Remarks at the G8 Event on Trade, Tax and Transparency

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Let me begin by thanking Prime Minister David Cameron and the Government of the UK for this invitation, and for associating the African Development Bank in this engagement on the key items on the G8 agenda. I have been requested to share on what the agenda on trade, transparency and tax means for African economies and their potential in unlocking Africa’s economic muscle. Let me say at the outset that nations throughout the world, throughout history, have prospered through trade and investment. This applies, even to those rich in natural endowments.

Africa too, seeks to trade her way out of poverty through trade. But she must deal with the issue of the cost of doing business, the risks of doing business, and that of small fragmented markets, being extremely high. Some nations are better endowed in natural resources. That does help if carefully managed and invested in creating real wealth. After all…these are inherited finite resources.

In the last decade, African economic performance has been quite impressive. Africa is not beyond the tipping point, but it has reversed years of decline. There are pockets of stagnation and even decline as in what we call the fragile states: places such as the Central African Republic.

Nonetheless, Sub-Saharan Africa GDP has multiplied four and a half times in 10 years, from a GDP of around 600 billion dollars at the turn of the millennium to 2.2 trillion dollar GDP last year. Adjusted for inflation, that is a doubling of economic size in a decade. This type of quick pulse has happened in the past, as in China and Southeast Asia, but is very rare. I indicated to an audience last month that it took the UK 150 years during the Industrial revolution to double its GDP. Yet while the economic performance has been credible, it is still below potential and below what is needed. Not only is it below potential and below what is needed, it also runs the risk of unsustainability.

Let me explain. It is below what is needed, because for Africa to vanquish poverty it is not 6% GDP growth that will do it; it is at the minimum 7% for around two decades. It is below potential because the full force of the one billion people on the continent is not brought to bear due to fragmentation of the economies, including the world’s highest number of landlocked countries. It runs risk of sustainability, economic, social, political and environmental, because of a narrow range of growth drivers, inclusion issues and jobs for the young as well as pressure on natural capital. These are well known issues which must be addressed to ensure broad-based benefits and to lay a basis for transformation.

However, two things are self-evident. The Sub-Saharan economies will be challenged to sustain – let alone surpass – 7% GDP without removing the infrastructure bottleneck. No country has ever done so. Almost every single country
is suffering power outages. That is GDP lost, those are jobs gone, businesses ruined. We pay the highest costs for power, for transport, for connectivity, of any part of the world. Bank staff calculate that poor infrastructure is shaving off 2% of GDP per year and cuts productivity by anywhere as 30% to 40%.

Secondly, the economic dynamic of the last decade is limited by the fragmentation of the continental market. It imposes huge opportunity costs on the economies and is a brake on investments. Some progress is underway, but not fast enough. The figures we have now show that trade among African countries, which stood at 47 billion dollars a decade ago – or 11% of total trade – is closer now to 16%. And that excludes the informal trade, which some sources claim might bring the figure the figure closer to 20%. Reports now show trade levels at 108 billion dollars in 2011.

Nonetheless, on a continent of more than 40 currencies and the world’s largest number of landlocked countries, regional cooperation would not only add 45 billion dollars a year, it would also improve the diversity of our supply chains. Forty-five billion dollars a year equals half of all the Official Development Assistance Africa receives.

This is a well-known diagnosis, often discussed and whose solutions are known. The political will exists – at least on paper – in laws and statutes to facilitate the seamless flow of goods, capital and talent.

In fact, the last Summit of the African Union even discussed an Africa-wide free trade area. In some Regional Economic Communities progress is being made on dealing with tariffs. A lot of progress there; unfortunately, not as fast in getting rid of non-tariff areas. In other Regional Economic Communities movement on both the tariff and non-tariff areas are painstakingly slow. For African countries to progress further, we must address the issue of fragmented and often tiny markets, bridge the infrastructure gap and tackle trade barriers. This is what will unlock the one billion consumer reality.

I will come to infrastructure in a moment. But even with limited infrastructure, progress could have been faster in some areas, such as the provision of common services and free movement of business persons. Just think of why flying inside Africa has tickets 40% higher than the world average. Intuitively people put that to the high cost of goods and services, but the most important reason is protectionism. There is a protocol which is called Yamoussoukro Agreement, supposed to provide competition in the air, which is not really working. The same applies to innumerable NTBs which are quite familiar, business processes, documentation, red tape that frankly serve no purpose other than to limit Africa’s growth opportunities and trade.
But at the end of the day many of these things require financing. This is why I can only applaud this G8 emphasis on the issues around resource mobilization through greater transparency on taxation issues in Africa’s natural resources. There is a large internal governance agenda on natural resources. But the international community must do its part to ensure balanced contracts, minimize tax avoidance (let alone tax evasions) and bring light and transparency in the natural resource sector which for now is often very opaque.

It is only in this way that our countries will be able to find the financial resources they need to fund infrastructure and to fund the trade corridors, which are now very dependent on donor funding.

The African Development Bank is fully behind this agenda. That is why four years ago we put in place the Africa Legal Support Facility. It has been very instrumental in assisting a number of countries negotiate complex contracts or unbundle others with the aim of ensuring the countries get what they deserve, investors get the return they look for and everyone is a winner.

I would like to tell you what the African Development Bank has done and plans to do in this area. At the moment, we commit almost two billion dollars a year on economic integration. We have focused our attention on the following areas:

1. Providing support to the Regional Economic Communities in planning and strategy;
2. Focusing investments on trade related infrastructure, transport and fibre optics;
3. Trade facilitation and soft infrastructure;
4. Electricity power pools;
5. Development of corridors; and

I would be happy to share what we do in each region of Africa as it is substantial.

**Innovative funding**

However, such is Africa’s gap on infrastructure that it is not possible to fill this through public budgets or donor finance. Our experience at the Bank, based on actual investments we have done, leads us to believe that some of the infrastructure we need can attract private finance. This type of project finance is very complex to structure. The Bank nonetheless has the experience, the knowledge, and the convening power. That is why we have submitted to our
Governments the Afric50Fund. You will hear a lot about the Africa50Fund in the coming months.

Essentially, we have put in place a vehicle to issue bonds in the markets for the priority transformational projects that are bankable. For that purpose, we will mobilize Africa’s own domestic savings. The African Development Bank will not only be an investor; this vehicle benefits from the close association with us. We are exploring how to get lower equity tranches and first loss from our concessional window. If we succeed, this will be truly Africa’s transformational vehicle to fund infrastructure.

As time is limited, let me close by saying that at this moment Africa offers an opportunity to the world. Africa has one billion people, the majority of whom are younger than 20 years. But that potential, which could reignite the global economy, has to be brought into being. That is the importance of the work we do through the African Development Fund. That is what we want to do through Africa50Fund.

Thank you again for listening.