Conference of African Ministers of Finance, Planning and Economic Development
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Remarks by HE President Benjamin Mkapa
Former President of the United Republic of Tanzania

Africa's Investment Climate, Development Finance and the Challenges of Meeting the Millenium Development Goals.

Chairperson,

Mr. Abdoulie Janneh;
Under Secretary of the UN and ECA Executive Secretary,

African Ministers of Finance and Economic Planning constituting members of the UN Africa Economic Commission,

Distinguished Guests,

Ladies and Gentlemen.

1. When I retired from public office about 15 months ago, my plans included returning to my rural home district and trying my hand at farming! They did not include addressing what here today approximates to the Continental Economic Committee of Cabinet! It indeed is an honour and privilege to be invited here to address you and for that I thank you, Mr. Abdoulie Janneh, most profoundly.

2. Some of you may know that I had the privilege to serve last year as a member of the UN Secretary General's High Level Panel on "UN System-wide Coherence." Our task on the panel was a daunting one, given the dynamics of the current international system where some Governments and States seem to have forgotten that the UN Charter was declared by... "We the people of these united nations"... The international community most effectively serves humanity when its agenda and priorities serve the "people".

For this reason, on the panel, I held strongly the view that the roles and priorities of the regional economic commissions are best left to their constituencies (you assembled here today) to determine. In this context, I have been impressed by the diligent manner in which the ECA has moved with its repositioning strategy to set its priorities, even before our report came out! That you have chosen the theme "Acceleratin2: Africa's Growth and Development to meet the MDGs: Emerging and the Way Forward" for this meeting so soon in your strategic repositioning clearly sends the message to all Africans, and indeed to the world, that eradicating poverty in this continent is among your top priorities.

I have chosen within the general context of your theme to speak briefly on the subject of Africa's Investment Climate, Development Finance and the challenge of meeting the MDGs.

3. Chairperson, there is not a lack of studies, commissions, panels of eminent scholars and politicians that have sought to clarify the opportunities, constraints and strategic directions facing Africa and her development partners as they attempt to accelerate growth to reduce poverty and put the continent on a path towards meeting the Millennium Development Goals (MDGs). Among them are to be counted, the Bretton Woods institutions and various United Nations Agencies. The ECA has done some seminal work in the areas of governance and capital markets, and all have contributed to our stock of knowledge. I myself was privileged during 2004/5 to have served on the Africa Commission which examined various

aspects of Africa's development challenges. I believe our continent has made some remarkable progress in recent years. Between 1995 and 2005, 17 Sub-Saharan Africa countries grew at average rates exceeding 5% annually, up from only 5 countries during the previous decade. By 2005, 9 countries were near or above the 7% growth rate threshold needed for sustained poverty reduction. The growth momentum was sustained, with overall real GDP growth rate of 5.7% recorded in 2006 compared to 5.3% and 5.2% in 2005 and 2004 respectively. For the second consecutive year, Africa's average growth rate remains higher that that of Latin America (4.8%). Twenty-eight countries in Africa recorded improvements in growth in 2006 relative to 2005 while 25 recorded improvement in 2005 relative to 2004. The challenge, however, remains sustaining these rates for an extended period.

4. Central to Africa's development efforts always has been the subject of resources, especially from external sources. The continent, admittedly, has benefited from external financing in the form of Official Development Assistance (ODA), including debt relief and Foreign Direct Investment (FDI) with significant cross-country variations in the receipt of such finance. In particular, FOI has favoured oil and other natural resource rich countries.

5. By 2004 aid levels to Africa had recovered from their 1990s dip. Much of the recovery however came in the form of debt relief and emergency assistance which, though helpful, does not expand the fiscal space for governments. One source estimates that direct aid to African governments declined from $24 billion (in 1993) to $ 20 billion (in 2004) in real terms. Over the same period, emergency and debt relief grew from 15% to 32% of total OOA. More important than the total aid amount is its sectoral composition. Between 1994/5 and 2003/4, the share of aid going to social sectors grew from 27% t9 43% and those to productive sectors declined from 16% to 14% as did budget/ program support from 20% to 11 %.

6. Tanzania has benefited greatly from both bilateral and multilateral aid and we are grateful for the support we have received for schools, health and other social services. Yet we have had difficulties getting some of our development partners to recognize that economic infrastructure such as roads, ports, telecommunications are equally vital for our development and poverty reduction efforts, even at times when the funding is from our own resources!. But, I believe strongly that the time has come for our growth strategies to be rebalanced with increases of domestic and external funds towards productive sectors, particularly infrastructure and agriculture. This is important given, for example, the very clear links between infrastructure and poverty reduction (MDG's). It has been shown and studies have revealed that:

(a) The construction of an all-weather road in rural Morocco increased girls' primary School attendance from 28% to 68%
(b) In Africa, access to piped water increased school attendance by 2-16%
(c) Replacing wood fuels with charcoal in Kenya would reduce childhood lower respiratory infections by 21-44%
(d) If Africa had enjoyed infrastructure growth rates comparable to those in East
Asia in the 1980s to 1990s, its annual growth rate would have been about 1.3% higher.

7. From Monterrey (2002) to the Millennium Summit (2005) and to Gleneagles (2005), the international community promised "scaling-up" development assistance and its effectiveness to Africa- the "scar on the conscience of the world", as one Western leader described it' African countries, constituting the largest number of least developed countries also find themselves at a stalemate with the Doha Round on Trade Negotiations and the Economic Partnership Agreements (EPAs) with the European Union, primarily because the 'powerful' insist on dictating to the 'powerless'! That the 'delivery" on these various promises have not reached agreed targets, as recent reviews by the E~.A and the G-8 Research Group at the University of Toronto have shown, should not deter us. Although Swahili conventional wisdom states that "A promise is a debt and a debt must be paid", we must remember that these promises were not made on oath; and as the Igbo saying goes, "A person who took no oath is never guilty of breaking one" In my view, the declining support from the international community should provide us with the opportunity for a sober reflection on the appropriateness of our "aid dependent" development strategies. It may be time for Africa to "empower" itself through greater economic nationalism and self-reliance, as we see in Asia and Latin America, in order to better manage the effects of globalization and to be a more proactive participant in that process.

8. Africa may be poor today and feel marginalized in global affairs. This, however, need not be the case; consider these realities:

- Slightly over 800 million today, Africa's population is expected to grow to over 2 billion in 2050; As US Assistant Secretary of State, Walter Kansteiner remarked, Africa is "the last great emerging market".

- In the 21st century, Africa will have the world's youngest population and by 2050 only 10% of its citizens will be over 60 (compared to 37% in Europe, 27% in North America, 23% in Asia and 22% in Latin America);

- Africa contains a treasure of raw materials which will give it a large share of global production far into the future. South Africa alone has 88% of world's platinum reserves, 72% of chromium, 80% of manganese, etc. Guinea has a third of world's bauxite and the list goes on for several countries. Africa today produces 3.4 million barrels of oil per day (11 % of global exports) from fields in Nigeria, Angola, Equatorial Guinea and Gabon with new producers like Chad and Mauritania. Our continent has about 8% of world oil reserves. The US plans to raise its oil imports from current 15% to 25% from the Gulf of Guinea by 2015.

The point is that several developed countries and multinational corporations are busy developing scenarios on Africa's future! On present trends European and American Business, not African Governments let alone African Business; are planning Africa's future! ! ! In our Southern Africa Development Community, the Basotho have a saying: "The mouth that does not eat is an invitation to the mouth that does eat.”!! Let Africa now eat its resources!

9. To turn our challenges into opportunities tomorrow, we need a paradigm shift to a developmental model that emphasizes greater self reliance as a continent. The one area where there is urgent need for decisive action on our part involves reforms in our investment climates in support of greater private sector contribution to our development efforts.

10. In the past decade, considerable reforms aimed at reducing government direct roles in the economy have taken place in several African countries as have improvements in tax systems, structures, and administration. These have strengthened the public fiscus, as for example in South Africa. A lot more, however, needs to be done before economically significant increases of tax revenues as a ratio of GDP can be achieved. This leaves the private sector as the principal driver of growth with governments primarily in a facilitating role. This in my view is the realistic path towards sustainable self reliance and poverty reduction. It will require bold actions with respect to removing the several constraints in our investment climate, a mission that the recently launched Investment Climate Facility (ICF) with the support of both government and the private sector will support.

11. The ICF is a US$550 million public-private partnership of Africa's development partners and private corporations aimed at grant funding solutions that improve the business environment, and whose Board I am privileged to be co-chairing. We hope to generate and shape policies-nationally and regionally- to make Africa more attractive to domestic and foreign investment by working in the following areas:

- Property rights and contract enforcement;
- Business registration and red tape;
- Taxation and customs;
- Competition;
- Corruption and crime (governance);
- Financial and capital markets;
- Infrastructure; and
- Labour markets

12. The Facility is envisaged to have a lifespan of seven years, and our success will be measured against higher levels of investment, faster economic growth, enhanced business opportunities and sustained returns for investors. I invite you all to visit the ICF website at www.investmentclimatefacilitv.org .I urge you further to work with the facility; they are open for business!

13. An important reason for moving expeditiously to tackle investment climate issues is that solutions stimulate greater foreign and domestic private investment, and also provide the confidence required for flight capital to return. The UNECA,

among other sources, estimates the private savings of Africans outside of the region to be as high as above $100 billion or about 30% of the formal GDP, the highest among all developing regions. An improved business climate on the continent will also further attract greater remittances.

14. Remittances from the African Diaspora constitute a significant portion of funds as it does in the rest of the developing world. Remittances to Sub-Saharan African countries now exceed the flows of ODA and Fill combined and have been found to be more stable. In 2004, remittances to SSA totaled $160 billion (from $58 billion in 1995) while ODA flows were $79billion (from 59 billion in 1995). These are the recorded transactions. With rife informal channels, the amounts could be substantially higher! There is conclusive evidence that remittances reduce poverty. Research has shown that empirically, a 10% increase in international remittances reduces poverty by 3.5% in developing countries

15. Remittances will continue to be an integral part of Africa's developmental agenda and need to become an important factor in the resource mobilization effort. Governments must aim at reducing transaction costs in the formal financial and banking markets. African countries also need to strategically promote the role of the Diaspora as, for example, Ghana has done by establishing a dedicated ministry as part of an integral "self -reliance" program. In the wisdom of our ancestors, "A river is enlarged by its tributaries"!

16. Finally, we ought to examine more closely how we can promote proactive economically targeted investments by African pension funds and other long term insurance companies. In many African countries, pension schemes constitute a significant portion of national savings, but their roles continue to be constrained by excessive regulation and poor governance. In my own country Tanzania, the four pension funds have had on average, $500 million of investible resources annually over the past decade. FDI which has gone mostly into minerals and other natural resources totaled $300 million over the same period! We need, therefore, to create the opportunities for pan-African investments by our pension funds in support of "self-reliant" development. A recent UNIDO survey of investors found that Intra-African investors pay higher wages, train more workers and spent more on R&D. We must therefore promote Intra-African investment.

17. In conclusion, my messages simply are that:

- This is a decisive moment for Africa to commit itself to a strategy of "self-dependent" path to reducing poverty by "scaling-up" our own efforts through maximizing efficient and effective use of resources. This particularly calls for integrating the African Diaspora into resource mobilization plans and in the new links with other "South" nations.

- African governments need to focus on learning more from those whose history and developmental experiences most closely resemble ours, i.e. Asia, particularly as regards reforms in the investment climates that have transformed India and China into today's economic powerhouses;

- We must redirect resources to build infrastructure, integrate markets and promote regional trade. Intra-African trade is only 12% of our total trade, the lowest among all regions of the world.

- We must invest in agriculture and aggressively support our entrepreneurs, vital creators of wealth, employment and a key target for poverty reduction;

- We need to learn more from each other: e.g. from Botswana about managing mineral wealth; Mauritius on export diversification; Mozambique about post-conflict economic and political management, and South Africa about fiscal responsibility, etc. We also need to trust and have greater confidence in our own experts and specialists, many of whom left our shores out of frustration not being appreciated.

- While we remain grateful for support from our development partners, we must insist on "owning" and "leading" our own development agenda. "Poverty is NOT Africa's destiny!", Madiba once said

18. A distinguished economist and compatriot of mine has stated acute discernment: "In the end, decisions must be made about priorities, specific actions and modes of financing. The central question is leadership. Political leadership that makes growth the number one priority and focuses the efforts of both government and non-government on achieving accelerated growth cannot fail. None of the steps necessary to achieve levels of growth sufficient to reduce poverty are easy. There will be political, technological and capacity constraints. But these can be overcome, and African countries can succeed, if the will to succeed is present".

19. Mine is a call for ACTION. As we concluded in the Africa Commission report, "... The time is ripe for change... To do nothing would be intolerable. To do something is not enough. To do everything we can is not only a requirement, it is our clear duty. Now is the time to act".

Thank you very much for your attention.