PRIVATE SECTOR PARTICIPATION IN PROMOTING ECONOMIC PROGRESS IN SUB-SAHARA AFRICA LAND LOCKED DEVELOPING COUNTRIES (SSA LLDCs)

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ABSTRACT

In spite of technological improvements in transport, landlocked developing countries continue to face structural challenges to accessing world markets. As a result, landlocked countries often lag behind their maritime neighbours in overall development and external trade. While the relatively poor performance of many landlocked countries can be attributed to distance from coast, this paper argues that infrastructure development and trade facilitation are also important in promoting economic progress of SSA LLDCs. The paper considers energy infrastructure, transport infrastructure, information communication technology infrastructure, and trade facilitation. Lack of and inadequate of such infrastructure as is common in most of the SSA LLDCs brings about various challenges that hampers economic progress in each landlocked country. The paper also considers lessons that can be learnt from other countries to enhance development and private sector participation. Then, various policy recommendations are outlined. The paper uses a descriptive, analytical, and prescriptive approach in order to address a wide audience.

Keywords: Infrastructure development, Energy, ICT, Ease of doing business, Trade facilitation

INTRODUCTION AND BACKGROUND

The private sector is gradually being recognized as the biggest contributor to gross domestic product (GDP), hence it is essential for economic growth and development. The private sector can facilitate economic growth through investment, business creation and employment, poverty reduction, food security, innovation and knowledge transfer, as well as other positive spillover effects from the operations and activities of the private sector (Wilton 2014). The United Nations (UN) also concedes the critical role of the private sector in the efforts to deal with the various economic, social and environmental challenges experienced by different countries, including
LLDCs (see UN, 2015). The United Nations (UN) 2030 agenda for sustainable development comprises seventeen Sustainable Development Goals (SDGs) intended to promote dignity, equality and prosperity for all, and the private sector is recognized to have a key role in supporting the delivery of these goals. SDG goal number seventeen which aims to “Strengthen the means of implementation and revitalize the Global Partnership for Sustainable Development” emphasizes the direct role of the private sector, which is also in line with the Addis Ababa Action Agenda and its multi-stakeholder approach to ending poverty. Further, to enable the private sector to facilitate the achievement of the SDGs, there is need to also create an enabling environment for business operation, as well as the right collaborative framework for business, government and civil society to work productively together. The collaboration between governments and the private sector is crucial for ensuring a proper role for the private sector in the overall sustainable development of LLDCs (see Tarp, 2003; UN, 2016).

In total there are 32 landlocked developing countries (LLDCs) of which 16 are African countries found in the Sub-Saharan region. These countries experience distinctive and significant economic, environmental as well as social challenges. Landlocked countries are found in the interior of continents, hundreds or even thousands of kilometers from maritime ports (about 1,370 km average), and are also far from world markets (see Faye et al. 2004; UNCTAD, 2003). This makes it costly for LLDCs to do business compared to their maritime neighbours. In turn, this negatively impacts on these countries’ economic growth, tax revenues and their standards of living. In light of this, the role of the private sector in accelerating sustainable development in these countries is crucial. Furthermore, another important aspect of the UN’s 2030 development agenda is the Vienna Programme of Action (VPOA) for LLDCs for the decade 2014-2024 (UN-OHRLLS, 2017). VPOA is an all-inclusive, action-oriented development agenda, which underlines the need for renewed and strong partnerships amongst all relevant stakeholders including the private sector. The private sector is also recognized as the service provider and user of services, as well as the main contributor to the development of infrastructure and productive capacities in both LLDCs and in transit economies (UN, 2016; Wilton, 2014).

Generally, most developing countries including sub-Saharan Africa LLDCs have a relatively weak private sector although the sector is regarded and or recognized as a crucial component to economic development of these countries. This is as a result of having insufficient tools and policies which can encourage private-sector-led growth and also support diversification and structural transformation. According to United Nations Conference on Trade and Development (UNCTAD) Statistics, the share of manufacturing as a percentage of GDP for LLDCs was 9.6 in 2014 and the share of manufactured goods to total exports stood at 13% in 2014 (UNCTAD, 2016). This is indicative of the LLDCs very narrow production and export base, and low levels of value addition hence a low level of private sector participation in these economies.
LLDCs are generally reliant on natural resource-based commodities and low-value agricultural products for their exports thereby making them extremely vulnerable to commodity price shocks (UN-OHRLLS, 2014). During the 2011-2013 period 27 out of the 32 LLDCs, had primary commodities accounting for more than half of their total exports. The value-added of the manufacturing sector, which over the years has been crucial in generating employment, economic growth and transformation over the years decreased from 8.9 to 6.9 per cent of GDP in the year 2000 and 2015 respectively. Further, the share of manufactured goods in total exports from landlocked developing countries declined from 21 per cent in 2000 to 13 per cent in 2014, while around 70 per cent of their imports were manufactured products. Furthermore, primary commodities from LLDCs, including fuels, made up 80 per cent of merchandise exports in 2014, this being an increase from 67 per cent in 2000. In 2014, primary commodities from LLDCs accounted for only 32 per cent of global exports. Such heavy dependence on commodities makes these countries highly vulnerable to commodity price and demand shocks, and this is further worsened by the low productive capacities and structural weaknesses found in LLDCs, (UN, 2016). On the other hand, the value-added of the agriculture sector as a percentage of GDP fell by an average of about 7 per cent (in 2000) to 14.6 per cent (in 2015) in landlocked developing countries (UN, 2016, UNCTAD, 2016).

To enable LLDCs especially SSA LLDCs to attain the anticipated structural economic transformation and also intensify private sector participation in the overall development of these economies there are measures that should be put in place and implemented. These economies, together with their various development partners and the private sector should establish a conducive business environment, and enhance cooperation between governments and the private sector. There is need to also ensure that there is sufficient infrastructure, well-structured institutions and technical knowledge to allow the SSA LLDCs to grow their private sector enabling it to compete in value chains and integrate into the global economy.

This paper evaluates some of the important features that are necessary in ensuring private sector growth in SSA LLDCs. It further makes recommendations for achieving transformative business environment, and facilitating private sector development.

EASE OF DOING BUSINESS IN SUB-SAHARAN AFRICA LLDCS

One fundamental principle of doing businesses is that, economic activity needs good rules and regulations. The World Bank (WB) Doing Business captures several important dimensions of the regulatory environment as it applies to local firms. The Doing Business Report presents results
for two aggregate measures: the distance to frontier score\(^1\) and the ease of doing business ranking (World Bank, 2017; Nnadozie & Njuguna, 2011).

Ease of doing business ranks economies from 1 to 190, with 1 being the best. A high ranking (low number) means that a country’s regulatory environment is favorable to business operation. The index uses the aggregate distance to frontier scores on 10 topics. These include: starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency (World Bank, 2017). Each topic is given an equal weight based on its component indicators. An economy’s distance to frontier score is shown on a scale from 0 to 100, where 0 represents the worst performance and 100 the frontier. As can be seen from table 1, most of the LLDCs are not doing well on the ease of doing business indicators (World Bank, 2017). While European, Asian and South American LLDCs are better performers, SSA LLDCs are at the bottom of the rankings. Among the evaluated eleven business areas in 2017, the most problematic areas for the SSA LLDCs were access to electricity, starting a business, dealing with construction permits, protecting minority investors, and trading across borders. Hence, to be able to achieve the Sustainable Development goals and ensure a successful implementation of the overall Vienna Programme of Action for LLDCs, there is need for SSA LLDCs’ governments to support private sector development and enterprise growth (see World Bank, 2017; Wilton, 2014; UNCTAD 2016).

\(^1\) Measures the distance of each economy to the “frontier,” which represents the best performance observed on each of the indicators across all economies in the Doing Business sample since 2005. The distance to frontier is ranked on a scale of 0 (lowest performance) to 100 (highest performance).
Table 1: Distance to the Frontier Score and Doing Business Rankings for 2017

<table>
<thead>
<tr>
<th>SSA LLDCs</th>
<th>Distance to the Frontier Score</th>
<th>Doing Business Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2010</td>
<td>2015</td>
</tr>
<tr>
<td>Botswana</td>
<td>64.95</td>
<td>64.53</td>
</tr>
<tr>
<td>Burkina Faso</td>
<td>40.19</td>
<td>49.57</td>
</tr>
<tr>
<td>Burundi</td>
<td>34.98</td>
<td>48.11</td>
</tr>
<tr>
<td>Central African Republic</td>
<td>27.5</td>
<td>36.45</td>
</tr>
<tr>
<td>Chad</td>
<td>29.43</td>
<td>38.02</td>
</tr>
<tr>
<td>Ethiopia</td>
<td>45.91</td>
<td>45.73</td>
</tr>
<tr>
<td>Lesotho</td>
<td>50.44</td>
<td>57.31</td>
</tr>
<tr>
<td>Malawi</td>
<td>48.32</td>
<td>50.04</td>
</tr>
<tr>
<td>Mali</td>
<td>43.87</td>
<td>50.27</td>
</tr>
<tr>
<td>Niger</td>
<td>36.64</td>
<td>45.39</td>
</tr>
<tr>
<td>Rwanda</td>
<td>57.88</td>
<td>67.67</td>
</tr>
<tr>
<td>South Sudan</td>
<td>35.96</td>
<td>33.48</td>
</tr>
<tr>
<td>Swaziland</td>
<td>53.85</td>
<td>58.3</td>
</tr>
<tr>
<td>Uganda</td>
<td>48.97</td>
<td>52.25</td>
</tr>
<tr>
<td>Zambia</td>
<td>57.32</td>
<td>61.51</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>41.42</td>
<td>47.17</td>
</tr>
</tbody>
</table>

Source: World Bank Database, 2017

INFRASTRUCTURE DEVELOPMENT IN SSA LLDCS

Infrastructure plays a crucial role in private sector development, economic growth and poverty alleviation. To enhance the business competitiveness and productivity, it is important to have a developed infrastructure system (see Asiedu, 2002; Harris, 2003). In addition to enhancing the efficiency of production, transportation, and communication, infrastructure also provides
economic incentives to public and private sector participants. The accessibility, reliability and the quality of infrastructure help shape investment decisions and also determine the attractiveness of a country to foreign investors (Ojala & Çelebi, 2015; Asiedu, 2002). Most SSA LLDCs are faced with inadequate infrastructure which leads to additional costs and delays for exporters and importers, restricting the trade potential and competitiveness of these landlocked economies (World Bank, 2017). Infrastructure development and maintenance is quite costly in these economies. Key infrastructure needs of the SSA LLDCs include, information communications technology, energy and transit transport infrastructure.

**ENERGY INFRASTRUCTURE**

Reliable and good energy infrastructure is important for a competitive and successful manufacturing sector as well as ensuring economic growth. For most SSA LLDCs access to modern energy continues to be a challenge. SSA LLDCs have significantly lower average level of access to electricity when compared to other countries in the world. What can be noted is that there are huge differences between access rates in urban and rural areas in these economies. The former tends to have higher access rates compared to the latter. However, energy services are unreliable even in urban areas. Therefore, enhancing and promoting access to modern energy in rural areas especially the use of renewable energy should be a priority. Further, there is need for more and quality investment in energy infrastructure facilities so as to narrow gap that exists between the rural and urban areas in SSA LLDCs. This will in turn ensure that these economies achieve universal access in sustainable energy, and also strengthen their private sectors and industrial capacities (see UN-OHRLLS, UNIDO, & Sustainable Energy for all, 2016).

**INFORMATION COMMUNICATION TECHNOLOGY (ICT)**

ICT can play a major role in addressing some of the developmental challenges of the LLDCs which include trade and transport facilitation, trade in services facilitation and integration of the SSA LLDCs into the regional and global value chains and market (see Schuppan, 2009). ICT can also enhance e-commerce thereby reducing trade costs and the cost of doing business. Moreover, ICT provides a conducive business environment for private sector development. Using information technologies can lower transaction and production costs, assist in identifying new market opportunities, improve integration into the global value chains, and also make trading between producers/sellers/suppliers and customers much easier. In addition, ICT provides new and convenient ways of communication and information dissemination among and between enterprises and Governments (Henkel & McKibbin, 2017).

There is a significant digital divide between the LLDCs and other groups of developing countries. Most LLDCs face severe challenges of inadequate ICT infrastructure and high
broadband costs. These challenges have a negative impact on the competitiveness of the SSA LLDCs and also constrain integration of these economies into the global market. Figure 1 below shows the low level of ICT usage in SSAs LLDCs compared to other developing countries.

**Figure 1:** Average Internet Users per 100 people of the LLDCs, Transit Countries, and the world

![Graph showing average internet users per 100 people](source: International Telecommunication Union Database, 2017)

**TRANSPORT INFRASTRUCTURE**

Transport infrastructure has a significant impact on the productivity and the cost structure of businesses (Haughwout, 2001). For example, better port and hinterland connections may reduce the expenditure required for construction of distribution networks or transport of raw materials. Empirical studies show that FDI is attracted to areas with efficient transportation systems (Saidi & Hammami, 2011). For this reason, an effective and efficient logistics system is the cornerstone of a prosperous economy in attracting foreign investment. Further, efficient transport systems provide economic and social opportunities and benefits with positive multiplier effects including better accessibility to markets, employment and additional investments. Effective modes of transport including: high-quality roads, railroads, ports, and air transport enable entrepreneurs to get their goods and services to the market in a secure and timely manner and facilitate the
movement of workers. Transport systems thus provide an appropriate infrastructure base to facilitate investment and trade. On the other hand, inefficient transportation increases the economic costs.

Most LLDCs in SSA are still faced with poor quality and inadequate transport infrastructure. Further, there are few harmonized rules and procedures as well as limited cross-border investment and private-sector participation (World Bank, 2017). As a result, these countries incur very high transport costs (three times as much as developed countries on transport services and double as much as non-landlocked developing economies). These high transport costs tend to reduce competitiveness, hence making SSA LLDCs unattractive to investment.

TRADE FACILITATION

The first four priorities of the VPoA are directly or indirectly related to the high transportation costs often incurred by LLDCs (see UNOHRLLS, 2017). These costs are worsened by the fact that these economies are not only landlocked and overly dependent on primary commodity exports but they also exist and operate in a period of internationally fragmented production networks (UNCTAD, 2016). However, if trade facilitation and improved transport and communications infrastructure are combined, they can enable the SSA LLDCs to facilitate private sector involvement in developing their economies. High trade costs have significant impact on businesses as well as Foreign Direct Investment. Countries with enhanced trade efficiency and connectivity are generally expected to attract more FDI and retain it. According to a study by United Nations Economic and Social Commission for Asia and the Pacific - UN ESCAP (2015), results showed that on average, a one percent decrease in total international trade costs (excluding tariffs) between the source and host country leads to an 8 percent increase in FDI inflows. Further, the analysis highlights the importance of trade facilitation as a major component of any development strategy to attract FDI inflows. Further, trade facilitation shows benefits associated with improving trade efficiency. Countries that implement trade facilitation reforms and enhance trade efficiency and connectivity are therefore expected to attract more foreign direct investment (FDI) and grow the private sector (UN-OHRLLS, 2017).

Implementation of the WTO’s Trade Facilitation Agreement, agreed in 2014 and that entered into force on 22 February 2017, presents a remarkable opportunity for SSA LLDCs to reduce the cost of doing business, especially for small and medium-sized enterprises. There are eleven policy areas and measures in the WTO Trade Facilitation Agreement, these include: information availability; involvement of trade community; advance rulings; appeal procedures; fees and charges; formalities (documents, automation, procedures); border agency cooperation (internal and external); governance; and impartiality (UN, 2014).
The Organization for Economic Co-operation and Development (OECD) Trade Facilitation Indicators (TFIs) were developed to help governments to measure the trade facilitation performance based on the implementation of the measures and policy areas mentioned above. The TFIs reflect the regulatory framework in each country, as well as the implementation of trade facilitation measures. They seek to identify the strengths and weaknesses and track progress in the implementation of the trade facilitation measures. SSA LLDCs are still lagging behind in the implementation of the Trade facilitation Agreement measures. The most challenging of the eleven measures are: automation, internal and external border agency cooperation, simplification and harmonization of documents, advance rulings and government and impartiality as shown in figure 2 below.

**Figure 2: TFIs for SSA LLDCs**

![Figure 2: TFIs for SSA LLDCs](source: OECD Trade Facilitation Indicators Database, 2017)

**LESSONS FOR SSA LLDCs**

There exists a policy gap with regards to investment facilitation. Investment promotion and facilitation is crucial for SSA LLDCs’ achievement of the post-2015 development agenda. Many countries have schemes put in place to promote and facilitate investment, but rather than making it easier to invest most efforts are geared towards investment promotion (that is, marketing a location and providing incentives) (UNCTAD, 2016). For example, most countries in Africa have used tax incentives to attract investment from preferred investors and for particular sectors. This method has had its advantages and disadvantages. Hence, the international trends have...
shown that it is more beneficial for both the foreign and domestic private sector investments to have uniform low rates across all sectors, as this promotes participation of both in competitive sectors (Gillson & Strychacz, 2010).

Some middle income countries such as Malaysia, Taiwan, and Singapore, have overcome the problem of losing out on foreign investment due to poor infrastructure by establishing specialized facilities dedicated to attracting FDI, such as high-technological industrial estates. Some economies have established industrial parks such as those in India, Jamaica, the Dominican Republic, and Mauritius (Gillson & Strychacz, 2010). These specialized facilities also offer higher quality infrastructure on site as well as various business support services. In other parts of the world it has been evident that privately owned business parks tend to perform better in attracting foreign direct investment (FDI) than those operated by government. This has been the case in Mauritius, Madagascar, and Kenya where the industrial parks have performed extremely well (Gillson & Strychacz, 2010). Hence, ensuring private sector engagement in the provision and management of industrial parks can eliminate infrastructure challenges faced by the SSA LLDCs. Moreover, when the private sector is allowed to provide facilities and services in these specialized facilities and industrial parks it brings about better economic results and greater development gains. Therefore, private sector should be encouraged to take part in the provision and management of industrial parks if SSA LLDCs are to attract and maintain higher levels of FDI and private sector participation in their economies.

As already mentioned before, LLDCs ability to engage in international trade is restricted due to the inherent problem of the difficulty to access global markets due to the geographical location of these economies. In addition, there are administrative inefficiencies in terms of customs procedures and systems in many SSA LLDCs which usually result in high transaction costs; delays in the clearance of imports and exports. As a result, reforms in customs and border crossing procedures (such as lack of computerized system/automation for customs clearance) should be part of the broader trade facilitation strategy. Therefore, SSA LLDCs, should upgrade border control facilities and streamline customs procedures, for example, the various multiple inspection and revenue collection agencies in operation in most of these countries can be merged into fewer, more efficient agencies.

Establishing new business enterprises and strengthening existing ones is vital for economic development. Governments in SSA LLDCs should have in place regulations that are conducive for foreign investors. This implies reducing long bureaucratic processes and related regulatory obstacles. This can in turn strengthen the competitiveness and efficiency of domestic private sector. More efficient systems of business registration, as opposed to licensing, could benefit domestic businesses while attracting FDI at the same time. Mauritius and South Africa have
succeeded in attracting FDI, reducing the cost of doing business and developing vibrant domestic service sectors, through ensuring a streamlined investment environment that reduces long processes in these countries.

In addition, regional integration can reduce the transport and transit challenges faced by the SSA LLDCs. There is a link between proximity to major markets and the effect of trade costs. e.g. European LLDCs have shown how regional integration can be of benefit to similar geographically disadvantaged economies. Further, value added exports can also ease the high trade cost resulting from being landlocked, hence the SSA LLDCs industrial policies should place more emphasis on value addition. Switzerland and Austria have shown that when countries export high value-added goods, transport costs account for a much smaller part of the end value, and the effect of being landlocked becomes insignificant.

Undertaking business regulatory reforms, including trade facilitation reforms, is also critical to improve the business environment in SSA LLDCs. Rwanda, Armenia, Moldova Macedonia Kazakhstan and Uzbekistan undertook deliberate and actions to enhance their business environment and ensure private sector participation (World Bank, 2017).

**CONCLUSIONS**

A few actions can be implemented by SSA LLDCs to ensure private sector participation and economic growth of these economies as well as their integration into the global economy. These include having adequate infrastructure, well-structured institutions and technical knowledge.

SSA LLDCs should together with their development partners engage in public and private partnerships (PPPs) in the energy sector in order to increase investments into power generation and in particular promotion of renewable energy. This can be achieved through financing power generation and transmission for national and regional energy infrastructure projects.

Improving connectivity through ICT infrastructure and building of physical transport and transit infrastructure is very important for ensuring market access and integration into the world market, thus enhancing the competitiveness of these countries. To enhance the business environment and reduce costs of doing business in SSA LLDCs there is need not only to build infrastructure but also to ensure such is well maintained.

Given that Doing Business Ranking performance of the SSA LLDCs is low, there is a need to undertake holistic business environment reforms. The ratification and implementation of trade facilitation reforms such as the WTO Trade facilitation Agreement and other regional and agreements and arrangements to facilitate trade is paramount for the SSA LLDCs. Further, these
LLDCs can also identify sectors that could be transformed and allow economies to move from low skilled commodity-based industries, to sectors that have opportunities for technological progress and the development of human capital. Higher value added products, manufactured goods and services exports, such as services, tourism, ICT, provide opportunities for these LLDCs to reduce trade costs and susceptibility to external demand and price shocks.

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