United Nations
Economic Commission for Africa

Talking Points

4th Global review of Aid for Trade – Connecting to Global Value Chains

Session 5: Aid, Trade and the Post-2015 Development Agenda

July 8, 2013 (13:30 – 15:00)

WTO Room W

FIRST QUESTION (4 minutes)

The imperative of economic transformation

In the 13 years since the Millennium Declaration Africa has been the second-fastest growing region in the world (+4.80% growth rate 2002-2012). This dynamism has improved living standards, triggered the emergence of an affluent African middle class, and gone a long way in dispelling afro-pessimistic views. Yet, the Millennium Development Goals (MDGs) remain overall an unfinished business.

One of the key lessons of the past decade is that Africa's economic growth has not brought about commensurate improvements in terms of inclusiveness, because it was not sufficiently underpinned by authentic economic transformation. Even during the "boom period" industrialization has largely bypasses African countries, to the extent that a number of them (notably LDCs) have witnessed signs of de-industrialization (i.e. declining share of manufacturing in GDP).

Growth has too often been underpinned by capital-intensive extractive industries, and by a services sector which typically encompasses a wide range of informal low-productivity activities. Agricultural productivity, conversely, has increased only marginally, and remains significantly lower than in other region, and this in turn failed to create sufficient rural jobs, and exposes net-food importing countries to the vagaries of international food prices as happened in 2008 and again in 2011.

Now, in light of Africa's youth bulge, the post-2015 development agenda should not repeat the past mistake of paying a disproportionate attention to social sector, at the expenses of productive ones, if we are to realize the "demographic dividend" and generate inclusive growth.

Rural development has a fundamental role to play for (1) poverty reduction, (2) improve the food security outlook, and (3) expand employment opportunities in rural areas, thereby keeping under control the pace of urbanization. Mind you, however, that when I talk about rural development I am not only thinking about an "African green revolution" that boosts agricultural productivity, but also about a sizeable expansion of rural off-farm activities, to strengthen inter-sectoral linkages.

Along with rural development, our increasingly educated youth will not be productively employed unless we foster the emergence of vibrant manufacturing and high-productivity services sectors. Technology transfer and innovation will be crucial in that respect, if African firms are to bolster their competitiveness, diversify their activities, and broaden the products' and services' mix they offer to Africa's rising middle class.

The trade dimension

Particularly in the context of countries whose domestic market is relatively small, international trade represents a key dimension to attain structural transformation. As successfully demonstrated by the experience of East and South-East Asian economies, the emergence of regional and global value chains can offer the scope to gradually diversify export specialization, embark into greater value addition, and reap the benefits of economies of scale and efficiency.

This leads me to the third “pillar” of employment creation: commodity-based industrialization. The latter appears to be a promising avenue to take advantage of Africa’s current comparative advantages and rich endowment of natural resources, while promoting greater value addition and fostering backward and forward linkages (see ERA 2013). With adequate investments, this process may offer the scope for African firms to climb up global value chains, and gradually embark into a wider range of transformation activities.

Rebalancing the terms of Africa’s integration into the global economy requires a strategic approach to trade policy, aiming at harnessing trade opportunities for diversification. This entails concerted efforts to nurture innovative firms, step up Research and Development, foster innovation, technology and skills upgrading. In this respect, the ongoing intensification of South-South economic ties, and the strengthening of regional integration – envisaged for instance in the AU Action Plan to Boost intra-African Trade – offer new opportunities to advance the transformation agenda. Yet to exploit synergies and complementarities across traditional and emerging actors it is fundamental to forge a clear engagement strategy.

SECOND QUESTION (6-7 minutes)

Financing issues

Though Africa has benefited from the resumption of economic growth and from a greater availability of foreign financing, the scale of its needs – from infrastructures to productive capacities, from social sectors to climate change – is such that accessing adequate finance for development remains a critical challenge. Despite the significant increase in the volume of aid recorded up to 2010, the efforts of the international community are falling short of the targets set in MDG 8, and most donors have been incapable to deliver on the 0.7% aid target, on the 0.15%-0.20% target for LDCs, or for that matter of the Gleaneagles G8 commitments towards Africa.

Moreover, looking ahead aid budgets are likely to come under increasing pressure over the medium term, owing to the protracted downturn in traditional donor countries. Indeed, the

MDG Gap Task Force Report 2012 suggests that in real terms the volume of ODA fell by almost 3 percentage points in 2011, and the report goes as far as noting that in relation to MDG 8 there are “difficulties in identifying areas of significant new progress and for the first time there are signs of backsliding” (page XI).

It is hence apparent that the donor-recipient logic underpinning the MDGs has failed to deliver “mutual accountability” in the global partnership for development, and it has actually raised concerns for the heightened and persistent aid dependency of many developing countries, especially in Africa. Moreover, the international discourse has recognized the need for greater ownership of the development agenda.

In forging the post-2015 development agenda, it is important to recognize that the very “development finance landscape” has evolved markedly since the Millennium Declaration, and this creates new opportunities for resource mobilization. New actors, such as Southern development partners and private philanthropic foundations, have entered the arena, bringing in additional resources, as well as approaches to development cooperation which differ from those of traditional donors. In addition, private actors – whether domestic or transnational – have become more and more critical for financing key investments in Africa, like in the rest of the world.

Innovative aid modalities are also emerging, which provide interesting examples of how to better engage the private sector and improve the overall effectiveness of aid. Interesting examples of these innovative modalities include Diaspora bonds, debt-conversion mechanisms – which free resources through debt cancellation or debt buy-back to be re-directed to social expenditure – as well as various schemes to front-load ODA commitments for immediate expenditures (for example the International Finance Facility for Immunization). The Affordable Medicines Facility – malaria (AMF-m) provides another insightful example of how to leverage aid funds to crowd-in private investments: under this scheme lower prices are negotiated with producers of new anti-malaria drugs, in return for an assured market and a temporary subsidy (thereby basically insuring some risks related to R&D of innovative therapies).

This evolving reality warrants a new approach to the quest for development finance: one that moves beyond the donor-recipient dichotomy, and focuses on harnessing the potential synergies and complementarities across different actors, at global, regional, and domestic level. Global partnerships remain fundamental to ensure a level playfield in the trade and financial realm, as well as to tackle global concerns such as climate change, peace and security, financial stability, or health issues. But to be genuinely win-win partnerships, they need to be based on an equal footing and reflect the evolving global landscape and the growing prominence of emerging partnerships within the South.

On the other hand, it is clear that domestic resource mobilization is likely to play an increasingly significant role, as economic growth resumed in developing countries, whilst it is stagnating in much of the developed economies. Moreover, it is all the more critical to ensure a strong ownership of the development agenda, and strengthen the alignment of aid flows to the priorities set by developing countries.

Depending on their characteristics, African countries have a number of options open to step up the mobilization of domestic resources. Here I would like here to focus on four of them that are relevant also from the point of view of regional cooperation.

1. First, the continent is endowed with vast mineral resources – including some that have just been discovered through recent prospections – whose value is set to remain high thanks to the strong demand from large and dynamic developing countries, including most notably China and India. At the present juncture the management of the associated rents is a key policy test that Africa cannot miss. African countries have to make sure that they retain a fair share of such rents, and renew their efforts to utilize these proceeds efficiently to foster structural transformation.

2. Secondly, by any standard indicator (domestic credit to GDP, bond and stock market capitalization, money and quasi money to GDP) African financial markets tend to be relatively underdeveloped and characterized by a shallow integration with the rest of the world. Given the limited size of potential markets at the level of single nations, and the fixed costs associated with the setting up of adequate regulation and surveillance mechanisms, there is a scope for joining efforts at regional or sub-regional level to create viable financial hubs within Africa. This could allow the creation of debt markets denominated in local currencies, and bolster the mobilization of financial capital, in the form of private equities and other instruments.

3. Thirdly recent studies have revealed the sheer size of illicit financial flows depriving Africa from much-needed financial resources, as well as a number of loopholes and inefficiencies hindering an effective revenue collection. In October 2012 UNECA estimated that cumulative illicit financial flows stemming from trade mispricing only were as high as $ 242 billion over the period 2000-2008. Against this background, international cooperation, at regional as well as global level, on issues such as trade mis-invoicing, smuggling, and illicit financial flows could bring substantial improvements in term of domestic resource mobilization.

4. Finally, recent analyses have highlighted the significance of remittances flows for a number of African countries, but also the disproportionately high costs of formal remittance service providers in the region. Such prohibitive costs deprive Africa of

much-needed resources, to the extent that the World Bank estimated that in 2010 remittances receipts in Sub-Saharan Africa would have been $6 billion higher, had the cost of remitting to Sub-Saharan African countries matched the world average fees. In light of this, there is a clear case for enhancing the use of formal remittance channels (it is estimated that currently over 50% of remittances to the region are sent through informal channels) and cutting the associated costs.