

# **Establishing development linkages in the extractive industry: Lessons from the field**

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## Diversification and development linkages

“Economic development begins with the diversification of ways of life and types of goods and services produced and consumed.”

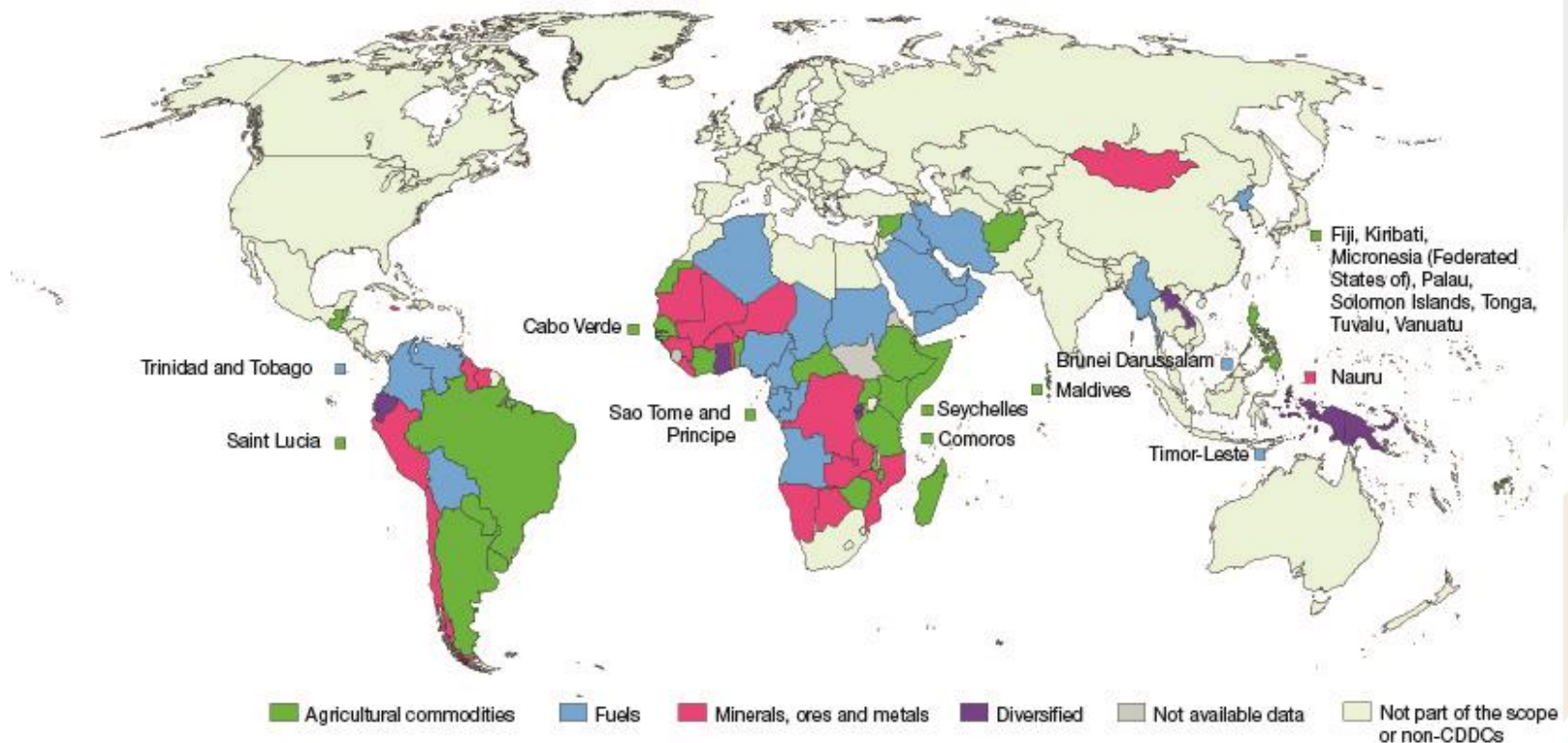
- Thomas Piketty (2014), “Capital in the 21<sup>st</sup> Century”

## Context

- In many CDDCs, the exploitation of extractive resources has yielded large revenues and created important opportunities for economic growth and sustainable development.
- However, most CDDCs export with little value added, unable to transform their resource wealth into sustainable economic development gains that benefit the rest of the economy.
  - Raw commodities are often not processed domestically into high value products, and some extractive activities have adverse social and environmental consequences.
  - The high dependence on extractive resources makes these countries vulnerable to market price fluctuations.
  - Underdeveloped linkages with the broader economy lead to the industry's limited contribution to job creation and economic diversification.

## Most developing economies remain dependent on exports of primary commodities

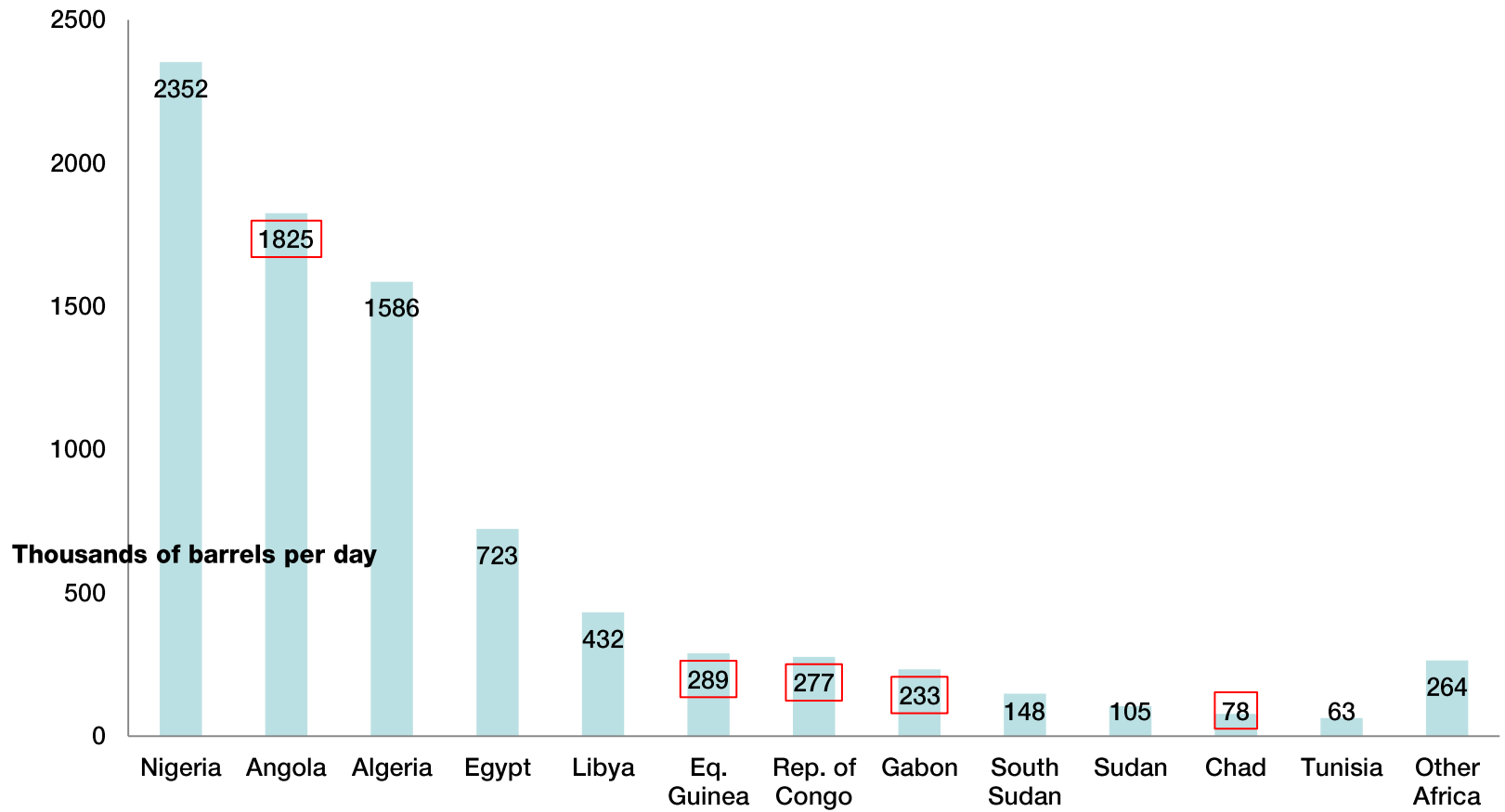
Commodity export dependence by commodity group in developing countries, 2014/15



Source: Special Unit on Commodities, UNCTAD, using data from UNCTADStat

Note: Commodity export dependence is measured as the ratio of primary commodity exports (agricultural products; minerals, ores and metals; and, oil) to total merchandise exports, in value terms

## Oil production in Africa, 2015



Source: BP Statistical Review of World Energy, June 2016.

## CHAD

Constant GDP per capita (2005 US\$), 2015: 907 US\$      Annual growth rate of real GDP, 2015: 3.1%  
 Value added of industry, 2015: 14% of GDP      Rank of Human Development Index, 2014: 185/188

### COMMODITY EXPORT DEPENDENCE

2009/10    2014/15

Total commodity exports (in million US\$)	3,128	3,630
Total commodity exports (as a share of total merchandise exports)	98%	98%
Exports by commodity groups (as a share of total commodity exports)		
All food items	0%	1%
Agricultural raw materials	3%	4%
Fuels	96%	95%
Ores, metals, precious stones and non-monetary gold	0%	0%

### FOOD SECURITY AND POVERTY

Net food trade (in million US\$)	365	597
Status: Net food-importing country	Yes	Yes
Prevalence of undernourishment (per cent), 2015		34.4
Poverty headcount ratio at US\$1.90 a day (2011 PPP), latest available year		(2011) 38.4
GINI index, latest available year		(2011) 43.3

## CONGO

Constant GDP per capita (2005 US\$), 2015: 2,061 US\$  
Value added of industry, 2015: 55% of GDP

Annual growth rate of real GDP, 2015: 2%  
Rank of Human Development Index, 2014: 136/188

### COMMODITY EXPORT DEPENDENCE

2009/10 2014/15

	2009/10	2014/15
Total commodity exports (in million US\$)	6,972	6,675
Total commodity exports (as a share of total merchandise exports)	90%	92%
Exports by commodity groups (as a share of total commodity exports)		
All food items	0%	1%
Agricultural raw materials	3%	5%
Fuels	91%	81%
Ores, metals, precious stones and non-monetary gold	5%	14%

### FOOD SECURITY AND POVERTY

Net food trade (in million US\$)	425	1,231
Status: Net food-importing country	Yes	Yes
Prevalence of undernourishment (per cent), 2015		30.5
Poverty headcount ratio at US\$1.90 a day (2011 PPP), latest available year		(2011) 37.0
GINI index, latest available year		(2011) 48.9

## Key message

- Commodity-dependent developing countries (CDDCs) need to overcome the enclaves that typically form around extractive projects, by creating an enabling environment that fosters **linkages** between these projects and the broader economy, thereby contributing to **inclusive and sustainable development**.

sectoral approach vs. integrated approach



## Types of development linkages

### Production Linkages

- Backward – supplying inputs to the extraction of commodities.
- Forward – processing commodities.
- Horizontal - skills and capabilities acquired in backward and forward linkages to serve other industrial activities or sectors.

### Fiscal Linkages

- collected resource rents put into strategic use to promote industrial development in non-commodity sectors.

### Consumption Linkages

- incomes earned in the commodities sector to generate the demand for locally produced industrial goods.

### Spatial Linkages

- Essential infrastructure built for extraction to benefit non-commodity sectors.

## Project

1 NO POVERTY



8 DECENT WORK AND ECONOMIC GROWTH



9 INDUSTRY, INNOVATION AND INFRASTRUCTURE



17 PARTNERSHIPS FOR THE GOALS



- **Title:** Strengthening the capacity of the Economic Community for Central African Member States (ECCAS) to enhance development linkages from the mineral resources sector.
- **Funded by the 9<sup>th</sup> tranche of United Nations Development Account**
  - a capacity development programme of the United Nations Secretariat;
  - adopting a **medium to long-term approach** helping countries to better integrate social, economic and environmental strategies to achieve the SDGs;
  - supporting **pilot projects** that test new ideas and eventually **scale them up through supplementary funding**;
  - emphasizing on integration of national expertise in the projects to ensure national ownership and **sustainability of project outcomes**.
- **Beneficiary countries:** Chad, the Congo, and Equatorial Guinea
- **Implementation period:** 2015 - 2017

# Project activities

- **National needs assessment** to identify challenges and define **national road maps** for project implementation:
  - Limited access to finance
  - Lack of technical and managerial skills
  - Limited institutional capacity
  - Lack of infrastructure
  - Poor information flow
  - Limited involvement of civil society



**Intervention de**  
**Mr. Ted Galouo Sou, Directeur des ressources naturelles,**  
**Ministère des finances et du budget,**  
**République du Congo**

## Project activities

### Past:

- November 2015, Chadian workshop
- September 2016, Congolese workshop
- November 2016, study tour to Ecuador (with ELLA programme)
- December 2016, 2<sup>nd</sup> Chadian workshop
- February 2017, UNCTAD-UNECA joint workshop in Equatorial Guinea
- May 2017, 2<sup>nd</sup> Congolese workshop

### Upcoming:

- September 2017, ECCAS regional study
- October 2017, 2<sup>nd</sup> study tour to Angola (with UAN, CAE)
- November 2017, ECCAS regional workshop
- Project evaluation

## Project approaches





## Interview with:

Ms. Inès Feviliyé, Administrative and Legal Adviser of the Ministry of Economy,  
Industrial Development and Private Sector, Republic of the Congo

## Preliminary results

### A broad consensus:

the project introduced the concept and practical steps to fostering development linkages from the extractive sectors to the rest of the economy

- Improved key ministries' capacity to formulate strategic plans for local participation in mineral value chain;
- Enhanced collaboration between public sector, private sector and academic institutions on the development of targeted training programmes for local workforce;
- Improved information sharing among stakeholders through workshops, study tours, newsletters and on-line information sharing platform.





## **Interview with:**

Mme. Valérie Commelin, Conseillère chargé des activités de l'aval pétrolier et point focal du contenu local de la Société des Hydrocarbures du Tchad, et membre du groupe de travail de la CNUCED

## Key lessons learned from project to date

- Project design:
  - “production linkages (e.g. local content)” modified to “development linkages”;
- Implementation approaches:
  - Inclusive approach to foster dialogue and communication to ensure **early buy-in** from stakeholders and **an inclusive implementation** of development linkage strategies;
  - inter-agency cooperation to take advantage of **institutional comparative advantages** – with ECA, ECCAS, CEMAC and etc.;
  - South-South cooperation to **share relevant experience**;
  - Integrated approach to encourage key stakeholders to have all **three dimensions of sustainable development** in mind.
- Communication strategy:
  - Newsletters, website, information-sharing platforms.

## The way forward

- The project implementation will be completed in 2017;
- Donor support is needed to scale up project activities in beneficiary countries and other countries in the ECCAS region.
  - Norway: Oil for Development Programme;
  - Japan: JICA's training programme for extractive industries;
  - Canada: IDRC's programme on strengthening engineering research and training in Africa;
  - China: South-south cooperation fund.

**THANK YOU FOR YOUR ATTENTION!**

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