markets remain underdeveloped in the region.

Microfinance and microcredit show different degrees of development; the dynamics of the industry depend strongly on funding from external development partners. Stevenson (2010) notes that Morocco has been building microfinance facilities since the 1990s. Regulation and governance of the microfinance industry has been in place since the promulgation of the Microfinance Law in 1999.

While Egypt has a good record as regards the use of microfinance institutions and programmes, the development and availability of these services remain modest; the industry is also young or nascent in Syria, Iraq and Sudan (Stevenson, 2010). Egypt, Morocco, Syria and Yemen have already passed or drafted a microfinance law to establish a framework for the sustainable operation of microfinance institutions and to regulate the industry. In Sudan, the government has issued regulations requiring Sudanese banks to allocate at least 10 per cent of bank loans in the form of microcredit. Stevenson (2010) further reports that in 2003, the United States Agency for International Development (USAID) supported the creation of the Sudan Micro Finance

Institute, while the Sudan Microfinance Development Facility was established in collaboration with the Bank of Sudan in 2008 with a capital amount of USD 20 million.

Financial mechanisms operated with support from development partners pursue the dual goal of promoting firm creation and the formalization and growth of firms already operating in informal markets. Mbithi and Mainga (2006) identified financial instruments in Kenya operated by external organs, but made available to finance private sector agents in various industries in the country. This is the case of the European Investment Bank facility operated through all major commercial banks; some of the requirements to access the resources include for the business to be registered with the Registrar of Companies. Additional requirements are determined by the specific investment facility. The Central Bank of Kenya, commercial banks and the Ministry of Trade and Industry contribute to the dissemination of information about the programme.

In the case of Sudan, Stevenson (2010) reports that the Southern Sudan Ministry of Commerce and Industry launched a US \$20.2 million project in 2009 to stimulate PSD, financed jointly by the government and the Multi-donor Trust Fund (MDTF) for Southern Sudan. A key element of the strategy is “development of an Entrepreneurship Development Strategy to widely promote entrepreneurship, capacity building on how to start businesses and comply with regulations, business skills training, capacity building for business service providers and banks, and community mobilization.” (Stevenson, 2010:269).

Krause and Kaufman (2011) highlight recent support provided by the World Bank to SME and private sector development in Mozambique (Box 14).

Box 14 Recent World Bank support to SME and private sector development in Mozambique

The World Bank has been supporting SMEs and PSD in Mozambique through a suite of projects that seek to address financial and technical constraints. The Project for Entrepreneurial Development (PODE) has, through its technical learning component, helped hundreds of local SMEs, mostly around the capital city, Maputo, through a matching-grant scheme that co-finances training sessions, consultancies and export promotion activities, among others. A positive unintended outcome was an increase in demand for BDS in Maputo and the establishment of new firms that offer such services.

The Mozambique Competitiveness and Private Sector Development Project (MCPSDP), launched in 2009, integrated various approaches, including selective industrial policy measures. The project’s budget of USD 25 million was far more extensive than the Ministry for Industry and Trade’s (MIC) budget. At the time of inception, it was uncertain if and how the project would cooperate with the new SME institute, IPEME; however, there was a certain risk of duplicating functions in the area of SME promotion. The project includes three components:

- 1) Developing the competitiveness of SMEs through the provision of loans and technical assistance.

2) Improving the general business environment and implementing the existing strategy for that purpose.

3) Selective support for certain regions and industries, including the tourism industry in the province of Inhambane, or a horticulture technological centre for the province of Nampula.

Both the PODE and the MCPSPDP operate through a special unit linked to the MIC. The MCPSPDP is headed by the former National Director for Industry, who left the MIC to take up this post.

Source: Taken and adapted from Krause and Kaufman (2011).

The European Union is an important partner for the financing of seed capital needed for initiatives in support of new firm creation south of the Mediterranean (Box 15).

Box 15 The seed capital, development and orientation fund: Faro

Faro, the seed capital, development and orientation fund, was launched on 27 May 2010 in the context of the Union for the Mediterranean to boost the development of innovation on both sides of the Mediterranean.

With a budget of EUR 1 million, the Faro fund enables European entrepreneurs to evaluate the feasibility of innovative projects undertaken in collaboration with partners from the South of the Mediterranean. Each project backed by Faro is allocated a subsidy of maximum EUR 20,000, to finance up to 50 per cent of the total costs involved.

The subsidy allocated enables promoters of small innovative projects to conduct feasibility studies for their partnership project from various points of view: technical, financial, legal, commercial or managerial. The Faro fund links the French Development Agency with the “Caisse des Dépôts” and OSEO-BDPME; major objectives include encouraging the creation of business and employment generation in the region through North-South collaboration.

Source: Taken from the Moroccan Investment Development Agency (2016).

Regulatory reforms on the introduction of special financial incentives to attract foreign investors into strategic industries. The Ethiopian government has actively promoted the development of the horticulture and floriculture industry, including specifically designed incentive programmes to attract foreign investors into this industry (Embassy of Ethiopia in China, 2016). Currently, 25 foreign and domestic investors have already started construction while 20 of them started production and the export of roses to European markets. Foreign investors are based in China, Europe and the Middle East. The Ethiopian government has implemented a series of reforms to facilitate FDI and to encourage foreign investment, including a revised investment law (Box 16).

Box 16 The role of government incentives for and reform of investment law to attract FDI into the Ethiopian horticulture and floriculture industry

Ethiopia's industrial development strategy encourages investors engaged in the production and export of agricultural products, especially in floriculture, horticulture, pulses and oilseeds. The government has developed preferential financial instruments to attract and support investors involved in the production and export of these products; loans are available to cover up to 70 per cent of investments. This special loan is provided through the DBE. The bank has the following credit policy:

- Fixed interest rate at 7.5 per cent per annum. However, this can vary from time to time.
- Bank clients are granted the maximum grace period, namely the period up to the commencement of operations. The maximum allowable grace period is fixed at three years.
- All fixed assets of the project are held as collateral or as loan security.
- A debt/ equity ratio requirement of 70/ 30 applies for newly launched projects. For ongoing projects that include the expansion of existing projects, the ratio decreases to 60/ 40.
- The loan repayment period is determined on the basis of profitability and debt servicing capacity of the borrowing firm, as well as the economic life of major investment items, with a maximum repayment period of 10 years.

A foreign investor can invest on his/ her own or in partnership with domestic investors. The minimum capital required from a foreign investor is USD 100,000 in cash and/ or in kind as an initial investment capital per project to start a business. The minimum capital for a foreign investor who joins a domestic investor or company for a joint investment is USD 60,000.

Investment law guarantees capital repatriation and remittance of dividends. It also provides an investment guarantee.

To encourage private investment and attract FDI and technology transfer into Ethiopia, some of the major incentives given to investors (both domestic and foreign) engaged in new enterprises or in the expansion into areas that qualify for investment incentives include:

- Full exemption (100 per cent) from the payment of import customs duties and other taxes levied on imports; investors can import all investment capital goods, such as plant machinery, equipment, etc., as well as spare parts worth up to 15 per cent of the value of the imported investment capital goods, provided that the goods are not produced locally in comparable quantity, quality and price.
- Investment capital goods imported without the payment of import customs duties and other taxes levied on imports may be transferred to another investor enjoying similar privileges.

- Exemptions from customs duties or other taxes levied on imports are granted for raw materials needed for the production of export goods.
- Ethiopian products and services destined for export are exempt from the payment of any export tax and other taxes levied on exports.
- Any income derived from an approved new manufacturing and agro-industry investment or an investment made in agriculture shall be exempt from the payment of income tax for varying periods of time, depending on the area of investment selected, the expected volume of exports and the location in which the investment is undertaken.
- Any remittance made by a foreign investor from the proceeds of the sale or transfer of shares of assets upon liquidation or winding up of an enterprise is exempt from the payment of any tax.
- Business enterprises that suffer losses during the tax holiday period can carry forward such losses for half of the income tax exemption period following the expiry of the exemption period.

Source: Taken and adapted from the Embassy of Ethiopia in China's website.

Funds and grants for entrepreneurship must be carefully crafted to avoid incentives for rent-seeking behaviours: AfDB et al. (2012) illustrate this point based on the case of Benin. The Fonds National de Promotion de l'Entreprise et de l'Emploi des Jeunes (FNPEEJ), created in 2007, encourages the entrepreneurial spirit of young people by financing business creation, but because of the non-repayment by a large number of beneficiaries (up to 81 per cent), the deficit had reached more than CFA 1.6 billion by September 2011. AfDB et al. (2012) warn that in the long run, such high rates of non-repayment can create the impression that funding provided for young entrepreneurs is free and not loaned.

Noman (2015) argues that capture by politically powerful rent-seekers can partly explain the difficulties experienced with nationalized commercial banks in Pakistan, particularly in the 1980s and 1990s. The author compares the Pakistani financial system during this period with that of the 1950s and 1960s, when two development finance institutions (DFIs), the Pakistan Industrial Credit and Investment Corporation (PICIC) and the Industrial Development Bank of Pakistan (IDBP), played a central role in the country's rapid industrialization. Both these institutions contributed to the creation of a class of industrial capitalists/ entrepreneurs and to raising investment levels through long-term loans at moderate-to-low interest rates. Accordingly, this mechanism helped socialize the risk of investment and promote savings "in the "miracle" economies of East Asia, because the powerful incentive to invest also served to enhance corporate savings." (p. 41) Although the author urges caution in any attempt at reviving DFIs in the volatile context of current Pakistan, he emphasizes that interesting lessons can be drawn from the recent experience of the DBE and its role in supporting the emergence of the local leather and floriculture industries (see Box 16).

7. Land market

7.1. Creation of land markets

Property titling aims to enable the use of land as collateral to obtain formal bank credit, particularly for SMEs; the evidence is inconclusive on whether this is indeed happening.

The functioning of land markets in low and lower-middle income countries suffers from factors such as inadequate access to land, which is governed by traditional practice to assign property rights, rigid urban land tenure and deficiencies in property registration. The result is high entry barriers to formal markets, particularly for urban SMEs, and to start-up businesses, as well as to attracting FDI (Kolavalli et al., 2011). Initiatives to reform land ownership intend to address some of these deficiencies and to facilitate the development of land for industrial use.

Côte d'Ivoire, Kenya, Liberia and other Southern African countries have been undertaking efforts to improve access to land through the provision of formal titles (World Bank et al., 2015). In addition to securing ownership to the land, titling is expected to stimulate the emergence of land markets and increase incentives for long-term investments, including in industrial activities (Altenburg and von Drachenfels, 2008). However, based on a study of a sample of firms in four African countries, Biggs and Shah (2006) suggest that property titling is no guarantee to access supplier credit or bank loans at the start-up phase (Table 9); whereas 48.4 per cent of firms in Zambia and 43.9 per cent of firms in Zimbabwe declared to own land, the share of firms with access to external loans at start-up was around 10 per cent to 11 per cent only.

Table 9 Financial characteristics of a sample of firms in four African countries

	Kenya	Tanzania	Zambia	Zimbabwe
Receive supplier credit	28.2	12.0	19.5	67.4
Avg. years of supplier relations	8.0	7.3	7.8	11.8
Have title to property	35.8	36.7	48.4	43.9
External loans at start-up	25.5	8.9	11.9	10.6

Source: Taken from Biggs and Shah (2006:10).

7.2. Promotion of clusters, industrial parks and other forms of geographical and/or industrial agglomerations

The development of industrial clusters and other agglomerations seeks to improve land market conditions and incentives for firm growth. Policies that underpin cluster development

have some established tradition in developing countries. Based on the African experience, McCormick (1999) identified different types of clusters depending on both their internal structure and level of industrialization. Some clusters serve to lay the groundwork for industrialization by improving access to markets and offering an environment propitious for inter-firm collaboration. Other types of clusters are “industrializing” in the sense that they have begun a process of specialization and differentiation that leads to greater efficiency. “Still others have diversified their size structure and interfirm linkages in such a way that they have been able to tap wider national and global markets.” (McCormick, 1999:1532). The author observes differentiated, sometimes negative, effects of clusters on labour market pooling and intermediate input availabilities. The generation of extensive spillovers to the rest of the economy and the development of complex industrial clusters requires additional efforts to generate local product content, improve the functioning of labour markets and contract enforcement, among other factors (McCormick, 1999).

In Kenya, cluster policies include the promotion of small producer associations in the context of groundwork enterprise clusters (McCormick, 1999). An example is the Kamukunji’s Jua Kali association, which integrates local metalwork artisans; the association owes its existence to government policy originating in the late 1980s. Such organizations serve as a link between government and informal market producers for the implementation of programmes aimed at small-scale entrepreneurs as well as advocates for policy change.

The Kenyan government expects to support around 47 small and medium size industry (SMI) parks—one in each county—with a view to promoting triple-helix type collaborations (government–private sector–university); this should facilitate the growth and development of knowledge and technology-based enterprises (Ministry of Industrialization, 2013).

Export processing zones (EPZ): Bigsten and Söderbom (2005) assert that because of the limited size of domestic markets for African manufacturing products, the boost for industrialization should be generated through exports. In line with this observation, low and lower-middle income countries actively promote the emergence of EPZs, or special economic zones (SEZ), industrial parks and related firm agglomerations, to create spaces for industrial development, investments in industry and to boost non-agricultural employment (Oskarsson and Nielsen, 2014). In general, EPZs are duty-free enclaves operating under relaxed and business-friendly policy regimes. EPZ promotion includes expeditious processes for land acquisition, special economic incentives for the settlement or resettlement of firms and labour. The evidence shows some mixed results for these initiatives.

In Morocco, the creation of new technology parks and offshoring zones has helped accommodate new factories through FDI inflows (Stevenson, 2010). In Zambia, spatial inclusion is addressed in the revised Sixth National Development Plan, with the added feature of an industrial policy that proposes the creation of multi-facility economic zones as an instrument to create business opportunities in urban agglomerations and to attract FDI flows (Rasmussen, 2012).

Tanzania has had an active EPZ policy for several years, including the adoption of an EPZ Act in March 2003 (Wangwe et al., 2014). In the context of the Sustainable Industrial Development Policy (SIDP) for the period 1996-2020, EPZs are expected to attract and promote investments for export-led industrialization, to increase foreign exchange earnings, create and increase employment opportunities, attract and encourage technology transfer and promote the processing of local raw materials for export. The Act included a 10-year exemption on corporate taxes, remission from customs duties, VAT and other taxes on raw materials and capital goods related to production in the EPZ, authorization to sell 20 per cent of produced goods on the domestic market, access to the export guarantee scheme and unconditional transfer of profits, dividends and royalties, among other incentives.

The creation of industrial parks, technoparks, science parks and other types of agglomerations of firms or industries is pervasive. According to Stevenson (2010), several MENA countries have promoted technology parks and innovation centres, as well as elaborate R&D and commercialization support infrastructure. These include technology parks and technopoles in Morocco (Box 17), or the Smart Village initiative in Egypt. The latter consists of a network of Technology Transfer and Innovation Centres (TTICs), R&D Centres of Excellence, business and technology incubators and a Technology Development Fund that provides risk capital to technology and ICT start-ups, specifically technology and higher value-added start-ups (Stevenson, 2010).

RGC (2015) notes that recent industrialization efforts in Cambodia include reorienting the development of industrial zones to ensure the provision of adequate clustering services, economic linkages and efficient transport and logistics services, electricity supply and other supporting infrastructure. The region of Phnom Penh and other areas along the Thai and Vietnamese borders have been identified as potential zones for manufacturing development and for linking to regional production chains. Additional industrial corridors include the Sihanoukville-Phnom Penh for manufacturing export zones, the Kompong Cham province-North-West industrial corridor for agricultural processing zones, and Siem Reap for handicraft production to support the tourism industry.

In Kenya, Ronge and Nyangito (2000) find that the implementation of the new industrial policy (see Box 6) included an implicit notion of industrial dispersion during the first phase of the strategy; this is reflected in the emphasis placed on supporting resource-based, labour-intensive small- and medium-scale industries. According to the authors, unlike in the past when diverse instruments and incentives were used to achieve this policy objective, government intervention is now restricted to the provision of infrastructure in major urban centres. To reduce industry start-up costs and partly influence the location of industry, authorities expected to strengthen their capacity to provide basic infrastructure, to set aside land for industrial use as well as for the construction of industrial parks (Ronge and Nyangito, 2000).

Box 17 Integrated industrial platforms (P2i) in Morocco

The PNEI has introduced an ambitious suite of programmes to assist in developing a diversified supply of land for industrial use. The Integrated industrial Platforms programme (P2i for its acronym in French) constitutes the flagship element in this strategy. Moreover, they are considered the core element of the PNEI, as they offer industrial land adjusted to the needs of firms working in priority industries. P2i supports three types of platforms:

- GP P2i: open to all industries, they can combine several areas;
- Sector P2i: dedicated to a specific industry, but may include special areas related to the main industry (electronics embedded in a district P2I automotive);
- P2i Districts Regional / National: general areas reserved for industrial players from the same region of a foreign country.

P2i aims to progressively establish a network of 16 P2is, including by upgrading some already existing areas. Each zone integrates real estate services, supply logistics, BDS, connectivity logistics, one-stop-shops and free economic zone status.

Two other programmes run in parallel:

- **Zone of economic activities:** This programme aims to mobilize various stakeholders located in areas with industrial potential in target regions; and
- **Rehabilitation of industrial areas:** The creation of new areas of economic activity is accompanied by rehabilitation of several industrial zones.

Both programmes seek to:

- Contribute to the development of supply of land through the conditioning and/or rehabilitation of specific areas of economic activity;
- Support the provision of quality services to contractors;
- Assist in the optimal exploitation of industrial opportunities at the regional level;
- Help capture regional spillovers from P2i initiatives.

Source: PNEI (2016).

Innovative agglomeration schemes are being explored in Nigeria to promote the creation of new firms and incentivize the formalization of informal firms (

Box 18).

Box 18 Promotion of enterprise zones in Nigeria

Nigeria has recently adopted an approach of supporting the creation of enterprise zones in the form of platforms of between 5 hectares and 30 hectares, targeted at incorporating the informal sector into the organized private sector. This is expected to empower farmers and SMEs, and enable them to efficiently and conveniently feed their products into the value chain of large-scale industries. The enterprise zones will be located in both state capitals and local government areas, and will accommodate mechanics, block makers, small-scale furniture manufacturers, timber merchants, welders/metal fabricators, garment makers, and other categories of artisans and vocational workers who constitute over 70 per cent of Nigeria's private sector. Skills acquisition/training centres will also be located in each enterprise zone for skills upgrading, while the private sector will assume responsibility in managing the enterprise zones.

Industrial parks will be created for large manufacturing companies to ensure high value addition in the production of finished products or raw materials. Expected to cover areas of not less than 3,050 km², the parks will be located in accordance with the comparative and competitive advantage of the distinct geographical zones throughout the country.

The parks will include incubator facilities in the form of start-up centres for new and inexperienced entrepreneurs, graduates of tertiary institutions, investors and persons involved in vocational training who wish to set up their own businesses. Prospective start-up companies will be equipped with entrepreneurial skills and enterprise resources to nurture them from formation to maturity.

Some limitations to be mentioned during the implementation of the strategy include the need for infrastructure and leveraging, and ensuring private sector collaboration.

Source: Chete et al. (2014).

Historically, the Ghanaian government has focused on the development of large-scale import-substitution industries to meet growing domestic demand; the lack of government support to

small businesses has hampered their innovation abilities and development prospects (Robson et al., 2009). Recently, support to industrial parks has addressed some of these structural challenges (Box 19).

Box 19 Combining appropriate investment conditions and cluster synergies in industrial zones in Ghana

The GTZ-sponsored Programme for Sustainable Economic Development in Ghana has been supporting the establishment of industrial zones with access to modern energy services and BDS in the Brong Ahafo region since 2006. Three factors make these industrial zones attractive for businesses:

-Access to affordable land, as it is difficult for businesses to expand their premises in overcrowded urban areas due to high costs and land tenure problems. Recently graduated apprentices are often unable to find land to open their own enterprises.

-Reliable access to electricity, which has been identified as a major constraint for PSD in Ghana. Currently, enterprises are scattered around residential areas, causing electricity network overloads, ecological hazards and nuisances for neighbours.

-Provision of business services. Apart from improved access to electricity, other business services are being offered by business associations and other service providers to enterprises in the clustered environment.

One industrial zone has been established, for another four, the procurement process has started and four more are planned in different district capitals in the Brong Ahafo region. Access to these zones is granted to formal and informal enterprises, regardless of size, ranging from start-ups to medium companies with high growth potential. Currently, the majority of applicants for land in the industrial zones are MSMEs engaged in car repair, woodwork, metalwork and agro-processing. The management model for the industrial zones is adapted to local conditions and consists of a PPP between business associations and District Assemblies.

Source: Taken from Altenburg and von Drachenfels, (2008).

Industrial zones, EPZ and similar mechanisms to help attract FDI. The formation of SEZ seeks to lure FDI investors into starting businesses in specific sectors. In East Asia, industrial zones and EPZ have been instrumental for foreign investors to overcome bureaucratic red tape and enhance access to land and infrastructure; they have played important roles in the early stages of opening up the economy, but have become steadily less important over time. A significant contribution to industrialization has been their use as models for dealing with industrial investors whose practices then spread to the rest of the country (Perkins and Tu Anh, 2010). In effect, the experiences of Taiwan, the Republic of Korea and much of coastal China indicate that “success is achieved when the whole economy becomes an industrial or export processing zone and investors can locate their enterprises near their markets, their sources of supply of labor, or near their sources of intermediate inputs, rather than being confined to these zones.” (Perkins and Tu Anh, 2010:24).

In the case of Viet Nam, Perkins and Tu Anh (2010) document the contribution of industrial zones as a favoured mechanism for dealing with land allocation. As of August 2007, there were 114 established industrial zones (IZs), with 71 more under construction, three EPZs, two high-technology zones (HTZs) and nine economic zones (EZs). Taken together, these different industrial zones occupied approximately a 0.67 per cent of Viet Nam’s total land area, 33 million hectares. These zones supply infrastructure and land as well as other forms of support often not available for domestic private firms. In fact, domestic private firms make rather limited use of the industrial zones; while they often lack the necessary scale to make them attractive to industrial zone developers, they usually find other ways to deal with local authorities to get a hold of the small units of land they require (Perkins and Tu Anh, 2010).

8. Technology market

Standards certification helps ensure that the products offered by new firms meet minimum levels of quality and market acceptability. The Kenya Bureau of Standards (EBS) certified 30 new firms throughout 2013 to various ISO management systems in order to improve the processes and productivity of the certified organizations, thus assisting them to meet market requirements (MIED, 2014).

In Nigeria, the NIRP is expected to facilitate the development and implementation of a National Quality Policy to:

- establish an appropriate framework for the development and publication of national standards
- expand the use of accreditations in regulation by local industries

- establish conformity assessments service providers in the public and private sector, and
- provide a national quality promotion strategy (MIED, 2013).

The promotion of technology-based start-ups is emerging as part of strategies to promote innovation, employment and entrepreneurship. Little information exists about start-up creation in developing countries and how start-ups are being supported by public policy (OECD, 2015, 2013). In the case of Latin America, the available information stems mostly from programmes in support of start-ups in advanced middle-income countries such as Brazil, Chile, Colombia or Mexico; distinct approaches and support mechanisms exist for this segment of firms (Crespi et al., 2014; OECD, 2015, 2013).

However, some recent efforts to adopt enhanced innovation policies—which in themselves represent major progress from a policy perspective—include support to start-ups from low and lower-middle income economies. For example, El Salvador has initiated a programme to support business incubators and accelerators with an emphasis on contributing to employment creation (Ministerio de Economía, 2011). Based on the Latin American experience, the OECD (2013) concludes that support for start-ups varies by country depending on institutional and regional structure, and on the level of development of the science and technology and production systems; each country has adopted a different policy mix. Start-up promotion includes programmes related to incubators, technology parks, angel investor networks and training institutions.

In the case of Nigeria, UNECA (2001) asserts that in spite of the multiple efforts carried out by the government and some multilateral agencies in the area of support services for SMEs, for example, technology and skills development, the results have been somewhat disappointing. These efforts have been misdirected, inadequately implemented or poorly funded. For instance, while the Working-For-Yourself Programme (WFY) proved to be useful to promote start-ups, performance in terms of follow-ups and survival rates was weak.

Incubation programmes in support of technology-based firms show mixed results. Stevenson (2010) argues that notwithstanding the presence of numerous science and technology parks, technology and innovation centres and incubators across the Middle East and Developing Africa region (MEDA), they are weak in terms of management budgets, finance for start-ups, venture capital infrastructure and links to FDI. For example, in Iraq, the Ministry of Industry and Minerals (MIM) is responsible for implementing industry development strategies in coordination with the private sector and the ‘mixed’ sector; some concrete interventions include the establishment of industrial and technology incubators and industrial clusters to foster the

creation of SMEs (Stevenson, 2010). To a large extent, the implementation of policies to promote the development of industrial activities relies strongly on donor funding, particularly from USAID; moreover, while implementation is heavily the responsibility of NGOs, there is no evidence of a high level national SME strategy. In Morocco, at least 12 incubators are networked throughout the country to support start-ups, including with financial support for incubator-hosted projects; a number of these incubators is associated with higher education institutions and funded by the Ministry of Higher Education and the MICNT (Stevenson, 2010).

UNCTAD (2011:14) documents that India established the TREC-STEP at the Regional Engineering College of Tiruchirappalli in 1986. TREC-STEP was the first entrepreneurs' park in the country. "Since then, it has been working to promote firms and entrepreneurs, in particular those venturing into technology-based fields and business growth. TREC-STEP is the part of a national initiative to develop knowledge-based enterprises that can positively affect the lives of young scientists and technologists, and improve the cooperation between educational institutions and emerging entrepreneurs. TREC-STEP supports innovation, science and technology and entrepreneurship through training, development and consultancy initiatives. Apart from cooperation with firms, TREC-STEP is evolving cooperation with other business incubators, and has engaged UNIDO and UNDP in project activities."

Attraction of FDI for the technological upgrade of the local productive structure.

According to Stevenson (2010), the largest share of technological FDI in MEDA between 2003 and 2005 targeted Morocco, Algeria, Turkey and Tunisia. Those FDI flows included the creation of R&D centres, opening of subsidiary locations of large technology-oriented firms, takeovers, acquisition of start-ups, partnerships, joint ventures and call centres (AFII-ANIMA, 2005).

9. Discussion and conclusions

This paper has documented both the revival of industrial policy and of the interest to enhance the contribution of industrialization to the development of low and lower-middle income countries. This renewed interest reminds us of the many promises an industrialization-led development strategy can bring in terms of productivity and economic growth, labour upskilling and employment, among others. However, many years of accumulated empirical experience on economic development tell us that such a strategy is easier said than done; as Robert Wades would argue, over the last 200 years or so, only a handful of non-Western economies, namely Japan, the Russian Federation, the Republic of Korea, Taiwan (ROC), Singapore, Hong Kong,

SAR and Israel, have been able to realize some of the promises of industrialization.⁴ Whereas low and lower-middle income economies would benefit from gleaning lessons from these cases, such knowledge should be used to supplement efforts to learn from their own endeavours and experiences. This paper is a contribution in this direction; it sheds light on some policies intended to expand the base of manufacturing firms in low and lower-middle income economies.

The revival of industrial policy is also a reminder of a number of unaccomplished dues for low and lower-middle income economies. These countries and international development organizations continuously explore new and improved industrial policy interventions that can break the deadlock of industrialization. The findings show that the framework conditions around industrial policy are in need of substantial improvement. Although no single topic was extensively addressed in this paper, we recognize that industrial policy in the countries of interest often takes place in the context of complex, deep-rooted, socio-political tensions and highly volatile social dynamics. This situation results in constant stop-and-go processes as institutions are constantly created and recreated, leaving them very limited space, resources and opportunities to set up the appropriate conditions for industrialization. As Noman (2015) argues, there are lessons to be learned, even in countries with varying degrees of complex political circumstances. The challenge is to identify the islands of success that illustrate possible pathways towards industrialization.

Challenges related to poorly developed market institutions and to economic structures that heavily rely on agriculture and informal economic activities, cultivate a continuous interest in market reforms and an insistence on the need to create market conditions and institutions suitable for an entrepreneurial class to emerge and thrive. However, while there is evidence that policy reforms have had some positive impact on the creation of framework conditions for industrialization—provided these are of sufficient scale (CIPE, 2014; Klapper and Love, 2010)—significant gaps remain in our understanding of the distinct effects that can be associated with such reforms (CIPE, 2014). This paper discusses some recent studies on reforms of business registration (CIPE, 2014; Klapper and Love, 2010).

Our review tends to concur with those studies that decry the generality of policy reforms inspired by the EoDB framework, which makes it difficult to single out policy interventions specifically tailored to address the needs of (new) manufacturing firms (Page, 2014). The creation of manufacturing firms is an objective subsumed among many other industrial policy

⁴ You Tube Interview, “Rethinking the role of the State.” 10’20. <https://www.youtube.com/watch?v=TaxdPb6LZZY>. Last accessed on 9 January 2016.

goals. Moreover, there is the always latent risk that developing countries will tend to emulate the type of instruments commonly found in more advanced countries, seeking to improve their position in international league tables. The shortcoming is that those approaches to industrialization are, for many reasons, insufficiently coordinated with other policy instances so as to allow (policy) authorities to simultaneously address different kinds of market failures. Arguably, this topic has insufficiently permeated the agenda of policymakers in the countries of interest.

This paper concludes that notwithstanding the strong emphasis placed on industrialization, the implementation of ambitious industrial development plans—often crafted with the assistance of foreign development partners—remains a serious shortcoming in low and lower-middle income countries. While specialized institutions responsible for policy implementation are not always in place, the experience and capabilities to do so differ significantly across the board. It is clear, however, that some of the main barriers to industrialization are well understood, at least at a conceptual level, under the notion of market failures discussed in the literature. We have documented some persistent bottlenecks that affect the markets for capital, land, technology, products and labour in low and lower-middle income economies, and that give rise to significant barriers for the creation of manufacturing firms in those countries. The responses to some of these challenges seem to include a number of positive elements, as summarized in Table 10

. The table lists some of the instruments identified in our review, organized according to the specific market failure they seek to address. The table also identifies some countries in which some evidence was found about the usefulness of each specific intervention, albeit with different levels of detail.

Our findings suggest that the issue of policies to support the creation of new manufacturing firms has received limited attention in the literature on low and lower-middle income countries. And yet, building on the available evidence, it is possible to conclude that policy interventions remain essentially supply-driven. In addition to macroeconomic and regulatory reforms, policy interventions seek to redress incentives for the creation and growth of SMEs, as well as the promotion of entrepreneurial spirits and self-employment among different societal groups. The drawback is that plans often depend on external funding or provide very general incentives without recognizing any possible differences in the challenges and needs of services and manufacturing firms. By contrast, evidence on interventions designed to work from the demand side, for example, to boost demand for products offered by newly created firms, remains quite modest. Moreover, evidence on the packaging of industrial policies that systematically combine

supply- and demand-oriented interventions is at a very early stage of development in both policy practice and the specialized literature.

Although industrial policy authorities in low and lower-middle income countries acknowledge that the building of technological capabilities is a crucial factor for industrialization, it is a factor that receives very loose attention by policymakers (Ekpo, 2014). Based on the Nigerian experience, Ekpo (2014) notes that it was only after 1975 that the Nigerian government started to realize the need to consciously pursue the development of technological capability; but when it did, it did so rather loosely only. Efforts from a supply-driven perspective are remarkable; technical colleges, polytechnics and universities of technology have been established, and students have been encouraged to participate in science- and technology-related subjects/courses. Still, practical hands-on teaching approaches are lacking, while research and teaching facilities are poorly equipped. These limitations result in poor capacities to absorb and generate technologies that are useful for the private business sector. This review corroborates that remedial strategies around the building of technological capabilities for industrialization are at a very early stage in low and lower-middle income countries.

Table 10 Instruments to promote the creation of manufacturing firms in low and lower-middle income countries by policy domain and orientation of the instrument

Policy instrument	Policy domain / locus of market failure				
	Product	Labour	Capital	Land	Technology
	Supply-driven (supply push)				
Creation or restructuring of government organizations responsible for industrial policy	Sudan, Morocco, Kenya				
Reorganization of parastatals to improve competitive conditions in local markets	Kenya				
Participation in international cooperation mechanisms to reduce and harmonize procedures to open/register new enterprises	OHADA member countries, e.g. Benin, Guinea-Bissau				
Creation of 'country trademarks' to support local entrepreneurs and favour demand for locally produced products	El Salvador				
Modernization of infrastructure and information systems to enhance participation in international trade	Benin, Central African Republic, Guinea				
One-stop-shops to simplify and rationalize the registration of a new enterprise or to formalize an existing enterprise, including adoption of ICTs	Several countries Benin (GUFE)				
Improved customs administration and operation (automation, reduced documentation, modernization of infrastructure)	Benin, Burundi; El Salvador, Republic				

	Policy domain / locus of market failure				
Policy instrument	Product	Labour	Capital	Land	Technology
	of Congo; Madagascar; Mauritania, Rwanda, Sri Lanka, Swaziland; Ukraine, Uzbekistan				
Selective targeting of support to specific industries according to their potential for exports, employment creation and upgrading of agriculture-related activities	Ethiopia, Kenya, Morocco				
Regulatory reforms to improve the business and investment climate: e.g. company laws, competition laws, bankruptcy laws, simplified taxation regimes, decentralization/regionalization of processes to open/close businesses	Several countries				
Promotion of entrepreneurship and self-employment among specific societal groups through business plan competitions (women, youth, rural/urban producers)	El Salvador, Nigeria, Senegal	Kenya, Senegal			
Promotion of business incubators, business accelerators and other mechanisms to support creation or formalization of firms	Kenya, Morocco, El Salvador, Nigeria				
Promotion of local value chains and linkages between SMEs and large firms through supplier-development programmes or triple-helix type of strategies including community involvement	El Salvador, The Philippines				
Start-up support through business incubators or accelerators with	El Salvador,				

	Policy domain / locus of market failure				
Policy instrument	Product	Labour	Capital	Land	Technology
follow up through coaching, training and financial support for young entrepreneurs	Morocco, Senegal				
Promotion of entrepreneurial education in different education systems		Morocco, Nigeria, Senegal			
Human resources development strategy embedded in industrial development plans. Strategy flexible enough to accommodate changes in labour markets, which modify intended targets		Morocco			
Creation or expansion of specialized training centres directly involving firms from priority sectors. Private firms participate in the design and implementation of training programmes		Morocco			
The provision of specialized training through government organizations, education institutions, on-the-job and collaboration with international donors		Kenya, Ethiopia			
Guarantee funds and/or SME development funds processed through commercial banks. These mechanisms can target specific types of SMEs (e.g. high growth potential)			Morocco, Nigeria		
Competitive mechanisms to select promising projects, individual entrepreneurs or firms who will benefit from financial support			El Salvador Morocco, Senegal		
Promoting the development of comprehensive banking services “packaged” for new entrepreneurs, workers and staff of companies			Morocco, Nigeria,		

Policy instrument	Policy domain / locus of market failure				
	Product	Labour	Capital	Land	Technology
located in SEZ. Mechanisms can include PPPs involving commercial banks			Pakistan		
Financial development institutions to improve access to commercial bank loans			Ethiopia, Pakistan		
Risk capital, seed capital and venture capital			Nigeria, North African countries		
Incentives for commercial banks to enhance funding for new ventures			Morocco		
Reduction in paid-in-capital requirements for new limited liability companies			Morocco, Egypt, Benin, Burkina Faso		
Packaging financial support (public, private or PPP) with BDS			Morocco		
Simplified tax systems/ tax waivers for new enterprises, particularly SMEs			Egypt, Ethiopia, Nigeria		
Enhanced tax incentives for firms willing to establish in EPZs or other forms of firm agglomerations			Morocco		

Policy instrument	Policy domain / locus of market failure				
	Product	Labour	Capital	Land	Technology
Adoption of simplified accounting principles for SMEs			Egypt		
Financing mechanisms linked to real estate development in the context of EPZs or other industrial agglomerations			Morocco		
Microcredit and microfinance instruments, including provisions that oblige domestic banks to allocate a minimum amount of capital to these instruments			MENA countries		
Matching grants with support from development partners targeting SMEs. Funding can include technical assistance, the provision of training and other BDS			Mozambique		
Development of real estate markets for agglomeration of firms including clusters, industrial parks, science parks and others				Various countries	
PPPs as a mechanism to underpin the development of SEZs, Industrial and Science Parks, industrial clusters and incubators				Kenya, Morocco	
Property titling to enable the use of land as collateral to obtain formal bank credit				Côte d'Ivoire, Kenya, Liberia	
Development of land for industrial use through Build-Operate-Transfer or Build-Own-Transfer (BOT) mechanisms, corporatization, lease and/or management contracts and concessions				Kenya, Ethiopia	
Support the creation of producer organizations/entrepreneur				Kenya	

	Policy domain / locus of market failure				
Policy instrument	Product	Labour	Capital	Land	Technology
networks that help link government and informal market producers and small-scale entrepreneurs					
Development of industrial corridors				Cambodia	
Promotion of technology parks to attract foreign firms as a mechanism for technology transfer					Morocco, Tanzania, Zambia
Development of specialized, regional technology transfer centres or innovation facilities intended to support technology-based start-ups					Egypt
Participation in international cooperation mechanisms to set standards and norms, and to obtain technical assistance for the modernization/upgrading of domestic firms					MENA countries
Certification of standards, including quality of products and the firm's level of technological and managerial capabilities					MENA countries
	Demand-driven (demand pull)				
Adoption of free-trade agreements to boost external demand for domestic firms	Mediterranean countries				
	Supply-demand mixes				
Human resources development plans—training and education—linked to subsidies or government allowances to partially recover training expenditures by private firms in strategic sectors, or to		Morocco			

	Policy domain / locus of market failure				
Policy instrument	Product	Labour	Capital	Land	Technology
incentivize the hiring of new graduates in specific fields					
Promotion of entry into venture capital markets by private investors, accompanied by programmes to support the development of technology-based firms that would require support from venture capitalists			Nigeria		

Source: Author.

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Annex 1 Low and lower-middle income countries according to the World Bank classification, 2013

Low-income economies (USD 1,045 or less)		
Afghanistan	Gambia, The	Niger
Benin	Guinea	Rwanda
Burkina Faso	Guinea-Bissau	Sierra Leone
Burundi	Haiti	Somalia
Cambodia	Korea, Dem Rep.	South Sudan
Central African Republic	Liberia	Tanzania
Chad	Madagascar	Togo
Comoros	Malawi	Uganda
Congo, Dem. Rep	Mali	Zimbabwe
Eritrea	Mozambique	
Ethiopia	Nepal	
Lower-middle-income economies (USD 1,046 to USD 4,125)		
Armenia	Indonesia	Samoa
Bangladesh	Kenya	São Tomé and Príncipe
Bhutan	Kiribati	Senegal
Bolivia	Kosovo	Solomon Islands
Cabo Verde	Kyrgyz Republic	Sri Lanka
Cameroon	Lao PDR	Sudan
Congo, Rep.	Lesotho	Swaziland
Côte d'Ivoire	Mauritania	Syrian Arab Republic
Djibouti	Micronesia, Fed. Sts.	Tajikistan
Egypt, Arab Rep.	Moldova	Timor-Leste
El Salvador	Morocco	Ukraine
Georgia	Myanmar	Uzbekistan
Ghana	Nicaragua	Vanuatu
Guatemala	Nigeria	Vietnam
Guyana	Pakistan	West Bank and Gaza
Honduras	Papua New Guinea	Yemen, Rep.
India	Philippines	Zambia

Source: World Bank (2013).

Annex 2 Inventory of documents consulted as part of the literature review and web scan for policy instruments used to promote the creation of new manufacturing firms in low and lower-middle income countries

Type of document	Number consulted
Scholarly literature	78
Industrial development plan or related	89
Policy brief	4
Report international organization	20
NGO document	5
Private foundation document	4
Total	200

Source: Author.

Annex 3 Results from the web scan of government sites from organizations responsible for industrial policy and related activities in low and lower-middle income economies

Country	Government organization	Website
Benin	Ministère de l'Industrie, du Commerce, des Petites et Moyennes entreprises	http://www.micpme.bj/
	Guichet Unique de Formalisation des Entreprises (GUFÉ)	http://www.gufebenin.org/
Bolivia	Ministerio de desarrollo productivo y Economía Plural	http://www.produccion.gob.bo/
El Salvador	Ministry of Economy	www.minec.gob.sv
	Programa Desarrollo de Proveedores El Salvador (PDP/PNUD-CCIE).	www.pdp.com.sv
	Dirección de Encadenamientos Productivos EP/MINEC	www.minec.gob.sv
Ethiopia	Development Bank of Ethiopia	http://www.dbe.com.et/home/
	The Embassy of Ethiopia in China. Horticulture and Floriculture Industry: Ethiopia's Comparative Advantage	http://www.ethiopiaemb.org.cn/bulletin/05-1/003.htm
Kenya	Ministry of Industrialization and Enterprise Development	http://www.industrialization.go.ke/
Morocco	MarocPME	http://candidature.marocpme.ma/
	Moroccan Investment Development Agency	http://www.invest.gov.ma/?Id=1&lang=en
	Ministère de l'Industrie, du Commerce, de l'Investissement et de l'Economie numérique	http://www.mcinet.gov.ma/Pages/default.aspx
	Pacte National pour l'Emergence Industrielle, 2009-2015, Morocco	http://www.emergence.gov.ma/en/Pages/Emergence.aspx
	Invest in Morocco	http://www.invest.gov.ma/?Id=23&lang=en
Republic of Sudan	Ministry of Industry	http://industry.gov.sd/ennn/main/prog.htm

Source: Author.



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