



Summary Outcome of the African Regional Meeting

**Productive Capacities, Export Diversification and Structural Economic Transformation in
African Landlocked Developing Countries:
Challenges, Opportunities and the Way Forward**

**Gaborone, Botswana
20-21 November 2018**



A. Background

There are 32 landlocked developing countries (LLDCs), of which 16 are in Africa, 14 in Europe and Asia and 2 in Latin America. In 2017, LLDCs, as a group, accounted for about 7 % of world population, but only 1.6% of global foreign direct investment (FDI) inflows, and less than 1 % of global exports and output. This shows the continued marginalization of these countries in global trade, investment flows and output. Their underdevelopment and continued marginalization are the result of the confluences of several factors: weak productive capacities, lack of structural economic transformation, weak institutional and human resources capacities to formulate and implement trade and development policies, geography (being landlocked with no access to the sea and remoteness from international markets), and overdependence on a single or a few primary commodities for their exports.

Besides distance and remoteness from global markets, exports of high-volume, low-value primary commodities have increased their trade cost and further exacerbated their weak export competitiveness. According to UNCTAD, 27 out of the 32 LLDCs are dependent on primary commodities, which account for at least for 50 per cent of their exports. On country-by-country analysis, the top three export items in 19 LLDCs are primary commodities. In eight other LLDCs, two of the three leading export items are commodities, whereas in a further two LLDCs, one of the top export items is a primary commodity (UNCTAD/ALDC/2015/2). Such heavy dependence on the export of primary commodities is also among the reasons responsible for the jobless growth observed in LLDCs during the last few decades. UNCTAD's recent study, *Export Diversification and Employment* (UNCTAD/ALDC/2018/3) further argues that, in the case of Africa, there is a direct link between the "poor state of export diversification and the dismal nature of employment creation". In sum, the dual problem of commodity dependency and being landlocked compounds to impact the socioeconomic progress of LLDCs.

Effectively, addressing such complex trade and development challenges facing LLDCs requires a holistic, multi-sectoral "programme-based" approach instead of traditional "project-based" interventions. Such an approach needs to place a particular focus on developing productive capacities and structural economic transformation. These are critically important for robust, sustained and inclusive growth and development.



Developing productive capacities requires addressing three equally important issues: building new capacities, utilizing current capacities, and maintaining existing ones. This will have significant policy implications for LLDCs and calls for the need to go beyond “business as usual”. This means that a new generation of domestic trade and development policies and strategies, including in the context of the Mid-term review of the Vienna Programme of Action (VPoA) are urgently needed. Such policies should put fostering productive capacities, export diversification and structural economic transformation at the center. Likewise, international support measures (ISMs) in favor of LLDCs should go beyond the confines of official development assistance (ODA), market access and debt restructuring. There is an urgent need to focus ISMs on accelerating productive capacities and structural economic transformation. This in turn should focus more on how best to ensure that developing productive capacities can go hand-in-hand with fully utilizing and maintaining existing capacities.

Developing new productive capacities, while utilizing and maintaining existing ones, should be carefully sequenced. This should include having a clearly defined timeframe and considering initial conditions and resource endowments in each country. Operationally, this means that while the medium- to long-term goal should be to build new capacities, in the short term, the focus should be on how to maintain and utilize existing capacities. Full and effective utilization of existing productive capacities will require the adequate availability of inputs, better infrastructure, developing skills of the workforce and coordinated implementation of trade and development policies.

Trade facilitation, transport and trade logistics will remain key areas of priority actions for LLDCs. However, these need to be pursued simultaneously and side by side with policies and strategies centered on fostering productive capacities, export diversification and structural economic transformation.

The Vienna Programme of Action (VPoA) is an important global framework designed to address the above-mentioned key development challenges facing LLDCs. The objective of the VPoA is to address the special development needs and challenges of LLDCs and help them to achieve sustainable and inclusive growth and development. The VPoA was also conceived as a framework for enhancing development partnership in support of LLDCs, with the aim of fostering their socioeconomic transformation. After 5 years of implementation of the agreed priority areas of the VPoA, the General Assembly will conduct a Comprehensive Mid-term Review of the progress made (A/RES/72/232). The review, which will take place in November 2019, will be preceded by national, regional and sectoral reviews of implementation. The outcome of these



reviews, including this African regional meeting will feed into the final comprehensive review of progress in the implementation of the VPoA by the General Assembly in 2019.

With the above-mentioned facts in mind, the African Regional Meeting was convened by UNCTAD in collaboration with the Ministry of Investment Trade and Industry (MITI) of Botswana. The meeting focused on ways and means of fostering productive capacities, export diversification and structural economic transformation in African Landlocked Developing Countries. It was held in Gaborone on 20-21 November 2018. The meeting was attended by about 50 participants, drawn from various public, private and academic institutions of Botswana, Burkina Faso, Burundi, Ethiopia, eSwatini (Swaziland), Rwanda, South Sudan, Zambia and Zimbabwe.

B. Stocktaking: Preliminary assessment of progress

1. In pursuing the implementation of the VPoA, several LLDCs have initiated important and wide-ranging policy reforms to remove physical and non-physical barriers to their effective participation in international trade. More specifically, they put in place micro and macroeconomic policies and strategies to address structural economic weaknesses, underdevelopment and overdependence on the export of single or a handful of commodities. The primary objective of these policies and strategies was to address multiple trade and development challenges facing them and gradually put the countries on the path of inclusive and sustainable growth and development.
2. Consequently, there are improved macroeconomic environments in several countries. Indeed, some of the countries have created the most attractive and highly competitive macroeconomic and business environments, with the best positions in global rankings. Botswana and Rwanda are among the best rated economies in the Sub-Saharan African region. These two countries are also among the few LLDCs that have well-articulated and sophisticated trade and development visions and policies with clearly sequenced strategies for intervention. The Economic Diversification Drive of Botswana and the Rwanda Industrial Policy with Industrial Parks and Special Economic Zones (SEZs), if fully implemented, can have a positive impacts on productive capacities and structural economic transformation efforts in the two countries. There have also been significant improvements in streamlining and harmonizing border facilities and procedures to increase efficiency. In sum, there have been several encouraging efforts at national, regional and sub-regional



levels in addressing some of the most pressing development challenges, needs and priorities of landlocked developing countries.

3. At the national level, governments in several LLDCs have been developing and implementing national transport policies and transport master plans, all with the view to developing road, railway, aviation and water transport connectivity. In Zambia, the Government has continued the implementation of the “Link 8000 project”, “Lusaka 400 and Pave Zambia” plans, in the effort to modernize the road network. Likewise, Zimbabwe has embarked on innovative financing for its rail transport through the Diaspora Infrastructure Development Group (DIDG), in partnership with a Transnet Consortium and the National Railways of Zimbabwe (NRZ). The project will involve the rehabilitation and renewal of plant, equipment, rolling stock, signaling as well as telecommunications infrastructure and the supporting information technology systems in the rail transport. Furthermore, the Ethiopia-Djibouti Railway remains one of the mega projects by the Government of Ethiopia that is expected to substantially relieve the country’s bottlenecks in transit-transport infrastructure and trade logistics. The Ethiopian Government has also begun privatizing its logistics sector through joint ventures (51 to 49) with a view to modernizing and enhancing operational efficiency of the country’s trade logistics.
4. At sub-regional level, the East Africa Community (EAC), has been in the forefront of overhauling trade facilitation and transport logistics. The EAC has established Non-Trade Barrier (NTB) Monitoring Committees in each of the six partner States (Burundi, Kenya, Rwanda, South Sudan, Tanzania and Uganda). The objective is to coordinate efforts to monitor and gradually remove NTBs. The EAC has also introduced a Single Customs Territory that has significantly reduced delays in clearance and transportation from 21 days (Mombasa) to 5 days (Kigali). The Community has further introduced several operational measures such as the Electronic Cargo Tracking System to monitor the movement of goods; One Stop Centers at Mombasa and Dar es Salaam Ports; Authorized Economic Operators (AEO) programmes and risk management systems.
5. While the national, sub-regional and regional efforts are key to alleviate the most egregious transit-transport infrastructure challenges, a lot remains to be done in enhancing economy-wide productive capacities, export diversification and structural economic transformation. This means that, in the context of the forthcoming Mid-term Review of the VPoA and subsequent national actions, as well as international support measures, the vital importance of building productive capacities and ensuring structural economic transformation in LLDCs should be given utmost considerations. There has already been a recognition by



member States that a prerequisite for enhanced inclusive growth and competitiveness of the LLDCs is the building of productive capacities which is critically important to structurally transform and diversify their economies (Priority 5 of the VPoA is constructed on the basis of such a consensus).

6. In contrast with modest achievements at national and sub-regional levels, the global economic situation has not been so favorable for LLDCs, since the onslaught of the financial and economic crises of 2008-2009 and their aftermath. As many trade and development partners of LLDCs are consumed by inward looking and in some cases highly protectionist policies, the international support measures in favour of developing countries have been in precipitous decline. Five years after the adoption of the VPoA for LLDCs in 2014, UNCTAD's preliminary assessment shows that the progress made thus far in implementing agreed goals and targets of the VPoA is not encouraging. After growing at 7% on average between 2000 and 2013, the LLDCs have experienced a sharp slowdown in growth. In 2016, this impressive growth rate plummeted to 2.8%. In per capita terms, growth in 2016 was 0.4%. Similarly, since the VPoA's 2014 adoption, the LLDCs' share of global exports has decreased by 30%, from 1.1% in 2014 to 0.8% in 2016. This is in sharp contrast to the VPoA goal to substantially increase the participation of LLDCs in global trade. Furthermore, FDI flows to LLDCs have fallen sharply (from US\$ 36bn in 2011 to 24bn in 2016) and such flows are heavily concentrated in a few countries rich in natural resources. Overall, the goals and targets of the VPoA have not been met and their structural weakness and vulnerability to external shocks has intensified, posing the risk of further marginalization in the global economy

C. Issues of concern and areas for further action in the context of the MTR and beyond

7. **Gap between policy ambitions and implementation:** As with many developing countries, LLDCs have daunting challenges to fully and effectively implement the policies and strategies that they had put in place. In other words, there is a glaring gap or mismatch between policy formulation and implementation. There are several reasons for this. In some cases, the targets set by the policies are not realistic or quantified. In other cases, financial resources including from donor funding are not aligned with the policies and strategies. And often, the institutions charged with implementing the policies lack the technical or human capacities to effectively carry out their work. Therefore, during and beyond the Mid-term Review of the VPoA, LLDCs, with the support of their development partners



should step up efforts to improve the implementation capacities of domestic development policies and strategies. This also calls for building effective institutional coordination mechanisms, eliminating policy fragmentation, duplication of efforts, and judicious use of scarce development resources. In this regard, political vision and proactive (developmental) leadership is necessary to ensure coherence and consistency in policy formulation and implementation.

8. **Poor socioeconomic performance and weak productive capacities:** The key to reversing socioeconomic decline in LLDCs and unlocking their trade and development potential is to build productive capacities and utilize, as well as maintain existing capacities in each of the countries. These should be based on a careful diagnostic of binding constraints, effectively exploiting comparative and competitive advantages, but also defying and going beyond existing comparative advantages. Such approaches are key to enhance export diversification, build export competitiveness and gradually foster structural economic transformation. Conceptually, UNCTAD defines productive capacities as consisting of three broad elements: productive resources, entrepreneurial capabilities and production linkages, which together determine a country's capacity to produce goods and services and enable it to grow and develop.
9. **Industrialization, technological innovation and entrepreneurship:** Fostering entrepreneurship, industrialization and technological upgrading is critical for building productive capacities and accelerating structural transformation. The experiences of current developed countries, developing countries and emerging economies indicate that governments have an important role to play in inducing productive capacities and structural economic transformation. Therefore, it is crucial for LLDC governments to take a more proactive and catalytic approach to stimulate productive activities, including through the creation of enabling environments for business and investment. With this in mind, several African LLDCs have been establishing industrial parks, export processing zones and special economic zones as key elements to spur productive capacities, structural transformation and export diversification. Such proactive and deliberate policies by national governments of LLDCs are critically important to promote entrepreneurship, technological adaptation and innovation, as well as efforts to foster industrialization through carefully designed industrial policy. Government provision of incentives for firms and enterprises is important for building competitiveness. However, this should be done on the basis of principles that support, and at the same time challenge firms. In other words, incentives should be granted for firms that innovate and upgrade their productive capacities, create jobs and expand their production scale, productivity and linkages.



- 10. Mutually supportive, holistic and coherent policies:** It is important to pay particular attention to the fact that industrialization should not be pursued at the expense of other sectors such as agriculture and services. Rather it should be developed in a mutually supportive manner, facilitating backward and forward linkages, especially between agriculture and the industrial sectors. In fact, for many LLDCs agriculture is the dominant sector in terms of employment generation, ensuring food security, generating export earnings and in its share in GDP. However, the share of agriculture in value addition (as a percentage of GDP) has been on a declining trend, while LLDCs, as a group, continue to import a significant amount of food. The important role of agriculture in LLDCs and the decline in value addition and food production, call for urgent actions aimed at boosting investment in agriculture and ensuring that it is well targeted with a special focus on research and the development of indigenous crops and better variety seeds. Efforts aimed at improving agriculture should also include improving production and marketing systems, diffusing technology, and disseminating information, as well as assisting in establishing acceptable practices in agriculture to meet international standards. Business and other social linkages with agri-businesses, hotel chains and other catering service providers are also effective ways of increasing farm production, productivity and income.
- 11. Private sector and public private partnerships (PPP):** In recognition of the contribution of the private sector to economic growth and poverty reduction, governments should encourage private sector development by enhancing private sector capabilities, as well as improving governance and business regulations. In addition to facilitating access to finance and easing ways of conducting business, it is instrumental that LLDCs support the development of domestic entrepreneurial capabilities. To that end, LLDC governments must take measures across the board to strengthen infrastructure – from enhancing road and ICT networks to ensuring greater access to credit and reduced costs of trade finance. In doing so, they need to attract investments into new projects, as well as into the upgrading and maintenance of already existing infrastructure. Policies must also contribute to building effective and mutually supportive PPPs through constructive government-private sector relationships.
- 12. Regional integration and cooperation:** For LLDCs, regional integration and cooperation, particularly close cooperation with their transit neighbors is crucial for their trade and development. Harmonized and consolidated transit procedures, import-export requirements (documentation), including measures to enhance predictability in the delivery of consignments will significantly reduce handling and hedging costs that account for a



significant portion of transit costs to LLDCs. Joint regional efforts to reduce transit time through corridor facilitation are also crucial for improving the export competitiveness and business attractiveness of LLDCs. In sum, what is needed for LLDCs is “developmental regionalism”, which catalyzes and accelerates the realization of their trade and development objectives.

13. **Commodities and export diversification:** In view of the increasing importance of the commodities sector, LLDCs should strive to define long-term visions that link the commodity sector to national development strategies. By ensuring that the role of commodities is incorporated into national development strategies, LLDCs increase the likelihood of maximizing the potential of the sector in order to avoid a repeat of the jobless growth without structural transformation experienced during the previous decade. A more holistic approach that incorporates a development perspective and that takes into account the role and functions of commodities in economic growth and poverty reduction is required.
14. Given the high degree of commodity dependency in LLDCs, these countries should pursue deliberate and targeted policies that are aimed at enhancing their participation and gainfully integrating into regional and global commodity value chains, as there is considerable potential in terms of growing demand and supply for specific commodities/products of export interest to them at the regional level. Effective participation in regional commodity value chains provide a stepping stone for LLDCs to participate in and link to global value chains.
15. **Productive Capacities Index (PCI) and LLDCs performance:** With a view to assisting LLDCs to formulate and implement evidence-based policies and strategies by placing productive capacities at the center, UNCTAD has been developing a productive capacities index (PCI) for LLDCs and other comparable countries. The objective is to strengthen the capacity of these countries to formulate and implement policies and strategies where productive capacities are effectively mainstreamed. The PCI, consisting of several categories ranging from infrastructure and energy to institutions, and information and communication technologies (ICTs), combining an assessment and benchmarking of the natural and human capital available in each of these countries.
16. LLDCs’ levels of productive capacities on UNCTAD’s PCI lag behind other developing and transit developing countries in all categories of measurement, except natural capital. LLDCs’ performance is even far lower than the rest of the developing countries in energy,



structural economic transformation, ICT and institutions, which are the fundamental or key determinants of overall productive capacities in a given country. The priorities for LLDCs in the context of the Mid-term Review of the VPoA and beyond should focus in addressing such a glaring gap in their performance in building productive capacities. This requires realigning macroeconomic, industrial, trade, rural and infrastructure policies with the objectives of fostering productive capacities, export diversification and structural transformation. Reaching these objectives will also involve a shift in policy interventions from the current “project-based narrative” to “programme-based” operational interventions, cutting across a range of mutually supportive policies in a holistic approach.

17. **New approaches to interventions:** LLDCs should go beyond “business as usual” approaches. New development policies, interventions and partnerships are urgently needed. This calls for the shift from “project-based” approaches to problem solving to “programme-based” interventions. This will have significant implications not only for domestic policy formulation and implementation, but also for effective collaboration between LLDCs and their trade and development partners. International support measures in favour of LLDCs should go beyond market access, ODA and debt restructuring. Such measures should focus on fostering productive capacities, export diversification and structural economic transformation. It will also require strengthening domestic institutions to mobilize private savings and improve the tax collection system for fostering productive capacities, export diversification and structural economic transformation. Such efforts are crucial to augment government revenues and rationalize government spending, with a view to eliminating areas of over-expenditure and ensuring the efficient use of resources.