

African Economic Conference 2017

“Governance for structural transformation”

Statement by Dr. Vera Songwe, Executive Secretary, UN Economic Commission for Africa

December 4, 2017

H. E. Mr. Hailemariam Desalegn, Prime Minister of the Federal Democratic Republic of Ethiopia;

Dr. Célestin Monga, Vice-President, Economic Governance and Knowledge Management,
African Development Bank

Hon. Maria Kiwanuka, Senior Presidential Advisor on Finance, Uganda

Mr. Lamine Mamadou Maneh, Director of the Regional Service Centre for Africa, UNDP

Hon. Adeyemi Dipeolu, Special Advisor to the President of Nigeria on Economic Matters

Prof. Richard Joseph,

Excellencies, Ambassadors and Heads of Missions;

Distinguished Participants;

Ladies and gentlemen

It is a singular pleasure and honour for me to welcome you all to Addis Ababa, Africa's rapidly transforming diplomatic capital for the 12th edition of the African Economic Conference, which the Economic Commission for Africa has the privilege to be co-hosting with the African Development Bank (AfDB) and the United Nations Development Programme's (UNDP) Regional Bureau for Africa.

Permit me to start by expressing my gratitude to the government and people of Ethiopia for so graciously accepting to host this conference and for all logistical and material support that they have afforded us in the course of the preparations for the conference, as well as the hospitality

they have continued to extend to participants who have come from various parts of the continent and the globe.

We are also most honoured by the presence at this opening ceremony of the conference of His Excellency, Prime Minister Hailemariam Desalegn of the FDR of Ethiopia, and other high level dignitaries from Ethiopia and other African countries. Your presence here is a clear mark of your support and recognition of the work that our institutions are doing to support Africa in its development efforts.

Ladies and gentlemen,

The theme for this year's conference is, "Governance for structural transformation". Bringing these two very important concepts together to constitute the theme of this conference has been very deliberate notably because of their centrality and importance in moving our continent forward towards the development trajectory envisioned in both the 2030 development Agenda and Agenda 2063. Governance can be understood, broadly, as the set of factors that influence how power is exercised. It comprises the complex range of mechanisms, processes, relationships and institutions through which citizens and societal groups articulate their interests, exercise rights, meet their obligations and mediate differences.

Governance, as we all know, determines which public policies get adopted and how they are implemented. There is a growing consensus that African countries require a more conducive governance environment for them to be able to pursue better public policies and ultimately to achieve better outcomes, including structural transformation and inclusive development.

And talking about structural transformation, we at ECA understand it to be the re-allocation of factors of production (capital, land, labour) within and across different sectors of the economy to better support inclusive development, through increased value addition, increased diversification, increased productivity and industrialisation.

Governance and structural transformation can be said to be mutually re-enforcing. On the one hand, good governance and effective institutions are prerequisites for the attainment of structural transformation.

On the other hand, structural transformation can have a strong disruptive effect on governance (particularly political governance) – giving rise, for example, to interest groups that push for accountable leadership and effective institutions. As countries get more transformed, more effective institutions also become more affordable. Over time, economic transformation can advance core governance objectives of accountability, participation and transparency

Over the last decade and a half, the continent has undoubtedly made progress in the area of governance as well as structural transformation. Africa experienced the longest period of growth from 2000-2013. Debt to GDP levels dropped, fiscal deficits decreased to under 5 percent in a majority of countries during this period, the percentage of people living below the poverty lined dropped to below 50 percent for the first time.

More African countries made it to the top10 of the doing business index. More African countries for the first time in the last decade where able to access the capital markets for financing. FDI for the first time exceeded Official Development Assistance as a main financing channel of our economies. The role of the domestic and foreign private sectors in many of our economies are

growing. Monopolies are increasingly giving way to more competition, in the telecoms sector, transportation, finance and many other areas.

On the political front many more countries saw the birth of more participatory and democratic elections. Africa broke substantially with its traditions of coup d'états. Decentralized governments took route in many countries. Increasingly more women are taking part in decision making across the continent.

The important question at hand is - has this progress been fast enough to meet the aspirations of its people?

However, there is a consensus that Africa's rapid growth acceleration of 2000-2013, whereby the continent grew at about 5% per annum, has not been job-rich, sustainable and inclusive.

Majority of African workers are sadly, still trapped in vulnerable agriculture and the informal sector.

Moreover, although Africa's growth is recovering with a projected growth rate of 3.1% in 2017 with notable increases in manufacturing value added, progress in social development remains limited, especially in relation to poverty, inequality and social protection.

Also, progress with respect to structural transformation has been marginal with notable variations across countries. Structural transformation is critical for Africa to accelerate and sustain growth, create decent jobs and reduce poverty and inequality.

Ladies and gentlemen,

The Mo Ibrahim Index of Governance tells us that the Africa average governance score has reached 50.8 (out of 100) in 2016, which represents an improvement by +1.4 points since 2000. A positive trend in overall score in the index over the last decade has been observed in 40 Africa countries.

This slowing continental trend in the last five years at Overall Governance level is reflected by varying performances in the underlying governance categories. Over the last decade, overall progress has been driven by improved performance in three of the four governance categories of the IAG, Human Development (+4.4), Participation and Human Rights (+2.2) and Sustainable Economic Opportunity (+1.3).

However, further progress has been hindered by a decline, on average, in Safety and Rule of Law (-2.4). Looking at the last five years within this period, varying trends appear. Human Development and Sustainable Economic Opportunity are still progressing, but at a slower pace. Participation and human rights is the only category to marginally pick up speed. Conversely, deterioration in safety and rule of law, although still present, shows signs of abating.

The improvements in governance in the continent is also reflected in the decrease in number of fatalities due to political violence of various forms from around 200,000 fatalities in 1999 to around 30,000 fatalities in 2016.

However, some relapses of political conflicts have been observed very recently as in the cases of Burundi, Central African Republic and Somalia as well as the resurgence of conflict in South Sudan and political tensions in a number of other African countries. Some of these conflicts strongly

reflect lack of effective and 'inclusive' governance processes, in which all groups in society have an opportunity to influence policymaking and prevent political tensions spilling over into conflict.

On the trade front, there has been progress around the processes governing regional integration. Communities such as ECOWS and East African Economic Community, as well as SADC, have made progress integrating their regions creating larger common markets of 300 and 600 million people respectively, however more is needed especially as pertains to free movement of people and goods. Customs and border controls in many countries remain a governance challenge. The African Union is working on a continental passport which should help.

Africa also needs to strengthen the governance of its regional integration processes, especially as the continent is increasingly pursuing continent-wide integration through initiatives such as the Continental Free Trade Area negotiations which stands to create the single largest trade area in the world with over 1.3 billion people.

Given growing the emphasis of Pan-African integration, Africa will need strong Pan-African institutions to set the terms of integration, ensure implementation and resolve disputes. These institutions should take lessons from Africa's successful regional trade agreements, such as those in COMESA, EAC, ECOWAS and SADC, which all saw regional growth accelerate following their entry into force. To give one example of a successful experience that can be replicated at continental level, COMESA's non-litigious approach to dispute settlement has worked and could therefore be extended to the Pan-African level with the CFTA.

Indeed, successful regional integration is key to supporting structural transformation in Africa, since intra-African trade is currently much more industrialized than Africa's trade with the rest of

the world; as such, one could expect easing intra-African trade to encourage a shift towards greater consumption and production of manufactured goods in Africa. Indeed, computable general equilibrium analysis by ECA of the impacts of a continental free trade area show that boosting intra-African trade is likely to boost intra-African trade in industrial goods by around \$66 billion, which one would again expect to contribute to further industrialization on the continent.

Ladies and gentlemen,

The fundamental reality is that development and structural transformation are not an overnight phenomenon. Development results from long-term strategies, policies and effective partnerships with the various agents of global, regional and local production and innovation systems.

There are a number of areas where governance is an important and necessary condition for economic diversification, value addition and transformation. Let me give a few examples

First in the area of resource mobilization. Today Africa still lag behind all other regions in terms of resource mobilization. LAC 22 percent on average, OECD 34 percent and Africa 19 percent. The informal sector, tax evasion and illicit financial flows are important issues of governance the continent must address to accelerate its transformation agenda. We need these resources for research and development, to put more girls to school, keep more kids healthy, increase investment.

I am sure many of you are now aware of the perverse effects of illicit financial flows on African economies. In particular, these flows represent a substantial financial drain on the continent, which reduces the continent's ability to make the investments needed in education, health,

science, technology and infrastructure to achieve its goal of industrialization. Indeed, the latest estimates from ECA indicate that, over the period 2000 to 2015, Africa lost \$73 billion annually net through illicit financial flows through trade re-invoicing alone. This is in addition to around \$27 billion estimated net annual losses through other channels, as highlighted in ECA's forthcoming *Study on the Global Governance Architecture for tackling illicit financial flows*. Taken together, this represents around \$100 billion annually, and we know that this is a very conservative estimate. This represents around 4 per cent of the continent's GDP. As such, strengthening the institutional architecture designed to tackle these flows must be a priority for the continent.

Infrastructure and energy

We all agree that without adequate access to energy Africa will not be able to accelerate and sustain the growth process. However today over 600 million people on the continent do not have access to energy. Sub Saharan Africa according to a recent report has only 300,000 km of power lines compared to over 10 million in the EU. Access to energy is not due to lack base resources. With Africa's major hydro resources Africa can produce over 283 gigawatts of energy. Less than 10 percent of this clean energy source has been tapped to date. Ethiopia, Niger, of course and Guinea are a few notable examples.

Under developed energy infrastructure and growing demand could help attract more private sector investment and accelerate energy development, however for this we need to improve the governance processes for contracts awards, and licensing to ensure populations get affordable prices, improve the governance of energy utilities most of which are underperforming and most

of all improve the governance of our regional power pool institutions. Institutions building again is critical for this.

Agriculture

40-65 percent of Africa's labour force today is engaged in the agriculture sector, most of them women. It is widely known that no country has grown sustainably without developing its agriculture sector. However, the governance processes regulating agriculture in Africa are still fraught with weaknesses.

Land rights are not secure, the procurement process for inputs such as fertilizer and other inputs remains highly political in many countries undermining productivity of the sector and most of all its profitability.

As a result, food imports to Africa increased almost four times between 2002 and 2014. One in nine people is not adequately nourished and one in four under nourished people lives in Africa.

In the fisheries sector governance issues continue to cripple a sector with enormous potential for diversification value addition and overall improvements in lifestyles especially for women. Currently about 25 percent of all marine catches around Africa are by non-African countries and in many cases the catch never lands on the continent. Boats are not registered and the fishing seasons are not respected. Depleting resources and impoverishing already poor communities.

For all of this, an appropriate macroeconomic policy framework is critical. Essential components of macroeconomic frameworks to foster structural transformation across the continent include: scaling up public investment and public goods provision; maintaining macro stability to attract

and sustain private investment; coordinating investment and other development policies; mobilizing resources and reducing aid dependence over time; and securing fiscal sustainability by establishing fiscal legitimacy. Building strong institutions is critical for all this.

Ladies and Gentlemen,

In conclusion, Africa has made significant progress in improving its governance in recent years. Also many African countries are slowly but consistently transforming their economies. However, huge governance gaps remain and the pace of structural transformation is too low compared to the continent's needs and potential. To realize the dreams of Africa's women and bulging youth as stated in Agenda 2063, the Africa we want, we must address the links between governance and accelerated growth. We need good governance to tackle the huge challenges ahead of us such as climate change.

It is my expectation that the discussion and presentations during this Conference will go a long way to support efforts by African countries to continue to improve political, economic and corporate governance and speed up economic diversification and structural transformation in order to lift millions of Africans out of poverty and ensure a better future for all Africans.

I thank you for your attention and wish you fruitful deliberations.