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Africa Economic Update

Making Industrial Policy Work in Africa

WORLD BANK GROUP

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Executive Summary

Sub-Saharan Africa's Recovery Holds, but the Risks Are Rising

- Economic growth in Sub-Saharan Africa is projected to remain at 4.1 percent in 2026, unchanged from 2025, but downside risks are increasing. The region's recovery from successive global shocks is losing steam, with growth projections for 2026 revised downward by 0.3 percentage point from forecasts previously published in the October 2025 edition of *Africa's Pulse*.
- Domestic demand continues to underpin growth, supported by private consumption and investment amid accommodative monetary policy and improving external conditions. A weaker U.S. dollar has eased inflationary pressures and increased household incomes across countries in the region. Meanwhile, high prices for precious metals and beverages (coffee and cocoa) boosted revenues in 2025 and are expected to further strengthen fiscal and external positions in resource-rich countries this year.
- Rising geopolitical spillovers from the Middle East, coupled with heavy debt-service burdens and deep-seated structural weaknesses, are eroding growth prospects and stalling job creation. These risks have intensified since February 28, when the conflict in the Middle East rapidly escalated, including direct attacks on energy production facilities and severe disruption to shipping through the Strait of Hormuz. The severity of the conflict's impact on Sub-Saharan Africa will depend on the duration of hostilities, the scope of the conflict's regional spillovers, and the level of damage to critical infrastructure. The effects are expected to be transmitted predominantly through four channels: trade, investment, financial markets, and labor.
- The conflict in the Middle East will affect the region primarily through the trade channel, notably via heightened volatility in global energy markets. Prices of Brent crude oil and liquefied natural gas have risen sharply, while fertilizer prices have also increased amid disruption to shipments through the Strait of Hormuz. These developments threaten both current and future planting seasons, potentially exacerbating food insecurity. Disruptions to domestic food production and rising food import costs are likely to translate into higher food prices. Combined with increased fuel costs, these pressures are expected to increase inflation—particularly in oil-importing countries—potentially prompting central banks to tighten monetary policy.
- In recent years, Gulf countries have emerged as significant investors across Africa, with greenfield foreign direct investment commitments in Sub-Saharan Africa exceeding US$100 billion in 2022–23 alone. The ongoing conflict risks slowing down this momentum, as sovereign wealth funds reassess exposure and investment priorities, potentially delaying large-scale projects in energy (including hydrogen, solar, and wind projects), infrastructure (ports, warehouses and data centers), logistics, mining, and agriculture. The conflict has also increased risks to remittance flows, a critical lifeline for many African households—particularly in highly remittance-dependent countries such as the Comoros, The Gambia, Lesotho, and Liberia. A prolonged conflict could further reduce inflows as weaker labor demand, slower hiring, and rising repatriations affect sectors such as hospitality and construction.

- The conflict in the Middle East is evolving into a combined energy and food shock for African countries, at a time when governments are already constrained by rising debt-service obligations, limiting their capacity to respond to the crisis or finance development priorities. At the same time, declining external financing—particularly reduced development assistance—is intensifying pressures, especially for low-income countries. These challenges are unfolding amid heightened global policy uncertainty, escalating trade tensions, and the risk of abrupt tightening of global financial conditions, including higher risk premiums. Together, these external shocks could weaken export performance and further constrain access to financing.
- Sub-Saharan African governments' responses to the energy price shock have varied according to their fiscal space and reliance on fuel imports. Some countries have cushioned consumers by reducing or repurposing fuel levies and stabilization funds (Kenya and Namibia) or introducing emergency fuel subsidies (Ethiopia), while others with limited fiscal room have raised regulated fuel prices or caps (Ghana, Malawi, Mali, and Tanzania). In countries with little capacity to intervene, fuel prices have surged sharply (Somalia and Zimbabwe). As untargeted fuel subsidies are regressive and difficult to unwind, a more effective response is to scale up targeted and temporary social protection, repurposing subsidy resources to strengthen shock preparedness and response while enabling rapid, scalable support—including short-term measures to improve access to employment, particularly in rural agricultural value chains.

The Widening Inflation Slowdown in Africa Confronts Rising Geopolitical Shock Risks

- Prior to the conflict, inflation was declining across an increasing number of Sub-Saharan African countries, but the pace of disinflation varied widely. The median rate of inflation in the region dropped from 4.4 percent in 2024 to 3.7 percent in 2025. Inflation is projected to rise to 4.8 percent in 2026—driven largely by the anticipated effects of the conflict in the Middle East—before easing to about 3.8 percent over the 2027–28 forecast horizon. Roughly 70 percent of Sub-Saharan African economies (33 of 47) experienced an inflation slowdown in 2025.
- This period of declining inflation was aided by declining global fuel and food prices, improved external balances, stronger and more-stable currencies, and tighter monetary policy. Prior to the current conflict in the Middle East, international food and fuel prices continued trending down in 2025, thanks to positive supply expansion. African currency gains have reflected improved (global and domestic) financial conditions, higher Forex inflows due to market reforms, rising export earnings from favorable commodity prices (particularly metals and minerals and beverages), and a weaker U.S. dollar. The slowdown of inflation in countries such as Angola, Ethiopia, Ghana, and Nigeria has created room for further monetary policy easing. However, upside risks to inflation remain—global uncertainty, higher fuel and food prices as well as a stronger dollar stemming from conflict in the Middle East, and domestic fiscal slippage could reignite inflationary pressures and slow, or even reverse, the normalization of monetary policy.

Fiscal Consolidation Advances, but Debt Burdens and Service Pressures Remain High

- Primary fiscal deficits in Sub-Saharan Africa are projected to be near balance by 2026–28, following gradual improvements since 2021. Government efforts to align revenues more closely with primary expenditures continue. The regional primary deficit declined from a

peak of 3.2 percent of gross domestic product (GDP) in 2020 to a projected 0.7 percent of GDP in 2025, and a balanced fiscal account is expected in 2026. Between 2024 and 2026, more than 60 percent of the region's countries are expected to record improvements in their primary balances.

- Despite this progress in balancing revenues and expenditures, the overall deficit remains elevated due to persistently high net interest payments on the public debt. Mounting interest payments exceed public spending on health or education in four out of five African countries. The budget deficit is projected to decline from 5.6 percent in 2020 to 3.5 percent in 2026, and to narrow further to 3.1 percent in 2027–28. Interest payments on public debt are projected to fluctuate between 2.9 and 3.2 percent of GDP over 2023–26.
- Public debt ratios in Sub-Saharan Africa are beginning to stabilize after a decade of rapid accumulation, but vulnerabilities remain high. The region is currently facing an environment characterized by the challenge of managing large existing debt stocks—and reduced disbursements—amid tighter financing conditions, rising repayment pressures, and higher risk of external shocks.
- External debt service pressures are rising sharply despite stabilizing stocks. External public debt service-to-revenue is projected to increase from 15.4 percent in 2024 to about 18.2 percent in 2025. The region faces a surge in amortizations, with principal repayments jumping from US$37 billion in 2024 to US$59.2 billion in 2025 due to maturing commercial bank loans, higher bond redemptions, and the resumption of payments under restructurings. Repayments are projected to stabilize at an elevated amount of US$47 billion to US$50 billion annually over 2026–28.
- Debt vulnerabilities remain historically high, reflecting containment—not resolution—of pressures that began during the COVID-19 pandemic and the subsequent global monetary policy tightening cycle. By the end of 2025, roughly half the countries in the region (25 of 48) were classified as being at high risk of debt distress or already in distress—with low-income and lower-middle-income countries accounting for 22 of the 25 countries. This underscores the limited resilience of the region's poorest economies.

UNLOCKING AFRICA'S STRUCTURAL TRANSFORMATION THROUGH STRONGER ECOSYSTEMS AND SMARTER INDUSTRIAL POLICY

- Despite an improved outlook, growth in Sub-Saharan Africa remains too low to reduce poverty or create jobs at scale. With more than 620 million people entering the labor force by 2050, meeting the region's fast-rising demand for jobs requires much higher growth, especially in agribusiness, health, value-added manufacturing, tourism, and energy infrastructure. Most new workers continue to enter low-productivity informal jobs, while wage employment remains limited. Large-scale job creation will depend on lowering the cost of doing business so firms can expand and new high-growth enterprises can emerge. This, in turn, requires addressing foundational constraints by improving infrastructure and skills, strengthening the business environment, and mobilizing private investment.

- Medium-term prospects remain constrained by chronically low investment rates, with no countries exceeding the 25 percent of GDP threshold associated with long-term growth. Limited physical capital deepening is exacerbated by insufficient skills development and capabilities. Similarly, slow diffusion of existing technologies into production continues to suppress productivity gains, further limiting the ability to create jobs and reduce extreme poverty. These structural shortcomings feed the region's recurring episodes of start-stop growth, underscoring the urgency of sustaining economic expansion. The need for a deliberate strategy to change this cycle has renewed interest in industrial policy as a tool to accelerate transformation, boost productivity, and position countries to benefit from emerging technologies such as artificial intelligence and renewable energy solutions.
- Getting industrial policies right in Africa comes with a large premium, as the region stands at a pivotal moment when the right policies can harness global trends and translate them into transformative growth. Well-designed industrial policies—grounded in a realistic understanding of opportunities and constraints, focused on sectors with strong learning potential, and executed through capable institutions—can unlock scale economies, attract private investment, and reallocate firms and workers to higher-productivity activities.

Africa's Industrial Policy Toolkit Reflects Constraints More Than Choice

- Africa's use of industrial policy has accelerated since 2010, mirroring the global surge in protective interventionism. What sets Africa's industrial policy apart is the dominance of trade-related border measures—tariffs, export controls, and local content rules—in its toolkit. This mix reflects governments' attempts to operate under three structural constraints: tight fiscal space that rules out subsidy-based support; weak administrative capacity that limits the use of performance-based instruments; and small, fragmented markets that prevent firms from scaling behind protection. These constraints create a *selection gap* between recommended instruments and those that are actually feasible. Closing this gap requires strengthening the underlying foundations of what is feasible in the first place—building administrative capability, expanding fiscal space, and deepening regional integration. With stronger foundations, governments can use more effective and sustained policy tools to address market failures, mobilize private investment, and foster the structural change needed to raise living standards across the region.
- Policy effectiveness, hence, hinges on two priorities. First, countries must invest in the foundational ecosystems that enable structural transformation—reliable infrastructure, skilled labor and technical capabilities, deeper financial markets with access to long-term capital, and strong quality standards systems. Second, industrial policy should target sectors that align with existing and potential capabilities.

The Architecture of Implementation: Why Africa's Industrial Ambitions Fall Short

- African countries often articulate strong industrial ambitions, but these may not translate into export diversification, productivity gains, or jobs because delivery and monitoring systems are weak. A comparison of national development plans and actual export structures shows that the gap between policy targets and actual outcomes, or the policy-outcome gap, is widest where implementation architecture is weakest. While most plans identify priority sectors, few link them to specific instruments, financing flows, responsible agencies, and measurable

milestones. Sector choice alone does not explain the divergent results: countries with similar priorities achieve very different outcomes. What matters is architecture—instrument specificity allows for enforceable performance conditions, clear delivery mandates provide operational autonomy and accountability to relevant agencies, and credible monitoring is a prerequisite for governance frameworks capable of ending a policy intervention when it has run its course. Where the selection gap was narrowed, such as in Mauritius for textiles, and in Rwanda for horticulture, governments have deployed instruments with enforceable performance conditions, delivery vehicles with operational autonomy, and governance frameworks capable of credible exit.

- Three implementation "gaps" explain why Africa's industrial policy efforts often fall short of structural transformation. The *selection gap* reflects the mismatch between the instruments that theory recommends and those that countries can realistically deploy given fiscal, administrative, and market constraints. The *dosage gap* arises when support is too small and too short-lived to generate the learning needed for productivity growth—unlike the large-scale interventions seen in East Asia. The *complementarity gap* emerges when policies are applied in ecosystems that lack reliable power, logistics, skills, financial depth, and quality certification infrastructure, yielding isolated enclaves rather than structural change. These gaps are mutually reinforcing as progress on one without advances on the others does not improve outcomes. Addressing these gaps jointly is essential; otherwise, even bold industrial policy efforts will falter at implementation.

From Instruments to Ecosystems: A Practical Approach to Sector Selection

- These implementation gaps directly shape how individual instruments perform in practice. The same instrument can yield very different outcomes depending on whether a supportive ecosystem is in place. Ethiopia's Hawassa Industrial Park—employing 25,000 workers and generating US$240 million in annual export revenues by 2019—succeeded because the government invested upfront in power, roads, and workforce training *before* approaching investors. By contrast, Nigeria's Calabar Free Trade Zone, anchored by a port that was never dredged, never filled more than a quarter of its capacity, underscoring how missing complementary inputs can undermine even well-designed instruments.
- From these contrasts, three principles emerge. First, ecosystem investments must come before the deployment of headline industrial policy instruments. Second, choices about instruments and sectors should reflect the ecosystem that actually exists, rather than the one envisioned in national development plans. Third, the policy package, rather than any individual instrument, should be treated as the core unit of implementation, requiring a delivery mechanism with the mandate to manage all the binding complementarities simultaneously.
- Building on this logic, sector targeting requires tools that help governments identify opportunities that are consistent with existing capabilities. The product space framework offers a practical, evidence-based method for doing so. By combining revealed comparative advantages with measures of product proximity and economic complexity, the framework helps governments identify sectors that build existing capabilities at scale. Governments do not need to pick the winning product; they need to identify the right neighborhood of capabilities and lower the cost of private sector discovery across that neighborhood.

Viable Pathways for Resource-Driven Industrialization in Africa

- Downstream processing can provide a viable industrialization pathway for resource-rich economies—but only when two conditions hold: sufficient global market power that limits buyers' ability to substitute, and a domestic ecosystem capable of supporting competitive processing. Indonesia's nickel export ban catalyzed a large processing sector precisely because both conditions were met. By contrast, applying the same policy to bauxite—where Indonesia lacked market power and China could easily source elsewhere—permanently eroded Indonesia's export position. Therefore, export restrictions are not general-purpose instruments; instead, they are high-stakes bets that succeed only under specific market and ecosystem conditions.
- Against this backdrop, Africa's Lobito Corridor and Guinea's Simandou railway offer genuine physical preconditions for resource-based industrialization at a regional scale. Whether these investments become catalysts for transformation or simply reproduce the enclave model will depend on the policy architecture built around them.

Incentive Design, Performance Discipline, and Rules-Based Exit

- Industrial policy creates rents, and rents invite capture. This makes governance design essential before any instruments are deployed. Two choices are particularly critical. First, support should target activities rather than individual firms. Sector-level interventions should maintain competitive pressure and preserve exit options. Nigeria's cement industry—protected across multiple policy cycles while domestic retail prices remained 27–76 percent above regional comparators—illustrates how firm-specific targeting can entrench incumbents and prolong efficiency losses.
- A second design choice relates to the way in which support is continued or withdrawn over time. Continuation and exit decisions must be anchored in learning metrics rather than activity metrics. Monitoring a subsidy by the volume of disbursements reveals nothing about whether supported firms are becoming more competitive. Three mechanisms further strengthen the credibility of sunset provisions: rules-based criteria for extensions, co-financing requirements that align firm incentives with performance, and multilateralization through the African Continental Free Trade Area (AfCFTA) subsidy-discipline protocols. These mechanisms raise the political cost of unilateral extensions beyond what domestic sunset clauses alone can deliver.
- Overall, ecosystem investments must be paired with well-designed policy instruments. Effective tools target activities rather than firms, provide time-bound support tied to learning and performance, and include credible exit strategies. Overall, the region's industrial policy agenda should emphasize building complementary ecosystems and deploying disciplined, capability-enhancing instruments that foster broad-based structural transformation—rather than creating narrow enclaves with limited spillovers.

Matching Country Archetypes to Feasible Industrial Policy Instruments

- This *Africa Economic Update* introduces a six-dimension diagnostic that maps African countries into six industrial policy archetypes, each associated with a distinct configuration of policy instruments. The feasibility dimensions—fiscal space, implementation capacity, and market scale—define which instruments are viable and sustainable. The effectiveness dimensions—ecosystem readiness, product-space position, and resource endowment—identify which among those viable instruments will generate the strongest learning effects. Using this framework, the tool isolates the binding constraint(s) and recommends the appropriate instrument tier and priority investments that promise the highest marginal return.
- Applying these six dimensions to Sub-Saharan Africa yields six distinct implementation contexts, each requiring a differentiated package of industrial policy instruments (archetypes). "Frontier builders" must prioritize trade facilitation and regulatory reform before deploying any incentives. "Capable constrained" economies should leverage institutional strength through rules-based special economic zones and robust quality infrastructure systems. "Resource pathway" countries have mineral entry points but ecosystem gaps that limit their feasible instruments. "Large market transformers" can sustain bundled industrial parks and conditional production subsidies. "Diversified industrializers" face the twin challenges of deepening global value chain integration while avoiding premature deindustrialization. "Corridor anchors" (for example, the Lobito Corridor spanning Angola–Democratic Republic of Congo–Zambia) require multi-country instrument design, reflecting the fact that the corridor—rather than any individual country—is the relevant unit of analysis.
- These archetypes, however, are not permanent. The most effective industrial policy investments are often those that remove the binding constraint preventing countries from moving to the next tier of feasible instruments. In this sense, deepening regional integration under the AfCFTA is an advantageous first step in most scenarios: by expanding market scale without requiring fiscal transfers, it shifts entire categories of instruments from infeasible to viable. The sequencing follows naturally from the diagnostic: identify the binding constraint, invest in removing it, and let the appropriate instrument tier emerge from the expanded feasible set.

Section 1. Recent Developments and Outlook

1.1 GROWTH OUTLOOK IN SUB-SAHARAN AFRICA

Sub-Saharan Africa's recovery from successive global shocks is losing momentum in 2026. Rising geopolitical risks related to the conflict in the Middle East, together with mounting debt service burdens and long-standing structural weaknesses, are weighing on economic activity. Regional gross domestic product (GDP) growth is projected at 4.1 percent in 2026, unchanged from 2025, but downside risks have intensified. Economic growth in 2025 benefited from improved inflation management, ongoing fiscal consolidation, and reforms aimed at enhancing domestic revenue mobilization and strengthening debt management frameworks.

Amid ongoing macroeconomic stabilization efforts, domestic demand continues to underpin economic growth across the region. Private consumption and domestic investment have been buoyed by accommodative monetary policy and improving external conditions, including the depreciation of the U.S. dollar, which has helped ease inflationary pressures. At the same time, elevated commodity prices—especially for precious metals and beverage commodities—strengthened revenues in several African economies in 2025 and are expected to continue to support the fiscal and external balances of resource-abundant countries over the current year.

Downside risks to the growth outlook have risen markedly since the end of February 2026. The conflict in the Middle East has escalated sharply, with direct attacks on energy infrastructure and severe disruptions to shipping through the Strait of Hormuz. The magnitude of the spillovers to Sub-Saharan Africa will depend on the duration of the conflict, the scope of regional transmission channels, and the extent of damage to critical infrastructure. These risks are further amplified by heightened debt vulnerabilities and a contraction in external financing—most notably a reduction in development assistance—placing additional strain on the fiscal positions of low-income countries.

The conflict in the Middle East is expected to affect Sub-Saharan Africa through four main channels: trade, investment, financial markets, and labor. Among these, the trade channel is likely to be the most immediate, operating primarily through heightened volatility in global energy and commodity markets. Prices of Brent crude oil and liquefied natural gas (LNG) have risen sharply, while fertilizer prices have also increased amid disruptions to shipping through the Strait of Hormuz. These developments pose risks to both current and future planting seasons, potentially exacerbating food insecurity across the region. Disruptions to domestic food production and elevated food import costs are likely to result in higher food prices. Coupled with higher fuel prices and a stronger U.S. dollar, these developments are expected to exacerbate inflationary pressures—especially in oil-importing countries—potentially constraining monetary policy and prompting further tightening.

The investment momentum from the Gulf to Sub-Saharan Africa is at risk of slowing amid the ongoing conflict in the Middle East. In recent years, Gulf countries had emerged as significant investors across the continent, with greenfield foreign direct investment commitments in Sub-Saharan Africa exceeding US$100 billion in 2022–23 alone. However, heightened uncertainty is prompting sovereign wealth funds to reassess exposure and investment priorities, potentially delaying or scaling back large-scale projects in energy—including hydrogen, solar, and wind—as well as in infrastructure, logistics, mining, and agriculture. The conflict also poses

risks to remittance flows, a critical source of income for many African households, particularly in highly remittance-dependent countries such as the Comoros, The Gambia, Lesotho, and Liberia. A prolonged conflict could further dampen inflows as weaker labor demand, slower hiring, and rising repatriations affect key sectors in host countries, including hospitality and construction.

Governments across Sub-Saharan Africa are responding to the energy price shock in diverse ways, reflecting differences in fiscal space and reliance on fuel imports. Some countries have sought to cushion consumers by reducing or repurposing fuel levies and stabilization funds—such as in Kenya and Namibia—or by introducing emergency fuel subsidies, as in Ethiopia. By contrast, countries with more limited fiscal room have adjusted regulated fuel prices or caps upward, including Ghana, Malawi, Mali, and Tanzania. In settings with little capacity to intervene, fuel prices have risen sharply, as seen in Somalia and Zimbabwe. Because untargeted fuel subsidies tend to be regressive and difficult to unwind, a more effective policy response would be to scale up targeted and temporary social protection measures. Repurposing subsidy resources toward strengthened shock preparedness and response mechanisms could enable faster and more scalable support, including short-term interventions to improve access to employment—particularly along rural agricultural value chains.

Growth per capita in Sub-Saharan Africa is estimated to have risen to 1.6 percent in 2025, up from 1.0 percent in 2024, and is projected to edge further upward to 2.0 percent in 2026 before stabilizing at 1.9 percent in 2027–28. Nevertheless, the region's recovery from the multiple global shocks that took place over the past decade remains incomplete. Even with the anticipated improvement, the expected pace of per capita income growth is likely to remain insufficient to reduce extreme poverty significantly or absorb the region's rapidly expanding labor force.

Spotlight. Conflict in the Middle East: Economic Implications for Sub-Saharan Africa

Repercussions for Energy Markets and Countries in Sub-Saharan Africa

Conflict in the Middle East has resulted in attacks on energy production infrastructure and a sharp reduction in shipping through the Strait of Hormuz. Disruptions to the transit of goods through this narrow chokepoint have had immediate repercussions for global energy markets. Approximately 38 percent of global seaborne crude oil and about one-fifth of both LNG and refined oil products pass through the strait. The region is also a major producer of ammonia and nitrogen—key inputs in many synthetic fertilizers—and Qatar accounts for 40 percent of global helium production, a critical component in semiconductor manufacturing.[1] In response to the disruptions, Brent crude oil prices rose from the low US$70s per barrel in late February to above US$110 by end-March. European natural gas prices—strongly influenced by developments in the LNG market—registered even faster increases, reaching around €55 per megawatt-hour. Since the start of the conflict, spot prices for Brent crude oil and European natural gas have risen by 67 and 58 percent, respectively.[2]

The impact of rising oil and gas prices in international markets is mixed for African countries. While energy commodity exporters such as Angola, Gabon, Mozambique, Niger, Nigeria,

1 UNCTAD (2026).

2 Percentage changes calculated from Haver Analytics data as of March 31, 2026.

and the Republic of Congo are likely to have greater export earnings (and collect higher government revenues), these benefits are limited by their dependence on imports of refined products (such as gasoline, diesel, liquefied petroleum gas, and aviation fuel). These impacts are compounded among oil importers. This is particularly the case for Eastern and Southern African countries that rely heavily on fuel imports sourced from Gulf Cooperation Council (GCC) countries, with Ethiopia, Kenya, Mozambique, South Africa, Tanzania, and Uganda importing more than half of their petroleum products (excluding crude) from the Middle East.

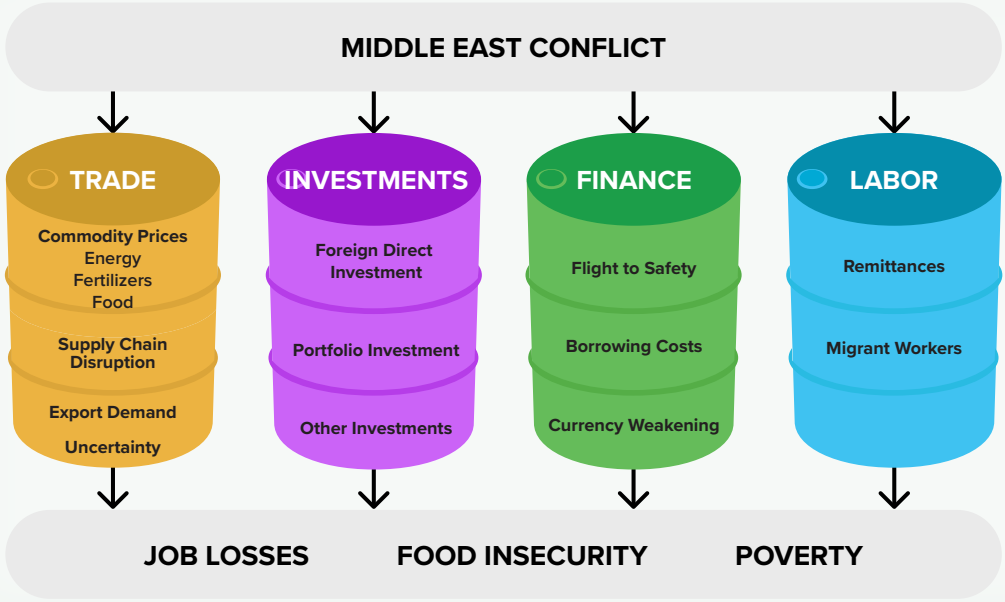
Channels of Transmission

While the severity of impacts related to the conflict in the Middle East on Sub-Saharan Africa will depend on many factors, including the duration of the conflict, impacts are likely to be transmitted through four main channels: trade, investments, finance, and labor (figure 1.1). The trade channel operates through higher commodity prices—particularly for energy products, fertilizers, and food—along with supply chain disruptions and weaker demand for the region's exports due to heightened geopolitical and policy uncertainty. The investments channel includes potential declines in foreign direct investment, portfolio investments in equities and bonds, and other investments. The finance channel operates through heightened global risk aversion, which can induce capital outflows, tighten external and domestic financial conditions, and exert depreciation pressures on domestic currencies. The labor channel reflects possible reductions in remittances and increased employment instability for African migrant workers in GCC countries.

The Trade Channel

Goods trade between GCC countries and Africa exceeds US$120 billion, with Gulf economies primarily exporting hydrocarbons and petrochemicals and importing minerals, gold, and agricultural products from Africa. The conflict has severely disrupted this trade, contributing to

Figure 1.1: The Potential Impact of the Conflict in the Middle East: Channels of Transmission



Source: World Bank.

higher global commodity prices and raising the risk of renewed inflationary pressures that could slow—or even reverse—the region's monetary policy normalization. Rising prices and supply disruptions in global oil markets are also increasing the likelihood of fuel shortages across African economies. Several countries have already responded by adjusting domestic policies, including raising fuel prices (Nigeria and South Africa), relying on fuel subsidies to cushion consumers (Ethiopia), or adopting energy-saving measures such as restrictions on nonessential uses (Mauritius) and fuel rationing (South Sudan).

Rising global fertilizer prices are placing significant pressure on countries in the region, particularly those heavily dependent on imports of urea and phosphate. Countries that rely heavily on fertilizer imports from the Middle East include Sudan (54 percent of total fertilizer imports), Tanzania (31 percent), Somalia (30 percent), and Kenya (26 percent).[3] Supply disruptions are likely to affect the planting season, reduce crop yields, and raise food production costs—thereby increasing staple food prices and heightening food insecurity, with greater adverse impacts on the most vulnerable households. Farmers across the region are already seeking to secure fertilizer supplies ahead of the planting season, especially in West Africa, where fertilizers are critical for commercial crops such as cocoa and cotton. Other countries with high dependence on fertilizer for food production include Kenya, Somalia, and Sudan.

Overall, higher energy, fertilizer, and transportation costs—including freight rates, ship fuel prices, and insurance premiums—are increasing food prices and intensifying cost-of-living pressures, particularly for the most vulnerable. The energy price shock risks turning into a compounded energy and food crisis affecting African countries at a time when their governments face rising debt service costs. The resulting impact of higher domestic food and fuel prices on consumer price inflation could lead to rising interest rates not only at home but also abroad. Higher inflation is likely to erode households' purchasing power, while increases in domestic interest rates may discourage household consumption and dampen domestic investment, ultimately weighing on economic activity. At the same time, higher global interest rates would raise the cost of servicing the debt, constraining governments' fiscal space and limiting their ability to implement measures to mitigate the impact of inflation on consumers.

The Investments Channel

Gulf countries—led by the United Arab Emirates, Saudi Arabia, and Qatar—have become major investors in Africa. They announced 156 projects worth around US$113 billion in greenfield foreign direct investment in the continent in 2022 and 2023 alone.[4] These pledged funds are being channeled primarily into renewable energy (including hydrogen, solar, and wind projects), infrastructure (ports, warehouses, and data centers), logistics, mining, and agriculture. The United Arab Emirates accounts for about US$59.4 billion, with a strong focus on mining (gold as well as critical minerals such as copper, nickel, and cobalt) and logistics to bolster its food and energy security.

Africa's rich mineral resources endowment—including critical minerals and precious metals—has attracted significant investments from Gulf countries seeking to advance their industrial strategies and technological ambitions, particularly in electric vehicles and renewable energy.

3 UNCTAD (2026).

4 Irwin-Hunt (2024), Procopio and Čok (2025).

The United Arab Emirates–based International Holding Company is among the most active partners in African mining, holding a major stake in the Mopani copper mines in Zambia. Saudi Arabia's Public Investment Fund and the state-owned mining company Ma'aden have also expanded their presence through multiple mining deals.

In the agriculture sector, GCC countries' efforts to secure long-term food supplies have spurred a range of investments across Africa—particularly in local agribusiness in West Africa. These investments include the acquisition of agricultural land, expansion of food production, and improvements in infrastructure. The investments also extend to establishing processing facilities and logistical services for both local consumption and exports to the Gulf, with particular emphasis on staple crops and livestock production.

As a result of the conflict, major Gulf economies might review their investment pledges to offset domestic economic shocks.[5] Key projects in energy, ports, and technology may face potential delays or funding reversals. Projects in the planning or early implementation phases are most vulnerable to delays as fiscal priorities shift toward domestic stabilization and defense—for instance, Saudi Arabia's plan for subsea digital connectivity linking Africa to its western coast. Major pledges, including Qatar's investment plans, are being reevaluated to determine if funds need to be redeployed at home. Critical renewable energy projects are less likely to be scaled back due to the region's long-term strategic need for energy diversification.

The Finance Channel

The ongoing conflict has prompted a flight to safety as investors respond to escalating geopolitical tensions, inflationary pressures stemming from higher energy prices, and renewed concerns about regional stability. The adequacy of the Gulf as a safe destination for global capital is being reassessed, particularly following attacks on critical infrastructure such as Dubai International Airport and desalination facilities in Kuwait and Qatar. Investors are shifting portfolios toward assets with strong institutional credibility and deep liquidity—such as the U.S. dollar, Swiss franc, and short-term cash instruments—and away from assets in economies vulnerable to stagflation risks, including many in Africa. This shift may raise country risk spreads and weaken currencies across the region. The scale and persistence of these effects will depend in part on how central banks in advanced economies respond to inflationary pressures arising from the supply shock.[6]

The Labor Channel

Remittances from the Gulf remain a critical lifeline for many African economies—particularly in East Africa—supported by large numbers of migrant workers employed in the construction and service industries. The conflict has heightened risks to these flows, threatening an essential income source for countries such as Kenya, which could face monthly losses of up to US$40 million.[7] As migrant workers' earnings decline, households across Africa are experiencing increased financial strain, especially in countries where remittances account for nearly 20 percent of GDP, including the Comoros, The Gambia, Lesotho, and Liberia. A protracted conflict could further reduce remittance inflows as employment prospects weaken, new hiring slows, and repatriations rise amid contractions in sectors such as hospitality and construction.

5 Severe damage to energy production infrastructure in GCC countries may risk the likelihood of sudden stops.

6 Herszenhorn and Kniazhevich (2026).

7 Institute of Economic Affairs (2026).

Table 1.1: Economic Impact of the Conflict in the Middle East: Readiness Heatmap

Country	Exposure	Vulnerability			Policy space	
	Oil & gas net imports (% of GDP, 2024)	External financing needs (% of GDP, 2025)	Inflation rate (Feb 2026 or latest)	Reserves (months of imports, 2025)	General government gross debt (% of GDP, 2025)	Fiscal balance (% of GDP, 2025)
Mauritania	15.3	11.8	4.8	5.5	42.6	-0.3
Liberia	13.4	9.1	3.1	2.0	52.4	-1.1
Gambia, The	11.6	11.9	6.4	4.2	76.4	-2.8
Mali	11.1	7.2	0.6	1.5	42.3	-2.9
São Tomé and Príncipe	10.4	10.0	9.5	3.1	56.5	-2.5
Burkina Faso	9.6	2.6	0.8	2.2	53.2	-3.7
Lesotho	9.4	12.4	2.7	6.4	50.9	3.0
Mauritius	8.9	96.1	3.6	13.0	88.9	-7.6
Congo, Dem. Rep.	8.6	5.1	2.1	2.4	21.1	-2.9
Zambia	8.2	28.1	7.5	3.1	100.1	-3.8
Namibia	8.0	..	2.4	3.1	71.7	-6.6
Burundi	7.6	10.5	11.4	1.0	67.1	-5.2
Central African Republic	7.2	13.0	0.4	2.4	62.0	-5.6
Guinea	7.0	17.9	4.4	1.4	47.9	-4.1
Botswana	6.9	0.5	4.0	4.2	39.5	-6.5
Eswatini	6.5	3.4	2.3	2.4	44.3	-6.3
Rwanda	5.1	21.0	7.9	3.7	72.4	-3.9
Zimbabwe	5.0	14.5	3.8	0.8	45.6	0.4
Guinea-Bissau	4.9	8.3	-2.8	6.1	75.6	-6.5
Cabo Verde	4.8	16.1	0.6	7.1	99.5	1.0
Madagascar	4.5	9.0	7.2	5.8	52.7	-3.1
Malawi	4.3	16.5	24.1	0.3	92.3	-8.4
Kenya	4.1	7.6	4.2	5.2	68.0	-6.0
Seychelles	4.1	..	0.3	4.2	53.6	-0.8
Senegal	4.0	40.8	0.8	4.4	118.9	-8.1
South Africa	3.8	16.0	3.0	6.7	78.9	-5.5
Uganda	3.5	10.7	2.9	2.7	52.4	-5.7
Côte d'Ivoire	1.9	9.8	1.9	3.5	58.1	-3.0
Sudan	1.8	26.8	56.4	..	128.5	-5.4
Benin	1.7	9.2	-0.1	1.0	56.8	-2.9
Comoros	1.6	4.8	1.6	8.4	25.2	-2.4
Togo	1.6	9.7	0.4	1.4	63.0	-3.5
Ethiopia	1.5	9.0	9.6	1.7	38.6	-1.1
Tanzania	0.2	17.3	3.2	3.9	48.5	-3.4
Ghana	-0.7	0.1	3.3	3.9	56.0	-1.0
Cameroon	-1.1	9.5	3.0	6.8	43.8	-2.2
Mozambique	-3.0	99.7	3.2	2.3	91.4	-4.1
Niger	-3.8	7.5	-10.0	5.9	45.8	-2.9
Chad	-15.1	1.7	-3.1	6.0	30.2	-1.7
Nigeria	-16.5	13.6	15.1	8.1	38.7	-3.1
Angola	-27.0	18.0	13.4	7.1	52.3	-4.1
Congo, Rep.	-33.8	11.1	-0.9	2.5	97.4	0.6
Equatorial Guinea	..	2.4	2.5	1.4	36.3	-0.9
Gabon	..	-21.2	1.5	1.4	81.9	-4.6
Sierra Leone	..	10.9	8.1	2.4	43.4	-4.3
South Sudan	..	..	148.7	2.3	71.9	-6.7
Average	2.6	16.2	5.1	4.0	61.9	-3.5
Median	4.4	10.6	3.1	3.6	54.8	-3.3

Sources: CEPII BACI bilateral trade database; World Economic Outlook, International Monetary Fund; Macroeconomic and Poverty Outlook, World Bank; International Debt Statistics, World Bank; Haver Analytics.

Note: Green, yellow, and red represent high, medium, and low levels of readiness, respectively. Heatmap thresholds are defined using the quartiles of each variable's distribution across the sample of developing countries. Oil and gas exports and imports are measured using Harmonized System (HS) codes 2709 (crude oil), 2710 (refined oil), and 2711 (natural gas) from the Database for International Trade Analysis (BACI). External financing needs are measured by the sum of the current account deficit, short-term external debt, and debt service payments for long-term external debt. The inflation rate is the year-on-year percentage change in the Consumer Price Index in February or the latest available data. GDP = gross domestic product.

Exposure, Vulnerabilities, and Policy Space

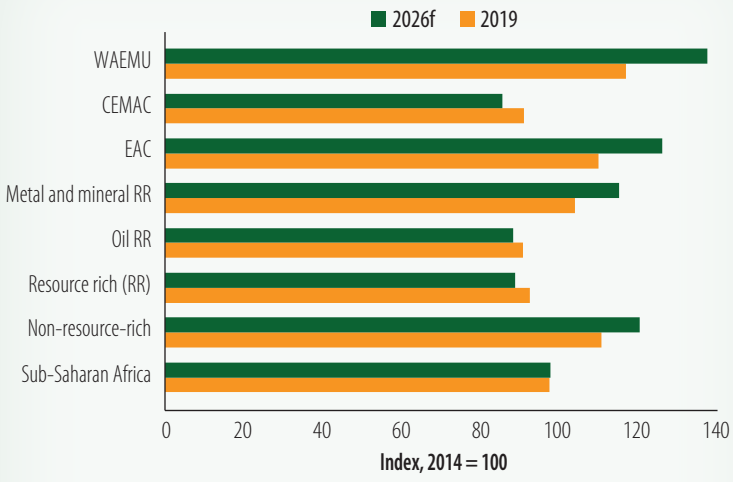
From a policy standpoint, a key question is how prepared African countries are to mitigate the economic repercussions of the conflict in the Middle East. Table 1.1 provides a heatmap that summarizes three dimensions of countries' readiness: exposure, vulnerability, and policy space for responding to the likely and ongoing impacts of the conflict. Exposure captures the degree of dependence on oil and gas imports—including crude oil, refined petroleum products, and natural gas. Vulnerability reflects the underlying macroeconomic conditions that could cushion or intensify the effects of an energy price shock. Policy space measures the government's capacity to implement measures that soften the economic fallout from the conflict.

The heatmap reveals substantial variation in readiness across countries in the region along all three dimensions. More than 60 percent of the countries exhibit medium or high exposure to oil and gas imports. Roughly half face sizable external financing constraints, with external financing needs exceeding 10 percent of GDP and foreign exchange reserves covering less than three months of imports. In contrast, most countries maintain relatively low inflation rates: by February 2026, roughly 70 percent of the countries recorded year-on-year inflation below 6 percent. Finally, policy space to cushion the impact of higher energy prices remains limited. In two-thirds of the countries, gross general government debt is above 50 percent of GDP, and three in five countries run budget deficits exceeding 3 percent of GDP, reflecting the heavy burden of debt service.

Signs of Recovery, but Not for All: The Uneven Growth Landscape in Africa

Sub-Saharan Africa has been affected by a succession of adverse external shocks that have significantly weakened economic activity across much of the region. In 2014, Africa was hit by a sharp decline in commodity prices—particularly energy commodity prices. Having not yet fully recovered from the end of the commodity super-cycle, business activity and investment were further weakened by the COVID-19 pandemic and geopolitical conflicts, such as the war in Ukraine. As a result, growth has slowed markedly and, in some cases, contracted. The subsequent recovery has been uneven among countries, and for several economies it remains slow and incomplete. For the region as a whole, real output per capita is still 3 percentage points below the 2014 level (prior to the plunge in commodity prices) by 2026—although it is expected to have reached its 2019 pre-pandemic level (figure 1.2).

Figure 1.2: Real GDP per Capita Index, 2019 and 2026f (2014 = 100)



Sources: World Development Indicators, World Bank; World Bank projections (World Bank Macro-Fiscal Model).

Note: The figure presents the index of real GDP per capita using 2014 as the base year. CEMAC = Central African Economic and Monetary Community; EAC = East African Community; f = forecast; GDP = gross domestic product; RR = resource rich; WAEMU = West African Economic and Monetary Union.

Growth has recovered at significantly different speeds across resource-abundant and non-resource-abundant

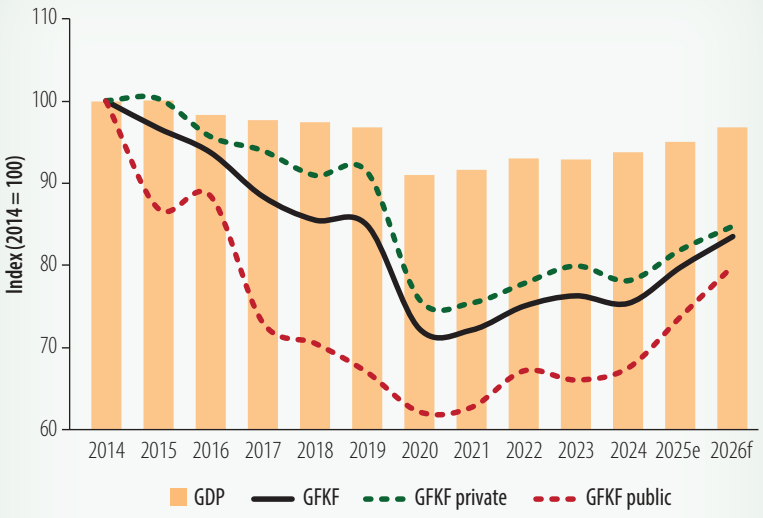
economies. By 2026, real GDP per capita in non-resource-abundant countries is projected to be nearly 20 percent higher than its 2014 level. In contrast, real GDP per capita in resource-abundant countries is expected to remain more than 10 percent below its 2014 level, largely reflecting the weak performance of oil-abundant economies in the region. Performance also varies markedly across subregions. The East African Community is projected to surpass its 2014 real output per capita level by roughly 25 percent, while the West African Economic and Monetary Union (WAEMU) is expected to be about 36 percent above its 2014 level. In contrast, real output per capita in the Central African Economic and Monetary Community is projected to remain about 15 percent below its 2014 level.

By 2026, nearly one-third of the countries in the region (15 of 47) are projected to have per capita income below their level in 2014. In nine of these 15 countries, per capita income is more than 10 percent lower than in 2014. The decline is particularly severe in five countries—Angola, Equatorial Guinea, the Republic of Congo, South Sudan, and Sudan—where per capita income is more than 25 percent lower than its 2014 level. These are countries that are either highly dependent on oil exports or affected by conflict. In contrast, 40 percent of the countries in the region (19 of 47) have per capita income that is at least one-quarter higher than the level in 2014. The increase is even larger in five countries—Cabo Verde, Côte d'Ivoire, Ethiopia, Guinea, and Rwanda—where real per capita income in 2026 is at least 45 percent above its 2014 level.

Investment Shortfalls Explain the Region's Sluggish Post-Crisis Recovery

A striking pattern across Sub-Saharan Africa is that, by 2026, investment has yet to recover fully to the levels observed before the end of the commodity super-cycle or prior to the COVID-19 pandemic, leaving the region's economic recovery incomplete and constraining growth.[8] Investment per capita remains about one-fifth below its 2014 level, following a prolonged downturn that began with the end of the commodity super-cycle (figure 1.3).[9] After the plunge in oil prices in 2014–15, investment continued to decline through the onset of the

Figure 1.3: Real GDP and Investment per Capita, 2014–26f (Index, 2014 = 100)



Sources: World Development Indicators, World Bank; World Bank projections (World Bank Macro-Fiscal Model).

Note: The figure presents indexes of real GDP per capita and real investment per capita (disaggregated into total, private, and public), respectively, using 2014 as the base year. e = estimate; f = forecast; GDP = gross domestic product; GFKF = gross fixed capital formation.

8 Limited physical capital deepening, combined with insufficient skills development, constrains productivity gains, while human capital investments without commensurate job creation limit absorption into higher-productivity activities.

9 This refers to investment as gross fixed capital formation per capita. It captures long-term investments and productive assets (for example, machinery, infrastructure, and construction) used for more than one year. In turn, investments are expressed in per capita terms in this analysis.

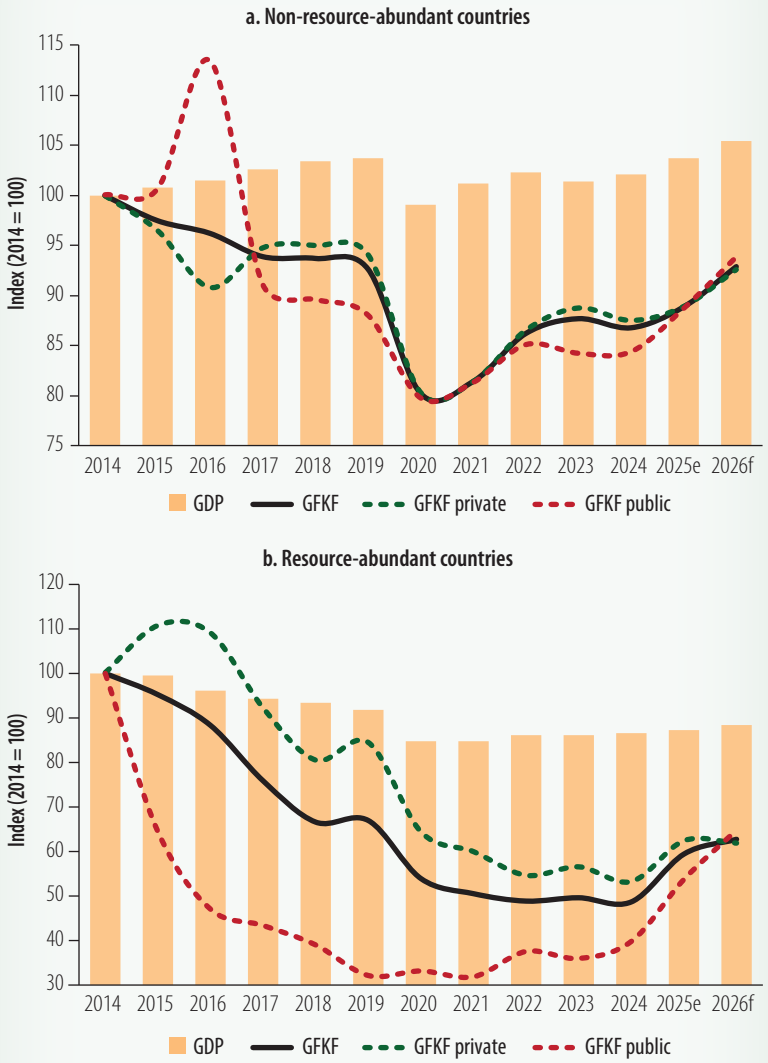
COVID19 pandemic, with public investment contracting more sharply than private investment. The decline reached a trough in 2020 amid restricted fiscal space, particularly as public investment was cut substantially.

The lack of physical capital deepening is compounded by inadequate development of skills and capabilities, thus limiting productivity gains. Human capital investments without complementary job creation constrain absorption into higher-productivity activities.

Although investment rebounded slightly in 2021–22, momentum stalled in 2023 as fiscal and monetary tightening implemented in response to elevated inflation took effect. As inflation gradually eased, central banks began to loosen monetary policy by cutting policy rates; however, the investment recovery remained flat through 2024. A key factor behind this weak recovery is the prolonged stagnation of China's real estate market, which has dampened external demand and reduced investment spillovers. Consequently, despite higher commodity prices due to the Russian Federation–Ukraine war, investment has risen only marginally.

Since the COVID19 pandemic, the levels of public and private investment in non-resource-abundant countries have exhibited a strong degree of co-movement (figure 1.4, panel a). Although GDP per capita recovered, investment remained well below its prepandemic level and below the level observed before the end of the commodity super-cycle. In resource-abundant countries, both public and private investment declined sharply following the end of the commodity super-cycle,

Figure 1.4: Real GDP and Investment per Capita in Sub-Saharan Africa, 2014–26 (Index, 2014 = 100)



Source: World Bank.

Note: Panels a and b present indexes of real GDP per capita and real investment per capita (disaggregated into total, private, and public), in non-resource-abundant and resource abundant countries, respectively, using 2014 as the base year. e = estimate; f = forecast; GDP = gross domestic product; GFKF = gross fixed capital formation.

with public investment experiencing a particularly pronounced contraction (figure 1.4, panel b). While investment in natural resource–abundant countries showed some recovery after the pandemic, neither public nor private investment per capita has returned to its 2014 level.

Following the peak of monetary tightening in late 2022 to early 2023 and the subsequent easing of global inflation, policy rates began to decline. Nevertheless, despite the beginning of monetary easing, investment per capita growth remained slow and subdued. In Sub-Saharan Africa, the downturn at the end of commodity cycle triggered a contraction in investment. While commodity prices and export performance continued to exhibit closely aligned movements, investment followed a protracted downward trajectory and failed to recover (figure 1.4).[10]

Moreover, most commodities are priced in U.S. dollars and traded through spot or short-term contracts, allowing price shocks to be transmitted immediately into export receipts and the balance of payments. As a result, exports strongly and predictably comove with global commodity prices, whereas investment is driven by longer-term expectations, institutional quality, financial conditions, and risk considerations.

Looking ahead, the emergence of another commodity super-cycle remains uncertain. Any future super-cycle is unlikely to be driven by China's infrastructure-cum-urbanization as in the past; instead, it could be underpinned by rising demand for critical minerals associated with the global green investment transition (renewable energy, grid modernization, battery storage, and electric vehicles), artificial intelligence (AI), and the expansion of digital infrastructure (data centers and AI infrastructure).

Trade Picks Up as Global Markets Reconfigure, Boosting the Recovery Outlook

Global external shocks—notably, the end of the commodity super-cycle and the COVID-19 pandemic—triggered a sharp downturn in global trade, and Sub-Saharan Africa was disproportionately affected. By 2020, the region's export values had fallen to roughly half their 2014 levels, a deeper contraction than in other emerging markets and developing economies (EMDEs). Although higher commodity prices associated with geopolitical tensions in 2022 provided a temporary boost, export growth subsequently weakened and remained largely stagnant in 2023–24 (figure 1.5).

In 2025, trade in Sub-Saharan Africa accelerated despite elevated global policy uncertainty. Over the past year, the global trade environment has been reshaped by higher U.S. tariffs, frequent policy adjustments, and a growing number of bilateral trade agreements. Against this backdrop, global trade proved resilient, and Sub-Saharan Africa's trade strengthened as firms diversified markets, front-loaded shipments, and adjusted supply chains—partly supported by higher metal and mineral prices.[11] As a result, the region's exports in 2025

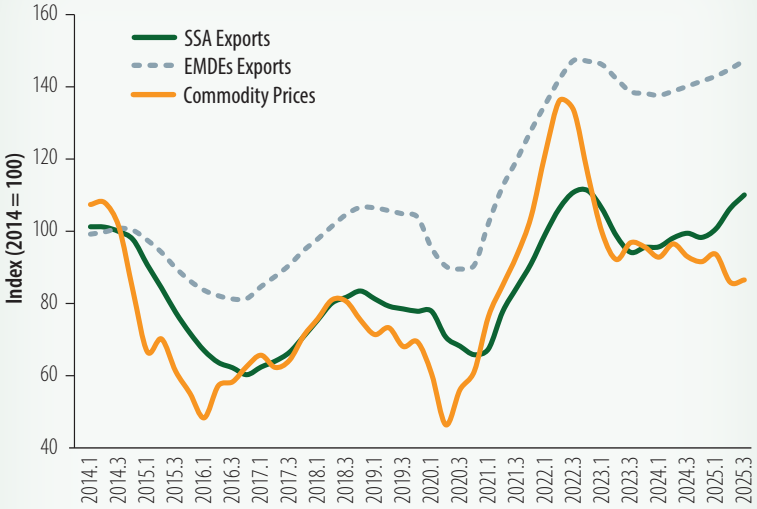
10 The strong contemporaneous correlation between exports and commodity prices reflects the fact that export volumes are relatively fixed in the short run, causing export values to rise mechanically when prices increase, even if production changes little.

11 World Bank (2026c); WTO (2025).

outperformed global trade and exceeded their 2024 levels, with both export volumes and values accelerating rapidly.[12]

Robust trade growth was supported by strong demand from within the region and external markets. Although exports to the United States—which account for less than 5 percent of Sub-Saharan Africa's total exports—fell slightly, shipments to most other destinations accelerated (figure 1.6). Intraregional trade rose sharply, reflecting continued progress in regional integration. Exports to other developing economies, including China—the region's largest bilateral trading partner—also strengthened. The full rollout of China's duty-free access for African exports, expected in May 2026, should further boost export earnings and help narrow the region's trade imbalance with China.

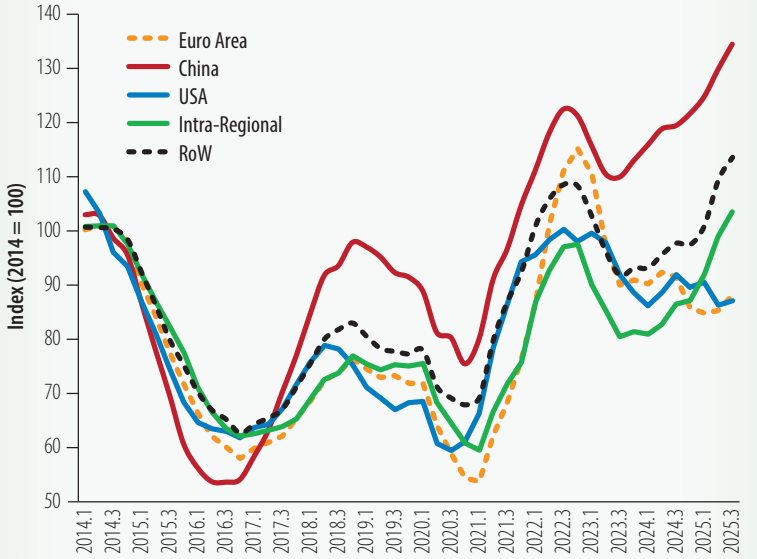
Figure 1.5: Exports from Sub-Saharan Africa and EMDEs and Commodity Prices, 2014Q1–2025Q3



Source: Calculations based on International Trade in Goods, International Monetary Fund.

Note: Export values are annualized values expressed as indexes, with the average in 2014 as the base year. EMDEs = emerging markets and developing economies; SSA = Sub-Saharan Africa.

Figure 1.6: Sub-Saharan Africa's Exports, by Destination, 2014Q1–2025Q3



Source: Calculations based on International Trade in Goods, International Monetary Fund.

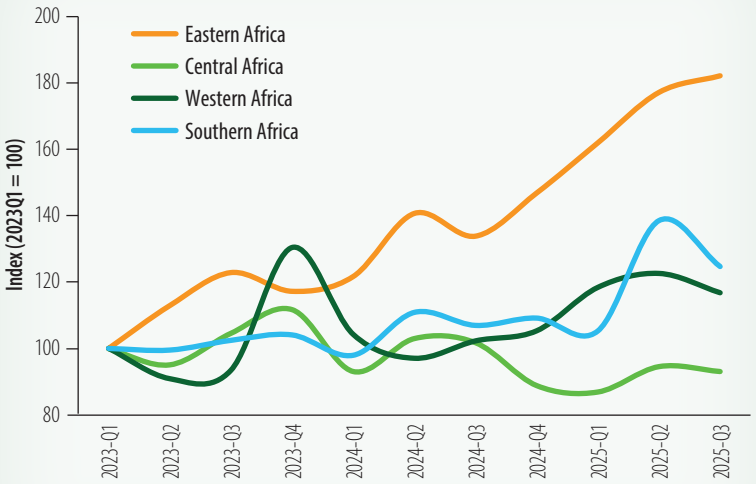
Note: Export values are annualized values expressed as indexes, with the average in 2014 as the base year. RoW = rest of the world.

Trade growth remained uneven in 2025, with gains concentrated in specific countries and subregions rather than broadly shared across the continent.[13] Economies with stronger fundamentals, better logistics, or more diversified

12 Sub-Saharan Africa's export volume growth accelerated from 1.7 percent in 2024 to 4.7 percent in 2025, and the value of Freight on Board exports grew by 7.4 percent in 2025 (up from 4 percent in 2024).

13 Rising global demand and higher prices for metals and minerals—especially precious metals—also benefited several African exporters, as these resources form a major share of the region's export basket. However, heavy reliance on a few commodities leaves trade vulnerable to shifts in global demand and price volatility, underscoring the need for greater product diversification to strengthen resilience (IMF 2024; World Bank 2025b).

Figure 1.7: Eastern Africa Has Led Export Growth in Recent Years, 2023–25



Source: Calculations based on International Trade in Goods, International Monetary Fund.
Note: Each time series represents the subregional aggregate of exports in goods value (2023-Q1 = 100).

exposure to buoyant external demand posted stronger trade performance, while others still faced constraints.[14] Eastern African countries—such as Ethiopia, Kenya, and Uganda—continued to lead regional export growth, and Southern and Western Africa experienced moderate improvements in 2025 following several years of stagnation (figure 1.7).

Renewed Interest in Industrial Policy as a Driver of Structural Transformation

After a decade of efforts to reignite growth following the 2014–15 collapse in commodity prices, the region now faces additional pressures. Demographic trends and a more fragmented global environment have increased the urgency of achieving sustained economic expansion. For policy makers, the central challenge is no longer how to ignite growth, but how to sustain it through long-term structural transformation—a difficulty underscored by the region's repeated episodes of stop-and-go growth.[15] Medium-term growth prospects remain constrained by persistently low investment levels and inefficient allocation of existing resources. No country in the region has achieved an average medium-term investment rate above 25 percent—the threshold identified in the Growth Report as supportive of sustained long-term growth.[16] Moreover, economic activity remains focused on lower-value activities, with raw commodities still comprising the majority of exports to other regions. Meanwhile, slow adoption and diffusion of existing technologies into production continue to hinder productivity growth.[17]

The region's inadequate growth—and its weak translation into job creation and extreme poverty reduction—has brought industrial policies back to policy debates. Raising productivity and creating quality jobs will require stronger strategic capabilities to foster capital accumulation and harness opportunities from emerging technologies such as AI and renewable energy solutions. In this context, industrial policies can be effective instruments to address market and coordination failures, mobilize private investment, and position economies to benefit from evolving global value chains and new technologies, if done right. The special focus of this *Africa Economic Update*, "Making Industrial Policy Work in Africa," suggests that the region needs to create fiscal space, boost administrative capability, and increase market size through

14 Qu, Dabalen, and Calderon (2026); World Bank (2023a, 2025c, 2025d).
15 Calderon, Dabalen, and Qu (2025).
16 Commission on Growth and Development (2008).
17 Firm-level technology surveys in Ethiopia, Kenya, Malawi, and Senegal show that firms acquire new technologies more rapidly than they actually use them, indicating that constraints beyond availability or cost limit effective technological adoption in the region (Cirera, Comin, and Cruz 2022).

regional integration to help ease the constraints that narrow the range, intensity, and duration of policy instruments that governments deploy for structural transformation of their economies.

Industrial policies have long been used in Africa, but results have been mixed, with only a few notable successes. Improving their effectiveness requires action in two areas. First, countries need to invest in the ecosystems that enable structural transformation. These include reliable physical infrastructure, a skilled workforce and stronger technical capabilities, deeper financial markets and access to long-term capital, and robust quality infrastructure and standards systems. Second, industrial policy should focus on identifying and supporting sectors that incrementally build on existing (or potentially rapidly developed) capabilities. For critical minerals, the effectiveness of policies to promote processing, refining, or downstream manufacturing depends on countries holding sufficient global market share to deter buyers from easily switching suppliers, and on having a domestic ecosystem capable of delivering these activities at internationally competitive costs.

Ecosystem investments must be complemented by well-designed policy instruments—that is, tools that target activities rather than individual firms, provide time-bound support linked to learning and performance, and include a clear and credible exit strategy—all of which are examined in detail in section 2. In sum, effective industrial policy in the region requires building the complementary ecosystem needed to deploy well-designed instruments that support broad-based structural transformation, rather than creating enclave activities with limited linkages.

Getting industrial policies right in Africa comes with a large premium, as the region sits at a critical juncture where rapid demographic growth, technological shifts, and evolving global value chains could translate into transformative development—if supported by coherent policy choices. Well-designed industrial policies—anchored in realistic feasibility constraints, targeted toward sectors with strong learning potential, and implemented through capable institutions—can unlock scale economies, crowd in private investment, and reallocate firms and workers to higher-productivity activities.

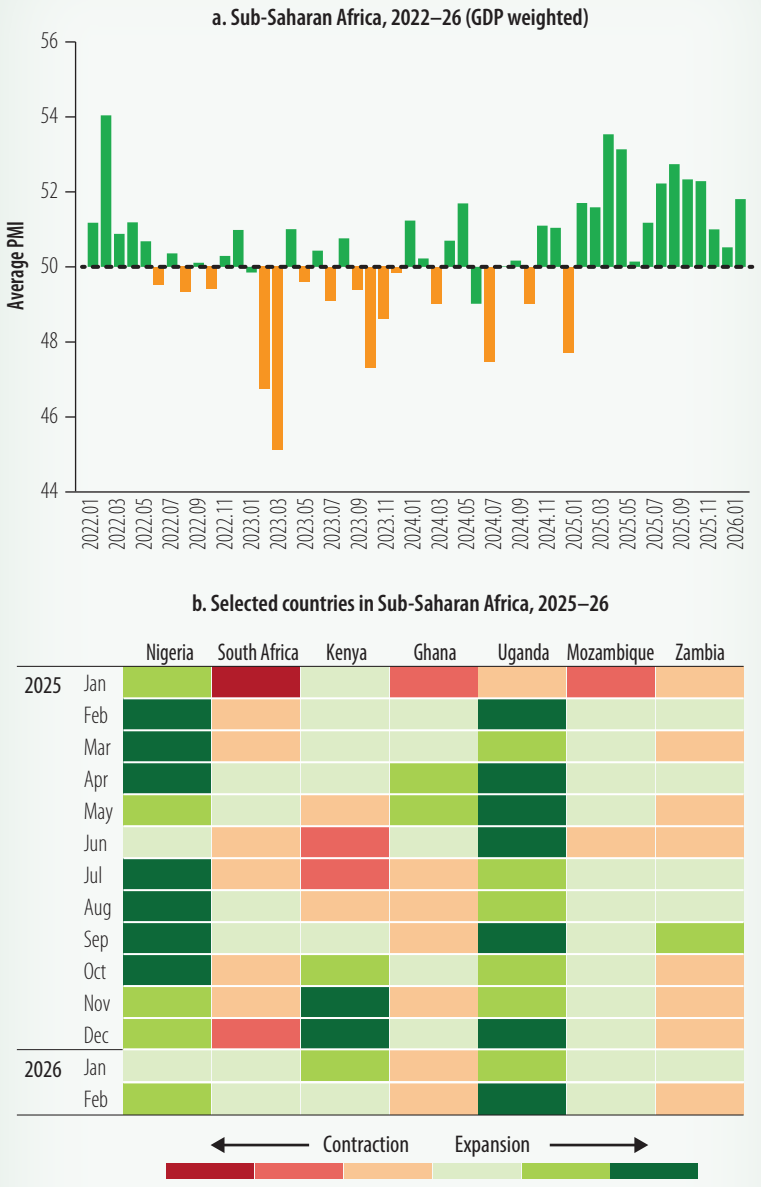
Leading Indicators Reveal That Business Sentiment Is Struggling to Establish Sustained Momentum

High-frequency indicators of economic activity in Sub-Saharan Africa—particularly the Purchasing Managers' Index (PMI)—show that manufacturing and services underwent a volatile and uneven recovery in 2025, constrained by persistent structural weaknesses and a renewed deterioration toward year-end (figure 1.8, panel a). In the early months of 2025, private sector activity in Ghana and South Africa struggled to gain momentum, with reduced output and weaker export orders reflecting soft global demand and ongoing logistical bottlenecks, while activity in Mozambique was primarily disrupted by civil unrest and protests.

By mid-year, a modest expansion in business activity emerged, driven largely by robust domestic demand, while export performance remained subdued due to global trade tensions and the impact of U.S. tariff measures. During the third quarter, subdued domestic demand, weak export markets, and persistent logistical challenges continued to weigh on business

activity in Ghana and South Africa. In contrast, business sentiment in Nigeria and Uganda stayed relatively upbeat, supported by easing output and input prices and a healthier domestic demand environment. In Kenya, domestic demand recovered—driven by the construction sector. Toward the end of 2025, heightened uncertainty and mounting operational pressures again dampened business conditions across the region. Industrial activity weakened most notably in South Africa and Zambia, where deteriorating operating environments further constrained momentum (figure 1.8, panel b).

Figure 1.8: Purchasing Managers' Index in Sub-Saharan African Countries



Sources: Bloomberg Analytical Services; Haver Analytics.

Note: Panel a plots the GDP-weighted average of the composite S&P Global PMIs for the seven countries with available data. The red and green bars indicate the distance to the 50-point benchmark that distinguishes contraction from expansion. Panel b plots the evolution of the composite PMI across countries in the region. Red (green) colors denote contraction (expansion). Darker (lighter) shades of the color denote that the contraction or expansion is larger (modest). The last observation is February 2026. GDP = gross domestic product; PMI = Purchasing Managers' Index; S&P = Standard and Poor's.

Growth of economic activity in South Africa continued to expand at a moderate pace. GDP grew by 0.4 percent quarter-on-quarter in the fourth quarter of 2025, slightly above the revised 0.3 percent recorded in the previous quarter. Services—particularly trade (wholesale and retail trade, and catering and accommodation) and finance, real estate, and business services—were the main drivers of growth. In contrast, manufacturing and mining weighed on overall economic activity, with both sectors contracting by

0.6 percent quarter-on-quarter. On the demand side, household consumption and fixed investment provided support. With the fourth quarter outturn, GDP growth for 2025 reached 1.1 percent in 2025.

Recent activity indicators point to a modest improvement in South Africa's economic performance, reflected in a sharp easing in the pace of deterioration in business sentiment. South Africa's seasonally adjusted Absa PMI recovered from a recent low of 40.5 in December 2025 to 48.7 in January 2026, before softening to 47.4 in February. Despite the initial rebound at the start of the year, the index has now remained below the 50-point mark for five consecutive months, signaling an ongoing contraction in manufacturing activity. The February decline underscores persistent weakness in production and continued job losses. Operating conditions also remained challenging as firms contended with significant port delays, intermittent localized power outages, and still-subdued domestic and external demand, all of which continue to constrain output and sentiment. Retail trade growth slowed in December 2025 to 2.6 percent year-on-year, down from 3.6 percent in November. The deceleration was most pronounced in sales of pharmaceuticals and medical goods, as well as textiles, clothing, footwear, and leather goods. In contrast, sales growth strengthened for household furniture, appliances, and equipment.

Nigeria's economic growth remained steady at 4.0 percent in 2025, broadly unchanged from 2024, with services continuing to be the main driver. The sector expanded by 4.1 percent and accounted for more than half of total growth, supported by strong performance in information and communications technology (ICT), financial services, and real estate. ICT growth accelerated to 6.9 percent on the back of rising investment and digital adoption, while financial services expanded by 14.5 percent, reflecting banking sector reforms and increased digital transactions. Real estate growth moderated but remained positive at 3.8 percent. Agricultural growth picked up to 2.9 percent from 1.7 percent in 2024, supported by mechanization and improved weather, although insecurity, input gaps, climate risks, and weak logistics continued to constrain the sector. Non-oil industrial growth strengthened to 3.6 percent, driven largely by construction and cement production amid higher subnational capital spending, while broader performance remained limited by structural challenges. The oil and gas sector maintained strong momentum, expanding by 8.5 percent, as crude and condensate production rose to 1.7 million barrels per day (mbpd) and refining activity increased with the ramp-up of the Dangote refinery. Inflation declined markedly, although remaining in double digits. Headline inflation fell to 15.1 percent year-on-year in February 2026 from 26.3 percent a year earlier, with food inflation dropping to 12.1 percent. This easing was supported by tight monetary policy, reduced exchange rate volatility, and improved food supply, but inflation remains high relative to income growth and poverty has yet to decline. High-frequency indicators point to continued economic expansion into 2026. After dipping in January, the Stanbic IBTC PMI returned to expansionary territory in February 2026, reaching 53.2 (above the 50-point threshold), driven by increases in new orders, employment, and output across all surveyed sectors. The Central Bank of Nigeria's PMI similarly signals sustained momentum across all sectors of the economy.

Business sentiment in both manufacturing and services improved in February after a subdued start to 2026. The Stanbic IBTC Bank Nigeria PMI increased from 49.7 in January to 53.2 in February, supported by a strong increase in new orders as firmer demand and improved affordability lifted overall activity. Output expanded at its fastest pace in four months, prompting firms to expand employment. Purchasing activity and inventories also increased to accommodate stronger demand. Lower inflationary pressures helped moderate the increase in input costs and selling prices. Business confidence, however, remained cautious as firms evaluated the sustainability of the recent upturn.

Economic activity in Angola strengthened significantly in the final quarter of 2025, with year-on-year growth accelerating to 5.7 percent, up from 1.8 percent in the previous quarter. Over the year, the economy expanded by 3.13 percent, driven primarily by a robust 7.34 percent increase in the non-oil sector. Stronger performance in information and communications services, transport and storage, trade, and accommodation and food services underpinned this momentum. In contrast, the oil sector contracted by 1.21 percent in 2025, reflecting declining productivity in aging oil fields and intermittent production stoppages. However, the initiation of new projects in late July helped partially cushion the downturn in crude output.

Kenya's economy expanded at a slightly slower pace in the third quarter of 2025, growing by 4.9 percent year-on-year compared to 5.0 percent in the previous quarter. Activity strengthened across most sectors, with agriculture remaining the main driver, supported by buoyant milk production and solid cut-flower exports. After contracting by 2.6 percent in the third quarter of 2024, the construction sector staged a marked recovery, expanding by 6.7 percent in the third quarter of 2025. Real estate, accommodation and food services, financial and insurance activities, and information and communications also contributed to the pickup in business activity. Private sector business sentiment continued to improve in February 2026, albeit at a slower pace, with sales growth recorded in construction, wholesale and retail trade, and services, contrasting with contractions in agriculture and manufacturing. The Stanbic Bank Kenya PMI eased to 50.4 from 51.9 in January.

In Ghana, real GDP grew by 5.3 percent year-on-year in the third quarter of 2025, supported by stronger activity in services—particularly information and communications, finance, insurance, trade, and transport and storage. However, growth slowed from the 7 percent recorded in the same period a year earlier. Domestic economic activity benefited from a sharp decline in inflation, which fell from 23.5 percent in January 2025 to 3.2 percent in March 2026. The decline coincided with an appreciation of the cedi, supported by high gold prices, improved foreign exchange reserves, and U.S. dollar weakness. In response to easing inflationary pressures and improving growth prospects, the monetary policy rate was reduced from 27 percent in January 2025 to 14 percent in March 2026. Business activity softened in February 2026, with the PMI increasing slightly to 49.2 from 48.5 in the previous month, indicating a continued deterioration in operating conditions. The decline was largely driven by expectations of softer demand, which resulted in lower business activity, and a subdued start to the year.

Rising Headwinds Weigh on Growth in Sub-Saharan Africa

Economic activity in Sub-Saharan Africa is projected to expand by 4.1 percent in 2026, unchanged from 2025. The 2026 growth forecast for the region has been downgraded by 0.3 percentage point compared with the projection in the October 2025 edition of *Africa's Pulse*. Across countries in the region, growth forecasts for some large countries have been revised downward in 2026; notably, Angola, Kenya, Mozambique, Nigeria, Senegal, South Africa, and Zambia. Overall, about 60 percent of the countries in the region (29 of 47) recorded downward revisions to their 2026 growth forecasts.

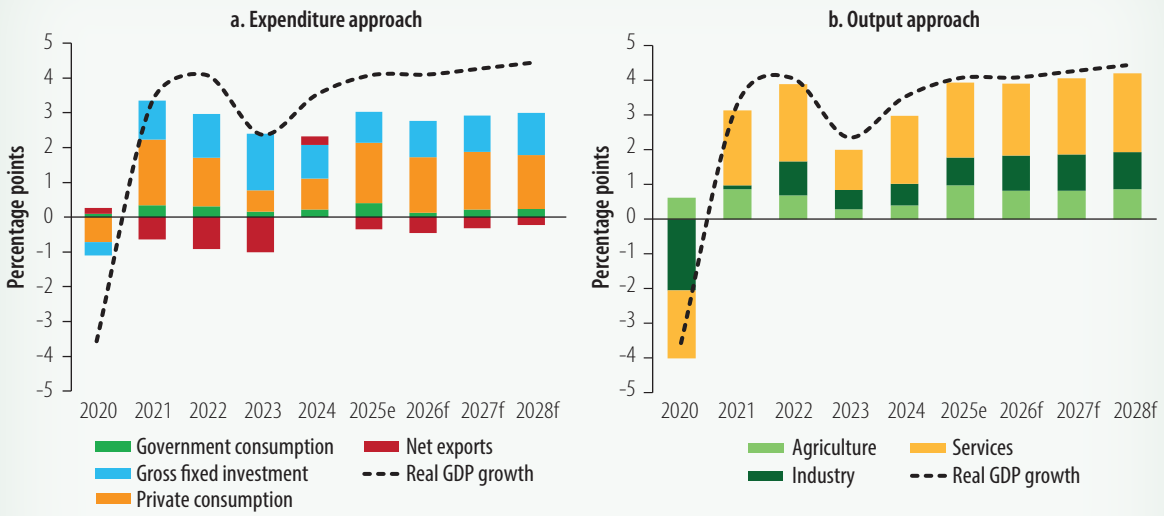
Growth in the region has been supported, among other factors, by improved macroeconomic stabilization. Better control of inflation is bolstering private consumption and investment. Enhanced macroeconomic policy frameworks—as evidenced by declining inflation rates and narrower fiscal imbalances—are strengthening policy credibility and resilience. Favorable weather conditions, stronger domestic currencies, and the easing of fuel and food prices have contributed to lower inflationary pressures, thus creating a more favorable environment for household spending and business activity. Higher commodity prices—particularly, precious metals and beverages—are also underpinning export earnings and boosting fiscal revenues across many African economies. Trade performance has been resilient amid persistent global trade tensions, aided by the region's diversified trade partnerships and exemptions from tariff increases on critical commodities. These favorable developments are being tested by increased external headwinds, particularly the escalating conflict in the Middle East, which threatens to undermine growth through higher energy prices, trade disruptions, and renewed inflationary pressures.

From the expenditure side, the projected growth in 2026 is mostly attributed to private consumption and investment (figure 1.9, panel a). The contribution of household consumption to GDP growth remains substantial at 1.6 percent (down from 1.8 percent in 2025) thanks to lower inflation and better anchored inflationary expectations across most countries. The contribution of investment strengthened to 1.0 percent (up from 0.9 percent in 2025), supported by more-accommodative global and domestic financial conditions.[18]

From the production side, the service sector accounts for about half of economic growth in 2026 (figure 1.9, panel b). Within the sector, finance, ICT, wholesale and retail trade, and tourism continue to be the principal drivers of activity. Increased electricity generation and a reliable supply (especially in Ethiopia and South Africa), together with solid agricultural performance, are also supporting economic growth. The agriculture and industry sectors are expected to contribute approximately 0.8 and 1.0 percent, respectively, to GDP growth this year.

18 Since the start of the Middle East conflict, the dollar has begun to appreciate—thus, limiting some of the African currency gains. A prolonged and wider conflict may reverse these gains and put an end to the easing monetary cycle.

Figure 1.9: Contributions to GDP Growth in Sub-Saharan Africa, 2020–28



Source: World Bank projections (World Bank Macro-Fiscal Model).

Note: Forecasts as of March 26, 2026. Values are weighted averages. Changes in inventories and statistical discrepancies are not displayed in panel a. Net taxes are not presented in panel b. e = estimate; f = forecast; GDP = gross domestic product. Data as of 04/07/2026.

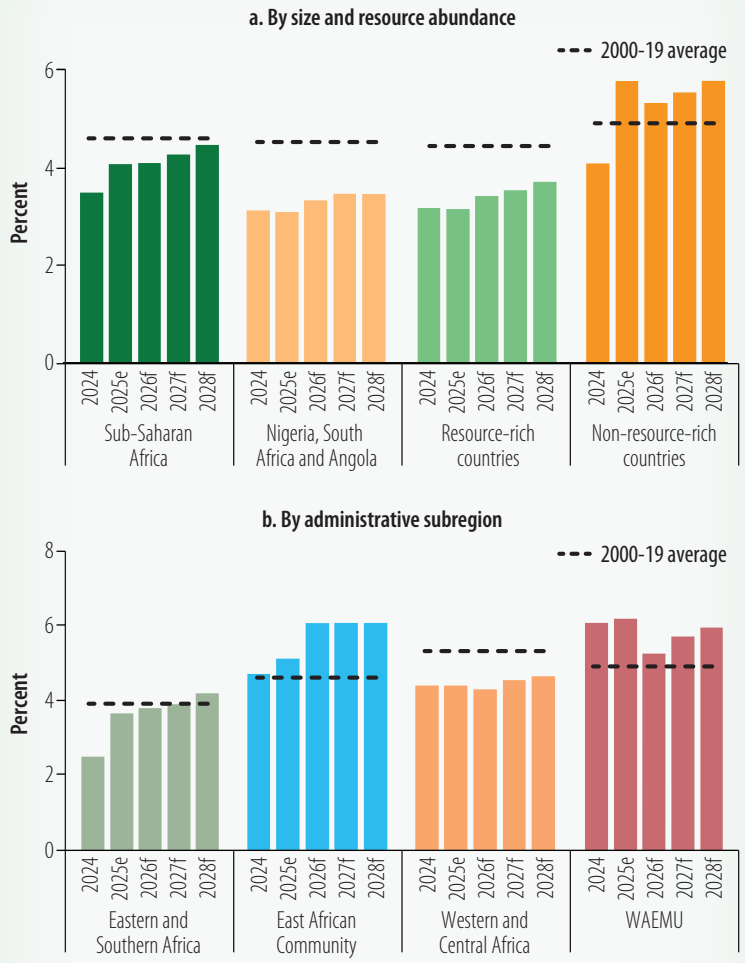
Uneven Growth Momentum across Sub-Saharan African Subregions and Countries

Growth performance varies markedly across countries and country groups in the region (figure 1.10). In 2026, growth is projected to weaken in 25 of 47 Sub-Saharan African economies. The median growth deceleration for this group is 0.7 percentage point in 2026 (compared to 2025). Still, economic growth in some countries is projected to slow down at a faster pace, including Senegal (4.5 percentage points decline in the growth rate in 2026), Zimbabwe (2.8 percentage points), Rwanda (2.1 percentage points), Ethiopia (1.2 percentage points), Ghana (1.2 percentage points), and Benin (1.1 percentage points). More than half of the countries in the region have yet to exceed their annual average growth rate during 2000–19. In 2026, the growth rates of 26 of 47 Sub-Saharan African countries are expected to be on average 1.9 percentage points slower compared to their average growth over the first two decades of this century.

Economic growth in the region continues to be weighed down by the subdued performance of its largest economies—Angola, Nigeria, and South Africa—relative to their historical averages during 2000–19. Growth in these countries is projected to reach 3.1 percent in 2026 (unchanged from 2025), and to firm modestly to 3.4 percent per year in 2027–28 (figure 1.10, panel a). The pace of growth in these countries remains well below their long-term pre-pandemic average of 4.6 percent per year. Excluding Angola, Nigeria, and South Africa, growth in the region is expected to increase slightly from 5.2 percent in 2025 to about 5.3 percent in 2026, and to speed up to 5.5 percent per year through 2027–28.

In South Africa, GDP growth reached 1.1 percent in 2025 (up from 0.5 percent in 2024) and is expected to slow down modestly to 1.0 percent in 2026. Economic growth is being supported by a more reliable supply of electricity and ongoing reforms aimed at enhancing the business environment and easing logistics bottlenecks (notably, in the transportation sector). Regional integration and export diversification are expected to help cushion external shocks and foster new investment opportunities—especially in green industries, finance, and the digital economy. Higher commodity prices, together with reforms targeting transport, logistics, and competitiveness, will further strengthen the country's trade potential, although persistent trade tensions and the conflict in the Middle East may weigh on external performance. Average consumer price inflation declined from 4.4 percent in 2024 to 3.2 percent in 2025. It is projected to accelerate to 4.1 percent in 2026 before stabilizing at an average rate of 3.4 percent in 2027–28, within the 2 to 4 percent target band. Growth is expected to rise slightly to 1.6 percent annually in 2027–28.

Figure 1.10: GDP Growth across Regions in Sub-Saharan Africa, 2024–28



Source: World Bank projections (World Bank Macro-Fiscal Model).

Note: The dotted black line is the average of the annual median of the growth rate from 2000 to 2019. e = estimate; f = forecast; GDP = gross domestic product; WAEMU = West African Economic and Monetary Union. Data as of 04/07/2026.

Nigeria's economy is expected to grow at an average of about 4.2 percent per year during 2026–28, supported by more stable macroeconomic conditions and a gradual pickup in investment. Services, particularly ICT, finance, and real estate, will remain the main drivers of growth, while agriculture and industry are likely to expand more slowly due to ongoing structural constraints. Inflation is projected to decline from 23 percent in 2025 to 14.9 percent in 2026 and ease further to 10.7 percent by 2028, reflecting the lagged effects of policy tightening

and improving supply conditions. Although poverty remains elevated, it is expected to decline gradually as inflation eases, albeit more slowly due to higher fuel prices linked to the Middle East conflict. Rising oil prices could support fiscal and external balances, partly offset by capital flow volatility amid global uncertainty. However, business sentiment and reform momentum may be dampened by commodity price volatility, tighter global financial conditions, security concerns, and policy uncertainty ahead of the 2027 elections.

Resource-abundant countries in the region have been gradually recovering, although their growth performance remains below the rates recorded during the first two decades of this century (figure 1.10, panel a). Growth in this group is expected to accelerate from 3.2 percent in 2025 to 3.4 percent in 2026, and to stabilize at around 3.6 percent in 2028. This improvement will be supported by sustained global demand for natural resources, including agricultural commodities, critical minerals, and precious metals. The extension of the African Growth and Opportunity Act (AGOA) for this year and the enactment of China's duty-free initiative beginning in May 2026 are expected to provide additional support to export growth from the second half of 2026 onward. However, persistent global trade tensions, heightened geopolitical risks, and the potential intensification of geoeconomic fragmentation may dampen commodity trade and limit gains.

In contrast, growth among non-resource-abundant countries is projected at 5.3 percent in 2026—exceeding its long-term average of 4.8 percent annually over 2000–19—and to accelerate to 5.6 percent per year in 2027–28. Stronger currencies and rapid disinflation together with structural reforms have helped unlock new investment opportunities and supported domestic demand in these economies.

In Eastern and Southern Africa, economic activity is projected to increase slightly from 3.7 percent in 2025 to 3.8 percent in 2026, and to continue growing at an annual average rate of 4.1 percent in 2027–28 (figure 1.10, panel b). The subregion's economic performance continues to be weighed down by subdued growth in Angola and South Africa. Excluding these two large countries, growth in Eastern and Southern Africa is projected to rise from 5.2 percent in 2025 to 5.6 percent in 2026, and to stabilize at an annual average of 5.5 percent in 2027–28. The East African Community remains the fastest-growing subregional bloc, with output projected to expand by 6.1 percent in 2026, and to grow at a comparable pace in 2027–28. Within the East African Community, Rwanda, Tanzania, and Uganda are expected to register the strongest expansions in 2026.

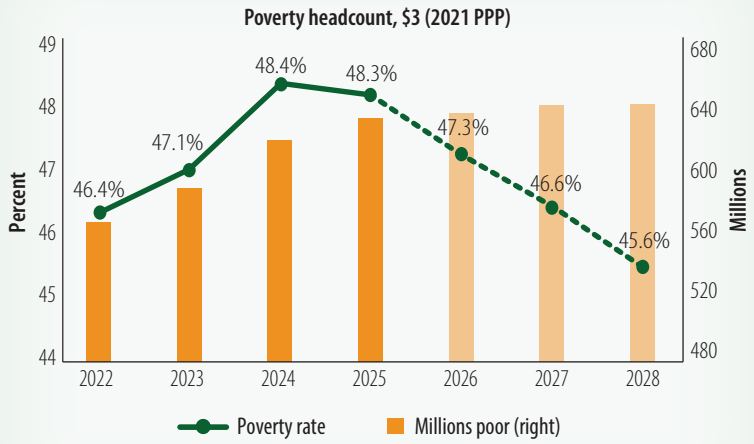
In Western and Central Africa, economic activity is projected to grow at 4.3 percent in 2026, and to increase slightly to 4.6 percent per year in 2027–28 (figure 1.10, panel b). Excluding Nigeria, growth in the subregion is expected to reach 4.7 percent in 2026 and accelerate to 5.4 percent in 2027–28. Growth in the WAEMU is projected to moderate to 5.3 percent in 2026, down from 6.2 percent in 2025, before accelerating to an annual average rate of 5.9 percent in 2027–28. In 2026, the growth deceleration in Benin, Côte d'Ivoire, Guinea-Bissau, and Senegal more than offsets the growth acceleration in Mali, resulting in a marked slowdown in economic activity for the WAEMU.

Limited Poverty Reduction amid Ongoing Economic Expansion

Sub-Saharan Africa's economic outlook continues to improve despite volatile global conditions. Growth is projected to remain at 4.1 percent in 2026, unchanged from 2025, as macroeconomic stabilization efforts take hold and structural reforms advance. However, the recovery remains vulnerable to mounting public debt burdens, declining external financing—particularly development assistance—and elevated global risks. Moreover, the ongoing crisis in the Middle East—through higher food and fuel prices and declining remittance flows—poses a growing risk to recent welfare gains across the region (box 1.1). Poverty reduction will depend critically on improving agricultural performance and containing inflation, which helps explain why industry- and services-led growth has translated only weakly into reduced poverty in the region.

The poverty outlook for Sub-Saharan Africa remains weak despite ongoing economic growth. Current projections show that poverty, measured at the international $3 per capita per day international line in 2021 purchasing power adjusted prices, will ease only slightly, declining to 47.3 percent in 2026 and 45.6 percent in 2028. This represents a net decrease of 0.8 percentage point in the poverty rate compared to 2022 (figure 1.11). However, the absolute number of people living in poverty is expected to continue rising even as the rate edges downward, underscoring the challenge posed by rapid population growth.

Figure 1.11: Regional Poverty, 2022–28

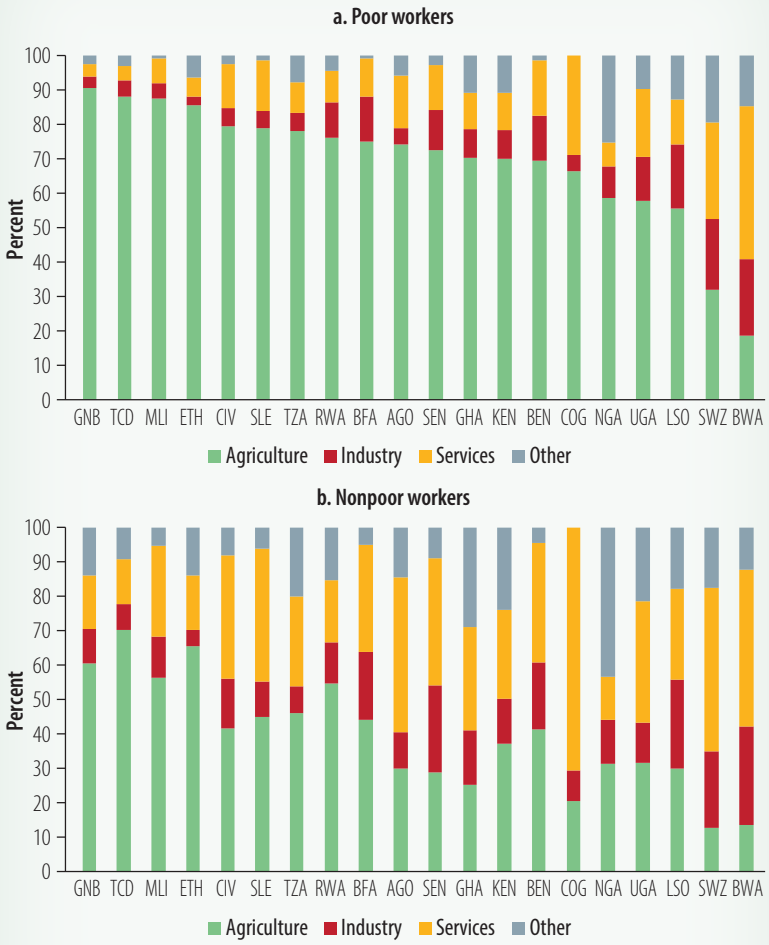


Source: World Bank.

Note: The dashed line shows estimates based on macro forecasts from the latest Macro Poverty Outlook data.

Agriculture remains tightly connected to poverty in Sub-Saharan Africa. In most countries, more than half—and in some cases up to 90 percent—of poor workers are employed in the agriculture sector. Countries such as Chad, Ethiopia, Guinea-Bissau, and Mali exhibit particularly high concentrations of the poor in agricultural employment. In contrast, poor workers' participation in industry is consistently low across the region, ranging from 2.6 percent in Ethiopia to 22 percent in Botswana. This suggests limited integration of the poor into formal industrial activities even in countries pursuing industrialization strategies. Nonpoor workers, however, are far more engaged in industry and services. In Angola, for example, 74.2 percent of the poor work in agriculture, compared to just 29.9 percent of the nonpoor, who are predominantly employed in services (45 percent) and industry (10.6 percent). Similar patterns are observed across other countries (figure 1.12).

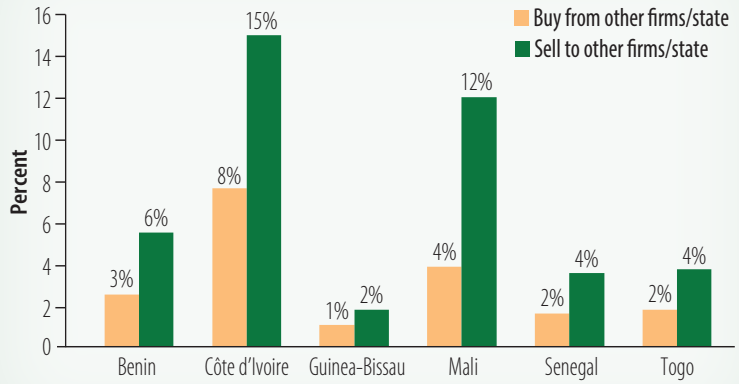
Figure 1.12: Sectors of Employment across Poor and Nonpoor Workers



Source: Global Monitoring Database (latest year available by country).

Note: All workers are considered, regardless of age. For a list of country codes, refer to https://www.iso.org/obp/ui/#search.

Figure 1.13: Value Chain Integration of Nonfarm Household Enterprises



Source: Data from EHCVM 2021.

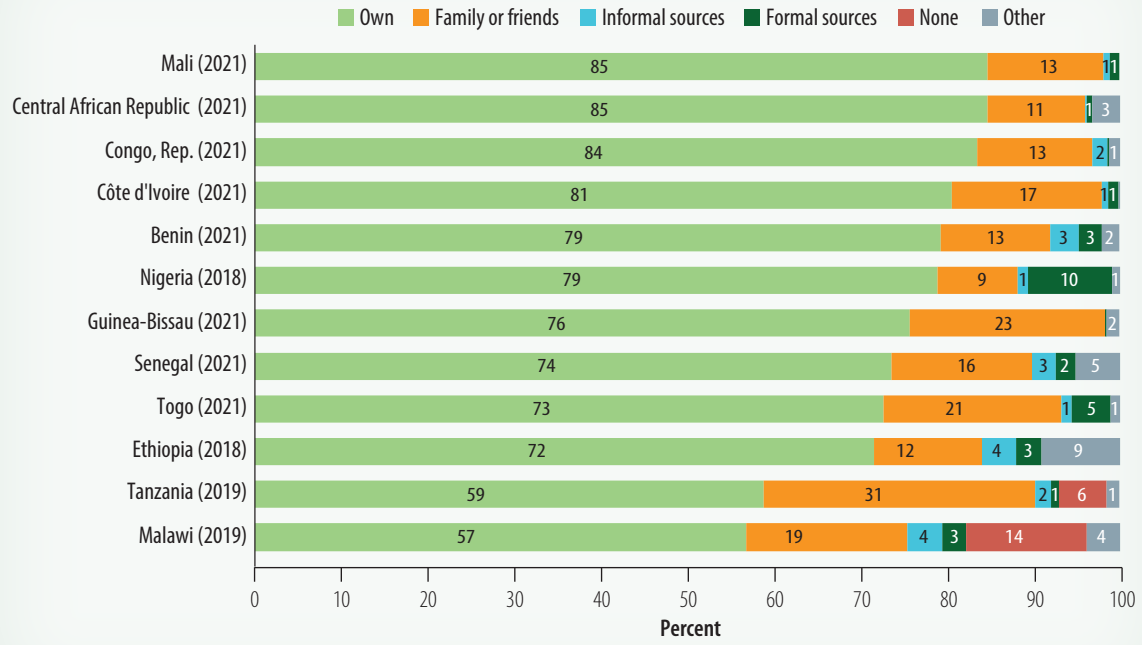
Across Africa, even in nonagricultural activities, most workers operate largely outside the formal economy. With so many poor workers concentrated in agriculture, traditional industrial policies face a fundamental challenge: they target sectors where the poor are scarcely represented. Nonagricultural employment is dominated by informal household enterprises that sell goods and services locally, mainly to nearby consumers.[19] Fewer than two in 10 own-account workers or household enterprises engage in transactions with other firms or state enterprises, underscoring their limited integration into formal value chains (figure 1.13). Among smallholder farmers in countries such as Malawi and Nigeria, the primary buyers continue to be friends, relatives, and local markets—regardless of their proximity to urban centers.[20]

Poor entrepreneurs across Africa face severe barriers to accessing formal financial services and markets. Evidence from household enterprise surveys in 13 countries shows that, in most countries, the majority of own-account workers

19 Across WAEMU countries, for example, 40-60 percent of households have a nonfarm family enterprise, the vast majority of which are informal (Sinha, Inchauste, and Narayan 2024).
20 Cerkez et al. (2025).

and nonfarm household enterprises rely primarily on personal savings or support from family and friends to finance their start-up capital (figure 1.14). Their limited use of external finance—whether formal or informal—reflects pervasive challenges in credit markets. Many also appear to prefer borrowing from social networks, where transaction costs are lower and repayment is more easily enforced through personal relationships.

Figure 1.14: Sources of Initial Financing



Sources: Data from EHCVM 2021; Sinha, Inchauste, and Narayan 2024.

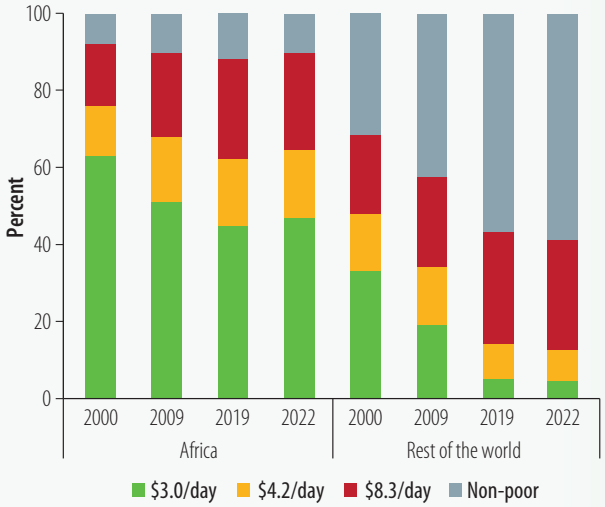
Conventional industrial policies risk deepening the region's already high levels of inequality. Measures intended to promote enterprise development—such as subsidized credit, special economic zones, tax incentives, and industrial parks—generally require formal registration, regulatory compliance, minimum scale, and location within designated industrial areas. These conditions immediately exclude most poor entrepreneurs, who typically operate informally, lack documentation and collateral, and are often geographically distant from industrial hubs. This dual disconnection—of workers and firms from both the formal industrial sectors targeted by policy and the financial systems needed to grow—means that traditional industrial strategies can generate growth that bypasses the poor altogether, potentially widening inequality even as national income rises.

Box 1.1: Middle East Conflict and Household Welfare Risks in Africa: Insights from Ethiopia and Kenya

Early estimates indicate that the impact of the Middle East crisis on household welfare has so far been limited. However, risks are expected to intensify if the crisis persists. Many households remain vulnerable to shocks, and rising food and transportation prices—together with a potential decline in remittances from the Middle East—could erode incomes and purchasing power. These pressures would disproportionately affect households already near the poverty line.

This vulnerability is rooted in the large share of households living just above the poverty threshold. The share of Africa's population between the US$3 international poverty line and US$8.30 income threshold—an indicator of the extent of income vulnerability—grew from 29 percent of the population in 2000 to 43 percent in 2022. Although extreme poverty declined over this period, the share of the population considered nonpoor by higher global standards has improved only marginally since 2000. As of 2022, only 11 percent of Africans lived on more than US$8.30 per day, up from 8 percent in 2000—compared with an increase from 32 to 59 percent in the rest of the world (figure B1.1.1). Limited job creation and persistently high informality further heighten household vulnerability, leaving many exposed to cost-of-living shocks.

Figure B1.1.1: Composition of the Population, by Income Thresholds, 2000–22



Source: World Bank Poverty and Inequality Platform (November 2025 version).
Note: The international poverty line ($3) and other income thresholds are in 2021 purchasing power parity dollars.

Rising food and transport prices are likely to be a key channel through which risks materialize. Ethiopian households allocate 58.5 percent of total expenditure to food. Even rural households—often assumed to be more insulated—remain partially exposed to market prices through food purchases. At the same time, reliance on public transportation is widespread: about 48 percent of households use public transport, rising to 62 percent among urban households. Fuel-driven fare increases would therefore place additional strain on household budgets and could further feed into broader price pressures.

Against this backdrop, a prolonged crisis into 2026 and a further rise in Ethiopia's headline inflation of 3 to 8 percentage points could result in an additional average welfare loss of 1.5 to 4.3 percent of household income. These losses are projected to be relatively uniform across the income distribution but more pronounced for urban households.

In Kenya, microsimulation estimates suggest that the poverty rate (measured at the US$3 international poverty line) could be 2 to 4.5 percentage points higher in 2026, depending

on the extent to which higher fuel prices are passed through to economywide prices. This would translate into an additional 1 million to 2.4 million Kenyans falling below the poverty line. Urban households are projected to be more heavily affected. In West Africa, assuming that price dynamics follow the trend observed in the 2022 global inflation crisis, the Middle East conflict would increase extreme poverty (at US$3) by 0.5 to 1.0 percentage point in Cameroon, 0.3 to 3.0 percentage points in Senegal, and 0.4 to 3.9 percentage points in Mali. Altogether, about 0.4 million to 1.9 million people across these three countries would be pushed into extreme poverty. The variation in welfare losses across households reflects the differences in household consumption and production patterns, with larger losses among net food consumers than among subsistence farmers.

These estimates capture only the short-term effects operating through higher prices. A protracted conflict could trigger more-severe consequences through slower-moving but potentially more damaging structural channels, particularly fertilizer availability and costs ahead of the next planting season. In several West African countries, for example, the main planting window runs from May to September, raising the risk of overlapping challenges for farmers. Limited access to fertilizer could reduce agricultural productivity, putting additional pressure on food prices, and ultimately food security.

Another important transmission channel is the decline in remittances, which could further weaken household incomes. Remittances—including those from the Middle East—are a major source of external income for Ethiopia, accounting for about 5 percent of gross domestic product and exceeding $6 billion in 2024. In 2022, an estimated 750,000 Ethiopians were residing in Saudi Arabia, while about 500,000 Kenyans were employed in Gulf states. Recent developments point to growing risks: in Kenya, data for March 2026 showed one of the sharpest monthly drops in remittances in recent years, with up to US$40 million in monthly remittances potentially at risk. Beyond remittances, the Gulf states are key export destinations—particularly for horticulture and livestock products—and these sectors are already incurring financial losses.

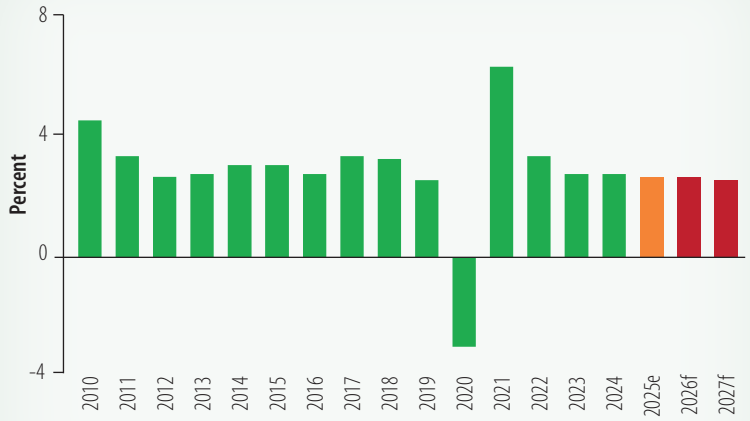
Targeted policy measures can help mitigate these risks. Countries are deploying a range of instruments to manage fuel-related cost pressures, and leveraging existing social protection mechanisms can help cushion the impact on vulnerable households. In Ethiopia, for example, increasing benefits to social safety net recipients (urban and rural) in line with the inflation trend could offset a substantial share of potential welfare losses. In Senegal, the national flagship social protection program, which covers about 15 percent of the population, would be able to reach approximately one in five of the households in the bottom 40 percent who are severely affected by the crisis, with welfare losses greater than 5 percent. In contrast, the existing social registry infrastructure will allow reaching around 90 percent of the severely affected households in the bottom 40 percent. At the same time, continued attention to the efficiency of public spending and sound public financial management will be essential to ensure that expanded social support remains fiscally sustainable.

Sources: World Bank staff estimates using microsimulation methodology; Narayan et al. (2024); Inchauste et al (2024).

1.2 THE GLOBAL ENVIRONMENT

The global economy has been markedly more resilient than expected, despite last year's historic escalation of trade tensions and heightened policy uncertainty. This resilience was underpinned by significant front-loading of trade, supply chain reconfiguration, limited tariff pass-through, easing global financial conditions, and a surge in AI-related investment. As these supports fade, global activity and job creation are expected to moderate. Global growth is projected to remain at 2.7 percent in 2026, before edging down to 2.6 percent in 2027, according to Consensus Economics (figure 1.15).[21] This modest slowdown comes on the heels of a post-pandemic rebound over 2021–25, the strongest recovery from a global recession in more than six decades.

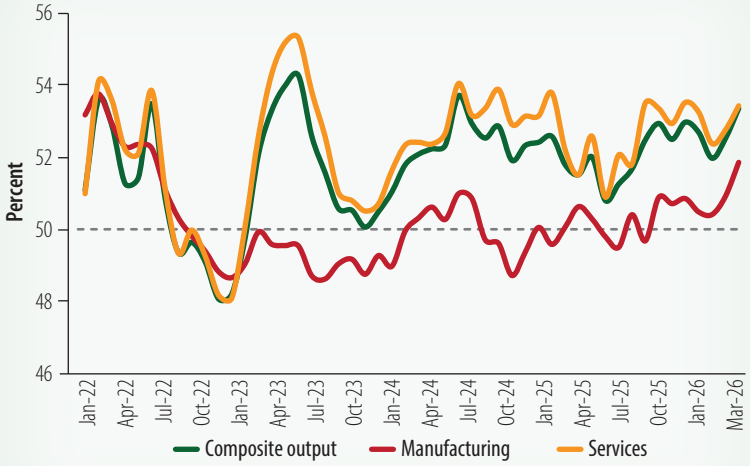
Figure 1.15: Global Output Growth, 2010–27f



Sources: World Bank; Consensus Forecasts.
Note: GDP aggregates calculated using real U.S. dollar GDP weights at average 2010–19 prices and market exchange rates. e = estimate; f = forecast; GDP = gross domestic product.

The outlook for global trade and activity, however, is dampened by geopolitical conflict in the Middle East. The magnitude of commodity market disruptions will depend on the duration and intensity of the conflict, as well as the extent of related impediments to shipping through the Strait of Hormuz. A short-lived but severe disruption to energy production and shipping would likely have moderate effects on commodity prices, activity, and inflation. By contrast, a prolonged conflict with sustained disruptions to commodity markets could result in significantly more adverse outcomes. To date, high-frequency indicators point to continued resilience in global activity at the start of 2026, with manufacturing momentum improving. However, the effects of a further escalation of the Middle East conflict have yet to be fully reflected in the data (figure 1.16).

Figure 1.16: Global Purchasing Managers' Index, 2022–26



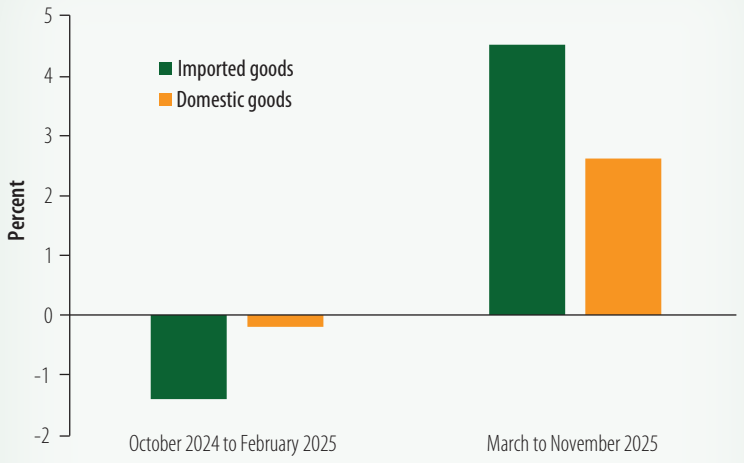
Source: Haver Analytics.
Note: Values above 50 signal expansion. The last observation is March 2026.

21 Projections in this subsection are from Consensus Economics unless stated otherwise.

As global inflation continues to converge toward central bank targets, Consensus Economics projects that global inflation will ease to 2.5 percent in 2026. As inflation has decreased, easier global financial conditions—supported by expectations of looser monetary policy in the United States—have allowed many central banks in EMDEs to keep policy rates unchanged. The depreciation of the U.S. dollar in 2025, and the resulting appreciation of EMDE currencies, helped contain inflationary pressures, giving EMDEs greater room to address trade headwinds without being constrained by exchange rate concerns.[22] However, renewed geopolitical tensions could push inflation higher and trigger tighter financial conditions than currently anticipated, posing additional risks to the global outlook.

Despite some positive recent trade developments, the global outlook remains clouded by elevated trade and policy uncertainty. Following last year's front-loading of goods trade ahead of tariff hikes, the U.S. Supreme Court's reversal of reciprocal tariffs and the subsequent announcement of a uniform 15 percent global tariff are expected to provide some relief, particularly for economies such as Brazil, Canada, China, and Mexico. As trade flows adjust and uncertainty gradually recedes, global trade growth is anticipated to strengthen by 2027. Even with elevated tariffs and shifting trade flows, the impact of tariffs on U.S. goods inflation has so far been more limited than initially expected.[23] Firms have delayed price pass-through by building inventories and absorbing costs through supply chain reorientation. Nonetheless, since mid-2025, prices of both imported and domestically produced consumer goods have increased, reflecting spillovers from higher input costs and reduced import competition (figure 1.17). Available evidence suggests that tariff-induced price increases have been borne largely by U.S. firms and consumers, with foreign suppliers relatively less affected.[24]

Figure 1.17: Changes in U.S. Retail Goods Prices, by Origin



Sources: Cavallo, Llamas, and Vazquez 2025; World Bank.

Note: The figure shows the price changes of imported and domestic U.S. goods between October 2024 and February 2025 and between March and November 2025. Product-level retail price data were collected from online stores of large U.S. retailers (Cavallo, Llamas, and Vazquez 2025). The last observation is November 1, 2025.

Growth in advanced economies is expected to edge up to 1.8 percent in 2026 before easing slightly to 1.7 percent in 2027. The outlook is increasingly constrained by the lagged effects of earlier tariff hikes, ongoing shifts in trade and fiscal policies, and persistently high policy

22 The weaker U.S. dollar in 2025 helped lower inflation in EMDEs by making imports—especially food, fuel, and key inputs—cheaper. It also improved global financial conditions, reducing external financing pressures. At the same time, it eased currency mismatches and boosted capital inflows, strengthening EMDE currencies and stabilizing inflation expectations.

23 Cavallo, Llamas, and Vazquez (2025).

24 Specifically, recent evidence has shown that: (1) the average tariff on U.S. imports rose sharply—from 2.6 to 13 percent in 2025, and (2) roughly 90 percent of the resulting economic burden was borne by U.S. firms and consumers (Amiti et al. 2026).

uncertainty. In the United States, growth is projected to average 2.6 percent in 2026. Elevated tariffs are expected to weigh on consumption and investment, while looser fiscal policy should provide partial support to growth. U.S. growth is forecast to moderate to 2.1 percent in 2027, as the adverse effects of tariffs and policy uncertainty persist and the support from past monetary easing and fiscal measures wanes. In the euro area, growth is projected to strengthen to 1.2 percent in 2026 and further to 1.4 percent in 2027, supported by improving exports and investment as uncertainty fades and confidence recovers. Investment is also expected to benefit from increased public capital spending and private sector incentive schemes related to defense and infrastructure in several large economies. However, the euro area's continued reliance on natural gas remains a key downside risk to the outlook.

Beyond advanced economies, growth dynamics in EMDEs increasingly reflect a combination of external headwinds and domestic constraints. EMDE growth is projected to slow to an average of 4.0 percent in 2026 and 3.9 percent in 2027, as a deceleration in China offsets a gradual pickup in activity elsewhere. In China, growth is expected to ease to 4.6 percent in 2026 amid subdued consumer confidence, a prolonged property sector downturn, and a softer labor market, all of which are weighing on consumption and investment. Accommodative monetary and fiscal policies are expected to provide some support, although their effectiveness is likely to be constrained by elevated debt levels. Growth is projected to slow further to 4.4 percent in 2027, as structural challenges—including weak productivity growth, high debt, and adverse demographic trends—continue to weigh on potential growth.

Consistent with these developments in growth, trade, and financial conditions, risks to the global economic outlook remain tilted to the downside, although some upside risks have emerged. Growth could fall short of current projections if conflict in the Middle East escalates or broadens, or if trade tensions intensify amid further increases in trade barriers. A key downside risk also stems from the possibility that AI-related investments fail to deliver the anticipated productivity gains, leading to a correction in asset prices and tighter financial conditions. On the upside, continued supply chain flexibility could further mitigate trade policy headwinds, and AI-related investment could remain strong and broaden across sectors.

Geopolitical Tensions Undermine Commodity-Driven Disinflation

Commodity price dynamics, which prior to the outbreak of conflict in the Middle East had been contributing to global disinflation, now represent a key headwind to the global economy. In the first quarter of 2026, the World Bank's total commodity price index rose 8 percent quarter-on-quarter, reversing the recent downward trend (figure 1.18).[25] Energy prices led the increase and surged as tensions escalated, with Brent crude prices rising from the low US$60s per barrel in early January to over US$100 per barrel by early March, while European natural gas spot prices climbed to around €60 per megawatt hour (figure 1.19).[26] Energy prices are expected to remain elevated despite the release of strategic reserves. This

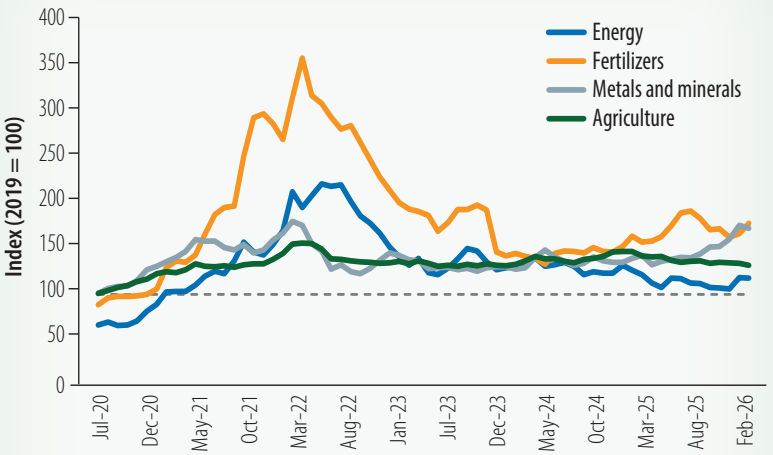
25 The first quarter of 2026 includes data only for January and February.

26 Natural gas prices rose 12 percent in Europe and 50 percent in the United States in the first quarter of 2026, as Middle East disruptions tightened global LNG availability in Europe and increased demand for U.S. supply, with colder-than-normal winter weather earlier in the year providing additional support.

marks a sharp reversal from recent years, when falling energy prices helped ease consumer price pressures across both advanced and emerging economies.

Non-energy commodity prices are projected to be higher than previously expected in 2026–27, as the pass-through of higher energy costs offsets weaker global demand—particularly in China—and the unwinding of trade front-loading. Agricultural prices, which have also contributed to global disinflation, are likely to rise indirectly as fertilizer costs increase, posing heightened risks to food inflation and food insecurity.[27] Food prices are expected to rise more sharply in 2027, as higher fertilizer costs affect future harvests, even as near-term agricultural conditions remain broadly favorable. Beverage prices—after surging 64 and 18 percent in 2024 and 2025, respectively, and boosting fiscal revenues for coffee and cocoa exporters—are expected to retreat in 2026, although they will remain historically elevated.

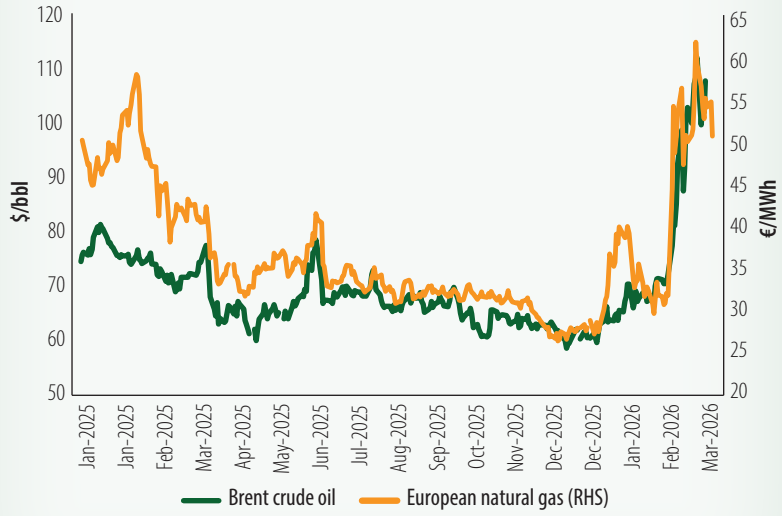
Figure 1.18: Commodity Prices, 2020–26



Source: World Bank.

Note: "Commodity prices" refers to the World Bank Commodity Price Index, excluding precious metals. The last observation is February 2026.

Figure 1.19: Energy Prices, 2025–26



Source: Haver Analytics.

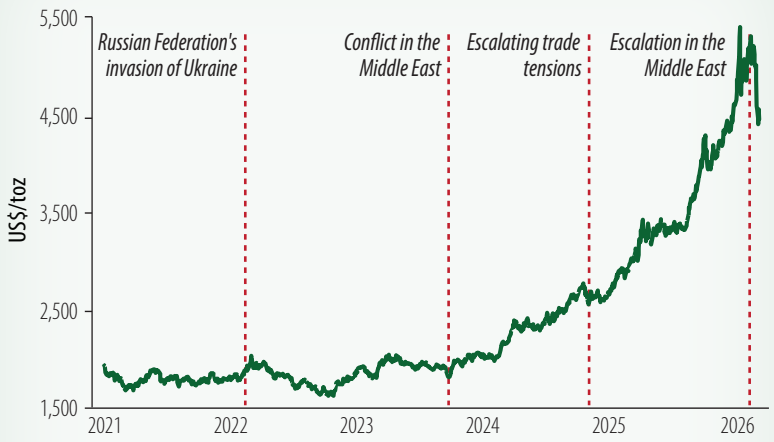
Note: The last observation is March 31, 2026. bbl = barrel; MWh = megawatt-hour.

Metal prices are projected to remain broadly stable in 2026–27, with rising demand linked to the green energy transition offsetting weak industrial activity, especially in China.[28] Gold prices surged by 42 percent in 2025, driven by strong investor demand, continued central bank

27 Fertilizer prices, which began easing in the fourth quarter of 2025, spiked sharply in February and March 2026 as Middle East disruptions choked about 20 percent of global exports from the Persian Gulf. As a result, fertilizer prices are now expected to be significantly higher in 2026, rather than easing as projected in October 2025.

28 Base metal prices rose 12 percent in the first quarter of 2026 (quarter-on-quarter), marking a third consecutive quarterly increase, led by sharp gains in tin (29 percent), nickel and copper (17 percent), and aluminum (10 percent).

Figure 1.20: Gold Prices and Geopolitical Events, 2021–26



Sources: Bloomberg; World Bank.

Note: The figure shows the seven-day moving average of daily gold prices. The last observation is March 26, 2026. toz = troy ounce.

purchases, and safe haven inflows. As of late March 2026, gold prices have been marked by exceptional volatility, reflecting opposing forces from heightened geopolitical risk and tight financial conditions (figure 1.20).[29] Higher base and precious metal prices bolster export earnings and fiscal revenues in Africa's metal exporters, which account for about one-third of the region's economies.

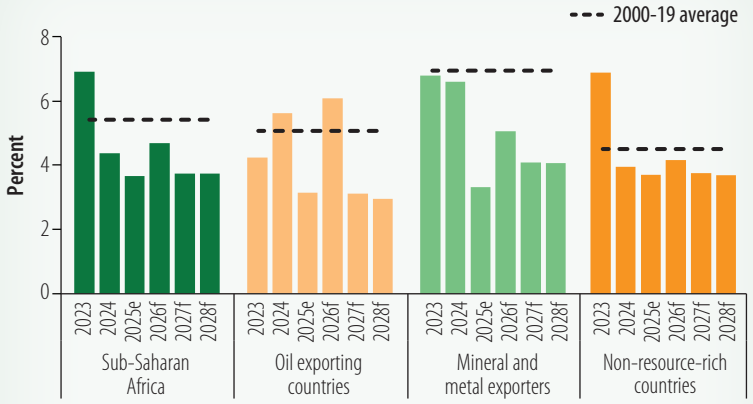
29 Gold prices climbed past a record US$5,400 per troy ounce earlier this year amid heightened safe haven demand. Silver and platinum prices also climbed by 61 and 35 percent, respectively, in the first quarter of 2026 due to strong speculative demand.

1.3 MACROECONOMIC PERFORMANCE OF SUB-SAHARAN AFRICA

Disinflation Is Broadening across African Economies, but the Risk of Reversal of Gains Is Looming Due to Geopolitical Risks

Consumer price inflation continues to fall across an increasing number of Sub-Saharan African countries, although the pace of disinflation varies widely. The median rate of inflation in the region decreased from 4.4 percent in 2024 to 3.7 percent in 2025. In 2026, inflation is projected to rise to 4.8 percent—driven largely by the anticipated effects of the conflict in the Middle East—before easing to about 3.8 percent over the 2027–28 forecast horizon (figure 1.21). About 70 percent of African economies (33 of 47) experienced a slowdown in consumer price inflation in 2025 compared to the previous year. Among the countries experiencing disinflation in 2025: (1) the median rate of inflation is projected at 3.3 percent, and (2) eight countries were unable to record single-digit rates on an annual average basis.[30] By 2026, the number of countries with double-digit inflation is expected to be nine, down from 13 in 2024.

Figure 1.21: CPI Inflation in Sub-Saharan Africa, 2023–28



Source: World Bank projections.

Note: Inflation is measured by the percentage change in the CPI, using the World Bank Macro-Fiscal Model database. Group medians are depicted in the figure. CPI = Consumer Price Index; e = estimate; f = forecast. Data as of 04/07/2026.

Inflation in the region has been easing due to a combination of declining global fuel and food prices, stronger external balances, firmer and more-stable currencies, and the effects of tighter monetary policy. International food and fuel prices have trended downward since their peaks in the second half of 2022, supported in part by increased output from non-OPEC+ producers and rising global oil inventories, which helped lower oil prices. Improved weather conditions and higher agricultural production have also contributed to moderating food inflation across many countries. At the same time, elevated prices for key African export commodities—such as metals and beverages—strengthened external positions in several economies, supporting currency appreciation and reducing imported inflation. This trend was further reinforced by the weaker U.S. dollar. Finally, sustained monetary tightening across the region has played a key role in dampening demand-driven price pressures and anchoring inflation expectations.

Among oil exporting countries, inflation is projected to decline from 5.7 percent in 2024 to 3.2 percent in 2025. It is expected to increase to 6.2 percent in 2026, before slowing to 3.1 percent in 2027–28. The deceleration in 2025 reflects the impact of declining—although still volatile—global

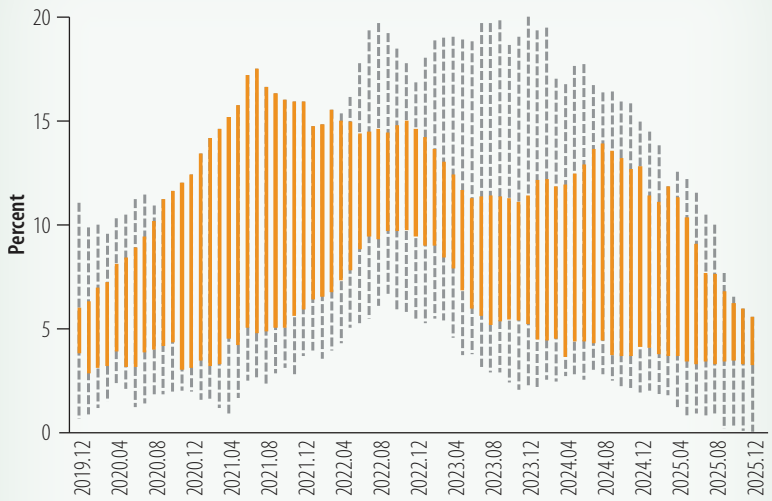
30 The eight countries in this group are Angola, Ethiopia, Ghana, Malawi, Nigeria, São Tomé and Príncipe, Sudan, and Zambia.

food and fuel prices, along with structural reforms that are helping narrow external imbalances and stabilize exchange rates. However, geopolitical risks arising from the conflict in the Middle East could reverse some of these gains by raising fuel prices, transportation costs, and fertilizer costs, potentially putting upward pressure on food prices in 2026. Inflation among mineral and metal exporters has also fallen sharply, from 6.7 percent in 2024 to 3.4 percent in 2025—although it is expected to rise to 5.2 percent in 2026 before moderating to about 4.1 percent in 2027–28. The 2025 decline reflects lower energy prices reducing mining input costs, stronger domestic currencies curbing import costs, and effective monetary policy tightening. Finally, consumer inflation in non-resource-rich countries is projected to drop from 4.0 percent in 2024 to 3.7 percent in 2025. It is projected to accelerate to 4.3 percent in 2026, before easing to an annual average of 3.8 percent in 2027–28. Nonetheless, risks of renewed inflation persist as a result of uncertainty associated with the conflict in the Middle East and ongoing global trade tensions.

High-Frequency Data Point to Stronger Regional Disinflation, but Conflict in the Middle East Poses Upside Inflation Risks

Monthly consumer price information indicates that the median rate of inflation has been on a steady downward trend since the last quarter of 2022, stabilizing at below 4.0 percent since February 2025. The regional median rate of inflation fell from nearly 10.0 percent year-on-year in November 2022 to about 3.2 percent in December 2025 (figure 1.22). Disinflation has been broad-based, with the number of countries experiencing double-digit inflation (or higher) dropping from 19 in November 2022 to five by December 2025. Inflation dispersion across the region has also narrowed substantially, declining from a peak of 7.8 percentage points in the second quarter of 2022 to about 4.2 percentage points in the last quarter of 2025.

Figure 1.22: Monthly CPI Inflation in Sub-Saharan Africa, 2019–25



Sources: Haver Analytics; International Financial Statistics, International Monetary Fund.

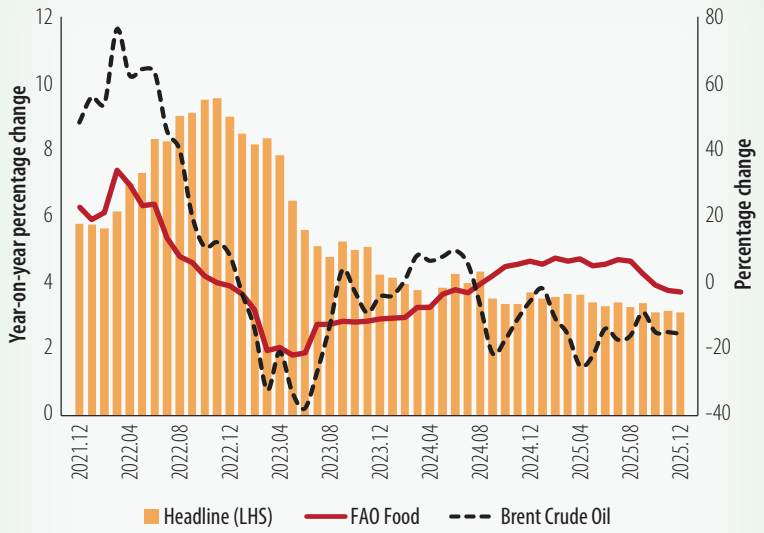
Note: The figure plots the year-on-year evolution of monthly inflation across African countries from December 2019 to December 2025. The height of the orange bars denotes the distance between the median (low) and average (high), and the gray dotted lines represent the 25th and 75th percentiles of the distribution across countries in Sub-Saharan Africa. CPI = Consumer Price Index.

This broad-based decline in inflation in 2025 was further supported by favorable movements in global commodity prices (figure 1.23). The World Bank's commodity food price index and Brent crude oil prices fell by 2 and 15 percent year-on-year, respectively, by December 2025. These declines in international food and fuel prices translated into lower domestic food and fuel costs for most net importers in the region, reinforcing the ongoing disinflation process.

In addition to easing global food and fuel prices, higher export prices for key African commodities—including beverages such as cocoa, base metals like copper and tin, and

precious metals such as gold and platinum—have helped narrow external imbalances and reduce pressure on current account deficits. Strengthened external positions, in turn, have supported stronger and stable currencies across many economies in 2025, reinforcing the downward trajectory of inflation. While core inflation has eased in several countries as a result of more-stable exchange rates and moderating global price pressures, fewer countries continue to face elevated and persistent inflation driven by structural constraints, including supply chain disruptions, logistics bottlenecks, and infrastructure gaps.

Figure 1.23: CPI Inflation and International Commodity Prices, 2021–25

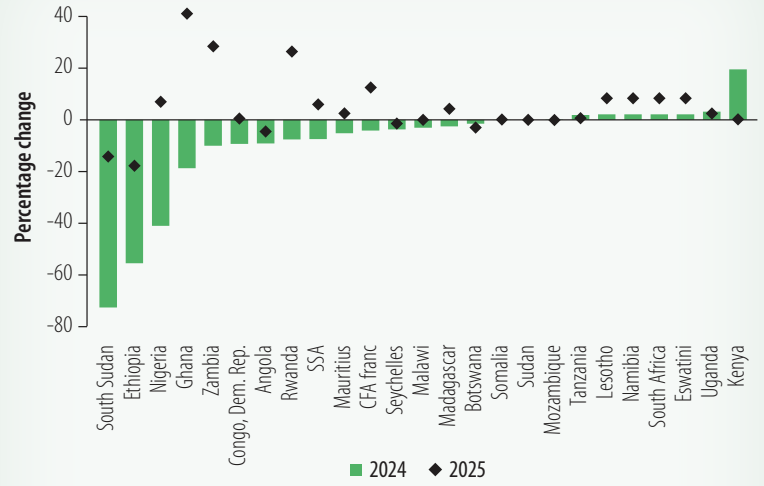


Sources: Haver Analytics; International Financial Statistics, International Monetary Fund; Commodity Price Outlook, World Bank.

Note: The figure plots the year-on-year evolution of monthly CPI headline inflation across African countries from December 2021 to December 2025. It also depicts the year-on-year percentage change in Brent crude oil prices and the FAO index of international food prices. CPI = Consumer Price Index; FAO = Food and Agriculture Organization.

African currencies have gradually strengthened, supported by more-accommodative (global and domestic) financial conditions, increased foreign exchange inflows—stemming from market reforms in several countries and rising foreign direct investment—as well as higher export earnings driven by favorable commodity prices and a broader weakening of the U.S. dollar. The Ghanaian cedi experienced a sharp turnaround in 2025, emerging as the world's best performing currency last year. It appreciated over 40 percent year-on-year against the U.S. dollar in December 2025, supported by record gold exports, tight monetary policy, and improved market sentiment as a result of International Monetary Fund (IMF)–supported reforms and a successful debt restructuring process (figure 1.24).

Figure 1.24: Currencies in Sub-Saharan Africa, 2024 and 2025



Sources: Haver Analytics; International Financial Statistics, International Monetary Fund.

Note: The variation in the exchange rate for 2025 is computed as the cumulative percentage change in the exchange rate (in US$ per local currency) from December 31, 2024, to December 31, 2025. SSA = Sub-Saharan Africa.

The Congolese franc and the Zambian kwacha were the next highest earning currencies in the region with

year-on-year appreciations of 28 and 26 percent, respectively, by the end of 2025. The appreciation of the Congolese franc was underpinned by higher foreign exchange reserves, supported in turn by stronger global demand for copper. Lower inflation, targeted foreign exchange interventions, and liquidity management measures implemented by the Central Bank of Congo also played a key role in bolstering the currency. In Zambia, the kwacha was supported by the surge in global copper prices driven by rising demand for electrification and AI-related infrastructure. Stronger export earnings—reflecting reforms that boosted mining output—and continued progress on debt restructuring efforts further reinforced the currency. In addition, new regulations limiting the use of foreign currency in domestic transactions have heightened demand for the kwacha.

The weakest performing currencies in 2025 were the Ethiopian birr and the South Sudanese pound, each losing about 18 and 15 percent of their value year-on-year, respectively, by end-December. In South Sudan, the depreciation was driven primarily by war-related disruptions to the oil pipeline running through Sudan, which severely constrained foreign exchange inflows. With limited Forex available to pay for imports, the cost of goods surged and inflation remained around triple-digit levels from mid-2024 to mid-2025. Structural challenges—including mismanagement of oil revenues, fiscal indiscipline, and heightened foreign-currency speculation—further exacerbated downward pressure on the currency. In Ethiopia, the foreign exchange market liberalization effort is facing pressure as the parallel market premium has risen to the high teens since end-December 2025. In response, the National Bank of Ethiopia has continued to advance measures aimed at developing a more competitive Forex market, including raising limits on selected current account transactions.

Figure 1.25: Monetary Policy Rates in Sub-Saharan Africa

Country/region	Current rate (%)	Months on hold	Last change (pp)	YTD change (pp)
Angola	17.5	2	▼ -1	▼ -1
Botswana	3.5	4	▲ 1.6	▶ 0
Eswatini	6.75	9	▼ -0.25	▶ 0
Gambia, The	14	0	▼ -2	▼ -2
Ghana	14	0	▼ -1.5	▼ -4
Kenya	8.75	1	▼ -0.25	▼ -0.25
Lesotho	6.5	4	▼ -0.25	▶ 0
Malawi	24	0	▼ -2	▼ -2
Mauritius	4.5	13	▲ 0.5	▶ 0
Mozambique	9.25	1	▼ -0.25	▼ -0.25
Namibia	6.5	5	▼ -0.25	▶ 0
Nigeria	26.5	5	▼ -0.5	▼ -0.5
Rwanda	7.25	6	▲ 0.5	▲ 0.5
South Africa	6.75	3	▼ -0.25	▶ 0
Tanzania	5.75	8	▼ -0.25	▶ 0
Uganda	9.75	17	▼ -0.25	▶ 0
Zambia	13.5	1	▼ -0.75	▼ -0.75
WAEMU	3	0	▼ -0.25	▼ -0.25
CEMAC	4.75	3	▲ 0.25	▶ 0

Sources: National and regional central banks.

Note: The value for WAEMU refers to the minimum bid rate set by BCEAO, and for CEMAC it refers to the tender interst rate set by BEAC. Data were last updated on March 27, 2026.BCEAO = the Central Bank of West African States; BEAC = the Bank of Central African States; CEMAC = the Central African Economic and Monetary Community; pp = percentage points; WAEMU = the West African Economic and Monetary Union; YTD = year to date.

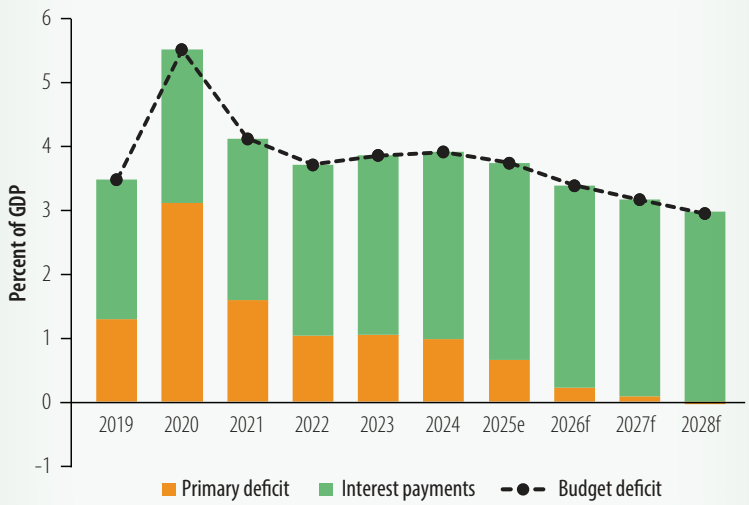
Looking ahead, the durability of the region's broad-based decline in inflation will hinge on continued easing of global commodity prices—particularly for food and fuel. Prudent fiscal and debt management, along with policies that enhance productivity, should help support and sustain the strengthening of African currencies. Easing inflationary pressures in several countries—such as Angola, Ethiopia, Ghana, and Nigeria—has been creating space for additional monetary policy easing across the region (figure 1.25). However, risks remain. Global economic uncertainty, the ongoing

conflict in the Middle East, and domestic fiscal slippages could reignite price pressures and potentially delay—or even reverse—the normalization of monetary policy.

Primary Fiscal Balance Improves, yet Interest Payments Stay Stubbornly High

Primary fiscal deficits in Sub-Saharan Africa have gradually narrowed since 2021 and are projected to move close to balance over the 2026–28 forecast period. This improvement reflects ongoing fiscal consolidation efforts as governments work to align revenues more closely with primary expenditures. The region's primary deficit has declined from a peak of 3.2 percent of GDP in 2020 to a projected average of 0.7 percent of GDP in 2025, with the fiscal accounts expected to be near balance by 2026 (figure 1.26). Overall, the (weighted average) primary balance is anticipated to strengthen by 0.8 percentage point of GDP between 2024 and 2026. During this period, 30 of 47 countries in the region are expected to record improvements in their primary balances, with a median cumulative gain of 1.3 percentage points of GDP. The largest projected improvements between 2024 and 2026 are in Ghana, Guinea-Bissau, Senegal, Sierra Leone, and Togo.

Figure 1.26: Headline and Primary Budget Deficits in Sub-Saharan Africa, 2019–28



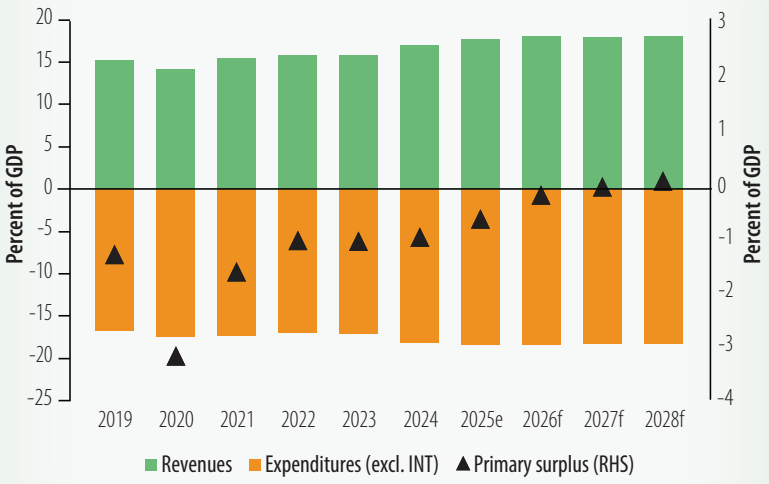
Source: World Bank projections.

Note: The figure presents GDP-weighted averages for the region. Interest payments are on net outstanding public debt. e = estimate; f = forecast; GDP = gross domestic product.

The overall budget deficit is projected to decline from 5.6 percent of GDP in 2020 to 3.5 percent in 2026 and to narrow further to an average of 3.1 percent in 2027–28. Although revenues and non-interest expenditures are broadly aligned, the headline deficit remains elevated due to persistently high net interest payments on public debt. These payments are expected to fluctuate between 2.9 and 3.2 percent of GDP over 2023–26. In nearly four out of five countries in the region, government interest payments exceed public spending on health and/or education. As economic growth accelerates—gaining nearly 2 percentage points between 2023 and 2026—government revenues are projected to rise more rapidly than expenditures. Total expenditures are expected to increase by 1.7 percentage points of GDP over this period, of which non-interest expenditures account for 0.4 percentage point. In contrast, government revenues are projected to strengthen by 2.2 percentage points of GDP from 2023 to 2026 (figure 1.27).

An increasing number of Sub-Saharan African countries are projected to narrow their primary deficits or shift into primary surpluses over 2023–26. Among the 47 countries with available

Figure 1.27: Revenues, Expenditures, and the Primary Balance in Sub-Saharan Africa, 2019-28



Source: World Bank projections.

Note: The figure presents GDP-weighted averages for the region. e = estimate; f = forecast; GDP = gross domestic product; INT = interest payments on net outstanding debt.

data, the number recording either small primary deficits (below 3 percent of GDP) or surpluses is expected to rise from 33 in 2023 to 42 in 2026. Over this period, 32 countries are projected to improve their primary balances, and 11 of them are expected to post a primary surplus by 2026. Resource-abundant economies are forecast to see their median primary balance strengthen from a deficit of 0.4 percent of GDP in 2023 to a surplus of 0.2 percent of GDP in 2026. In non–resource-rich countries, the median primary deficit is projected to narrow from 1.5 percent of GDP in 2023 to 0.3 percent in 2026.

Sub-Saharan Africa's Debt Ratios Are Stabilizing, but Underlying Vulnerabilities Are Intensifying

Public debt ratios across Sub-Saharan Africa are beginning to stabilize after a decade of rapid accumulation, but the underlying risk vulnerabilities remain high. The region is currently facing an environment characterized by the challenge of managing large existing debt stocks under tightening financing conditions and increasingly demanding repayment schedules rather than by rapid accumulation. The materialization of risks stemming from the conflict in the Middle East could significantly alter this landscape, as rising commodity and energy prices, disruptions to regional trade flows, and shifts in investor risk appetite compound pressures on already strained fiscal positions.

Sub-Saharan Africa's general government debt reached a record US$1.26 trillion in 2025, yet the regional debt-to-GDP ratio declined for a second consecutive year (figure 1.28). This reflects continued although smaller primary deficits relative to the 2020–22 peaks and stronger nominal GDP growth. The debt stabilization is welcome but narrow. The absolute stock continues to expand, and with it, the associated service burden.

Debt ratios are stabilizing across both International Development Association (IDA) and International Bank for Reconstruction and Development (IBRD) eligible countries, but at markedly different levels and with different drivers (figure 1.29).[31] IDA countries are stabilizing

31 In 2025, the median public and publicly guaranteed debt-to-GDP ratio for IDA-eligible countries stood at 52.4 percent, declining from 56.2 percent in 2023, while blend countries' ratios dropped substantially by 15.2 percentage points during the same period. For IBRD-eligible borrowers, the ratio remained higher and more persistent at 63.0 percent.

at lower debt levels but with weaker fiscal buffers and heavy reliance on concessional financing. IBRD borrowers carry larger debt stocks, are more directly exposed to global interest rate cycles, and face challenging refinancing terms when market conditions deteriorate.

Figure 1.28: Sub-Saharan Africa's General Government Debt, 2010–25 (US$, billions)

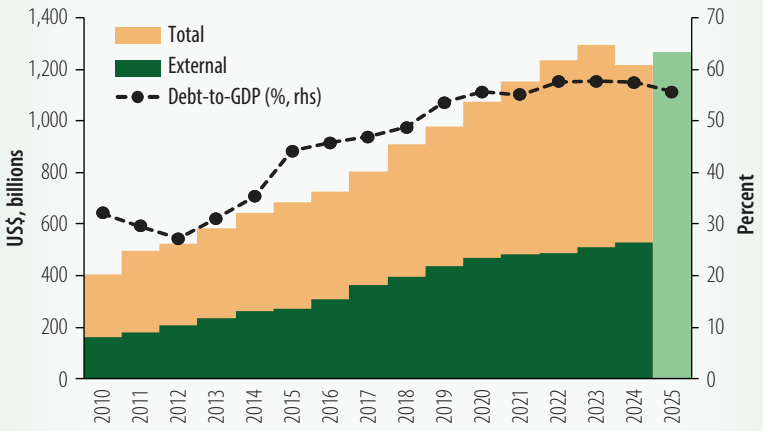
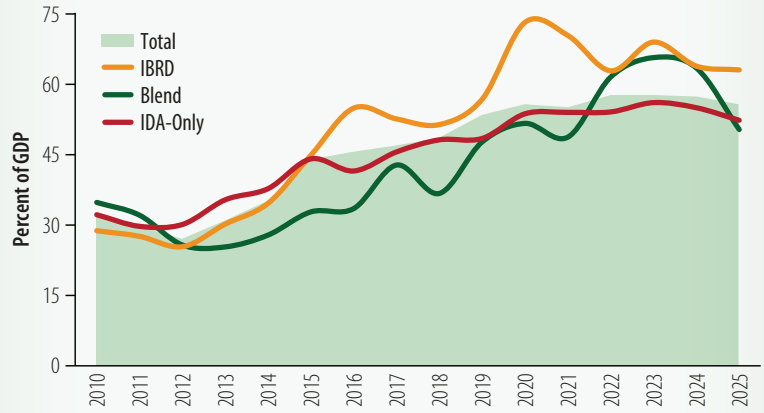


Figure 1.29: Sub-Saharan Africa's Public and Publicly Guaranteed Debt-to-GDP Ratio, 2010–25 (% of GDP, median)



Sources: Calculations based on data from the International Monetary Fund's World Economic Outlook (October 2025), with external debt data drawn from the World Bank's International Debt Statistics (December 2025).

Note: Blend = countries eligible for both concessional IDA and non-concessional IBRD lending; GDP = gross domestic product; IBRD = International Bank for Reconstruction and Development; IDA = International Development Association.

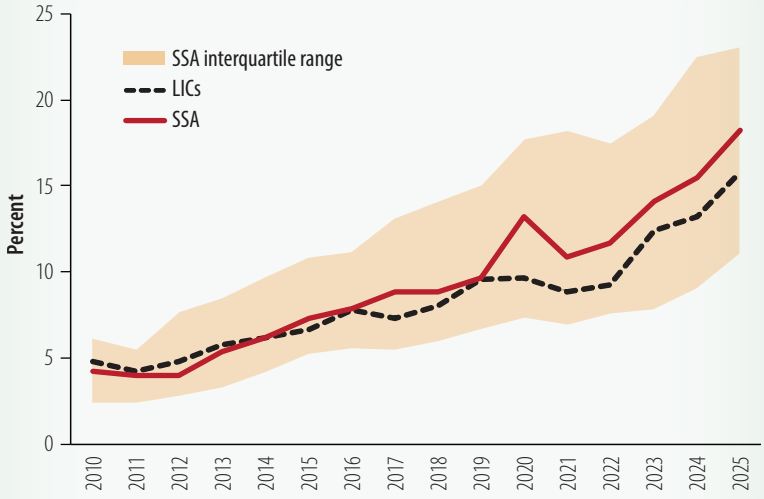
Within total public debt, the domestic component has become increasingly prominent and is now the primary driver of rising debt service costs. Regionally, external public and publicly guaranteed (PPG) debt declined from 29.3 percent of GDP in 2020 to 25.3 percent in 2024. Over the same period, domestic PPG debt rose from 24.2 percent of GDP in 2022 to 28.6 percent in 2023, easing only slightly to 27.7 percent in 2024. Domestic debt now accounts for roughly half of total public debt. The growing concentration of government securities on domestic bank balance sheets heightens financial sector vulnerabilities that are less associated with external debt exposures.

Behind the regional average, country trajectories diverge sharply. Among the 46 Sub-Saharan African countries with complete 2024 data, public debt-to-GDP ratios fell in 24 and rose in 22. The largest reductions—Zambia (–14.1 percentage points of GDP) and Angola (–12.5 percentage points)—reflected the impact of completed or advanced debt restructuring combined with strong commodity revenues. The largest increases were in Senegal (10.1 percentage points) and Guinea (8.5 percentage points). In Guinea, the recent increase in public debt primarily reflects a shift toward greater reliance on domestic financing, alongside higher levels of infrastructure-related borrowing from multilateral institutions and Chinese commercial creditors. In Senegal, the debt buildup has been compounded by the materialization of previously unreported liabilities, notably those stemming from infrastructure loans contracted

by state-owned enterprises and other public entities. Similar heterogeneity is visible in external debt: Cabo Verde (–9.9 percentage points) and Mozambique (–8.2 percentage points) recorded declines in their external debt-to-GDP ratios. In Cabo Verde, the reduction was driven by fiscal adjustment and concessional refinancing, while in Mozambique it primarily reflected the absence of new external financing. By contrast, Nigeria and Rwanda have increased external borrowing. Nigeria's increased external debt in 2024 stems from exchange rate valuations; since then, the debt-to-GDP ratio has been on a declining trajectory. Rwanda's debt increase stems from infrastructure expansion and climate recovery initiatives.

External debt service pressures are intensifying despite stabilizing debt stock. The region's external PPG debt service-to-revenue ratio (excluding grants) is projected to increase by 2.8 percentage points, from 15.4 percent in 2024 to approximately 18.2 percent in 2025 (figure 1.30). The burden is most severe in Angola, Senegal, and South Sudan, where a substantial share of government revenues would be needed to service external public debt in the coming years. In Ethiopia, under current repayment schedules and before the full implementation of restructuring relief, this ratio could peak at 91 percent in 2037, highlighting the urgency of concluding negotiations on terms that can restore debt sustainability.

Figure 1.30: Sub-Saharan Africa's External PPG Debt Service to Revenue, Excluding Grants, 2010–25 (median)



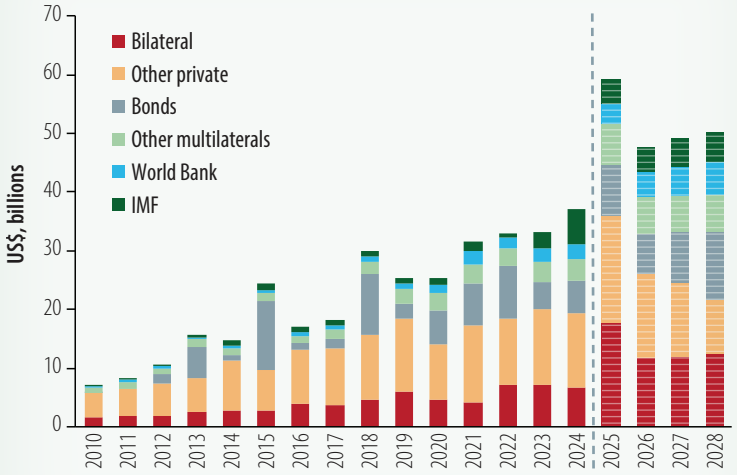
Source: Calculations based on data from the World Bank International Debt Statistics as of end-December 2025. LICs = low-income countries, PPG = public and publicly guaranteed, SSA = Sub-Saharan Africa.

In Sub-Saharan Africa, external amortizations are expected to remain elevated over the next five years. External PPG principal repayments have risen sharply, jumping from US$37 billion in 2024 to US$59.2 billion in 2025—a 60 percent single-year increase—driven by the maturity of commercial bank loans, higher bond redemptions, and the resumption of payments under restructuring agreements. Repayments are projected to stabilize at US$47 billion to US$50 billion annually over 2026–28 (figure 1.31). Angola, Senegal, and South Africa face the largest individual repayment obligations in 2026. Overall, total debt service—principal and interest repayments—will increasingly compete with development spending for fiscal resources.

Debt vulnerabilities in the region remain elevated, reflecting a partial containment of the pressures that emerged during the pandemic and the subsequent global tightening cycle. As of end-2025, 25 of 48 Sub-Saharan African countries (52 percent) were assessed by the IMF–

World Bank as being at high risk of debt distress or already in distress—18 at high risk and seven in distress (figure 1.32). This share is slightly higher than in 2024, interrupting a two-year improvement. While a regionwide debt crisis appears to have been contained, the persistence of such elevated vulnerabilities indicates that Sub-Saharan Africa has entered a more fragile debt equilibrium in which shocks are increasingly likely to trigger fiscal stress.

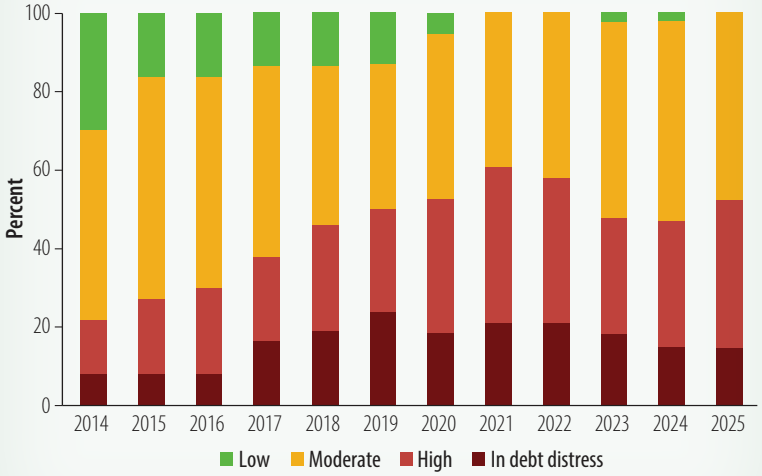
Figure 1.31: External PPG Amortizations in Sub-Saharan Africa, by Creditor, 2010–28 (US$, billions)



Source: Calculations based on data from the World Bank International Debt Statistics as of end-December 2025.

Note: PPG = public and publicly guaranteed; SSA = Sub-Saharan Africa.

Figure 1.32: External Risk of Debt Distress in Sub-Saharan African Countries, 2014–25



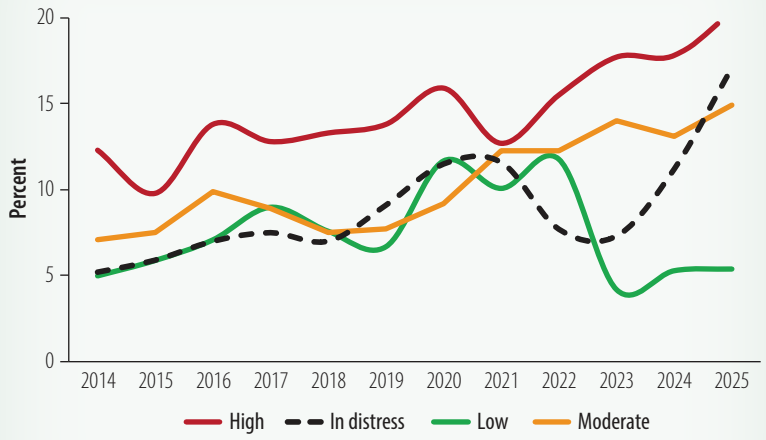
Source: Calculations based on data from the World Bank–International Monetary Fund Debt Sustainability Framework for Low-Income Countries (LIC-DSA) database as of end-December 2025.

Debt vulnerability is heavily concentrated among lower-income economies. Of the 25 countries at high risk or already in distress, 22 are low-income or lower-middle-income, reflecting narrow revenue bases, limited export diversification, and restricted access to concessional finance. This pattern underscores that debt distress in Sub-Saharan Africa is not confined to a few outliers but is a defining fiscal challenge for much of the region's poorest economies.[32] It reflects decade-long increased debt vulnerabilities driven by the shift toward non-concessional borrowing, the COVID-19 fiscal shock, and the 2022–24 global tightening cycle. The moderate-risk group—48 percent in 2025, down from 51 percent in 2024—has become the region's primary zone of vulnerability. Countries in this group remain solvent under baseline projections but hold limited buffers against adverse shocks.

32 Since 2021, no Sub-Saharan African country has maintained a low-risk rating, with the sole exception of Botswana's brief attainment of such status in 2023 and 2024.

Debt service burdens are rising across all risk categories but have worsened particularly for high-risk economies. In high-risk Sub-Saharan African countries, the external public debt service-to-revenue ratio reached 20.6 percent in 2025—up 2.8 percentage points from 2024 and the highest level recorded for this group (figure 1.33). Countries already in distress reached 17.1 percent, nearly 6 percentage points higher than a year earlier, reflecting both resumed payments after restructuring agreements and continued arrears elsewhere. Moderate-risk countries recorded 14.9 percent. The resulting gap between high-risk and moderate-risk groups has widened steadily since 2020, reflecting deeper structural vulnerabilities, despite the greater reliance of high-risk countries on concessional financing.

Figure 1.33: Median PPG External Debt Service-to-Revenue Ratio, by Risk Rating, 2014–25



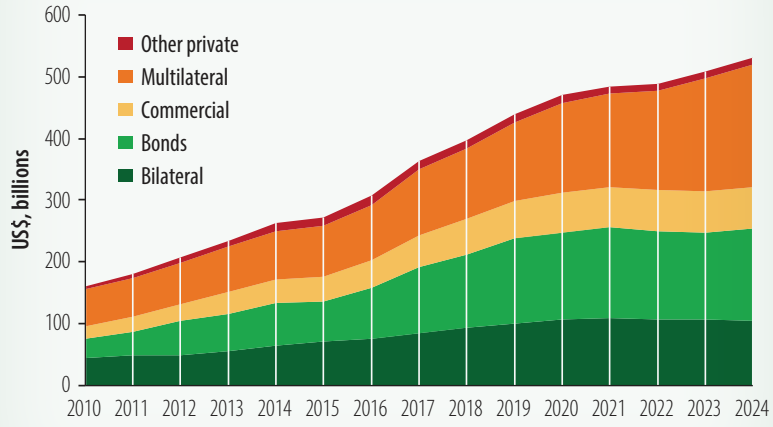
Sources: Calculations based on data from the World Bank–International Monetary Fund Debt Sustainability Framework for Low-Income Countries (LIC-DSA) database as of end-December 2025; World Bank end-December International Debt Statistics.

Note: PPG = public and publicly guaranteed.

A Changing Creditor Landscape and Rising Vulnerabilities in Sub-Saharan Africa

The creditor composition of Sub-Saharan Africa's public external debt has shifted markedly over the past decade, reshaping countries' exposure to global financing conditions, borrowing costs, and refinancing risks (figure 1.34). At end-2024, official creditors accounted for 57 percent of Sub-Saharan Africa's US$530.8 billion PPG external debt stock—US$197.8 billion (37 percent) to multilateral institutions and US$104.5 billion (20 percent) to bilateral creditors. Private creditors held the remaining 43 percent, dominated by sovereign bonds (28 percent) and commercial banks (13 percent). Although the official share remained unchanged at 57 percent

Figure 1.34: Sub-Saharan Africa's Creditor Composition, 2010–24 (PPG debt stock, in current US$, billions)



Source: World Bank International Debt Statistics, end-December 2025.

Note: PPG = public and publicly guaranteed.

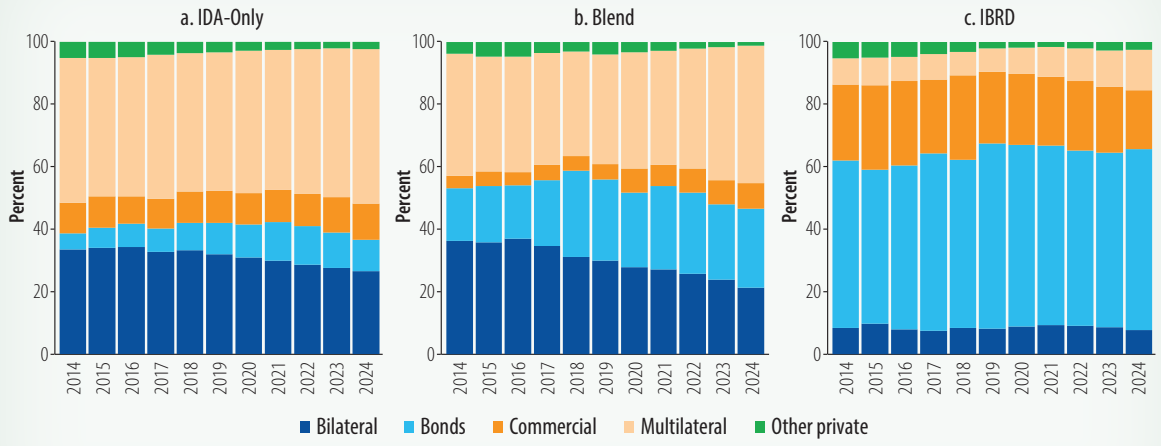
in 2023 and 2024, this apparent stability masks significant changes in the composition of official lending and the distribution of creditor exposure across income groups—developments with direct implications for debt service burdens and vulnerability to market conditions.

Multilateral lending has been the fastest-growing component of Sub-Saharan Africa's external debt over the past decade, reflecting the scale of crisis financing deployed by international financial institutions. Multilateral debt rose from US$79.2 billion in 2014 to US$197.8 billion in 2024, a 150 percent increase. As crisis-era loans mature, amortizations have climbed from US$4.0 billion in 2018 to US$12.2 billion in 2024 and are projected to reach US$16.9 billion by 2028. In contrast, bilateral debt has stagnated in nominal terms and declined as a share of the region's external debt, reflecting both ongoing restructuring efforts and a slowdown in new lending. Bilateral debt peaked at US$109.2 billion in 2021 before declining to US$104.5 billion by 2024, reducing its share of external debt from 23 to 20 percent. This decline partly reflects stagnant Paris Club financing, reduced lending from nontraditional bilateral creditors, and a shift toward alternative funding sources—including a greater reliance on domestic debt to help mitigate exchange rate risks.

Among private creditors, sovereign bonds have grown the fastest and now carry the greatest fiscal cost implications. Bond debt rose from US$69.0 billion in 2014 to US$149.4 billion in 2024—a 117 percent increase—while bond amortizations are projected to more than double from US$5.4 billion in 2024 to US$11.7 billion by 2028, reflecting the maturity of bonds issued during the 2017–21 surge. The fiscal impact is driven by differences in the cost of borrowing.

The income group breakdown highlights the diverging financing structures and risk profiles across Sub-Saharan Africa's borrowing categories. By 2024, IDA-only countries relied on official creditors for roughly 76 percent of their external debt, offering substantial insulation from global market volatility (figure 1.35). In contrast, IBRD countries present the opposite pattern: private creditors hold roughly 79 percent of their PPG external debt, with sovereign bonds alone accounting for 58 percent. This divergence translates directly into different exposures to

Figure 1.35: Sub-Saharan Africa's Composition of External Public and Publicly Guaranteed Debt, by Type of Creditor, 2014–24



Source: Calculations based on data from the World Bank Debtor Reporting System.

Note: Blend = both concessional IDA and non-concessional IBRD lending; IBRD = International Bank for Reconstruction and Development; IDA = International Development Association.

global interest rate cycles, investor sentiment, and spread volatility. For countries such as Angola and South Africa—facing large external amortization obligations in 2026—shifts in global risk appetite have immediate fiscal consequences.

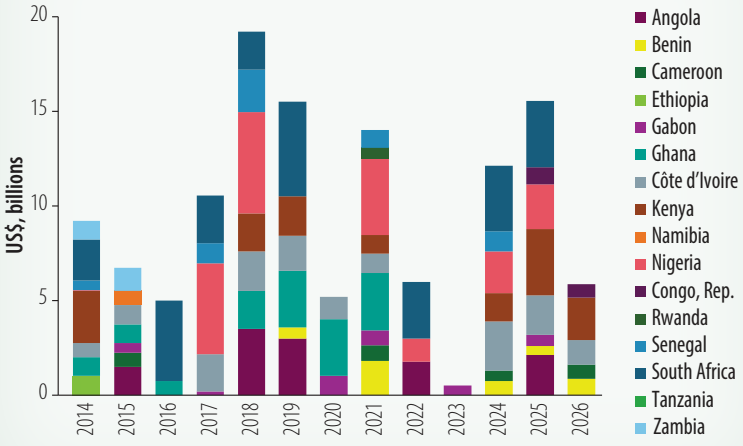
Blend economies have experienced the sharpest shift in creditor composition over the past decade and now face the most complex refinancing outlook. Their external PPG debt more than tripled—from US$45.7 billion in 2014 to US$142.9 billion in 2024—driven by a 370 percent increase in bond debt and a 539 percent surge in commercial bank lending, raising the private share of their external debt from 25 to 35 percent. The increase in borrowing costs is already evident: Cameroon's July 2024 Eurobond priced at 10.75 percent, up from 9.75 percent on its 2015 issuance, a pattern observed across other blend borrowers.

Private External Financing: Rising Costs and Shorter Maturities

The cost of private external borrowing has risen over the past decade, with 2024 signaling a clear reset in the region's market financing conditions. The average interest rate on new private external debt commitments rose from 4.7 percent in 2014 to 6.8 percent in 2024, while average maturities shortened from 9 to 7.2 years over the same period.[33] These shifts appear to reflect a structural repricing of risk premia following the 2020–23 default episodes, compounded by tighter global financial conditions during 2022–24.

Sub-Saharan Africa's participation in international bond markets in 2025 was the strongest in seven years. Eight sovereigns completed 18 transactions—the highest annual total since 2018 and matching the previous record—signaling a clear reversal of the near-complete market closure in 2022–23 (figure 1.36). Outside South Africa, Angola and Kenya were the most active issuers—with the latter undertaking two dual-tranche deals.[34] The rebound was supported by improved global financial conditions, progress on fiscal consolidation among key issuers, and greater clarity around Ghana's and Zambia's restructurings.

Figure 1.36: Sub-Saharan Africa's Eurobond Issuance Volumes, 2014–26 (US$, billions)



Source: Bond Radar, accessed February 27, 2026.

The 2025 issuance yields show a sharply bifurcated market. At the low end, Angola priced at 6.14 percent—the lowest in the cohort—reflecting fiscal prudence and economic diversification efforts. A middle cluster—Benin (8.63 percent), Côte d'Ivoire

33 The shift to 7.2-year maturities compounds refinancing risk: replacing 10-15-year bonds issued in 2014–19 with seven-year instruments both raises borrowing costs and clusters repayments in the early 2030s, creating the next refinancing wave before the current one has passed.

34 Kenya's two dual-tranche deals in 2025 and its early-2026 issuance—US$2.25 billion in 2034 (7.875 percent) and 2039 (8.7 percent) bonds plus a US$500 million buyback—illustrate large-scale proactive liability management that extended maturities and eased near-term redemptions.

(8.04 percent), Kenya (8.90 percent), and Nigeria (8.88 percent)—benefited from improved fiscal management. At the high end, Gabon (12.70 percent) and the Republic of Congo (13.33 percent) issued at distress-level yields, the highest ever seen in the region.[35]

Improved Market Pricing for Creditworthy Issuers in Sub-Saharan Africa

As of early 2026, the average Sub-Saharan Africa sovereign spread over U.S. Treasuries stood at roughly 487 basis points, down sharply from a year earlier, reflecting improved global risk sentiment and significant repricing of previously distressed issuers rather than broad-based improvements in underlying fundamentals. This compression in sovereign spreads, however, masks a widening divide between stronger and weaker credits, a split that now largely determines market access and refinancing conditions. The improvement is concentrated among a limited group of more-creditworthy sovereigns rather than a generalized normalization of financing conditions across the region—and it remains highly sensitive to global interest rate movements and country-specific vulnerabilities.

The divergence in spreads is evident in early-2026 primary market issuance. Sovereigns with stronger policy frameworks and established investor relationships—such as Benin, Côte d'Ivoire, and South Africa—accessed financing at spreads consistent with continued market participation, at 260-300 basis points, reflecting a credibility premium associated with fiscal discipline, transparent debt management, and, in some cases, IMF-supported program anchors.[36] In contrast, higher-risk issuers—such as the Republic of Congo (11.63 percent yield, roughly 745 basis points) and Cameroon (10.13 percent, roughly 595 basis points)—faced substantially wider spreads, underscoring that market conditions continue to discriminate sharply based on perceived creditworthiness and policy credibility rather than a generalized normalization of financing conditions across the region. Senegal experienced the sharpest deterioration: following the February 2025 official disclosure of previously unreported fiscal liabilities by the Court of Auditors (Cour des Comptes), its debt ratio was pushed to around 99.7 percent of GDP at end-2023, and spreads widened steadily through 2025 to distressed levels by year-end.[37]

The 2026 Redemption Cycle: Market Access as the Binding Constraint

Sub-Saharan Africa's total Eurobond maturities in 2026 amount to about US$3.5 billion (0.6 percent of GDP), a lighter repayment year than 2025 (US$8 billion) and well below the upcoming 2028 peak (US$8.6 billion). Pressures vary by country: Benin faces the heaviest burden relative to GDP (US$565 million, 2.1 percent), while South Africa's US$1.9 billion maturity is modest at 0.43 percent of GDP (figure 1.37).

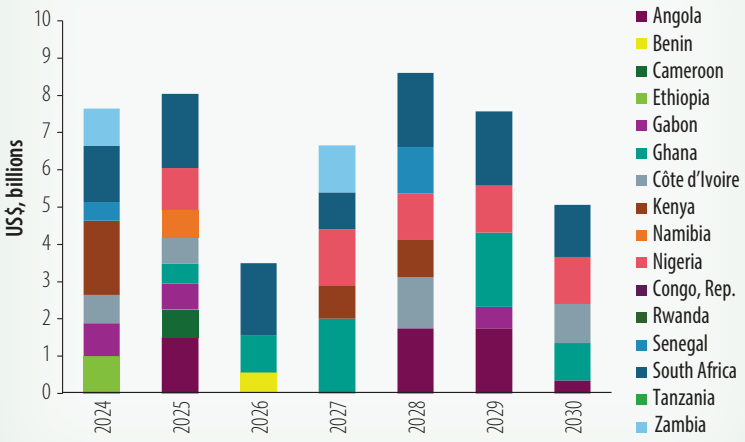
The more significant refinancing challenge falls in 2027–28, when regional Eurobond maturities peak at roughly US$8.6 billion in 2028. Key contributors include Angola (US$1.75 billion; 1.43 percent of GDP in 2028), South Africa (US$2 billion in both 2028 and 2029), Ghana (US$2 billion in 2027 and again in 2029), and Nigeria (US$1.5 billion in 2027 and US$1.25 billion

35 The fact that two of eight issuers priced at such levels underscores the degree of market bifurcation masked by the regional average.

36 South Africa, Côte d'Ivoire, and Benin issued at 6.81, 7.13, and 6.80 percent, respectively, against a roughly 4.18 percent U.S. Treasury benchmark. After hedging into euros, the effective interest rate for Côte d'Ivoire is 5.3 percent. Despite remaining above pre-2022 norms, borrowing costs and implied spreads support sustained market access.

37 Distressed pricing was already visible in 2025, when Gabon issued at 12.70 percent and the Republic of Congo at 13.33 percent, indicating that the bifurcation predates the recent easing in global conditions.

Figure 1.37: Sub-Saharan Africa's Eurobond Maturities, by Country, 2024–30 (US$, billions)



Source: Bond Radar, accessed February 27, 2026.

in 2028), driving regional maturities to a peak of US$8.6 billion in 2028 (figure 1.37). Zambia's US$1.25 billion (3.2 percent of GDP) and Senegal's US$1.24 billion (2.8 percent of GDP) obligations, due in 2027 and 2028, respectively, represent particularly acute forward refinancing pressures relative to economic size. Given impending obligations, sovereigns with current market access may benefit from proactive liability management. However, ongoing or potentially escalating geopolitical tensions in the Middle East could heighten global risk premiums, narrowing the window of favorable conditions.

Sub-Saharan Africa's Debt Restructuring: Progress amid Remaining Challenges

Debt restructuring efforts in Sub-Saharan Africa made tangible progress in 2025, although comprehensive agreement has yet to be reached across active cases. Among the four countries under the Group of Twenty Common Framework—Chad, Ethiopia, Ghana, and Zambia—engagement with official creditors is either substantially advanced or formally completed, and operational timelines have shortened relative to earlier cases. Outside the Framework, Malawi's restructuring process suffered a major setback following the lapse of its IMF-supported program, while Somalia's earlier Heavily Indebted Poor Countries Initiative completion point continues to underpin a more stable debt outlook.

Overall, the picture is one of gradual yet uneven progress: procedural improvements are evident, but the gap between official creditor agreements and comprehensive debt workouts—including outreach to bondholders and participation by commercial creditors—persists across most active cases.

A growing structural constraint is the rising visibility and influence of non-bonded commercial creditors—particularly regional lenders asserting preferred creditor status—which has emerged as a key impediment to completing restructurings.[38] This challenge has appeared concurrently in Ghana, Malawi, and Zambia, suggesting that it reflects a systemic feature of the region's restructuring landscape rather than isolated, country-specific difficulties.

Within the Common Framework, Zambia and Ghana illustrate both the progress achieved and the persistent vulnerabilities in Sub-Saharan Africa's debt restructuring landscape. Zambia's

38 Regional creditors, such as the African Export-Import Bank (Afreximbank) and the Trade and Development Bank, asserted preferred creditor status as grounds for nonparticipation in debt treatments comparable to those applied to bilateral and bonded commercial creditors, complicating the application of the comparability-of-treatment principles under the Common Framework and beyond.

process is the most advanced: the June 2024 bond exchange resolved its Eurobond obligations; China's June 2023 rescheduling agreement, which extended repayment schedules over 20 years for a substantial share of its claims, set an important precedent for official creditor coordination; and the use of state-contingent, GDP-linked instruments offers a potential template for mitigating the risk of future restructurings. Ghana's November 2024 upgrade from "in debt distress" to "high risk of debt distress" represents meaningful progress; however, significant vulnerabilities remain. Negotiations with commercial creditors are still ongoing, and the sovereign-bank nexus has weakened following the domestic debt exchange.

The Common Framework's operational efficiency continued to improve relative to earlier applications, with the four Sub-Saharan African cases—Chad, Ethiopia, Ghana, and Zambia—each recording progress in 2025, and the Framework's operational efficiency continued to improve relative to earlier applications. The time between IMF staff-level agreement and Board approval shortened markedly, from roughly 10.5 months in Chad's case to about 2.1 months in Ethiopia's, reflecting procedural learning and implementation of the IMF's 2024 policy on credible official creditor processes. Ethiopia reached a major milestone in 2025, securing an agreement-in-principle with its Official Creditor Committee in March and a full Memorandum of Understanding in July. This completed formal official creditor engagement across all four Common Framework cases in the region. Negotiations with private bondholders, however, remained outstanding at year-end as comparable treatment discussions continued.[39]

Zambia remains the most procedurally advanced case. The authorities have reached agreement on approximately 94 percent of the required debt treatment, including five signed bilateral creditor agreements, with the remaining share pending primarily due to unresolved negotiations with non-bonded commercial creditors. Ghana has reached a comparable stage: by October 2025, more than 95 percent of required debt treatment had been agreed, and four bilateral agreements were signed by end-September. As the earliest case processed under the Common Framework, Chad established the initial procedural baseline against which improvements in subsequent cases—particularly in terms of timelines and official creditor coordination—are now measured.

Outside the Common Framework, Malawi remains the region's most challenging case. Restructuring efforts launched in mid-2022 have yet to produce a comprehensive agreement. While official bilateral creditors have agreed to terms in principle, negotiations with commercial lenders remain stalled, and domestic debt service pressures continue to intensify. The IMF's Extended Credit Facility—approved in November 2023 for US$175 million—lapsed in May 2025 after only US$35 million had been disbursed, as no program review was completed within the required timeframe. Public debt has risen to an estimated 88 percent of GDP, and the 2025 Debt Sustainability Analysis classified Malawi as being in debt distress. Interest payments, especially on domestic obligations, are projected to exceed 8 percent of GDP in fiscal year 2025/26, further straining fiscal space amid restructuring delays. To address these pressures, the authorities have announced plans to reprofile domestic debt and engaged an advisory firm to support the design and execution of this strategy, with the aim of easing debt service burdens and creating room for essential services and investment under the newly elected government.

39 Ethiopia's private creditor engagement involves active negotiations following an earlier agreement-in-principle that required further discussion to align with comparability-of-treatment expectations. The timeline for concluding a bondholder agreement remains subject to ongoing negotiations.

1.4 RISKS TO THE OUTLOOK

While economic activity continues to improve gradually in Sub-Saharan Africa, the outlook remains subject to downside risks. Across political, trade, climate, and technology-related risks, the distribution remains tilted toward adverse outcomes, with potential negative shocks outweighing prospective positive ones. Nevertheless, each of these areas also presents opportunities, and effective policy action—along with individual and institutional initiatives—will be critical in shaping the overall risk environment.

Weaker-Than-Expected Growth in Global Economic Activity

A deceleration in major global economies—most notably, China, Europe, and the United States—poses a substantial downside risk to Sub-Saharan Africa's recovery.[40] A slowdown in these economies would weaken external demand, reduce remittance inflows, and curtail foreign direct investment. China's structural slowdown represents a particularly significant transmission channel for the region's mineral and metal exporters: ongoing adjustments in China's property market and persistently subdued household consumption threaten the terms of trade for the Democratic Republic of Congo, South Africa, and Zambia. Such conditions have historically been associated with widening current account deficits across the region.[41] Moreover, the recent spike in global oil prices may lead to tighter monetary policy in leading global economies, in the context of already weak labor markets in the United States. Given Sub-Saharan Africa's modest share of global merchandise trade—approximately 2.7 percent—and its limited integration into global value chains, external shocks tend to transmit rapidly through channels such as household and firm income, fiscal revenues, and investor sentiment.[42]

Political Instability and Uncertainty

Political uncertainty—both within the region and globally—continues to represent a significant downside risk for Sub-Saharan Africa. Nonetheless, recent institutional advances, including improvements in governance frameworks, have introduced elements of upside potential.

The weakening support for global cooperation and the multilateral institutions that underpin it constitutes a significant downside risk to the region's growth prospects. Recent warnings by the United Nations Secretary-General regarding the organization's financial sustainability further underscore the potential implications for global stability.[43] This coincides with the expiration of the new START nuclear arms-reduction treaty between the United States and the Russian Federation, marking a further deterioration of global cooperation on major security issues. Given the substantial impact that Russia's 2022 invasion of Ukraine had on regional food and energy markets, any renewed conflict or broader decline in global security conditions could lead to substantial adverse consequences for Sub-Saharan Africa's economic prospects.

The conflict in the Middle East poses significant risks to global trade flows—particularly energy shipments. The extent of its impact on the world economy, and on Sub-Saharan Africa

40 Amid persistent domestic headwinds—most notably the ongoing real estate slump—and rising uncertainty in the global economy, China set a slightly more modest growth target of 4.5 percent for 2026.

41 Evidence shows that fluctuations in commodity prices—particularly those driven by weakening global demand for copper—have historically produced substantial macro-fiscal impacts in resource-rich economies. Such price cycles have been associated with fiscal revenue variations of approximately 8 to 13 percentage points of GDP, alongside movements in export earnings ranging from 2 to 10 percentage points of GDP (Bova, Medas, and Poghosyan 2016).

42 WTO (2023).

43 The New York Times, January 30, 2026.

in particular, will depend on the scale and duration of any disruption to oil and LNG transit through the Strait of Hormuz. Sub-Saharan Africa is likely to feel the effects mainly through volatility in global energy prices. A surge in prices would bolster incomes for the region's net energy exporters (such as Angola and Nigeria), while net importers would face mounting external pressures and currency depreciation amid heightened risk aversion. Higher fuel costs would also push up inflation across most countries in the region, potentially delaying—or even reversing—ongoing monetary easing cycles.

The compression in development aid budgets by major donor countries is taking place at a time when risks of debt distress remain elevated across the region following the justified increase in government borrowing during the COVID-19 pandemic. As much of this aid supported human capital investments—particularly in health and education—governments now face difficult trade-offs: either curtail these programs or maintain them at the expense of other priority development needs, including infrastructure investment. Both options carry a substantial risk of reversing programs toward long-term development goals.

Ongoing and potential conflicts within the region continue to constrain development prospects and place significant strain on institutional capacity. The protracted conflict in Sudan represents a major source of uncertainty for neighboring countries, with South Sudan and Chad particularly vulnerable to conflict spillovers. Similarly, persistent tensions—including in eastern Democratic Republic of Congo, the Tigray region of Ethiopia, and areas affected by Islamic State activity in the Sahel—remain potential sites of conflict escalation.

Finally, non-democratic political transitions continue to occur in the region—although recently with limited violence—as both Guinea-Bissau and Madagascar experienced coups over the past year. While these events unfolded with relatively few immediate security incidents, the risk of political violence remains elevated. Several countries, including Angola, Cameroon, Mali, Senegal, and Tanzania, have faced episodes of violent protest. Broader criminal activity also poses risks to economic activity. In Nigeria alone, more than 2,000 people were kidnapped in 2025.[44] South African president Cyril Ramaphosa announced that the government will send troops to combat illegal mining and violent crime in the provinces of Gauteng and Western Cape.[45]

Market Access Challenges: Trade Fragmentation, Trade Barriers, and Preferential Trade Agreements

The global trade system is becoming increasingly fragmented amid rising protectionism and the intensification of "friendshoring" practices, exacerbating vulnerabilities across Sub-Saharan Africa's export-oriented sectors. The heavy concentration of the region's exports in early-stage value chain inputs heightens its vulnerability to trade barriers and market access disruptions. The top 15 intermediate goods exports account for more than 50 percent of total intermediate goods exports—a degree of concentration significantly higher than that observed in other world regions.[46] Participation in regional supply chains is also limited: intra-African trade in intermediate goods was recorded at only 12.8 percent in 2022—the lowest share globally.[47]

44 HumAngle Tracker (2025).

45 Estimates suggest that crime imposes an annual cost of at least 10 percent of South Africa's GDP. These losses arise from multiple channels, including direct theft (2.6 percent of GDP), expenditures on security and insurance (4.2 percent), and opportunity costs (estimated at 1.8 to 2.8 percent of GDP) (World Bank 2023b).

46 Degain and Eberth (2024).

47 Degain and Eberth (2024); Abdel-Latif, Khandelwal, and Zhang (2025).

Rising global trade fragmentation may generate upside opportunities by encouraging greater intraregional trade at a time when the AfCFTA is being operationalized. In contrast to Africa's export profile to global markets, intraregional trade is more diversified and contains a higher share of value-added products, with manufactured goods accounting for roughly 60 percent of intra-African trade compared to about 35 percent of exports to the rest of the world. On the upside, deeper regional integration could strengthen economic resilience, as regional economic communities with more-diversified production structures tend to sustain higher intraregional trade flows even following external shocks. However, the median African economy directs only about 20 percent of its exports to other countries within the region, compared to more than 50 percent in the Association of Southeast Asian Nations trading bloc. Moreover, intra-African trade remains highly concentrated: over 35 percent of regional trade originates from just two economies—Nigeria and South Africa.

The AfCFTA could raise real incomes by 7 to 9 percent by 2035 and lift 40 million people out of extreme poverty.[48] This impact, however, has yet to materialize. Successfully leveraging the AfCFTA to boost trade and foreign investment will depend on enabling frontrunner countries to drive implementation, ensuring robust monitoring and enforcement of commitments, and investing in regional public goods. While tariff reductions under the AfCFTA will help intraregional trade, the most significant constraints stem from internal trade costs, such as inadequate transport and logistics infrastructure, inefficient customs and regulatory systems, limited digitalization, and high domestic finance and logistics expenses. Moreover, non-tariff barriers, such as selected export bans, are common in the region. The Phase II protocols—covering investment, intellectual property, competition policy, and women and youth in trade—address many aspects of these internal costs. However, their implementation is likely to progress more gradually, given the substantial investment requirements and the need for deeper institutional and regulatory reforms to address these structural problems.

The European Union's *Carbon Border Adjustment Mechanism* (CBAM) entered its definitive phase on January 1, 2026, becoming the first carbon border adjustment regime to levy charges based on the emissions intensity of imported goods. Under this phase, EU importers of carbon-intensive products are required to purchase CBAM certificates to offset the carbon emissions of their products at prices aligned with those of EU Emissions Trading System allowances, which have ranged between €74 and €100 per metric ton of carbon dioxide over the past two years.[49] The CBAM initially covers six product categories—aluminum, iron and steel, cement, fertilizers, electricity, and hydrogen—comprising 4 percent of African exports to Europe and 1.5 percent of African exports overall.[50] Implementation of the CBAM could reduce African exports to the European Union by up to 13.9 percent for aluminum, 8.2 percent for iron and steel, 3.9 percent for fertilizers, and 3.1 percent for cement.[51] Mitigation will require African exporters to decarbonize their production processes or absorb the CBAM certificate costs—both demanding significant capital requirements that many producers in the region are unable to meet. Potentially more problematic, however, will be the cost of compliance, as suppliers that

48 Echandi, Maliszewska, and Steenbergen (2022).

49 European Commission (2023); UNEP (2025).

50 The European Commission's legislative package of December 2025 includes a proposal to expand scope to additional downstream products as part of the transition to the definitive regime. The calculations were conducted by World Bank staff based on UN Comtrade data from 2024 export baskets.

51 African Climate Foundation and The London School of Economics and Political Science (2023).

cannot provide credible emissions data risk exclusion from EU supply chains. Without dedicated green industrial financing and technical support from multilateral development banks, there is significant risk that the CBAM could actually impede transition toward cleaner and more-competitive production, despite the fact that Africa accounts for less than 4 percent of global greenhouse gas emissions.

Finally, trade preferences with the United States under the AGOA expired on September 30, 2025, creating a four-month policy gap that has only been partially resolved. On February 3, 2026, President Trump signed legislation extending the program through December 31, 2026, with retroactive provisions restoring duty-free access and permitting refunds of tariffs paid during the interim period. This constitutes the shortest renewal in the AGOA's 26-year history and marks a significant departure from the predictable, decade-long extensions that previously provided investors with policy certainty.[52] The shift toward annual renewals, accompanied by escalating conditionalities, fundamentally undermines the multi-year investment horizons required for manufacturing operations. For apparel, footwear, and textile producers in Lesotho, Ethiopia, and Kenya, sectors that have invested in production capacity on the basis of preferential U.S. market access, the erosion of certainty represents a structural deterrent to further capital deployment.

Climate

The increasing impact of climate change is unfolding just as technological advances associated with the green economy begin to scale. Climate change is expected to increase both the frequency and magnitude of extreme weather events in the region, including droughts and extreme rainfall. Heavy unseasonal rains have become common across West Africa, including the Mokwa flood in May 2025. At the time this manuscript goes to print, large areas of the Horn of Africa are experiencing drought conditions linked to an ongoing La Niña event, with more than 34 million people classified as "in crisis" or worse by the Integrated Food Security Phase Classification.

Extreme rainfall events—intensified by both climate change and La Niña—have triggered severe and deadly flooding across Eswatini, Madagascar, Mozambique, South Africa, and Zimbabwe. According to the United Nations Office for the Coordination of Humanitarian Affairs, heavy rains and successive cyclones affected an estimated 1.5 million people and displaced more than 170,000 across Southern Africa during the first months of the year.[53] The resulting widespread infrastructure damage, cholera outbreaks (particularly in Zambia), and extensive agricultural losses have further deepened food insecurity throughout the region.

Beyond their humanitarian toll, these hydrological shocks pose significant macroeconomic risks, constraining agricultural production, interrupting power generation, degrading infrastructure, and triggering unanticipated fiscal pressures from emergency spending. Investments in resilient water systems—including multipurpose reservoirs, managed aquifer recharge, and urban drainage—therefore play a critical role as macroeconomic stabilization infrastructure.

52 Although the House of Representatives approved a proposal in January 2026 to extend the AGOA through December 31, 2028, the Senate passed a one-year extension, running through the end of this year.

53 Multiple cyclones, particularly Fytia and Gezani, have buffeted Madagascar and Mozambique—with multiple fatalities and many people in need of humanitarian assistance.

The adaptation financing gap remains substantial and continues to widen. The United Nations Environment Programme estimated developing country adaptation needs at $310 billion to $365 billion per year by 2035, compared to $26 billion in international public adaptation finance in 2023—a shortfall that constrains the pace at which countries can strengthen climate resilience.[54] The human consequences are already severe: the United Nations Children's Fund estimated that there are 62 million stunted children in Sub-Saharan Africa, a figure that reflects not only climate-related food insecurity but also the compounding effects of poverty, conflict, and persistent underinvestment in nutrition and health systems.[55]

The United Nations has warned of an emerging era of global water bankruptcy, reflecting the growing degradation of aquifers and river basins to levels beyond natural replenishment. Globally, approximately 4 billion people experience water scarcity for at least one month each year, with the Sahel and the Horn of Africa among the most severely affected regions. Such persistent scarcity is a major driver of climate-related migration, exacerbating socioeconomic pressures and straining political institutions.

In contrast, rapid advances in green energy technologies present a notable upside risk for the region, with the continued development of low-cost modular solar systems offering particularly promising opportunities for expanding clean and affordable energy access.

Artificial Intelligence

As AI capabilities expand globally, their potential implications for the African continent remain far from clear. On the upside, these technologies could help alleviate structural constraints in areas such as trade facilitation, logistics, and access to financial services. However, the region's limited digitalization, low rates of electricity access, and uneven broadband coverage are likely to slow adoption relative to frontier economies, raising the risk of widening global income disparities. These challenges are further compounded by significant market concentration in AI development and the strategic prioritization of deployment in advanced economies.

Closely linked to the development of AI, there is an elevated risk of volatility in global financial markets. Valuations remain highly sensitive to uncertain projections of future profitability, particularly given that generative AI is still in the early stages of adoption and its productivity effects are not yet well established. Some preliminary research has suggested that there have been limited financial returns to date: an estimated 95 percent of organizations piloting generative AI tools report no measurable financial gains, and only two of eight major sectors studied exhibit signs of structural transformation.[56] This uncertainty stands in contrast to the high degree of market exposure, with AI companies accounting for 63 percent of all U.S. venture funding in the third quarter of 2025.[57] Moreover, seven of the world's 10 largest publicly traded firms are heavily concentrated in AI, and Nvidia—the leading supplier of AI-oriented

54 UNEP (2025).
55 UNICEF-WHO-World Bank (2025).
56 Chapally et al. (2025).
57 Bodley (2025).

semiconductors—has become the most valuable public company globally.[58] Given that U.S. financial markets comprise 54 percent of global market capitalization, changes in risk appetite or any reassessment of growth prospects for highly-valued AI firms could generate substantial spillovers across international markets.[59] Any disruption of the prospects of highly-valued AI companies could therefore threaten investment prospects in the region, with similar implications for public sector financing and exchange rate stability. Such a correction would carry meaningful risks for Sub-Saharan Africa, potentially weakening investment inflows, tightening financing conditions for governments, and increasing exchange rate pressures.

58 The seven AI-intensive companies with large public valuations are Nvidia, Alphabet, Microsoft, Amazon, TSMC, Meta, and Tesla.

59 Estimates based on data from the World Federation of Exchanges (2024).

Section 2. Making Industrial Policy Work in Africa

KEY MESSAGES

Africa is already doing industrial policy; the challenge is to make it effective.

Governments across Sub-Saharan Africa are actively deploying tariffs, special economic zones, tax incentives, and export restrictions. The gap between countries generating structural transformation through industrial policies and those not doing so is a gap in quality of industrial policy design and institutional discipline, not a gap in ambition.

Africa needs its own toolkit, not East Asia's.

The East Asian playbook required fiscal space, administrative capacity, market scale, and a favorable environment for freer trade that most African economies do not yet have. Designing industrial policy as if these constraints do not exist produces failure. Africa's feasible toolkit looks different: it prioritizes enabling public inputs, regulatory reform, and instruments that deliver high returns within tight fiscal limits. This is not a lesser version of East Asia's approach, it is a different one.

Good design means picking activities in the right neighborhood, not the right winner.

Governments do not need to predict which products will be profitable. They need to identify sectors that are within reach of a country's existing capabilities and lower the cost of private sector learning there. Analytical tools like product space mapping and economic complexity measures can give governments an empirically grounded way to make these choices without requiring them to forecast firm-level outcomes.

Industrial policy without discipline becomes industrial patronage.

The cases that work share a common feature: support is conditional, time-limited, and tied to verifiable performance and learning. The cases that fail share another: support becomes permanent, criteria become vague, firms are not exposed to external competition, and connected incumbents capture the rents. Sunset clauses, pre-committed exit rules, and clear performance metrics tied to exporting are not governance luxuries, they are the mechanism that makes industrial policy work.

Africa's markets are too small for industrial policy to work alone—the AfCFTA is the precondition.

The productivity gains from industrial policy require scale: more firms, more competition, and more transactions. Most African economies are individually too small to generate this domestically. The African Continental Free Trade Area (AfCFTA) and integration of regional economic communities change this calculus fundamentally. Industrial policy designed without the AfCFTA at its center is designed to underperform—success depends on ensuring that strategic industries and their key inputs are placed at the heart of tariff-free trade, not on the exemptions list.

The green transition and the critical mineral boom together are Africa's industrial policy moment—but the window is open now, not later.

Its critical mineral endowments and renewable energy potential place Africa in a unique position as global supply chains restructure around battery metals and low-carbon production. Capturing this opportunity requires deliberate choices made today: enabling infrastructure, institutional frameworks for value addition, and regional platforms like the Lobito Corridor and the Democratic Republic of Congo–Zambia battery initiative to help achieve the scale individual countries cannot reach alone.

The global consensus on industrial policy has shifted from skepticism to renewed strategic activism. Africa is an active participant in this shift. African governments are deploying export bans, tariffs, special economic zones (SEZs), local content requirements, and investment incentives. The policy question is not whether to pursue industrial policy, but how to design it to work under Africa's specific constraints. This section develops a framework for understanding why standard industrial policy tools systematically underperform in African contexts, what conditions are required to generate structural transformation, and how governments operating under tight fiscal, administrative, and market size constraints can make practical choices to leverage industrial policy for structural transformation.

2.1 INDUSTRIAL POLICIES IN AFRICA: PRACTICES AND PATTERNS

The Resurgence of Industrial Policy and Africa in the Global Landscape

Structural change has rarely occurred without deliberate industrial policy, and the global policy consensus has shifted from skepticism to renewed activism, a shift with direct implications for how African governments design and implement industrial strategy. The historical record is consistent across income levels and time periods: sustained structural transformation at scale has been associated with deliberate state direction of investment, technology access, and trade. British textiles in the nineteenth century operated under tariff protection. American manufacturing in the 1860s combined high import tariffs with land grants and public procurement that catalyzed private investment in railways and heavy industry. Postwar Japan channeled scarce foreign exchange through the Ministry of Investment, Trade, and Industry toward sectors with the highest learning potential. The Republic of Korea and Taiwan, China, replicated the model with adaptations suited to their factor endowments and geopolitical constraints (Amsden 1989; Chang 2002; Johnson 1982). The common thread is not the specific instrument but the underlying logic: structural transformation requires moving production toward activities with higher learning potential and greater complexity than current comparative advantage would support, and this movement faces coordination failures and information externalities that market forces alone cannot resolve (Juhász, Lane, and Rodrik 2024; Rodrik 2004). Among late industrializers, Brazil and India built globally competitive aerospace and pharmaceutical sectors, respectively, under state-directed programs. Korea's electronics industry emerged from a combination of directed credit, import protection, and mandatory export targets that compelled firms to achieve competitiveness rather than merely survive behind protection (Amsden 1989; Lall 2004).

The contemporary resurgence of industrial policy reflects new structural pressures and new objectives. The recent revival has been driven by persistent unemployment, inequality, slow structural change, geopolitical competition over strategic sectors, supply chain vulnerability, and the technological demands of the green transition (Evenett et al. 2024; Juhász, Lane, and Rodrik 2024). The intellectual backlash of the 1980s, which held that the best industrial policy was no industrial policy, has given way to a second resurgence. This changes the international environment in which African industrial strategy operates. A central implication is that market forces alone rarely catalyze the coordination required to enter new activities, overcome the learning-curve costs of infant industries, or build the ecosystem of complementary capabilities that sustain the demands of structural transformation.

The resulting policy shift is quantitatively large. Global Trade Alert (GTA) documented a rise from about 500 annual industrial policy interventions globally in 2009 to more than 2,500 by 2022, with a particularly sharp acceleration after 2018 (GTA 2025). In the United States, the Inflation Reduction Act of 2022 and the CHIPS and Science Act of 2022 committed approximately $369 billion and $53 billion, respectively. In the European Union, the Green Deal Industrial Plan allocated more than €250 billion. Industrial policy spending, specifically on total business subsidies, including both direct funding of businesses and tax exemptions, averages 4.2 percent of gross domestic product (GDP) in upper-middle-income countries and 3.1 percent

in high-income countries (Fernandes and Reed 2026). These levels substantially exceed what African fiscal space currently permits and set a new competitive baseline against which African industrial strategies must operate.

Industrial policy is back globally, and Africa is an active participant, but its feasible industrial instrument mix is shaped by constraints imposed by fiscal capacity, administrative capability, and market size.

The standard critique of African industrial policy focuses on instrument selection. That is, Africa uses blunt tools where precise ones are needed. The evidence reviewed in this section suggests that the revealed instrument mix is the outcome of three binding constraints: limited administrative bandwidth narrows the range of instruments governments can implement; tight fiscal space excludes instruments that require sustained expenditure; and small, fragmented domestic markets reduce the learning returns from import protection while amplifying the costs of instruments that require scale to function. The result is systematic selection of second-choice instruments, not because policy makers prefer them, but because first-choice instruments are infeasible under the current structural conditions. This is the selection gap, which is the distance between the instrument mix that theory and evidence recommend for generating structural transformation and the instrument mix that African structural conditions make sustainably deployable. Closing the selection gap requires not better instrument prescriptions but investment to relieve impediments: administrative capacity, fiscal space, and market scale through regional integration that expands the feasible instrument frontier. This analysis draws on Fernandes and Reed's (2026) industrial policy data set, Huang et al.'s (2025) global synthesis, and national development plans. GTA data, which are often the main data sources for most statistics on industrial policies, likely understate policy intensity in lower-income economies, where informal interventions, non-notified subsidies, and regulatory preferences are systematically under-recorded relative to advanced economies with more-comprehensive administrative reporting.

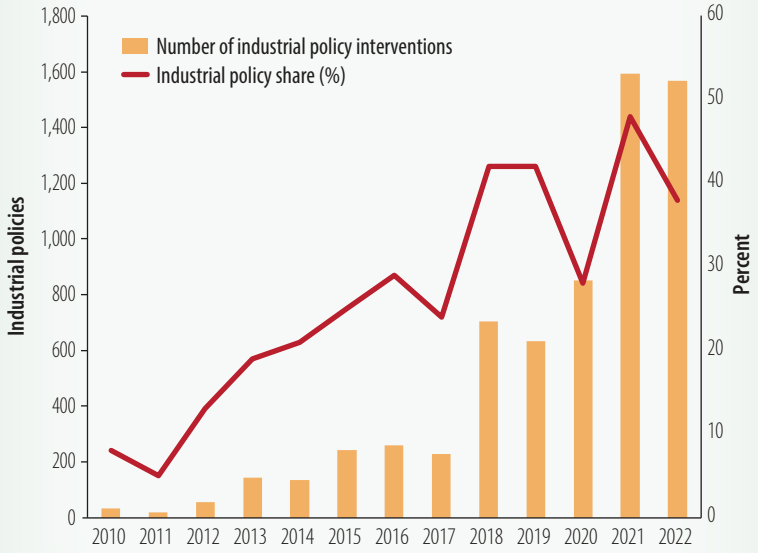
The Composition of Industrial Policy Instruments in Africa

Protective industrial policy interventions have increased since 2010, across Sub-Saharan Africa, with the sharpest rises occurring after 2018. The trend tracks the global pattern with a short lag, although the magnitude of acceleration in the region has been more modest than in advanced economies, and the overall count of interventions in recent years has plateaued relative to the post-2018 peak. Figures 2.1 and 2.2 document the upward trajectory in the annual number of protective and industrial policy interventions globally and in Sub-Saharan Africa, respectively. This external conditioning of African industrial policy activism implies that the standard critique of African industrial policy as discretionary or politically motivated cannot be assessed without reference to the global environment in which discretionary industrial intervention has become near universal. What distinguishes African industrial policy is not its existence or its political economy but its instrument composition and implementation architecture.

Africa's industrial policy instrument mix is dominated by trade-related border measures because these are fiscally and administratively feasible, not because they are the best tools. This is policy made under constraint.

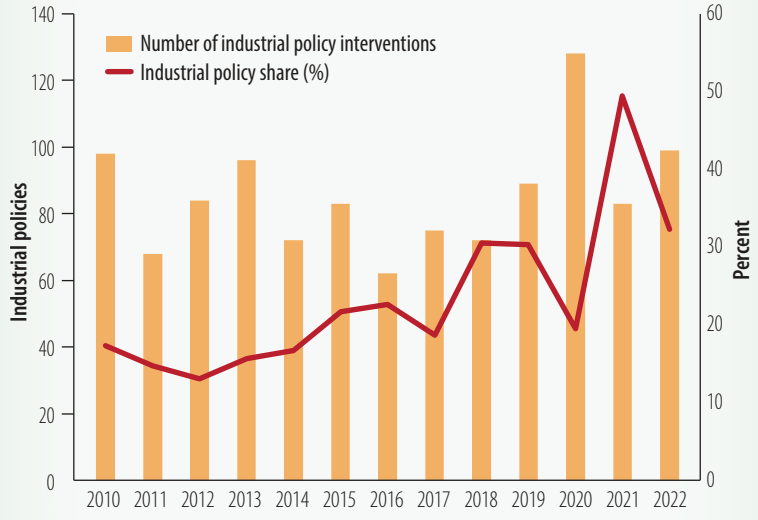
Industrial policy interventions are concentrated in higher-income economies globally, and the cross-country difference is explained by fiscal and administrative capacity rather than strategic intent. Advanced economies account for a disproportionate share of global protective industrial policy actions, consistent with evidence that intervention intensity rises with income and institutional capacity (Criscuolo, Gönenç, and Timmis 2022; DiPippo et al. 2022). IMF (2025) classified 20 countries in Sub-Saharan Africa as being at high risk of debt distress or already in distress, and the region's median interest-to-revenue ratio exceeded 12 percent in 2024, roughly four times the ratio in advanced economies. Thus, sustaining a comparable level of fiscal effort to support industrial policies in the region is structurally unrealistic without crowding out the infrastructure and human capital investments that industrial strategy itself requires as complements. Still, Africa accounts for

Figure 2.1: Global Total Number and Share of Industrial Policy Interventions, 2010–22



Source: Calculated using data from the JLOP industrial policy database (Juhász et al. 2025).
Note: The figure shows the total number of industrial policy interventions and their share in total announced and active protective policy interventions.

Figure 2.2: Total Number and Share of Industrial Policy Interventions, Sub-Saharan Africa, 2010–22

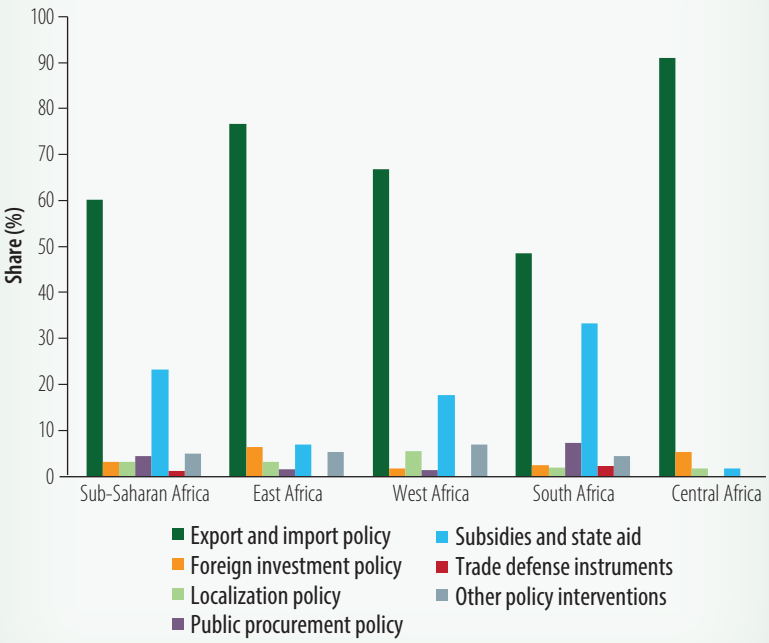


Source: Calculated using data from the JLOP industrial policy database (Juhász et al. 2025).
Note: The figure shows the total number of industrial policy interventions and their share in total announced and active policy interventions.

a nontrivial share of global protective intervention, relative to the region's economic size (3 percent of global GDP), but the fiscal cost per intervention is systematically lower, reflecting reliance on instruments that impose regulatory rather than budgetary costs.

Africa's revealed industrial policy instrument mix is dominated by trade-related border measures, and this composition reflects what is possible rather than first-best design, with direct implications for industrial upgrading potential. Figure 2.3 documents the distribution of Africa's interventions by type of instrument. Export and import policies dominate the policy mix. Subsidies and state aid account for a smaller but nontrivial share, concentrated disproportionately in South Africa, which has the fiscal space and institutional capacity to deploy them. Foreign investment policy, localization policy, public procurement policy, other policy interventions, and trade defense instruments appear far less frequently. Globally, recent industrial policy has become increasingly outward-oriented, complex, and fiscally consequential. Subsidies and export promotion account for rising shares of the composition of instruments in advanced economies (Juhász, Lane, and Rodrik 2024). Africa is moving in the same direction but from a structurally less sophisticated starting position.

Figure 2.3: Industrial Policy Interventions Share, by Intervention Category in Sub-Saharan Africa, 2010–22



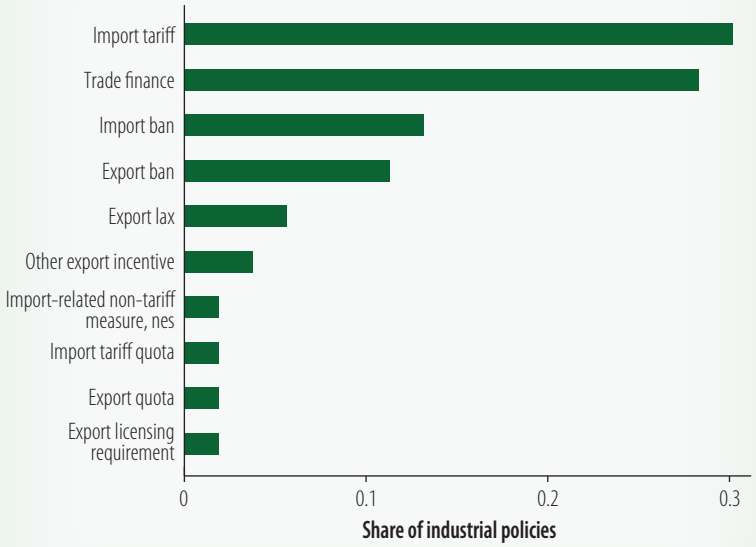
Source: Calculated using data from the JLOP industrial policy database (Juhász et al. 2025).

Fiscal and administrative constraints make trade-related border measures sustainably deployable instruments. Import tariffs raise revenue rather than consuming it, a fiscal structure that is compatible with tight budget constraints and accessible to revenue authorities whose primary mandate is tax collection rather than industrial promotion. Export controls and local content requirements impose costs on firms rather than on government budgets. In contrast, production subsidies require budget appropriations and disbursement systems, directed credit at concessional rates requires capitalized development bank capacity and governance frameworks for credit allocation, and export promotion at scale requires sustained agency financing. The gap between the instrument mix that national development plans prescribe and the mix documented by GTA data as actually deployed is indicative of this constraint. The plans reflect what governments would ideally undertake, whereas GTA records what their structural conditions allow.

If Africa's composition of instruments reflects structural constraints rather than preferences, improving outcomes requires addressing the constraints that narrow the feasible instrument frontier. Structural transformation requires supported firms to move along the cost curve and accumulate technological capabilities, a process that requires sustained, substantial support combined with competitive pressure and performance conditionality (Harrison and Rodríguez-Clare 2010; Melitz 2005). Import tariffs rarely embed performance discipline and are weak at inducing cost convergence absent complementary mechanisms. Import tariffs raise the domestic price of imports, generating rents for domestic producers, but create no direct incentive to reduce costs or achieve international competitiveness. Harrison and Rodríguez-Clare (2010) established that production subsidies are superior to tariff-based protection on learning and productivity grounds. Price-based instruments such as tariffs raise the domestic price of the protected good, compressing downstream demand and generating rents that need not be contingent on cost reduction, while output subsidies can be conditioned on performance and do not distort the input cost structure of downstream users. Africa's revealed instrument mix lies at the weaker end of this effectiveness distribution, concentrated in tariff protection, regulatory preferences, and discretionary exemptions rather than direct production or investment subsidies that enable stronger opportunities for firms to learn and grow.

Within trade measures, price-based border instruments dominate, with limited use of quantitative controls, and the distribution of export instruments reveals a gap between development plan targets and actual implemented policy. Figure 2.4 disaggregates export and import instruments. Import tariffs and trade finance account for a majority of import-side interventions. Export bans and quantitative restrictions represent a smaller but growing share, reflecting resource-based industrialization strategies that are increasingly prominent in national plans. The dominance of tariffs also means that Africa's import protection operates through a price mechanism with well-understood efficiency costs: increases in prices for consumers and downstream input cost inflation for firms importing intermediate goods. On the export side, the limited implementation of quantitative restrictions relative to their prominence in development plans reflects a genuine policy dilemma. Export bans generate processing investment only when

Figure 2.4: Share of Industrial Policies That Are Export or Import Interventions, Sub-Saharan Africa, 2010–22



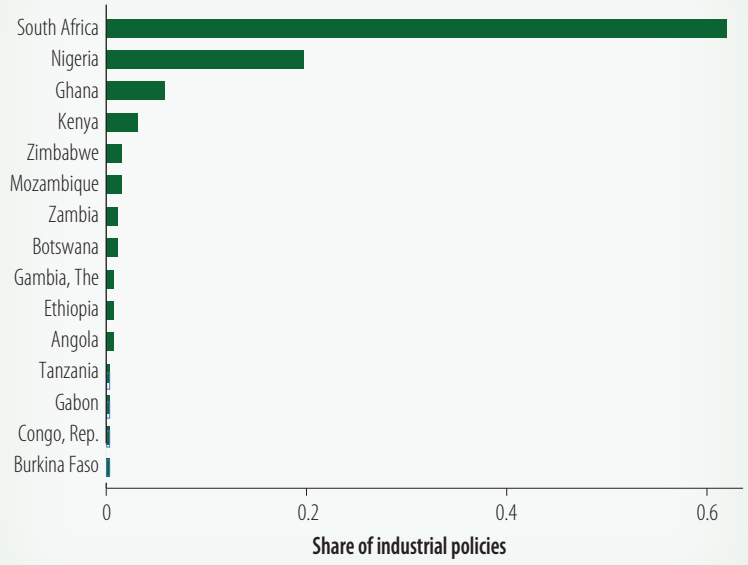
Source: Calculated using data from the JLOP industrial policy database (Juhász et al. 2025).
Note: nes = not elsewhere specified.

domestic market power is sufficient to make buyers absorb higher input costs and domestic processing competitiveness is achievable within a credible timeframe. These conditions rarely hold for a large number of African commodity sectors as a general instrument. The dominant price-based instrument mix implies that Africa's current industrial policy predominantly imposes costs on consumers and downstream users while generating limited productivity incentives, which is the signature profile of protection without transformation (Kilumelume et al. 2025).

Cross-Country Heterogeneity in Policy Intensity and Sophistication

Industrial policy activism is uneven across African countries, and this heterogeneity closely tracks differences in administrative and fiscal capacity as well as implementation bandwidth. Figure 2.5 documents strong geographic concentration. South Africa, Nigeria, Ghana, Kenya, and Zimbabwe appear among the most active users of protective interventions, while many lower-income Sahelian, Central African, and smaller economies have generated few documented interventions. The development plans of less-active states confirm that their ambitions are as aspirational as those of higher-capacity states. However, the less-active states lack the administrative infrastructure to translate ambition into implemented policy. However, this should be cautiously interpreted. South Africa's dominant share reflects both its larger institutional capacity to generate and document policy measures and the likelihood that its more formalized regulatory environment produces a higher count of de jure instruments.

Figure 2.5: Share of Industrial Policies Interventions, by Country, 2010–22



Source: Calculated using data from the JLOP industrial policy database (Juhász et al. 2025).

The subregional data reveal that sophistication of instruments is even more geographically concentrated than aggregate intervention intensity (figure 2.3), with important implications for the sequencing of capacity-building. That is, each successive tier of sophistication requires incrementally more institutional capacity, implying that countries with the lowest administrative capacity cannot productively absorb complex instruments regardless of whether their development plans specify them. A government that cannot enforce basic export documentation requirements cannot deploy investment conditionality, and a revenue authority without systematic firm-level data cannot implement effective duty drawback programs. The frontier of instruments available is not a fixed property of a country, but a function of the institutional investments made in prior periods, which makes the sequencing of capacity-building investments a first-order industrial policy question.

The aggregate pattern reframes the policy question away from "which instruments should Africa use?" toward the more tractable question of "what investments would expand the frontier of feasible instruments?" It also establishes the analytical importance of structural heterogeneity. For example, the industrial policy challenge in South Africa, which has a functioning revenue administration, deep capital markets, and substantial regional market access, is different from the challenge in Chad, where the administrative infrastructure to implement more-complex instruments than a headline tariff does not yet exist. Uniform prescriptions that specify a single instrument for Africa without conditioning on starting positions are systematically misleading as they recommend instruments that are infeasible in the contexts that need them most.

Industrial Policy in National Development Plans: Design, Sectors, and Implementation

National development plans reveal widespread industrial ambition but highly uneven operational credibility, a gap that explains why industrial policy outcomes diverge sharply across countries targeting identical sectors with nominally similar instruments. This subsection assesses industrial policy as articulated across a sample of African national development plans. The analytical framework distinguishes two dimensions of plan quality. The first looks at specified instruments ranging from aspirational declarations with no operational content, through sector-level targeting, to fully operational plans specifying instruments, responsible agencies, multiyear financing commitments, and measurable performance benchmarks. The second dimension, implementation credibility, assesses whether the institutional machinery required to deliver the stated instruments—budget lines, agency mandates, accountability frameworks, and monitoring systems—is in place or demonstrably in preparation. These two dimensions generate a typology that predicts outcomes: *the policy-outcome gap* documented below is systematically smaller in countries with higher scores on both dimensions, controlling for the levels of ambition and complexity of stated sector targets.

Industrial Policy Typology and Implementation Credibility

Strategic ambition is widespread in African national development plans, but the subset of countries that demonstrate policy architectures capable of converting stated strategy into delivered instrument packages is a small minority, and it is this minority that generates measurable industrial policy outcomes. Operational credibility—instrument specificity, institutional delivery mandates, multiyear financing commitments, and monitoring systems capable of driving continuation and exit decisions—is not widespread. Based on analysis of national development plans, the typology is summarized across a sample of countries, separating aspirational from operational strategies. Most countries articulate industrial transformation narratives with sophisticated sectoral rationales. Far fewer provide a coherent theory of change connecting priority sectors to specific instruments, financing flows, responsible agencies, and measurable milestones. Rwanda, South Africa, Kenya, and Ethiopia occupy the operational end of the distribution. Rwanda's Strategy for Transformation specifies performance benchmarks, assigns implementation responsibility to the Rwanda Development Board with clear deliverable mandates, and links national plan priorities to multiyear budget commitments with annual review mechanisms. Ethiopia's Growth and Transformation Plan linked industrial park development to specific Industrial Parks Development Corporation

(IPDC) operational targets, with financing from the Development Bank of Ethiopia and export performance monitoring that conditioned zone-level public investment renewal. At the other end of the distribution, several large African economies have presented plans with compelling sectoral rationales but minimal operational content, no financing architecture, no delivery agency specification, and no monitoring frameworks against which performance can be assessed.

The credibility gap operates through a specific mechanism. Industrial policy generates structural transformation by reducing entry costs for pioneer firms below the threshold that would prevail without support, enabling them to demonstrate domestic viability, attracting imitators, and initiating the learning-by-doing process that brings domestic costs toward the competitive frontier (Irwin and Klenow 1994; Rodrik 2004). For this channel to operate, firms must believe that support will persist long enough for the learning process to be completed, typically the five to 10 years required for meaningful productivity convergence in manufacturing activities. An aspirational plan without operational delivery architecture provides no credible basis for this belief. The rational investor's response is to discount stated support by the probability of non-delivery and invest accordingly, at scales far below those required to generate learning effects. The credibility gap thus generates a coordination failure layered on top of the market failure that industrial policy is designed to address: the absence of institutional credibility prevents the private investment response that support is intended to catalyze.

Sectoral Focus on National Development Plans

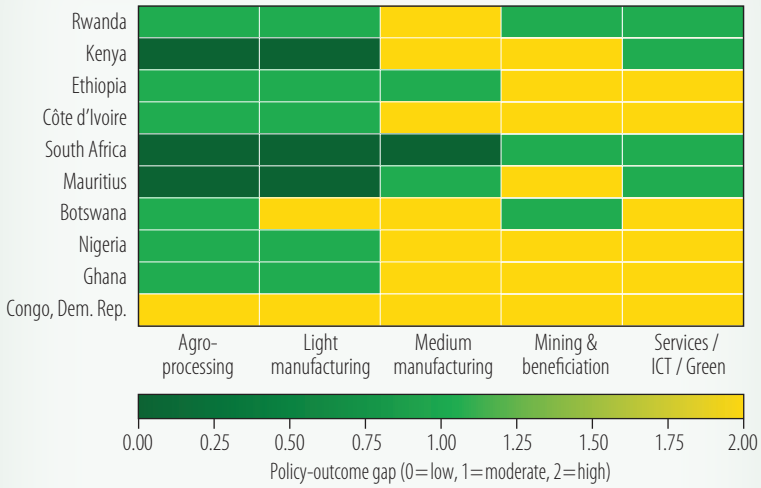
African national development plans converge on a strikingly similar portfolio of priority sectors but diverge sharply in the specific instruments and institutional credibility required to promote them, an empirical finding that implies that sector choice is neither the primary driver of cross-country performance differences nor the primary locus for policy improvement. Plans cluster around agro-processing and light manufacturing, with the manufacturing component generally framed as labor intensive for employment generation rather than capital intensive for productivity catch-up. Tradable digital services appear with increasing frequency, particularly among countries with stronger information and communications technology (ICT) infrastructure. Resource-rich economies add mineral beneficiation with ambitious downstream processing objectives. The within-category heterogeneity is revealing: most countries choose from the same constrained menu of activities that product space analysis identifies as adjacent to Africa's current capability base. What varies is the rigor with which the instrument package, financing architecture, and implementation machinery are specified.

The finding carries a strong implication for the policy dialogue. If sector choice were the primary driver of industrial policy outcomes, the high degree of cross-country convergence in sectoral priorities would predict convergence in outcomes. However, this is not the case. In their development plans, Rwanda and Tanzania both identify agro-processing, yet their agro-industry development trajectories diverge substantially. Ethiopia and Nigeria both prioritize light manufacturing, but the performance of their industrial parks differs by orders of magnitude. Kenya and Uganda both target horticulture, yet Kenya has achieved global market integration at scale, while Uganda's sector remains primarily domestically oriented. The variation in performance across countries is far greater than the variation in their sectoral choices, implying

that outcomes are driven by the dimensions on which countries differ, such as instrument specificity, implementation architecture, and governance quality. This shifts the analytical focus from identifying which sectors to target toward understanding what implementation conditions are required to make any sector strategy deliver outcomes.

A systematic comparison of stated sectoral priorities in national development plans and actual export structures reveals a persistent policy-outcome gap, one that is largest where implementation architecture is weakest and smallest where governance, financing, and monitoring systems are operationally in place. Figure 2.6 maps stated industrial policy priorities against the revealed export basket across a sample of African economies. The divergence is large and persistent. Countries that have prioritized manufacturing for more than a decade continue to export primary commodities as the dominant share of their merchandise basket, while countries that have adopted mineral beneficiation strategies export raw ores, and countries for which agro-processing appears as a priority across successive development plans continue to export unprocessed agricultural commodities. The gap is not unique to Africa. Divergence between stated industrial objectives and actual export structure is documented in many developing country contexts. However, the magnitude and persistence of the African gap is distinctive, signaling that the binding constraints are structural.

Figure 2.6: The Policy-Outcome Gap: Stated Sectoral Priorities in NDPs and Actual Export Structure



Sources: Based on analysis of national development plans and trade data from UN Comtrade.

Note: The figure illustrates a heatmap showing the policy-outcome gap between sectoral priorities identified in NDPs and the observed structure of exports across countries. The vertical axis lists countries, and the horizontal axis reports key sectors prioritized in development strategies. The color scale measures the magnitude of the gap on an ordinal scale: 0 = low gap (strong alignment between policy priorities and export outcomes), 1 = moderate gap, and 2 = high gap (significant divergence between stated priorities and export structure). Darker colors indicate closer alignment, and brighter colors indicate larger mismatches between policy ambitions and actual export performance. ICT = information and communications technology; NDPs = national development plans.

A systematic comparison of stated sectoral priorities in national development plans and actual export structures reveals a persistent policy-outcome gap, one that is largest where implementation architecture is weakest and smallest where governance, financing, and monitoring systems are operationally in place.

The countries with the smallest policy-outcome gaps are Mauritius in textiles and financial services, Rwanda in horticulture and business services, and Kenya in cut flowers and horticulture. These countries share a visible common architecture: instruments are operationally specified, financing is institutionalized across multiyear budget cycles, accountability mechanisms are functioning, and monitoring data are used systematically in program renewal

and exit decisions. The countries with the largest gaps share the inverse profile: high stated ambition, thin operational architecture, and no systematic feedback between measured outcomes and policy adjustment. This cross-sectional relationship does not establish causality; it is consistent with both the implementation architecture driving outcomes and the omitted country characteristics driving both. However, the evidence from countries that strengthened their implementation architecture and subsequently narrowed the gap is consistent with implementation quality as a proximate determinant of industrial policy effectiveness, prior to and independent of sector selection. Examples include Ethiopia's industrial park program from 2015 to 2019, Rwanda's post-2000 horticulture development, and Mauritius's managed textile adjustment following Multi-Fibre Arrangement expiry.

The evidence is clear that the *policy-outcome* gap reflects implementation deficits rather than strategic misidentification of priority sectors. Closing it requires three investments that this issue's special focus examines: targeting sectors within the reachable capability neighborhood identified by product space analysis, rather than leaping toward aspirational activities that require capability jumps beyond what current structural conditions support; deploying instruments at sufficient intensity and duration to generate learning effects, rather than at levels below what fiscal constraints currently impose; and investing in complementary ecosystem, infrastructure, workforce skills, quality systems, and access to patient capital before deploying headline instruments, because instruments deployed in ecosystems with absent complements generate enclave effects rather than structural transformation. Countries that have demonstrated credible industrial policy outcomes in Africa do not share a distinctive sector portfolio; instead, they share a distinctive implementation architecture. Instruments attached to performance conditions are enforced, institutional delivery vehicles have operational autonomy, and governance frameworks are capable of credible exit when performance benchmarks are not met.

2.2 MAKING INDUSTRIAL POLICY EFFECTIVE, AND WHY OUTCOMES DIFFER IN AFRICA

Industrial policy tools that theory predicts should work and that empirical evidence from other countries (for example, in East Asia) suggests can succeed include production subsidies, export promotion (Defever and Riaño 2017), technology transfer requirements (Bai et al. 2025), and SEZs. However, these policy tools have systematically underperformed in African contexts. This reflects interactions between the region's structural constraints and the design of its policy architecture. In practice, industrial policies, whether aimed at inducing large structural shifts from agriculture, moving from resource extraction into manufacturing, or promoting specific industries, have been implemented at insufficient scale, intensity, and duration, and often without the complementary capabilities required for success. These shortcomings interact with country-specific features that determine the feasibility of industrial policy, including the choice of instruments, their design, and the outcomes that can realistically be achieved.

The Three Implementation Gaps: An Analytical Framework

The central question is why industrial policy instruments that generate structural transformation in East Asian contexts systematically underperform in African ones. The standard answer that African governments choose inferior instruments or implement them poorly is empirically inadequate. A more precise answer requires identifying the conditions under which any instrument generates learning effects and assessing whether those conditions are characteristically absent in African contexts. The analysis in this subsection identifies three such conditions, which form the basis for the *Implementation Gap Framework* (table 2.1). The framework identifies three distinct implementation gaps that explain the divergence between Africa's industrial policy efforts and structural transformation outcomes. These gaps interact, but each generates a different failure, each responds to different corrective mechanisms, and each imposes different demands on government capability and fiscal resources.

First, there is a selection gap. Theory calls for instruments that close the cost gap between domestic and frontier producers while compelling firms to improve, such as production subsidies with performance conditionality or directed credit with export benchmarks (Amsden 1989; Rodrik 2004). In Africa, fiscal and administrative constraints push governments toward instruments that do not embed this discipline: tariffs that generate rents without requiring cost reduction, and regulatory mandates that impose no fiscal cost but also create no learning incentive. The gap is between the instrument that would generate learning and the instrument the government can sustain. Second, there is a dosage gap. Support must be sustained for long enough that the learning process reaches completion. The investment and learning horizons in manufacturing activities typically span five to 10 years (Arrow 1962; Thompson 2010). Under tight budgets, programs are often too thin and too short. Recent work has found that the subsidy equivalent of industrial policy is in the low single digits as a percentage of GDP in economies that are heavy users of industrial policies, with China being an outlier at around 4 to 5 percent of GDP. These are magnitudes that most countries in Sub-Saharan Africa cannot sustain over long horizons. Under tight fiscal space, underpowered and short-lived programs are unlikely to close the initial cost gaps before support ends, weakening learning effects. Third, there is a complementarity gap. Even well-designed instruments generate limited upgrading

when the production ecosystem lacks reliable energy, logistics, skilled labor, patient capital, or quality certification infrastructure (Cirera and Maloney 2017; Hausmann, Rodrik, and Velasco 2008). These gaps interact with three structural constraints Fernandes and Reed (2026) identify as binding in Africa: limited government bandwidth, small markets, and tight fiscal space.

The three implementation gaps—selection, dosage, and complementarity—explain why African industrial policy effort consistently falls short of structural transformation, and each requires a different correction. The selection gap reflects the mismatch between instruments that theory recommends and those that structural conditions make sustainably deployable. The dosage gap reflects support that is too thin and too short to clear the threshold at which learning effects materialize. The complementarity gap reflects deployment in ecosystems where enabling public goods, such as power, logistics, skills, and quality infrastructure, are simultaneously absent.

Each condition maps onto a structural gap that pushes African industrial policy toward instruments that have little effect on learning and increasing productivity. Table 2.1 defines each gap, identifies the mechanism, and provides illustrative evidence.

Table 2.1: The Implementation Gap Framework: Definitions and Illustrative Evidence

Gap	Definition and mechanism	Illustrative African evidence
Selection gap	Choosing instruments that are theoretically sound but structurally mismatched to the country's current capability base and ecosystem; either targeting sectors too far from current comparative advantage or applying instruments (for example, performance-contingent subsidies) that require administrative capacity that does not yet exist. The instrument may be well-designed in the abstract; it fails because it is deployed in the wrong context.	National development plans targeting electronics assembly without having internationally accredited regulatory agencies or engineering workforce at scale. Technology transfer conditionality that requires monitoring capacity unavailable to most African industrial policy agencies.
Dosage gap	Intervening at fiscal intensities and time horizons too low to clear the threshold at which learning effects materialize. Harrison and Rodríguez-Clare (2010) established that the expected benefit of industrial support is a function of dosage relative to the scale of the market failure being corrected: support below the threshold required to close the cost gap before the window closes generates limited or no learning effects, not simply lower returns.	East Asian support was macroeconomically large in credit terms, for example policy lending representing a large share of domestic credit in the Republic of Korea during the heavy industry and chemical industry drive (Lane 2025). Under tight fiscal space, African programs are often shorter lived and less intensive than required for learning to cumulate, so support may end before firms traverse the learning curve (Irwin and Klenow 1994; Thompson 2010).
Complementarity gap	Deploying instruments in ecosystems where multiple enabling complements—power, logistics, skills, finance, and quality infrastructure—are simultaneously absent. The instruments may be correctly chosen and adequately funded but generate near-zero or even negative returns because the surrounding production environment cannot make use of them.	Nigeria's Calabar Free Trade Zone: designed at 200 hectares with a deepwater port; the port was never dredged and occupancy remained below 25 percent (Farole 2011; Unor 2025). Indonesia's KAPET zones; capital tax incentives were offered, but the zones were sited away from infrastructure corridors; there was no measurable increase in business entry (Rothenberg et al. 2017).

Source: Original table for this publication

The three gaps are not independent; they interact and reinforce each other in ways that compound the individual constraints. The selection gap pushes governments toward less effective instruments precisely when the dosage gap makes those instruments insufficient to generate learning effects. The complementarity gap means that even if a government could deploy first-choice instruments at adequate intensity, they would still underperform in the absence of ecosystem complements. Together, the three gaps explain why the African implementation problem is not reducible to any single constraint. Addressing the fiscal constraint without addressing the complementarity gap leaves instruments deployed in ecosystems that cannot absorb them, and addressing complementarities without addressing the dosage constraint leaves instruments at subthreshold intensities that cannot generate learning effects. Understanding which gap is binding in a specific country and sector context is the prerequisite for designing the policy. The remainder of this subsection develops the evidence base for each gap and the operational implications that follow.

Complementarities and Ecosystem Development: Why Headline Instruments Routinely Disappoint

The same instrument often produces sharply different outcomes depending on the surrounding ecosystem that is in place. SEZs illustrate this most clearly. Across Bangladesh, the Dominican Republic, Mauritius, Morocco, and Viet Nam, SEZs have supported manufacturing diversification and global value chain integration. In each case, the zone was embedded in a deliberate package of complementary investments, including transport infrastructure, trade facilitation, workforce skills, and investor services (Farole 2011; Tafese et al. 2025). In every case of documented failure of the SEZ, the proximate cause was not instrument design but a missing ecosystem complement. Where those complements were missing, the zones failed even when the instrument design was sound.

Industrial policies often fail when ecosystems are absent. Without power, logistics, skills, and quality infrastructure, even well-designed incentives generate enclaves rather than structural change. The headline tool, such as a tariff, subsidy, or special economic zone, rarely delivers industrial transformation. The implication is that sequencing is important: ecosystem investment must precede deployment of the headline instrument.

The contrast with successful cases is instructive. Ethiopia's Hawassa Industrial Park is a good case of deliberate ecosystem bundling in Africa. The park was developed by the Ethiopian IPDC with explicit attention providing a package of services considered necessary for success. The government co-invested in a dedicated power substation, a road to the national highway, an effluent treatment plant, and an onsite training center, all before the first investor committed (Fanuel, Butler, and Grinstead 2022). By 2019, the park employed approximately 25,000 workers, over 80 percent of them women. But Hawassa also exposes limits: local supply chains remain thin, and Ethiopia's 2022 African Growth and Opportunity Act (AGOA) suspension demonstrated the fragility of export-platform strategies built on preferential access (Kassa, Edjigu, and Hakobyan 2025). Nigeria's Calabar Free Trade Zone shows the inverse: designed at 200 hectares with a deepwater port, the port was never dredged, and occupancy stayed below 25 percent (Farole 2011). The difference was the package, not the instrument.

The prevailing interpretation of East Asian industrial policy focuses on specific instruments, such as export performance requirements in Korea; processing zones in Taiwan, China; and foreign direct investment (FDI) attraction in Singapore. Behind each headline instrument was a deliberately constructed ecosystem that made it viable. Korea's export discipline required firms to access subsidized finance through the Korea Development Bank, import inputs duty-free for export production, use reliable port infrastructure, and draw on a rapidly expanding technically educated workforce, four complements that operated simultaneously (Amsden 1989; Rodrik 2004). Taiwan, China's electronics cluster emerged from the Industrial Technology Research Institute, a technology diffusion mechanism that transferred process knowledge from public laboratories to private firms at scale, lowering the cost of upgrading for hundreds of small and medium-sized enterprises (SMEs) simultaneously (Amsden 2001). Singapore's ability to attract multinational corporations was accompanied by the Economic Development Board working directly with multinationals to design training programs matched to production requirements before investments were finalized. The divergence between Korea and Malaysia after 1985 is instructive. Both countries implemented electronics sector industrial policy, and both attracted foreign investment. Yet the result was divergent trajectories for total factor productivity (TFP). Korea generated over 2 percent annual TFP growth from innovation, and Malaysia's manufacturing growth traced most of the gains to factor accumulation with limited innovation-based productivity (Cherif and Hasanov 2025). The divergence was not due to the instrument as both countries used similar tools. The divergence was due to the ecosystem of complementary capability. Korea's investment in research and development (R&D) in the mid-1990s was already over 2 percent of GDP, and in Malaysia it was less than 0.5 percent of GDP (Cherif and Hasanov, 2025). That determined whether the instruments generated genuine learning effects or merely production volume.

The Four Ecosystem Complementarities in African Contexts

In African contexts, four categories of ecosystem complementarity are most consistently holding back rapid firm learning across sectors and countries. These categories are physical infrastructure, workforce skills and technical capabilities, financial market depth and access to patient capital, and quality infrastructure and standards systems.

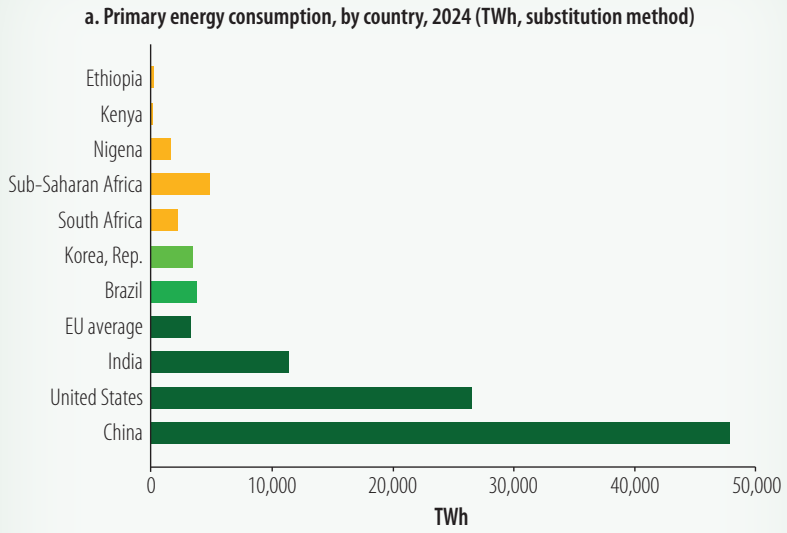
Physical Infrastructure: Energy, Logistics, and Connectivity

Manufacturing and agro-processing activities require reliable and affordable power, water, and transport, inputs whose absence cannot be compensated for by improvements in any other dimension of the policy package. In Sub-Saharan Africa, unreliable electricity remains one of the most binding constraints on firm performance. The latest Enterprise Surveys indicate that there were 7.6 outages per month, averaging 1.9 hours each (World Bank 2025a). Among the firms surveyed, 39.2 percent reported electricity as a significant obstacle, the highest regional share globally. Firm-level evidence further shows that exposure to outages is associated with firm-level TFP losses of between 5 and 20 percent, depending on sector energy intensity (Apeti and Ly 2023). The cost of electricity compounds the reliability constraint. The region's average of 18.5 US cents per kilowatt-hour exceeds the unit cost in every major manufacturing comparator: China (14.8 cents), Indonesia (12.0), Korea (9.6), and Bangladesh (9.3) (figure 2.7, panel b). African manufacturers thus pay more for less reliable power, a cost structure

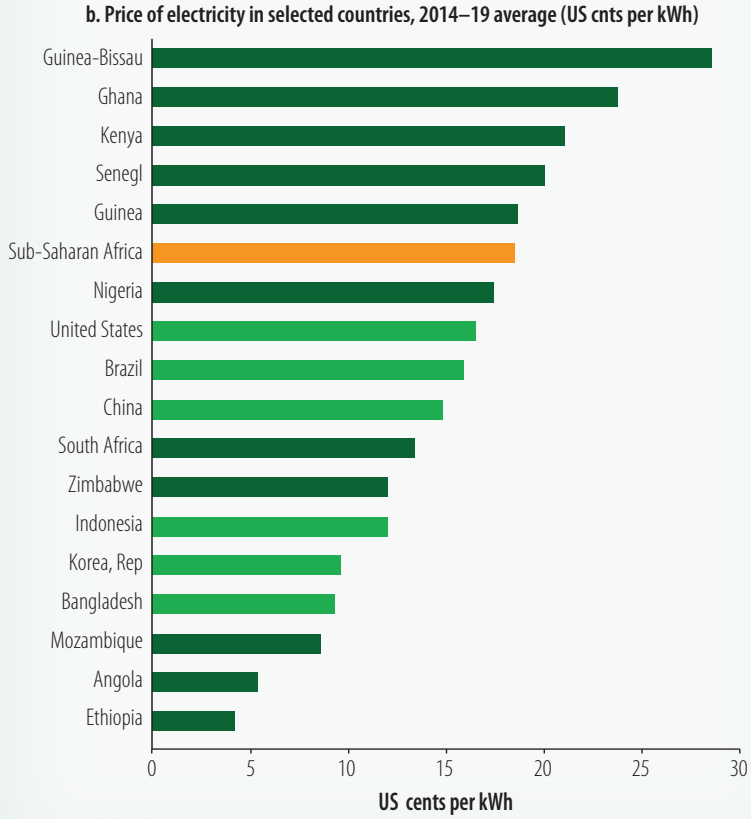
that is incompatible with competitiveness in energy-intensive activities. The within-region variation is substantial.

The unreliability and cost problem is compounded by a structural scarcity problem. Primary energy consumption across all of Sub-Saharan Africa is approximately 4,800 terawatt-hours (TWh), comparable to Korea, a single economy of 52 million people (figure 2.7a). China consumes 48,000 TWh annually; the United States, 26,500 TWh; and India, 11,500 TWh. Within the region, South Africa alone accounts for 2,200 TWh, nearly half the continental total; Nigeria, with four times South Africa's population, consumes 1,600 TWh; and Ethiopia and Kenya each consume roughly 100–120 TWh. An industrial policy that targets manufacturing scale-up at this energy base is constrained not just by outage frequency but by the total energy available to power expanded production. Closing the energy gap is therefore a prerequisite for effective industrial policy at any meaningful scale.

Figure 2.7: Energy Consumption and Cost



Sources: Elaboration based on OurWorldinData.org/energy.
Note: TWh = terawatt-hours.



Source: World Bank 2020.
Note: kWh = kilowatt-hour.

The logistics and transport dimension compounds the energy constraint and reinforces this picture. Africa's 1.75 million–kilometer road network exhibits very low spatial density by world

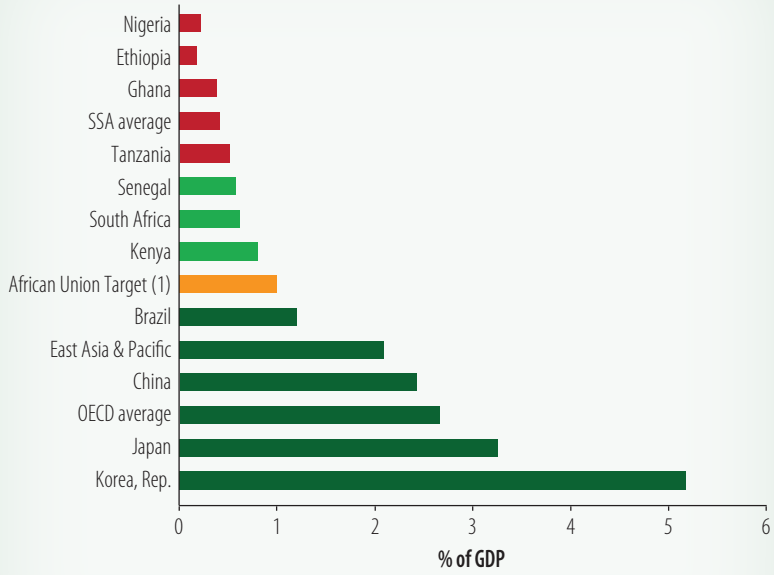
standards. The network was built primarily for colonial resource extraction, linking mines and plantations to ports, rather than for general connectivity or industrial agglomeration. Road freight is fragmented and cartelized, generating high transport and trade costs (Kassa, Lee, and Maur 2026). These high trade costs explain why industries that require inputs from inland locations or access to regional rather than coastal markets face a structural cost disadvantage that no instrument design can overcome without prior infrastructure investment.

Workforce Skills and Technical Capabilities

Firms are reluctant to invest in activities that require skills that are not present in the local labor market. Workers face coordination failures that prevent private investment in training for emerging industries; businesses hesitate to invest in skills, knowing that trained workers may exit to competitors; and individuals hesitate to invest in sector-specific training without assurance that firms will be present to hire them. This is the standard market failure rationale for publicly coordinated skills development, and it has been well-documented (Bigsten and Söderbom 2006; Fernandes and Reed 2026). What is less appreciated is the degree to which this complementarity is binding specifically for the kinds of productive activities African industrial strategies target. Agro-processing with quality standards requirements, light manufacturing for export markets, and digital services all require technical competencies that general secondary education systems rarely produce at scale. These coordination failures operate on top of a more fundamental constraint: basic education quality. Learning poverty rates in Sub-Saharan Africa exceed 85 percent (World Bank 2022c) and technical and vocational education and training programs and sector-specific technical training often presuppose foundational literacy and numeracy that most education systems in the region do not yet effectively produce.

The R&D data underscores the scale of the capability gap. Korea's R&D intensity reached 5.2 percent of GDP in 2022, supporting a researcher density of 9,435 per million people, compared with the Organization for Economic Co-operation and Development (OECD) average of 2.7 percent. By contrast, the African Union's benchmark of 1 percent of GDP invested for R&D spending remains unmet in most Sub-Saharan African countries, which are mostly in the 0.1–0.4 percent range. Only Kenya (0.81 percent), Senegal (0.58 percent), and South Africa (0.62 percent) have approached the target threshold (UNESCO 2024) (figure 2.8). The implication is not simply

Figure 2.8: Innovation Capacity: R&D Spending (% of GDP)



Source: UNESCO Institute for Statistics.

Note: GDP = gross domestic product; OECD = Organisation for Economic Co-operation and Development; R&D = research and development; SSA = Sub-Saharan Africa.

lower innovation effort, but weaker absorptive capacity, which depends on the human capital and research base needed to adapt imported technologies, learn from global value chains, and translate technology transfer into sustained productivity growth. Countries below minimum absorptive capacity thresholds receive transferred technology they cannot use.

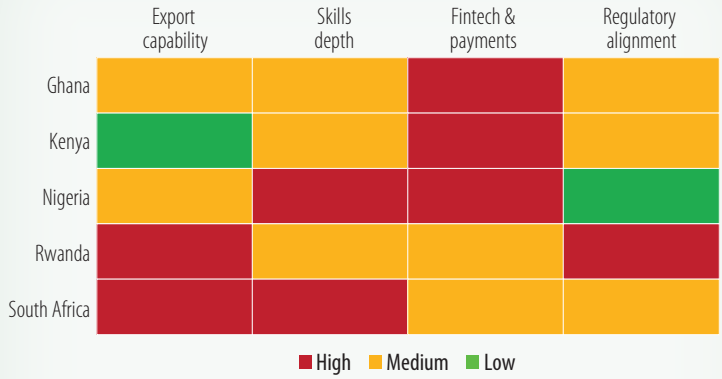
Costa Rica's semiconductor success is the most-cited case of deliberate skills ecosystem construction for industrial policy. The country's ability to attract Intel in 1996 and subsequently to develop a broader ICT cluster was not driven by tax incentives, although these were offered. The decisive factor was a targeted skills program designed in direct collaboration with Intel before the investment was finalized, creating a pipeline of technicians matched to production requirements and a curriculum that was co-designed with the private sector to maintain alignment with evolving production needs (Harrison and Rodríguez-Clare 2010). The Philippines' nurse training model and India's information technology training ecosystem represent analogous cases in services. These were cases of government coordination of training supply around identified global demand, rather than general skills investment hoping for market-driven alignment (Fernandes and Reed 2026). The common structural element was co-design with the private sector. Skills programs become complements to industrial policy only when they are designed around specific productive activities and sustained through ongoing private sector involvement in curriculum governance.

Rwanda's approach to ICT and business process outsourcing offers an instructive African example of attempting this logic, although at limited scale relative to the strategic ambition. The Rwanda Coding Academy, established in 2019, was specifically positioned to develop a pipeline of software developers and technology graduates for the government's business process outsourcing and fintech strategy. The model involves direct collaboration with firms in defining training content and maintaining current relevance. Early evidence suggests positive employment outcomes for graduates, but the scale of approximately 300 graduates per year remains far below what is required to develop genuine depth in the labor market for technology-intensive manufacturing or services. This illustrates a general principle: the co-design logic is correct, but the implementation timeline and investment scale must match the productive ambition. Figure 2.9 compares selected countries across four dimensions of service-led development readiness.

Financial Market Depth and Access to Patient Capital

A binding constraint for firms seeking to upgrade is the absence of patient capital. Finance with the tenor and risk tolerance needed for industrial investment typically requires 5-10 years before full productivity is reached (Stiglitz 1994). Domestic credit to the private sector in Sub-Saharan Africa averages approximately 30 percent of GDP, against 177 percent in East Asia and Pacific, 150 percent in OECD economies, and 160 percent in Korea (figure 2.10). The within-Africa range is extreme: South Africa at 90 percent of GDP is the deepest financial market on the continent but still below every major industrialization benchmark, while Nigeria, Ghana, Ethiopia, and Sierra Leone are at 4–10 percent (figure 2.10). These levels are structurally inconsistent with credit-financed industrial investment at the scale and duration that structural transformation requires. Firm-level data from 10,888 firms across 30 countries reinforce the aggregate picture: constraints on access to finance exerted a significant negative effect on firm growth both subjectively (firms rating finance as a major obstacle) and objectively (firms

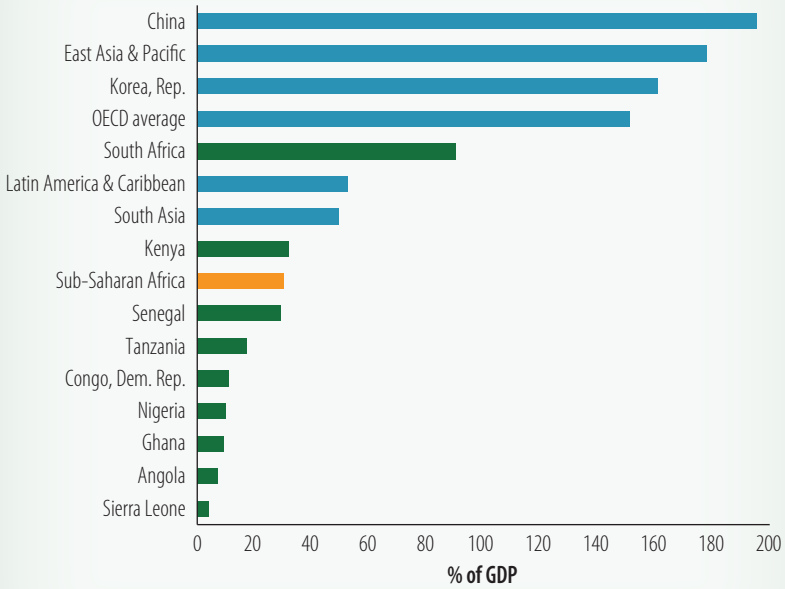
Figure 2.9: Service-Led Development Readiness and Industrial Policy



Sources: Drawn from analysis of national development plans and internationally comparable data sets that capture services export capacity, digital readiness, human capital infrastructure, and institutional quality, such as World Trade Organization trade in services statistics, UNCTADstats, the UNCTAD LDCs report on services 2025, International Telecommunication Union, UNESCO STEM education indicators, World Bank Global Findex data, World Governance Indicators and Logistics Performance Index, Kigali International Financial Center.

Note: The figure presents a services-led development readiness dashboard comparing selected countries across four enabling dimensions: export capability, skills depth, fintech and digital payments infrastructure, and regulatory alignment. Export capacity measures the extent to which a country's service sector can produce tradable services and successfully integrate into global markets. Skills depth is the supply of tertiary-level and technical skills relevant for modern service sectors. Fintech and payments are the extent to which a country possesses the digital financial infrastructure and adoption necessary to support modern service sectors such as e-commerce, digital services, and platform-based trade. Regulatory alignment is the extent to which a country's institutional and regulatory environment supports modern service sectors, digital trade, and private sector development. Each dimension is assessed using a three-level categorical scale: low, medium, and high, reflecting the relative strength of country capabilities in supporting the expansion of tradable service sectors. Nigeria demonstrates a large talent pool with deep fintech capabilities. However, fragmented regulations, particularly around foreign exchange and data, have increased uncertainty and export costs. Through information and communications technology–focused zones and strong policy coordination, Rwanda has reduced service export frictions despite limited domestic scale. The major binding constraint has been the size of the pool of skilled labor. Ghana displays moderate readiness across most indicators as emphasis on interoperability and digital identification has strengthened trust and formalization. Kenya shows strong fintech capabilities and moderate skills depth but more-limited export capability relative to other dimensions.

Figure 2.10: Financial Market Depth: Private Sector Credit, Africa versus Comparators (% of GDP)



Source: World Development Indicators, World Bank.

Note: The figure compares private credit depth across regions and selected African countries. GDP = gross domestic product; OECD = Organisation for Economic Co-operation and Development.

unable to obtain credit when needed) (Fombang and Abeka 2017). The two most binding obstacles to credit access were absence of acceptable collateral and poor credit history, which are both features of the formal financial system's inability to price risk for early-stage industrial firms operating in thin markets.

East Asian development banks filled this gap with directed long-term credit, conditioned on export performance and productivity improvement (Amsden 1989), allowing investment decisions based on production potential rather than collateral availability. Support was contingent on export performance, productivity improvement, and technology upgrading, creating the discipline mechanism that prevented directed credit from becoming pure rent distribution, and enabling credible exit from nonperforming borrowers. In Africa, most national development banks either lack the capitalization to fill this role at a meaningful scale or operate under governance structures that push them toward shorter-term and lower-risk lending (Griffith-Jones and Ocampo 2018). The structural problem

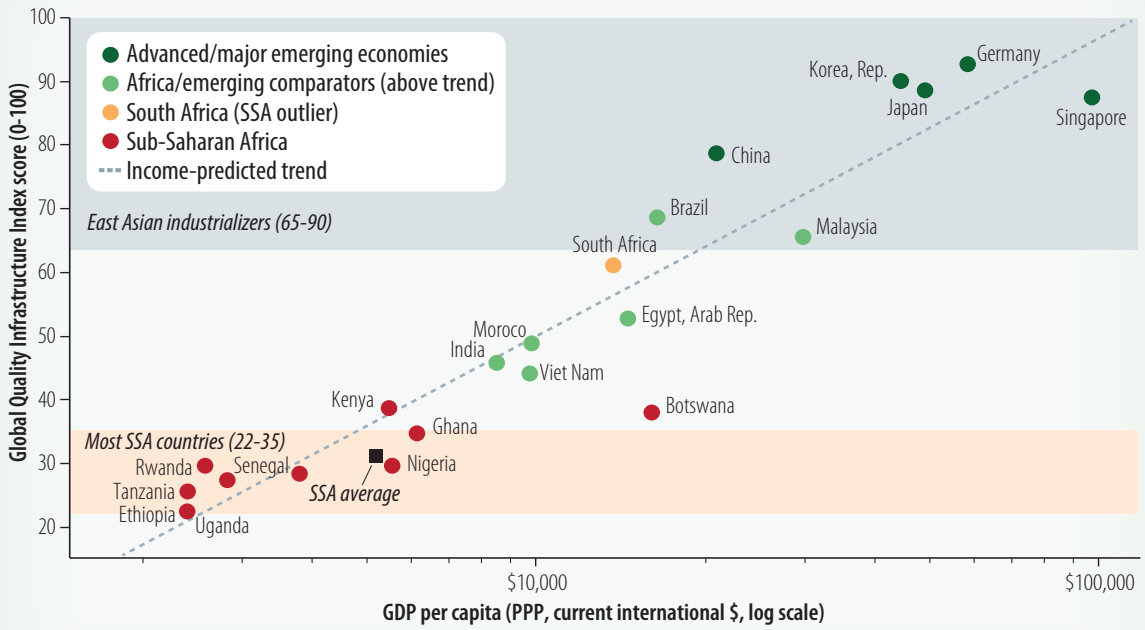
is a mismatch between budget cycles (12–18 months) and industrial investment horizons (5–10 years). Closing it requires either multiyear budget commitments or development bank governance capable of independent long-term credit decisions with performance conditionality and credible exit.

Quality Infrastructure and Standards Systems

The ability to access international markets, attract sophisticated buyers, and upgrade within value chains depends critically on quality, safety, and standards compliance, which is a public good whose undersupply imposes costs on all potential exporters in a sector regardless of their individual capabilities. Standards bodies, metrology institutes, accreditation systems, and sanitary and phytosanitary certification infrastructure collectively constitute what allows a country's exports to be accepted in destination markets (UNIDO 2017). Quality infrastructure for standards operates as a market-enabling complement; its absence creates de facto market access barriers even when tariffs are formally zero. This makes quality infrastructure investment a prerequisite rather than an add-on to export-oriented industrial strategy. The scale of the constraint is substantial: approximately 90 percent of global trade is now governed by non-tariff measures, most of which are associated with standards and regulatory compliance (World Bank 2025g).

The relationship between the Global Quality Infrastructure Index score and GDP per capita shows a strong positive gradient globally (figure 2.11). However, African countries score systematically below income-predicted levels on the index (Harmes-Liedtke, de León, and Alvarez 2024), meaning the quality infrastructure gap is not explained by income alone but reflects systematic underinvestment in quality infrastructure systems relative to income peers (figure 2.11). South Africa (60.8) sits substantially above other countries in Sub-Saharan Africa

Figure 2.11: Global Quality Infrastructure Index Scores versus GDP per Capita, by Country



Source: Global Quality Infrastructure Index (Harmes-Liedtke, de León, and Alvarez 2024).
Note: GDP = gross domestic product; PPP = purchasing power parity; SSA = Sub-Saharan Africa.

but below East Asian comparators at similar income levels. Most of the countries in Sub-Saharan Africa score in the 22-35 range, against 65-90 for successful East Asian industrializers and OECD economies. This gap is especially detrimental for the sector most prominent in post-pandemic African industrial strategies: pharmaceutical manufacturing. Manufacturing pharmaceutical products for export to regulated markets requires World Health Organization Good Manufacturing Practice certification, national regulatory agency capacity that is internationally recognized, and quality testing infrastructure. Only a small group of African countries, including Rwanda, Senegal, and South Africa, have achieved internationally recognized advances in regulatory maturity, but the gap between stated pharmaceutical industrial ambitions and actual regulatory infrastructure capacity remains wide across most of the region. In addition, agricultural exports to the European Union require sanitary and phytosanitary compliance infrastructure that most African national plant health services cannot yet fully provide. Electronics manufacturing for global value chains requires testing and certification infrastructure that barely exists outside South Africa. Quality infrastructure investment is not an add-on to export-oriented industrial strategy. It is a prerequisite. Kenya's horticulture sector illustrates the sequencing logic: public investment in phytosanitary certification infrastructure preceded and enabled the export growth phase, not the reverse (box 2.1).

Box 2.1: Kenya's Success in Horticulture: Quality Infrastructure as the Enabling Complement

Kenya's cut-flower and fresh vegetables export industries are frequently cited as an African success story in export-led agriculture. By the mid-2000s, Kenya had become Europe's leading supplier of cut flowers and a major source of fine beans, snap peas, and other high-value vegetables for UK and Continental supermarkets. Less appreciated is the role of quality infrastructure investment in enabling this transformation.

The critical public investment was not an export subsidy or a trade preference, although Kenya benefited from EU market access under the Cotonou Agreement. The critical investment was the Kenya Plant Health Inspectorate Service (KEPHIS), which developed phytosanitary certification, inspection capacity, and internationally recognized testing laboratories through sustained investment across the 1990s and 2000s. Without KEPHIS infrastructure, Kenyan produce could not meet European sanitary and phytosanitary requirements regardless of what farm-level investments exporters made in cold chain logistics, GlobalGAP compliance, or agronomic practice (Dolan and Humphrey 2000).

The sequencing mattered. KEPHIS investment preceded the rapid export growth phase of the 1990s. The public goods investment came first, and private sector upgrading followed once the certification infrastructure existed. This sequencing of public quality infrastructure investment as a precondition for market access, not as a downstream add-on, is the pattern that most African industrial strategies get wrong. Investment in export promotion agencies, participation in trade fairs, and trade finance instruments are all demand-side complements to market access. They generate little value if the quality infrastructure required for destination market compliance is absent.

Limitation and caveat. Kenya's success in horticulture is also associated with a highly unequal distribution of benefits, with large exporters capturing disproportionate value and smallholders being subject to stringent compliance costs that many cannot sustain independently. This reflects a second-order complementarity problem: quality infrastructure enables market access but does not guarantee inclusive access without additional public investments in smallholder extension services, farmer organizations, and compliance support. Quality infrastructure investment is necessary but not sufficient for structural benefits to reach small producers.

Sources: Dolan and Humphrey (2000); World Bank (2025b) on standards; KEPHIS annual reports.

Ecosystem Interaction Effects

The four binding complementarities do not operate independently. Instead, the absence of any single complement undermines the productivity contribution of all the others, creating a threshold problem in which industrial policy delivers near-zero returns until multiple complements are jointly in place. A firm located in an SEZ with access to patient finance but without reliable power cannot scale production. A sector with strong quality certification infrastructure but without the technical skills to meet process requirements cannot convert certification into market access. An export promotion program operating in a context without transport connectivity generates market information on which firms cannot act. This interaction structure explains why incrementalism consistently fails to generate visible structural change even when each individual intervention is well-designed. It also explains why the African implementation problem cannot be addressed by sequentially fixing one constraint at a time: the returns to fixing any single constraint are low when the others remain binding.

The Viet Nam–Africa comparison directly illustrates the ecosystem interaction effect. Viet Nam's SEZ program shifted employment from agriculture to manufacturing and raised earnings and formal employment, with gains spilling over to workers in domestic firms outside the zones, not just to employees of foreign firms within them (Tafese et al. 2025). This pattern reflects an ecosystem in which zones amplified existing logistics, supplier networks, and workforce skills. The African evidence tells a different story. Abagna et al. (2025) documented positive welfare effects for households near African SEZs: higher utility access, educational attainment, and durable goods ownership, but supply chain linkages from zones to surrounding firms are rarely established. Tenants of Ethiopian industrial parks report sourcing locally only for non-core activities like packaging, while importing core inputs (Fanuel, Butler, and Grinstead 2022). The difference is in the starting conditions. Viet Nam's zones were built on an already developed foundation of logistics, supplier networks, and skills that allowed agglomeration to propagate outward. African zones are more often established at the frontier of infrastructure provision, requiring the zone itself to substitute for the ecosystem rather than build on it. The ecosystem failure is fundamentally a coordination failure in which multiple market failures must be addressed simultaneously for any individual intervention to deliver positive returns.

Implementation Principles for Ecosystem Development

Three implementation principles follow from the complementarity gap analysis.

Principle 1: Scale up investment in complementary ecosystem ahead of headline instrument deployment. Physical infrastructure, skills, and quality standards systems take years to build. The most common proximate cause of instrument failure in African contexts is misalignment over time. The incentive regime is established before the ecosystem is ready, and investors arrive, find the complements absent, and withdraw or operate as enclaves. The correct sequencing is to conduct an ecosystem readiness assessment before instrument deployment, identify which binding complementarities are present and which are absent, invest in absent complements with explicit timeline milestones, and deploy the headline instrument only when a minimum viable ecosystem threshold has been reached. The pressure to announce headline instruments (zone openings, SEZ groundbreakings, and investment promotion campaigns) is constant, while the ecosystem investments that make them viable are unglamorous and generate no ribbon-cutting opportunities.

Principle 2: Select instruments and sectors based on the ecosystem that exists, and adapt as new comparative advantages are revealed. This is the operational meaning of the selection gap. A country with severe power unreliability, low researcher density, and shallow capital markets should not target semiconductor manufacturing even if its national development plan identifies it as a priority. The required complementarities cannot be provided within a fiscally feasible instrument window. The country should target activities that require the fewest missing complements, while investing in the ecosystem improvements that expand the feasible set over time.

Principle 3: Treat the package as a primary unit of implementation. Bundling requires a delivery vehicle capable of managing multiple instruments simultaneously across multiple ministries and agencies. Where the ecosystem is sufficient, effective delivery requires an institutional vehicle with the mandate, financing, and operational autonomy to manage all the binding complementarities simultaneously across ministry boundaries. The industrial parks development corporation model (Ethiopia's IPDC and the Rwanda Development Board) can manage across the full package, but the sector ministry model can only manage instruments within its mandate. The cases where bundled ecosystem delivery has succeeded share a single-vehicle governance structure with cross-cutting authority. The cases where it has failed share fragmented delivery across agencies without a coordinating mandate or accountability mechanism.

Sector Targeting under Capability Constraints

The standard objection to sector targeting is that governments cannot pick winners, but this conflates two distinct tasks. The first task, which governments cannot reliably perform, is identifying in advance which specific products will be profitable for producers competing in global markets over a horizon of 10-20 years. The second task, which governments can reasonably do if they have adequate data and institutional capacity, is identifying which sectors are structurally adjacent to a country's current capabilities, close enough that the investment required to enter them requires extending existing capabilities rather than building from scratch. The product space framework formalizes the second task (Hidalgo et al. 2009; Hausman and Hidalgo 2011). The framework maps the empirical proximity between products based on observed co-occurrence of export competitiveness across countries and years, providing a data-grounded basis for identifying reachable sectors, which does not require forecasting product-level profitability. The appropriate targeting unit is the capability, not the product. A government considering agro-processing, for instance, does not need to predict whether cocoa butter or shea butter will be more profitable—it needs to assess whether the shared capabilities both require, such as food safety certification, cold chain logistics, and packaging to export-market standards, are present or buildable within a feasible public investment window. The diagnostic therefore identifies the capabilities that are currently present, the capabilities the target sector requires, and whether the gap between them is bridgeable with available public goods investments and institutional support.

Revealed Comparative Advantage and Product Space as an Empirical Targeting Tool

Revealed comparative advantage (RCA) identifies the products in which a country is already internationally competitive, where its export share exceeds its share of world trade, and provides the starting point for product space analysis (Balassa 1965; UN Comtrade 2024). Products serve here as observable markers of underlying capabilities, not as targets in themselves: RCA > 1 in a product signals that the underlying capabilities required for competitive production are already present in the economy. RCA alone is backward-looking as it identifies current strengths, not adjacent opportunities. Combined with the product space, it becomes forward-looking. The product space maps which other capability bundles are adjacent to those already demonstrated, identifying the neighborhood within which public investment in shared capabilities will have the highest return.

Not all products are equivalent in their development implications. Products vary in their economic complexity, which is the breadth and sophistication of the capability bundle required to produce them competitively. Countries that export more complex products generate faster long-run income growth, controlling for initial income. The targeting implication is directional: among sectors that are reachable from a country's current product space position, those with higher product complexity and higher density adjacent to more other complex products should be preferred because moving toward them generates both direct income growth and a platform for further diversification. The practical targeting question is therefore not "which product will win?" but "which neighborhood of the product space should public investment support?" Governments identify the reachable neighborhood and lower the cost of private sector discovery there.

Governments do not need to identify the winning product. They need to identify the right neighborhood of capabilities in the product space and reduce the cost of private sector discovery there. The product space framework, which combines revealed comparative advantage as a diagnostic of current position with product proximity and economic complexity as forward-looking selection criteria, provides an empirically grounded method for identifying which sectors are reachable from a country's current capability base without requiring governments to forecast product-level profitability.

Africa's Position and the Portfolio Approach

Africa's structural position in the product space is the starting condition, and it is a challenging one. Most countries in Sub-Saharan Africa are concentrated in peripheral nodes: primary commodities such as agricultural raw materials, minerals, and hydrocarbons with low complexity, low density, and limited adjacency to the higher complexity manufactured goods and services associated with structural transformation. The sequencing of capability investments therefore matters. Reaching higher-complexity nodes requires building the public goods and institutional infrastructure that make adjacent steps feasible. Moving

from cocoa bean exports to cocoa processing requires food safety, quality standards, and packaging capabilities. Moving from cocoa processing to industrial chemicals requires an entirely different capability set. The nodes are adjacent in the product space, but each capability investment is substantial.

Proximity and the likelihood of complementarity function as hard filters (table 2.2). Sectors that fail either threshold should not be targeted regardless of their complexity or density scores. Among sectors that pass both filters, a portfolio approach is appropriate. Some targets should be low-risk, small-push activities—sectors close to current capabilities where entry costs are modest and the probability of success is high. These generate near-term employment, export earnings, and learning by doing. Others should be higher-risk, big-push activities—sectors further out in the product space with higher complexity and density scores, where the payoff to success is structural transformation but the investment required is larger and the timeline longer. Cherif and Hasanov (2025) argue for heavily weighting complexity on the grounds that policy should target the highest long-run transformation potential. Among reachable sectors, those with higher complexity, higher strategic density (table 2.2), and adjacency to many other complex products should generally be preferred because they generate both direct income effects and a platform for further diversification. Africa's demographic trajectory, however, weights employment more heavily than East Asian contexts with tighter labor markets. The right portfolio balance is country-specific, but the principle holds: governments should not concentrate all support on either end. Small-push activities build fiscal credibility, institutional learning, and political support for the big-push investments that drive long-run structural change.

Targeting is therefore country-specific and cannot be uniformly prescribed. A country at the agricultural commodity periphery, such as the Central African Republic, Chad, or Niger, faces a different reachable set than one with established light manufacturing, such as Ethiopia or Kenya. A country with severe power and logistics deficits faces a different complementarity filter. The first step in any national targeting exercise is a mapping of the current product space position, the reachable neighborhood, and the binding complementarities that constrain entry into adjacent sectors. This is a country-level diagnostic rather than a sector recommendation derived from regional averages.

A Multi-Criterion Selection Framework

Five criteria are practically implementable with the data available in most African countries (table 2.2). Start with proximity and feasible complementarity function as hard filters, and sectors that fail either are not viable regardless of other scores. Strategic density, complexity, and employment intensity are then weighed against each other, and this is where the portfolio logic applies: low-risk, small-push targets will score high on proximity and employment but lower on complexity; high-risk, big-push targets will score high on density and complexity but require larger capability investments. A sound targeting exercise includes both.

Table 2.2: Multi-Criteria Framework for Selecting Target Activities

Criterion	What it measures	Operational proxy	Weighting logic
1. Proximity	Capability distance between current exports and the candidate sector. Sectors with high proximity require capabilities demonstrably already present in the economy. Below-threshold proximity means the capability gap is too large to close within a fiscally feasible support window.	Product space proximity score (Hidalgo et al. 2009); RCA co-occurrence with current export basket. Functions as a primary filter: candidate sectors below the proximity threshold should not be targeted regardless of other scores.	Primary filter: candidate sectors below the proximity threshold are infeasible regardless of other criteria.
2. Strategic density	How many further complex sectors become accessible once this sector's capabilities are acquired. High-density sectors open multiple future development paths. Low-density sectors, even if proximate, may be capability dead ends.	Product space density metric; number of adjacent high-complexity nodes in the product space within two product space steps. Applied as a multiplier on long-run diversification potential where fiscal cost is comparable across candidates.	Multiplier on long-run diversification potential; higher density justified where fiscal cost is comparable.
3. Complexity ladder position	How much more complex the candidate sector is than current exports. Higher complexity generates more productivity spillovers and faster income growth, but large complexity gaps signal large capability investments that may not be fiscally feasible.	Product Complexity Index; ECI distance between the current basket and the candidate. Weighted positively for growth potential but penalized when the capability gap implies fiscal costs exceeding available space.	Growth potential: but large PCI gaps signal large capability investments, which penalize when the fiscal constraint binds.
4. Employment intensity and inclusivity	Labor intensity and wage distribution in the target sector, especially for women and unskilled workers. Particularly important in contexts with rapid labor force growth where employment absorption is a primary social objective.	ILO sectoral employment data; enterprise survey labor share; gender employment ratios.	Political economy and welfare rationale; particularly important in contexts with rapid labor force growth.
5. Complementarity feasibility	Whether the binding complementarities are addressable within the available fiscal space and implementation capacity.	Infrastructure readiness index; skills gap assessment; quality infrastructure certification capability; patient capital availability.	Implementation filter: even proximate sectors may be infeasible if the required complementarities cannot be provided.

Sources: Elaboration based on Hausmann and Hidalgo 2009, 2011; Hausmann, Hwang, and Rodrik 2007; Fernandes and Reed 2026.
Note: ECI = Economic Complexity Index; ILO = International Labour Organization; PCI = Product Complexity Index; RCA = revealed comparative advantage.

The goal is to create a structured short list of feasible candidates with documented rationale, which is the starting point for the public-private discovery process that follows. Box 2.2 maps how these sectoral priorities appear in national development plans across Africa.

Box 2.2: Sectoral Priorities in National Development Plans of African Countries

National development plans in many African countries consistently position agro-processing as a key diversification strategy, aimed at strengthening food system resilience and increasing value addition. Policy priorities focus on value chain upgrading, expanded processing capacity, post-harvest loss reduction, and improved logistics. Where export ambitions are explicit, plans also emphasize quality upgrading, standards, certification, traceability, and regulatory compliance as prerequisites for accessing higher-value markets. In several national plans, agro-processing is framed as a transformation objective but without detailed value chain strategies. Despite differences in sectoral focus, policy instruments are broadly similar across countries, including industrial and spatial infrastructure platforms, cluster and value chain programs, support for processing facilities, post-harvest and logistics investments, and export readiness initiatives.

Manufacturing is universally framed as a central pillar of structural transformation. Priorities typically emphasize labor-intensive light manufacturing to generate employment, upgrade small and medium-sized enterprises, and strengthen export competitiveness. Medium- and higher-complexity industries such as pharmaceuticals, machinery, and electronics appear more selectively. Implementation tools are similar across countries and include industrial parks and special economic zones, fiscal and customs incentives to attract investment, technical and vocational education and training programs to address skills gaps, and industrial finance mechanisms.

Services, particularly tradable and digitally deliverable services, are increasingly identified alongside agro-processing and manufacturing as engines of transformation. Mining strategies are also evolving, with many plans emphasizing beneficiation, downstream processing, and critical minerals development, supported by governance reforms, infrastructure corridors, and local content policies. However, only a subset of countries embeds these ambitions within coherent industrial policy frameworks (refer to Ndubuisi et al. 2025). Green and energy-related sectors are commonly prioritized as enabling infrastructure through power expansion and electrification, although relatively few plans frame green industries as export-oriented opportunities.

Overall, the main divergence across countries lies not in sectoral priorities but in policy design, specifically, whether plans articulate a coherent package of instruments, clear delivery mandates, and credible financing mechanisms.

The Selection Mechanism: Structured Public-Private Discovery

The product space framework maps reachable sectors, and the selection mechanism determines how governments move from that map to actionable targets. The appropriate mechanism is not central planning by a technocratic agency but what Rodrik (2004, 2008) terms a structured self-discovery process. That is, the government creates conditions for private sector actors to experiment with entry into adjacent product space nodes, provides support for pioneer investments where the self-discovery market failure is present, and learns from private sector experimentation which specific products within the target neighborhood are viable. This division of labor reflects the information asymmetry between the government and firms. The government has macro-level data on product space positions, capability gaps, and binding

complementarities, and firms have micro-level data on production feasibility, input availability, profitability, and market access. Good targeting uses both information sets and institutionalizes the feedback loop between them.

The self-discovery process is also the accountability mechanism for targeting decisions. When targeting is based on published product space diagnostics, explicit capability gap assessments, and documented private sector consultation, the political economy objection that industrial targeting is a cover for politically motivated resource allocation is partially addressed through the transparency of the method. This transparency generates another benefit: it creates an evidentiary record that supports program learning. As monitoring data are accumulated, the original targeting rationale can be revisited. Are the sectors that were targeted generating the capability development the product space analysis predicted? Are there adjacent sectors that have emerged as more feasible than originally assessed? The selection process is not a one-time government decision but a recurring structured discovery that improves as the evidence base builds.

Alternative Pathways: Resource-Based and Green Industrialization

For resource-rich African economies, the resource pathway is the one industrialization route where the capability distance problem is structurally shortened. Processing draws on extraction capabilities that are already present. But it works best where two conditions hold simultaneously: sufficient global market power to make export restrictions credible, and an ecosystem capable of supporting processing at costs approaching the global frontier. For most Sub-Saharan African economies, the most credible starting point for industrial policy is not a leap into advanced manufacturing but a deliberate deepening of what already exists: the continent's extraordinary endowment of natural resources. Africa holds a disproportionate share of the world's critical minerals—cobalt, copper, lithium, manganese, bauxite, nickel, and iron ore—at precisely the moment when global demand for these materials is accelerating due to the energy transition. Resource-based industrialization, the strategy of moving from raw material extraction toward processing, refining, and downstream manufacturing, is therefore not merely a theoretical aspiration. For many African countries, it can offer a structurally grounded pathway to structural transformation and job creation where there exists a supportive ecosystem. However, in a globally connected world, resource endowments alone do not confer comparative advantages in value addition. The question is therefore not whether to pursue it, but how to do so without repeating the costly mistakes of the past and setting policy as if endowments alone can ensure the competitiveness of downstream industries.

Resource endowments do not automatically confer comparative advantages in downstream processing. Export restrictions generate industrial development only when two conditions are jointly held: sufficient global market share that buyers cannot substitute without cost, and a domestic ecosystem capable of supporting processing at costs approaching the global frontier.

The Logic and Limits of Export Restrictions

The most common instrument deployed in pursuit of resource-based industrialization is the export ban or local content requirement—a regulatory mandate that forces mining companies to process raw materials domestically before exporting. The appeal is that these tools impose no direct fiscal cost, require no subsidy budget, and leverage the country's natural resource endowment as a bargaining chip. Fernandes and Reed (2026) classified these tools as "second choice" instruments precisely because they are indirect. They work by raising the cost of exporting raw materials rather than by directly supporting the development of processing capacity. Their effectiveness depends critically on two conditions that are frequently absent: the country would ideally hold sufficient global market share to prevent buyers from simply sourcing elsewhere, and the domestic ecosystem—energy, skills, logistics, and capital—must be capable of supporting the processing activity being mandated at a cost that can approach global competitiveness.

When these conditions are met, export restrictions can catalyze genuine industrial development. When they are not, they tend to destroy export revenue, deter investment, and leave the country worse off. No case illustrates this contrast more sharply than Indonesia's experience with its 2009 mineral processing law, which imposed a blanket ban on the export of unprocessed minerals for five years.

Indonesia: A Tale of Two Minerals

For nickel, Indonesia's export ban has been a qualified success story. At the time of the ban, Indonesia controlled roughly 30 percent of the global nickel supply. Indonesia's market share was large enough to make the ban credible and force downstream investment. This share has since risen to over 60 percent. When the ban took effect in January 2014, the Chinese stainless-steel manufacturer Tsingshan responded by investing in domestic nickel pig iron production, a process that converts low-grade nickel ore into a usable steel input. Indonesia's domestic nickel pig iron production grew from zero in 2014 to 500,000 tons by 2020. A subsequent broad export ban in 2019–20, this time as part of a wider policy to pursue battery-grade nickel, attracted a $10 billion commitment from LG spanning the entire supply chain from mining to precursor manufacturing. The ban worked because Indonesia had the market power to make it stick, and because the processing technology—which was capital-intensive—was within reach of foreign investors willing to commit to the domestic market. Ultimately Indonesia's cost base was not too far from the global frontier to make such inward investments unattractive to foreign investors. While the strategy is now considered a qualified success, its employment effects have been modest since nickel processing is a highly capital-intensive activity.

For bauxite, the same policy produced a very different outcome. Indonesia was China's largest bauxite supplier, providing 70 percent of the bauxite used in Chinese alumina refining. When the export ban loomed, China did not capitulate; instead, it stockpiled bauxite, accelerated exploration elsewhere, and began financing new suppliers in Guinea. As the ban took effect, Indonesia's position in the global bauxite market permanently deteriorated. The government was forced to loosen the ban in 2017 to relieve pressure on local miners, but by then the damage was done. Exports of nickel and bauxite combined fell by approximately US$4 billion

annually in 2014 and by $2.5 billion in 2015. The critical difference was not the policy design but the underlying geology and market structure. Indonesia's bauxite reserves were of uncertain long-term quality, and China had sufficient alternatives to absorb the shock. Furthermore, Indonesia's energy costs were relatively high compared to China's, and for the highly energy-intensive bauxite processing, this was an important constraint. The lesson is stark: export bans are not a general-purpose tool for resource-based industrialization. They are a high-stakes bet that requires significant market power, credible reserve quality, and a realistic pathway to domestic processing capacity at costs comparable to the global frontier.

Africa's Experience: Mozambique and Guinea

Africa's record on resource-based industrialization is similarly mixed. Mozambique's Mozal Aluminum smelter, commissioned in 2000 with World Bank Group support, is frequently cited as a success story—and in important respects it is. The $1.3 billion facility tripled Mozambique's exports in its early years, contributed an estimated 10 percent to GDP growth in 2001, generated over $300 million in foreign exchange earnings in its first five years, and catalyzed significant infrastructure investment in roads, ports, and power. It also demonstrated that energy-intensive processing can be viable in Africa when cheap, reliable power is available. This was the case in Mozambique, which had hydroelectric power from the Cahora Bassa dam. However, Mozal carries an important caveat that is often overlooked: the smelter refines bauxite imported primarily from Australia, not from Mozambique's own mineral endowment. In this sense, it is a processing hub that exploits cheap energy rather than a model of resource-based industrialization in the conventional sense. Critics have also noted its "island investment" character. It has limited linkages to the local economy, only around 1,000 permanent direct jobs at the smelter itself for a $1.3 billion investment, and generous tax concessions that have constrained fiscal returns. The linkages improved substantially with the second phase of the project through deliberate SME development programs, but the lesson is that processing investments do not automatically generate broader economic transformation. Linkages must be actively built, not assumed.

Guinea's experience with bauxite offers a different cautionary note. Guinea holds the world's largest bauxite reserves and became a major beneficiary of Indonesia's export ban. Guinea's mining exports surged 79 percent year-on-year in 2017 as Chinese buyers scrambled for alternative suppliers. Yet Guinea has not successfully converted this windfall into significant downstream value addition. It remains largely a raw ore exporter, with almost all alumina refining and aluminum smelting occurring elsewhere. The structural barriers are familiar: historically unreliable and expensive power—although Guinea's expanding hydroelectric and transmission capacity may partially address this constraint over the medium term—and limited technical skills, weak logistics, and a business environment that has struggled to attract the sustained investment needed for capital-intensive processing. The lesson from Guinea's bauxite experience is that being a price maker in a raw material market does not automatically translate into industrial upgrading. The enabling conditions for processing must be built in parallel, not assumed to follow automatically from resource wealth.

Looking Forward: The Simandou Railway and the Lobito Corridor

Against this mixed record, two emerging infrastructure investments offer genuine grounds for optimism—not because they guarantee industrial transformation, but because they create the physical and logistical preconditions for it, if accompanied by the right policy architecture. The first is Guinea's Simandou iron ore project, the world's largest untapped reserve of high-quality iron ore. The over $20 billion investment—covering two mine sites, the 657-kilometer Trans-Guinean Railway, and a new deepwater port—began exporting in 2026 and will ramp up to 120 million tons per year by 2029. The railway alone is transformative infrastructure. It is a multi-purpose, multi-user corridor that, if governed with open-access provisions and complementary investments in skills, agribusiness, and SME development, could become an economic corridor rather than a mining enclave. World Bank analysis is clear that this distinction is not automatic. Guinea stands at a crossroads as a business-as-usual scenario produces mining-driven growth that is robust but weakly inclusive, while a reform scenario that addresses Dutch disease dynamics, invests in human capital, and builds non-mining linkages along the corridor could produce GDP per capita that is 37 percent higher by 2050. The railway is the infrastructure, and the industrial policy is what determines whether it becomes a catalyst for transformation or another enclave.

The second emerging infrastructure investment is the Lobito Corridor. The 1,344-kilometer Benguela Railway will connect the Port of Lobito on Angola's Atlantic coast to the copper and cobalt mining regions of the Democratic Republic of Congo, with a proposed extension into Zambia's copper belt. The corridor has been concessioned to a private consortium for 30 years, and the United States and the European Union are actively supporting its development as part of their critical minerals supply chain strategies. Angola, the Democratic Republic of Congo, and Zambia signed the Lobito Corridor Transit Transport Facilitation Agency Agreement in January 2024, establishing a framework for harmonized trade facilitation and regional cooperation. The Democratic Republic of Congo–Zambia Battery Initiative aims to combine the Democratic Republic of Congo's cobalt with Zambia's copper to produce high-value battery precursor materials rather than simply exporting raw ores. If implemented, the investment would represent exactly the kind of regional, value chain–oriented industrial strategy that the World Bank industrial policy framework recommends. It would leverage potential comparative advantage, build at regional scale, and target a specific, verifiable step up the value chain rather than attempting a leap to finished manufacturing.

The Lobito Corridor and the Simandou railway are enabling infrastructure—the "first-choice" public inputs that create the physical preconditions for industrial strategy. Whether they generate transformation or replicate the historical enclave pattern depends entirely on what governments layer onto them, including complementary investments in skills, energy, logistics, and standards that convert mineral corridors into industrial ecosystems. The historical record from Mozambique's Mozal to Guinea's bauxite sector suggests that this layering is neither automatic nor easy. However, the scale of the opportunity and the alignment of global demand for critical minerals with Africa's endowments make this a moment when the returns to getting the policy architecture right are unusually high.

Discipline, Monitoring, and Political Economy

Industrial policy creates rents, and rents attract capture. Two failure modes matter. The first is ex ante capture: support is allocated to politically connected firms rather than those facing genuine market failures, distorting the selection margin from the outset (Bhagwati 1982; Krueger 1974). The second, more pervasive in the African context, is ex post capture: programs are maintained beyond any economic justification because the political cost of withdrawal is borne by an identifiable constituency while the fiscal and allocative benefits of exit diffuse across the general public (Acemoglu and Robinson 2013). The problem extends beyond capture. Even programs that escape rent-seeking fail when public-private coordination is unstructured, monitoring systems measure activity rather than learning and exporting, and no institutional mechanism exists to translate performance information into continuation or exit decisions. This subsection examines four mechanisms through which both discipline and coordination can be institutionalized to mitigate these effects: specifying activities rather than firms; monitoring learning and exporting rather than activity; coordinating architecture by aligning ministries and agencies; and using sunset clauses, credible withdrawal, and regional (the African Continental Free Trade Area (AfCFTA)) and exporting disciplines as external anchors.

Effective industrial policy discipline requires getting two design choices right before instruments are deployed: support should be attached to activities rather than named firms, and continuation decisions should be driven by learning metrics.

Specify Activities, Not Firms

The unit of support is a key design decision in industrial policy. As a rule, support tied to activities or sectors is easier to justify and to discipline than support tied to named firms, because it preserves contestability among beneficiaries and makes exit politically and administratively feasible. When support is attached to named firms, such as a tax holiday for Company X and a concessional loan for Conglomerate Y, three pathologies arise. First, the supported firm acquires a political interest in prolonging support rather than graduating from it. Second, exit becomes politically costly once employment, supply chains, or strategic narratives become linked to a particular firm. Third, the public rationale for intervention shifts from correcting a market failure affecting an activity to protecting a particular beneficiary. By contrast, sector-level instruments can maintain competitive pressure among recipients, preserve the government's exit option, and keep the policy rationale linked to an identifiable market failure. Nigeria's cement sector illustrates what happens when sector-level framing is undermined by firm-level instruments. When protection and preferential treatment persist without credible performance discipline, it dampens the success of industrial policy instruments. The 2002 Backward Integration Policy was nominally a sector-wide measure prohibiting bagged cement imports to develop domestic capacity, but pioneer status and corporate income tax holidays were granted to specific firms across multiple policy cycles from the 1990s through the 2020s. Despite sustained protection, domestic cement prices remained substantially above regional comparators in 2022, consistent with rents being captured as margins rather than translated into cost reductions (Agora Policy 2025; Mustard Insights 2022;

World Bank 2022a). Recent World Bank diagnostics emphasize that competition institutions in Nigeria face capacity and enforcement constraints, and that standards and state support have at times favored incumbents, weakening contestability (World Bank 2022a). Once named firms become sufficiently large, the political cost of withdrawing their protection often exceeds the government's capacity to exit.

Rwanda's investment promotion framework, operated through the Rwanda Development Board, illustrates effective sector-level specificity. Qualifying criteria for incentive packages are set at the sector level for horticultural exporters, ICT-enabled services firms meeting Resilient and Secure Supply Chain quality standards, and tourism operators with star-grade certification, and individual firms access the incentive by meeting the criteria rather than negotiating bespoke arrangements. Between 2015 and 2022, four firms lost SEZ status for failing qualification criteria, a small number, but a meaningful signal that exit from the incentive regime is a genuine possibility. Rwanda's FDI inflows increased from $258 million in 2010 to $1.2 billion in 2019, partly attributable to investor confidence that the incentive regime is rules-governed rather than negotiable (RDB 2022).

Monitoring Discipline: Learning Metrics, Not Activity Metrics

Industrial policy monitoring in Africa is systematically inverted: governments measure inputs (how much was disbursed, how many firms received support, what is the occupancy rate) and activities when they should be measuring outputs and learning (are supported firms becoming more competitive?). A production subsidy monitored by disbursement volume provides no information about whether supported firms are becoming more competitive. An industrial park monitored by occupancy rate provides no information about whether the occupying firms are learning or generating spillovers. The prevalence of these metrics reflects a deeper problem: activity metrics are administratively easier to collect and politically easier to justify than the learning metrics that would actually discipline continuation and exit decisions. The theoretically correct exit criterion is the Mill-Bastable test: the targeted industry must demonstrate that it is learning and that benefits exceed costs (Corden 1997; Fernandes and Reed 2026; Kemp 1960; Melitz 2005). In practice, the test is administratively demanding as it requires firm-level data on inputs, outputs, and international price comparisons that most African governments do not routinely collect. A feasible approximation is the input-productivity metric: supported firms should demonstrate declining input use per unit of output at a rate exceeding unsubsidized comparators in the same sector (Krueger and Tuncer 1982). This metric is demanding enough to detect genuine productivity improvement, yet tractable enough to be computed from firm-level survey data. Rwanda's Business Development Fund applied a variant of this logic to its SME grant program, conditioning renewal on demonstrated sales growth relative to a sector median, and it is assessed quarterly.

Export performance is the most practically useful monitoring metric in the African context. The general principle is that continuation and exit decisions must be driven by learning metrics, measures of whether the policy is working rather than activity metrics, which measure only that the policy is operating. Table 2.3 documents the distinction across instruments.

Table 2.3: Monitoring Framework: From Activity Metrics to Learning Metrics

Instrument	Activity metric (currently common)	Learning metric (recommended)
Production subsidy	Disbursement value; number of firms receiving transfers	Input per unit output versus sector median (quarterly); input productivity improvement relative to unsubsidized comparators (Krueger and Tuncer 1982)
Industrial park / SEZ	Occupancy rate (% of space filled)	Export value per hectare; firm-level total factor productivity versus comparators outside the park; local supply chain linkage share of total inputs
Skills development	Training days delivered; trainees enrolled	Wage premium of trainees versus control group at 12 months post-training; employment rate in target occupation
Import tariff	Revenue collected; number of protected products	Unit cost decline in protected industry versus unprotected comparators; producer versus import price gap trajectory; detects rent capture versus productivity improvement
Export promotion	Trade exhibitions attended; missions supported	Export revenue per beneficiary firm; new market entry (number of destinations); share of first-time exporters
Quality infrastructure	Certifications issued; laboratories accredited	Export rejection rate at destination; price premium on certified goods versus uncertified goods

Source: Original table for this publication.

Note: Bandwidth requirements: certifications and training metrics are low-bandwidth (single-agency); export promotion and SEZ metrics are medium-bandwidth (require interagency data sharing); and local content and supply chain metrics are high-bandwidth (require dedicated monitoring and evaluation or third-party verification). Activity metrics measure that policy is operating and learning metrics measure whether it is working. Both are necessary, but learning metrics must drive continuation and exit decisions. SEZ = special economic zone.

Three implementation constraints are relevant in the African context. First, the data infrastructure required for learning metrics—firm-level panel data on inputs, outputs, and wages—does not exist in most countries as a routine administrative product. This means that governments face a genuine trade-off between analytical rigor and monitoring bandwidth. Where this infrastructure is absent, the practical recommendation is to invest in it as a precondition for program deployment. Second, performance benchmarks must be anchored to external comparators such as sector-level productivity trends, international price series, and destination market rejection rates rather than self-reported firm data. The latter systematically overstate cost disadvantages and understate productivity improvements. Third, for instruments with high capture risk, learning metrics must feed into automatic extension rules rather than discretionary reviews; otherwise, the monitoring system would generate information on which governments are structurally unable to act.

Coordination Architecture: Aligning Ministries and Agencies

Industrial policy instruments rarely operate through a single ministry, but the institutional architecture required to coordinate across ministries is often the missing element of African industrial policy design. For example, a functional textile export promotion program requires coherent action from at least four distinct government entities: the trade ministry managing

the tariff schedule, the finance ministry administering duty drawbacks and tax incentives, the labor ministry funding skills programs, and the investment promotion agency attracting anchor investors. When these agencies operate without a shared instrument logic, the intended policy package becomes a collection of disconnected interventions. In Kenya, horticultural exports grew from negligible levels in 1990 to more than $1 billion annually by 2019. This result depended on alignment among the Kenya Plant Health Inspectorate Service for export certification, the Kenya Airports Authority for perishable cargo handling, the Export Promotion Council for market access support, and the Kenya Revenue Authority for expedited duty drawbacks. This coordination required sustained engagement from a high-level presidential initiative that made horticultural export growth a stated cross-ministry priority with Cabinet-level performance accountability (Dolan and Humphrey 2000) (box 2.1). Tanzania's attempts to develop a comparable horticultural export cluster repeatedly stalled due to inability to align certification standards with airport handling capacity and input import procedures. Thus, the same instrument logic produced different outcomes when coordination architecture was absent.

The East Asian coordination model, which has been most fully developed in Japan's Ministry of Investment, Trade, and Industry and Korea's Economic Planning Board, concentrated authority over multiple instrument levers in a single technically competent agency, reducing coordination costs by eliminating the interministerial negotiation problem. The institutional prerequisites for this model—a meritocratic civil service, centralized authority over budget and regulatory instruments, and durable political insulation from sectoral lobbying—are largely absent across most of Sub-Saharan Africa. The relevant institutional question for Africa is therefore how to build coordination mechanisms that achieve interagency coherence at substantially lower administrative cost. The evidence points toward three viable approaches: interministerial coordination bodies with a clear convening authority and a specific deliverable mandate; sector-level working groups that bring together the relevant line ministries around a defined sector package; and independent coordination units embedded in the presidency or office of the prime minister, which carry political authority that finance and trade ministries routinely lack.

Sunset Clauses, Credible Withdrawal, and the AfCFTA Multilateralization Option

No element of industrial policy discipline is more frequently recommended and less frequently implemented in Africa than the sunset clause. Three mechanisms can strengthen sunset clause credibility in low-bandwidth African contexts. First, rules-based extension criteria established at program design: extensions are available only if firms meet prespecified performance thresholds, input productivity improvement exceeding the sector median, or documented export achievement, making the extension decision a verification exercise rather than a political judgement. Second, co-financing requirements: requiring firms to invest alongside public support reduces the applicant pool to those with genuine productivity improvement expectations and creates financial alignment of incentives around the success of the supported activity. Third, and most innovatively, multilateralization: embedding sunset provisions in international agreements, specifically AfCFTA protocols on subsidies discipline, raises the political cost of unilateral extension and provides external accountability for exit commitments. This mechanism is largely untested in Africa but has precedent in the EU state aid discipline framework, which has demonstrably constrained member states' ability to extend firm-level support beyond notified timeframes (Hoekman and Mavroidis 2021). The AfCFTA context makes

multilateralization particularly timely as member states negotiate the protocol on competition policy. Embedding mutual industrial policy discipline creates reputational and legal costs for noncompliance that purely domestic sunset clauses cannot generate.

Credible exit is the mechanism that separates industrial policy from permanent protection. Three mechanisms strengthen sunset credibility in low-bandwidth African contexts: rules-based extension criteria, co-financing requirements around program success, and multilateralization through AfCFTA protocols on subsidies discipline, which raises the political cost of unilateral extension beyond what domestic sunset clauses can achieve (refer to box 2.3 for examples of contrasting cases).

Box 2.3: Discipline in Practice: Contrasting Cases

Mauritius: Managed Phase-Out of Textile Preferences. When the Multi-Fiber Arrangement expired in 2005, removing the preferential market access that had anchored Mauritius's textile sector, the government chose managed decline over extended protection. A five-year adjustment program provided transition support tied to worker retraining and firm-level diversification into higher-value garments and technical textiles but explicitly excluded firms failing productivity benchmarks from continued subsidies. Textile employment fell from 90,000 to approximately 40,000, but the surviving firms increased output per worker by 68 percent between 2005 and 2015 (OECD 2017). The disciplined exit of lower-productivity firms, while politically costly, prevented the sector from becoming a permanently protected enclave.

Ethiopia: Conditional Renewal with Monitoring Data. Ethiopia's Industrial Parks Development Corporation used quarterly export performance data to differentiate incentive renewal across zones and sectors. Parks showing consistent export growth received continued infrastructure investment and facilitated service extensions. Parks with stagnant performance received targeted diagnostic reviews before renewal decisions were made. This monitoring-conditioned approach concentrated public investment where learning effects were demonstrable: Hawassa (apparel) and Kilinto (pharmaceuticals). The approach redirected attention from zones where occupancy was high, but productivity gains were absent (Gebreeyesus 2016). Exit from nonperforming zones has been partial, but the approach represents a meaningful departure from unconditional renewal.

Nigeria: Capture and Sunset Failure. Nigeria's cement sector received pioneer status, an import prohibition on bagged cement under the 2002 Backward Integration Policy, and infrastructure support across multiple policy cycles from the 1990s through the 2020s. Cement prices remained significantly above regional comparators during the protection period, and tariff rents were captured as margins rather than productivity investment. The inability to withdraw protection was a direct consequence of firm-level targeting.

Rwanda: Rules-Based Qualification Preventing Capture. Rwanda's special economic zone (SEZ) incentive package specifies eligibility at the activity level. Firms qualify by meeting zone-set thresholds for export orientation (60 percent of output), employment creation (a minimum of 50 permanent workers), and technology content (a minimum of 30 percent of investment in machinery and equipment). The Rwanda Development Board reviews qualification annually against independently verified returns. Four firms lost SEZ status between 2015 and 2022 for failing qualification criteria, a small number but a significant signal that exit from the incentive regime is a genuine possibility. Foreign direct investment inflows increased from $258 million in 2010 to $1.2 billion in 2019, partly attributable to investor confidence that the incentive regime is rules-governed rather than negotiable (RDB 2022).

Sources: OECD (2017); Subramanian and Roy (2003); Gebreeyesus (2016); Fanuel, Butler, and Grinstead (2022); RDB (2022).

2.3 INDUSTRIAL POLICY FOR AFRICAN ECONOMIES: A DIAGNOSTIC FRAMEWORK

Six Archetypes: From Diagnosis to Industrial Policy Instrument

The analytical framework translates into a diagnostic tool. Each archetype is defined by two questions: whether an industrial policy instrument is feasible as determined by its fiscal space, implementation capacity, and market scale (Fernandes and Reed 2026) and whether an instrument will be effective as determined by ecosystem readiness, product space position, and resource endowment. Each country can be located in the six-dimension space by combining the feasibility layer with the effectiveness layer introduced here (table 2.4). This process identifies which constraint is binding and therefore which instrument tier and investment priority will generate the highest marginal return. The core diagnostic problem is that the same instrument can generate learning effects and structural change in one country but produce only administrative activity and no learning effects in another. Context determines instrument effectiveness, and matching industrial policy to context requires a diagnostic across the six dimensions.

The feasibility and effectiveness conditions are jointly necessary for industrial policy instruments to generate structural transformation. The feasibility conditions of fiscal space, implementation capacity, and market scale determine the sustainable set of instruments. The effectiveness conditions of ecosystem readiness, product space position, and resource endowment determine which instruments within that set generate learning effects.

Three Dimensions That Define Feasibility[1]

Fiscal space determines what a government can afford to sustain. Countries with low tax-to-GDP ratios and limited borrowing headroom cannot sustain the subsidy intensities required for learning effects in capital-intensive sectors. Governments with below-median fiscal space systematically over-rely on tariffs rather than production subsidies because tariffs raise revenue while subsidies spend it. Fiscal space also determines how long a country can maintain support. For example, a three-year program at 3 percent intensity is categorically different from a 15-year program at 12 percent intensity, even if both are called "industrial policy."

Implementation capacity determines what a government can administer effectively. Firm-specific instruments, such as production subsidies with performance conditionality, technology transfer requirements, and quality infrastructure on a cost-recovery basis, require the institutional capacity to monitor compliance, enforce exit from nonperforming beneficiaries, and resist political pressure to extend support unconditionally.

Market size determines whether domestic demand can drive the scale economies on which learning effects depend. Import tariff protection only generates learning effects when the protected industry can reach minimum efficient scale on domestic demand alone. Production subsidies only move firms along the cost curve when output volume is sufficient. For most

1 Fernandes and Reed (2026).

African economies, the size of the domestic market is too small to support scale in capital-intensive sectors, which is why the AfCFTA is prior to most instrument deployments: it shifts the market scale dimension for all countries without requiring fiscal transfer.

Three Dimensions That Define Effectiveness

Ecosystem readiness captures whether the enabling environment meets the minimum threshold for the target sector to be viable. Six ecosystem dimensions matter: energy reliability, logistics connectivity, workforce skills, financial depth, quality infrastructure, and state delivery capacity. Sub-Saharan Africa's regional average falls below the threshold on four of these six dimensions. The ecosystem dimensions interact: the return to logistics investment is higher when skills are adequate, and the return to skills is higher when electricity is reliable. Partial ecosystem investment, which addresses one binding constraint while others remain, can have near-zero returns when multiple constraints are simultaneously binding (Murphy, Shleifer, and Vishny 1989). This is why industrial parks built without bundled power and logistics investments consistently fail to attract sustained productive investment.

Product space position captures how far a country's current comparative advantage base is from the sector being targeted. The global product space maps relationships between sectors based on shared production capabilities. Countries that export one product successfully are more likely to develop adjacent products that draw on similar skills, institutions, and infrastructure. Countries at the periphery of the product space and concentrated in commodities must make larger capability jumps to reach manufacturing than countries already embedded in light industry (Hausmann and Klinger 2006; Hidalgo et al. 2009). The selection gap, which occurs when policies target sectors that are too far from current capabilities, is the most common failure mode in African industrial targeting.

Resource endowment opens an industrialization pathway that is not fully captured in the standard feasibility framework. For countries with significant mineral reserves, downstream processing may provide an entry point into industrial activity when supported by investments to build comparative advantage. Whether this generates structural transformation or enclave rents is often determined by whether the domestic ecosystem can support processing at costs approaching the global frontier. Significant market power may substitute for less than globally competitive conditions, but leveraging this power, for example with commodity export bans, should be done with caution. Indonesia's nickel ore export ban succeeded because Chinese smelter investment made domestic processing cost-competitive within the support window and Indonesia's share of global production reached almost 70 percent. Where ecosystem readiness does not meet the processing cost threshold, export restrictions may drive away production investment and can destroy the long-run market position on which any deeper industrialization depends.

Table 2.4: Six African Industrial Policy Archetypes: Feasibility and Effectiveness Conditions

Archetypes:		1. Frontier builders	2. Capable constrained	3. Resource pathway	4. Regional market transformers	5. Diversified industrializers	6. Corridor anchors
Feasibility	Fiscal space	Low	Low	Low–Med	Med	Med–High	Med
	Implementation capacity	Low	Med–High	Low–Med	Med	High	Med
	Market scale	Low	Low	Low	Large	Large	Med–Large
Effectiveness	Ecosystem readiness	Low	Med	Low	Med	High	Low–Med
	Product space	Low	Low–Med	Low	Med	High	Low–Med
	Resource endowment	Low	Low	High	Low–Med	Low–Med	High

Rating scale: Low | Low–Med | Med | Med–High / Med–Large | High / Large

Source: Original table for this publication.

Applying these six dimensions to Sub-Saharan Africa produces six identifiable country archetypes or distinct implementation contexts that each call for a different instrument package (table 2.5). The critical insight is that the archetypes are cumulative. Each archetype's instruments presuppose the foundations of the archetype below it. No archetype is permanent, and it is possible that a country could fit into one or two archetypes. Countries move between them as structural conditions change, and the most important industrial policy investments are often those that remove the binding constraint that prevents access to the next tier of instruments, not the instruments themselves. Before selecting an instrument, locate the country in the six-dimensional space, identify the binding constraint, and invest in releasing it before deploying the instrument tier that constraint is preventing. If ecosystem readiness is the constraint, investing in complementarities before deploying incentives is key. If position in the product space is the constraint, target capability neighborhoods adjacent to existing comparative advantage, rather than sectors requiring large capability jumps. If fiscal space is the constraint, substitute toward nonfiscal instruments that generate high developmental return per dollar: trade facilitation, regulatory reform, and quality infrastructure on a cost-recovery basis. Archetypes do not prescribe outcomes; they reveal where the binding constraint lies and what category of investment will release it.

Archetype 1

Archetype 1: Frontier Builders

Low on all six dimensions. Fiscal space is severely constrained, administrative capacity is limited, domestic markets are small, ecosystem readiness is below threshold, product space position is peripheral, and resource endowments (where present) are not yet paired with processing capability. The appropriate industrial policy task here is not choosing between instruments but building the foundations that make the instruments viable. The three gaps are all present at maximum severity: the capability jump to any manufacturing is large, the dosage that could sustain learning effects is fiscally limited, and the complementarities are largely missing across the board.

Archetype 1 countries face the deepest tension in industrial policy: the greatest need and narrowest viable instrument set. Ecosystem readiness is below the threshold on all six dimensions, fiscal space is limited, implementation capacity is low, and product space position is peripheral. Under these conditions, deploying firm-specific incentives produces administrative activity without productive effects. The highest-return instrument in this archetype is in economywide cost reduction: trade facilitation, regulatory reforms that reduce entry barriers and operating frictions, and core infrastructure. Cross-country evidence has consistently found that entry cost burdens suppress aggregate TFP, with estimates suggesting that halving regulatory entry costs raises TFP by more than 10 percent through improved firm selection and reduced misallocation (Barseghyan 2008; Djankov et al. 2002). Similarly, removal of subnational entry barriers (licenses, technical requirements, and illegal fees) in Peru raised firm TFP by about 11 percent (Schiffbauer, Sampi, and Coronado 2025). Chari (2011) found a relative TFP improvement of nearly 32 percent over 10 years in industries deregulated from the License Raj in India, by explicitly decomposing the role of entry and expansion costs. These instruments work at low bandwidth and low fiscal intensity because they reduce costs rather than provide transfers.

The first-best instrument that is reliably deployable for Archetype 1 is *industrial parks,* which are viable only when bundled with preceding co-investment in power, water, logistics, and basic skills. Agro-processing is appropriate because the capability jump is minimal (adjacent to agricultural comparative advantage), the energy threshold is low relative to capital-intensive manufacturing, local input demand generates upstream multipliers, and the product space position is reachable. Gollin, Lagakos, and Waugh (2014) showed that agricultural TFP in low-income countries is four times lower than in rich countries; therefore, closing half that gap through technology adoption would generate income effects larger than most industrial policy interventions.

What Not to Do in Archetype 1

Import tariffs generate revenue rather than learning effects. Domestic markets are too small to reach minimum efficient scale for most manufacturing activities. Production subsidies require monitoring capacity and fiscal intensity that is limited. Strategic exchange rate management carries inflation risk that can offset any industrial gains. For Archetype 1, the appropriate policy question is not which sector to target but which complementarity investments will move the country toward Archetype 2.

Archetype 2

Archetype 2: Capable Constrained Countries

Implementation capacity is moderate to high relative to fiscal space and market size. These economies can run rules-based programs, enforce standards, and manage delivery agencies, but cannot finance large, sustained subsidy programs. Administrative quality outpaces fiscal resources and market size; therefore, institutional bandwidth is the asset to be leveraged. Countries can implement rules-based instruments well but cannot sustain the fiscal intensity required for production subsidies or direct learning support.

For Archetype 2, institutional quality matters most as an instrument substitute. Governments that cannot afford large fiscal transfers can still structure instruments that generate returns through rules-based conditionality, cost-recovery delivery, and transparent performance benchmarks. Rwanda's Development Board model is the archetype benchmark: activity-based SEZ eligibility criteria set before beneficiaries are identified, credible exit from noncompliant firms, and annual performance publication. Quality infrastructure is the canonical public good that Archetype 2 governments can deliver because the institutional capacity to design and manage these systems is present, and the cost-recovery model makes fiscal sustainability independent of the subsidy budget. The distinction from trade facilitation (Archetype 1) is that quality infrastructure addresses the product-level market access constraint, not the logistics-cost constraint.

The AfCFTA is most transformative for Archetype 2 because it shifts the market scale constraint without requiring fiscal transfer. A small economy with strong institutions and good ecosystem readiness but a domestic market that is too small to generate learning-curve effects in manufacturing becomes potentially viable for Archetype 3 instruments once the AfCFTA tariff liberalization makes the regional market accessible. Yet market access only generates returns if the standards and logistics ecosystem is in place when investors arrive.

What Not to Do in Archetype 2

High import tariffs on inputs to domestic industry raise costs for all downstream activities without generating learning effects. Unconditional tax holidays attract footloose FDI that exits when the holiday expires rather than capability-building FDI that generates spillovers. Direct production subsidies at fiscal intensities that cannot be sustained for the required time horizon create expectations of support that become politically difficult to exit.

Archetype 3

Archetype 3: Resource Pathway

Resource endowment is high, but ecosystem readiness is low. Mineral or commodity endowment opens a specific industrialization entry point, but low ecosystem readiness constrains which instruments can generate transformation rather than enclave effects. For product space position, transition from raw extraction to processed output is a nontrivial capability jump. Fiscal space is available from resource revenues. The complementarity gap is the decisive constraint on whether processing achieves frontier cost competitiveness. This requires infrastructure, skills, and logistics that are often not yet present.

For Archetype 3, resource-rich countries face a distinctive industrial policy challenge: they have a natural entry point into industrial activity through downstream processing, but the same resource abundance that provides fiscal resources also generates Dutch disease pressures that undermine the manufactured and traded goods competitiveness (Lartey and Kassa 2025) on which broader diversification depends. Instrument design must address both the opportunity and the threat simultaneously.

Export restrictions on raw commodities should generally pass a two-part test that most African commodity exporters fail. First, the market power condition is that the country would ideally control sufficient global supply so that buyers cannot substitute without meaningful cost and time. The Democratic Republic of Congo's cobalt (~65 percent of global supply), Guinea's bauxite (~25 percent), and Zimbabwe's lithium may present some credible market power; most other commodities may not. The domestic ecosystem would ideally be capable of supporting processing at costs approaching the global frontier within a realistic support window. Indonesia's nickel ban succeeded because Chinese smelter investment made onshore processing cost competitive.

Resource revenue directed toward complementarity investment is the mechanism that converts the resource pathway into archetype progression. Botswana's diamond revenue was directed to education and institutional capacity over two decades and bolstered implementation capacity. Resource booms crowding out traded and manufacturing goods through real exchange rate appreciation and diverting public revenue into consumption rather than ecosystem investment can undermine this progression in resource-rich African economies.

Archetype 4

Archetype 4: Regional Market Transformers

Market scale provides the demand base for learning effects, and administrative capacity is sufficient for conditionally governed instruments. The binding constraints shift to ecosystem readiness and conditionality enforcement. These countries can sustain targeted instruments such as time-limited production support and technology transfer conditionality, but only when instrument design is bundled with ecosystem co-investment and discipline architecture. They can be drivers of regional integration to grow market size.

At this archetype, market scale provides the demand base for learning effects, and implementation capacity is sufficient for conditionally governed instruments. The Hawassa model in Ethiopia defines what this looks like when it works. Before investor recruitment, the country co-invested in a dedicated power substation, highway connection, effluent treatment, and on-site training center co-designed with anchor tenants. Where Hawassa falls short is equally instructive. Local supply chains remain thin, and no measurable TFP gains for domestic firms have been documented. This reflects remaining ecosystem gaps upstream from the park: insufficient training programs outside the park boundary, inadequate logistics connectivity for domestic supplier integration, and monitoring systems that did not generate actionable performance data in time to adjust instrument design. Ecosystem co-investment produces the first-order effect, and closing the remaining complementarity gaps produces the second-order spillover that converts a well-functioning park into structural transformation. The evidence from agglomeration economics supports the mechanism: the arrival of a large manufacturing plant increases the TFP of incumbent plants in the same location by approximately 12 percent over five years, but this agglomeration effect requires a baseline supplier ecosystem, which the bundled investment creates (Greenstone, Hornbeck, and Moretti 2010).

In this archetype, production subsidies are viable only with conditionality. Continuation depends on demonstrated input-productivity improvement relative to the sector median and declining input per unit of output compared to unsubsidized comparators that are not engaged in administrative activity or firm self-reporting (Krueger and Tuncer 1982). The technology transfer requirements for FDI become viable in this archetype because implementation capacity is sufficient to monitor and enforce commitments. Costa Rica's Intel case established the model: curriculum was co-designed with Intel before the investment was finalized, employment outcomes were tracked against targets, and training investment was a condition of continued preferred treatment. The mechanism of FDI approval conditioned on structured technology transfer, rather than unconditional welcome, requires the institutional capacity to negotiate.

Import Tariffs in Archetype 4: When They Work and When They Do Not

Import tariffs are viable for Archetype 4 (Juhász 2018) where the following are in place: domestic market demand that is sufficient to support the minimum efficient scale for the protected activity; a credible productivity improvement trajectory that is demonstrable within a 5 to 10 year window; a tariff rate that is set at the infant industry level, not at prohibitive levels that insulate incumbents from all competitive pressure; and exit criteria that are specified before the tariff is imposed. The evidence base has consistently found that output subsidies outperform tariff protection even where market scale makes tariffs viable, because subsidies address the learning cost directly while tariffs address it only indirectly. The key features for import tariffs to work are temporary, sector-specific, and paired with genuine competitive pressure within the protected market. Still, tariffs are the second-best instrument when fiscal space does not permit subsidies at adequate intensity.

What Not to Do in Archetype 4

Individual instruments without ecosystem co-investment will not replicate success as a tax holiday, and land lease alone may only generate rent-seeking. Unconditional production subsidies have replicated failure widely in Africa with prices above regional comparators, no TFP improvement, and political lock-in. Prohibitive import tariffs insulate incumbents from all competitive pressure, removing the force that converts learning opportunity into realized TFP improvement.

Archetype 5

Archetype 5: Diversified Industrializers

Advanced product space and strong ecosystem readiness enable first-best instruments across the full menu. The central challenges are global value chain deepening, innovation-based upgrading, and avoiding middle-income traps.

For this archetype, the industrial policy challenge is no longer about building foundations or enabling basic learning effects. It is about sustaining upgrading momentum in economies where incumbent industries face competitive pressure from lower-cost producers and productivity growth increasingly requires R&D and innovation investment rather than catch-up learning. Maintaining tariff protection on declining activities rather than investing in upgrading

into higher-complexity activities generates the middle-income trap. Industrial policy in Archetype 5 must target the next capability level in existing value chains and the acquisition of capabilities in frontier sectors (green hydrogen, battery technology, and pharmaceutical manufacturing), not the preservation of activities that have already lost comparative advantage.

This requires shifting the instrument mix toward innovation support, supplier development, and green industrialization, the tools that build new capabilities rather than defend existing positions. R&D tax credits that reward firms for increasing research spending address the core market failure in innovation: firms underinvest because competitors capture part of the return. This instrument is appropriate for Archetype 5 because it only works where firms already possess the capacity to conduct and apply research, which is a condition that lower archetypes do not meet. Supplier development programs resolve the coordination failure that prevents domestic firms from meeting multinational procurement standards, combining upgrading finance with direct procurement linkages benchmarked to anchor investor requirements rather than administrative targets. Green industrialization targets sectors in which falling technology costs and tightening export market standards, particularly the European Union's carbon border adjustment mechanism, are opening new windows of competitive opportunity that Archetype 5 resource endowments and industrial bases make commercially plausible. Across all three instruments, the returns depend on market contestability. Where a few large firms dominate key input markets, industrial subsidies to downstream manufacturers are partly captured through higher input prices rather than converted into competitive capability. Competition policy is therefore an instrument of industrial policy itself, the safeguard that ensures that the broader instrument set generates capability accumulation rather than rent distribution to politically connected incumbents.

Archetype 6

Archetype 6: Corridor Anchors (Regional Configuration of Archetype 3)

Transformative resource endowments at regional scale require multi-country instrument logic. Single-country deployments may be susceptible to generating enclave effects. Regional integration can be a powerful part of the instrument package. Individual country instrument deployment is ineffective because the relevant unit of analysis is the corridor. This archetype is distinct from Archetype 3 as the resource endowment is transformative only when it is operationalized across national boundaries.

Archetype 6 is distinct from Archetype 3 in one critical way: the relevant unit of analysis is not the country but the corridor. The opportunity of industrialization arises from a combination of resources, logistics, and market access across multiple countries that no individual country possesses in isolation. The instrument design can therefore be conceived and implemented at the corridor scale. The viable institutional architecture may be a corridor authority with regulatory independence from individual country governments, transparent access pricing, and a dispute resolution mechanism that does not depend on any single country's courts (Kassa, Kee, and Maur 2026).

If Angola, the Democratic Republic of Congo, Guinea, and Zambia each imposed export restrictions and local content requirements without coordination, it would likely be ineffective. Buyers' substitution can delay downstream investment, and individual country market power may be insufficient to compel the processing investment that regional coordination could sustain. Indonesia's nickel success required one large country acting with decisive market power. Indonesia's bauxite challenges showed that export bans where a country holds much smaller market power, even with similar infrastructure conditions as the nickel ecosystem, do not guarantee success. To improve the chances of success, the African corridor opportunity may require coordinated action by multiple smaller countries acting as a single industrial platform.

The open-access condition is that corridor infrastructure should ideally be designed as open-access economic platforms from the outset, not single-commodity mining spurs. The Simandou railway in Guinea (657 kilometers with a deepwater port, $20 billion+ investment) and the Lobito Corridor in Angola, the Democratic Republic of Congo, and Zambia (Benguela railway, 1,344 kilometers) represent the region's largest infrastructure investments. The open-access design condition for infrastructure—for example by allowing agricultural goods and intermediate goods alongside raw mineral products—can support conditions for structural transformation rather than risk replicating the historical extraction enclave pattern.

What is required is deliberate positioning of mineral processing activities at the core of tariff liberalization schedules, so that processed outputs from corridor operations face low or zero intra-AfCFTA tariffs and regional manufacturers have a competitive input supply base. In addition, financing at the corridor scale requires regional development finance institutions that can capitalize infrastructure and processing investment beyond the borrowing capacity of any individual country. The instrument set could be supported by the African Export-Import Bank, the Africa Finance Corporation, the African Development Bank corridor programs, and the World Bank Group, combined with bilateral financing from the U.S. Millennium Challenge Corporation (Lobito compact), EU Global Gateway, and existing Chinese and consortium partners' investment in Simandou. Development finance institutions' financing can usefully incentivize shared and open-access corridor governance and sequenced complementarity investment.

The Democratic Republic of Congo–Zambia Battery Value Chain: A Strong Regional Case

The Democratic Republic of Congo's cobalt (roughly 65 percent of global supply) combined with Zambia's copper in precursor cathode manufacturing may provide useful opportunities for regional scale. They are adjacent to current extraction capability and could offer an opportunity to take a step up the product complexity ladder. Global battery demand provides sufficient growing scale for additional entrants into this competitive landscape. The Democratic Republic of Congo–Zambia Battery Initiative may provide the basis for a collaborative institutional framework. What it may still require includes a shared regulatory framework, corridor logistics, AfCFTA tariff architecture positioning precursor inputs and outputs at the core of liberalization (not the sensitive products list), and co-investment in skills and quality infrastructure (Ndubuisi et al. 2025). This is a regional instrument that single-country industrial policy may struggle to replicate; however, the regional collaboration heightens the challenges as well as opportunities here.

Table 2.5: Classification by Archetype and Priority Instrument Package

Archetype	Priority instrument package
1. Frontier builders Constrained on all six dimensions. The task is to build foundations, not deploy incentives.	Economywide cost reduction; trade facilitation (highest return per fiscal dollar at any income level); regulatory reform reducing business entry costs; SEZs only if bundled with power, water, and logistics co-investment; agro-processing in activities with minimal energy thresholds.
2. Capable constrained Administrative quality outpaces fiscal resources. Bandwidth is the asset to leverage.	Rules-based SEZs with activity-level eligibility set before beneficiaries are identified; quality infrastructure (standards, sanitary and phytosanitary, metrology) on cost-recovery basis; skills programs co-designed with the private sector; market access assistance; DFI patient capital with performance conditionality.
3. Resource pathway Significant mineral or commodity endowment provides a specific industrialization entry point, but low ecosystem readiness constrains instruments.	Export restrictions are more likely to succeed where global market power is decisive, and the domestic ecosystem can support competitive processing; corridor infrastructure as multi-use economic platform; resource revenue directed to ecosystem co-investment; local content escalating with demonstrated domestic learning and capability buildup.
4. Regional market transformers Market scale enables learning effects. The binding constraint shifts to ecosystem readiness and conditionality enforcement.	Industrial parks bundled with power and logistics co-investment; time-limited production subsidies with input-productivity conditionality; technology transfer requirements on FDI; import tariffs only where domestic market scale justifies and exit criteria are pre-specified; DFI at 5-10-year investment horizons. Larger countries can spur accelerated regional market integration for increased market size for all.
5. Diversified industrializers Advanced product space and a strong ecosystem enable first-best instruments. The challenge is GVC deepening and avoiding deindustrialization.	Innovation subsidies and R&D co-investment; GVC deepening and supplier development; green industrialization instruments; AfCFTA regional anchor positioning; performance-conditioned firm-specific support where monitoring capacity is sufficient.
6. Corridor anchors Transformative resource endowment at regional scale. Single-country instruments generate enclaves. Regional coordination is the instrument.	Open-access corridor infrastructure governance; Congo, Dem. Rep.–Zambia battery precursor value chain at AfCFTA scale; regional DFI capitalization (African Export-Import Bank, Africa Finance Corporation, African Development Bank); AfCFTA tariff architecture positioning corridor sectors at liberalization core, not sensitive products list.

Source: Original table for this publication.

Note: Country placement is illustrative and not definitive. AfCFTA = African Continental Free Trade Area; DFI = development finance institution; FDI = foreign direct investment; GVC = global value chain; R&D = research and development; SEZs = special economic zones.

Regional Integration (AfCFTA) Is the Structural Precondition for Most African Instrument Toolkits

Learning-by-doing effects require output volume that is sufficient to move firms along the cost curve before the support window closes. For capital-intensive sectors, as domestic markets in most African economies cannot provide this scale, this is the market size constraint in the dosage gap. The AfCFTA shifts the feasibility boundary for scale-dependent instruments and moves sectors from infeasible to viable at the national level. Industrial policy designed without AfCFTA integration is designed to underperform against the market size constraint.

The following are suggested policy prescriptions:

- Position strategic sectors at the core of AfCFTA tariff liberalization schedules. Sectors on the sensitive products list capture the exemption for incumbents and impose the tariff on new entrants, converting a market-expanding instrument into protection extension.
- Use the AfCFTA as a multilateral disciplining mechanism for sunset provisions. Embedding exit commitments in trade agreements raises the political cost of unilateral extension and provides external accountability that purely domestic sunset clauses cannot generate, on the model of EU state aid discipline (Hoekman and Mavroidis 2021).
- Design industrial policy at the regional scale for sectors where the minimum viable scale exceeds any single economy. The Democratic Republic of Congo–Zambia Battery Initiative, which combines the Democratic Republic of Congo's cobalt with Zambia's copper into the potential opportunity to move into battery precursor materials, represents exactly this logic. It combines regional capability with targeting a specific, verifiable step up the value chain rather than a leap to finished manufacturing (Coulibaly, Kassa, and Zeufack 2022; Kassa, Lee, and Maur 2026).

Appendix A. Macroeconomic Tables

Table A.1: Real GDP Growth at Constant Market Prices (%) and Consumer Price Index (annual change)

	Real GDP growth, at constant market prices (%)						Consumer Price Index, annual change (%)					
	2010-19	2024	2025e	2026f	2027f	2028f	2010-19	2024	2025e	2026f	2027f	2028f
Angola	2.5	4.4	3.1	2.4	2.7	2.9	17.0	28.2	20.2	14.9	12.5	11.5
Burundi	2.2	4.1	4.0	4.1	4.8	4.9	7.0	20.2	34.0	16.8	14.0	12.5
Benin	4.8	7.5	8.1	7.0	7.2	7.3	1.3	1.2	1.1	1.7	1.6	1.6
Burkina Faso	6.0	4.8	5.3	5.0	5.8	5.5	0.2	4.2	-0.5	3.1	2.0	2.0
Botswana	4.7	-2.8	-0.9	2.7	3.2	3.1	4.8	2.8	2.7	5.5	4.5	4.5
Central African Republic	-0.2	1.5	4.5	2.3	3.1	3.2	4.5	1.5	1.0	2.0	1.8	2.0
Côte d'Ivoire	6.3	6.0	6.3	5.8	6.5	7.0	1.4	3.5	0.1	3.3	2.7	2.0
Cameroon	4.3	3.5	3.2	3.4	3.7	3.9	1.9	4.5	3.4	5.7	3.8	3.0
Congo, Dem. Rep.	6.2	6.1	5.5	5.2	5.1	5.1	12.9	17.7	7.5	6.0	6.4	7.0
Congo, Rep.	1.3	2.1	3.1	3.7	3.4	3.4	2.3	3.8	2.9	3.5	3.2	3.0
Comoros	3.1	3.3	3.8	4.1	4.3	3.9	1.7	5.0	3.3	4.3	3.0	2.2
Cabo Verde	2.9	7.2	6.3	4.8	5.0	5.1	1.3	1.0	2.3	3.2	2.0	2.0
Eritrea	5.2	2.9	3.2	3.5	3.6	3.6	3.3	4.1	3.9	3.8	3.7	3.7
Ethiopia	9.8	8.1	9.2	8.0	6.9	8.4	13.5	26.7	16.0	11.6	12.1	8.3
Gabon	4.1	3.4	2.5	3.0	3.3	3.5	1.9	1.2	1.8	3.2	2.1	2.0
Ghana	6.7	5.8	6.0	4.8	4.9	5.0	11.3	22.9	14.6	9.0	8.0	8.0
Guinea	6.1	5.4	7.4	8.8	11.6	10.7	11.8	5.1	3.2	4.7	3.8	3.7
Gambia, The	2.9	5.6	5.9	5.3	5.2	5.2	6.1	11.7	7.9	5.8	5.0	5.0
Guinea-Bissau	4.2	4.1	5.5	4.8	4.9	5.0	1.4	3.7	0.9	3.0	2.3	2.0
Equatorial Guinea	-3.3	0.4	-5.4	-3.5	-3.4	2.2	3.0	3.4	3.2	6.2	2.9	2.6
Kenya	5.0	4.7	4.9	4.4	5.0	5.0	7.1	4.5	4.1	5.0	5.0	5.0
Liberia	3.1	4.0	5.1	5.0	5.4	5.6	12.0	8.3	8.5	7.0	6.2	5.5
Lesotho	2.0	5.2	2.0	1.3	1.5	1.5	4.9	6.1	4.5	5.4	5.0	5.0
Madagascar	3.0	4.3	3.0	3.8	4.5	4.4	7.3	7.6	8.0	8.3	8.1	6.7
Mali	4.7	4.7	4.1	5.0	5.2	5.3	0.3	3.2	4.0	3.7	2.8	2.5
Mozambique	5.7	2.1	-0.5	0.9	1.6	2.5	6.6	3.2	4.4	7.5	6.0	5.5
Mauritania	4.1	6.3	4.2	4.4	4.5	4.8	2.0	2.5	1.6	4.8	3.3	3.8
Mauritius	3.9	4.9	3.2	2.5	4.6	3.1	3.0	3.5	3.7	3.9	3.7	3.5
Malawi	4.4	1.7	1.9	2.3	2.7	3.0	16.1	32.3	28.4	21.9	19.5	17.4
Namibia	3.1	4.0	1.7	2.7	3.4	3.4	5.2	4.2	3.5	4.2	3.4	3.4
Niger	6.1	8.3	7.0	6.7	6.4	6.1	0.7	9.1	-4.7	1.2	2.0	2.0
Nigeria	3.5	4.1	4.0	4.1	4.2	4.3	11.8	33.2	23.0	14.9	12.1	10.7
Rwanda	7.1	7.2	9.4	7.2	7.6	7.3	3.7	5.2	7.0	6.7	5.0	5.0
Sudan	-0.9	-14.0	3.1	5.5	4.4	2.6	32.1	170.0	111.5	77.7	50.0	25.0
Senegal	4.8	6.1	6.7	2.2	2.6	3.0	1.1	0.8	1.4	2.8	2.2	2.1
Sierra Leone	4.6	4.4	4.5	4.0	4.7	4.6	9.9	28.4	7.6	10.4	10.2	9.5
Somalia		4.1	3.0	2.8	3.1	3.5		5.5	3.7	5.3	4.3	4.0
South Sudan	-7.0*	-7.4	-7.7	20.3	2.4	2.9	92.8*	105.1	233.6	33.3	8.9	7.2
São Tomé and Príncipe	3.4	1.1	2.1	2.9	3.9	3.3	8.5	14.4	11.0	11.0	7.9	6.0
Eswatini	3.1	3.0	4.0	3.9	3.8	3.3	5.7	4.0	3.1	4.3	3.8	3.8
Seychelles	6.1	3.4	5.8	1.1	4.5	3.1	2.7	0.3	0.3	2.3	1.9	1.5
Chad	4.1	5.0	5.6	5.2	5.3	5.3	1.5	5.7	-2.6	2.2	2.6	2.8
Togo	5.4	6.5	5.9	5.0	5.8	6.2	1.4	2.9	0.4	2.8	2.5	2.1
Tanzania	6.3	5.5	5.9	6.1	6.4	6.5	7.1	3.1	3.4	4.1	3.9	4.0
Uganda	5.4	6.1	6.3	6.8	8.5	8.1	6.2	3.2	3.7	3.9	4.2	3.8
South Africa	1.7	0.5	1.1	1.0	1.5	1.7	5.2	4.4	3.2	4.1	3.4	3.3
Zambia	4.9	3.8	3.8	4.4	4.7	5.1	8.8	15.0	13.9	9.0	8.0	7.0
Zimbabwe	6.1	1.7	7.5	4.6	4.2	4.1	62.0	-99.9	81.4	6.7	5.4	5.0

Source: World Bank estimates. *Note:* e = estimate; f = forecast; GDP = gross domestic product.

* For South Sudan, this is calculated as the average over 2011–19. For Somalia, there is a break in inflation data: from 2025 onwards, estimates are based on national figures, while prior to 2024, inflation numbers covered only Mogadishu. Data as of 04/07/2026.

Table A.2: General Government Balance (% of GDP) and General Government Debt (% of GDP)

	General government balance (% of GDP)						General government debt (% of GDP)					
	2010-19	2024	2025e	2026f	2027f	2028f	2010-19	2024	2025e	2026f	2027f	2028f
Angola	-0.4	-1.3	-4.1	-3.2	-3.3	-2.8	50.6	59.3	52.3	50.1	49.1	49.7
Burundi	-3.3	-6.3	-5.2	-4.6	-4.4	-3.6	41.2	69.0	67.1	65.3	62.6	59.5
Benin	-1.8	-3.1	-2.9	-2.9	-2.9	-2.9	29.0	60.5	56.8	56.7	54.9	53.2
Burkina Faso	-3.3	-5.8	-3.7	-3.5	-3.2	-3.0	32.9	57.2	53.2	52.2	50.5	49.7
Botswana	-1.3	-7.3	-6.5	-7.1	-6.9	-5.4	24.1	29.3	39.5	44.3	47.0	47.7
Central African Republic	1.5	-5.1	-5.6	-4.8	-4.8	-4.7	56.0	60.7	62.0	62.6	62.7	62.4
Côte d'Ivoire	-2.2	-4.0	-3.0	-3.0	-3.0	-3.0	29.9	60.0	58.1	56.8	55.6	54.0
Cameroon	-2.7	-1.5	-2.2	-1.5	-1.8	-1.8	28.9	44.8	43.8	43.5	43.8	42.6
Congo, Dem. Rep.	0.3	-1.9	-2.9	-2.2	-1.8	-1.5	24.9	22.9	21.1	21.6	21.8	22.1
Congo, Rep.	2.7	2.7	0.6	3.7	0.4	1.3	58.0	98.1	97.4	94.5	88.1	81.8
Comoros	0.0	-2.1	-2.4	-2.5	-2.8	-2.2	19.6	24.5	25.2	26.1	27.2	27.7
Cabo Verde	-5.5	-1.2	1.0	-1.1	-0.5	-0.4	98.4	111.4	99.5	95.8	89.7	83.3
Eritrea	-1.9	-4.8	-4.1	-3.8	-3.5	-3.5	193.2	211.8	212.5	214.8	216.6	217.9
Ethiopia	-2.5	-2.1	-1.1	-1.8	-1.4	-1.6	28.5	22.3	38.6	34.9	30.5	27.6
Gabon	0.3	-3.3	-4.6	-3.3	-2.7	-3.0	39.5	74.7	81.9	78.4	80.3	74.7
Ghana	-4.4	-7.5	-1.0	-2.0	-1.8	-2.0	45.5	70.1	56.0	54.5	52.5	50.2
Guinea	-3.7	-4.9	-4.1	-4.0	-3.6	-3.0	42.6	43.5	47.9	46.3	45.6	44.8
Gambia, The	-4.8	-4.2	-2.8	-1.2	-0.8	-0.7	67.6	79.1	76.4	68.8	62.0	56.0
Guinea-Bissau	-2.6	-8.1	-6.5	-5.0	-4.5	-3.7	52.5	82.2	75.6	74.1	73.2	70.9
Equatorial Guinea	-3.1	-0.5	-0.9	2.6	-1.3	-0.9	23.7	34.1	36.3	36.7	39.8	37.2
Kenya	-6.1	-5.8	-6.0	-5.6	-5.2	-4.9	47.1	67.3	68.0	70.3	71.2	71.3
Liberia	-11.1	-2.0	-1.1	-1.7	-1.2	-1.6	29.7	56.8	52.4	52.8	53.6	51.9
Lesotho	-3.3	9.5	3.0	-1.7	3.5	3.4	40.8	54.7	50.9	50.3	48.6	46.9
Madagascar	-1.6	-2.6	-3.1	-4.0	-3.9	-3.5	36.8	50.8	52.7	54.7	54.9	54.7
Mali	-2.3	-2.5	-2.9	-2.7	-2.5	-2.3	26.0	44.6	42.3	41.3	41.2	39.1
Mozambique	-3.6	-6.1	-4.1	-5.2	-5.7	-6.1	74.4	90.1	91.4	94.6	101.6	107.9
Mauritania	-0.1	-1.4	-0.3	-0.1	0.4	-0.6	50.2	47.0	42.6	39.4	37.1	37.1
Mauritius	-3.0	-8.4	-7.6	-7.1	-6.1	-5.6	59.5	90.6	88.9	90.6	90.3	90.2
Malawi	-2.9	-9.1	-8.4	-11.8	-10.0	-8.6	28.2	87.8	92.3	81.4	78.6	64.4
Namibia	-5.9	-4.1	-6.6	-6.9	-4.7	-4.7	38.9	71.7	71.7	74.8	74.4	74.1
Niger	-3.1	-4.3	-2.9	-3.3	-3.1	-3.1	28.0	47.1	45.8	46.1	45.5	45.4
Nigeria	-2.0	-2.8	-3.1	-2.9	-3.1	-2.8	12.4	42.9	38.7	36.0	38.5	36.9
Rwanda	-4.1	-6.2	-3.9	-3.7	-3.1	-3.1	35.7	73.8	72.4	77.0	78.4	78.0
Sudan	-4.5	-5.1	-5.4	-5.2	-4.9	-4.6	113.8	149.7	128.5	117.8	128.1	142.5
Senegal	-4.9	-13.4	-8.1	-6.7	-4.9	-4.0	46.5	122.7	118.9	118.7	119.3	118.2
Sierra Leone	-3.1	-5.1	-4.3	-3.3	-3.5	-2.9	30.9	44.4	43.4	42.2	40.1	36.0
Somalia		0.2	-0.3	-0.6	-0.8	-1.2		9.3	8.9	8.6	8.2	9.1
South Sudan	-3.1	-3.7	-6.7	-4.0	-5.4	-2.1	34.9	59.7	71.9	44.3	46.7	46.5
São Tomé and Príncipe	-7.0	0.9	-2.5	-0.5	1.5	2.8	87.7	65.2	56.5	51.2	46.5	44.0
Eswatini	-4.6	-2.6	-6.3	-5.2	-5.0	-4.8	19.1	40.5	44.3	47.9	49.4	50.9
Seychelles	1.1	0.2	-0.8	-1.7	-1.1	-0.6	64.1	57.7	53.6	53.2	51.1	49.2
Chad	-1.9	-3.4	-1.7	-0.4	-1.7	-0.2	22.5	32.7	30.2	28.7	30.9	29.0
Togo	-4.2	-6.8	-3.5	-3.0	-3.0	-3.0	48.5	66.2	63.0	64.8	63.4	61.8
Tanzania	-3.2	-2.7	-3.4	-3.1	-2.8	-2.6	33.6	49.9	48.5	47.4	46.2	44.8
Uganda	-2.6	-4.4	-5.7	-6.2	-5.0	-4.3	24.1	50.6	52.4	54.5	53.4	52.4
South Africa	-3.6	-5.6	-5.5	-4.3	-4.0	-3.9	43.5	77.0	78.9	79.3	79.3	78.9
Zambia	-6.6	-3.5	-3.8	-4.9	-4.4	-3.1	49.8	101.8	100.1	83.5	78.3	73.2
Zimbabwe	0.0	-0.8	0.4	0.4	-2.0	-0.9	0.0	72.9	45.6	45.4	44.1	43.2

Source: World Bank estimates. *Note:* e = estimate; f = forecast; GDP = gross domestic product.

Note: The Democratic Republic of Congo's general balance figures are reported on a cash basis (% of GDP). For Cabo Verde, debt figures represent central government debt without guarantees. Data as of 04/07/2026.

Appendix B. Country Classifications

Table B.1: Western and Central Africa Country Classification

Resource-rich countries		Non-resource-rich countries	
Oil	Metals & minerals		
Chad	Guinea	Benin	Gambia, The
Congo, Rep.	Liberia	Burkina Faso	Ghana
Equatorial Guinea	Mauritania	Cabo Verde	Guinea-Bissau
Gabon	Niger	Cameroon	Mali
Nigeria	Sierra Leone	Central African Republic	Senegal
		Côte d'Ivoire	Togo

Note: Since July 2020, for operational purposes, the World Bank Africa Region has been split into two subregions—Western and Central Africa and Eastern and Southern Africa. The analysis in this report reflects this setup. Resource-rich countries are those with rents from natural resources (excluding forests) that exceed 10 percent of gross domestic product. The words "resource-rich countries" and "resource-abundant countries" have been used interchangeably throughout the document.

Table B.2: Eastern and Southern Africa Country Classification

Resource-rich countries		Non-resource-rich countries	
Oil	Metals & minerals		
Angola	Botswana	Burundi	Mozambique
South Sudan	Congo, Dem. Rep.	Comoros	Rwanda
	Namibia	Eritrea	São Tomé and Príncipe
	South Africa	Eswatini	Seychelles
	Zambia	Ethiopia	Somalia
		Kenya	Sudan
		Lesotho	Tanzania
		Madagascar	Uganda
		Malawi	Zimbabwe
		Mauritius	

Note: Since July 2020, for operational purposes, the World Bank Africa Region has been split into two subregions—Western and Central Africa and Eastern and Southern Africa. The analysis in this report reflects this setup. Resource-rich countries are those with rents from natural resources (excluding forests) that exceed 10 percent of gross domestic product. The words "resource-rich countries" and "resource-abundant countries" have been used interchangeably throughout the document.

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Sub-Saharan Africa's economic recovery from successive global shocks is losing momentum, with growth projections for 2026 revised downward from those published in October 2025. Geopolitical spillovers from the conflict in the Middle East, high debt service burdens, and structural weaknesses are limiting growth prospects and job creation.

Against this backdrop, the report argues that Africa's growth challenge is structural, reflected in low investment, weak productivity, and limited job creation. While interest in industrial policy has revived, past efforts often failed due to weak implementation capacity, fiscal and institutional constraints. The report proposes a pragmatic, ecosystem-based approach that aligns policy tools with country capabilities to deliver productivity gains and durable structural transformation.

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