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Item 6: Economic Development in Africa:
Catalysing Investment for Transformative Growth in Africa

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Africa, Least Developed Countries and Special Programmes
UNCTAD

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Economic Development in Africa

Catalysing Investment for Transformative Growth in Africa

Mr. Taffere Tesfachew, Director
Growth Trends in Africa

Impressive GDP growth (annual average in %)

In 2000-10, 12 countries have had an average growth rate >6.1%, i.e. the average for developing countries.
Growth Trends in Africa

- Impressive export performance

( Billion, US$ )
Growth Trends in Africa

- External financial flows to Sub-Saharan Africa (Billion, US$)
Worrying Trends:

- Growth has not generated the expected benefits:
  - Slow pace of poverty reduction in Sub-Saharan Africa:

Source: MDG Report 2013
Worrying Trends:

- Commodity exports-driven growth, which in turn led to:
  - Intensification of dependency on commodities
  - High export concentration and increased volatility

Process of de-industrialization:

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</thead>
<tbody>
<tr>
<td>Agriculture, hunting, forestry, fishing</td>
<td>19.1</td>
<td>21.4</td>
<td>18.2</td>
<td>16.4</td>
<td>15.2</td>
<td>15.4</td>
<td>15.9</td>
<td>16.5</td>
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<td>Industry</td>
<td>42.2</td>
<td>35.7</td>
<td>34.6</td>
<td>32.7</td>
<td>35.6</td>
<td>38.9</td>
<td>38.5</td>
<td>37.7</td>
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<td>of which</td>
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<tr>
<td>Manufacturing</td>
<td>12.5</td>
<td>12.6</td>
<td>14.9</td>
<td>14.7</td>
<td>12.8</td>
<td>11.3</td>
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<td>9.1</td>
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<tr>
<td>Services</td>
<td>38.8</td>
<td>42.9</td>
<td>47.2</td>
<td>51.0</td>
<td>49.1</td>
<td>45.7</td>
<td>45.6</td>
<td>45.8</td>
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Worrying Trends:

- High dependence on external flows:
  - Sustainability and predictability problems
  - High concentration of external flows on a few sectors and countries
  - Public investment remains low
  - Unexploited complementarities between public and private capital
  - Excessive dependence on foreign investment
Worrying Trends:

- Consumption-driven growth: household consumption has been the dominant component of demand
  - Unsustainable in the long-term

<table>
<thead>
<tr>
<th>Table 2. Shares and growth rates of demand components in Africa, 1990–2011</th>
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<tbody>
<tr>
<td><strong>1990–1999</strong></td>
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<tr>
<td>Share of GDP</td>
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<td>Household consumption</td>
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<td>Government expenditure</td>
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<td>Gross fixed capital formation</td>
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<tr>
<td>Exports</td>
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<tr>
<td>Imports</td>
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</tbody>
</table>

Source: UNCTAD.
Worrying Trends:

- Job-less growth:
  - Recent trend in employment creation show it is low in Africa
  - Employment growth of 2.8% per year
  - Most jobs are in the informal sector
  - 14 million new entrants to the labour market each year
Worrying Trends:

- Low-productivity-based structural change
- Growth without structural transformation

Shifting resources and policy focus

FROM:
- Traditional sector
- Traditional activities
- Low-productivity
- Low-technology

TO:
- Modern sector
- Modern activities
- High-productivity
- High-technology
Key messages from the Report

- Recent growth has not been transformative and, thus, not sustainable
- African growth has been driven by consumption. There is a need to broaden the source of growth on the demand and supply side
- Investment is key to broadening the source of growth by (a) boosting the quantity of investment and (b) improving the productivity and quality of investment
Catalysing investment for transformative growth:

- **Boosting investment rates**
  - The average investment rate in Africa was 17.7% in 1990-99 and 18.7% in 2000-2011, compared to 24% and 26% for developing countries, respectively.
  - Over the past two decades, the investment rate was either unchanged or declined in 28 countries.
  - To achieve the target of 7%, Africa needs far higher investment rates, ranging from 25% (IPoA), 33% (ECA), 28%-35% (LDC Report 2006)
Catalysing investment for transformative growth:

- Improve the productivity of investment
  - The incremental capital-output ratio measures the degree of inefficiency in the use of capital

![Bar chart showing incremental capital-output ratios across developing-country groups](image)
Catalysing investment for transformative growth:

- Improve the productivity of investment...
  - Lift the main binding constraints: poor state of infrastructure, lack of access to affordable finance, risk and uncertainty.
  - Better project selection process and delivery, invest in maintenance of existing infrastructure, targeted public investment (energy, transport...
Catalysing investment for transformative growth:

- **Ensuring investment into priority sectors**
  - Target investment towards growth-enhancing and job-producing sectors (including infrastructure and production sectors – agriculture, manufacturing) requires both Private and Public sector Investment
  - Sectors should be chosen by the country and should be reflected in national development plans
  - Industrial policy is key to allocate investment to desired sectors or activities
Catalysing investment for transformative growth:

- Reverse the decline of public investment
  - Public investment in Africa are below optimal levels

Figure 5. Gross fixed capital formation in Africa – private and public (Percentage of GDP)

Source: World Development Indicators.
Catalysing investment for transformative growth:

- **Reverse the decline of public investment...**
  - Empirical analysis found that public investment rate that maximizes consumption is between 8.4% and 11% (Fosu et al., 2012)
  - Public investment should be increased to its optimum level to enhance the potential impact of private investment on growth
  - Ensure that public investment does not crowd out private investment
Catalysing investment for transformative growth:

- **Strengthen the linkages between local and foreign firms**
  - Design policies aimed at encouraging linkages
  - Avoid discrimination against local investors and promote entrepreneurship
  - Invest in human capital and in raising the absorptive capacity of local firms (through technology transfers, for example)
Catalysing investment for transformative growth:

- **Stemming capital flight to boost investment**
  - Unrecorded outflows of private capital have been estimated at amounting to $50 billion per year, exceeding ODA (Boyce and Ndikumana, 2012)
  - Resource-rich countries account for ~43% of total capital flight in the period 2000-2010.
  - Capital flight occurs through various methods: transfer pricing, tax evasion, profit shifting, etc.
  - Improvement of the tax and customs administration, transparency rules are needed, plus it is necessary to revisit the generous investment incentives
Catalysing investment for transformative growth:

- **Leveraging ODA to boost investment**
  - Africa is a major recipient of ODA: from $20.4 billion in 2002 to $46.1 billion in 2012
  - More aid should be channelled towards productive sectors (increase labour productivity,
  - Aid is necessary to lift supply-side constraints that prevent the private sector from investing, particularly infrastructure (eg. Power Africa project of the U.S.A.)
  - Use aid for trade effectively to build supply capacity
Catalysing investment for transformative growth:

- **Use trade as a source of finance:**
  - Make full use of existing market access opportunities
  - Build productive capacities with structural transformation
  - Be strategic in international integration
Thank you!

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