Draft Outcome Document

Joint UNCTAD-CSEA Workshop

Fostering productive capacities, structural economic transformation and export diversification in LLDCs and other structurally weak West African economies

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Abuja, Nigeria

Background:

The countries of West Africa are facing a number of important development challenges. At 4.9%, average growth in the region since the year 2000 has remained below what is needed to meet the Sustainable Development Goals. In addition, the growth has not been inclusive, or sustainable, and in many cases, has been vulnerable to external and internal shocks. In particular, the growth-pattern in West African economies has failed to generate significant human development gains. Progress in poverty reduction, for example, has been comparatively slow and in some cases, the poverty headcount ratio increased during specific periods.

In the Sahel region, development ambitions are further affected by climate change (leading to desertification, land degradation, as well as frequent droughts), and the impact of criminal trafficking networks and extremist groups. These trends are compounded at the domestic level by political instability and conflict, high population growth and inequality.

For the five landlocked developing countries (LLDCs) of West Africa[1], the challenge to achieve sustainable and inclusive economic growth, and development is exacerbated by the need to overcome the additional obstacles arising from their geographical position. Their remoteness from the sea, and their dependence on the trade and transport networks of transit neighbours, translates into higher trade costs, hindering their integration into the global economy.

One of the main causes of the weak economic performance of West African economies is their continuing dependence on primary commodities. All of the 15 West African countries that participated in the workshop are dependent on commodities for more than 60% of their exports. More than 83% of the exports of the countries of the Sahel are fuels. If agricultural commodities are added, the share increases to 90%. While the exports of commodities have allowed the West African economies to achieve growth, this development model also brings a number of disadvantages. Firstly, growth tends to be highly concentrated in a single sector that is not very labour-intensive, and the gains of growth are not automatically shared broadly. Furthermore, growth is highly vulnerable to external shocks, such as changes in world prices of commodities. Overcoming commodity-dependence, and embarking on a sustainable and inclusive growth-path requires achieving structural economic transformation, and diversifying exports away from primary commodities.

To date, West African economies have not made significant progress towards achieving structural transformation. More than 80% of the population of the countries of the Sahel remain active in agriculture, which accounts for about 25-30% of GDP. The share of the manufacturing sector in the total GDP of West African economies has remained broadly constant at around 10–12 %. In some countries, such as Mali, its share has even contracted from 12% in 1995 to 7% in 2013. In addition, there has been a deterioration in the average diversification index of the five LLDCs from 0.76 in 1995 to 0.85 in 2018, indicating that the export structure of West African LLDCs increasingly differs from the global average.

Achieving structural transformation and export diversification requires the building of productive capacities. In order to effectively support the building of productive capacities, policymakers need to take complementary, and coordinated actions in various areas. Among others, these include education, private sector facilitation, energy, and information and

[1] The five economies referenced here are: Burkina Faso, Central African Republic, Chad, Mali, and Niger.

communication technology (ICT) infrastructure, support for strategic priority sectors, and public institutions.

In this context, a wide range of policy actions are needed to strengthen a country's productive capacities. These are highlighted in the 2030 Agenda for Sustainable Development and its 17 Sustainable Development Goals (SDGs). For example, well-educated and healthy human capital is reflected in Goals 2, 3, and 4, while enabling physical infrastructure, including energy, is captured in Goals 6, 7, and 9, and the quality of public institutions in Goal 16.

Summary:

Against this background, the United Nations Conference on Trade and Development (UNCTAD), and the Centre for the Study of the Economies of Africa (CSEA) organized a sub-regional workshop to identify the most pressing trade and development challenges facing the countries of the West African sub-region. The workshop also aimed at building consensus on policies, and the strategies to address them.

The workshop introduced UNCTAD's Productive Capacities Index (PCI), and assessed the performance of West African economies in building productive capacities using this new tool. It was noted that while West African countries performed comparatively well on the components of natural capital, private sector facilitation, and institutions, they tended to lag behind their African peers on the components of human capital, ICT, energy, transport, and structural transformation. Participants greatly appreciated the PCI as a useful tool to assess the levels of productive capacities achieved, and to monitor the effectiveness of development policies employed to strengthen them.

The workshop participants further noted that despite the current focus on a small number of primary commodities, West African countries have significant potential for export diversification. Some participants noted that many of the countries could move into higher-value added segments of the commodities-value chains of their main export products. In addition, there remained scope to develop traditional agricultural export products, and improve their quality. Finally, many West African countries also had potential in agro-processing, light manufacturing (such as textiles and clothing), as well as services. In the services sector, most attention had been placed on tourism, but there is also potential in financial-services and ICT-enabled services. Furthermore, the importance of the blue economy for coastal states in West Africa was highlighted.

However, participants noted that, to date, numerous obstacles prevented the development of these sectors. They noted that the lack of adequate transport networks, and port infrastructure was an important impediment to economic development. One participant noted that it was cheaper to ship a container from Lagos to Singapore, than to ship it from Lagos to Plateau State in Nigeria. Participants also highlighted that West African transport infrastructure was often geared towards facilitating trade with the traditional developed-country trading partners, while transport infrastructure with neighbouring African countries is notably absent. For example, due to the conditions of the transport network, travelling the 100 km from Lagos to Cotonou by car could take more than 6 hours, longer than the time needed for a flight to London.

A second key obstacle relates to the regulatory environment for the private sector. Most West African countries are in the lower half of the World Bank's Doing Business Rankings, highlighting the difficulties faced by the private sector in setting up new enterprises, as well as in trading and enforcing contracts. One of the main constraints highlighted by the private sector was the difficulty of accessing finance, and the high cost of funds. Despite challenges, many representatives presented the significant efforts their countries had made in improving the business environment, including through the installation of Single Window access points. In Togo, for example, the time required to establish a business was recently cut from 24 hours to 4 hours.

A third challenge relates to the lack of an adequately trained workforce, with the technical skills needed to move into more skills-intensive production methods. While West African countries have a rapidly growing workforce, most continue to enter the labour market with low levels education, and the percentage of highly-skilled professionals remains too small to support the needs of the private sector. Participants also noted the need for more training in, and the fostering of entrepreneurship. Access to reliable and cheap electricity was a further obstacle to industrialization identified by participants. It was further said that many west African states still faced challenges in providing cheap access to broadband internet, which is a core requirement for participation in the digital economy. Finally, participants emphasized that conflict and insecurity continued to impose significant cost in the region, including in terms of development. For example, during the conflict in Cote d'Ivoire, neighbouring states such as Burkina Faso were unable to access marine Internet cables.

The workshop identified a number of policies and measures needed to build productive capacities, and to foster export diversification and structural transformation. This included the identification of sectors and products with export potential, as well as the policies and measures needed to promote them. The measures suggested range from specific sector, or company-specific incentive measures to general policies to support education and skills development. They also included policies tofoster an enabling environment for the private sector, and build trade and transport infrastructure.

Recommendations:

In order to promote structural transformation and export diversification, West African LLDCs, and other structurally weak economies should give consideration to the following set of policies and measures:

i) **Improving the quality of growth, in parallel with improving its quantity**: There is a need to move away from the current "quantity-centered" and "commodity-driven" growth model towards policies and strategies focused on achieving high - quality growth, which is inclusive and sustainable, with a robust impact on employment creation and poverty reduction. Such a growth model calls for urgent actions aimed at fostering productive capacities, and structural economic transformation. Building productive capacities, and achieving structural economic transformation requires the formulation and implementation of consistent and coherent domestic policies. This means that trade, industrial, and sectoral policies must be re-orientated towards transformational development. In this context, it is recommended that West African countries place the building of productive capacities and structural economic transformation at the heart of domestic policy formulation and implementation.

ii) **Prioritizing productive capacities where West African economies are lagging**: An assessment of the level of productive capacities in West African countries has shown that, on average, the countries perform well in terms of private sector facilitation, institutions, and natural capital. However, their performance in terms of transport infrastructure, energy, human capital, structural change and ICT are comparatively low. Therefore, development policies in West Africa should prioritize the expansion of transport, energy and ICT, the strengthening of domestic education, and the promotion of higher value-added production. The latter can be achieved in all sectors of the economy, including through diversification into higher value-added processing of primary commodities, such as agricultural products.

iii) **Commodities and export diversification**: In view of the increasing importance of the commodities sector, West African economies should strive to define long-term visions that link the commodity sector to national development strategies. By ensuring that the role of commodities is incorporated into national development strategies, LLDCs increase the likelihood of harnessing the potential of the sector for development gains. A more holistic approach that incorporates a development perspective, and that takes into account the role and functions of commodities in economic growth and poverty reduction is required.

iv) **Pursuing commodities-based industrialization**: Given the high degree of commodity dependency among West African countries, these countries should pursue deliberate and targeted policies that are aimed at enhancing their participation and gainfully integrating into regional and global commodity value chains. This is necessary as there is considerable potential in terms of growing demand and supply for specific commodities/products of export interest at the regional level. Effective participation in regional commodity value chains provide a stepping-stone for LLDCs to participate in, and link to global value chains.

v) **Create a dynamic and vibrant domestic private sector:** Government or public sectors efforts alone ***may not*** be enough to accelerate the process of capital accumulation required for structural transformation. Deliberate efforts are needed to enhance the role of the private sector. This can be done by promoting entrepreneurship and implementing strategies to support industrialization and technological upgrading. Governments also need to encourage economic transformation by investing in R&D for innovative, market-oriented products. These policy efforts should enhance backward and forward linkages within the national economy, especially between agriculture and the industrial sectors, and between large and medium-sized enterprises.

vi) **Trade facilitation**: As many West African countries are landlocked, high trade costs pose a serious obstacle to their development prospects. Against this background, West African LLDCs and their transit neighbours should try to ensure efficient trade facilitation and logistics networks, so as to minimize the disadvantage of high trade costs arising from geographical distance to the sea. In this context, West African countries have already made significant progress, and, on average, they outperform other African economies in terms of the time and cost required for border and documentary compliance, as well as the time needed to start a business and enforce a contract. This is particularly notable as the West African transport networks appear to be lagging behind those of the rest of Africa (see below). The implementation of the WTO Trade Facilitation Agreement can make a contribution to further enhance efficiency gains in this regard. With Guinea’s ratification of the agreement in

October 2019, all West African countries represented at the workshop except Liberia are party to the agreement. They should request, and be granted the needed technical assistance and capacity-building support to facilitate their implementation.

vii) **Transport infrastructure:** The poor quality of roads and rail connections between urban and rural areas, as well as the low standard of national roads in comparison to the regional neighbours are key constraints to development in West Africa. West Africa performs worse than any other region in Sub-Saharan Africa in terms of transport integration. In this context, West African countries are encouraged to identify priority projects for funding, and extend efforts to attract private investment in the road network through public-private partnerships (PPPs). Large companies in the extractive industries with a strong interest in better transport links could be encouraged to invest in these projects.

viii) **Information and Communications Technology (ICT):** Greater availability and access to Information and Communications Technologies offers significant potential for West African countries. Already, some countries are harnessing the potential of mobile payment systems to provide banking services to people previously excluded from access to financial services. However, ICT-applications also offer potential for the development of higher-value added services, and of innovative solutions for addressing development challenges such as climate change.

ix) **Applications of homegrown ICT platforms for business and development:** ICT-based applications can contribute to the better monitoring of potential risks, the improvement of the business environment, and the enhancement of the efficiency of productive sectors, such as agriculture. Overall ICT-based applications can contribute to modernizing the services sector. West African countries have performed well compared to other African regions, and made up for their initial lag in ICT infrastructure. However, like the rest of the continent, they still face significant obstacles. Overcoming them will require facilitating foreign direct investment (FDI) and technology transfer in the ICT sector by improving the legal and regulatory framework, and business environment. West African countries could also consider the establishment of ICT-parks, and invest in continued improvements in telecommunications infrastructure and connectivity. Beyond infrastructure, countries must also ensure that young people have the skills needed to effectively use ICT for business, for example, by creating ICT courses and programs that meet private sector needs, possibly in partnership with private training companies and educational institutions. ICT adoption in the public sector, for example, e-licensing and customs automation could also be expanded.

x) **Energy:** West African countries continue to lag behind other sub-Saharan regions in access to energy. However, they have made important progress, and are approaching the levels of other sub-Saharan regions. Given the important role of reliable access to electricity in fostering light manufacturing and other processing industries, there is a need to scale up investments in electricity infrastructure (both power plans and distribution network). Countries should encourage more private sector participation (such as PPPs and FDI) in both the construction of new facilities and the rehabilitation of old facilitates. They should also aim to lower the costs of setting up an electricity connection. In the case of the Sahel, there is also significant potential for the promotion of renewable energy, especially solar power.

xi) **Human capital**: There has been good progress on human capital development in terms of health and education in many West African countries. This can be observed in the improved gross primary school enrolment figures, and in increased health-related outcomes, such as the decline in child and maternal mortality rates, and an increase in life expectancy. However, several challenges still persist. In particular, school completion rates have not kept pace with enrolment rates, and outbreaks of diseases (such as Ebola) have negatively impacted socioeconomic gains in the region. There is a need to provide incentives and support for more children to finish their schooling, while strengthening the higher education system, and expanding health services. This should aim to improve the quality of human capital, and align the skills taught in the classroom, with the needs of the private sector, and the economy at large. Further measures to be considered can include strengthening private sector participation in the creation of training curriculums, especially for technical and vocational education and training (TVET) institutions, and the delivery of health services. Additional measure can include increasing the public funding of education and health; strengthening regular teacher training sessions; facilitating the delivery of quality health services; and encouraging private-sector job training programmes by MNCs and SMEs. West African economies also need to improve investments (public and private) in education, and the delivery and access of quality health services to the most vulnerable sections of society, notably, children, women, and youth.

xii) **Climate change adaptation:** While West African countries alone can do little to halt or reverse climate change, they can take actions to minimize its negative effects on their economies. Already, many countries in the region have signed up to the African Risk Capacity (ARC), which provides insurance cover against extreme weather events and natural disasters. In addition, West African countries can strengthen institutions to provide them advance warning of weather-events, so as to facilitate preparedness and resilience-building. West African countries should also begin to explicitly take the likely consequences of climate change into account when planning core transport or energy infrastructure programmes.

xiii) **Security:** The Sahel countries face security risks and political instability from the presence of criminal traffickers and extremist groups. Aside from the human cost, insecurity and conflict hinders development progress, and imposes significant costs on governments. Security spending in the Sahel countries accounts for between 6-7% of GDP, meaning that too little resources are available for much needed investments in infrastructure and development. Participants also noted that conflict hinders the trade and development prospects of neighbouring countries. In order to reduce the security risks in the region, participants highlighted the need for greater control on the flow of small arms in the region.

xiv) **Regional integration:** Most West African economies are already part of one or two regional trade agreements, including Economic Community of West African States (ECOWAS), and the Community of Sahel-Saharan States (CEN-SAD). Nevertheless, their sub-regional trade remains limited. This is likely due in part to the similar economic structures of countries in the region. However, there is scope for strengthening regional cooperation in areas beyond trade, including joint infrastructure projects, as well as in initiatives such as joint R&D facilities.

xv) **Leveraging the African Continental Free Trade Area Agreement (AfCFTA):** With Nigeria's signature in July 2019, all West African countries are now members of the AfCFTA. The new continental free trade agreement holds the potential to significantly boost intra-African trade, which has traditionally been more intensive in manufactures than extra-African trade. Boosting intra-African trade links could therefore strengthen export diversification and structural transformation in many countries, including in West Africa. To maximize the potential benefits of the AfCFTA, West African policymakers should negotiate f rules of origin that are flexible enough to maximize trade, while also restrictive enough to avoid trade diversion. Value-chains with trade creation potential in West Africa include cocoa and cotton.

xvi) **Strengthening South-South trade:** Beyond the African continent, West African countries should also take advantage of the rise of the BRICS (Brazil, Russia, India, China and South Africa), and emerging, developing economies to expand their export markets. Already, Sahel countries have seen a major shift in their export markets towards emerging economies: Brazil, China and India accounted for just 13% of exports of the Sahel countries from 1997-1999, but by 2014-2016, this share had risen to 30%. In addition, Sahel countries added new export and import markets over the same period, including Canada, Japan, the United Arab Emirates, and Indonesia. Export market diversification can help to reduce the vulnerability of West Africa to trade shocks.

xvii) **Domestic resource mobilization:** Implementing these measures will require significant resources. However, in an environment of stagnant Official Development Assistance (ODA), West African countries should strengthen their capacities for domestic resource mobilization. This includes improving the tax base, and increasing the revenue derived from the export of commodities. Other measures could include broadening and tapping remittances, and curtailing illicit financial flows.

xviii) **Development partnership:** A paradigm change in domestic policies requires "a new generation of international support measures" that go beyond project-based financing, and fragmented technical assistance. Instead, international support should target technology transfers, as well as build technological capabilities and innovation systems. The international community, and development partners must also shift towards more holistic, multi-sectoral "programmes" that simultaneously address a variety of trade and development constraints. There is also a need to reverse the decline in ODA. Furthermore, the sectoral composition of ODA tends to be biased towards social sectors, which notably in the least developed countries (LDCs) absorb 45% of ODA flows, compared to economic infrastructure and production sectors, which receive only 14% and 8%, respectively. However, building productive capacities, and achieving structural transformation requires the allocation of investment to infrastructure, technology and increasing capabilities. Against this background, development partners should increase their support to West African economies, and realign their aid allocations towards the goal of fostering structural transformation and export diversification.

xix) **From project to programme-based interventions:** Building productive capacities, and achieving structural transformation and export diversification requires coordinated interventions in different sectors. Strengthened productive capacity in agriculture will not translate into development gains if transport remains prohibitively expensive. Therefore, technical assistance and capacity-building activities in West African countries should move away from isolated, project-based approaches to a more coordinated, programme-based approaches that will allow multiple interventions in different areas simultaneously.

xx) **Policy coordination**: Placing productive capacities at the centre of national policymaking requires effective coordination among institutions and policies, to ensure that efforts in one field are supported and complemented by efforts in other areas. In this context, West African countries should consider creating inter-Ministerial Coordination Bodies to oversee the implementation of national development plans. These coordination bodies should benefit from the clear, strong leadership of one designated Ministry, or at the Prime Minister/Presidential level. In Togo, for example, there is a dedicated Business Climate Unit in the Office of the President, and a state-private sector coordination forum under the chairmanship of the Prime Minister.

xxi) **Political will:** Several participants in the meeting stressed the importance of "political will" in building productive capacities and fostering structural economic transformation. Political will is understood in its broader context, including the actions and commitments of policymakers, practitioners and experts, as well as the private sector, civil society and institutions. It is also conceived of as the capacity and commitment to formulate and implement policies and strategies, as well as deepen developmental regional integration aimed at fostering productive capacities and structural economic transformation. Political will was also viewed as the concrete commitment of the State and key institutions, as well as relevant stakeholders to realign actions and resources (including targeted investment) to sectors that enhance productive capacities, and promote structural economic transformation.