

## **G20 Initiative on Supporting Industrialization in Africa and Least Developed Countries**

### **Background**

Industrialization plays an important role in eliminating absolute poverty and promoting sustainable development. However in Africa and Least Developed Countries (LDCs), it confronts major challenges, which becomes a bottleneck in their economic development. There is growing consensus on the need for renewed efforts to facilitate sustainable industrialization as one of the main drivers of economic growth and structural transformation in Africa and LDCs.

Against this background and upon the proposal by the Chinese Presidency, the G20 held discussions on supporting industrialization in Africa and LDCs. The G20 had put forward an initiative to invite UNIDO to take the lead, with wide participation of relevant international organizations (IOs), to draft a report on the challenges and opportunities Africa and LDCs are facing in the process of industrialization and propose policy recommendations for the G20 to take actions in the future to extend their support to Africa and LDCs.

The G20 members welcome the UNIDO report, *Industrialization in Africa and Least Developed Countries: Boosting growth, creating jobs, promoting inclusiveness and sustainability*. The report presents challenges and policy recommendations to lay a foundation for promoting G20 cooperation and providing G20 “value added” in this area in the future.

### **Challenges**

It is a harsh fact that Africa and LDCs remain on the margins of industrialization and face structural weaknesses such as poor infrastructure, weak logistics and trade facilitation, slow regional

integration and the absence of accreditation frameworks. These structural factors have contributed to the relative isolation of LDCs, low levels of private investment in industrial production and low levels of trade among the LDCs, particularly in Africa, which consequently leaves huge potential market not fully utilized. Without industrialization, it is unlikely that Africa and LDCs can meet the Sustainable Development Goals by 2030.

#### ※ **Poor infrastructure**

In most African countries, road, rail and freight transportation systems date from colonial times and focus on moving unprocessed raw materials from extraction zones to coastal areas for shipment to international markets. Even if the continent has in recent years invested hugely in transportation and logistics, infrastructure capabilities in these areas are still low. The lack of secure energy and ICT infrastructure further constrain development. Only 290 million of 915 million people in Sub-Saharan Africa have access to electricity, and the number without the access is rising.

#### ※ **Weak logistics and trade facilitation systems**

Poor trade facilitation undermines industrial competitiveness. According to the Doing Business survey, the average cost of shipping a container for African exporters was \$1,990 in 2012, compared with \$1,268 in Latin America. And the cost for many landlocked countries, such as Niger, Rwanda and Zambia, was more than 50 percent higher than average. Africa still has much to do to catch up with other regions on both the time and cost of trade indicators. To reduce these costs, countries should ratify and implement the WTO's Trade Facilitation Agreement.

#### ※ **Slow regional integration**

Africa is one of the world's least regionally integrated continents. Trade barriers among African countries are often higher than those between them and the rest of the world. Africa's intra-regional trade is more diversified than that with the rest of the world, and some two-thirds of it is in

manufactures. Yet its real potential remains untapped. The share of intra-African trade, at 16.3 per cent in 2013, is the lowest among global regions.

#### ※**Absence of accreditation frameworks**

The lack of proper accreditation frameworks crimps African firms' entry into international markets. This is a major impediment for exporters of products within the scope of targeted markets' technical regulations. Many governments also restrict testing to domestic public (often non-accredited) laboratories and do not accept certificates of conformity from internationally accredited laboratories.

#### ※**Socioeconomic costs of tardy structural transformation**

Slow structural transformation and industrialization in African and other LDCs carry heavy economic, social and environmental costs, preventing large segments of the population, including women and youth, from benefiting from the better jobs that economic growth and created wealth can bring. That hampers the opportunities for promoting social justice and equality, with possible political repercussions. It makes it harder to provide decent and adequate jobs for the increasing numbers of jobseekers. It often leaves economies heavily dependent on job creation in the informal sector, even though formal manufacturing is typically not only the most dynamic sector, but also the main driver of technological development and innovation and a major engine of broader sector productivity and growth.

#### **Opportunities**

African and other LDCs are well placed to industrialize. They have the right mix of natural resources, favorable demographics, urbanization, an emerging middle class, and a highly educated Diaspora. But they are diverse and need strategies and policies to leverage their specific endowments and characteristics.

Africa alone has 16 per cent of the world's arable land and is rich in minerals, including oil, copper, gold, diamonds, coal, iron, uranium, nickel, chrome, tin, and platinum. Adding value to this natural wealth and creating new wealth could create millions of jobs a year.

Africa and LDCs have latent comparative advantage in tourism, mining, such pharmaceuticals as generic drugs, and such manufactures as garments, leather goods, agro-food, and automotive parts and components. Upgrading these industries and exploring their potential nexuses—such as agriculture–agrifood–culture–tourism, energy–water–food, —could initiate rapid, substantial and potentially self-propelling waves of rising output, employment, productivity and exports.

Major solar, hydro and gas resources are untapped. In East Africa, natural gas off the coasts of Mozambique and Tanzania is a huge opportunity. The cost of renewable energy is becoming equivalent to that of fossil fuel-generated energy, which is an advantage that no other regions enjoyed during their industrialization. The opportunity for sustainable and inclusive industrialization is enormous for Africa and LDCs. Africa has already decided to increase its access to renewable energy and must be supported in this regard (eg. African Renewable Energy Initiative).

Demographic trends in African and other LDCs offer further promise. A moderate population growth is an opportunity to generate inclusive growth and reduce extreme poverty, and eliminate hunger. If the necessary efforts on education, health, professional qualification and sustainable urbanization are implemented, a fast-growing youth population—increasingly urbanized—will help to drive growth in formal sectors of the economy and strengthen the middle class. Although the middle class is now small as a proportion of total population, it is growing fast, particularly in cities. Industrialization offers ample opportunities to empower women to take control of their economic futures and to maximize their contribution to their countries' wealth. By 2050, half of Africans will live in cities, where infrastructure spending is highest and consumers are concentrated. If highly

educated individuals return from the Diaspora, they may return to urban centers in African and other LDCs, and can support local economic growth with their skills, knowledge and investment.

## **Voluntary Policy Options**

Based on the UNIDO report and in close cooperation with other relevant international organizational organizations, the G20 will further study and consider taking actions on the following fronts to support structural transformation and industrialization in African and other LDCs, in accordance with the capabilities of the members and the development priorities of African and LDC:

1. Collaborate in promoting inclusive and sustainable structural transformation and industrialization in Africa and LDCs through knowledge sharing and peer-learning for good practices, policies, measures and guiding tools for capacity development, taking into account different national circumstances. Engage in multi-stakeholder discussions with Africa and LDCs to improve the environment for investment and development in accordance with diverse national conditions, development needs and WTO rules to facilitate the involvement and contributions of both women and men to the industrialization process.
2. Support sustainable agriculture, agri-business and agro-industry development and their linkages with other sectors in Africa and LDCs, and promote labour productivity in agriculture to ensure food security, better nutrition and increased rural income. Facilitate technology transfer to Africa and LDCs, under mutually agreed terms and conditions in line with national and international laws and commitments, as agreed in the 2030 Agenda, in areas such as irrigation systems, water harvesting and conservation techniques, and sustainable agriculture technologies. Promote training and skill upgrading for rural people,

including smallholders, women and youth in order to enhance employment on sustainable production in Africa and LDCs, and support them in developing and harmonizing science and risk assessment based technical and food standards which are in accordance with WTO rules.

3. Support the efforts to deepen, broaden and update the local knowledge and production base in Africa and LDCs, including through strengthened skills development particularly for youth and encourage dissemination of good practices, policies and programs of IOs and bilateral partners on the provision of technical vocational education and training (TVET) for women and men. Explore ways to develop North-South, South-South and triangular co-operation with Africa and LDCs in vocational training and industrial production, and investigate the funding and filling of specialised academic chairs with special respect to applied research within key manufacturing systems and related higher education institutions as an effective means to diffuse technical know-how.
4. Promote investment in sustainable and secure energy, renewables and energy efficiency, and sustainable and resilient infrastructure and industries in Africa and LDCs, in line with the 2030 Agenda and Paris Agreement's objectives and the countries' Nationally Determined Contributions. Explore ways to promote joint research and diffuse sustainable and environmentally sound technologies in Africa and LDCs, and mobilize greater investment and increase transparency in managing energy infrastructure, taking into consideration the G20 action plans on energy. Help countries and communities predict and prepare for the risks posed by climate change.
5. Support Africa and LDCs to industrialise through trade in accordance with WTO rules and identify infrastructure gaps, needs and funding requirements for sustainable infrastructure including regional and rural infrastructure—along with opportunities to promote

public-private partnerships (PPPs). Investigate mechanisms to improve the financial and technical support for feasibility and project preparation to support infrastructural and industrial projects to attain bankability. Facilitate the leveraging of multi-stakeholder resources for investment in trade, connectivity, transport and industrial corridors, and support local development of special economic zones, industrial parks and science and technology parks to attract investment and talent.

6. Leverage domestic and external finance and support equitable access to finance in Africa and LDCs– with a focus on women and youth – to encourage SMEs, micro businesses and smallholder producers development in non-commodity industries, including building awareness of the G20 Action Plan on SME Financing. Encourage development banks to mobilize resources in infrastructure and industries through partnerships and to build institutional management capacities to strengthen country systems, for example, for loan guarantee programmes targeted at industries with high-growth potential.
7. Promote science, technology and innovation as critical means for industrialization in Africa and LDCs by contributing to the capacity development of science and technology personnel, including women and youth, strengthening the innovation systems, and nurturing innovative and inclusive entrepreneurship through technological social ventures. Provide incubating services for Africa and LDCs in order to generate a virtuous cycle of industrialization and sustainable development.

The Development Working Group (DWG) will follow up on this initiative with relevant work streams and ask UNIDO and relevant IOs to report back to the DWG in 2018 for a review of actions taken to address the above policy options.