SUPPORTING ECONOMIC TRANSFORMATION

AFRICAN TRANSFORMATION FORUM 14-15 MARCH 2016, KIGALI, RWANDA

Event Report

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INTRODUCTION

On 14th and 15th March 2016, the African Center for Economic Transformation (ACET), in partnership with the Government of Rwanda, convened the first African Transformation Forum (ATF) in Kigali, Rwanda. The ATF was attended by global thought leaders, key private sector actors, active civil society groups, and high-level governmental and intergovernmental organisation representatives. The first objective of the ATF was to facilitate knowledge sharing and peer learning across global and African luminaries. Participants contributed their insights, challenges and solutions for galvanising economic transformation in Africa. The discussions were broadly across two categories: i) the coordinated development and implementation of national development plans; and ii) catalysing transformation within critical sectors, notably: extractives; light manufacturing; agriculture; skills development; entrepreneurship; financial inclusion; infrastructure; and regional integration. The second objective of the ATF was to launch the Coalition for Transformation in Africa – a leadership network organized in chapters, each addressing a specific thematic area. ACET will serve as the Secretariat for the Coalition.

Ahead of the ATF, ACET and the Supporting Economic Transformation programme (SET) collaboratively produced background papers (available online) for three sessions. This event report covers the SET relevant sessions. Papers and reports for other ATF sessions are available on the ACET website.

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Key Points from Sessions

SESSION ON IMPLEMENTING NATIONAL TRANSFORMATION STRATEGIES (DAY 1)

- Government is a central player and has to play a critical role in mobilising public-private sector coalition and serving as a broker between multinationals and economy.
- Partisan politics and high turnover in political leadership can hinder long term strategies.
- Corruption is not limited to government and affects private sector as well. The law is vital for fighting corruption and high penalties create a culture that reduces it.
- Robust financial institutions are needed to support the work of development banks at all levels including big financial banks, microfinance institutions, and capital markets.
- Needs to be focus on planning, sequencing and prioritisation in effecting transformation national strategies. They should move from technical documents to something citizens can buy into; creating them should be an inclusive, consultative process.
- National implementation strategies need: 1) Efficient/smart government 2) Adequate financing 3) Public-private partnerships 4) Impact assessments.

SESSION ON FACILITATING TRADE AND REGIONAL INTEGRATION (DAY 1)

- There is an excessive focus on tariffs reduction - need to reduce ‘behind the border’ measures and facilitate the movement of people.
- Trade facilitation is essential in the formation of regional value chains.
- Africa needs to move from negotiation to implementation.
- Private and public sectors trusting each other is essential.
- Intra-regional trade in Africa is very low and some of the challenges affecting integration are simple to resolve.
- Services sector is essential to economic transformation.

SESSION ON SEIZING NEW OPPORTUNITIES IN MANUFACTURING (DAY 2)

- Manufacturing has the ability to transform African economies with a multiplier effect.
- Low agri-business productivity is an opportunity for the future.
- Growing security and stability is an appealing factor for foreign investors investing in manufacturing in Rwanda. Regional integration is also important to attract investors.
- Skills implementation for youth is key given growing population in Africa.
- Identify rising stars of SMEs to scale them up as well as entrepreneurs at ground level and procuring their requirements to increase productivity.
- Linkages between FDIs and the local players in the sector are crucial.
- Provide short-term incentives for foreign investors without disadvantaging local business.

President Paul Kagame, Photo by ACET

PLENARY SESSION ON IMPLEMENTING NATIONAL TRANSFORMATION STRATEGIES

Background paper: Public and Private Sector Collaboration for Economic Transformation

MODERATOR:
Yvonne Okwara, News Anchor/Producer, KTN

SPEAKERS:
Claver Gatete, Minister of Finance, Government of Rwanda
Emmanuel Nnadozie, Executive Secretary, African Capacity Building Foundation
Dirk Willem te Velde, Head, International Economic Development Group, Overseas Development Institute
Michael Chege, former Policy Advisor, Treasury and National Economic and Social Council, the Republic of Kenya

Claver Gatete: Private-public dialogue and cooperation is necessary to implement transformation. One example of success is the Rwandan Development Board (RDB). The RDB links the private sector to government and its CEO is a member of the Rwandan Cabinet which has made it easier for people to conduct business.

Successful strategy requires political will, however, many African states face challenges in building partnerships due to challenges in governance and corruption. Corruption is a technical problem that affects entire institutions.

In addition, coordination across different financial institutions and regional coordination are significant. Transformation should be an inclusive process, and this means involving all the members of the society regardless of class or political affiliation. The process of transformation is messy and involves mistakes - whether in the dialogues across sectors or when implementing strategy - but learning and reinventing is a necessary part of the process.

Plenary 1 panel (Gatete, Nnadozie, te Velde, Chege, Okwara), Photo by ACET

Emmanuel Nnadozie: Implementing strategies hinges upon capacity: a) soft capacities b) institutional capacity and c) human capacity. The first is the most important and most neglected – leadership. Beyond having some kind of appropriate and implementable strategy you need to make sure that it is politically sound and has political backing. Government is the central player and has to play a critical role in mobilising public-private sector coalition and serving as a broker between multinationals and the rest of the economy.

Countries need self-confidence – don't rely on donors. Pan Africanism is important – we need think tanks across the continent. 4.3 million engineers are needed for transformation in Africa but there is an issue of quality. African technical schools and universities are the ones to solve African problems – and students must be retained in the continent. 80% of graduates are not studying areas critical to transformation such as technology, science etc.

Dirk Willem te Velde, Photo by ACET

Dirk Willem te Velde: – it is important to align budgets with planning processes. A lesson from countries that have transformed (e.g. in Asia) is that there is no single constellation of actors that can guarantee it. It is not about form, but rather functions of agencies:

1) Creating a transformation strategy inclusively. This needs a shared vision to get key stakeholders together and needs to survive political cycles.
2) Building public-private collaboration requires three things: a strong public agency that is able to discipline other ministries, public agencies which are more embedded in private sectors (both formal and informal networks) and for public dialogue to be able to incentivise collective action in the private sector.
3) When supporting private sector there should be selective interventions.
4) Learning, experimenting and feedback is important in public-private dialogue to align budgets.

Think about demonstration projects – building on institutions, small scale coordination etc. There is positive news, for example Ethiopia where firms have created many jobs in small time (see background paper).

Michael Chege: Manufacturing in Kenya is disappointing, growing at more or less the same rate as GDP. As a result, we have jobless growth (alongside most of Africa) and a lot of young frustrated people as we have not solved the problem of inclusiveness. How does Africa industrialise based on primary commodities? Need to think about true value addition, global value chains, and linking to other firms. There is also corruption in public-private sector collaboration – how can we make sure it is not corrupted? Finally, those who write technical documents often do so badly. The press needs to understand what you want to do.

Claver Gatete: Corruption is a cost for the nation. You need national policy, enforcement of rules, and punishment for not playing by the rules needs to be heavy. Most important thing is to lead from the top. In Rwanda we are lucky as president believes in this - corruption has an effect on economic growth. Development banks are not enough. You need commercial banks, capital markets, and insurance companies etc. to bring in resources for private sector and finance transformation. Planners need to think about how to use resources and planning and budgeting need to go hand in hand.

Dirk Willem te Velde: Kenya example is interesting. Vision 2030 is a public document which needs to be implemented. Our experience of implementing national transformation strategies is that you can find tremendous results when involving one ministry. However when multiple ministries are involved, it gets harder. Then adding the private sector, it becomes even more difficult. Demonstration projects and constant consultation is key – learning and feedback.

CLOSING REMARKS

Dirk Willem te Velde raised that a shared vision of transformation is the hardest challenge and needs to transcend electoral cycles. Finance follows if you have the right vision and framework.

The panel agreed a common element is leadership and that national strategies need to move from technical documents to something a citizen can buy into. "*The countries that are doing well are the ones that are lucky enough to have good leaders… who are visionary, political savvy, implementers" (Emmanuel Nnadozie).* The push for implementation comes from citizens who can hold leaders accountable. For the implementation of national strategies to succeed, government, private sector, development banks etc. must come together.

BREAKOUT SESSION ON FACILITATING TRADE AND REGIONAL INTEGRATION

Background paper: Trade Facilitation and Economic Transformation in Africa

MODERATOR:
Eveline Herfkens, former Minister of Development Cooperation, The Netherlands

SPEAKERS:
Richard Newfarmer, Country Representative, International Growth Centre
Richard Sezibera, Secretary General, East African Community
Matthew Rees, Deputy Coordinator, Trade Africa, USAID

Richard Sezibera: A lot of work has gone into implementing policies for intra-EAC trade – in Rwanda's case [intra-EAC trade] has grown from 10% to 26% in less than a decade, and although this is fast, it is not enough. Regional integrational requires a mind-set shift:

a) Move from tariffs to 'beyond the border' issues. Many officials are still stuck on tariffs, and spend time negotiating for them to come down, so there is slow movement on this important pillar of industrialisation.
b) Movement of people – there is a goal to create 2.3m jobs by 2032 from the current 450,000 but we will not able to do this unless countries allow freedom of movement.
c) Focus on execution – i.e. what is already agreed instead of negotiating new deals.

Richard Sezibera and Richard Newfarmer, Photo by ACET

Eveline Herfkens asked if we should demand a standstill to trade negotiations, to which Sezibera responded "*we are not opening markets to each other – but to Europe. If we focus on this, we have less work to do*."

Richard Newfarmer: The East African Community (EAC) has a common external tariff which has provided a framework and helped stimulate trade facilitation agenda but it is time to reconsider the common external tariff in a global competitive market. There is a need to move from negotiation to implementation and trade facilitation is five times more important to expanding exports than negotiating tariffs (to the structural transformation agenda). Global value chains and services are becoming much more important. The good news is, within the region, East Africa is a leader. The progress has been dramatic over the last ten years. Trade costs have fallen 40 to 60%, relative to what they were to in 2006, waiting time in the port of Mombasa has gone from 13.5 days to 5.8 days, and transit times from Kenya have been halved from four to two days. But trade costs are still very high – among the highest in the world.

The next agenda should be services. Efficiency of services, according to a recent study, are statistically related to a productive manufacturing industry. Services trade are increasingly central to growth (through direct exports, manufacturing, tourism etc.) and East Africa is pioneering. Three out of six countries have adopted the regional visa. Telecoms are very important to development of ICT services which have seen prices come down.

Africa has done well increasing its share of FDI 2-3% of all available FDI but most has gone into natural resources and raw materials, with 20% into manufacturing. Carlos Lopes mentioned earlier that China opened up to FDI and used manufacturing to propel economic growth – and the first thing they did was setting up Special Economic Zone (SEZ) demolishing most restrictions. Africa lags in this regard.

Matthew Rees: Need to think about private sector doing business in Africa and the real cost of getting goods into, and out of, markets in a competitive global economy. In 2011 it used to take 21 days to bring goods from Mombasa to Kigali; now it is 6-8 days but still not cost-effective. It is important to reduce the time and cost and variance with which goods get into and come out of markets. Trade facilitation as a strategy, rather than a product-focused strategy is very important. We must push national governments on regional trade and financing these initiatives and enable a strategic shift that makes the government accountable to private sector, but puts private sector as leader of advancing intra-regional trade. Policy formulation should be inclusive of the private sector.

Richard Sezibera: Regional integration is about prosperity. *"Trade facilitation must be anchored into economic transformation… The work on manufacturing goes hand in hand with trade in services"*.
Fiscal and financial integration are critical for Africa – but if you don't intend to have political integration, a single currency doesn't make sense.

Minister Claver Gatete: The key is to start from easy, cost-effective solutions such as removing roadblocks, bribes, and other hindrances to trade. These require simple decisions which leaders (and the public) understand. Ministers want to know they are getting 'more out than they are putting in'. Once they see it works, they can think about bigger things like infrastructure, energy etc.

CLOSING REMARKS

- Trust is important; from the private sector in the public sector to keep promises, and equally public sector trust that once tariffs are reduced, private sector won't start advocating for them. Rees comments that *"regional integration works when people start making money from it and seeing money supporting the larger common markets".*
- The Non-tariff Barrier Monitoring Council was commended on their work to remove barriers as well as the work of the East African countries in regional disintegration. Newfarmer advised to use donors well, make demands of the World Bank/IMF and use the WTO facilitation to push African agenda on to the international community.
- Sezibera emphasised the importance from the political leadership from both the private and the public sectors.

"Trade facilitation should be anchored into economic transformation."
Richard Sezibera

"It's your civic responsibility to demand leadership and to hold leadership to account."
Eveline Herfkens

Eveline Herfkens, Photo by ACET

BREAKOUT SESSION ON SEIZING NEW OPPORTUNITIES IN MANUFACTURING

Background paper: Promoting Manufacturing in Africa

MODERATOR:
Tony Oteng-Gyasi, former President of the Association of Ghana Industries, and Managing Director and Chairman of Tropical Cable and Conductor Ltd

SPEAKERS
François Kanimba, Minister of Trade and Industry, Republic of Rwanda; former Governor of the Central Bank of Rwanda
Phyllis Wakiaga, CEO, Kenya Association of Manufacturers
Yaw Ansu, Chief Economist, African Center for Economic Transformation

Francois Kanimba: For a long time the perception Africa was negative from the perspective of global investors. Investment in manufacturing was low in 60s and 70s due to lack of stability, corruption, lack of security. Now the situation has dramatically changed. We see strong resilience in economies in Africa despite global crises, which is a powerful incentive to attract investors. Security has improved and systems are in place.

Agricultural productivity is still very low in Africa – need to improve agri-business productivity. There is a long way to go and huge room for improvement.

Another driver of opportunities in Africa is the dynamics of African population growth – a young, growing population is a comparative advantage. The government of Rwanda has created a programme for employers to employ youth and provide them with the skills required. This is strong game-changer for investors looking to invest in the manufacturing sector.

Regional integration is also key to attracting investors – our vision as a country is to push ahead with the integration agenda. There are decisions almost every month to break down barriers to integration and expand the intra-regional trade area.

Phyllis Wakiaga: Manufacturing leads to high value jobs. Most agricultural products are exported out, and brought back in. Manufacturing creates high valued jobs and has multiplier effects as it has linkages with other sectors – logistics, finance, services, etc. If we are able to manufacture we are able to trade and bring in FX. It also contributes to GDP and public finance. However infrastructure is not at level it needs to be and sometimes there is limited value addition. *"You can only succeed in the market if your products are competitive."*

Pillars to be addressed to seize opportunities in manufacturing:

- General policy framework (how predictable are they in long term to ensure stability?)
- Regulatory reform
- A level playing field – illicit goods distort the sector and drive away investors
- Taxation regime that incentivises production
- Long-term finance
- Energy costs – quality and reliability of that energy
- Export competitiveness
- Diversification of markets and goods

Yaw Ansu: We have to think of reform in terms of global markets and regional markets. The key reason industrialisation failed earlier is because it wasn't planned within global trends. The bigger question is how we can finance industrialisation to transform the economy.

Opportunities:

- Asian countries are now less aggressive in markets. We have to fight to earn that space.
- 20-30 years ago you had to create a vertically integrated factory which we do not need to invest in now due to niche markets.

- Abundance of natural resources means more money that could be spent on people.
- We also have opportunities of regional trade we need to explore.

Strategies:

- Provide credit for Small and Medium Enterprises (SMEs)
- Use localised solutions where a little money can go a long way in terms of infrastructure solutions
- Fund robust programmes with linkages between FDIs and the sector – prepare your domestic firms to be as competitive as possible

Francois Kanimba: Emerging economies have set up special financial vehicles for industrialisation. This is a fundamental that every country should be considering. In Ethiopia, central bank takes 20% of commercial reserves to finance industrialisation at an interest rate of 5-10%. We should be looking at similar solutions. Our banking and institutional systems should support SMEs to start up during a transitional period and mature to continue on the road map to prosperity. The Business Development Fund in Rwanda is creating solutions to support set up of SMEs in Rwanda. Also, from our experience in Rwanda, economic industrial parks are incentives for FDIs, but are dependent on cost of land and cost of access.

Phyllis Wakiaga: Agriculture and manufacturing need to link in order to create a holistic policy jobs. Key pillars are:

- Add value in export sectors
- Create a food hub at farm level – agro-processing
- Build local content

There is a two-pronged approach to SME engagement: 1) identify rising stars of SMEs and to scale them up and 2) look at entrepreneurs at ground level and procure their requirements to increase productivity.

Yaw Ansu: Many African countries have strategies but few have a coherent manufacturing industrialisation policy. Strategy for supporting SMEs should have a skills element (training programmes for recent graduates etc.), a financing strategy and a cluster element (SEZs). This should bring companies together and provide an industrial park strategy which is well-functioning to attract investment. We also need to develop sub-regional value chains, with help from ACET and other organisations.

Audience members at ATF 14-15 March 2016, Photo by ACET