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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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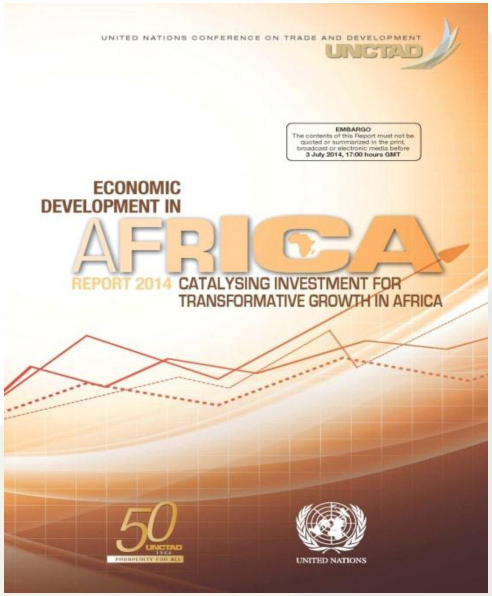
Economic Development in Africa

Catalysing Investment for Transformative Growth in Africa



Mr. Taffere Tesfachew,
Director

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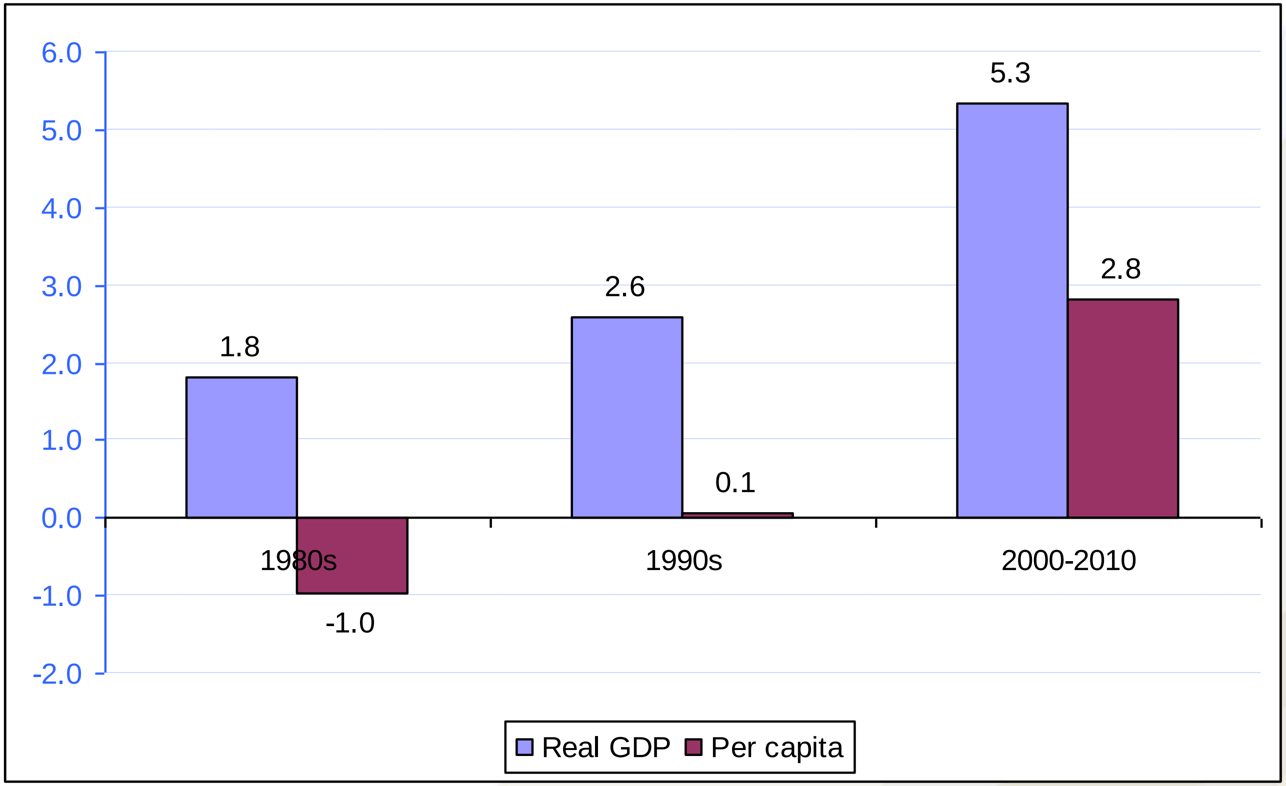
Growth Trends in Africa

Impressive GDP growth (annual average in %)

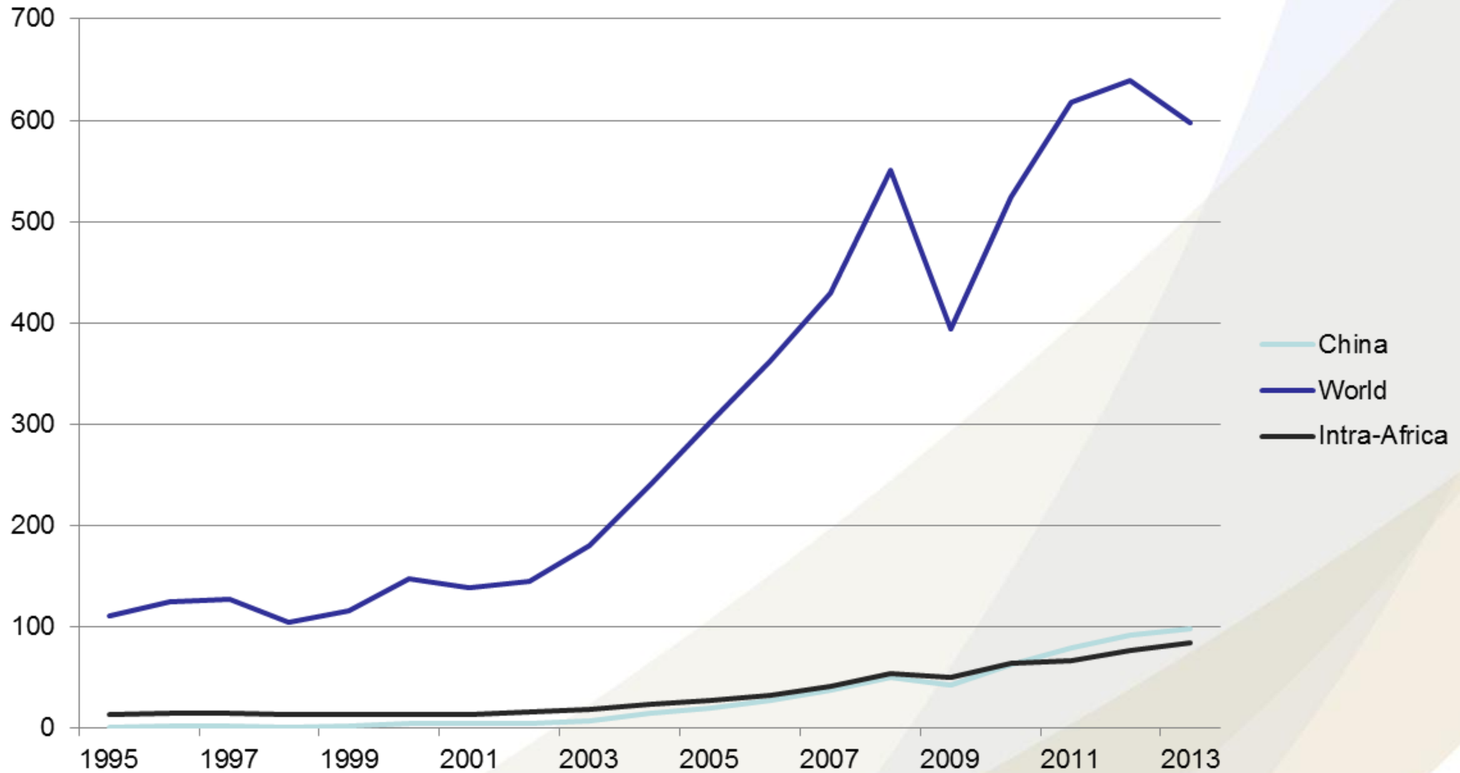


In 2000-10, **<u>12</u>** <u>countries</u> have had an average growth rate >6.1%, i.e. the average for developing countries

Growth Trends in Africa

- Impressive export performance

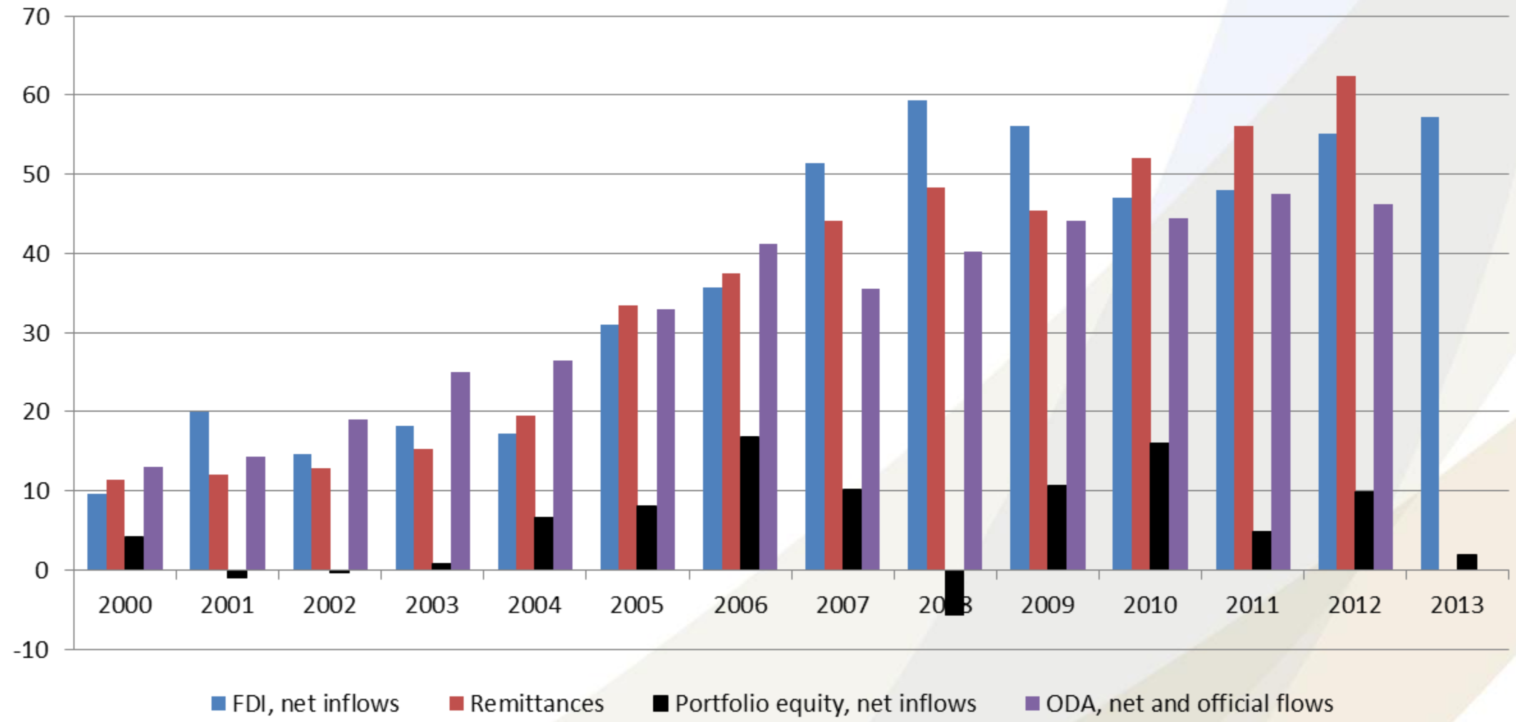
(Billion, US$)



Growth Trends in Africa

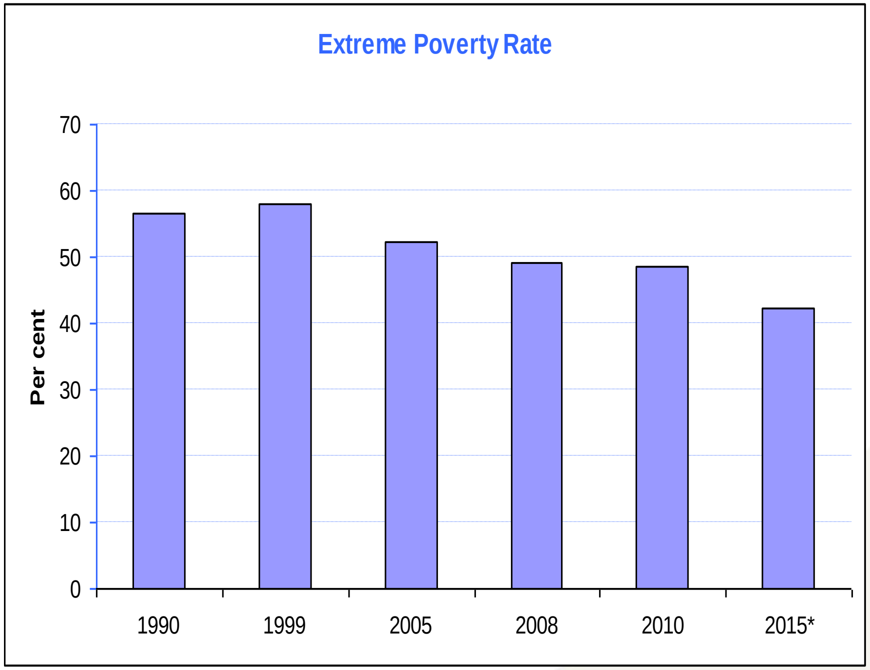
- External financial flows to Sub-Saharan Africa

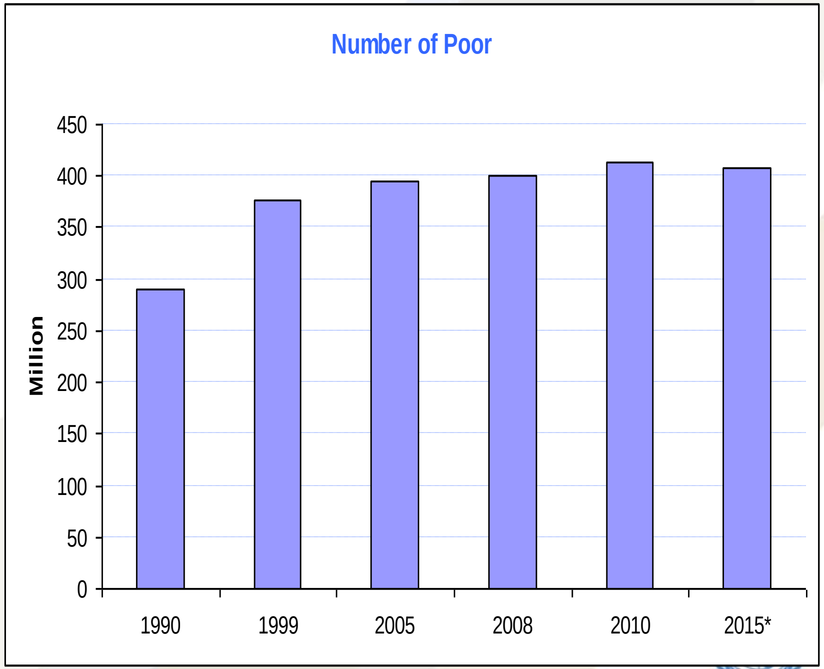
(Billion, US$)



Worrying Trends:

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





Source: MDG Report 2013

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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:

	1980	1985	1990	1995	2000	2005	2010	2012
Agriculture, hunting, forestry, fishing	19.1	21.4	18.2	16.4	15.2	15.4	15.9	16.5
Industry	42.2	35.7	34.6	32.7	35.6	38.9	38.5	37.7
of which								
Manufacturing	**12.5**	**12.6**	**14.9**	**14.7**	**12.8**	**11.3**	**9.8**	**9.1**
Services	38.8	42.9	47.2	51.0	49.1	45.7	45.6	45.8

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 2. Shares and growth rates of demand components in Africa, 1990–2011

	1990–1999		2000–2011	
	Share of GDP	Average growth	Share of GDP	Average growth
Household consumption	65.8	2.6	62.0	5.0
Government expenditure	16.5	2.1	15.1	5.3
Gross fixed capital formation	17.7	3.0	18.7	6.6
Exports	25.8	3.6	34.8	4.9
Imports	26.8	3.8	32.1	7.4

Source: UNCTAD.

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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:		**TO:**
-Traditional sector	→	-Modern sector
-Traditional activities		-Modern activities
-Low-productivity		-High-productivity
-Low-technology		-High-technology

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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

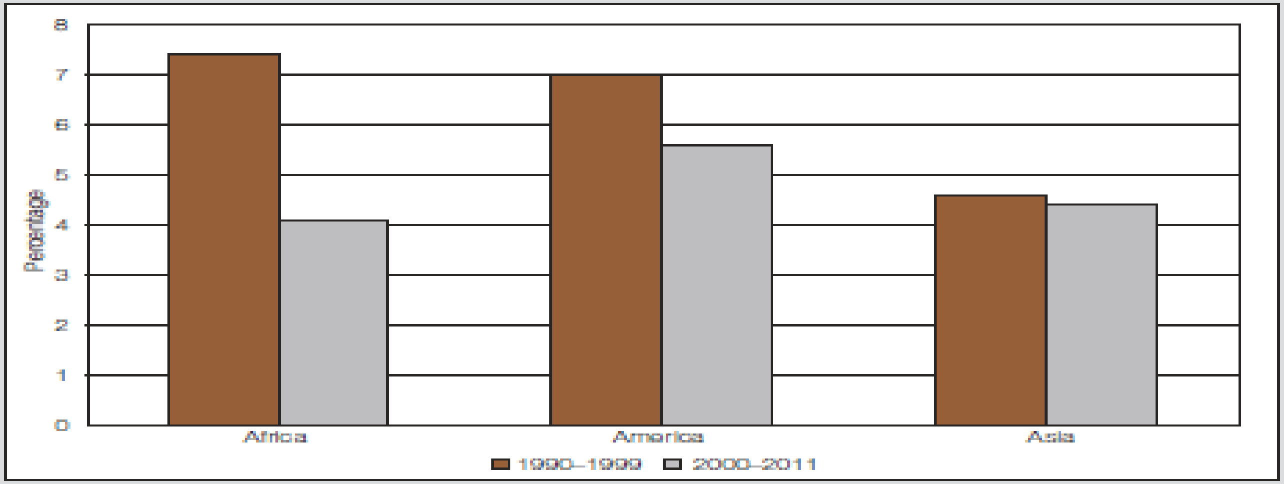
Catalysing investment for transformative growth:

- **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

Figure 4. Incremental capital–output ratios across developing-country groups



Source: UNCTAD.

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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…)

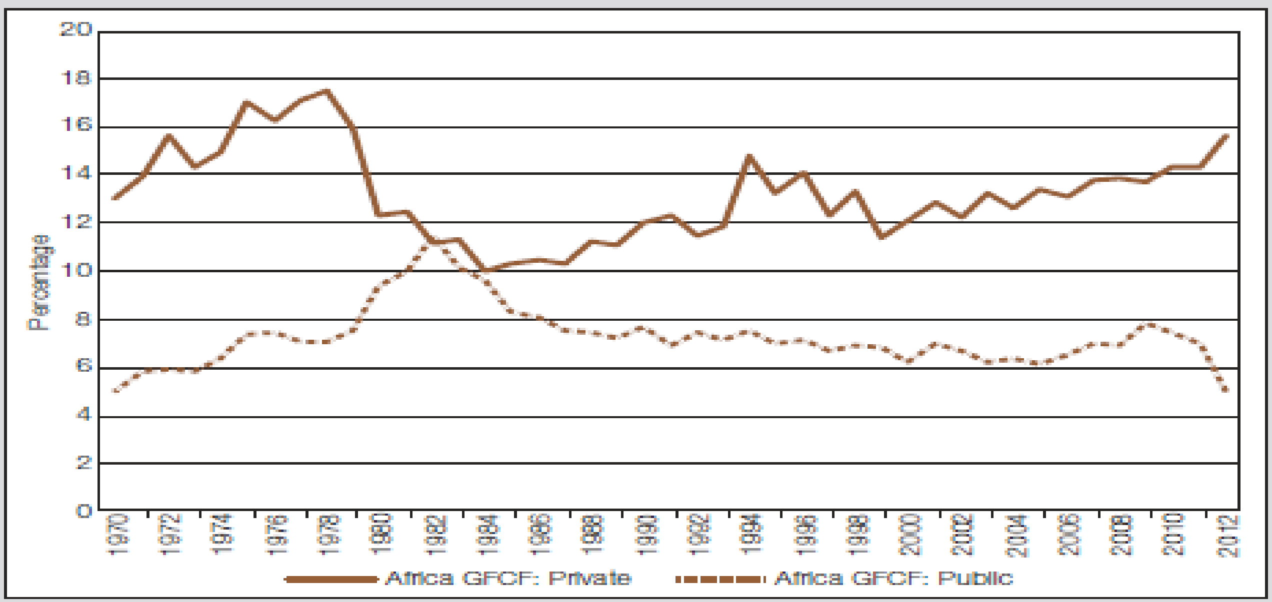
Catalysing investment for transformative growth:

- **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 desidered sectors or activities

Catalysing investment for transformative growth:

- **Reverse the decline of public investment**
  - Public investment in Africa are <u>below </u>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

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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

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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

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Thank you!

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