Africa and the Global Value Chain
Time to Raise the Bar

Dr. Donald Kaberuka
President
I come here from Tanzania, where we were meeting with President Obama who has been visiting Africa in the last ten days. This is one of the things he said in Cape Town – quite pertinent to what we are doing here. I quote:

Many of the fastest-growing economies in the world are here in Africa, where there is an historic shift taking place from poverty to a growing, nascent middle class.

Fewer people are dying of preventable disease. More people have access to health care. More farmers are getting their products to market at fair prices. From micro-finance projects in Kampala, to stock traders in Lagos, to cell phone entrepreneurs in Nairobi, there is an energy here that can't be denied – Africa rising.

We know this progress, though, rests on a fragile foundation. We know that progress is uneven. So there is no question that Africa is on the move, but it's not moving fast enough. We've got more work to do.

To date, African firms have been operating at the lowest rung of the ladder in global value chains.

I believe all of us in this room can readily agree with President Obama on this. That is Africa's challenge. This is why we are here today. If the continent is to get to the next level, we must accelerate the speed of transformation. That is where jobs are created. That is what will reduce the level of dependence by African countries, by trading our way out of poverty.

So the point I want to make today is this: the past decade has seen the most dramatic decline in poverty in the course of human history; it has happened through growth, trade and investment and Africa has made some progress as well.

Trade has played a key role, to service the rapid growth in commodities abroad and the massive increase in domestic demand within the continent of Africa. After two decades of sustained economic growth, if you adjust for inflation, Sub-Saharan Africa’s GDP has almost doubled.

This has created a large window of opportunity, for global value chains begin next door and they are everywhere. As we talk about the global value chains, it is the place to begin. African consumers with significant disposable income have reached 350 million in 2010, up from 126 million in 1980. Consumer spending is now estimated at 720 billion dollars and we project it will pass the one trillion dollar mark by 2020. This burgeoning demand for consumer goods provides the first foot in the door.
Intra-regional trade in processed goods will be the first opportunity for African firms to move up the chain. Our preliminary analysis shows that while intra-African trade is still relatively modest, it has more than doubled between 2005 and 2011, rising from 49 billion dollars to 108 billion. In fact, trade between African countries grew faster than Africa’s exports to the rest of the world.

In 2010, 16% of Africa’s exports were directed to other African states – higher than the 10% figure cited in most papers. In fact, the level might be higher once the gaps in statistics are corrected, as was reported recently for Uganda. That includes instant coffee or chocolate sold to neighbours of Cote d’Ivoire and Kenya. So this is the most logical place to begin – utilising 'smart aid' such as we are doing in AfT to make that happen.

Solution

But we will have to go beyond that to draw lessons from our experience so far, including with trade facilitation. I once spoke to a Chinese manufacturer who has relocated some of their business to Ethiopia to make footwear, for the US market, taking advantage of the country’s ample hide and skin supply and relatively cheap energy. They said: “We make a first-class product, here in Ethiopia. We can compete on quality, on price. However, what eats into our margins are two things: lack of clusters and logistics.”

I will have an opportunity to return to the issue of clusters. For now let me focus on the whole area of logistics and related services, an area where Aid for Trade (AfT) has contributed greatly, especially on the soft side, and where the Bank has some comparative advantage.

Logistics begin with infrastructure. History tells us that no country can sustain the levels of economic performance Sub-Saharan Africa is seeing today unless they overcome the infrastructure obstacles, especially power.

I just came here from Tanzania, a country which has registered very strong growth and is on the verge of becoming a major natural gas economy, like Mozambique next door. Three years ago, the country had severe power outages, up to 70%. They had to resort to emergency thermal power supply which is quite costly, while providing the much needed electricity. It has entailed huge disequilibria in the power sector, requiring deep-seated reforms.

That is why for the AfDB infrastructure is our core business, 60% of everything we do. In the past five years alone, our commitments to infrastructure totalled more than 12 billion dollars, often taking a regional perspective. Business surveys across
Africa consistently indicate infrastructure as the number one obstacle to overcome. This is not to underestimate the other issues around productive capabilities, policy, regulations, and so on. It is only to say that while risk perception is steadily changing, there is overall agreement on the need to fix infrastructure. From passable roads, repairing dilapidated railways, often built a century ago, maritime ports where ships have to wait for weeks, to the most dilapidating power – from availability, access affordability and sustainability: this is one area which policy makers and all of us must give our undivided attention.

Today, if you talk to businesses who are already investing, the ‘Africa risk’ is rated as comparable to other parts of the world, although for those who are yet to invest the perception often diverges from reality, but they worry about infrastructure.

This is not to say policies and regulations are not an issue; it is only to say, as business leaders tell me, that legislation and texts are often adequate, sometimes even better than elsewhere. It is implementation which does not always follow, often due to poor capacities to follow through.

Going forward, therefore, assisting countries implement their own legislation – which is often excellent – will be a priority. The politics and ‘nationalism’ do not disappear even if infrastructure is there, far from it. Just take the Yamoussoukro Agreement, aimed at deregulating the aviation sector where progress is painfully slow – very slow – which means intra-African air travel is a level of 40% higher.

We need to also take a deeper look at training and skills. At this meeting with President Obama, one of the CEOs present observed the paradox of youth unemployment on one hand and, on the other, businesses who cannot find the skills they need. Each of our countries needs more university graduates of all kinds of disciplines, but they need even more artisans, technicians, builders, electricians, plumbers – the “missing middle” that gets things done.

On all these issues, I want to acknowledge the Enhanced Integrated Framework which has provided a shared platform to analyse scope and assess gaps, so that individual organisations can come up with appropriate support. I understand we will have an opportunity today to decide on how to reinforce this very useful platform.

**Financing trade**

You will recall that in the aftermath of the 2008 financial crisis, together with other international financial institutions, we stepped in with an attempt to close the gap. The AfDB launched a one billion dollar trade finance initiative. Over the past three years we have supported a cumulative level of trade of 2.5 billion dollars. It would
seem that even as the financial crisis abated somehow there remains a significant market gap in financing trade. This is what commercial banks tell us, and it is what I have concluded.

That is why we have now adopted a permanent in-house trade finance programme, mainly risk participation agreements which seem to have worked so well in Asia. Going forward, we have a broad agenda. I think the donors to programmes such as the EIF who have contributed to this joint endeavour.

But we are now at a critical juncture. Budgets are under pressure everywhere. Whether it is soft or hard infrastructure – we need to innovate to seek new ways of doing things. Africa’s 45 billion dollar annual infrastructure financing gap will remain the elephant in the room, far beyond the financial capacity of individual countries and development partners.

It is time for both partners and African governments and institutions to make a step change. We have achieved a lot together in the past 50 years, but we have also given up a lot.

In the coming weeks, you will hear a lot about Africa50Fund, an innovative financing vehicle the African Development Bank is putting in place to take our possibilities of infrastructure finance to the next level, complementing existing instruments, innovating among them, and mobilising Africa’s own pool of savings.

As a piece of financial engineering, it is quite complex, but there is little alternative, and it is doable. The idea is to leverage the Bank’s track record in infrastructure, Africa’s natural resources, internal savings, smart use of external support and capital markets to finance bankable, high-return, transformational regional infrastructure projects – an idea which was already envisaged by the G20 at the summit in Korea.

The facility, which is expected to build enough equity on Africa’s domestic pool of savings to be able to issue a high quality infrastructure bond, is in the final stage of development. It still requires sophisticated financial, institutional and legal work on our part. Bank staff are working on this with the ingenuity and urgency that the issue deserves.

Africa Finance Ministers studied the matter at our last annual general meetings in Marrakech and gave their blessing. Next week I will meet with my Addis colleagues, Dr. Zuma, Mr. Lopes, Mr. Mayaki, the RECs, and sub-regional financial bodies to refine this. We are convinced that this vehicle is feasible and is needed for the transformative infrastructure Africa needs.
Conclusion

Going forward, we have a lot on our table. We need now to build on the Enhanced Integrated Framework, AfT, improve on it and go beyond and the Bank will play its part.

To conclude, I wish to say a few words about my good friend Pascal Lamy.

Pascal, it is with great admiration that I have watched a tireless champion for a fair global trading system, frontloading the interests of developing countries, in particular those of Sub-Saharan Africa.

You brought to bear your vast experience and deep knowledge to the trade agenda, working hard with all parties in order to reignite global trade as a key solution for the global recession. In the aftermath of the financial crisis, you succeeded in the battle against the would-be forces of protectionism.

You worked tirelessly to ensure flow of trade financing, helping to overcome the initial hesitancy by those who did not agree this was a problem. You ensured the solutions to the global crisis such as some elements of Basel III did not hamper growth prospects of the LICs. What the AfT has delivered will be a lasting legacy. Like you, I can only express the hope that politics can be mobilised for global trade agreement which poor countries need to trade their way out of poverty. As you hand over to your successor, I am sure we have not heard the last from you.

On behalf of the African Development Bank and your many friends in Africa, I say thank you for the work you have done to make the world a better and fairer place.

Ladies and gentlemen, thank you for your attention.