Overview: Policies for achieving productive transformation in Africa

Africa's Development Dynamics 2019 examines policies for productive transformation to help African leaders reach the targets of the African Union's Agenda 2063. The first chapter analyses Africa's potential for productive transformation and current policy approaches to tap these opportunities. It proposes three main policy areas for transforming firms in Africa within a changing world. The five regional chapters of the report demonstrate important differences in productive transformation between Southern, Central, East, North and West Africa, and propose specific policies for each region. The report provides African decision makers with an up-to-date tool for policy dialogue and reform at national, regional economic community and pan-African levels.

Africa's growing markets show great potential for productive transformation

The African continent recorded 4.6% annual gross domestic product (GDP) growth between 2000 and 2018. This growth performance was better than that of Latin America and the Caribbean (LAC) at 2.6% but lower than Asia's average of 7.4% for the same period. Growth is projected at 3.6% in 2019 and 3.9% in 2020-23. Since 2000, an additional 11 African countries have attained middle- or higher-income status. Seventeen African countries have emerging or frontier economy status (MSCI, 2019).

Africa's domestic demand is the most important driver of this growth performance. It accounted for 69% of annual growth between 2000 and 2018. This demand is shifting towards more processed goods. The continent's demand for processed food is growing 1.5 times faster than the global average; demand for many other products such as road vehicles, manufactures of metals and industry machinery is expanding faster than the global average as well.

Many local firms are seizing these opportunities to grow in size and productivity. Firms expanding pan-African businesses include the *Office chérifien des phosphates* (OCP) and Attijariwafa Bank from Morocco; Dangote and United Bank of Africa from Nigeria; Ecobank from Togo; MeTL Group from Tanzania; Ethiopian Airlines; Safaricom hosting M-PESA from Kenya; and MTN and Shoprite from South Africa. These "champions" exemplify how African companies are harnessing the continent's potential. These African conglomerates have even diversified their services or products to operate in various markets and countries.

Younger start-ups in Africa are also engaging in many sectors. The top three activities of Africa's start-ups relate to information technology and Internet services; apps and software; and the creation of audio-visual content and broadcasting (Figure 1). E-commerce comes sixth (12%). Start-ups such as Jumia (based in Nigeria) and M-KOPA (based in Kenya) are using new technologies and business models to tap the rising local and regional demand and attract large investments. In 2018, African tech start-ups raised almost USD 1.2 billion in equity compared to USD 560 million in 2017.

Figure 1. **What do African start-ups do? The top 10 sectors**

Source: Authors' calculations based on Crunchbase (2019), *Crunchbase Pro* (database).
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Productive transformation is the process of firms accumulating higher organisational, productive and technological capabilities and diffusing them to the rest of the economy. These gains first occur at the level of firms. An enterprise successfully innovates or adapts new technologies to develop new production mechanisms or introduce new products to the market. Innovation enables this enterprise to specialise, upgrade to higher added-value activities, scale up its production or increase its productivity. Taken collectively, these changes can lead to industry- and economy-wide transformation through competition effects, learning across firms, and improved production factors such as better skills and infrastructure. As a result, the economy increases its productivity to catch up with higher-performing economies.

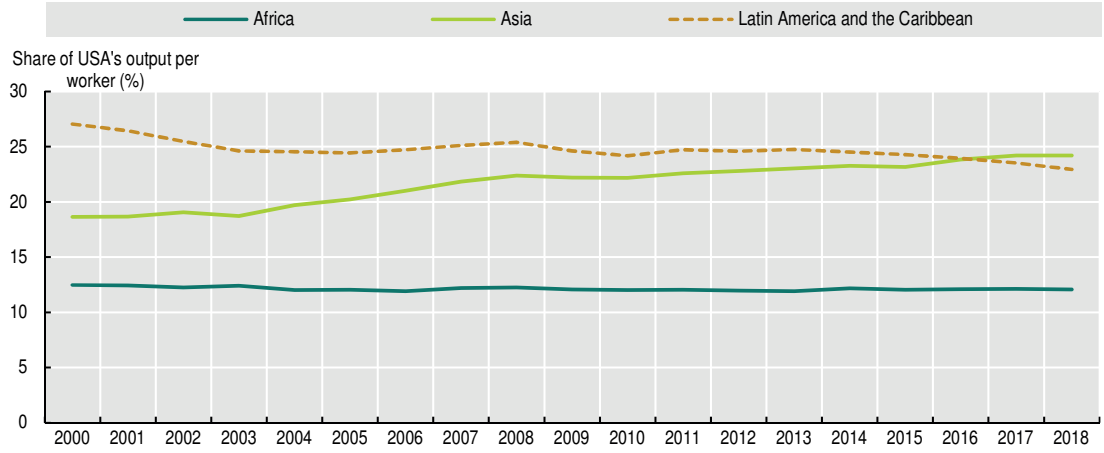
Productive transformation is limited, especially in the sectors employing the most labour

Growth has not created enough quality jobs or well-being for the population. The share of vulnerable employment in Africa decreased only from 71.0% in 2000 to 68.2% in 2018. In some countries, almost 91% of the non-agricultural labour force remain in informal employment. The number of people living on USD 1.90 a day or less increased by 31 million between 1999 and 2015, from 376 million to 407 million. Well-being indicators correlate less with higher income levels in Africa than in other world regions.

This disconnect between growth and development outcomes stems from the structure of Africa's productive system. What countries produce and trade determines overall development outcomes and shapes the capacity of economic systems to generate and redistribute wealth. Most African economies depend on unprocessed agricultural commodity and mining activities with low knowledge content. The mining and utilities sector accounts for 11% of Africa's output despite employing 1.4% of the workforce. Unprocessed goods still account for almost half (48.7%) of Africa's exports in 2017, compared to 10.1% in developing Asia and 27.6% in LAC.

Overall, productivity is not catching up. Africa's labour productivity has remained at 12% of the United States' level since 2000 (Figure 2). The Africa-to-Asia labour productivity ratio has decreased from 67% in 2000 to 50% today. This widening productivity gap suggests that capabilities are not being diffused broadly: they remain confined to the most productive firms.

Figure 2. **Labour productivity in Africa, Asia and Latin America and the Caribbean compared to the United States' level, 2000-18**



Source: Authors' calculations based on Conference Board (2019), *Total Economy* (database).
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The majority of firms, especially smaller ones, lack basic capabilities and have low productivity. In a panel of 9 African countries, the value added per worker in firms with 100 employees is over 3 times higher than that of firms with 5 employees and 3.5 times higher for firms with 200 employees (Page and Söderbom, 2015). Among entrepreneurs in Côte d'Ivoire and Madagascar, most firms lack basic capabilities: doing basic bookkeeping, laying out a plant, using tools to plan over a multiyear horizon, identifying a relevant technological advance and cultivating human resources.

Upgrading the capabilities of smaller firms is essential to create more quality jobs. Among the formal enterprises in 38 African countries, those with less than 20 employees make up 41% of the net job creation, compared to 23% for enterprises with 20-99 employees and 20% for those with over 100 employees. The youngest small and medium-sized enterprises (SMEs) – less than five years old – make up 22% of the net job creation.

Unleashing Africa's entrepreneurial potential can boost the innovation capacity of the economy. About 22% of Africa's working-age population are starting new businesses, the highest rate in the world, compared to 19% for Latin American countries and 13% for developing countries in Asia. Among the new African entrepreneurs, 20% introduce a new product or service to the market, a percentage which is similar to other developing regions. The dynamism of entrepreneurship can foster what Joseph Schumpeter called the "creative destruction" process to make the whole economy more innovative and productive.

Strengthening linkages across African firms is key to spreading new capabilities

African firms are too often cut off from each other, which prevents new technologies and know-how from extending across firms. Backward and forward linkages are relatively weak, for example in Kenya:

- Backward linkages to domestic suppliers: 66% of intermediate goods and services for firms in Kenya that receive foreign direct investment (FDI) are imported, compared to 25% in Viet Nam.
- Forward linkages: only 3% of FDI firms in Kenya produce inputs for other Kenyan firms, compared to 61% in Viet Nam.

Large capability gaps hinder the formation of linkages between the most productive firms and the others. Large gaps in capital intensity, management practices and product

standards prevent a small group of highly productive firms – mostly large domestic firms and multinational enterprises (MNEs) –, from generating linkages with the rest of the economy. This process generates a vicious cycle of capability traps for the lagging firms, resulting in a highly segmented productive structure across firms in terms of productivity and innovation capacities. For example, Ghana's top 1% most productive firms produce on average 169 times more value-added per firm than the other 99%.

Regional linkages between firms are also insufficient. The average level of regional sourcing in Africa remains under 15%. By comparison, intra-regional sourcing in Southeast Asia accounts for more than 80% of exports in industries such as motor vehicles, textiles and apparels, and computer, electronic and optical products. In certain cases, policies have not been able to strengthen regional value chains. For example, the mining chain in Southern Africa traditionally relied on South Africa as a supply hub for capital goods. However, more competitive imports of capital goods from China into Southern Africa have challenged South Africa's position in recent years.

Improving the business environment through the usual Doing Business reforms is not enough to strengthen industrial linkages. Diffusing new technologies and capabilities requires supply-side policies for local suppliers and SMEs. Firms face different constraints related to finance, infrastructure and skills that prevent them from innovating and scaling up. Other factors not related to the business environment also prevent Africa's firms from growing in size: about 60% of the size gap between African firms and those in other developing countries remains unexplained even after controlling for the business environment, firms' ages and ownership, and market sizes. Addressing these constraints calls for long-term solutions that strengthen firms' capabilities to produce quality goods, in addition to a better business environment.

African firms need to better anticipate and respond to the coming megatrends

The African continent has changed greatly and will continue to do so in the coming years. Five megatrends at the continental and global levels create significant opportunities and challenges for African firms in starting, managing and growing their businesses. These trends include demographic growth, rapid urbanisation, climate change, the New Industrial Revolution and the shifting terms of trade to other emerging economies in the eastern part of the globe.

Table 1. **Five megatrends affecting Africa's productive transformation**

Megatrend	Main risks	Main opportunities
"Shifting wealth" and the rise of emerging economies	• Competition from other emerging markets • Creating one-dollar jobs • New "scramble for Africa" • Environmental degradation	• Diversification of the African exports basket • Reallocation of low-skilled manufacturing from Asia to Africa • Attracting FDI into Africa • New sources of development finance • Skills transfer
New Industrial Revolution	• Automation • Re-shoring manufacturing to advanced economies • Unprepared skill and technological base • Illicit financial flows	• Reduction in trade costs, especially for small firms • Creation of new niches and markets • Use of new technologies to improve access to public services and quality of public policies
Demographic transition	• High youth unemployment and higher informal sector employment • Increased pressure on public services and environmental resources • Migration and brain drain	• Growth of Africa's workforce • Greater savings, consumption and GDP growth due to increased labour supply and wealth creation • Growth of an African middle class
Africa's urban transition	• Increased urban poverty and inequality • Inequality between rural and urban areas • Urban congestion • More air pollution and inefficient use of water and other natural resources	• Growth of an "urban" middle class and demand for high value-added goods, food and urban infrastructure • Generating economies of scale and social innovation • More sustainable use of resources thanks to efficient sharing of infrastructure in high density areas
Climate change	• Natural disasters, droughts and changing weather patterns • Loss of livelihoods and economic activities	• Expansion of new green sectors • Higher job creation in green sectors

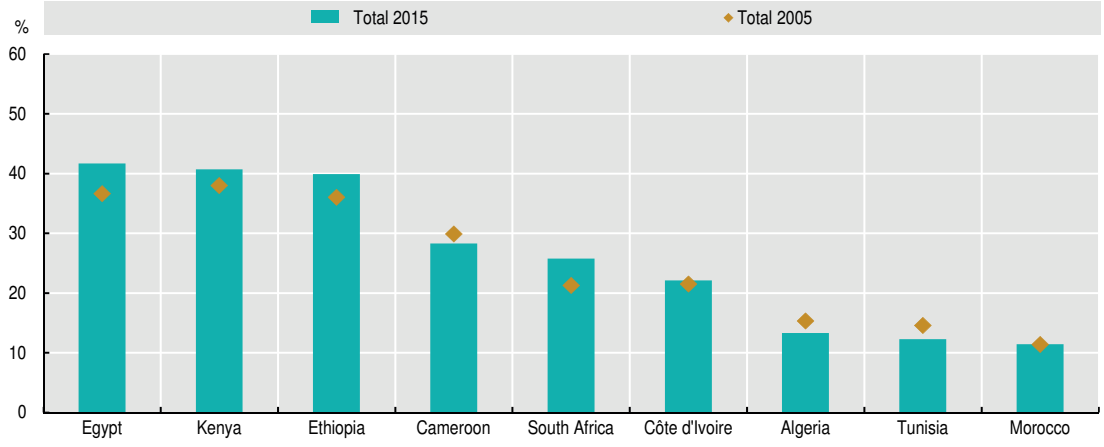
These megatrends will be game changers. They offer new sources of finance, new markets and demand patterns, and new possibilities for "leapfrogging" by using novel opportunities for technology transfer and business management practices. For example, greening extraction techniques can enhance competitiveness in the mining sector and the rest of the economy (e.g. the OCP in Morocco, South Africa Industrial Energy Efficiency Project). They also bring demand for better job creation, new competitors, and new risks to inclusive growth and the environment.

Currently, most African firms risk losing out to new competitors both at home and in emerging markets. Between 2009 and 2016, African exports of consumption goods to African markets decreased from USD 12.9 billion to USD 11.8 billion. At the same time, imports of consumption goods from the rest of the world grew from USD 11.2 billion to USD 19.0 billion. In emerging markets such as China, African exporters also lag behind new competitors from Asia and Latin America in tapping this new demand. African exporters accounted for only 0.3% of the increase in China's consumption imports, compared to 12.0% from countries of the Association of Southeast Asian Nations and 5.1% from LAC.

Firms' survival rates in exports show that firms need to improve their capacity to thrive in highly competitive markets. African firms have been trying to diversify their exports, but only 18% of the continent's new exporters survive after their third year compared to 22% of exporters in other developing countries. Several firm-level factors prevent African firms from innovating and scaling up.

These changes imply that African countries cannot replicate past approaches to industrialisation, due to different contexts. No unique model of country-level transformation exists. The pathways of productive transformation depend on many factors, which play out differently in diverse countries and sectors and according to varying historic and global economic contexts. For example, manufacturing increasingly depends on services and other sectors such as information and communications technology (ICT), marketing and transport, and distribution. Services counted for 40-42% of the value addition in these sectors in 2015 in Egypt, Ethiopia and Kenya (Figure 3). Globally, services support functions make up between 25% and 60% of employment in manufacturing firms. Governments should thus focus on strategic value chains and not exclusively on manufacturing.

Figure 3. **Services value-added contents in total export of manufacturing, mining and agricultural products in nine African countries**



Note: Total export of "manufacturing, mining and agricultural products" defined as ISIC codes D01 to 03 (agriculture) + codes D05 to 09 (mining) + codes D10 to 33 (manufacturing).

Source: Authors' calculations of preliminary results based on the underlying data sources of OECD Inter-Country Input Output System for the 2018 TiVA indicators.

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Time to act: A call for proactive and co-ordinated productive transformation strategies

Accelerating the development of Africa's productive sectors is critical to meet the continent's objectives laid out in several on-going pan-African initiatives (Kouassi, 2015a). The African Union through Agenda 2063 envisions transforming the structure of African economies in order to create strong, robust and inclusive growth, generating jobs and opportunities for all. The entry into force and operation of the African Continental Free Trade Area (AfCFTA) in 2019 marks the strong commitment by African leaders towards productive transformation (see Table 2). Together with other pan-African initiatives such as the Single African Air Transport Market and Africa's single passport, these initiatives emphasise the importance of industrialisation for a sustainable economic transformation.

Table 2. **Ten ongoing continental initiatives for Africa's industrialisation**

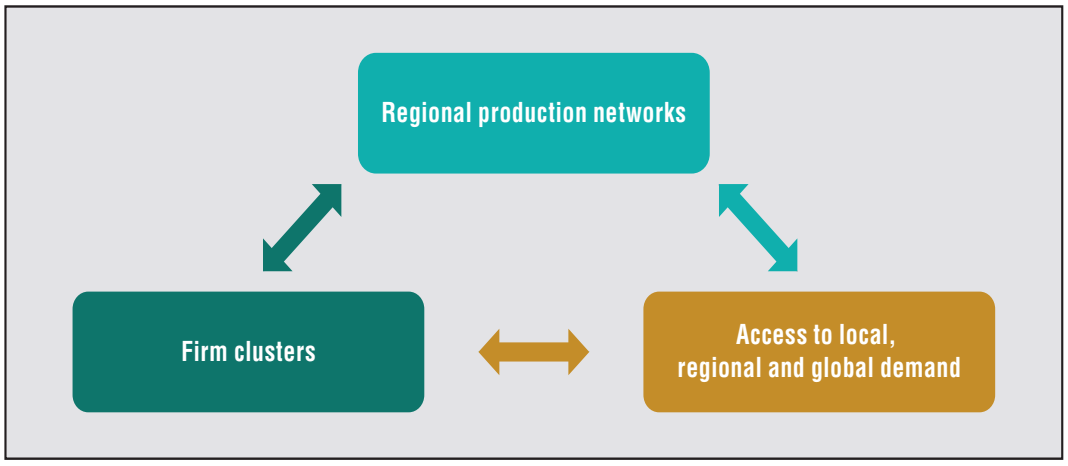
	Ongoing continental initiatives (list not exhaustive)	Key institutions	Timeframe
1	Agenda 2063 Aspiration 1: "A Prosperous Africa Based on Inclusive Growth and Sustainable Development"	AUC	2013-63
2	AU Action Plan for the Accelerated Industrial Development of Africa (AIDA)	AUC	2008-ongoing
3	African Continental Free Trade Area	AUC	2019-ongoing
4	The United Nations Third Industrial Development Decade for Africa (IDDA III)	UNIDO	2016-25
5	Programme for Infrastructure Development in Africa (PIDA)	AUC, NEPAD, AfDB, ECA	2012-40
6	The Science, Technology and Innovation Strategy for Africa 2024 (STISA)	AUC	2014-24
7	The African Agribusiness and Agro-industries Development Initiative (3ADI)	FAO, IFAD, UNIDO	2010-20
8	Comprehensive Africa Agriculture Development Programme (CAADP)	AUC, NEPAD	2003-ongoing
9	The Africa Mining Vision	AUC	2009-ongoing
10	The African Productive Capacity Initiative (APCI)	UNIDO	2003-ongoing

Note: AUC – African Union Commission; UNIDO – United Nations Industrial Development Organization; NEPAD – New Economic Partnership for Africa's Development; AfDB – African Development Bank; ECA – United Nations Economic Commission for Africa; FAO – United Nations Food and Agriculture Organization; IFAD – International Fund for Agricultural Development.

The complexity of supporting productive transformation requires a systemic strategy. Africa's productive firms must connect to the continent's growing regional demand. This will enable them to take advantage of the expanding consumer base to which the AfCFTA will ease access. The challenge here is not only to eliminate tariffs, co-ordinate customs procedures at the regional level, and improve the environment to create and grow businesses. Most firms, especially African micro, small and medium-sized enterprises, may not be able to reap the benefits of AfCFTA's reduced tariffs and larger market size without overcoming internal barriers on firms' capability and external barriers such as excessive transportation costs, barriers to cross-border investment and other non-tariff barriers.

This systemic approach to productive transformation in Africa entails focusing on three sets of policies: i) developing strategic clusters of firms; ii) facilitating regional production networks and (iii) enhancing firms' abilities to thrive in new markets. These policies aim to improve African firms' capabilities, notably their capacity to anticipate future trends, adapt to changing market conditions, be aware of and upgrade their potential, and form linkages with each other (Primi, 2016).

Figure 4. **Three interrelated sets of policies to support African firms in productive transformation**



Source: Authors' elaboration.

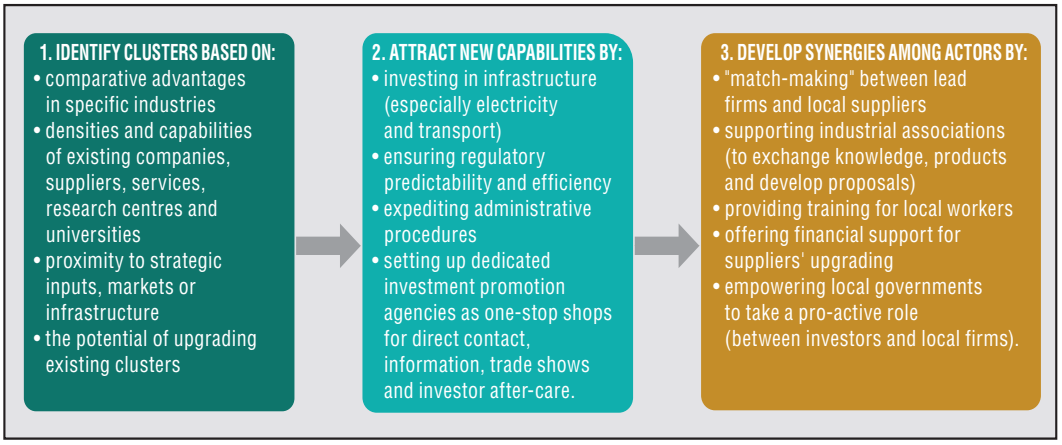
The scale and the cross-cutting nature of the challenges for African firms call for co-ordinated policies among African governments. For example, an infrastructure gap estimated at 3.1-6.9% of GDP a year remains a major impediment to private sector development in Africa (Ashiagbor et al., 2018). Closing this gap requires sustained and long-term solutions, including common approaches to domestic resource mobilisation. Réné Kouassi (2008, 2015a and 2015b) highlighted the importance of co-ordinated strategies at the national and continental levels. Successful approaches are inclusive and enjoy strong participation and ownership by national, regional and local actors. The success of such strategies also depends on the transformative leadership from both public and private actors and requires strengthening the capacity of both sectors. Such capacity building can be done progressively over time (ACBF, 2019).

Focus on clusters of firms: Provide business services to improve specialisation, linkages and skills

Clusters can be used strategically to develop an economy's comparative advantages (see Chapters 2-6 showing the comparative advantages for each region). Clusters enable resource-constrained governments to make the most of their assets by investing in a targeted place, instead of dispersing them. In this process, countries can approach the global technology frontier by attracting FDI and enabling technology transfer. The relatively higher density of companies, suppliers, service providers and associated institutions in a cluster can lead to higher spill-overs and knowledge transfers, further increasing policy impact. As the economist Alfred Marshall said, the mysteries of trade are "as it were in the air" in industrial districts.

Policy makers can follow a three-step approach to building effective clusters (Figure 5). African governments have made considerable strides in the first two steps of identifying better location for clusters and attracting new capabilities through FDI. To ensure long-term impact on productive transformation, African policy makers need to pay more attention to creating linkages among actors in these clusters. Knowledge transfer requires using higher local capabilities in targeted sectors that have comparative advantages.

Figure 5. **Three steps toward building effective clusters**



Source: Authors' elaboration.

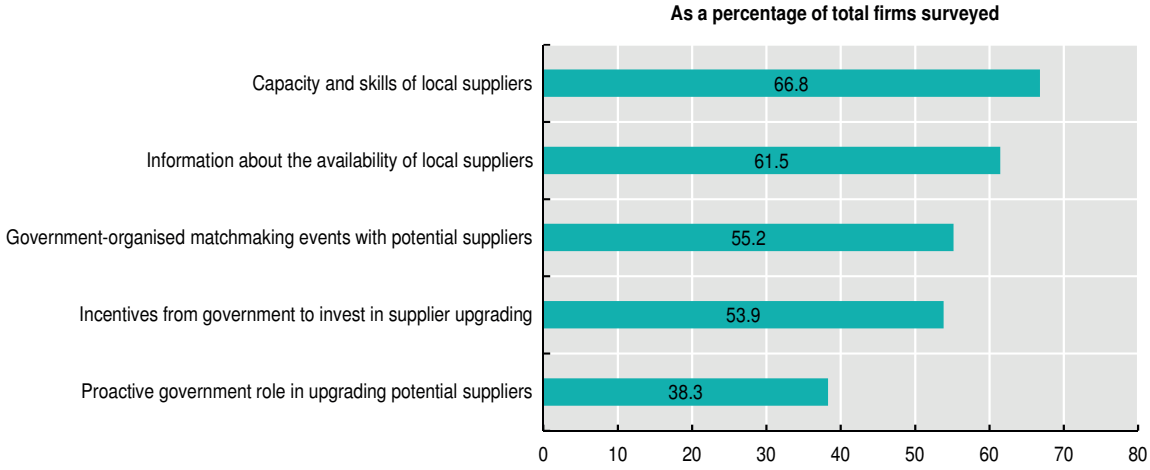
In the first step, clusters' success depends on the strategic choice of their location with respect to the country's comparative advantage. It requires a critical mass of interdependent firms and actors based on their specialisation, composition and development stage, the intensity of existing linkages, and the ability to create inclusive jobs. In contrast, several past special economic zones in Central Africa and West Africa turned into "cathedrals in the desert": they were located in remote areas without the necessary supporting conditions.

In the second step, governments must attract leading firms into clusters. African countries are becoming more successful at this. Recent clusters such as Tangier-Med (Morocco), Eastern Industry Zone and the Hawassa Industrial Park (Ethiopia), and the Kigali Special Economic Zone (KSEZ, Rwanda) have attracted world-class multinationals in sectors ranging from automotive and aeronautics manufacturing to textile, garments and shoe production. For example, firms moving into the KSEZ are associated with a 206% increase in sales, a 201% increase in value added and a further 18% increase in the number of permanent employees compared to similar firms that did not move there.

Focusing on the basics is the most important factor to attract FDI, by ensuring stability and access to business services. In these clusters, governments are actively providing access to quality infrastructure (especially electricity and road transport) and successfully creating regulations, such as custom procedures, taxation and business permits. Domestic political and macroeconomic stability and the dependability of the regulatory environment rank among the top four determinants of FDI inflows. On the contrary, low tax rates and low labour costs are not enough to attract international investors; globally, they rank as the seventh and eighth motivations out of ten.

Access to direct business services also boosts local suppliers' capabilities to ensure linkages. Specific interventions can help local firms upgrade their capacities in producing intermediate goods and services for larger firms, domestically and internationally. In Ethiopia, Bole Lemi Phase-I Industrial Park organises trade shows for potential buyers and suppliers to help them understand each other's opportunities, capacities and demands. It also provides a matching grant of up to 60% for SMEs to invest in their operation and upgrade.

Figure 6. **What matters for foreign investment firms to source from local suppliers**



Note: The total sample of the survey includes 750 multinational investors and corporate executives. The percentages represent respondents who answered "important" or "critically important" to the question "How important are the capabilities of local firms to act as suppliers in your decision to invest in developing countries?"

Source: Authors' calculations based on World Bank (2017), *Global Investment Competitiveness Report: Foreign investor Perspectives and Policy Implications*.

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Stronger involvement across different government levels can help identify new activities inside clusters and improve their implementation. In Ethiopia's Eastern Industrial Zone and the Hawassa Industrial Park, the lack of autonomy prevented their management from adopting quick reforms and purchasing essential tools and equipment for maintenance. In contrast, municipal governments in China and Viet Nam work closely with firms and investors in SEZs to match investment in infrastructure and skills with their needs. Local governments can play a match-making role between lead firms, local suppliers and other stakeholders such as research institutions, labour associations and investors. South Africa's Durban government funded official industrial associations in the apparel and automotive sectors, which led to information exchanges and cost-saving synergies, for example in training workers.

Targeted support for SMEs and innovative skill policies to ensure inclusive productive transformation

African SMEs face varying needs. Twenty-three per cent of the continent's SMEs cite access to finance as the most binding constraint to their businesses. This share is almost double that for large African firms with more than 100 employees (13%). However, the three different types of African small growing businesses (SGBs)[1] have distinct financing needs, depending on their growth and innovation profile (see Table 3):

1. **High-growth ventures** are SGBs seeking disruptive business models and targeting large markets. While often accounting for less than 10% of SGBs in developing countries, high-growth ventures can disproportionately contribute to the economy through their high growth potential and innovation. They usually require staged "risk capital investments", connected networks of investors, highly-skilled workers and infrastructure.
2. **Dynamic enterprises** deploy existing products or proven business models as they seek to grow through specialisation in niche markets, market extension or step-by-step innovations. Their growth and scale potential is moderate and depends on their access to markets. These firms often face the "missing middle" financing gap, which means they are too big to qualify for microfinance loans but too small

or risky for traditional bank lending, while they lack the growth, return and exit potential for venture capital funds.

3. **Livelihood-sustaining enterprises** are often small-scale entities maintaining a source of income for an individual family. They tend to replicate existing business models, serving local markets or value chains. Their financial needs depend on short-term working capital. These firms become better integrated thanks to the diffusion of ICT and to urbanisation. This type of firm does not include subsistence-driven micro-enterprises that have limited growth prospects.

Table 3. **Three types of small growing businesses in Africa, their specific needs and policy approaches**

Type of small growing business	Examples of specific needs	Potential policy approaches
High-growth ventures with disruptive business models and very high growth potential	- Highly specialised skills and embedded supporting infrastructure (e.g. investors, incubators, accelerators) - Staged risk capitals	- Focus on supporting the business ecosystem through legal framework on competition, standards, intellectual property rights, among others - Invest in science, technology, engineering and mathematics (STEM) education, technical and vocational training, and skills
Dynamic and niche enterprises with moderate growth potential	- Difficulty to access formal firm financing, particularly medium- to long-term loans - Small market sizes, limited to specific niches - Weak management skills	- Facilitate access to markets - Support quality certification and quality upgrading - Offer individualised consulting programmes - Enhance the variety of credit channels available (e.g. asset-backed lending, credit guarantee schemes, micro-equity)
Livelihood-sustaining, small-scale enterprises serving local markets	- Short-term working capital - Weak organisational capabilities	- Adopt reskilling policy to help the less competitive entrepreneurs enter the labour market - Provide basic management training - Improve financial inclusion through micro-loans

Addressing the new skill demands also require policies to develop stronger public-private alliances, encourage innovative training methods and foster intra-Africa talent mobility:

1. Public and private actors can co-operate further in developing curricula, specific courses and training and in matching workers with firms. In Kenya, Generation Kenya is an intensive training programme that works with 300 employers and 30 public technical and vocational education and training institutions to re-train graduates through intensive boot camp-style training.
2. Digitalisation has opened up the possibility to provide high quality training on a large scale. In rural Niger, mobile phone-based training within the *Project Alphabétisation de Base par Cellulaire* (Basic Cellular Literacy Project) increased adults' writing and math test scores by 20-25% higher than the standard adult literacy and numeracy programme.
3. Talented Africans need to be able to easily move across the continent to meet the skill shortage. According to the Africa Visa Openness Index, African citizens still needed a visa to travel to 51% of the other African countries in 2017, down from 54% in 2016.

Focus on regional production networks: Strengthen value chains, develop norms and co-ordinate investment

Regional linkages are key to generating economies of scale between African countries, rather than a competitive zero-sum game. Taken individually, most African countries may not offer sufficiently large economies of scale and enough fundamentals to attract as much FDI as their global competitors. For example, Ethiopia's total exports of textile and

clothing products increased to USD 235 million in 2017, which makes it the fifth largest export; however, it hardly competes with Bangladesh at USD 37 billion. African countries will have to think globally and act regionally to generate greater scale.

Regional value chains have much scope for growth since regional sourcing remains significantly weak. For example, African producers only source 12.9% of their inputs from within the region, compared to Southeast Asia's 21.6%. The share of intra-Africa value addition in exports is highest in East Africa at 25%, driven by the development of the East African Community since 2000. In contrast, the share of intra-Africa value addition only accounts for 4% of value added in exports from North Africa.

Several African regional economic communities are working to strengthen strategic regional value chains. Most notably, the Action Plan for the SADC's Industrialization Strategy prioritises six key clusters for regional value chain development: agro-processing, minerals and beneficiation, pharmaceuticals, consumer goods, automobiles, and modern services. The action plan identified and costed specific projects to better align and carry out existing strategies (e.g. Industrialisation Upgrading and Modernisation Programme and Minerals Beneficiation Strategy), develop technical skills (e.g. SADC Centres of Excellence), and address service trade. Implementation of the action plan has been slow, partly due to political uncertainty and uneven commitment since the strategy was approved.

Strong benchmarking and monitoring can help sustain the political commitment to implement regional strategies. Several good examples exist on the continent:

- The East African Community's (EAC) Common Market scorecard tracks member countries' progress in removing legislative and regulatory restrictions to the movement of capital, services and goods.
- The SADC is monitoring the implementation of its Investment Policy Framework through a number of indicators based both on a framework of laws and conditions and on investment outcomes and development benefits.

Regional commodity exchanges can help bringing smallholder producers together and linking them to regional value chains. They can reduce costs associated with identifying market outlets, storage, inspecting product quality and finding buyers or sellers. For instance, thanks to a partnership with several financing institutions, farmers can deposit their cereals in a warehouse of the East African Exchange (EAX) and use the receipt given by the exchange as collateral for loans of up to 75% of the produce value. Since EAX's creation, farmers have accessed USD 4.7 million to improve their agricultural enterprises. However, the EAX's trade volumes remain limited and mostly concentrated in Rwanda for the moment. Over the medium term, increased co-operation and co-ordination among member countries can expand the exchange's coverage, increase the volume of commodities traded and boost sufficient liquidity in the market.

Building on local specificities can help African entrepreneurs to develop new niche products and markets. Product differentiation, quality upgrading and certification are essential for value addition in most agricultural value chains. Quality grading systems, labelling and certification can help producing countries move beyond traditional commodity trade on global markets for high-value crops (e.g. coffee, tea, cocoa), increase earnings from exports and raise resilience to price shocks. Co-operation among small producers through formal and informal structures can also help them become more productive and upgrade to higher value-added activities (Ralandison, Milliot and Harison, 2018). Partnerships between public research institutions and local firms can help identify new niches. For example, the Ghana Centre for Scientific Research into Plant Medicine partnered with Kasapreko, a local firm, to introduce Alomo Bitters (an herbal-based

alcoholic drink) which became a commercial success in Ghana and other markets in West Africa.

African policy makers can attract higher FDI quality and gain new capabilities by identifying their key selling points for each type of FDI. Between 2013 and 2017, total FDI inflows to Africa amounted to USD 51.0 billion a year and were mainly directed to Southern Africa (USD 12.5 billion a year), North Africa (USD 12.0 billion a year) and West Africa (USD 11.6 billion a year). FDI can fall into four categories based on investors' motivations: market seeking, efficiency seeking, natural resource seeking and strategic asset seeking. In recent years, investment trends have shifted to move from resource-extraction FDI to market-seeking FDI. The latter motif attracted 53.4% of new FDI projects to Africa in 2013-17. By redefining their selling points for each type of FDI, countries can better attract investments that can readily work with the local workforce and local firms.

FDI strategies can be better co-ordinated at regional, national and local government levels to enable local enterprises to gain new capabilities. In a globalised world where distance is less a barrier, the landscape of competition between cities for FDI is not just local, national or regional but global. For example, no African city belongs to Johannesburg's top five competitors (Bogota, Chicago, Istanbul, Delhi and Buenos Aires). The main competitors for FDI for Cairo are also outside the continent (Al Manamah, Vilnius, Lima, Kiev and Riyadh). Only Abidjan counts three African cities among its top five competitors (Kampala, Kigali and Dar es Salaam), followed by two non-African cities (Vientiane and Lahore).

Regional co-operation is essential to avoid a "competitiveness race" that would lead to lower welfare for host countries. For example, the SADC has called for wide collaboration on tax incentives to reinforce regional co-ordinated actions and respond to the issue of harmful tax competition. Establishing a programme of tax regulatory convergence could gradually harmonise laws, align national regulations or create regional standards.

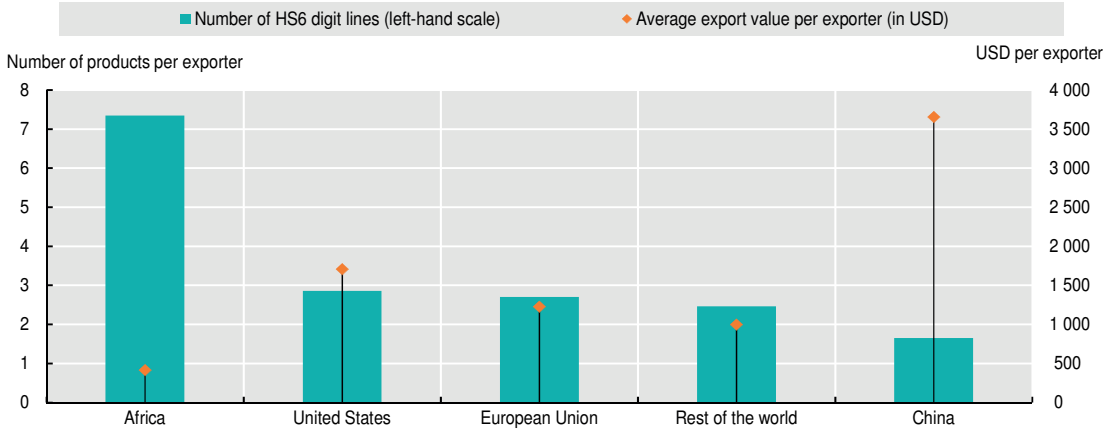
Focus on firms' ability to thrive on growing demand: Target specific markets, improve trade facilitation and remove non-tariff barriers to trade

Export strategies need to differentiate between the challenges faced by firms tapping intra-African and global markets. African exporters are segmented by destination markets. Export strategies must better target those different markets. African firms' exports to intra-African markets are 4.5 times more diverse than those to extra-African markets but have a value 8.5 times lower than exports to China (Figure 7). These differences reflect various selection processes that attract and retain different types of firms in diverse markets. They also call for targeted approaches to tapping export markets, rather than a "one-size-fits-all" policy approach to exports promotion. The set of policy interventions can differ, both in scope and tools:

- **Intra-African trade is key to diversify export products and destinations and to accumulate new capabilities, particularly for SMEs.** Producing for regional markets allows SMEs to scale up their supply capacity and improve their marketing and distribution process in an environment they know better. Larger firms can also benefit from larger economies of scale and scope. For example, Senegalese firms are 8% more likely to upgrade to more sophisticated products when they export to regional market than when exporting to OECD markets. Policy interventions should aim to make trade easier by reducing uncertainties linked to market access.
- **Global trade remains important for export growth as well as for technology transfer.** Global trade requires more fixed investment and larger scale operations. Therefore,

it tends to remain more accessible to larger or already-established African firms. Governments could boost firms' abilities to anticipate and respond to changes in standards and consumer demand by providing information on destination markets, facilitating trade financing solutions and promoting SME branding and access to export markets via e-commerce.

Figure 7. **Export values to African and other markets per exporters in Africa**



Note: Weighted for the number of exporters per origin country.
Source: Authors' calculations based on World Bank (2019b), *Exporter Dynamic Database*.
StatLink https://doi.org/10.1787/888933966675

Regional policies can achieve some "quick wins" by reducing administrative procedures and by promoting and streamlining logistics services. Beyond tariffs, fast and efficient customs and port procedures are essential to the smooth operation of supply chains. Harmonising transport procedures and regulations, simplifying customs procedures and improving freight services and warehousing management through competition in regional logistics services could reduce transit costs. For example, the implementation of the EAC's Single Customs Territory significantly reduced transit times and cost for goods entering the EAC from Mombasa, by approximately 50% and 30%, respectively.

African policy makers need to further promote the adoption of proprietary, industrial and commercial standards by local firms. African countries filed only as many ISO certifications as Malaysia in 2015, despite tripling them since 2000. Evidence from firms in 41 African countries shows that having a certificate is associated with 77% higher sales per employees for manufacturing firms and 55% higher sales per employees for service firms. Governments can support the development of institutions for accreditation, testing and calibration depending on the availability of existing capabilities in these domains and the projected needs of the productive system. Matching grants or low-cost loans may also help firms pay off the cost of certification: adopting and maintaining ISO 14001 could cost between USD 7 000 and USD 16 000. At the regional level, governments can harmonise regional standards and accelerate the implementation of mutual recognition agreements as seen in the Common Market for Eastern and Southern Africa, the EAC, the Economic Community of West African States and the SADC.

In the medium term, improving regional infrastructure can reduce costs for firms and boost trade and economic growth across the continent. Energy transmission and generation, roads, ports, and payment systems are particularly important. In a fully integrated energy supply scenario, power pools could create savings of USD 41 billion per year by 2040. Additionally, the levelled cost of energy would lead to savings of between 6% (in Southern Africa) and 10% (in East Africa) for end-users, equivalent to nearly

USD 10 billion per year. The poor quality of Africa's transport infrastructure accounts for 40% of logistics costs in coastal countries and 60% in landlocked countries. Adopting a regional approach to infrastructure reform would help overcome the inefficiencies that emerge as formal trade barriers fall (e.g. tariffs and administrative procedures).

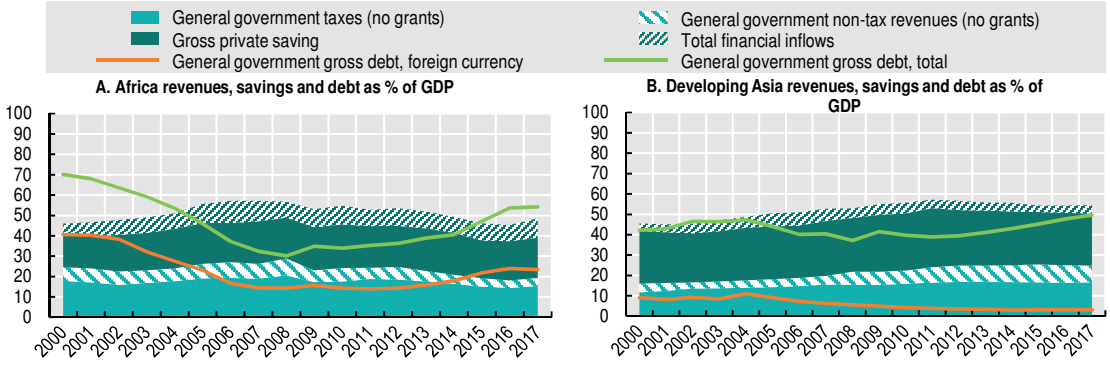
For intra-African exporters, removing non-tariff barriers and trade facilitation can reduce uncertainties for exporters, boosting regional trade and multiplying gains. A significant share of trade costs faced by firms depends on non-tariff barriers such as administrative barriers and the non-consistent application of standards and regulations. Removing non-tariff barriers to intra-African trade can multiply the welfare gains by 5, from 0.65% to 3.15% of GDP. Investing in cross-border, multimodal and holistic infrastructure can push regional trade and integration. Policy makers can focus on dynamic regional corridors to invest resources and attract investment, as seen with the LAPSSET Corridor (Kenya-Ethiopia), the Maputo Development Corridor (Mozambique-South Africa) and the Walvis Bay Corridor (five SADC countries).

Financing policies for productive transformation requires mobilising new resources

Public spending on its own will not sustain productive investment and capital accumulation in the medium term. The number of low-income countries in debt distress or facing a high risk of it increased from 7 in 2013 to 16 in 2018. Forty-three per cent of the debt accumulated by African governments is in a foreign currency, compared to 6.3% in developing Asia (Figure 8). The share of Africa's debts held by private banks and bondholders has also increased, while the relatively shorter maturities and higher interest rates of these debts may not match the needs of long-term project financing.

Therefore, maintaining Africa's growth momentum will also require mobilising more resources from domestic savings and remittances. Private savings amount to USD 431.5 billion in 2017, representing 19.7% of GDP compared to 25.5% in Asia. However, policies need to encourage investment in activities that increase productivity and create jobs (Table 4).

Figure 8. **Revenues, savings and debt in Africa and developing Asia**



Source: Authors' calculations based on IMF (2019), *World Economic Outlook* (database).
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African governments can simultaneously raise public revenues and encourage private sector growth if they pursue tax policies consistent with productive transformation. Such policies will find a balance between increasing tax collection and having a positive impact on the business environment.

- African countries generally have relied heavily on value added tax (VAT) reforms to increase their tax levels. Increases in VAT revenues on average accounted for 32%

of total increases in tax revenues from 2006 to 2016 for the 21 countries featured in *Revenue Statistics in Africa 2018*, and in the case of Morocco, 93%. VAT reforms require a tax regime that has the capacity to process refunds in a timely manner and prevent fraud – as experienced in Zambia.

- More focus on land value mobilisation is needed in the context of Africa's rapid urbanisation. South Africa started using computer-assisted mass appraisals for more efficient property valuations and land taxes. Improving land administration can also have benefits beyond tax collection. In Ethiopia and Rwanda, certifying ownership of agricultural land increased the propensity to invest and hence the farming land productivity. In Ethiopia, the propensity to invest in soil and water conservation measures increased by 20-30 percentage points. For Rwanda, registered households were twice as likely (10%) to invest as those whose land was not registered.
- Providing incentives for businesses and individuals to register with the government can improve public records and compliance. For example, many small and micro-enterprises that made use of South Africa's Business Linkage Centres to obtain contracts and work with large corporations began as informal businesses and then formalised later. The South African Revenue Service decreased compliance costs by 22.4% after introducing e-filing.

Table 4. **Financial flows and tax revenues to Africa and private savings (current USD, billion), 2000-17**

			Average 2000-04	Average 2005-09	2010	2011	2012	2013	2014	2015	2016	2017
External financial inflows	Private	Foreign direct investment	16.1	46.0	46.7	46.7	52.0	50.8	52.4	56.6	53.2	41.8
		Portfolio investments	1.8	10.4	36.8	23.2	37.6	33.7	30.2	20.8	5.9	46.0
		Remittances	14.2	41.9	54.7	61.7	66.8	65.9	70.2	70.0	66.9	74.4
	Public	Official development assistance	20.5	38.8	42.8	46.5	46.4	52.0	47.9	44.9	44.1	47.0
Total foreign inflows			**52.5**	**137.1**	**181.0**	**178.2**	**202.8**	**202.4**	**200.7**	**192.4**	**170.0**	**209.1**
Tax revenues			**118.6**	**266.9**	**330.3**	**403.2**	**417.7**	**414.5**	**408.8**	**339.5**	**309.5**	**328.7**
Private savings			**130.8**	**299.1**	**423.5**	**448.5**	**475.0**	**508.0**	**516.2**	**427.3**	**418.8**	**431.5**

Productive transformation in Southern Africa

Since 2000, Southern Africa's GDP has grown at an annual average of 3.4%, which was lower than other African regions. The trend will continue, with growth for 2019-21 projected at 2.2% per year. Although Southern Africa appears to have weathered the brunt of the global financial crisis and a recovery seems to be underway, the region's two largest economies (South Africa, which represented 63% of the region's GDP in purchasing power parity in 2018, and Angola) have stagnated since 2013. This has resulted in a decline of Southern Africa's share of African GDP, from 21.7% in 2000 to 18.9% in 2017.

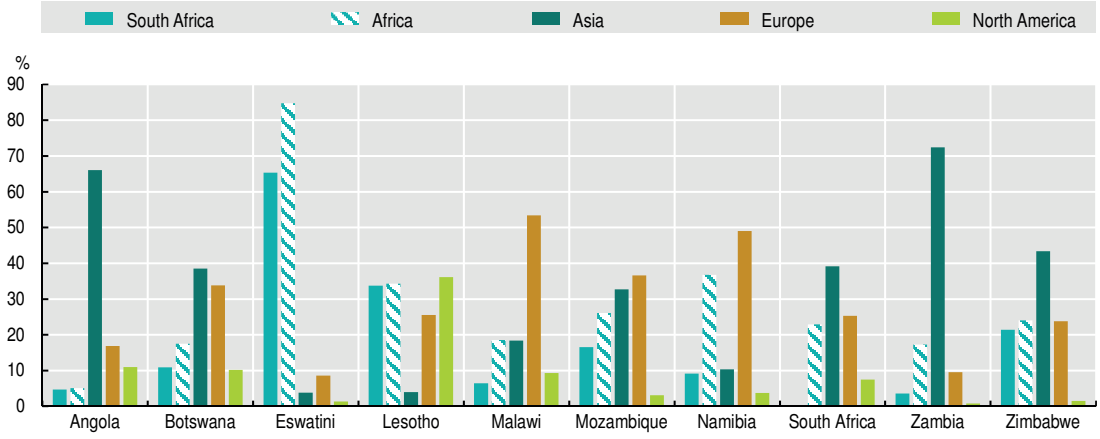
Portfolio investments have remained the largest financial inflow into Southern Africa since 2009. At USD 21 billion, portfolio investments represented 59% of total inflows to the region in 2017, ahead of official development assistance at USD 6.9 billion (19%), FDI at USD 3.8 billion (11%) and remittances at USD 3.7 billion (10%). Johannesburg attracts significant portfolio investment: the Johannesburg Stock Exchange (JSE) is Africa's largest, and its financial sector operates as a hub for pan-African investments.

The transformation of Southern Africa's economic structure has been limited. Since the 1990s, Southern Africa's average share of manufacturing value added in GDP has declined, from about 20% in 1990 to below 10% in 2017. This has resulted in loss of industrial and international competitiveness. Southern African countries have stagnated in the Competitive Industrial Performance Index, ranking on average 103 out of 138 countries. The region's impact on world production and trade has declined, due to other world regions' industrial outputs growing faster. Infrastructural deficits and a dearth of skills for maintaining the competitiveness of traditional sectors and developing new industries are the leading constraints.

Resource dependence, low value addition and few knowledge-intensive exports characterise the region's productive structure. Reliance on unprocessed natural resources is eroding Southern Africa's capacity for industrial diversification and complexity. The region's countries face the challenge of transitioning from this commodity-dependent growth path to value-adding, knowledge-intensive and industrialised economies.

Southern Africa is experiencing low intra-regional trade and a lack of linkages and of regional complementarity. South Africa is the main destination for most intra-regional exports. This results from the remaining countries in the region sharing production and export profiles similar to each other. Southern Africa incurs high overland transport costs to regional trade largely due to lack of competition and to structural constraints. Regulatory and administrative bottlenecks impose additional costs on regional trade and transportation. Southern African countries rank outside the top 100 in efficiency of customs services.

Figure 9. **Export destinations for Southern Africa, 2016**



Source: Authors' calculations based on World Bank (2019a), *World Development Indicators* (database).
StatLink https://doi.org/10.1787/888933966713

Policies for productive transformation must increase productivity and competitiveness by addressing infrastructure deficits, especially in energy. The region lacks sufficient energy supply to serve increased industrial production and provide access for its growing population. Although electricity production has expanded, it remains at the same per capita level as in 2007 due to population growth (WEF/WB/AfDB, 2017). In South Africa, the state-owned power utility, Eskom, battles to meet growing energy demand and faces difficulties in servicing its debt, with coal prices having soared by about 50% in the past ten years.

The region should enhance participation in global value chains (GVCs) to help transform its economic structure. Participation in value chains can start at the regional level and evolve to the global level. Southern Africa can strengthen complementarities between its countries by creating a mechanism for financing regional public goods. It can promote linkage industries that supply the mining sector to achieve industrial and technological upgrading. The majority of Southern African countries are mineral-based economies, but they fail to link the mining industry to upstream and downstream services. Countries can learn from South Africa, which has developed mining sector linkage industries and dominates the regional mining capital equipment market.

The issue for Southern Africa is how to upgrade regional value chains and where to enter GVCs. The region's participation in GVCs has significantly increased over the course of the last decade and is greater than that of the rest of the continent. However, Southern Africa remains under-represented and asymmetrically integrated into GVCs. Except for South Africa, the countries most involved are resource-poor economies with

small populations, like Eswatini and Lesotho. Their participation mainly owes to their proximity to the regional hub, South Africa.

Table 5. **Opportunities and challenges for value chains in Southern Africa**

Value chain	Opportunities	Specific challenges to address
Agri-business (horticulture and sugar)	• The value of intra-regional trade in the agro-processing sector exceeds USD 2.5 billion and accounts for around 28% of the region's exports.	• Location of some production activities is not necessarily based on the most efficient supply chain economics for today's markets (e.g. Botswana, Namibia). • Climatic conditions, market scale and an underdeveloped input sector constraining Botswana, Eswatini, Lesotho and Namibia.
Automotives	• South Africa has a strong automotive industry. • Production of intermediary inputs already exists in the region (e.g. batteries from Botswana, car seat kits manufactured in Lesotho).	• Need to identify niches and supply at a competitive rate. • Small market size. • Mainly dependent on global demand.
Meat	• Beef is the mainstay of the agricultural sector in Botswana, Namibia and (to a lesser degree) Eswatini, as well as a significant part of the South African agricultural sector. • Botswana, Eswatini and Namibia all have abattoirs approved for exports to the European Union.	• Different veterinary zones with different veterinary statuses in Botswana, Eswatini, Namibia and South Africa, with exports only allowed from disease-free zones. • Trade barriers: Botswana's export monopoly and ban/restrictions on exports of live cattle, South African livestock import regulations, bans on animal feed exports from Zambia. • High transport costs. • Low capacity utilisation in abattoirs.
Minerals	• The majority of Southern African countries are mineral-based economies. • Value addition of mineral products in the region can create jobs and skills and increase export revenue (e.g. Diamond Trading Company Botswana). • Linkages can be created between global lead firms and the local private sector.	• Need for strong co-ordination and collaboration with the private sector. • Need to tap the region as one market for companies supplying equipment and providing services for the mineral value chain. • Inefficient business strategies, information asymmetries and low capacity in both public and private sectors.
Textiles and apparel	• Every country has some activity in the sector, although most of the region's activity is concentrated in Lesotho and South Africa.	• Access to fabric. • Lack of skills at the technical and middle management levels. • Access to finance at competitive rates. • High transport costs and lack of speed/flexibility in transport.

Source: Authors' compilation and World Bank (2016), *Factory Southern Africa? SACU in Global Value Chains*.

Southern Africa needs to fast-track the negotiation and implementation of free trade agreements which are ambitious enough to include services. Services have been growing significantly in the region and are essential for attracting private investors and for driving growth in the manufacturing sector. To this end, the SADC Development Fund could finance integrated regional transport and logistics infrastructure projects. These include transport corridors to link sea and inland ports especially for landlocked countries. SADC could also promote greater integration and harmonisation of financial and payment systems to facilitate the settlement of international trade invoices.

Policies for productive transformation and industrialisation require addressing three domains:

1. **The region needs to improve firms' productivity and competitiveness by increasing access to energy and finance, improving skills and encouraging initiatives that help SMEs.**
   - Regarding energy, the SADC Infrastructure Fund could prioritise investments in infrastructure especially electricity, emphasising generation capacity and interconnectors to the remaining non-operating countries. Until the Fund becomes fully operational, the Development Bank of Southern Africa needs support in its role as the seed financial institution.
   - Concerning access to finance for SMEs, lessons can be learnt from Namibia's SME post-loan mentorship programme. It has expanded SMEs' financial access while mitigating risk through business development services. Namibia's two major commercial banks, the Development Bank of Namibia and Bank Windhoek, provide financial access to SMEs with generous terms. The financing is linked

to a mentorship and post-loan assistance programme to improve entrepreneurs' business management skills in order to lower the risk of loan default (AfDB/OECD/UNDP, 2017). In addition, the region could implement innovative private sector-led programmes to obviate bottlenecks to financial access. JSE established the first SME-tailored trading platform in 2003. It has since seen over 120 firms listed, a quarter of which graduated to the JSE Main Board. Other stock exchanges in the region have adopted this innovation.

2. **Southern Africa should support initiatives that enhance regional complementarities by promoting regional public goods and by harmonising customs procedures and payments systems.** The Maputo Development Corridor, linking South Africa's Gauteng region to Mozambique's deep-water port in Maputo, is an example of integrated infrastructure that promotes the connectivity of rural areas. It is also multimodal, integrating road, rail and sea transport. Financial integration is taking place through the SADC Integrated Regional Electronic Settlement System, which uses the South African rand as the settlement currency. Overall in Africa, the rand increased in use from 6.3% in 2013 to 7.2% in 2017.
3. **The region must create conditions for better integration into GVCs by developing regional value chains that leverage South Africa's participation in GVCs.** This requires loosening constraints imposed by access and by technological capability. For example, Southern Africa has the latent potential to expand mining linkage industries upstream, e.g. by supplying equipment, off-road vehicles, and pumps and valves. The Action Plan for the SADC Industrialization Strategy prioritises six key clusters for regional value chain development: agro-processing, minerals and beneficiation, pharmaceuticals, consumer goods, automobiles, and modern services. The action plan identifies specific projects to better align and carry out existing strategies (e.g. Industrialisation Upgrading and Modernisation Programme and Minerals Beneficiation Strategy), develop technical skills (e.g. SADC Centres of Excellence), and address service trade. Another example is Zambia, which promoted upstream and downstream linkages in the mining industry while training the workforce through an extensive technical and vocational education programme conducted with the mining sector. Finally, Southern Africa needs to facilitate public-private alliances for deepening regional integration and develop technological capabilities through centres of excellence.

Productive transformation in Central Africa

Central Africa has experienced a positive growth dynamic since the 2000s, despite strong instability. Annual GDP growth in 2000-18 averaged 4.8%, with growth for 2019-21 projected to slow down to 3.5%. Growth in Central Africa is more volatile than that of Africa in general and is highly dependent on global economic conditions. It peaked at 11.4% in 2004 before falling to 3.7% in 2006, nearly three times less in two years. This strong instability is observed over the rest of the 2007-18 period, although with a growth cycle correlated with that of Africa in the rising and recession phases (at about 6% growth in 2013-15 followed by less than 3% in 2016-18). Exposure to external shocks is reflected in the fall of activities between 2008 and 2009, during the international financial crisis, and in 2013 with the decline in oil prices. The largest economy in purchasing power parity value is Cameroon, making up 31% of the region's GDP in 2018, followed by the Democratic Republic of Congo (DR Congo).

In 2010-17, the region received USD 48.5 billion in FDI, the lowest in Africa and about 12% of total FDI flows to the continent. FDI was the first financial inflow in 2017, followed by official development assistance at USD 5.4 billion (47%). Remittances and portfolio investments made up respectively 3.2% and 1.9% of total financial inflows.

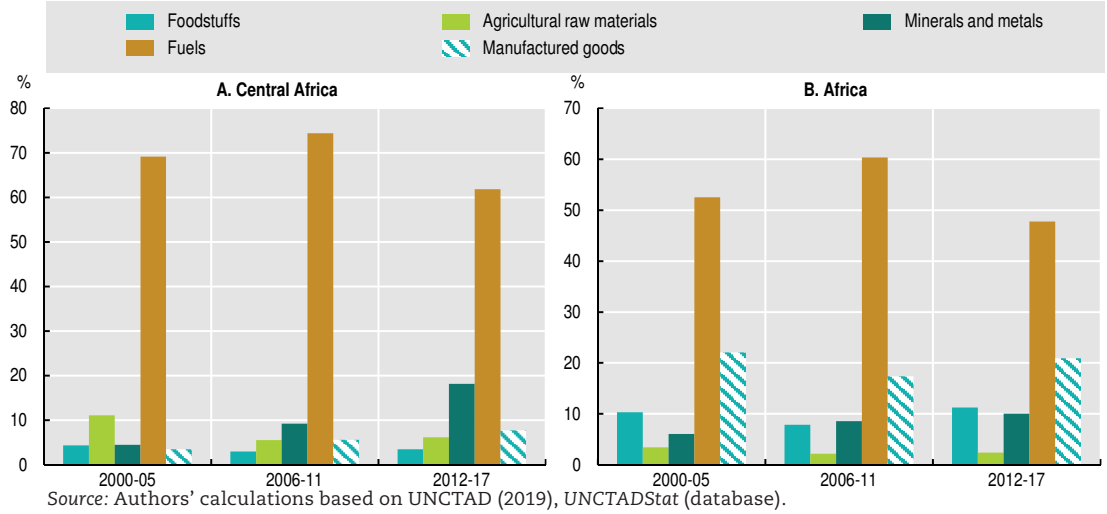
The region has experienced no major increase in manufacturing or agricultural development. Natural resources explain the positive dynamics of industry, especially

over the period 2000-12, with a contribution to GDP estimated at 45% in 2011. Since then, this share has stabilised at around 40%, with a majority of foreign operators. At the end of 2016, only four countries had a manufacturing sector representing more than 10% of GDP: DR Congo, Equatorial Guinea and Gabon at around 18% and Cameroon at 15%. Agriculture has contributed negatively to GDP growth as well as exhibiting the lowest growth rate compared to the sector in other regions. Nevertheless, at 16.1%, agriculture's share of the Central African economy remains above the African average of 15.8%. The tertiary sector accounted for 36% to 37% of GDP in 2000-13, then 42.5% in 2016 (compared with an average of 52% in Africa), exceeding the industry share. These services, however, remain of low value added, as they mainly concern retail trade.

The institutional environment and the quality of infrastructure are hindering Central Africa's productive transformation. Of all the continent's regions, Central Africa is the most lacking in basic infrastructure, particularly in electricity and transport, two elements considered by businesses as major obstacles. Electrification rates range from 83% for Gabon to only 5.6% in Chad, but the regional average is close to that for Africa at around 30%. Only 1 in 100 people own a landline telephone, compared to 3 in Africa. The creation of clusters of skills, technology and innovation requires massive public and private investments in training and research and development (R&D). The interstate universities between Cameroon and the Republic of the Congo (Congo) and the pan-African institution of the African Union are examples. Although expensive, R&D must be a priority because of its contribution towards establishing regional value chains in sectors that can exploit raw materials produced in the region (Table 6).

The level of concentration of the economies' exports remains very high, as only five products account for more than 75% of exports. Oil accounts for nearly half of these sales abroad (47.7%), followed by refined copper and copper alloys (16.4%). The region also faces a very high concentration of its trading partners. The top five markets (China, the United States, Spain, France and Italy, in that order) account for more than 60% of total exports. The productive specialisation, based on oil, is losing ground because it produces rent-generating situations that do not create value added or jobs.

Figure 10. **Share of product types in exports from Central Africa and Africa, 2000-17**



Source: Authors' calculations based on UNCTAD (2019), *UNCTADStat* (database).

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Intra-regional trade in Central Africa does not exceed 3% of the total. All the countries of the region are members of the Economic Community of Central African States (ECCAS), a free trade area created in 1983. In addition to the structural problems common to all African regions (e.g. lack of infrastructure, high commercial tariffs and

low diversification), the weakness of regional trade can be explained by the strong dependence on raw materials and resulting low levels of complementarity. Since the raw materials are not transformed, their integration into the global economy can take place at the lowest level of the value chain (Table 6).

The region's revealed comparative advantages are mainly in low-value added products. On average, Central Africa exports more raw materials than any other region of the world. An analysis of the level of sophistication of the productive structure confirms this situation. Similarly, no country in the region has the capacity to produce goods with a high knowledge content. The Economic Complexity Index values for Cameroon (-1.65), the Congo (-1.28) and Gabon (-1.43) are well below the average for Africa (-1.02). The strong extraversion of the economies and a low level of complementarity of the exported products hinder the development of regional trade. The positive dynamics of the industrial sector are driven by the mining industries, to the detriment of manufactures.

Table 6. **Opportunities and challenges for value chains in Central Africa**

Value chain	Opportunities	Specific challenges to address
Cotton/textiles	• Major clothing brands could possibly relocate in search of cheap labour and better quality raw materials.	• Improve the textile factory in Chad and the ginning capacity in the region.
Fruits (bananas)	• The region could focus on three end products: natural beverages, dried fruit, and waste recycling into organic and natural fertiliser.	• Strengthen linkages within the value chains, collective marketing and penetration into high-value chains and improve processing techniques.
Petroleum products	• Petroleum offers production opportunities in diverse sectors (textiles, packaging, building materials, asphalting roads…). • Several refineries already exist: a more comprehensive value chain could extend to other regions and integrate Nigeria.	• Offer quality training in petrochemicals.
Wood processing	• Forest products are diverse (ayous, *okoumé*, sapelli, etc.). • A large panel of activities is possible: construction, paper pulp, furniture, energy, etc.	• Strengthen the processing capacity (sawing, debarking, and cutting trees for plywood and veneer), dominated by informal firms. • Better valorise traditional know-how. • Ensure sustainability of wood exploitation to avoid deforestation and develop sustainable ecosystems.

Transforming Central Africa's economic structure requires appropriate and foundational policies:

1. **Creating complementarities and economies of scale by integrating production capacities and building on the similarities of export profiles in the region.** Ongoing initiatives include: a regional strategy for industrialisation, private sector development and economic diversification; strategies for promoting coffee and palm oil value chains; and further initiatives on food security and rural development in the framework the Comprehensive Agriculture Development Programme for Central Africa and the Central African Cotton Initiative (AfDB, 2019). However, these efforts require strong implementation, and the results must be monitored and evaluated.
2. **Increasing access to energy in a region with enormous potential.** The region's main potential is in hydropower, but large projects such as the Inga 3 dam extension have not yet materialised. The region has also large wind and solar potential. It could draw inspiration from the strengthening of the Noor solar power plant in Morocco. However, political instability and lack of transparency have hampered investment and loans in the energy sector as guarantees for long-term capital investment are not always met. At the regional level, the Central African Economic and Monetary Community (CEMAC) recently established a Central African Energy Policy for 2035 to ensure reliable, efficient energy infrastructure for the region's physical integration (AfDB, 2019). The Central African Energy Pool aims to create a regional energy market through physical connections (e.g. transmission lines) and

harmonised regulations. Achievements so far include a Central African Electricity Procurement Code and a development fund for the region's electricity sector.

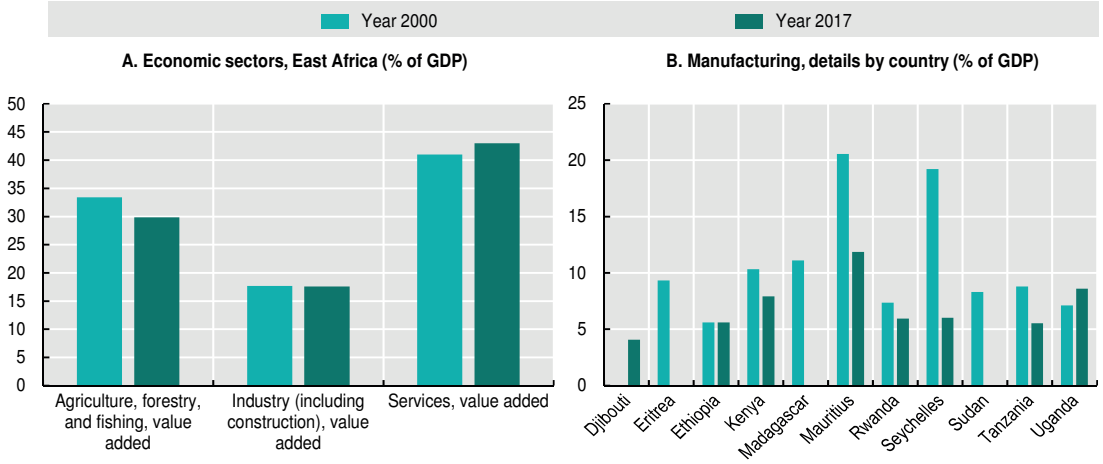
3. **Strengthening human capital and adapting training to the labour market.** The mismatch between supply and demand in the labour market results in very different rates of unemployment depending on the level of education. A platform could allow private operators to express their training needs, which would then be taken into account in programme development. This could be done in a concerted framework with the African Union through its Science, Technology and Innovation Strategy for Africa 2024, or the Continental Strategy for Technical and Vocational Education and Training (TVET) to Foster Youth Employment. An ambitious education policy at more foundational level for Central Africa could entail mandatory schooling to the age of 16 as well as specific provisions to encourage education for girls. In DR Congo for example, the 2016-25 sectoral strategy on education and training (*Stratégie sectorielle de l'éducation et de la formation*) increases mandatory schooling to eight years. Strengthening human capital also rests on the free movement of persons. In March 2019, the six member countries of the CEMAC adopted a common emigration, immigration and border protection policy, aimed in particular at speeding up the abolition of visas for all citizens circulating in the bloc.
4. **Developing regional standards.** Central African countries face difficulties harmonising their regional norms because of a lack of regional institutions. Only three countries have an operational national standards body: Cameroon, DR Congo and Gabon, while the Central African Republic and the Congo are setting up one (UNIDO, 2014). Too many local standards setting institutions exist in the region. This creates difficulties for SMEs in meeting quality standards, because of their high costs and long procedures. Streamlining certification requirements and regulations, notably in the areas of consumer health, phyto-sanitary and technical standards could promote intra-regional trade and the quality of exports.
5. **Creating physical and digital infrastructure.**
   - Massive investment in transport infrastructure would boost private sector activity. The region can benefit from continental initiatives such as the Programme for Infrastructure Development in Africa. For example, the planned Kinshasa-Brazzaville Bridge road and rail project could alleviate logistic bottlenecks on the Congo River and potentially accommodate 3 million passengers and 2 million tonnes of freight annually by 2025. Trade corridors in the region are still at an infant stage, yet ECCAS is working towards developing multimodal corridors to boost transport connectivity (AfDB, 2019). One of these is the Central Corridor, which has lowered the cost of linking Central Africa to the Indian Ocean by connecting DR Congo to the port of Dar es Salaam (Tanzania) by road, rail and inland waterways through Burundi, Rwanda and Uganda (CCTTFA, 2019).
   - Moving ahead with the ECCAS plans to harmonise regulations and develop a regional fibre optic network would close the digital connectivity gap with the rest of Africa. Central Africa's level of Internet usage remains low, as well as access to the broadband network. The penetration rate of mobile telephony is higher, at 76% against almost 96% at continental level. Pursuing mobile phone technology has the potential to offer the most immediate results in terms of digital inclusion as well as provision of services relying on mobile platforms. Key regional initiatives to pursue include: enacting model laws on telecoms, ICT and cybersecurity as well as a regulatory framework for cross-border interconnections; attracting foreign investors in ICT infrastructure and security (following the Brazzaville Declaration); and creating regional Internet exchange points (AfDB, 2019).

Productive transformation in East Africa

East Africa has sustained a 5.2% GDP growth in 2000-18 and is projected to maintain a similar growth rate (4.9%) until 2021. This growth is the second highest and the most stable among the five African regions, outpacing the African average by over half a percentage point. This more stable growth owes in great part to the region's relatively low dependence on commodities, rapidly expanding exports, growing local demand and important public investment. At the same time, growth remains uneven across countries. A recent moderation (to approximately 5%) is attributable to a drought-induced decline in agricultural output in 2016 for Kenya, Rwanda and Uganda and political instability in Somalia and South Sudan. The largest economy is Ethiopia, making up 22% of the regional GDP in purchasing power parity in 2018.

Over the past two decades, sectorial contribution to GDP has changed. Services have become the largest sector of the regional economy, representing 43% of GDP in 2017. Agriculture stands at 30% of GDP, approximately where it was at the turn of the century. Although manufacturing has been growing in absolute terms, its share of total value added has declined by four percentage points since 2000, now at 7% of GDP (Figure 11).

Figure 11. **Sectoral share of gross domestic product in East Africa**



Source: Authors' calculations based on World Bank (2019a), *World Development Indicators* (database).
StatLink https://doi.org/10.1787/888933966751

Governments have introduced reforms to promote integration and facilitate trade. However, the business environment, as a whole, needs to improve. Overlapping memberships of different regional economic communities by individual countries prevent deeper integration. Notable exceptions in terms of the business environment are Mauritius and Rwanda, which rank respectively 20th and 29th globally in the World Bank Doing Business Index. Conversely, Eritrea, Somalia and South Sudan rank in the bottom ten globally. These issues will continue to limit higher levels of intra-regional trade and the emergence of regional value chains.

Over the past two decades, exports' share of GDP declined from 19% to 14%, despite the growth of services. Services now account for over 50% of total exports. Major export sectors for services in the region include tourism, transport, ICT and finance. The shares of exports from agriculture and minerals have increased over time, accounting for 26% and 6%, respectively, in 2017. On the other hand, manufacturing exports fell from 20% a decade ago to 12% in 2017, despite the efforts that East African countries are putting into growing their industrial base. Emerging economies (i.e. China, India and countries

from the Association of Southeast Asian Nations) have become more prominent trading partners. In 2017, these countries represented 33.6% of total trade with some of East Africa's major economies (EAC region, Ethiopia and Mauritius), up from 12.8% in 2001. As a comparison, the European Union decreased from 32.9% in 2001 to 16.3% in 2017.

Countries are gaining a revealed comparative advantage (RCA) in similar sectors and goods, limiting the role intra-regional trade can play in export diversification. The similarities in RCA and productive inputs such as in glass and metal manufacturing as well as stones processing impede countries from moving to higher levels of economic complexity. Countries in the region do not produce complex goods and, with the exception of Uganda, are not moving towards higher levels of complexity. Benchmarking selected countries in East Africa against other emerging economies – Botswana, Brazil, Chile, China, Egypt, Korea and Viet Nam – demonstrates a mixed performance. Overall, East African countries lag behind in complexity compared to most other countries. Despite the region's robust economic growth, its complexity value is not catching up with other emerging countries.

The region scores low on global competitiveness indicators, ranking towards the bottom of global indices for competitiveness, human capital and innovation. Mauritius is the only country in the region ranking above the global average, with a score of 63.7% in 2018. Mauritius' advancement is driven by increasing openness, a business-friendly fiscal policy, and improvements in governance and institutions' service delivery. On indicators for corruption, most East African countries also score poorly and in some cases are even regressing (such as Eritrea, Madagascar, Somalia, Sudan and Uganda). A child born in 2018 will be only 43% as productive as he or she would be under the benchmark of complete education and full health. This is above the sub-Saharan African average of 39% but below the global average of 57%. On innovation, East African countries perform only slightly better than the continental average. On average, the region spent 0.27% of GDP annually on R&D in 2000-16, still well below the Agenda 2063 target of 1%.

East African countries should continue to implement reforms that increase private sector competitiveness and support private sector growth. At a national level, continued reform and support to business are required, taking example from different best practices in the region such as Mauritius or Rwanda. At the East African regional level, governments should target projects that allow for greater economies of scale and that improve the regional competitiveness. For example, the regional dimension should include stronger integration to lower the costs and time to transport goods across the region as with the East African Community's Single Customs Territory. Countries can better co-operate to achieve policy complementarity and coherence between national and regional policies. The implementation of the EAC's Single Customs Territory significantly reduced transit times and costs for goods entering the EAC from Mombasa, by approximately 50% and 30%, respectively. Finally, future growth through high productive sectors, including manufacturing, will be complemented by so-called industries without smokestacks, such as ICT and business services, agri-business and horticulture (Table 7).

Increased competitiveness at national and regional levels can be achieved by:

1. **Improving the business environment and offering targeted firm level support.** A number of countries in the region are far behind on the global Doing Business Index, while others are among the strongest globally. Improving the business environment is an adaptive path, and governments should continually look for innovative approaches to staying at the frontier of business reform. A powerful

engine of capability building is the promotion of firm-to-firm interactions in supply chains. Lead firms usually apply stringent international standards in their sourcing, thereby exposing local producers to export grade standards. The Kigali Special Economic Zone (KSEZ) has contributed to Rwanda's economic development since its creation in 2013. Firms moving into the KSEZ are associated with a 206% increase in sales, a 201% increase in value added and a further 18% increase in the number of permanent employees compared to similar firms that did not move there. Better infrastructure is also key to improving business activity in the region. In the EAC, augmenting investments in road infrastructure by 10% could increase exports of manufactured goods by almost 37%.

2. **Increasing investment in human capital and promoting R&D and the adoption of new technologies.** Productive transformation requires that countries make efforts to mainstream, facilitate and enforce the use of technologies to productively transform human capital and governance and to enhance the productivity of industries. The growing role of technology in business means that an increasing number of jobs (even low-skilled ones) require more advanced cognitive skills. Countries' private and public sectors need to work both in partnership and individually to provide the health and educative facilities required for a healthy, skilled and diverse pool of workers. Additionally, mutual recognition agreements (MRAs) covering academic qualifications and professional services enhance human capital mobility. For example, the EAC has MRAs in place which recognise the validity of academic titles throughout the region and allow citizens to practice regulated professions in other countries.
3. **Focusing on regional co-operation as a means to generating efficiency and competitiveness gains.** Regional co-operation in East Africa holds potential for generating efficiency gains at a national level as well as for significant improvements in competitiveness. Enhancing regional competitiveness through targeted projects beyond trade and market integration allows countries to co-operate on practical interventions without the need to deepen the integration. Practical examples include:
   - Free movement of persons in the EAC: all but one country have visa-free travel regimes for all nationals of the bloc. Free movement of persons increased African travel to Rwanda by 22% and grew its bilateral trade with Uganda and Kenya by 50%.
   - Introducing a single East Africa tourist visa: this would boost the potential for tourists to travel to different countries in the region.
   - The EAC Single Customs Territory and the introduction of one-stop border posts: since November 2018, the EAC has fully operationalised and trained personnel at 13 OSBPs, with reduced transit times and costs.
   - Regulating fees for cross-border mobile calls and mobile money transactions.
   - The simplified trade regimes of the Common Market for Eastern and Southern Africa (COMESA) and EAC for small scale traders.
   - The East African Commodity Exchange: the Exchange can help integrate smallholder farmers into agricultural value chains.

Table 7. **Opportunities and challenges for value chains in East Africa**

Value chain	Opportunities	Specific challenges to address
Agri-business	• Value addition through intellectual property instruments such as trademarks and geographical indications (e.g. Ethiopian Coffee Trademarking and Licensing Initiative). • East Africa's position as a quality producer of flowers and other products (e.g. tea, coffee).	• Ensuring traceability and quality along the value chain. • Guaranteeing that farmers benefit from increased export prices. • Financial backstops for investors, as returns on investment could take time.
Financial services	• Building on cross-listing of stock exchanges and regional commodity exchange already in place.	• Ensuring broader access to finance for SMEs and households including for women. • High costs, administrative burdens and lack of harmonisation across countries.
ICT / digital economy	• Good ICT infrastructure and mobile phone penetration. • Potential for integration with digital/mobile payment platforms, which are already widely used. • The region's existing enabling ecosystems for ICT start-ups (e.g. Kenya, Rwanda and Uganda).	• For e-commerce, the negative effects of inefficient logistics and infrastructure on shipping goods across the region. • Need for new legislation and regulations, e.g. on cyber security, online payments, servers and privacy.
Tourism	• Increased export earnings (tourism receipts accounted for almost 50% of Uganda's total services export revenue in 2016, and tourism is now Rwanda's largest single export sector). • Expansion of air transport (Ethiopian Airlines, Kenya Airways and RwandAir). • Reduction of administrative entry barriers for tourists (visa on arrival, single East Africa tourist visa). • Promotion of green tourism and preservation of ecological sites, better-value traditional customs, wildlife and national heritage. • Creation of jobs for unskilled workers.	• Administrative costs, lack of infrastructure in remote areas. • Training and promotion required to create awareness of East Africa as a tourist destination (regional packages). • Security issues in some countries.

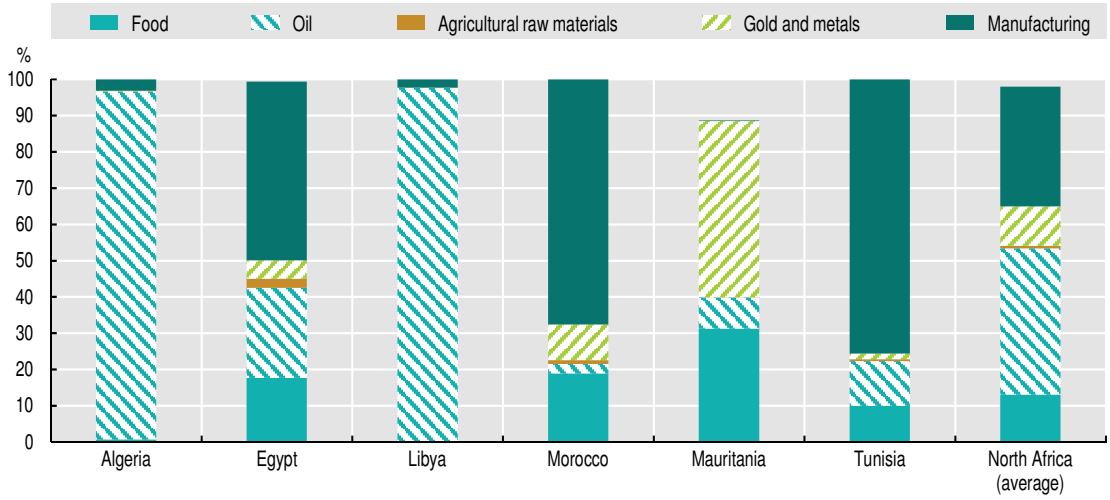
Productive transformation in North Africa

North Africa's growth in 2000-18 was 4.3% and is projected to accelerate to 4.4% per year in 2019-21. The region has not yet succeeded in maintaining strong and stable growth because of a number of obstacles: unstable oil prices, low rainfall levels, political tensions and terrorist attacks (Egypt, Libya and Tunisia). Capital accumulation and increased public spending have driven growth since the mid-2000s, as has domestic demand. The region's largest economy is Egypt, making up 52% of the regional GDP in purchasing power parity in 2018.

External resources (remittances and FDI) have increased, although they showed a slight decline in 2015-17. A large diaspora outside of the region contributes substantial remittances that sometimes exceed 5% of GDP, with a peak of 8.4% in Tunisia between 2015 and 2017, compared to 0.5% in Algeria. With the exception of Morocco, FDI stock is largely concentrated in the same sectors. For Algeria, Egypt and Tunisia, five sectors account for more than 90% of FDI, with industry being the most attractive. In Egypt, the oil sector has received the majority of FDI, due to the economic zone established by China. Overall, the construction industry, telecommunications and tourism are all equally attractive sectors for FDI. This is not the case for the agricultural sector, due to climate risk.

North African countries can be characterised by poorly diversified export baskets, dependency on mineral resources and limited specialisation. Oil, its derivatives and low value-added products dominate sales abroad (Figure 12). For instance, Algeria and Libya rank 18th and 21st in the world for oil production, and 95% of their exports are derived from this product. Their economies are narrowly based and vulnerable to external shocks. With the exception of Morocco, the other countries of North Africa also export oil, but to a lesser degree. Manufacturing is the sector of specialisation in non-oil exporting countries: 75.5% of exports were manufactured goods in Tunisia, 67.5% in Morocco and 49.3% in Egypt over the period 2010-17.

Figure 12. **Average share of merchandise exports in North African countries (by product type), 2010-17**



Source: Authors' calculations based on World Bank (2019a), *World Development Indicators* (database).
StatLink https://doi.org/10.1787/888933966770

Countries in the region do not take full advantage of international trade. Only 26.2% of North African exports go to low-income countries, of which 3.9% go to sub-Saharan Africa. Weak regional integration is a result of strategies which favour North-South, rather than South-South, integration. Nevertheless, the share of Chinese imports rose consistently between 2010 and 2015 (14.7%) before falling between 2016 and 2017. Intra-regional trade represented only 4.7% of total trade between 2010 and 2017, lower than other blocs in Africa. This can be explained by the limited complementarity between countries' export structures.

Egypt, Morocco and Tunisia have diversified their exports. Egypt is the most diversified, with 242 export products representing approximately 90% of sales abroad. Opportunities for export diversification are limited in Algeria, Libya and Mauritania due to the dependence on commodities. In addition, apart from Morocco and Tunisia, there are few high value-added products among exports with latent comparative advantage in the region.

The region needs to address the following issues to achieve productive transformation:

1. **Productive transformation requires not only product diversification but also quality upgrading.**
   - Currently, the share of high tech goods remains minor throughout the region, except in Morocco and Tunisia, with high-tech exports representing 5.6% and 5.4% of their total exports, respectively, in 2010-16. For countries to successfully transform their economic structures, they must embrace the technologies needed to develop sophisticated goods.
   - Quality upgrading can occur rapidly through clusters development as seen in Egypt, Morocco and Tunisia. For instance, the Suez Economic Zone has allowed Egypt to move up the value chain in the oil industry (drills and components). Similar zones have appeared in Mauritania (mining), Morocco and Tunisia (manufacturing), and Algeria and Libya (oil). Conversely, Mauritania's fishing industry remains underdeveloped, exposed to foreign competition and relying on artisanal vessels and exports of unprocessed fish (about 20-40% of total exports, against less than 10% of the processed catch).

2. **Public policies can strengthen human capital by supporting R&D and boosting innovation through financing and technology transfers.**
   - The Bizerte cluster in Tunisia, for example, consists of an agri-food tech hub, a network of "Agro'tech" partners and 150 hectares of industrial space. In addition, making agriculture more competitive requires the use of ICT in decision-making, irrigation management, fertiliser control and disease prevention. Another successful innovation is the company GS1 Tunisia's "Tunicode" coding programme, which provides barcodes for local products according to GS1 standards. The Oum-Er-Rbia project in Morocco provides irrigation services and improves farmers' access to technology, financing and agricultural markets.
   - These initiatives can be accompanied by career guidance, information systems to better anticipate skills for the labour market, and stronger links between business associations and the state. For instance, in Morocco's automotive sector, business associations set up working committees in order to recommend specific policies to the government (creation of test laboratories, research subsidies and financial incentives for entrepreneurs). This resulted in a more educated and highly-skilled workforce. The OCP (*Office chérifien du phosphate*) in Morocco integrates local businesses into its upstream activities and develops workers' skills by offering contracts to local SMEs in construction, sub-contracting and industrial engineering.
3. **Boosting trade between North Africa and other African regions relies on harmonised standards and improved infrastructure.** Governments need to remove barriers to the free movement of goods and services (particularly non-tariff barriers). Introducing mutual recognition agreements – as done in regional blocs such as COMESA, the Economic Community of West African States (ECOWAS) and SADC – could help accelerate the harmonisation of technical and health standards. On infrastructure, major trans-African highway projects are in progress, such as the Cairo-Dakar highway or the Algiers-Lagos highway. In addition, new shipping lines are being planned, like that of Wazzan II in Morocco and another in Tunisia, linking the region to West Africa. The port of Alexandria in Egypt sees a high percentage of foreign trade (60%) pass through each year. In 2015, the Great Alexandria Port 2035 Strategy was launched to expand the port area and modernise infrastructure, among which new cargo terminals, logistics centres and a special economic zone.
4. **Finally, improving security and the business environment is key**. The business climate was adversely affected by the Arab Spring. Businesses in all countries are confronted with problems that affect their competitiveness, namely property transfer, financing, corruption and non-payment. Although Morocco and Tunisia are improving in this area, major progress needs to be made in the areas of entrepreneurship and insolvency laws, in particular in Algeria, Libya and Mauritania. This can be improved through a better regulation of the labour market, the protection of intellectual property, greater access to information, a simplification of administrative procedures and the prevention of monopolies.
5. **Likewise, governments should adhere to providing coherent regulations and official documents.** Fiscal stability should take precedence over temporary exemptions for certain investors. In addition to attractive investment codes, tax incentives for public-private partnerships (PPPs) are to be encouraged. Existing government codes and investment laws, especially in Egypt, Morocco and Tunisia, are favourable to foreign investors but require further improvement to enable these countries to integrate regional and global value chains. The PPP model for the construction of the "Noor" solar power plant in Ouarzazate, Morocco, can be an example of how to attract foreign partners.

Table 8. **Opportunities and challenges for value chains in North Africa**

Value chain	Opportunities	Specific challenges to address
Aeronautics	• Geographic proximity to industry leaders and existence of on-site industrial assembly platforms (Midparc and Nouacer in Morocco, Aéropôle M'Ghira in Tunisia).	• Necessity to develop skills in prototype design, modelling and production. • Need for appropriate logistical infrastructure required for FDI in high added-value activities.
Agri-business	• Presence of industrial processing clusters, diversified production and growing demand for quality from markets.	• Necessity to develop a number of distribution techniques (marketing, branding, certifications).
Automotives	• Linkages to assembly activities to attract more investors and improve productivity.	• Weak competitive position of the industry, as integration into GVCs is based on low cost and assembling medium technology.
Energy	• Availability of natural resources (oil, gas and mining). • Production of oil (crude and refined) and natural gas to supply processing plants (e.g. plastics and composites, synthetic fibres and fabrics for the clothing industry).	• Need to set up/expand the capacity of refining units both in exporting countries (Algeria, Egypt and Sudan) and in net oil importing countries (Morocco and Tunisia).
Textiles / clothing	• Geographical proximity to the European Union and free trade agreement with the United States. • Accumulated know-how. • Availability of raw materials in most of the region (wool, cotton, etc.).	• Need to target specific niches to move upmarket in this chain (design, branding, marketing, etc.).

Productive transformation in West Africa

West Africa is characterised by high economic growth, despite vulnerability to external shocks and to Nigeria's economic fluctuations. During 2000-18, GDP growth averaged 5.9%, with higher growth rates until 2014 and a slowdown thereafter due to lower commodity prices (in particular oil). Despite rapid demographic growth, GDP per capita has grown at 3.1% per year since 2000, the highest rate in the continent (compared to a 2% continental average). As an exporter of unprocessed raw materials (cocoa, cotton, rubber, uranium, oil), West Africa depends on the global economy and remains vulnerable to external shocks. The regional performance also depends on Nigeria and its oil production, this country making up 67% of the region's GDP in purchasing power parity and 52% of its population in 2018.

Migrants' remittances made up 45% of the financial inflows into West Africa in 2017. Remittances to West Africa increased from USD 27.3 billion in 2011 to USD 31.5 billion in 2017, rising to over USD 32 billion in 2018. Seventy per cent (70%) of the total West African remittances went to Nigeria in 2018. Some countries are highly dependent on remittances, like Cabo Verde, Gambia and Liberia, whose remittances make up 12.5%, 14.4% and 17.7% of GDP, respectively.

Room exists to increase tax revenues. The region's tax revenues reached USD 41.8 billion in 2017, similar to East Africa's USD 40.4 billion but less than half of revenues in North and Southern Africa. Recent tax reforms included policies to widen the fiscal base through VAT reform (Togo), simplification of tax systems (Senegal), as well as more efficient communication with tax payers and tax compliance. For instance, Côte d'Ivoire charges a flat tax on businesses below a certain revenue threshold to encourage compliance and expand the tax base into the informal sector (OECD, 2016).

Productive transformation in the region remains limited and faces a number of challenges. Despite several industrial development initiatives, industry has not grown and represents approximately 20% of regional GDP (with manufacturing making up only 9.3% of GDP). Agriculture's share in GDP has shrunk by 3.1 percentage points in the last decade – in contrast to growth in most regions. Services have expanded by 3 percentage points, but less than the continental average of 3.8 percentage points. Total factor productivity growth has declined since 2000, mostly due to insufficient technological development. The region has also fallen behind the global average for innovation, global competitiveness, innovation intensity and manufacturing value added to high and medium technology.

Intra-regional trade remains low, and export baskets are not diversified. Less than 15% of formally traded goods stay in the region, despite efforts within ECOWAS to expand intra-regional trade. Unprocessed raw materials made up 75% of the region's exports to other continents in 2016. The European Union and China are West Africa's main trading partners, covering 32.6% and 13.5% of the region's trade, respectively. On average, five products make up over 75% of regional exports. Senegal has the most diversified exports basket, with 28 products adding up to 90% of its exports. Between 2007 and 2017, only four countries (Guinea, Liberia, Niger and Togo) managed to diversify their export baskets. These mixed results highlight the limited success of the strategies followed so far for productive transformation.

West Africa is a leading exporter of several primary commodities. For 13 agricultural products, between 5 and 9 West African countries featured among the world's top 20 producers in 2017 (Table 9). The region has a near-monopoly of world production of *karité* nuts, fonio and yams, with shares exceeding 90%. The region also leads in cocoa beans, cashews and cassava. However, this has not translated into an increase in complexity or value addition of exported products.

Table 9. **Products for potential value chain creation in West Africa**

Products	Total production, 2017 (in thousands of tonnes)	Share of West Africa in world production (in %)	Number of West African countries in world top 20 producers
Fonio	671.4	99.9	9
Cashew nuts, with shell	1 410.5	35.5	9
Karité nuts (shea nuts)	548.2	99.9	7
Yams	67 309.3	92.2	7
Millet	9 128.0	32.1	7
Okra	2 722.4	28.2	7
Groundnuts, with shell	6 006.6	12.8	7
Kola nuts	228.4	84.0	5
Cow peas, dry	6 177.9	83.4	5
Cocoa, beans	3 302.3	63.5	5
Cassava	96 223.9	33.0	5
Rubber, natural	849.6	6.0	5
Oil, palm fruit	14 789.0	4.7	5

Source: Authors' calculations based on FAO (2019), *FAOstat* (database).

Five key sets of policies can help accelerate productive transformation in West Africa. The region has many experiences with industrial policies since the 1960s, which offer several lessons for policies. Regional co-operation is important to design and implement strategies. It can help tackle the significant risks brought by youth unemployment, institutional fragility and insecurity, and climate change. An important step towards regional integration in West Africa is the project of setting up a single currency for the 15 ECOWAS countries by 2020, whose name "ECO" was validated in June 2019.

1. **Further exploit comparative advantages for developing the industrial sector and strengthening regional complementarities**. West African countries showing high complementarities should co-ordinate their production efforts. Côte d'Ivoire and Ghana are starting to work together to transform cocoa beans locally, since the two countries export between 45% and 65% of the world's cocoa. Promoting agricultural regional value chains requires good management of farming sectors and the appropriation of technologies to valorise agricultural products. Senegal has set up five centres of intensive agricultural services in employment, focused on the training of farmers with ten hectares of land, access to water, availability of warehouses for harvesting, as well as marketing and packaging facilities.

2. **Focus on firms' needs in industrial sectors generating strong externalities for the economy.**
   - Increasing the productivity and competitiveness of firms requires better access to skills, energy, finance and land. Improving education and professional training can help meet the needs of the labour market, particularly given the labour shortfall in technical professions. Medium- and long-term credit increased to 42% of total loans in 2015. However, access to finance still needs to be improved, especially for SMEs. Interest rates and collateral requirements remain too high, deterring investment in productive sectors that require long-term capital.
   - Policies should continue promoting the integration of the regional financial sector. The use of the West African franc (XOF) increased for intra-African commercial (i.e. bank-to-bank) payments from 4.4% in 2013 to 7.3% in 2017. Regional exchanges (stocks and commodities) can also help create deeper financial markets. Initiatives to increase access to electronic payment systems for consumers in countries of the West African Economic and Monetary Union (WAEMU) lowered transaction fees for low-value transactions by 25% and increased the number of card transactions by at least 10% annually (ECA/AUC/AfDB, 2010).
3. **Strengthen access to national, regional and continental markets through the development of transport infrastructure and competitive logistics services.**
   - **Initiatives such as the Abidjan-Lagos corridor need strengthening and mainstreaming.** Set up as an independent authority, the corridor aims to facilitate trade between Côte d'Ivoire, Ghana, Togo, Benin and Nigeria (from west to east). Already, the project has reduced port dwell and border crossing times as well as the number of road checkpoints in most of the member countries (OCAL, 2018). The ECOWAS Community Development Programme plans other interventions, including the Lagos-Dakar motorway, the Cotonou-Niamey-Ouagadougou-Doris-Abidjan railway loop and the Ouagadougou-Bamako railway. The recently built Senegambia Bridge eases travel through Gambia and Senegal by removing the need to wait for ferry transport, which delayed transporters by up to a week (Jahateh, 2019).
   - **Developing port infrastructure and deep water harbours will lower transport costs and boost trade.** Countries are doing reforms: Côte d'Ivoire recently expanded the Abidjan deep sea port (with co-operation from China), and Nigeria built special economic zones such as the LADOL logistics base to Lagos port. However, no West African port ranks among the top 70 globally, with Nigeria lagging behind in the region in terms of container handling capacity.
   - **Regional trade barriers must be removed**. Simplifying rules of origin requirements and streamlining preferential trade regimes at the ECOWAS level can help West African firms trade – and grow – more easily. For example, Senegalese firms are 6% less likely to continue exporting to all ECOWAS countries compared to its five neighbouring countries.
4. **Facilitate integration into regional and global value chains.** Processed food products and value addition in the mining sector could offer better chances of success (Table 10).

Table 10. **Opportunities and challenges for value chains in West Africa**

Value chain	Opportunities	Specific challenges to address
Cassava products	• The fact that West Africa represents a third of the global production. • High potential of profit due to the expanding demand of cassava products.	• Need to expand industrial processing capacities to keep pace with demand. • Need to encourage the installation of industrial transformers near major agricultural production areas.
Cocoa industry	• The fact that Côte d'Ivoire and Ghana represent 50% of the global cocoa bean production. • Opportunity to create a cross-border special economic zone.	• Need to develop activities and services that create more value added (branding, marketing, transforming, quality control, etc.).
Mining sector	• Abundance of mineral resources (iron, copper, nickel, coal, oil and gold).	• Improve local skills and industrial linkages. • Base local transformation policies on activities that have a strong "push effect" on the rest of the economy.
Rice	• Significant improvements in rice productivity in recent years. • Increase in annual consumption of rice in the region.	• Necessity to improve infrastructures to better connect surplus production or processing areas and major markets. • Develop local varieties of rice.
Shea butter	• Seven largest producing countries located in West Africa. • Reinjection of the revenues generated into other types of economic activities.	• Exported raw while it could be processed locally, generating jobs and sustainable financial resources.

5. **Ensure coherence of national and regional policies.** A harmonised approach can stimulate the competitiveness of exports and optimise the potential for industrial complementarity between countries producing the same raw materials. The region has already made noticeable progress in the free movement of people, whereby all ECOWAS countries allow visa-free travel within the region. However, administrative obstacles to the free movement of goods in West Africa remain too high. On the main roads of the region, four checkpoints are set up every 100 km, often sources of petty corruption. This number is of the same order of magnitude on the WAEMU road axes as on those connecting the other ECOWAS countries.

Notes

1. *The Collaborative for Frontier Finance report* (CFF, 2018) defines small growing businesses as "businesses, commercially viable, with 5 to 250 employees having significant potential and ambition for growth".

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