



Building productive capacities,
structural transformation and
graduation

Experts Meeting, UNCTAD XIII
Addis Ababa, Ethiopia
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ECA Governance Project

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Objectives of Governance Project

- Establish criteria for measuring and monitoring good governance;
- Develop, sustain and internalize the norms of good governance within the public and private realms;
- Develop a better understanding of governance processes, mechanisms and policies; and
- Assist the institutional capacity assessment by identifying capacity gaps.

Methodology Used - Research instruments;

- Expert Panel Survey;
- Household survey;
- Focused Group Discussion; and
- Desk Research.





AGR Overview

- AGR I – General Report covering 27 African Countries in 2005
- AGR II – General Report with an update of 27 countries in AGR I and 9 new countries in 2009
- AGR III: Elections and the Management of Diversity in Africa due to be published in 2011, includes 41 countries.



Main Findings of AGR I & II

Overall Progress towards Governance

- Political Liberalization
- Improved Economic Management

Overarching Challenge

- Capacity Deficits

Marginal Progress between AGR I and AGR II

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Institutional and Governance related challenges to building productive capacities in Africa

The governance and institutional challenges to mobilization of resources:

1. Reformed tax sector.
2. Reduced capital flight and inefficiencies in resource allocation; and
3. Increased investment opportunities;

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Governance and Institutional Challenges to Mobilization of Resources:

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1. Reformed Tax Sector

- ❏ Strengthening tax administration is perhaps the most cost effective approach to increasing DRM;
- ❏ Tax base has to be broadened and the system be simplified;
- ❏ tax incentives are not the primary determinant of investment decision;
- ❏ Create a climate of trust between taxpayers and the tax administration;
- ❏ Simplify the tax legislation to eliminate the administration's discretionary powers and opportunities for corruption;
- ❏ Fight corruption and fraud. Dealing with tax evasion and corruption by strengthening detection and subsequent prosecution of wrong doers

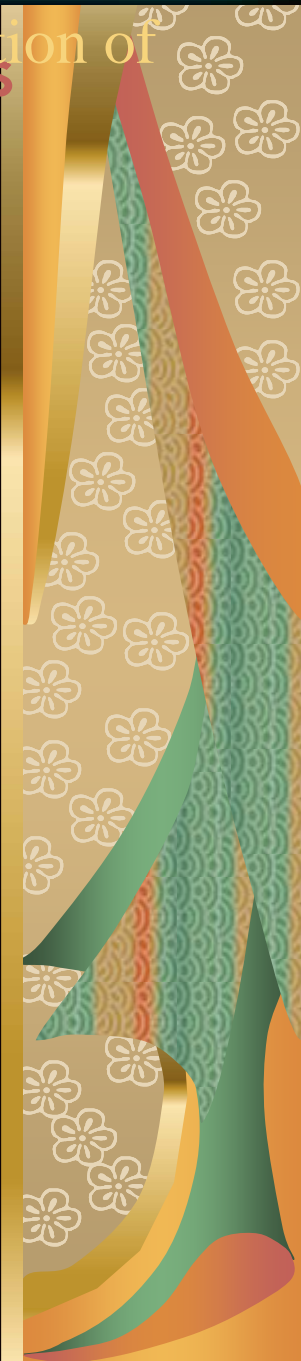




Governance and Institutional Challenges to Mobilization of Resources:

2. Capital Flight:

- Weak financial management and enforcement systems, which make it possible to repatriate resources through theft and tax evasion.
- Political instability, which makes the holding of domestic assets risky and therefore leads to a search for a safer home for these assets.
- Search for better returns on investment outside the country.
- Financial liberalization which has made it easier to externalize financial resources.
- Limited financial instruments in the domestic market which limit the available investment opportunities in the local market.
- Macroeconomic instability manifested in the form of high inflation, exchange rate volatility and the high cost of borrowing.
- Heavy and capricious taxing of investments and deposits, which make the option of investing in markets where such taxes do not exist attractive.





Governance and Institutional Challenges to Mobilization of Resources:

3. Increased investment opportunities

- ❏ Better incentives along with appropriate policy framework should be put in place to encourage the private sector to increase investment.

- ❏ Improved governance in the following areas
 - policy making and dialogue;
 - institutional and regulatory framework;
 - balanced and effective macro economic policies; and
 - policies governing domestic and foreign investments.





Conclusion

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- Governance is a process not an event, and the product of many deliberate policy choices
- With sustained political will governance will continue to improve in the continent
- Achieving Good Governance requires the participation and contribution of various stakeholders





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