High-Level Regional Consultative Meeting on Financing for Development and Preparatory Meeting for the Third UN Conference on LDCs

Statement by
K. Y. Amoako, Executive Secretary
ECONOMIC COMMISSION FOR AFRICA

Addis Ababa, 15 November 2000

Honourable Sufian Ahmed, Minister of Finance of the Federal Democratic Republic of Ethiopia,
Excellencies,
Distinguished experts,

Friends and colleagues,

It is my pleasure to welcome you to this consultation which I compare to several tributaries coming together into one powerful river—the portal that leads to Africa's future.

We meet first and foremost to make recommendations that will shape Africa's position in two major United Nations conferences with particular relevance for Africa next year. These are the UN High Level Meeting on Financing for Development, and the Third United Nations Conference on Least Developed Countries. The meeting also takes place on the eve of the Eighth biennial ECA Conference of Ministers of Finance. The Ministers deliberated on issues of development finance at their last meeting and will reflect further on this issue of central importance to them. The recommendations you make will also be an important input into the ministerial meeting.

May I begin by thanking all of you for coming here to share of your knowledge and expertise; and by thanking the honourable Minister of Finance of Ethiopia for his remarks and for being with us at this opening session. I would also like to extend my appreciation to all the sister UN agencies that are here with us and that have co-operated in the preparations for this consultation.

As you know, 33 out of the 44 countries classified as LDC's, or the "poorest of the poor", are in Africa. Financing for development is critical for all developing countries. For the LDCs—read most of Africa—breaking out of the vicious circle of low savings, low investment, low growth, deepening poverty, falling shares of world exports, debt, declining aid and illusory foreign investment is crucial.

Being distributed to you today is the seminal report by the ECA, African Development Bank, the World Bank and the Nairobi-based African Economic Research Consortium entitled "Can Africa Claim the 21st Century?" The book argues Africa can claim the 21st century. But it is a qualified yes, conditional on four factors. These are: reducing aid dependence and strengthening partnerships, increasing competitiveness and diversifying economies, investing in people, improving governance and resolving conflict.

To illustrate the magnitude of the challenges facing us, let me share with you a few figures:

- Some 52% of Africans, and 59% of rural Africans, live below the poverty line of a dollar a day. While absolute poverty is declining in other parts of the world, in Africa it is growing.

- Our studies at the ECA show that if Africa is to achieve the internationally accepted target of halving poverty by 2015, its economies will have to grow by 8% per annum; double the rate achieved in the last five years.

- To achieve this, the investment to GDP ratio would need to increase from its current level of 19% to a minimum of 25%. It is unlikely that African countries can find the resources to finance such investment and growth from traditional sources.
According to UNCTAD, if the average growth rate of real GDP per capita achieved by individual LDC's in the period 1980 to 1990 continues, only one of the 43 LDCs will "graduate" to middle income status before 2015. On current trends, only eight countries will achieve this in the next 50 years.

Yet, as we say in West Africa, a hungry person will not fail to crack the coconut! And as the issues paper prepared for the Finance Ministers points out, five African countries have demonstrated their ability to adopt sustainable reforms and achieve structural diversification. Fourteen African countries show prospects of a sustainable take off during the forecast period of fifteen years. I urge you in this consultation to look at the examples that we have of what has worked, why and how can we make it work elsewhere.

In these brief remarks, I would also like to highlight some of the salient issues on your agenda, bearing in mind that it will be my task first thing next week to report to the Ministers on your findings!

First a few thoughts on mobilising domestic resources for development in Africa. The average savings rate in Africa of 18 % (and even lower for Sub-Saharan Africa) is well below the rates in countries that have managed to significantly reduce poverty. To the extent that most disposable income in Africa is linked to agriculture, we would welcome your suggestions on how subsistence agriculture can be turned to commercial agriculture, and in particular your views on rural credit, which remains a major bottleneck. We also look forward to hearing from you what macroeconomic policies and financial sector reforms are still required to encourage people to save even the megre resources they have through financial institutions rather than under their mattresses- as evidence shows us continues so often to be the case!

In all the literature before you, it is agreed that with the best will in the world Africa, and particularly the LDCs, will not make it out of the current quagmire without substantial international support. After making allowance for domestic savings, UNCTAD reckons that the current annual total foreign inflows of $9.5 billion will have to double to raise the investment to GDP ratio to 25 %. The question is how we go about boosting foreign capital flows.

With its current limited private capital flows, Africa will need to rely in large measure for this boost, at least in the short term, from Official Development Assistance (ODA). As we know, this has been declining, not rising. The critical challenge, on which I seek your input, is this: How do we persuade our international co-operating partners that now is the time to make this substantial investment in Africa, to break the log- jam? What do African governments have to do to ensure that such an investment is indeed a jump- start and not a battery that will keep going flat?

Closely linked to aid, especially for the LDCs, is the issue of debt relief. With the Highly Indebted Poor Countries (HIPC) initiative we have finally seen acknowledgement from the creditor countries that we need to move from debt relief to debt cancellation. But, if you will excuse the pun, there have been far too many hiccups with HIPC! Very little of this debt relief has actually flowed. How can HIPC be made to provide a lasting exit to the debt problems of poor African countries? And how can we ensure that our economies are managed in such a way that we do not find ourselves in the debt trap again in the future?

There is also the critical issue of ensuring that debt relief does not come to be viewed as a substitute for aid. One idea that has been floated, on which your views would be appreciated that IDA should, over the next 20 years, be converted into a grant facility to assist Highly-Indebted Poor Countries to get back on track without incurring additional debt. Another proposal is that the World Bank re-flows to IDA should be used to set up a foundation to support a micro-credit fund for HIPC countries.

All this links to the larger question of the so-called new international financial architecture that has become a matter of keen interest, even for the least developed countries, the majority of which have been undergoing economic austerity reforms under the tutelage of the IMF and World Bank.

These two institutions have recently undergone a fair bit of introspection. The IMF's Enhanced Structural Adjustment Facility has given way to the Poverty Reduction and Growth Facility. The World Bank has adopted a Comprehensive Development Framework that takes a far more holistic view of economic reform than in the past. In short, there is a recognition that marco- economic stabilisation policies are not the same as structural adjustment- that we need to go far deeper, and that we need to go back to placing poverty reduction at the centre of our development efforts.
This revitalised focus on poverty comes together in the Poverty Reduction Strategy Papers being prepared at country level as a precursor for assistance from the multilateral and bilateral agencies. This process has raised important questions regarding how to build consensus and promote ownership around an African-driven agenda for development. Equally, how can we increase transparency in the functions of the international financial institutions? Is there an argument to be made for greater division of labour between the various donors, with the bilateral agencies focusing on social issues, and the multilateral agencies on infrastructure?

Critical to the new financial architecture is also the reform and strengthening of the financial sector in our own countries. Following the East Asian crisis of 1997-98, a number of proposals have been made and your views on these would be welcome. These include strengthening the surveillance of financial markets through requirements of greater transparency and flow of information; strengthening financial regulation and supervision; improving liability management and avoiding dogma in exchange rate determination.

Such reforms have an important bearing on private foreign capital flows. In the immediate context, I share the frustration over the slow pace at which foreign direct investment (FDI) has been trickling into Africa. How does one explain the fact that Africa has the highest rate of return on FDI yet only 4% of the FDI going to other parts of the developing world is coming here? Or that many of the African countries that are receiving FDI are among those that rank as high risk while well managed economies in politically safe environments continue to struggle? What do we need to do to market and differentiate Africa better, to break the so-called contagion effect? Looking again at what is working rather than what is not, we will find that much of the FDI that is taking place in Africa is coming from non traditional sources- Malaysia and South Africa, for example. How can we tap these new sources, taking advantage of the new multi-polar globe?

Before the Asian crisis, several African stock exchanges were becoming booming emerging markets, with portfolio investment a promising source of foreign private capital flows. Capital markets are also a critical way of integrating Africa into the world economy. But, with the exception of the Johannesburg Stock Exchange, African capital markets remain under capitalised and illiquid. How can we boost our fragile bourses?

An even more serious challenge than attracting capital to Africa is preventing capital from leaving. Some figures place the stock of capital flight at $22 billion: more than what is required to fill the resource gap! It is estimated that Africans have chosen to locate 37% of their wealth outside Africa, compared with 29% in the Middle East, 17% in Latin America, 4% in South Asia and 3% in East Asia. If we do not have faith in our own countries how can we expect others to have such faith?

Again, I urge that we look at countries that are succeeding in attracting back expatriate capital: Uganda and Ghana, for example. How is this being achieved and how can these efforts be maximised? What chances are there that monies that have been salted away by illicit regimes can be restored- a move we have begun to see in recent times?

Turning to trade, I am reminded of the biblical saying that to those who have will more be added, and to those who have not even the little they have will be taken away! As you know, at present Africa accounts for some 2% of world trade and it has been losing market share in its traditional exports, let alone in new areas of endeavour. If Africa is to grow rather than beg its way out of poverty, there is simply no alternative to industrialising and diversifying its export base.

In the biblical proverb, those who had more given to them did so because they invested their talents! What do we need to do to climb the ladder of comparative advantage rather than slide backwards? How can we make sure that Africa’s voice is heard and asserted in the World Trade Organisation? How can we stand up to rich countries that continue to bar African goods from their markets through subsidies, and other protectionist measures.

There can be no doubt that our ability to industrialise, diversify our export base, and talk with one voice in international forum would be enhanced by meaningful regional integration at home. We have no shortage of such experiments in Africa. Why are they not working? What can we do to rationalise our efforts? How can the Abuja treaty be speeded up and brought in line with WTO deadlines? How can we harness information technology to shorten the great distances between us, to leapfrog Africa into the 21st century?

Growth, development and innovation are ultimately by people, for people. A feature of African economic
performance even during the good years is that rapid growth was achieved through expanded use of resources both in agriculture and industry rather than gains in productivity. Addressing productivity is now a matter of urgency. That means investing in people. In the recent growth literature on Africa, low levels of investment in human capital have been identified as major impediments to growth.

I would be remiss if, in this discussion on human capital, I did not make specific mention of the imperative of gender equality if Africa is to achieve their development objectives. In simple terms, we cannot hope to progress when more than half of Africa's people are barred from realizing their full human potential.

Again, we need to ask ourselves tough questions. Why is it that, despite the rhetoric, African countries are not doing anywhere near enough to advance the status of women? How can the energies of civil society - that have arguably been far more visible than those of government in this area - be better harnessed? How can we move beyond conferencing and advocacy to implementation and monitoring? Why are women still only talking to women at gender conferences? What can be done concretely to bring African men on board?

On the social front, the precious gains we had started to make are threatened by HIV/AIDS. In early December, we will be hosting here at the ECA the second African Development Forum (ADF) on the theme “AIDS: Africa’s Greatest Leadership Challenge.” At this time of resource shortages, it is estimated that up to $10 billion per annum is required to fight this scourge, that is already reducing growth in the countries most affected by one to two percentage points each year. How can we ensure that we overcome this pandemic, and that it does not detract resources from development or slow growth any further? And how can we work around the cartel of pharmaceutical companies that is preventing Africans from accessing life prolonging generic drugs?

Finally, what is the link between economic growth, peace and good governance? Half of the LDCs in Africa are countries in conflict. Recent research has shown a close correlation between mono-economies and conflict. This suggests that economic diversification, higher living standards, and falling poverty would lead to a drop in the level of conflict in Africa. But we are confronted with the classic chicken and egg problem: which comes first, economic growth, or ending the wars?

If ever proof were needed that democracy is no simple matter, the US election has surely given us ample evidence! It was even suggested that African electoral officers might provide valuable advice on the manual counting of ballots! Seriously, in Africa, how do we go beyond counting ballots and start making the link between voting, participation, accountability, transparency and good governance? How and when do we begin to see that rather than being another imposition by donors, good governance is a matter of good economic sense, a prerequisite for sustained economic recovery?

Excellencies,
Friends and colleagues,

I said earlier that this consultation is like so many tributaries flowing into one of Africa’s legendary rivers. Over these next two days I urge you to let your ideas and creativity flow like the mighty Nile, the Limpopo, the Volta, the Zambezi. For these rivers, with their awesome waterfalls and rapids know no restriction, no national boundary. They have only one objective- to break out into the mighty sea; the sea of our future; the future of our next generation; the generation of an Africa claiming its rightful place among the community of nations.

I wish you all the very best in your deliberations, and look forward to passing on your report to the Ministers.

Thank you.