Eighteenth Meeting of the

Technical Preparatory Committee of the Whole (TEPCOW)

OPENING STATEMENT by
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Addis Ababa, 29 April 1997

Mr. Chairman,

Your Excellency, Ato Makonnen Manyazewal

Vice-Minister of Economic Development and Cooperation of the Federal Democratic Republic of Ethiopia;

Your Excellencies, Ambassadors and Plenipotentiaries;

Distinguished Members of TEPCOW;

Distinguished Observers;

Colleagues;

Ladies and Gentlemen;

Welcome to this year's Technical Preparatory Committee of the Whole, welcome to Addis Ababa, and most importantly, welcome to a new ECA -- a re-energised and reformed ECA which continues to be guided by the recommendations and guidance you provided at last year's meeting. To those of you who were here last year, and who did such fine work guiding us in our proposals for the re-orientation of this Commission along strategic new directions to serve Africa better, I say: "I am glad to renew our acquaintance."

I will, once again, be seeking your expert and pragmatic guidance on three other major reform issues: streamlining of the Commission's inter-governmental machinery; the rationalization of the 30 ECA-sponsored institutions that have been established over the years by the member States; and the institutional strengthening and rationalization of the Multinational Programming and Operational Centres (MULPOCs). The restructuring of the Commission's work programme calls for a parallel institutional re-organisation of the Intergovernmental machinery and the specialised technical institutions. These kinds of changes will complement the work that we started last year and strengthen our service capacity to our Member States.

I would also like to thank the Vice-Minister Ato Makonnen Manyazewal for his opening statement at this year's TEPCOW. We are grateful for the

Government of the Federal Democratic Republic of Ethiopia and for their continued support for the work of the Commission.

Mr. Chairman,

Ladies and Gentlemen,

Investment and trade hold the key to accelerating development, ensuring rapid progress towards the elimination of abject poverty, raising average household incomes, and sustaining a higher rate of economic growth for this continent. For these reasons, we have chosen as a theme for this year's Conference of Ministers -- *Accelerating Trade and Investment in Africa.* We hope that, through an in-depth discussion and a sharing of experiences and best practices at TEPCOW and the Conference of Ministers Meeting, a common policy platform will be established to serve as the basis for more successful efforts to attract investors and expand exports.

Your Excellencies,

Ladies and Gentlemen,

Having now briefly reviewed the key topics of this meeting, let me turn to the traditional part of these presentations - the overview of economic progress in the past year. Africa's performance has improved considerably, and there is a new spirit of optimism on the continent. We see an emerging and more dynamic Africa where:-

- many countries are enjoying greater prosperity than ever before;
- 24 countries have posted growth figures over 4 percent;
- 32 countries grew faster during 1995-1996 than during 1992-1994;
- fiscal and current deficits have been sharply reduced in many countries;
- inflation has been reduced to moderate levels in several countries, and there is increased activity in African capital markets.
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According to ECA's *Report on the Economic and Social Situation in Africa, 1997*, preliminary figures indicate that the economic recovery underway since 1994 has continued. More gratifying still, most of the African countries are participating in this improving economic performance. We are convinced that the principal factor underlying last year's strong economic performance across the continent is the conducive policy environment created by the new economic reforms. In many African countries, the fundamentals are much more solid today than they have been in decades. And there is a commitment to extending and entrenching these reforms.

Mr. Chairman,

Much as the continuing economic recovery is cause for optimism, it is premature to declare victory. In spite of the recovery and the positive changes taking place on this continent, social indicators remain below those of other regions. Poor income growth, as well as environmental, and population pressures keep almost half of Africa's 590 million people in poverty. In fact, absolute numbers living in poverty are increasing.

The economic policies which are giving rise to the on-going recovery should be fine-tuned to support a more broad-based pattern of economic growth, which would spread the fruits of increased economic activity to all sectors of the population.

Poverty reduction -- breaking the poverty cycle -- requires an integrated approach which includes investments in education (particularly for women), health, family planning, and management of natural resources. A significantly higher rate of economic growth must also be sustained to sustain poverty reduction. To do this, a number of key factors merit policy attention:

- better land distribution and security of tenure;
- access to micro-credit by small-scale producers, a critical anti-poverty tool and a means for promoting self-employment in Africa;
- research geared to the development of crop and livestock strains and farming practices appropriate to African conditions;
- agricultural extension services to disperse more productive techniques, and investing in infrastructure, particularly in rural areas, a key responsibility of government.
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And in Africa, women deserve particular attention. They play a pivotal role in the African economy, yet many are entrenched in poverty and face immense obstacles to expanding and reaping the rewards of their economic activities. We must do more to promote the economic and social empowerment of women.

Mr. Chairman,

Ladies and Gentlemen,

By all standards, the volume of savings and investment are considerably below the levels needed to attain and sustain a rate of growth that would have any appreciable or significant impact on poverty reduction. To achieve a target rate of GDP growth of 8 per cent per annum, for instance, Africa needs to raise its investment by at least a third.

As I mentioned in my address to the Conference of Ministers of Finance and Governors of Central Banks, there has been concern that Africa's traditional sources of development support are declining, while the new global motors of finance are bypassing Africa. This concern is warranted in many respects.

Net aid to developing countries has stagnated or declined over the past decade. Measured in constant 1994 dollars, net official development assistance received by developing countries during 1986-1994 remained in the range of $54-$61 billion. During the same period, the share of net ODA in DAC members' combined GNP dropped from 0.33 percent to 0.29 percent, the lowest level since 1973.

While official development assistance is declining worldwide, record levels of private capital are flowing to developing countries. Overall, private capital flows to the developing world went from $44 billion in 1990 to about $244 billion in 1996. Of this amount, 73 percent went to 12 countries, mostly in Asia and Latin America. The flows to Africa are lower, as a percentage of GDP than all other developing regions. Only about 3 percent of all the flows of private capital go to Sub-Saharan Africa.

While private investment (that is, FDI and portfolio investments) is steadily supplanting aid and external credit as the principal sources of resource transfers, Africa has continued to experience enormous difficulties in attracting private investment.

Why not Africa? Experience in other regions has shown that investors chose countries with stable political and economic environments. Our challenges therefore, as I described to the meeting of Finance Ministers, are to: deepen or restore macroeconomic stability to help improve the general investment climate; pursue regional cooperation and integration arrangements to expand domestic markets; push for more outward-oriented and market-based investment regimes; expand Africa's physical, financial, human, and institutional infrastructure; promote favourable labour market policies to reduce the overall costs of production; and end civil strife and conflict -- which feeds a perception of risk -- to improve the attractiveness of Africa for investment.

In view of the weakening of traditional sources of development support, financing additional investment to spur vigorous growth and to reduce poverty in Africa is likely to emerge as one conspicuous challenge facing our continent. The Conference of Finance Ministers covered three issues -- financial sector reform, the development of capital markets, and Africa's debt problem -- matters of great importance in expanding our ability to take better advantage of the global financial investment and trade markets. The Conference of Planning Ministers, on the other hand, will focus on other related issues, including investment promotion policies, trade and regulatory policies, and the role of information and communication.

What are the relationships between trade, investment, and economic growth? Foreign investment involves more than just filling the investment-savings gap. FDI invariably brings along advanced new technologies, new products, new more efficient production processes, new approaches to managing personnel and resources, and guaranteed access to lucrative export markets. All these advantages are passed on to indigenous firms with whom foreign direct investors enter into business partnership.

The integration of such "emerging" economies into the global economy is accelerated by opening doors to foreign investment. Both investment and trade are boosted. Even the vexing problem of how to diversify the production and export base can be solved if there is a sufficient level of FDI linked to local firms through procurement and subcontracting arrangements.

This last point is important because Africa has not been able to capitalise on the rapid expansion of the world export market. The Uruguay Round, which will significantly reduce tariff and non-tariff barriers around the world, poses challenges, but it also creates vast trade opportunities. Unless our countries gear up for the increased competition in the integrated global market, they will not share in the gains. Given the importance of these issues to Africa in the post-Uruguay round world, we will also be discussing a special project that we have undertaken with Purdue University. It provides a quantitative analysis of how the implementation of the Uruguay round will affect African economies. It highlights the probable effects of two key policy responses -- first, a policy change which involves the government's role in the trade and transport sector; second, agricultural policy reforms.

Mr. Chairman,

The major policy to be addressed at this TEPCOW meeting include finding out the answers to -- Why international private investment capital by-pass Africa, and are there useful lessons that we can learn from the countries attracting it? How can we make Africa a more attractive place for private capital flows? How can we participate more fully in the trade expansion in the post-Uruguay Round era?

In particular, why are countries which have taken concrete and far-reaching steps in the direction of liberalising their trade and investment policies still being by-passed by investors? Indeed, many African countries have declared themselves open for business, introduced very generous investment codes, streamlined import tariff structures and slashed top and average rates, and are providing arrangements to exempt exporters from import duties on capital goods and raw materials.

Indeed this was a paradox that a number of African Heads of State discussed at the ECA Conference -- Reviving Private Investment in Africa -- held in Accra in June 1996. I submit to you three possible explanations for this paradox: The first one is *the perception of Africa as high-risk place* -- rightly or wrongly. The second is the actual *high cost of doing business*. The third factor is the *poor relative international competitiveness* of African countries.

Therefore, in your deliberations, I would ask that you:

- clarify and reinforce the linkages between trade and investment policies;
- facilitate a sharing of experiences and best practices on trade and investment promotion;
- assess the degree of success that African countries have achieved by use of various incentives and other instruments to promote trade and investment, and whether these are perceived to be cost-effective or not, and
- weigh the three factors of investors' risk perception, the cost of doing business, and determinants of international competitiveness.
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Mr. Chairman,

Distinguished Delegates,

Improved information exchange and more efficient communications hold an important key to ameliorating risk perception, lowering the costs of doing business, and strengthening our countries' competitiveness. African and foreign business partners can be linked through modern communication technologies, including the Internet. Quality information about economic opportunities in Africa can be broadcast to the world. And, African business operators can tap global information networks to find out lucrative opportunities which they could exploit.

It is for this reason that the new ECA attaches increased importance to the strengthening of Africa's information capacities. Indeed, considerable work has been undertaken in the last twelve months to advance the implementation of the African Information Society Initiative (AISI), which was adopted at last year's Conference of Ministers. We will submit a progress report to you; and a special presentation event on information and communications technology will be organised next week during the Conference of Ministers. Among the issues to be examined at the special event are the requirements for private investment in information and communication infrastructure in African countries.

The new ECA is not only ready to serve Africa better in the area of development information, but in the remaining four other sub-programme areas of focus and the two cross-cutting areas of gender and capacity building. I am pleased to let you know that we are already showing valuable results from the reforms that have been undertaken. The new structures for our substantive work programmes have been in place since the beginning of the year. We have revamped our senior management team and recruited high calibre individuals who were selected for their intellectual, technical, and managerial excellence. Of the seven managers recruited from outside ECA, two are already on board, and the others will be at their post by mid-May.

Also, in line with the modalities for the improved delivery of our work programme which I outlined to the Conference of Ministers last year, the 1998-99 biennium programme that you will be reviewing emphasizes:

- fewer and improved reports;
- fewer and more productive meetings;
- enhanced networking with key actors in Africa's development;
- increased interaction with Member States, including more technical support, and strategic partnerships.

There are three additional major issues on your agenda for consideration:

- the streamlining of the Commission's inter-governmental machinery;
- the rationalization of the 30 ECA-sponsored institutions that have been established over the years by the member States, and
- the institutional strengthening and rationalization of the Multinational Programming and Operational Centres (MULPOCs).
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A streamlined intergovernmental machinery will reduce the periodicity and cost of frequent meetings, will increase the prospects of better preparation of the few meetings, avoid the problem of duplication and overlap of related sectoral issues, and promote coherence in the national decision-making process for interrelated sectoral policy matters.

The issue of institutional reform of the ECA-sponsored institutions has been on the agenda of the Conference of Ministers for the last fifteen years. We need to address the facts that many of these institutions continue to face considerable difficulties and are seen as ineffective. Earlier this year, as a follow-up to the 1994 review of these institutions, ECA fielded consultative missions to evaluate what should be done. The missions, by and large, endorsed the previous recommendations. Now, is the time for us to act on these recommendations and through alliances with partners, transforming a selected number of these institutions into centres of excellence, upgrading others, and closing down the rest.

Finally, in response to the request made last year at the Conference of Ministers for me to take the necessary steps to strengthen the MULPOCs we have undertaken extensive consultations on modalities for enhancing the effectiveness of the MULPOCs. We have already taken action in a few key areas. The report which we will present to you seeks further guidance on the measures aimed at further reinforcing the capacity of the MULPOCs to enhance ECA's impact at the sub-regional level. These Centres, I believe, should be redesignated Sub-Regional Development Centres (SRDCs) to better reflect their roles.

Distinguished Ladies and Gentlemen,

In closing, thank you for allowing me to share with you these ideas and to update you on the progress that we have made towards completing the re-organisation and reorientation of the Commission. We have strengthened our capacity to focus on issues important to the changing development agenda of African countries and to contribute to the economic recovery sweeping across the continent. Our outreach and service to Member States is increasing, and we are beginning to realize our potential as a regional policy centre, a networking hub, and a clearinghouse of best practices and development information.

TEPCOW is a precious resource for ECA. I appreciate your taking the time to participate in this meeting, and I look forward to your discussions and advice. Thank you for your attention.

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