AFRICAN DEVELOPMENT BANK GROUP

Thematic Review

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Contents

Structural Transformation in Central Africa

Historical Perspective and Medium-Term Recommendations

This edition of the quarterly Thematic Review of the Regional Department (ORCE) deals with the problem of structural transformation in Central Africa. For the purposes of this paper, Central Africa means the seven countries in the region covered by ORCE, namely: Cameroon, Congo, Gabon, Equatorial Guinea, Central African Republic (CAR), Chad and the Democratic Republic of Congo (DRC). This Thematic Review is based on notes prepared for the above seven countries in drawing up the report on the African Economic Outlook (AEO) 2013.

This Thematic Review seeks to present the structural transformation experiences of Central African countries over the past two decades and to identify the challenges and reforms required for the region to speed up the transformation of its economies. In fact, Central Africa, despite its relatively strong economic growth, continues to face the challenges of substantially reducing poverty and improving the socio-economic conditions of its people. To meet these challenges in the region, it is imperative to accelerate structural changes that are crucial not only to growth, but also to further diversification of the economies through new and more productive activities. It is thus expedient to understand how the region can utilize its abundant natural resources to face up to this major challenge.

Highlights

- Over the past two decades, Central Africa's economies have not witnessed any significant structural change, although the situation has varied by country.
- The key obstacles to the transformation of the region's economies are inadequate infrastructure, weak human resources, governance deficits, poor business climate and socio-political instability.
- High priority should be given to natural resource transparency and governance, especially strengthening: (i) the anti-corruption fight and control and accountability mechanisms, and (ii) human and institutional capacity to improve government efficiency.
- Countries in the region should use natural resource revenues for meaningful and targeted investments in the construction of quality infrastructure and development of technical and entrepreneurial skills.

Definition of Structural Transformation

This Thematic Review adopts the definition used by the 2013 AEO report, according to which structural transformation means the reallocation of the economic resources from activities with low productivity to more productive ones, thus maintaining a strong, sustainable and inclusive growth. This process is usually characterized by at least two stylized facts: (i) an increase in the share of the manufacturing and services sector with high value added in the GDP, coupled with a steady decline in the share of agriculture; and (ii) a decrease in the share of agricultural employment and the shift of the workforce to other more productive sectors of the economy.

Highlights

- Accelerating Central Africa's structural transformation requires pursuing active growth sector-support policies targeting the development of industrial zones on the basis of the comparative advantage in natural resources, providing financing facilities for SMEs and capacity building for local enterprises.
- Stricter implementation of the local content policy is required.
- Efforts to establish a private investment-friendly environment should be accelerated and should prioritize: (i) strong protection of property rights, (ii) establishment of a simple and attractive tax system, and (iii) simplifying business creation.
- Continued improvement of macroeconomic policies is crucial to efficient management of the risks associated with the Dutch disease and the volatility of natural resource revenues.

1 | Introduction

1.1 **Over the past decade, Central Africa's economic performance has been relatively satisfactory, but the region continues to face major challenges.** During that period, it has recorded relatively high economic growth rates thanks to its abundant natural resources. Despite these achievements, poverty remains high and the region is plagued by a job crisis, especially among the youth. These poor results are generally attributed to the slow structural transformation progress in countries of the region. Hence, there is a need to explore the reasons why the region has been unable to leverage its vast natural resources[1], and identify measures to accelerate the diversification of productive economic activities. These structural changes are critical to sustaining this pace of growth and significantly reducing poverty.

1.2 **This Thematic Review seeks to present the structural transformation experiences of Central African countries.** Specifically, the paper: (i) analyses the structural changes in the region's economy over the past two decades and their main drivers, (ii) analyses the progress achieved and major bottlenecks to the region's economic transformation, (iii) suggests recommendations for reforms and policies to speed up the region's structural transformation, drawing on the experiences of other countries that have been relatively successful in this area, and (iv) presents the Bank's responses to assist countries in the region to effectively use their natural resources, highlighting areas where such support could be strengthened.

2 | Central Africa's Structural Transformation Performance

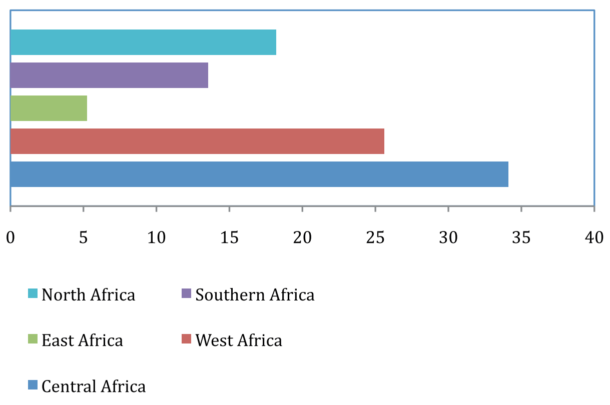
Natural Resources and Economic Performances of the Region

2.1 **Central African countries abound with natural resources that presumably form a solid foundation for the structural transformation of their economies.** These countries have huge oil, mineral and forest resources that make the region one of Africa's richest in terms of natural capital. Its average natural resource rents ratio to GDP is higher than that of Africa (Figure 1). The two leading resources of the countries are oil and mining. However, natural resources do not carry the same weight in the economies of all countries of the region. Approximately 7% of the continent's oil reserves are found in Central Africa. The reserves of cobalt, diamonds and copper in the DRC alone respectively account for around 45%, 25% and 3% of world reserves. Gabon boasts of around 3.5% of the global manganese reserves. The region is home to the world's second largest forest reserve. Its hydroelectric potential represents about 60% and 17% of the continental and global potential, respectively, and it has a vast river network of 12,000 km of navigable waterways. Lastly, countries in the region have more than 120 million hectares of valuable farmland.

2.2 **This natural capital has helped to stimulate the region's growth over the past decade, although the role**

[1] The analysis will focus on extractive resources which constitute a major part of the economies of the region.

Figure 1 **Natural Resource Rents, 2011**
in percentage of GDP

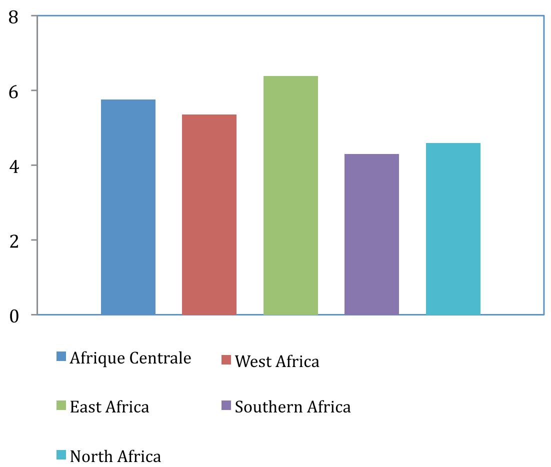


Sources: Africa's Economic Indicators 2012/2013, World Bank.

of other factors cannot be overlooked. Countries in the region experienced a 5.8% GDP growth on average over the period 2001-2012 against 3.0% between 1990 and 2000, making Central Africa, the region with Africa's second highest growth over that period (Figure 2). This performance is all the more remarkable as Africa was the region with the world's second fastest growth. These results were certainly achieved thanks to improved management and macroeconomic policies and to a lesser extent, the implementation of structural reforms. However, rising global commodity prices[2] coupled with new discoveries of oil reserves have been a particularly conducive to good economic performance in countries of the region.

2.3 Natural resource revenues were also utilized to finance large-scale public investment programmes in most countries of the region. Revenue from the exploitation of natural resources averaged 60% of the total revenue of States[3]. The highest contributions occurred in Equatorial Guinea (91%), Congo (82%) and Chad (67%).[4] These resources enabled the launching of major infrastructure upgrade programmes, especially in the areas of energy and transport. This financial effort by the countries coupled with increased foreign direct investment (FDI), particularly in the extractive industry boosted the average public investment rates in the region from 23.2% of GDP in 2002 - 2005 to 29.1% in 2009 - 2012 compared to 22.5% of GDP in sub-Saharan Africa although this average masks disparities (Table 1). This investment level is in line with the minimum values suggested by international experience, which indicates that structural transformation generally requires an overall investment rate of at least 25-30% of GDP. However, it seems that in the case of Central Africa, reaching this target has not been synonymous with significant changes in the structure of their economies.

Figure 2 **Real GDP Growth Rate, 2001-2012**



Sources: IMF Reports.

Table 1 **Total investment (% of GDP)**

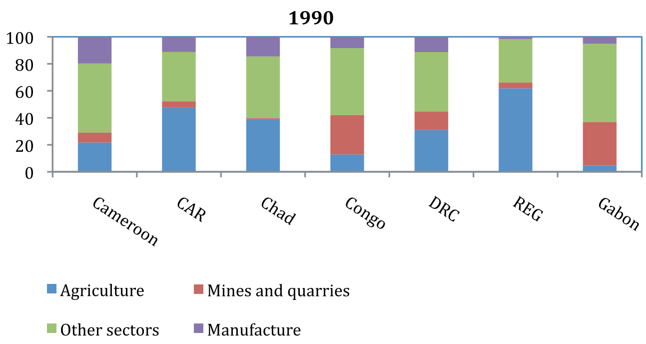
	2012
Cameroon	19.7
CAR	15.0
Chad	35.1
DRC	27.4
Congo	25.7
REG	50.6
Gabon	31.2
Sub-Saharan Africa	22.2
Oil exporting countries	22.0

Sources: Statistics Department of AfDB and IMF.

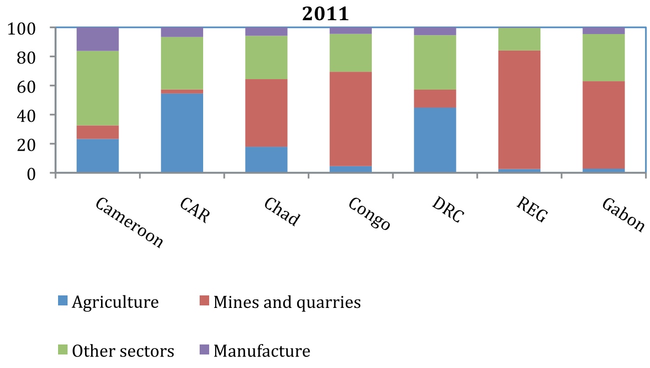
[2] Between 2001 and 2012, metal and oil prices more than tripled, reaching unprecedented levels (Source: World Bank Database on commodity prices).
[3] However, mention should be made of the specific case of CAR, where although extractive sector revenues doubled between 2008 and 2010, they represent no more than 10% of overall revenue.
[4] Source : IMF.

2.4 Over the last two decades, the economies of Central Africa have witnessed limited structural changes, even though the situation has varied across countries. The trend of the region's economic structure over the period 1990-2011 was characterized by an increase in the extractive sector's share in the GDP in most economies of the region and a gradual decline in the contribution of the manufacturing industry and services sector, although there are certain specificities by country (Figure 3). Taking the region as a whole, the share of the manufacturing sector declined from 10.3% in 1990 to 6.2% in 2011, while the services sector dropped from 42% to 27.5% over the same period. These trends fall afoul of one of the main stylized facts of economic transformation manifested through a significant increase in the contribution of these two sectors to the GDP, which is essential to boosting overall productivity of the economy as well as the expansion and sustainability of growth. At end -2011, no country in the region had a share of the manufacturing sector in GDP higher than 10%, with the exception of Cameroon which has the region's largest industrial sector. Lastly, although the decline in the share of agriculture in GDP[5] is generally seen as an indicator of structural transformation of an economy, in the case of Central African countries, it is due more to the discovery of natural resources.

Figure 3 Sectoral composition of GDP, 1990-2011



Sources: UNCTAD Database.



Sources : Base de données de la CNUCED.

2.5 The development of the extractive industry, the discovery of new resources and the international context have been decisive in the evolution of the economic structure of countries of the region. In fact, the maturation of existing oil fields, the exploitation of new oil fields, particularly in Chad, and the sharp rise in commodity prices have led to a gradual increase in the size of the extractive industry in the region's economy. In Chad, the discovery of oil and its exploitation in 2003 led to an increase in oil value added as a percentage of GDP from less than 4% in 2000 to nearly 30% in 2012. In DRC, the size of the mining and metallurgical industry increased from 10.3% of GDP in 2000 to nearly 17% in 2011. These changes have also been supported by FDI mainly from emerging country partners. In other oil producing countries in the region, particularly Congo, Gabon and Equatorial Guinea, increased oil production accounts for the gradual rise of the oil sector's role in the economy[6]. However, in CAR, the share of the extractive industry in the economy remains relatively limited, accounting for less than 2.5% of GDP. Governance and infrastructure deficits as well as political instability have also played a role in the evolution of the region's economic structure and have rather been factors of negative change. This partly explains why economic transformation has been slower than in other regions of the continent.

[5] In the case of CAR, where the share of agriculture in GDP has increased or that of DRC where it still represents nearly 35%, the agriculture sector remains largely based on food crop subsistence farming with low productivity and unprocessed cash crop production for export.
[6] However, oil production has declined in these countries over the past three years.

2.6 Central Africa's structural transformation performance was weaker than that of other regions of the continent. In particular, while the decline in the contribution of the manufacturing industry to GDP since 1990 has been observed in all regions of the continent, it was more pronounced in Central Africa. The manufacturing industry's share in GDP in Central Africa dropped from about 10.5% in 1990 to 6.2% in 2011, whereas it decreased from 12.4% to 8.6% over the same period for Africa as a whole. The average share of the manufacturing sector's value added in GDP in the region is three times lower than the average of the three African countries with the largest manufacturing sector. This shows the progress that needs to be achieved for successful structural transformation in the region. This conclusion also applies to the structure of exports.

2.7 The region's exports profile has remained virtually unchanged over the last two decades and is characterized by dependence on commodities with low value added. Exports still depend on a limited range of products, especially oil and minerals. In the region's three major oil-producing countries, oil accounts for over 80% of total exports. In CAR and DRC, more than three quarters of total exports are dependent on two products: wood and diamonds for the former and cobalt and copper for the latter. In all countries of the region, the share of natural resources in total goods export exceeds 80%. The lack of diversification of Central Africa's exports is confirmed by the trend of the Herfindahl index[7] for the region, which stayed above 0.55 over the period 1995 to 2012, whereas it fell in all other parts of Africa (Table 2). Furthermore, the share of manufactured goods with high value added in total exports did not exceed 8%.

Table 2 Diversification of Exports

	1995	2000	2005	2012
Central Africa	0.57	0.67	0.64	0.60
West Africa	0.48	0.49	0.49	0.43
East Africa	0.51	0.49	0.39	0.35
Southern Africa	0.49	0.45	0.50	0.48
North Africa	0.42	0.40	0.42	0.38

Sources: UNCTAD Database.

2.8 Countries of the region have made some attempts at natural resource-based economic diversification. Governments have used revenue from the exploitation of resources to offset accumulated infrastructure deficits in a bid to support the transformation of their economies. Most countries have also engaged in reforms, particularly aimed at accelerating business climate improvement as detailed by the study on the private sector environment in ECCAS countries conducted by the Bank in 2012.[8] Measures have been taken to boost the local processing of resources, such as the ban on log exports, whose impact has been limited by global competitiveness and workforce challenges and also weak enforcement of regulations. For instance, in Gabon where the measure was introduced in May 2010, 90% of the workforce employed in the wood processing plants is unskilled. The governments concerned have also forged partnership with emerging countries. Although this experience is recent, initial findings suggest that thus far, investments from emerging countries have not had a significant impact on the local productive system given that they do not take into account integration into the value chain of local enterprises. The abovementioned study on the private sector environment shows that upstream and downstream linkages between local firms and foreign firms exploiting resources have thus far been limited to activities low in productivity and qualifying assets and out of scope with the core business of international companies. More recently, the countries of the region, within the framework of industrialization programmes, initiated major actions whose ultimate goal is to foster the transformation of their economies, notably through special economic zones (Box 1). However, these measures are too recent to have a significant impact and the creation of value chains based on the natural resources sector has been largely limited.

2.9 Linkages of the natural resources sector with the rest of the economy are relatively limited. Apart from its contribution to the State budget, the sector's direct contribution to the local economy is moderate. Indeed, a limited part of economic activities in other sectors depend on the oil and mining industry in the form of services consumed by extractive sector companies and public procurement contracts financed with revenue from natural resources. In most countries in the region, the construction industry and public works in particular have benefited from the spread of oil and mining revenues through infrastructure projects. However, the

[7] The Herfindahl index by design falls between 0 and 1. The higher the index, the lower the diversification of exports.
[8] Study on the private investment environment in ECCAS countries by the Bank's Regional Department for Central Africa, AfDB, 2012.

Box 1 Initiatives to promote structural transformation

In a bid to promote structural transformation, the countries of the region have embarked on implementing an industrial policy involving in particular the establishment of special economic zones (SEZs). **In Gabon**, the government in 2010 signed a partnership agreement with OLAM, a Singaporean company, to establish an SEZ at Nkok, some 25 kilometres from Libreville, which is expected to help diversify the productive base. The SEZ will focus on wood processing, but also engage in the production of palm oil, petrochemical fertilizers and natural rubber. Through special incentives, including tax exemptions, the Government aims to attract hundreds of millions of dollars of annual investment in SEZs and create nearly 9,000 direct jobs. **In Congo**, the Government, with support from some emerging countries, particularly Malaysia, has also begun the establishment of four SEZs devoted to the petrochemical, mining, agro-food, forestry and transport and services sectors. **Chad** is using a similar approach and developing a SEZ project in Djarmaya in partnership with a Chinese company. The creation of some 1,500 direct jobs is expected. In **Cameroon**, to promote the transformation of the productive fabric, the State has selected 14 sectors to develop, in particular wood, grain, palm oil, cocoa, coffee and minerals. In the **DRC**, the diversification strategy of the authorities focuses on the development of five growth poles aimed at developing, inter alia, the manufacturing industry based on copper, cobalt, logistics, transport and food industries and wood. In **CAR**, the Government in 2011 undertook to promote the country's first major industrial unit with a Canadian company (AXMIN) for gold mining. This project, which aims to stimulate mining exploration in CAR should employ between 615 and 670 persons, recruited for the most part locally. Other measures taken or considered by the countries of the region are: (i) creation of investment and export promotion agencies to develop the growth sectors of the economy, (ii) establishment of SME development banks, (iii) subsidies to specific sectors and tax incentives, and (iv) establishment of specialized schools and institutes oriented towards various trades and the needs of sectors with a high growth potential.

upstream and downstream linkages between the natural resources sector, in particular the extractive sector and other sectors of the economy remain weak due to the fact that oil and mining exploitation operate as enclaves. Thus, the contribution of extractive industries to job creation and local corporate capacity building is low. For instance, the share of the extractive sector in formal employment did not exceed 3% in the countries of the region.[9] Additionally, the value creation levels are particularly low compared to those of other resource-rich countries (Box 2). The low value creation and negligible role of natural resources reflect the persistence of significant structural obstacles.

Box 2 Limited Move up in the value chain

An example of the weak value creation is the timber industry in Gabon, Congo and Cameroon. Despite measures taken by governments to promote more advanced local processing, the share of timber production in a higher added value form, such as plywood and veneer, stood at a mere 6% and 3% respectively in Cameroon and Congo. In Gabon, the share is considerably higher but also remains rather moderate (about 35%). In these three countries, three-quarters and all exports consisted of logs or other basic processed forms. By comparison, the major Asian producers such as China, South Korea and Indonesia export between 58 and 97% of their timber at an advanced stage of processing.

3 | Major Structural Barriers to Transformation in the Region

3.1 **An analysis of country the notes for the 2013 AEO shows that the key obstacles to structural transformation of the region's economies are**: (i) lack of quality infrastructure, (ii) weak human capital and skills mismatch, (iii) weak governance and poor business climate, (iv) deterioration of competitiveness, and (v) socio-political instability. The scope of these constraints varies by country, but they reflect the major challenges governments in the region are currently facing to leverage their natural resources.[10]

3.2 **Quality infrastructure deficit.** In recent years, countries in the region have invested heavily in infrastructure, but the deficit in this area remains significant in terms of accumulated delays. According to the 2010 AICD study conducted by the World Bank, the region remains the least equipped with basic infrastructure in Africa, particularly in the energy and transport sectors. With regard to energy, despite having the continent's largest hydropower potential, Central Africa has the least developed energy sector with a 14.4% electricity access, which is twice less than the average for Africa. Electricity

[9] Sources : Country Notes on AEO 2013.

[10] There are other major obstacles by country such as landlockedness and weak financial markets. Poor integration of the countries of the region is also an obstacle to their structural transformation. However, a comprehensive analysis of the factors that hinder the structural transformation of countries in the region lies beyond the scope of this paper.

is cited as the foremost infrastructural obstacle to the development of businesses in all countries of the region. In the transport sector, the percentage of paved roads is 8% against 16% for sub-Saharan Africa. The infrastructure deficit is compounded by the lack of maintenance and inefficient customs and port procedures. The combination of these deficiencies results in higher costs which affect the competitiveness and productivity of the region's economies.

3.3 The mismatch between the existing infrastructure and the volume of resources invested. The infrastructure quality does not match the expenditure level due to inefficiency of the investments undertaken. On average, the public investment quality captured by the IMF's Public Investment Management Index (PIMI),[11] is lower in Central Africa than in other regions of the continent. The areas with significant deficiencies are project appraisal and selection.[12] This poor performance is largely due to the lack of technical capacity and inadequate returns on public and private investment, which is a limiting factor for the competitiveness of the non-resource sector. Also, the infrastructure sector's governance deficit, especially poor management of public enterprises and corruption adversely impact public investment quality and efficiency.

3.4 Unattractive business climate. Despite the progress made in recent years, the business environment remains a major obstacle to the transformation of the region's economies. Between 2005 and 2012, countries of the region undertook around forty business regulatory[13] reforms, in particular as regards starting a business, getting credit and paying taxes. However, these achievements fell far short of those of other countries in the world. Thus, the majority of countries in the region continue to occupy the bottom part of the World Bank's Doing Business ranking. The average ranking of Central African countries went from 159th among 175 countries in 2006 to 175th among 185 countries in 2013. The magnitude of deficiencies in doing business varies by country but four common areas requiring urgent reforms can be highlighted: (i) Starting a Business, (ii) Getting Credit, (iii) Legal Environment, and (iv) Trading Across Borders.

3.5 Mismatch between human resources and economic transformation opportunities and needs. Central Africa has significantly improved access to primary education but still faces a huge challenge in improving the quality of technical and higher education. Taking the region as a whole, less than 10% of enrolments are in vocational and technical[14] education, which is well below UNESCO's minimum norm of 20%. More importantly, the mismatch between the skills produced by the education system and the needs of the economy and the low-skilled work force available are severe obstacles to the emergence of identified diversification-driving sectors.

3.6 Poor governance despite recent improvements. The obstacles to economic transformation mentioned above are rooted in governance deficits in the countries concerned. Over the past decade, there have been positive changes in the area of governance, but their pace has been too slow to enable the region to achieve its economic transformation. In most of the countries in the region, natural resource management has been improved through the strengthening of extractive sector legislation and improved public finance management. Despite this progress, the key indicators of governance in Central Africa are lower than regional averages that are themselves relatively low (Table 3). Transparency and accountability in public resources management are limited due to the weakness of the public institutions responsible for monitoring government action, but also that of civil society, and the lack of information on income derived from the exploitation of natural resources. Moreover, with the exception of Congo, no country in the region has attained the status of compliant country under the Extractive Industries Transparency Initiative (EITI). The experiences of other resource-rich countries that have been able to transform their economies show that governance has been crucial to their success.

3.7 A deterioration of the economy's competitiveness due in part to the Dutch disease. A study of the ECCAS private investment environment has highlighted symptoms of the Dutch disease in some countries of the region. With the exception of DRC, all other countries witnessed an appreciation of the exchange rate over the previous decade. It was significant for Equatorial Guinea, Congo and Gabon where the real effective exchange rate appreciated by around 58%, 31% and 21%, respectively, reflecting the "Dutch disease" which eroded competitiveness and diversification capacity. In these three oil-producing countries, the trend of wages and relative

[11] This index captures the quality and efficiency of the investment process in four consecutive stages: appraisal, selection, implementation and ex post evaluation of projects.
[12] Era Dabla-Norris et al., 2011: Investing in Public Investment: An Index of Public Investment Efficiency, IMF Working Paper 11/37.
[13] Source: www.doingbusiness.org.
[14] See Country Monographs on the Private Investment Environment, ORCE, AfDB.

internal costs followed the rising cost of living, driven by oil revenues impeding the production of tradable goods other than raw materials.

3.8 A socio-political context not conducive to economic transformation. Political stability is essential for the success of any economic development programme. The removal of structural constraints has a limited impact if the political environment is not conducive to investment. These facts hold true for the region. Indeed, conflicts which half of the Central African countries have experienced over the past two decades have undermined the economic transformation process. They have caused the destruction of the economic base and infrastructure, leading to a severe weakening of public institutions and bad governance. These conflicts have been fuelled in part by natural resources and the desire to control the related rents.

4 | Recommendations for Accelerated Structural Transformation of the Region

4.1 It is clear that there is no single strategy to foster structural transformation and that this depends on each country's specific situation. Indeed, every country's structural transformation path depends, amongst other things, on the characteristics of its economy, its comparative advantages and the scale of the obstacles to its development. While acknowledging this dimension, this paper suggests recommendations for reforms to practically remove the key obstacles to the region's structural transformation, taking into account its specific situation and drawing on the relevant experience of some countries in Africa that have been successful in this area. The importance and urgency of the recommendations proposed below will vary by country, but they concern common critical areas where government efforts need to be accelerated.

4.2 Recommendation 1: Strengthen the transparency and efficiency of institutions and good governance. Although this recommendation could apply to most African countries, it is particularly important for the countries of the region because of their natural resources. In this regard, the experience of Botswana[15], which is often cited for its judicious use of revenue from mineral wealth, is particularly relevant for Central African countries. Botswana's experience shows that governments in the region should focus on: (i) strengthening the anti-corruption fight and control mechanisms which are essential for maintaining a high degree of accountability and transparency, (ii) strengthening the human and institutional ca-

Table 3 Governance Indicators

	Mo Ibrahim		Corruption Perception Index IPC		EITI
Country	**Ranking 2000**	**Ranking 2011**	**Ranking 2006**	**Ranking 2012**	**Status**
Cameroon	33	36	138	144	Candidate
CAR	48	48	130	144	Suspended
Chad	45	50	156	165	Candidate
Congo	44	41	142	144	Compliant
DRC	51	51	156	160	Suspended
Equatorial Guinea	46	44	151	163	Excluded
Gabon	28	22	90	102	Excluded
Central Africa	42	42	138	153	-
Africa	20	22	117	100	-
East Africa	28	28	115	129	-
Southern Africa	18	17	88	89	-
North Africa	19	22	79	108	-

Sources: Mo Ibrahim Foundation, Transparency International and EITI.

[15] Botswana is consistently ranked in the top quartile of countries worldwide by Transparency International.

pacity to improve government efficiency and public expenditure quality, and (iii) improving the quality and availability of financial information on the management and practices in the natural resources sector, including the publication of contracts.

4.3 Recommendation 2: Accelerate the upgrading of infrastructure and logistical services. Infrastructure challenges are common to the majority of African countries but are more severe in Central Africa as evidenced by the AICD and the AfDB's AIDI.[16] Substantial resources have been invested in infrastructure. However, investment requirements for economic transformation remain considerable, especially when the needs attendant on the rise in the value chain of extractive industries are factored in. Therefore, countries should continue using their resources to invest efficiently in energy, transport and port services, and to ensure maintenance of these facilities in order to maximize and maintain the efficiency of investments. Besides funding physical infrastructure, greater government commitment is also required to strengthen governance in the sector, including the management of semi-parastatals, improving regulatory frameworks and capacity building for public investment management.

4.4 Recommendation 3: Establish a predictable and private investment-friendly environment and regulations. While improving the private sector environment is vital for Africa as a whole, it is even more urgent for Central Africa, which has the least attractive business climate in the continent. The example of Mauritius which is considered the best country for doing business in Africa shows that the establishment of a regulatory environment and incentives to attract foreign enterprises has helped lay the groundwork for the country's economic transformation. The example of Mauritius and the conclusions of the study on the private investment environment in the countries of the region show that public policy should focus primarily on: (i) strengthening the protection of property rights by enhancing the capacity and performance of the judicial sector, (ii) the establishment of a simple tax system and attractive, and (iii) simplifying the process of starting a business.

4.5 Recommendation 4: Prioritize the development of technical and entrepreneurial skills. Qualified human resources are vital for economic transformation. In this regard, the countries of the region should accelerate reforms in education, especially technical, vocational and scientific training to improve workforce quality and boost productivity. In this area, priority should be given to the development of relevant curricula and practices focusing on the acquisition of essential skills for sectors that will drive diversification and on the development of technical and entrepreneurial skills. Investment in science and technology should also be significantly increased. Governments should promote a regional approach in areas where national responses would be more costly.

4.6 Recommendation 5: Improve the implementation of local content policies. The governments of Central African countries should be more rigorous in applying regulations on the local content of products to ensure that the operations of the foremost extractive companies are better integrated in the local economy and their linkages with the local economy strengthened. Penalties commensurate with the incentives granted could be imposed for non-compliance with regulations.

4.7 Recommendation 6: Provide incentives and targeted support to key sectors to promote linkages between the resource sector and the rest of the economy. The experience of some African and Asian countries shows that active support policies play a key role in economic transformation provided that they are selective and well designed, as part of long-term strategies and relevant sector policies. In particular, the creation of export processing zones and active SME support programmes have been a key dimension of the transformation strategy of Mauritius and to a lesser extent, Namibia. Public policy in these two countries has also supported capacity building for local firms to enable their entry into the national value chains. Drawing lessons from the Mauritian and Namibian experiences and taking into account the specific situation of the region, Central African countries should use their natural resource revenues and active policies to target: (i) development of industrial zones based on their comparative advantage in natural resources, (ii) provision of financing facilities for SMEs, and (iii) capacity building for local companies which is crucial for the local content policy to be effective.

4.8 Recommendation 7: Consolidate macroeconomic stability gains by pursuing sound monetary and fiscal policies. Over the last decade, countries in the region have acquired relative macroeconomic stability. However, the manifestation of the Dutch disease highlighted by the Bank's study on the private sector environment shows that imple-

[16] Africa Infrastructure Development Index, May 2013, AfDB.

menting coherent macroeconomic policies is the key to proper management of the risks related to this problem and the volatility of natural resource earnings.

5 | Bank Responses

5.1 The Bank's operational priorities in the region are consistent with the critical areas where substantial progress is required to expand the production base of the economies of Central African countries and in line with some of the above recommendations. They concern infrastructure, governance, private sector development, regional integration and capacity building. As part of the implementation of these priorities through the RISP 2011-2015 for Central Africa and country strategies, the Bank's interventions focus on: (i) the development of energy and transport infrastructure, (ii) improving the business climate, (iii) strengthening governance and institutional capacity, and (iv) strengthening the human capital. In these four areas, the Bank's total current commitments amount to slightly over USD 4 billion of which nearly 72% is devoted to infrastructure and 6% to natural resource governance and management. The Bank's current interventions cover crucial private sector development areas which must be the main driver of economic diversification in the region. However, the Bank should step up its efforts to play a catalytic role in transforming the economies of the region. In this regard, special attention should be paid to the following dimensions:

==> The Bank must play a more active role in Central Africa's private sector development. Besides supporting the improvement of infrastructure services and the business climate, the Bank should strengthen its support through its private sector window to assist countries in: (i) creating value chains, particularly in the extractive sector, agribusiness, forestry, transportation and logistics, (ii) implementing their industrialization strategies and operationalizing SEZ, and (iii) enhancing the capacity of local enterprises particularly SMEs.

==> The Bank should place a high premium on developing technical and vocational education in its assistance programmes, including funding capacity building programmes for local enterprises and entrepreneurial skills for young workers. The Bank should also strengthen its support to education and training reforms. Such assistance should focus on the regional dimension and private sector involvement.

==> The Bank should strengthen its support to improved institutional efficiency and governance, in particular good governance promotion in the extractive industry. Besides supporting improved governance supply, the Bank could help boost demand for better financial governance through more substantial support to parliaments, supervisory bodies, and civil society and also help improve information that can be used to demand accountability from governments. Through the African Legal Support Facility, the Bank could provide greater advisory support to countries of the region in negotiating complex commercial transactions on natural resources.

==> The Bank should invest further in capacity building for public investment management to significantly improve infrastructure quality and the returns on public and private investment. Beyond the physical aspects, such intangibles are also essential for addressing the public infrastructure challenge.

==> Lastly, the Bank should strengthen dialogue on diversification and natural resource governance.