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Private Sector Development in West Africa

Private Sector Development and Economic Diversification: Evidence from West African States

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Abstract The likely gains from economic diversification in developing countries have been well discussed in the literature. The general consensus is that a diverse economy, based on a wide range of profitable sectors instead of one or a few, is key to building sustainable development and providing new opportunities for growth, employment and development. In fact, it is accepted that economic diversity and sustainable development are linked. Economic diversification is an integral part of economic development and also a consequence of economic development. In addition, economic volatility of a nation can be reduced with increased real sector performance through economic diversification, thereby improving economic stability and job creation. Most West African countries are mono-cultural and dependent on commodity exports with all its attendant vulnerabilities. Despite efforts towards achieving a more diversified economy, countries in the sub-region have been hampered by a sea of challenges, prominent among which include limited market access, insecurity and political instability, rent seeking behavior, inadequate technological capabilities, etc. This paper seeks to investigate empirically the link between private sector development and economic diversification. Panel Data analysis was employed with data drawn from West African countries over the period 2007–2011. The findings from this study showed that economic diversification depends on the level of private sector development, quality of infrastructure and other non-economic factors such as quality of governance and political stability.

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1 Introduction

The relative economic stability of a country or region is frequently linked to the extent of diversification of the sources of income and employment. A country or region that derive its economic sustenance from one or few industries is considered to be more exposed to the possibility of wider fluctuations while another or others with a wide variety of sources of income tend to be relatively sheltered from extreme vicissitudes of cyclical behaviour.

Although the economies of West African countries under the aegis of Economic Community of West African States (ECOWAS) have shown remarkable progress in the area of economic growth the past decade, this has not translated into sustainable improvement in the welfare of the people as unemployment, inadequate infrastructure and poverty issues remain major challenges confronting successive governments and policymakers in the sub-region. As a consequence, new wave of serious security challenge with international collaboration has arisen due to these debilitating factors confronting the people.[1] As shown in Table 1, West African Monetary Zone (WAMZ) countries like Nigeria, Ghana, Liberia, and Sierra Leone recorded impressive growth except The Gambia. On the other hand, West African Economic and Monetary Union (UEMOA) countries, with few cases of negative growth, also showed some form of economic growth. As indicated in Fig. 1, African economic growth average was higher than ECOWAS average from 2004 to 2007 but remain tied in 2008 and 2009 at 5.4 and 3.1 % respectively. Thereafter, ECOWAS average rose above African average except in 2012 when it was 5.75 % compared to African average of 6.6 %.

A major characteristic of these economies is that agriculture is their mainstay and most of them depend on primary products for export. Indeed, the prices of these primary commodities are exogenously determined by international price movements. Thus, these economies are vulnerable to happenings in the economies of their trading partners and quite often, they constitute the source of exogenous shocks through which adverse economic consequences are imported from outside with dire consequences for sustainable growth and development. Accordingly, within the context of resource-rich countries, particularly in the developing world, economic diversification may help tackle a number of economic issues. In the first instance, it is expected to counteract the "Dutch Disease" effects of natural resources. Secondly, efficient public finance management maybe hampered by dependence on few

[1] It has been argued by some that part of the security challenges confronting the sub-region, for example, the Boko Haram insurgency in Northeast part of Nigeria, is traceable to extreme poverty in the region.

Table 1 :Real GDP growth rates, 2004–2011

	2004	2005	2006	2007	2008	2009	2010	2011	2012 (e)	2013 (p)
Benin	3.1	2.9	3.8	4.6	5	2.7	2.6	3.5	3.6	4.1
Burkina Faso	4.5	8.7	6.3	4.1	5.8	3	8.4	4.4	8	6.7
Cape Verde	4.3	6.5	10.1	8.6	6.7	−1.3	1.5	2.1	2.4	4.3
Côte d'Ivoire	1.6	1.8	0.7	1.6	2.3	3.8	2.4	−4.7	8.6	8.9
Gambia	7	−0.9	1.1	3.6	5.7	6.4	6.5	−4.4	1	4.3
Ghana	5.6	5.9	6.4	6.5	8.4	4	8	14.4	7.1	8
Guinea	2.3	3	2.5	1.8	4.9	−0.3	1.9	3.9	4.2	4.8
Guinea-Bissau	2.2	4.3	2.3	3.2	3.2	3.4	4.5	5.3	−1.5	4.2
Liberia	4.1	5.9	9.1	13	6.2	5.4	6.1	8.2	8.9	7.7
Mali	2.3	6.1	5.3	4.3	5	4.5	5.8	2.7	−1.5	5.4
Niger	−0.8	7.2	5.8	3.4	9.6	−0.7	8.2	2.1	13.1	5.5
Nigeria	10.5	6.5	6	6.4	6	7	8	7.4	6.6	6.7
Senegal	5.9	5.6	2.5	4.9	3.7	2.4	4.3	2.1	3.7	4.3
Sierra Leone	7.4	7.3	7.4	6.4	5.5	3.2	5.3	6	16.7	7.2
Togo	2.5	1.2	3.9	2.1	2.4	3.4	4	4.9	5	5.3
ECOWAS	4.2	4.8	4.9	5.0	5.4	3.1	5.2	3.9	5.7	5.8
Africa	6.1	5.9	6.3	6.6	5.4	3.1	5	3.5	6.6	4.8

Source African Economic Outlook, 2012
(e) Estimate, (p) Projection

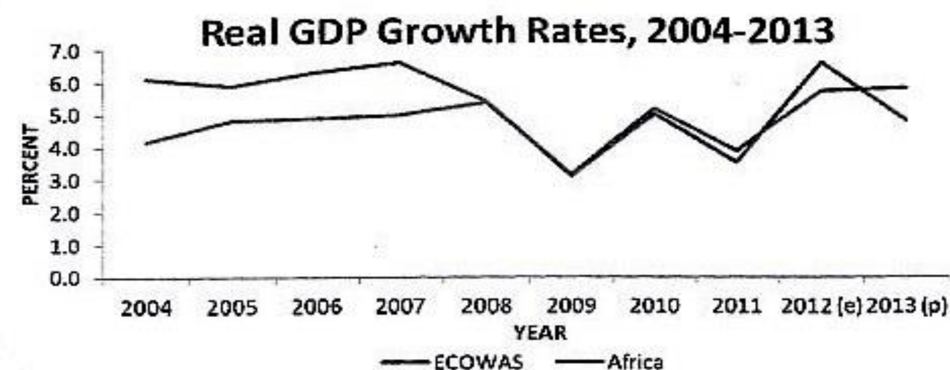

Fig. 1 ECOWAS and Africa real GDP growth rates

primary commodities especially minerals since they are price-volatile and exporting them, may transmit volatility into public finance and national income. It therefore implies that diversifying away from such dependence may help to stabilize public finance. Also, some resource-rich countries face depletion issue and economic diversification is one of few strategies available to ensure economic sustainability (Auty 1988, 1993; Humphreys et al. 2007; Gelb 2011).

However, a successful diversification of the economy would require the collaboration of the public and private sectors of the economy. In particular, the critical

role of the private sector as the engine of growth presupposes that adequate infrastructure provision and investment should be provided for the private sector to actually perform its critical role of being the engine of growth and stability.

Following this introduction is Sect. 2 which deals with a review of the evolution and diversity of the ECOWAS economy. Section 3 focuses on review of related literature on the subject matter while the issue of data and methodology is discussed in Sect. 4. Empirical results and interpretation are presented in Sect. 5. The policy recommendation and conclusion are provided in Sect. 6.

2 Overview of the West African Economy

Diversification is defined in terms of export concentration. Although various indices exist for measuring the degree of economic diversification, export diversification index is widely used in most studies. The use of export diversification/concentration index as a measure of overall economic diversity stems from the idea that dependence on a single or few commodities exposes a country to severe economic and political risks which manifest in the form of foreign exchange volatility with severe macroeconomic effects (on growth, employment, government finance, foreign reserve, etc).

The level of diversification of the economies of ECOWAS countries is depicted in Table 2. It is not surprising to observe that Nigeria, a key economy in the sub-region, is one of the least diversified economies. This is not unconnected with the fact that Nigeria is mainly dependent on oil, implying that there is urgent need for the country to diversify her economy away from a single commodity. Using diversification index (Table 2) among the ECOWAS countries, it is obvious that Nigeria is not the only economy in the sub-region that is highly concentrated on one or few commodity export. Only Cape Verde and Senegal show high level of economic diversification in comparative terms. Other countries with moderate level of diversification are Cote d'Ivoire, Benin, Togo, The Gambia and Sierra Leone. There are also some countries whose diversification outlook is not stable. For instance Ghana's diversification index was higher than African index in 2007, 2008 and 2011 while it felt below in 2009 and 2010. A similar trend was observed for Liberia. Her diversification index was below African index in 2007 and 2009 but higher in 2008, 2010 and 2011. In the case of Guinea, the diversification index was below African index in 2007–2009 but higher in 2010 and 2011. The other remaining countries namely Nigeria, Mali, Niger except in 2008, Burkina Faso, Guinea Bissau are considered least diversified based on the fact that they fall below the African index (see Fig. 2). The analysis has shown that less than 20 % of the sub-regional economy is relatively diversified. Thus, there is urgent need for policy to focus on increasing the degree of diversification of the sub-region's economy.

In both medium and the long run it is expected that the private sector would play a leading role in diversifying the economy of the sub-region. It is expected that the sub-region has the resilience to accommodate innovation and entrepreneurship.

Table 2 Diversification index for ECOWAS countries and Africa, 2007–2011

	2007	2008	2009	2010	2011
Benin	7.8	8.1	7	6.1	9.2
Burkina Faso	1.8	2.7	3.5	4.3	2.9
Cape Verde	14.3	5.8	12.3	10.4	8.5
Cote d'Ivoire	8.5	9	6.6	7.7	5.8
Gambia	8.6	3.8	5	10.8	7.2
Ghana	4.5	5	4	4.4	5.4
Guinea	3.7	3.5	2.5	5.1	8.2
Guinea-Bissau	1.4	1.2	1.2	3.1	2.2
Liberia	3.4	6.4	4.3	8.6	7.1
Mali	2	2.2	4.8	3.9	3.8
Niger	1.5	6	1.9	1.6	2.4
Nigeria	1.3	1.3	1.3	1.4	1.3
Senegal	26.2	10.7	13.6	10.2	14.3
Sierra Leone	7.5	9.1	13.2	8.5	8.7
Togo	10.6	5.8	7.2	10.6	7.4
Africa	4.3	3.8	5.2	4.7	4.8

Source African Economic Outlook, 2012
Notes The concept of diversification is examined in the text

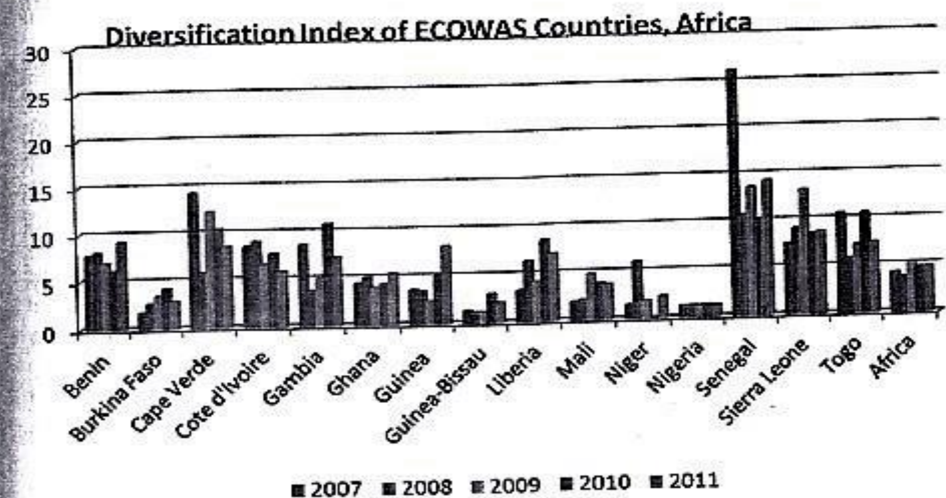

Fig. 2 Diversification index of ECOWAS countries and Africa, 2007–2011

This can be attested to by the private sector driven evolution of the entertainment industry and the attendant success thus far in the sub-region especially in Nigeria. The entertainment industry in Nigeria is a vibrant and very vital sector of the economy. It is said to be the second highest employer of labour in the country, apart from the civil service. The industry is mainly made up of young and creative individuals and comprises mainly music and movie aspects. Also, the tourism

sector which also has a strong private sector component is a major foreign exchange earner in The Gambia. Thus, hospitality sub-sector like hotels, recreational centres and event managements are also part of the private sector initiative in diversifying the economy of the sub-region. The impact of the entertainment industry in Nigeria, especially the film production component, is felt beyond the shores of the country extending to other African countries, Europe, America and other parts of the world. Thus, it has helped to broaden the revenue base for the economy as well as providing employment for a chunk of the populace. This is not to say that all is well with the entertainment industry in the country as it is confronted with myriads of problems and requires government support.

However, in the short-run, the role of government intervention is crucial. Thus, it is commendable that the federal government of Nigeria has intervened positively with a bailout donation of the sum of 200 million US Dollars ($200 m) to develop the entertainment subsector. It is, however, argued that government need to do more to help the industry develop on a sustainable level by coming up with legislations to strengthen and regulate the entertainment industry; with a view to checking piracy, attracting foreign participation and investment in the industry, training and developing capacity, providing the necessary infrastructure like viewing centres and distribution outlets across the country. The success of the entertainment industry is one clear case of the ability of the economy to absorb a lot more innovation with the potential of being exported to other countries.

In view of the long term strategy of the diversification programme, the private sector is expected to take the centre stage in production activities with little or no government protection and support overtime. Investment in research and development, technological advancement would form the fulcrum of these activities. Empirical studies have shown that social rates of return to Research and development (R&D) are substantially above private rates of return and this provides the main justification for government subsidies to R&D. The decision of firms to undertake R&D are based on their private return to R&D which is lower than the social rate of return and thereby creating under-investment in R&D. Government has continued to play a leading role in R&D through innovative activity in firms by direct spending on education such as universities or business, investing in human capital formation, patent protection laws, and capacity building. Other indirect policies of R&D are competitive policy and regulation especially within high R&D industries like pharmaceuticals and telecommunications.

Thus, the broad approach to developing the private sector or the private sector development strategy revolves around the engagement of the government by the organized private sector (OPS). In addition to the organised private sector's traditional role of advocacy and lobbying government to reduce the costs of doing business for the private sector, the OPS will also be engaged in internal restructuring and capacity building to develop resource and manage projects that grow the private sector. Further, the OPS will implement its part of the diversification process of private sector objectives and citizens economic empowerment through sectoral development and business linkages where the strategic sector goals and results are clearly spelt out.

3 Review of Literature

The debate on economic diversification is not a recent phenomenon in economic literature. It dates back to the work of MacLaughlin in the 1930s when he sought to explain the economic cycles in American cities by the degree of concentration of economic activities (see McLaughlin 1930 and Smith and Gibson 1988). Rapid development of these works occurred in the 1940s and 1950s and remained the dominant paradigm on growth and development up and until the end of the 1970s. These earlier works on diversification constituted the starting point for the theoretical reflection on the diversification of developing economies. Works on diversification have equally demonstrated that it plays an essential role in controlling economic vagaries, particularly fluctuation in prices of raw materials for developing countries. It would be recalled that Kuznets (1966) and Rostow (1960) made structural transformation of economies and their diversification an indispensable passage for growth and development. Early works on diversification placed emphasis on a series of elements considered as essential in strengthening the productive fabric of developing countries. The first element was linked to investment capacity or accumulation by countries (Lewis 1954). A large consensus has been established by the literature on the need to release significant resources for investment in order to diversify economic structures and strengthen the transformation of traditional economies.

The first generation of works on diversification was also at the origin of an important debate on sectoral priorities. Indeed, if some quarters defended the idea of balanced growth, many more emphasized the structural nature of some sectors that could play a cumulative role for the rest of the economy (Hirschman 1958). Similar to capital accumulation and sectoral policies, the first works on diversification had equally insisted on the role of industry. A consensus was established around industrial development and on its place in the transformation of traditional economies and the modernization of productive structures of developing countries (Gerschenkron 1962).

The notion of diversification was at the centre of early works on economic development in areas of development strategies, import-substitution strategies implemented by most developing countries in the 1960s and 1970s. Furthermore, these works generated a series of analytical work to define tools for measuring progress towards diversification such as input–output matrices.

Finally, these works sought to identify factors at the centre of the diversification process and put emphasis on investment, sectoral policies, and particularly industrial development. However, the crisis that began towards the end of the 1970s and the failure of import-substitution strategies led to the marginalization of the debate on diversification. In its place, macroeconomic stabilization and international specialization became the major themes of reflection and development policies. Nonetheless, there has been a dramatic resurgence of the debate on diversification.

Many factors have been adduced for the resurgence of the debate on diversification. In the first instance, there is the issue of weak economic performance in a great number of regions and countries, particularly in Africa. Furthermore, African

countries did not benefit much from the trade preferences accorded to them by a great number of developed countries, and various studies undertaken on the benefits likely to be derived by African countries from the Doha Round show that the benefits will be limited (ECA 2004). Several studies emphasize supply constraints and lack of diversification of African economies as reasons for Africa's low benefits from international openings.

The resurgence of the debate on diversification in economic literature a few years ago is responsible for these concerns. This new literature sought to come into the historical continuity of the open tradition in the debate on diversification. The second direction taken by the theoretical renewal concerns the determination of conditions for success in the diversification of productive structures of economies. The new research has an undisputed advantage compared to studies carried out in the 1960s and 1970s as it can draw on the differentiated experiences of developing countries during the last three decades (Gutierrez de Pineres and Ferrantino 1997).

Recent literature has identified several factors to explain the diversification process generally and in Africa in particular. The first series of factors is linked to the level of income in an economy. It has been shown by the works of Imbs and Wacziarg (2003) that diversification has an inverted U-shaped relationship with the level of development. Thus, diversification increases with economic development, measured by per capita revenue, then decreases with a turning point. In particular, this study put the emphasis on macro-economic aspects. Barthélemy (2005) confirmed this argument and emphasized the importance of healthy macro-economic management in the success of diversification efforts.

Another major factor determining diversification is investment, which contributes highly to the growth dynamics and to increasing productivity of new economic sectors. From this perspective, the historical experience of developing countries show that a rise in investments always translates into increased diversification of the productive capacity.

Apart from investment, the role of industrial policy is crucial in the diversification effort with industrial development constituting a major renewal of sectoral policies in the debate. Today, undoubtedly, industrialization must be at the heart of new diversification strategies in order to improve international integration of developing countries. Historical experience shows the role of this sector in growth dynamics and in improving competition of national economies. Industrial development plays a major role in the diversification of developing countries' economies and in improving international competition. Different studies have shown that other factors contribute in the diversification of the economic fabric including new technologies and opening up to foreign markets. These different works as well as historical experience emphasize the link at the origin of the diversification process and the improvement of international competition. Indeed, the countries which have succeeded in improving their position are those that maintained during the last three decades a high investment rate particularly in the industrial sector. This investment enabled them to access new technologies and improve productivity and competitiveness of their economies. These links have enabled these countries to increase their exports and improve their international integration. In addition to industrial

policy, trade policy also plays prominent role in the diversification of economies (ECA 2004). However, trade policies in Africa lack dynamism and give constant and linear support to some industrial activities that are not favourable to the development of competition in African economies (Hammouda et al. 2006).

A number of authors have sought to explain the connection between diversification and growth. In particular, the recent works on endogenous growth stresses the importance of diversification. Thus, the Romer model introduced a beneficial effect of diversification which is expressed through the availability of inputs within an economy and can contribute to increasing labour productivity and human capital (Berthelémy and Söderling 2001). It is also noted that diversification can equally contribute to growth by increasing the number of sectors and accordingly, investment opportunities and reducing investors' risks (Acemoglu and Zilibotti 1997). Among different authors, diversification plays a major role in economic growth through the stabilization of export revenues. Indeed, specialization in only one product was always considered a source for volatility and great instability. Their works derived inspiration from research on financial portfolios and the different diversification strategies in order to reduce investors' risks. At this stage, different works have shown the correlation between diversification and stability of export revenues and accordingly the sustainability of growth dynamics (Stanley and Bunnag 2001).

A substantial theory of economic diversification focuses on measures of economic diversity and political economy of diversification. The literature has actually identified a number of measures which can be summarized to include industrial organisation theory, economic base theory, regional business cycle theory, trade theory, portfolio theory, location theory and economic development theory. However, a widely used measure of economic diversification is the Herfindahl index, derived from the industrial organization theory. According to Scherer (1980), Herfindahl Index is a widely-used measure of market concentration which indicates the extent to which a particular regional economy is dominated by few firms.

Generally, the literature review has brought about the identification of a series of variables that influence the diversification process, which are grouped as five categories of variables. The first one pertains to the physical factors that are investment, growth and human capital. The second category is connected to policy decisions and particularly the impact of trade and industrial policies in strengthening the industrial fabric and in the diversification process. The third category deals with macro-economic variables such as exchange rates, inflation and big macro-economic imbalances. The fourth category touches upon institutional variables such as governance, conflicts and investment environment. Finally, the last variable concerns the issue of market access, which could play an important role in diversification policies especially through the elimination of tariff peaks and tariff escalation for developing economies' exports to developed countries.

Hammouda et al. (2006) though limited by poor quality of data was a bold attempt to fully model the determination of economic diversification in the entire African continent. The result for West Africa was particularly worrisome. Apart from the coefficients of the physical variables such as investment and per capita

income appearing with wrong signs, most of the important variables were not significant statistically. The policy variables such as trade openness and industrial production were also with the wrong signs. Hence, serious policy implications could not be drawn from this study. However, it should be noted that the study had serious limitation as only four countries were used to generalize for West Africa.

4 Data and Methodology

As demonstrated in the literature review, economic diversification is an endogenous process. Both the rate and level of economic diversification of a country is determined by both economic and non-economic factors. The theoretical and empirical literature have identified some of the determinants of economic diversification to include the level of gross investment, gross domestic product per capita, industrial production index, level of openness to trade, exchange rate policy, domestic fiscal balance, quality of governance, political stability among others. This study follows from the pioneering effort of Hammouda et al. (2006) by assessing the impact of the private sector development in particular on economic diversification of the West African countries. Accordingly, we specify the following generic model:

$$DIV = f(PRI, X_i) \qquad (1)$$

Where DIV = Diversification index
PRI = Private Sector development
X_i = a set of control variables

Although the Neo- and Post-Keynesian including New Keynesians believe in the long-run impact of government policies, there is a strong contention built around the Keynesian notion that government policies are more effective in the short-run. In the long-run, the private sector must be a key player. Hence, government should provide within the short-run the necessary environment for the private sector to innovate, invent and generate sustainable economic growth and development. Diversification therefore requires both short-run and long-run policies. In the short-run, public investment in infrastructure is paramount to encourage accumulation of private capital through private investment. Thus, in this study, private investment turns out as the proxy for private sector development. The volume of private investment serves as a rough measure of the level of private sector development. It is expected that increase in private investment would positively influence the rate of diversification of the economy.

Other determinants of economic diversification captured by X_i include the level of public infrastructural development, the quality of governance, political instability measured as number of conflicts. Public infrastructure is required for economic diversification; hence the two variables are expected to be positively related. We also expect good governance to enhance the rate of economic growth and

diversification. However, political instability and conflicts are detrimental to economic diversification and sustainable development in general. Thus, a negative coefficient is expected for conflict.

The estimable equation of economic diversification is therefore specified as follows:

$$\begin{aligned} DIV = \alpha_i + \beta_1 PRI + \beta_2 INFR + \beta_3 GDPPCGR + \beta_4 CONFLICT + \beta_5 TRADE \\ + \beta_6 PUBINV + \beta_7 GDPPCGR^2 + \varepsilon_{it}. \qquad (2) \\ \beta_1 > 0, \quad \beta_2 > 0, \quad \beta_3 > 0, \quad \beta_4 < 0, \quad \beta_5 > 0, \quad \beta_6 > 0, \quad \beta_7 < 0 \end{aligned}$$

Where DIV, PRI are as earlier defined. GDPPCGR is GDP per capita growth rate, INFR is the state of infrastructure measured as the number of telephone users per 1,000 people, TRADE is openness to trade measured as exports plus imports over GDP, CONFLICT is measured as the number of violent protest. α_i are the fixed effects for countries and ε_{it} are random error terms.

The model is estimated using the panel least squares method. Data for all the variables covering the period 2007–2012 are from the African Economic Outlook 2012 database and World Bank Africa Database. Economic diversification index as contained in the African Economic Outlook is derived from COMTRADE Harmonized system. It ranges from 0 to 100, with zero denoting full concentration while full diversification is 100. This is also in accordance with the Absolute Deviation of the country commodity shares widely used by UNCTAD to measure the extend of the differences between the structures of trade of a particular country and the world average, its value ranges from 0 (less diversified exports) to 1 (more diversified export) (Samen 2010).

5 Empirical Results

Table 4.3 presents the empirical results. First, the coefficient of the variable of paramount interest, private sector development was both positive and statistically significant at 10 % level. This is consistent with the theoretical prediction. Other things held constant when private sector investment rises by 10 %, index of economic diversification rises by 3.3 units. Second, the effect of infrastructure is negative though not significant at 5 % level of statistical significance.

This should not be surprising considering the poor state of infrastructure in West Africa in the past few years. Improving the state of infrastructure should continue to be the top-most priority of government. Improvement in the state of infrastructure would enable private sector development and economic diversification. The conflict variable is associated with a positive coefficient though not statistically significant at 5 % level. This result also is not in accordance with the theoretical prediction that political conflict retards the opportunity for economic diversification. The coefficient of growth rate of GDP per capita in linear form has a negative sign contrary to

Table 3 Empirical results

Dependent variable: economic diversification			
Explanatory variable	Coefficient	t-statistics	P-values
Constant	−7.3769	−1.2525	0.2182
Private sector investment	0.3344*	1.7645	0.0859
Conflict	0.0920	0.5651	0.5754
GDP per capita growth rate	−0.0469	−0.4640	0.6453
GDP per capita growth rate^2	−0.0444*	−1.9661	0.0568
Infrastructure	−0.7717	−1.5641	0.1263
Trade openness	0.1248**	2.2481	0.0306
Public investment	0.5412*	1.7974	0.0804

Adjusted R-squared = 0.26, F-statistics = 3.18, Prob(F-statistic) = 0.009, N = 45, DW = 1.76

Source Computed by the authors using reviews 7

Note * and ** indicate significant at 10 and 5 %, respectively

apriori expectation though not significant at 5 %. However, the coefficient of growth rate of GDP per capita in square form has a negative sign and is significant at 10 % level; thus, indicating the existence of non-linear relation between the growth rate of GDP per capita and economic diversification. Non-linear relationship implies that as the growth rate of GDP per capita is increasing the economy becomes more diversified up to a threshold. Beyond this threshold increasing growth rate of GDP per capita leads to more specialization of the economy.

The coefficients of the rest of the variables have expected signs. Public investment has a positive and significant impact, supporting the thesis that the public sector investment is necessary for setting a conducive business environment for the private sector and economic diversity. Trade openness as expected has a positive and highly significant impact on economic diversification. Increase in trade openness further enhances opportunity for economic diversification.

Overall, the coefficient of determination is low. The adjusted R-squared of 0.26 shows that the explanatory variables, collectively, explain 26 % of the variations in the dependent variable, economic diversification. The F-statistic indicates that the model as a whole is significant while the Durbin Watson statistics of 1.76 is indicative of no serial autocorrelation.

6 Policy Recommendations and Conclusion

Reliance on a single or few commodity exports, as seen among most African countries, is not a healthy development. Most economies in West Africa are highly concentrated on a single commodity export, often primary product. In this study, we have examined factors determining economic diversification in West Africa using most recent data with the intention of discovering key policy implications that can help diversify the economy of these countries. In congruent with our ex ante expectations, the results of the econometric analysis provide some useful policy

lessons for those West African countries wishing to overcome the single-commodity export syndrome and increase their level of economic diversity.

The findings show that economic diversification depends on the level of private sector development. Private sector innovation and investment are essential element of economic progress. Without strong entrepreneurial skill, innovation and efficient investment it would be difficult to make inventions and discoveries which will create jobs and enhance sustainable economic development. Providing incentive for private sector investment, therefore, becomes the major policy challenge for the government and policy-makers. Antagonistic macroeconomic policy (monetary and fiscal) could hurt economic diversification through its adverse impact on private sector development. In addition, the study shows that trade policy has implication for economic diversification. Policies that encourage openness to trade are likely to enhance economic diversification in the long run.

Lastly, the findings support the proposition that efficient provision of infrastructural services is the basis for economic growth and diversification. Economic diversification has been hampered in most African countries by lack of infrastructure (both hard and soft). Policy makers should note that without adequate provision of basic infrastructure, the drive toward economic diversification will remain a fantasy. With the present state of weak, outdated and inefficient infrastructure, policy is needed to provide public infrastructure otherwise the quest for economic diversity will remain but a delusion. Thus, in the short run public investment should be focused on providing the basic infrastructure and setting a conducive business environment for the private sector to operate and generate sustainable economic development in the long run.

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