Industrialization in Africa and the Role of Foreign Aid: Lessons from Kenya and Mauritius

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ABSTRACT

Industrialization is a critical pathway to economic transformation, particularly through manufacturing. This article seeks to assess the impact of foreign aid on the manufacturing sector in Africa, focusing on case studies from Kenya and Mauritius. Utilizing evidence based empirical data, this article reveals a mixed outcome of foreign aid to the manufacturing sector in Kenya and Mauritius. On one hand, donor assistance has contributed to the growth and expansion of manufacturing industries in African countries. On the other hand, foreign aid has also played a role in the sector's decline due to indirect factors such as aid conditionalities, leading to premature liberalization of economies, and impacting the competitiveness of domestic industries in the global market. However, some African countries that have emphasized good governance and implemented policies to enhance product export competitiveness have better withstood the challenges of economic openness. Mauritius, in particular, has sustained a more competitive manufacturing sector compared to Kenya, owing to good management of public affairs including human centred development strategies. Striking a balanced approach between foreign aid and strategic national policies will enable African countries to effectively leverage foreign assistance for sustainable and inclusive industrial development.

Keywords: Africa, Foreign aid, Industrialization, Manufacturing, Kenya, Mauritius

INTRODUCTION

'Industrialization' is a generic term for a set of economic and social processes related to the discovery of more efficient ways to create value (Simandan, 2009). The industrial sector broadly includes manufacturing, resource extraction, and construction (Abegaz, 2018). The developmental foundations of modern societies have been heavily influenced by the industrial revolution of the 19th – 20th century. As economies set up more industries, there has been a greater demand for skilled labour, which increases the average wage rate. It boosts economic activities by enabling the processing of raw materials into finished goods thus creating formal employment which in turn creates social stability (Volger, 2010). Industrialization of states not only leads to economic growth but also results in the improvement of the well-being of populations. Citizens from countries that have higher levels of industrialization are much more prosperous and are healthier than those in the least industrialized states. They have higher levels of education, more secure social security, advanced transport and communication networks and financial facilities to assist in setting up businesses. On the contrast, least industrialized countries are more susceptible to unemployment, extreme poverty and civil strife. There is, thus a clear and strong connection between industrialization and human development (Upadhyaya & Keppling, 2014).

Africa's industrial success pales in comparison to other regions of the world. The continent is categorized as

a 'Late Industrializer' that is yet to be fully integrated in the global economy. The continent has been experiencing challenges in meeting some of the most crucial prerequisites for industrial growth such as massive investment in finance and human capital, infrastructure and technological capacity (Abegaz, 2018). While there exists great diversity in socio-economic growth of African countries, there is underlying lack of structural transformation in the African industrial sector. Though reforms in African economies have been made over the decades, the gains in the industrial sector particularly manufacturing has been short lived. Africa's manufacturing share in GDP rose from a low of 6.3 per cent in 1970 to a peak of 15.3 per cent in 1990, and thereafter fell to 12.8 per cent in 2000 and 10.5 per cent in 2008. In 2017, manufacturing accounted for less than 10 percent of sub-Saharan Africa's total GDP, highlighting a significant disparity between the African continent and the rest of the world (Signé, 2018). The proportion of manufacturing value added in the continent has experienced a reduction from 16% in 1980 to under 10% by 2016 (Ndung'u *et al.*, 2022). Until recently, growth in the manufacturing sector has lagged behind except in a few exceptional markets such as those in North Africa and South Africa. The large scale manufacturing activities in the continent have been largely centred on five countries (Egypt, Morocco, Nigeria, South Africa, and Tunisia) which account for almost 70% of the continent's activities (Signé, 2018).

African countries have traditionally faced financial constraints to enable the development of the industrial sector. The weak ability to organize domestic savings has meant that foreign capital financing has become a lifeline for industrial growth. Foreign aid has emerged as a critical tool for growth in Africa as a result of the insufficient domestic resources to finance economic activities (Ndikumana, 2022). This article focuses on Official Development Aid (ODA) which is a combination of capital, technical assistance and conditions provided by foreign nations and international institutions, which is designed to achieve economic progress (Easterly, 2007). Various empirical studies on the impact of development aid shows that it has the potential to contribute positively to the industrial growth and development of recipient states. Countries such as China, South Korea and Taiwan benefited from the liberalization of their economies by opening up their markets to foreign development financing from the early 20th Century (Studwell, 2014). Foreign aid is argued to lead to higher investment in crucial industrial sectors, improving productivity and leading to the integration of local markets to the global trade system (Newman *et al., 2016)*. As a form of development assistance foreign aid can affect the industrial sector in a recipient state and thus influence the growth, distribution, governance and industrial environment (McCormick, 2008).

Despite foreign aid being directed to African countries for decades, the continent's industrial capacity has been noted to be dismal. This article further interrogates the problem of industrialization in Africa by assessing the role of foreign aid to the sector. Africa's industrialization story cannot be contextualized without looking at the multi-sectorial growth experiences of its economies and the rapidly changing global environment. This article analyses the impact of foreign aid on African's industrial development. Lessons are drawn from an empirical study conducted on Kenya and Mauritius's manufacturing sector from November 2022 to April 2023.

The utilization of foreign aid has been used by both countries over the decades as a means to acquire foreign capital, technology and technical assistance to support the industrial sector. According to empirical data on their industrial sectors, both countries have been experiencing growth in their industrial capacity. However, Mauritius has seen significant growth in the industrial sector and is relatively more competitive than other African states, including Kenya. In 2019, the United Nations Industrial Development Organization (UNIDO) published the Competitive Industrial Performance (CIP) Index, which ranked Mauritius 86th and Kenya 103rd out of 152 countries in terms of industrial competitiveness (UNIDO, 2019). While Mauritius fared relatively better, Kenya's industrial growth has been slow, despite having the potential for development due to its abundant natural resources, including land and a sizable population. This article analyses how these two countries have utilized foreign aid and the impact this external source of financing has had on their manufacturing. The article utilized a mixed method research design, incorporating primary and secondary data sources. The mixed method approach combined qualitative data through interviews

targeting four key groups of actors in Kenya and Mauritius relating to this subject: government officials, manufacturers, donor agencies and private sector representatives. Quantitative data from national and global data bases was utilized to support the qualitative data collected.

CONCEPTUAL UNDERPINNINGS OF FOREIGN AID AND ITS ROLE IN DEVELOPMENT

In the context of developing nations in their early stages of economic progress, Paul Collier a renowned economist, underscores the significance of substantial capital for creating a conducive environment for manufacturing. Vital factors such as essential infrastructure, skilled workforce, technological access, and market entry are indispensable for fostering a competitive manufacturing sector. Central to this process is access to capital, which empowers both the government and private enterprises to invest in research, development, technological acquisition, infrastructure establishment, and facility upgrades, thereby driving manufacturing growth (Collier, 2008).

The liberal school of thought promotes foreign aid as a vital element in fostering order and development (Edwards, 2014; Harris, 2007; Pettinger, 2019). Nevertheless, opposing perspectives, such as the world systems theory and dependency theory, argue that foreign aid perpetuates underdevelopment (Moyo, 2010; Taylor, 2016). According to the scholars who supports this approaches they argue that, foreign aid contributes to unequal capital accumulation globally, impeding the development trajectory of recipient states. These viewpoints posit that foreign aid plays a significant role in expanding global capitalism, thereby limiting the recipient states' capacity to achieve sustainable development. The structure of the global economy, influenced by foreign aid, leads to unequal wealth distribution, creating dependency on donor aid and hindering the recipient countries' development endeavors (Heywood, 2011).

The debate surrounding the impact of foreign aid on global development has led to varying perspectives on the factors influencing countries' economic success in the international system. Different regions have experienced different outcomes from foreign aid utilization. For example, success stories in countries like South Korea and Taiwan demonstrate how foreign aid financing can contribute to the growth of thriving industrial sectors and overall economic advancement (Joon-Kyung, 1995; Studwell, 2014; Watson, 2014). On the other hand, some lower-income countries have faced challenges with development aid, experiencing macroeconomic disruptions, debt burdens, and aid dependency, which have hindered their economic growth and progress (Swiss, 2017; Tefera & Odhiambo, 2022). This article argues that a state's ability to achieve development through aid is not solely determinedby an open market approach of financing, as advocated by the classical liberal order, or the complete withdrawal of aid from the economy, as advocated by the dependency school. Instead, it emphasizes the role of a country's institutions and governance structures and the management of public resources by leaders.

Drawing from the Institutional Theory, this perspective recognizes the significance of both formal and informal institutions, such as laws, regulations, norms, and values, in shaping economic performance (Chang, 2002). Well-functioning institutions create a favorable environment for economic activity by ensuring clear property rights, enforcing contracts, and fostering a stable business climate. Conversely, weak or corrupt institutions can lead to inefficiencies, reduced investment, and economic stagnation. The theory highlights the interconnectedness of political processes, welfare systems, and economic organizations, which collectively influence how foreign capital is utilized for economic development (Morgan *et al.*, 2011). Within this framework, national institutional systems have the capacity to influence how capital is employed for development (Chang, 2002). Scholars, such as Ha-Joon Chang (2002) and Glenn Morgan et. al (2011), advocate for embracing an institutionalist approach to political economy, acknowledging the influence of processes and institutions on human actions within and surrounding the state. This article contends that political and social institutions significantly affect economic organizations and their performance outcomes. The article highlights the importance of considering a country's governance and

institutional framework when analyzing the impact of foreign aid on its economic development.

CASE STUDY OF KENYA AND MAURITIUS MANUFACTURING SECTOR

Both Kenya and Mauritius have undergone unique economic journeys despite lacking mineral resources. Historically, colonial powers shaped these economies, resulting in a heavy focus on cash crop production such as tea and coffee in Kenya, and sugar in Mauritius. Since gaining independence in the 1960s, both nations have diversified their economies and have transformed into significant players in their regions. Mauritius, positioned as a crucial anchor state in the Indian Ocean Rim, connecting Africa to Asia (Yao *et al.* , 2016), while Kenya's location makes it a geo-strategic state attracting foreign interests in East and Central Africa (Schmidt, 2020).

To grasp the role of foreign aid in the manufacturing sector, this section begins by looking at the evolution of manufacturing in Kenya and Mauritius. This analysis explores the political economy factors that have influenced their manufacturing approaches. By comparing their divergent and convergent aspects, the section aims to identify unique challenges and opportunities that have influence the growth of their manufacturing industries. The article then delve into the role of foreign aid in Kenya and Mauritius' manufacturing, evaluating its contribution to the growth of the sector. An essential aspect of this analysis is the impact of governance and institutional frameworks on foreign aid's effectiveness. By examining the interplay between foreign aid and governance, the article aims to offer valuable lessons and recommendations for fostering sustainable and inclusive industrial growth in Africa.

POLITICAL ECONOMY OF MANUFACTURING IN KENYA AND MAURITIUS

Like many African countries, early 20th Century manufacturing in Kenya and Mauritius was dominated by non-African populations of European settlers, Asians (indentured labourers and traders) and foreign multinationals (Gachino, 2009). After gaining independence from the British in the 1960s both countries had an economy that was created to meet the standards and needs of the British settlers and foreign markets (Holtham & Hazelwood, 2010). The manufacturing sector in the post-independence era was fostered by policies to attract foreign capital and investment while targeting the needs of foreign markets. The governments of Kenya and Mauritius were therefore faced with the challenge of developing a domestic manufacturing base that was driven by locals, while reducing their dependence on colonial powers.

The post-independence era saw a majority of African countries adopting an Import Substitution Industrialization Policy (ISI) which was intended to promote domestic manufacturing by imposing protectionist policies such as high tariffs on imported goods and provide subsidies to local industries. The ISI policy was meant to protect domestic industries from foreign competition and stimulate growth of the manufacturing sector (Panteleev *et al.*, 2018). In Kenya and Mauritius the ISI policy supported the increase of tariffs on imports to make them more costly than locally produced goods, implementing import licensing, restricting foreign currency acquisition for imports, and offering subsidies and incentives such as tax holidays and low-interest loans (Ngui *et al.*, 2016; Wignaraja, 2018).

In Kenya, the ISI policy was adopted leading to the growth of local industries and increased employment opportunities from the manufacturing sector in the post-independence era (Gachino, 2009). From 1964 to 1973, the manufacturing sector share of GDP increased marginally contributing to 10 per cent of GDP (Chege *et al.*, 2014). The manufacturing output of Kenya in this initial decade grew faster than other industrial sectors in Africa during that 1960s – 1970s. This period led to the establishment of industrial sectors such as paper, food processing, textile & garment and leather tanning & footwear (Kinuthia, 2013). Despite the growth of a few industries (mainly multinational firms), the ISI policy in Kenya had some major flaws which resulted in a negative impact on the manufacturing sector. The model proved to be unsustainable, solely focusing on the domestic market and caused major problems with balance of payments

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as the government ended up relying heavily on imported materials for industrial production (Gachino, 2009). The problem of limited technical skills in the Kenyan population and the collapse of the East African Community (EAC) in 1977 also greatly contributed to the failure of this system (Ngui *et al.*, 2016). Despite the challenges of import substitution, the Kenyan government continued to hold on to this system implementing limited reforms. Weak institutional structures and state-led initiatives hindered efficiency leading to limited global competitiveness and economies of scale. Additionally, largely owned multinational industries lacked linkages to the broader economy, limiting overall manufacturing growth in small and medium enterprises. (Chege *et al.*, 2014).

The Kenyan post-independence manufacturing experience contrasts in many ways with the Mauritius case. Mauritius adoption of the ISI policy facilitated the expansion of its sugar industry while also diversifying into sectors such as textiles and clothing (Moyo, 2016). Through preferential trade agreements with the European Economic Community, Mauritius secured unrestricted access for its exports to Europe and other Western nations[1]. This led to an economic upswing owing to the high sugar prices of that era[2]. An important distinction is that Mauritius' post-independence sugar industry was primarily under local ownership, particularly Franco-Mauritian, in contrast to Kenya's cash crops; tea and coffee, which was dominated by foreign multinational firms. This unique characteristic gave rise to a domestic business class in Mauritius, comprising of planters, bankers, workshops, and garages[3]. Mauritius' historical background provided an advantageous stance, as the influence of local Franco-Mauritian sugar plantation owners was pronounced, enabling the fostering of an indigenous manufacturing base centered on the sugar sector (Cheun, 2012; Greig *et al.*, 2011).

Mauritius' implementation of ISI also differed distinctly from Kenya's model, particularly in its emphasis on supporting an export-oriented manufacturing sector. The introduction of a comprehensive and meticulously devised Export Processing Zone Act in 1970s highlighted the considerable potential of export-driven manufacturing for Mauritius' economy. The Export Processing zones supported the diversification of the manufacturing sector into textiles and clothing (Wignaraja, 2018). Departing from conventional African Import Substitution Policies, which aimed at fostering local markets, Mauritius strategically pivoted its ISI endeavors towards export-oriented pursuits, particularly in boosting the sugar and textile industries. This innovative approach enabled Mauritius to harness a distinct economic position on the continent, capitalizing on opportunities that preceded the rise of other industrial hubs in Africa. Kenya only began to prioritize export-oriented manufacturing in the 1990s and early 21st century (Gachino, 2009).

Top of FormThe 1970s marked a pivotal juncture in global economic history, characterized by the emergence of the oil financial crisis, which significantly impacted African economies affecting their manufacturing sectors[4]. African nations, bore the brunt of this crisis, exacerbated by many being in the midst of post-colonial transitions and ongoing developmental challenges. The impact was acutely felt due to the region's limited industrialization and inadequate infrastructure, culminating in heightened production expenses, reduced competitiveness, and a decline in exports (Kalu, 2018). The economies of Kenya and Mauritius experienced profound ramifications within their respective manufacturing sectors as a consequence of the global financial crisis.

In response to these challenges, the International Monetary Fund (IMF) and the World Bank (Bretton Wood Institutions) extended financial assistance packages aimed at facilitating reconstruction and stabilization. At the core of these aid packages lay the adoption of Structural Adjustment Programs (SAPs), encompassing an array of market-oriented policies. These policies advocated for curbing government expenditures, enhancing revenue collection, enforcing rigorous monetary policies, privatizing select state-owned enterprises, and embracing an open economy approach characterized by lowered barriers to international trade (Heidhues & Obare, 2011). These measures aimed to dismantle the previously entrenched "Anti-Export Bias" that had typified the Import Substitution Industrialization (ISI) phase, catalyzing the liberalization of Kenya's and

Mauritius's economies. This transition signaled a gradual embracing of external markets and trade networks, effectively reshaping the economic trajectories of these two countries (Bhowon, 2004; Gachino, 2009).

The SAPs conditionalities on Kenya's and Mauritius's manufacturing industry, yielded a mixed impact on the sector. On one hand, they precipitated the closure of numerous local manufacturing enterprises and the opening up of the economy to international competition, leading to a pronounced reduction in manufacturing output and workforce. The liberalization of the economy resulted in a surge of cost-effective imports, compelling domestic firms to grapple with intense competition (Edwards, 2014). Consequently, several local businesses folded as their market share and profitability dwindled[5].

Despite these challenges, some industries in both countries were able to demonstrated adaptability and heightened competitiveness. The removal of import controls enabled the ease of importation of raw material imports making them more economical, contributing to an upswing in exports of certain products like textiles and clothing (Asongu & Odhiambo, 2019; Bhowon, 2004; Newman *et al.*, 2016). In Kenya, economist Garrison Ikiara, underscores the role of SAPs in the country's economic recovery from the repercussions of the 1970s oil crisis and past financial mismanagement. Ikiara attributes the conditions of governance and institutional reform imposed by Western donors to effectively addressing unsound government spending and corruption, fostering a more favorable business environment thus attracting more investment in the productive sectors[6]. Eric Cheun, an Mauritian economist noted that the SAPs put the country at a much better economic footing resulting in further diversification of the economy by creating new areas of growth in the financial sector through the establishment of offshore banking systems, the creation of a stock exchange, and the implementation of reforms to open the economy up to international investors[7].

It is crucial to recognize the differences in the implementation of SAP policies in Kenya and Mauritius to understand the distinct paths of manufacturing growth during the post-cold war era up until the early 21st century. Mauritius exercised caution in adopting 'market-oriented' SAPs policies, refraining from immediately embracing all recommendations presented by the Bretton Wood institutions (Bhowon, 2004). The Mauritian government retained regulatory control over foreign direct investment (FDI) and displayed particular concern about the potential societal repercussions of SAPs policies. This cautious approach was informed by the island's robust social democratic system, prioritizing the welfare state concept, and reflecting a deliberate commitment to maintaining an inclusive development model that is based on a human centered approach[8] (Greig *et al.*, 2011).

While the liberalization of Mauritius' economy led to the closure of specific industries, the government proactively introduced restructuring measures to bolster competitiveness within the manufacturing sector, with notable reforms in sectors like sugar and textiles (Bhowon, 2004). In stark contrast, comprehensive support was conspicuously absent in Kenya, where governmental support for the productive sector was hindered by political instability between the 1990s and the early 2000s. This instability emerged from the surge in demands for political reform, underpinned by calls for democratization, enhanced accountability, and the cessation of single-party rule. The country's economic challenges magnified public dissatisfaction and eroded investor confidence, consequently impacting the growth of the manufacturing sector (Chege *et al.,* 2014).

In the 21st century, both Kenya and Mauritius shifted their industrial strategies towards export-oriented policies. While agriculture, particularly through coffee and tea cultivation, remains a substantial contributor in Kenya's economy, making up roughly 22 percent of the economy, the manufacturing sector closely trails, comprising approximately 11 percent of the GDP (Trading Economics, 2022). The manufacturing sector's growth trajectory has shown relative slow growth in comparison to sectors like agriculture and services in the 21st century (Ngui *et al.*, 2016). According to literature on this subject, a number of obstacles have hindered the manufacturing sector's ability to achieve productivity growth rates with challenges such as

restricted access to financial resources, poor infrastructure, and inconsistencies within policies along with bureaucratic complexities, collectively culminating in an unfavorable business environment (Gachino, 2009; Ngui *et al.*, 2016; Were, 2016).

Although the Mauritian economy is much more diversified compared to the 1970s to 1990s, the manufacturing sector, continues to play an important role in contributing to the GDP growth. In 2021, the manufacturing sector contributed 13% to the GDP of the country showing it still holds a significant position in the economy of the country.[9] Top of Form Mauritius continues to strengthen its textile and apparel industry as it explores new sectors like financial services and information technology. The conclusion of preferential trade agreements poses a significant concern as Mauritius moves towards becoming a high-income economy. With the country's income level on the rise, these preferential agreements might expire or undergo renegotiation, potentially altering trade dynamics and affecting the competitiveness of Mauritian exports (Cheun, 2012). The cost of labour in Mauritius is a cause for concern as it is relatively high in comparison to neighbouring countries. This has resulted in some manufacturing firms importing labour or relocating to nearby nations like Madagascar[10] to maintain the cost-effectiveness of their operations (Yao *et al.*, 2016).

FOREIGN AID AND THE MANUFACTURING SECTOR IN KENYA AND MAURITIUS

Following their respective quests for independence, both Kenya and Mauritius embarked on trajectories heavily reliant on external developmental assistance to propel their manufacturing sectors forward. Leading contributors to this support included prominent Western donor nations such as the United Kingdom, the United States, France, Japan, and Germany. During this formative phase, foreign aid strategically targeted critical infrastructure construction, factory establishment, and the provision of specialized expertise (Bhowon, 2004; Wignaraja & Ikiara, 1999). Simultaneously, governments formulated policies and regulations to fortify the manufacturing domain's expansion. Mauritius, leveraging its historical and geographical ties to Asia, adeptly harnessed its affiliations with emerging industrial powers in the Asian region, such as China, Hong Kong, and India, amplifying its developmental collaborations and adopting strategies similar to these nations' successful models (Tang, 2018).

In both Kenya and Mauritius, the majority of financial aid indirectly supports the manufacturing sector by fostering the development of pivotal infrastructure, rather than offering direct assistance to manufacturing enterprises. A significant proportion of foreign capital, frequently in the form of concessional loans and grants, plays a crucial role in supporting substantial projects like electricity-generating dams. These projects, in turn, curtail electricity costs for local manufacturers, thus promoting sectoral expansion. Such initiatives have been instrumental in enlarging crucial infrastructure in both countries which is a foundational prerequisite for nurturing manufacturing growth[11]. Additionally, foreign aid has facilitated the provision of technical expertise and technology transfer, empowering recipient nations like Kenya and Mauritius to enhance their proficiency and skills within the manufacturing sphere (McCormick, 2008; Nunkoo & Raja Sannassee, Robin, 2019).

Mauritius offers a striking illustration of how foreign aid played a pivotal role in broadening and advancing its manufacturing sector, particularly in domains like sugar and textiles (Bräutigam & Knack, 2004; World Bank, 2011). These initial aid-driven endeavors post-independence set the stage for an export-driven manufacturing foundation. As Mauritius's economic trajectory evolved, it progressively reduced its dependence on foreign aid, shifting focus toward domestic resource mobilization[12] and transitioning to a more self-sustained growth paradigm (Nath & Sobhee, 2007). Notably, foreign aid continues to support significant ventures, exemplified by India's financing of the modern metro train system in 2019, further bolstering the nation's economic progress and connectivity[13].

In Kenya, foreign aid has significantly contributed to elevating the competitiveness of its manufacturing

sector by facilitating investments in essential infrastructure. In present-day Kenya, traveling through its main cities highlights an evident improvement in infrastructure and a noticeable increase in commercial activities. These improvements are a direct result of the country's substantial investment in its infrastructure through foreign development financing. However, this significant development in infrastructure has not been without its drawbacks, as taxpayers are increasingly concerned about the mounting national debt resulting from this endeavour (Kodongo, 2022).

While both Kenya and Mauritius have harnessed foreign aid to invigorate their manufacturing sectors, notable differences emerge in their approaches and outcomes. Kenya has primarily received foreign aid from Western countries, concentrating on strengthening infrastructure and providing assistance to various social domains. Additionally, a recent trend involving collaborations with nations like China and India has emerged to rejuvenate Kenya's manufacturing sector, though significant industrial progress remains elusive despite these foreign aid initiatives. In sharp contrast, Mauritius has greatly capitalized on its connections with Asian allies (China and India) drawing from their developmental experiences to steer diversification and gradually decrease reliance on external aid[14]. Noteworthy is the allocation of Asian aid towards fostering the private sector, aligning with their distinct development trajectories that places emphasis on the role of the state in fostering development (Tang, 2018). The influence of prominent Asian foreign aid contributors, has prompted the Mauritius to adopt elements of their developmental state approach, shaping its distinct course and enabling the government to take a more proactive role in supporting the productive sector (Cheun, 2012).

This contrast highlights the multifaceted challenges faced by more complex and larger economies, exemplified by Kenya, as they strive for substantial manufacturing expansion. While Kenya strives to enlarge its industrial realm and maximize the benefits of foreign aid, Mauritius' effective utilization of aid and the adoption of a development state model from Asian partners, underscores the potential of strategic collaborations in propelling manufacturing progress. The differing paths and outcomes of these two countries underscore the intricate dynamics inherent in foreign aid and its influence on the growth of manufacturing sectors.

FOREIGN AID, DONOR INTEREST AND THE MANUFACTURING SECTOR

The influence of foreign aid donor conditions and interests has significantly impacted the manufacturing sectors of Kenya and Mauritius. This dynamic interaction underscores the intricate relationship between the preferences of donors and the developmental requirements of the recipient countries. This article noted that, the distribution of aid to the manufacturing sector in both Kenya and Mauritius is often influenced by the preferences and considerations of the donor entities. Donors strategically allocate aid to sectors aligned with their interests and business objectives.

Over the years, Western donors have consistently favored social sectors like healthcare and education, directing more attention to them rather than focusing directly on fostering the manufacturing sector. A case in point is a 2015 study by Baulch and Le, which revealed that a substantial portion of US aid disbursements was allocated to health and population sectors in low-income economies, indicating the prevailing emphasis on aiding social development (Baulch & Le, 2015). This approach demonstrates the prevailing tendency among traditional donor nations to prioritize social sectors over manufacturing advancement. In Kenya, findings from Tefera & Odhiambo's 2020 study, indicated that merely 6.1 percent and 3.9 percent of aid were channeled to the economic and productive sectors, respectively, while the social sector received a more substantial share of aid at 22.1 percent (Tefera & Odhiambo, 2022). This disparity highlights a pronounced inclination towards allocating foreign aid to social sectors in Kenya. While both social and productive domains are recognized as pivotal elements in overall national development, it is crucial to acknowledge that productive sectors, including industry and infrastructure, play a pivotal role in propelling economic growth, job creation, human capital enhancement, poverty reduction, and citizen well-being (Ndikumana,

2022). The comparatively lower investment in productive sectors over successive administrations in Kenya has also contributed to the gradual pace of growth and limited structural transformation observed within the manufacturing sector (Chege *et al.*, 2014).

Moreover, this article notes the utilization of conditionalities by bilateral donors, where aid is tied to specific requirements like market access or technology acquisition. These conditions have shaped the manufacturing landscape in recipient nations, potentially favoring certain industries while stifling others. An illustrative example from the Kenyan case highlights how USAID, established to support US development endeavours, has directed resources towards boosting the textile sector in Kenya, recognizing the potential benefits for American textile businesses in terms of favourable operating conditions and access to affordable labour from Kenya. As a result, foreign aid from the US aimed at Kenya's manufacturing sector is carefully managed to prevent direct competition with American domestic enterprises. For instance, the US development agency refrains from funding sectors like steel manufacturing due to the potential risk of adversely affecting American manufacturers[15].

Despite the emergence of influential new donors, such as India and China, the fundamental nature of aid allocation remains largely unchanged (Bräutigam & Knack, 2004). This article emphasizes that foreign aid programs continue to be primarily initiated and guided by the donor countries themselves, serving their own interests and fulfilling their requirements. A growing trend is the utilization of foreign aid by emerging donor countries as a political instrument to bolster their own businesses, often importing and producing goods that may compete unfairly with locally manufactured products. The influx of low-cost goods from China, as a result of the an increase in foreign aid from the rising power, has disrupted local markets in Kenya and Mauritius, adversely affecting indigenous manufacturers and deterring potential entrants to the manufacturing sector. Many manufacturers interviewed in both Kenya and Mauritius have raised concerns about the adverse effects of these practices, noting that the influx of cheap goods has led to business closures and disincentives for entering the manufacturing sector. Additionally, the article documented instances where donor aid was linked to the procurement of costly or outdated manufacturing equipment that did not align with the best interests of the recipient nations. These findings underscore the intricate dynamics that characterize the relationship between foreign aid, donor inclinations, and the manufacturing sectors of Kenya and Mauritius.

It is evident that the nature of foreign aid, characterized by donor-centric agendas and conditions, yields both favorable and adverse consequences for the manufacturing sectors of Kenya and Mauritius. While aid offers valuable resources, technology, and support, the divergence between donor priorities and recipient needs can hinder balanced and sustainable development. Striking a harmonious equilibrium between donor interests and recipient imperatives remains a complex challenge in both Kenya and Mauritius.

GOVERNANCE AND THE UTILIZATION OF FOREIGN AID IN THE MANUFACTURING SECTOR

While donors' intentions can significantly influence the direction of aid, recipient nations also have a role to play in advocating for their unique development priorities. Consequently, effective aid distribution necessitates an approach that takes into account both the perspectives of the donors and the role of the recipient's states. Governance emerges as a critical factor in aid management, providing the framework for aid allocation, implementation, and oversight. A transparent framework for aid allocation, coordination, participation, and monitoring is essential (Winters & Martinez, 2015). However, many African countries face challenges due to poor governance, which hinders the effective utilization of donor aid for development. The continent grapples with governance crises characterized by corruption, weak legal systems, limited transparency, and deficient political leadership, impeding effective aid utilization and hindering manufacturing sector growth (Moyo, 2010). This article underscores the crucial role of governance in explaining the divergent strategies employed by Kenya and Mauritius in harnessing foreign aid for their manufacturing sectors. Despite both countries receiving aid for extended periods, a distinct

contrast emerges in their approaches to aid management.

In terms of foreign aid management, Mauritius stands out for its effective and prudent utilization of foreign assistance. According to Deborah Brautigam (2014), a scholar who has written extensive on the role of governance in Mauritius development, she highlights the impact of a robust consultative system that fosters dialogue among the government, private sector, and civil society. This participatory approach has contributed to the successful execution of development projects and programs in Mauritius, channeling resources effectively toward the enablers of industrial development (Bräutigam, 2002). As a result of these dynamic engagements with various players in the island, Mauritius has in the past decades since 2000 been ranked highly by various governance indexes. In the 2022 Mo Ibrahim Index of African Governance, Mauritius was ranked as part of the top 5 countries that have enabled a conducive environment for participation, rights and inclusion (Ibrahim Index of African Governance (IIAG), 2022).

The governance framework in Mauritius has proven advantageous for its manufacturing sector, leading to economic growth through the effective utilization of aid resources. Alongside initiatives aimed at enhancing the business environment, the country has diligently worked to attract foreign investment. These efforts have yielded favourable outcomes, as evidenced by Mauritius' positive placement in the annual World Bank Ease of Doing Business index. This index assesses regulations relevant to the operations of small and medium-sized enterprises, encompassing factors such as business establishment, construction permits, electricity accessibility, property registration, credit availability and investor safeguards. Notably, in 2019, Mauritius secured the 13th global position among 190 countries, claiming the top spot in Africa. This achievement aligns it with internationally recognized business-friendly nations like the United States, New Zealand, the United Kingdom, and Hong Kong (World Bank, 2020).

In contrast, despite receiving foreign aid aimed at strengthening the manufacturing sector, Kenya grapples with governance and institutional challenges that hinder the effective utilization of foreign financing. Interviews with key stakeholders in the Kenyan manufacturing sector reveal that corruption and fiscal mismanagement have led to misallocation of foreign capital and a debt crisis, burdening the manufacturing sector with high taxes (Kodongo, 2022). The resulting demanding tax environment has squeezed profit margins for local manufacturers, diminishing their capacity to invest and remain competitive. The difficulties faced by investors in Kenya's manufacturing sector are often also attributed to corruption and undue political interference, exacerbating the challenges encountered. Consequently, Kenya's manufacturing sector has faced business closures and reduced overall growth (Ateng', 2017; Gachino, 2009).

According to a study led by Benson Ateng (2017), the manufacturing sector in Kenya has encountered impediments that deter advantageous investment prospects. These challenges arise from a combination of factors, encompassing bureaucratic complexities, intricate taxation structures, corrupt practices, inadequate infrastructure, high energy costs, and constrained access to cost-effective financial resources. Since gaining independence, Kenya has established a range of governmental policies and institutions aimed at stimulating both local and foreign investment in the industrial domain (Gachino, 2009). Despite their significant impact on the sector, these entities have also grappled with a series of issues, including inadequate financial backing from the national government, scarcities in requisite expertise, and a lack of governmental commitment to strengthening these institutions (Ngui *et al.*, 2016).

Despite Mauritius' notable advancements in enhancing its business environment through foreign funding, the nation remains susceptible to challenges prevalent in many African countries. Apprehensions have arisen in Mauritius regarding the escalation of public debt due to a surge in development loans. Experts and industry leaders express reservations about the government's borrowing practices and their potential impact on the economy. The IMF's 2022 report highlights a significant increase in public sector debt relative to the GDP, prompting inquiries into its long-term sustainability (IMF, 2022). Additionally, there are concerns over the generosity of the social welfare system, leading analysts to question the feasibility of expanding

public sector wages and pension provisions (Cheun, 2012). Furthermore, allegations of corruption have cast a shadow over Mauritius' reputation, eroding trust with development partners and investors, thereby potentially jeopardizing support for economic growth (Afrobarometer, 2022; Chelin, 2020).

This article underscores the intricate relationship between governance and the efficacy of foreign aid in the manufacturing sectors of Kenya and Mauritius. Donor and recipient perspectives, combined with governance frameworks, influence aid allocation and utilization. Mauritius' participatory governance model has facilitated effective aid utilization and contributed to manufacturing sector growth. However, concerns persist regarding rising public debt and corruption which could lead to the reversal of gains made in their manufacturing sector and generally the economy as a whole.

LESSONS FROM KENYA AND MAURITIUS FOR AFRICA'S INDUSTRIAL SECTOR

The empirical investigation reveals the significant role of foreign aid in fostering industrialization across African nations. Both bilateral and multilateral donors have directly financed industrial projects and indirectly facilitated growth through investments in infrastructure and education, cultivating a conducive environment for the advancement of the industrial sector. In most African countries, this has led to an improved business atmosphere and increased investment inflows from both domestic and international sources. Notably, beyond traditional donors, emerging global players like China and India are also contributing to the industrial progress of African countries in the contemporary era. However, the actual influence of donors on a particular nation's trajectory is contingent upon the recipient's institutional and structural context, a phenomenon observed in the cases of Kenya and Mauritius.

The findings of this article underscore the mixed impact of foreign aid on the manufacturing sector. While donor support, encompassing capital infusion, technology transfer, and technical guidance, has propelled growth in African nations, it has also indirectly contributed to the decline of domestic industrial sectors. This trend was particularly conspicuous during the period spanning from the 1980s to the 2000s when foreign aid aligned with the promotion of market liberalization. Premature liberalization in the aftermath of independence in Kenya and Mauritius led to the closure of numerous manufacturing firms struggling to compete globally. Local enterprises faced challenges from cheaper imports, resulting in reduced market share and profitability. Furthermore, political instability and inadequate support for the manufacturing sector further hampered its expansion, with corruption and weak institutions emerging as significant factors.

Nevertheless, this article notes that African countries implementing strategies to enhance the competitiveness of their products have been better equipped to navigate the challenges arising from economic liberalization. Mauritius, for instance, has benefited from post-independence policies that fostered an outward-looking approach, particularly through the early establishment of Export Processing Zones (EPZs) that attracted investments into the textile sector. By focusing on export-oriented manufacturing, the nation managed to mitigate the adverse effects of Structural Adjustment Programs (SAPs) to a more favorable extent compared to Kenya. Moreover, the presence of stable political systems and robust institutions contributed to a favorable regulatory framework in Mauritius, attracting both domestic and foreign investments into its manufacturing sector. The comparative examination of the political economy of manufacturing in Kenya and Mauritius underscores the pivotal role played by policy choices and governance frameworks in shaping industrial development. Mauritius' proactive industrial policies significantly contributed to a relatively successful manufacturing sector, while Kenya's transition to industrialization has been gradual due to the lack of a strong governance and institutional framework.

CONCLUSION

The findings demonstrate that when directed toward productive and sustainable sectors, foreign aid can

foster industrial growth and broader economic development. However, the efficacy of foreign aid hinges on the establishment of a conducive business environment through effective governance practices. Employing the institutional theory approach, it becomes evident that governance and management significantly influence the effectiveness of this form of external financing. The role of governance in steering the management of foreign aid in Africa's industrial sector is pivotal for ensuring that foreign capital, technology, and technical assistance are channeled into sustainable and productive endeavors. Consequently, this article concludes that robust governance is a crucial determinant in comprehending the effectiveness of foreign aid as a catalyst for industrial growth across Africa. In conclusion, the effectiveness of foreign aid in driving industrialization in Africa hinges on a delicate balance between donor support and strategic national policies. By drawing insights from the experiences of Kenya and Mauritius, African countries can harness the potential of foreign aid to achieve sustainable and inclusive industrial development, thereby paving the way for economic transformation and prosperity across the continent.

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FOOTNOTES

[1] Through its colonial legacy with the British, Mauritius signed the Commonwealth Sugar Agreement which enabled the country to benefit from an average of 4.5% of GDP annually from the 1977-2000 agreement. On the other hand, the Lome agreement signed in 1975 with the European Union enabled Mauritius to gain special preference for its exports particularly sugar and textile. These preferential trade agreements led to a boom in the sugar manufacturing sector (Nunkoo & Raja Sannassee, Robin, 2019).

[2] Interview with Mr. Vagen Amoomoogum, Manager Strategic Planning, Mauritius Economic Development Board, held on 11th April 2023, at Ebene, Mauritius.

[3] The French established the first permanent settlement on the island in 1721, introducing sugar plantations and utilizing slaves from Madagascar and East Africa, as well as indentured labourers from India. In 1814, the island officially became a British territory after the defeat of Napoleon. The British ruled Mauritius until it gained independence in 1968. Despite British political control, the French sugar plantation owners remained economically influential, leaving a lasting cultural and economic legacy that persisted over the years (Cheun, 2012; Greig *et al.,* 2011).

[4] Triggered by political motives, this crisis stemmed from the oil embargo orchestrated by the Organization of the Petroleum Exporting Countries (OPEC), leading to a substantial surge in oil prices on the global stage (Asongu & Odhiambo, 2019)

[5] Interview with Ms. Margaret Waithaka, Economic Consultant and Former Manager, Kenya Export Promotion and Branding Agency, held on 22nd January 2023 at Nairobi, Kenya

[6] Interview with Mr. Garrison Ikiara, Kenyan Economic Consultant and Former Permanent Secretary-Transport Ministry, held on 7th February 2023, at Nairobi, Kenya

[7] Interview with Mr. Eric Cheun, Mauritian Economic Consultant and Managing Director, Pluriconseil, held on 12th April 2023, at Port Loius, Mauritius.

[8] Mauritius has continued to maintain a strong welfare system in a liberal economy with free education, free health care, a strong pension system and free transport facilities for the elderly and students among other forms of social support.

[9] See Producer Price Index, Mauritius Statistics, 2021.

[10] Interview with Ms. Rushaa Badaloo, Manager, Mauritius Chamber of Commerce, held on 14th April 2023, at Port Loius, Mauritius

[11] Interview with Dr. Marcellin Ntah, Resident Chief Economist, African Development Bank (ADB) Kenya, held virtually on 3rd October 2022.

[12] Interview with Dr. Alex Sienart, Former World Bank Country Representative and Senior Economist for Mauritius and Seychelles, held virtually on 14th March 2023.

[13] Interview with Mr. Vagen Amoomoogum, Manager Strategic Planning, Mauritius Economic Development Board, held on 11th April 2023, at Ebene, Mauritius.

[14] Interview with Mr. Sudesh Puran, Head of Investigations, Mauritius Competition Commission, held on 15th April 2023, at Port Loius, Mauritius.

[15] Interview with Jimmy Njehia, Owner and CEO, Dala Textile EPZs, held on 20th May 2023, at Nakuru, Kenya.