ILO STATEMENT

TICAD 7 – Plenary 2 "Accelerating economic transformation and improving business environment through innovation and private sector engagement"

- Economic transformation refers to the process of moving labour and other resources from lower to higher productive sectors with the aim of stimulating growth, productivity, economic diversification and better employment opportunities for women and men. Typically, this entails an expansion of the tertiary sector, increased investments in skills and knowledge, as well as productivity gains in agriculture and manufacturing sectors.

- In spite of generally positive growth trends, in many African countries growth has been largely driven by extractive industries, characterised by high capital- and low employment-intensity. As Foreign Direct Investments remain one of the key drivers of the African economic growth, there is a high need of shifting them — from extractive to manufacturing and service sectors.

- ILO's estimates on the employment returns of investments in Africa suggest that the establishment of customer centres create 61 jobs for every US$1 million of "greenfield" Foreign Direct Investment. The manufacturing sector creates 2.75 jobs for every US$1 million, while the extractive sector creates merely 0.6 jobs[1].

- At the same time, the majority of the African population remains employed in a predominantly traditional and low-productive rural economy. It is in these areas that infrastructures and services are most scarce, with little opportunities or incentives for entrepreneurship and skills development. Inadequate vocational and technical training programmes have prevented young workers from fully reaping the benefits of promising new sectors due to skills mismatch.

- Recognizing the need and the benefits of a structural economic shift in the continent, structural transformation has been taking place across much of Africa since the early 2000s, thanks to economic growth, demographics, urbanization, and technological developments. But the process is very slow. The continent still accounts for just 1.9 percent of global value added in manufacturing—a share that hasn't risen in decades (AfDB, 2019, P11)

- Ensuring an enabling environment for enterprises is acknowledged in all policy agendas as an engine to accelerate the African economic transformation. Enterprises, in fact, do not and cannot exist in a vacuum. Instead, they operate within a political, social and economic context and according to regulatory and institutional frameworks. A suitable institutional and regulatory environment can therefore promotes innovation, help the private sector thrive in strategic sectors and generate productive employment opportunities for women and men.

- In a region where close to 90% of jobs are in Small and Medium Enterprises (SMEs), it is crucial to allow start-ups and existing MSMEs to perform better, reduce their cost of doing business, access financial services, recruit skilled employees and, as a result, create more, decent and productive employment.

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[1] *ILO forthcoming Report on the promotion and application of the Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy in Africa, Page 17*

- There are concerns regarding the quality of jobs in SMEs and informal enterprises, especially in terms of social protection coverage, occupational health and safety, and skills development. Workers in these enterprises are rarely offered training, which might not only prevent them from improving their skills, but also affects innovation itself in the long term.

- The ILO's Enabling Environment for Sustainable Enterprises (EESE) programme provides evidence-based assessment and recommendations to improve the business environment for enterprise development and creation of decent jobs. In Africa, EESE programmes have been conducted in Burkina Faso, Cameroon, Egypt, Lesotho, Malawi, Namibia, South Africa, Sudan, Swaziland, Tanzania, Zambia and Zimbabwe. The main challenges that have been identified through these assessments relate to the legal and regulatory framework, the access to finance as well as the entrepreneurial culture and skills mismatch. Recommendations to address these challenges usually focus upon strengthening the SMEs support agencies, increasing dialogue and coordination between public and private actors in job-rich sectors and implementing targeted programmes to support the creation and formalisation of growth-oriented and innovative sustainable enterprises.

- By recognizing the private sector as the main engine of economic transformations and growth, it is key to identify sub-sectors and value chains that can increase productivity and promote an inclusive growth in Africa. New opportunities are becoming available from shifts in Global Supply Chains, advancement in new technologies, as well as expanding trade opportunities with Renewable Energy Certificates (RECs).

- At the same time, innovation and technological change carry a number of challenges that need to be anticipated to the largest extent possible. Therefore, both a better business environment and strong governance institutions are needed for firms and workers to benefit more equitably from emerging economic opportunities.

Productivity gains allow for better jobs

- Productivity gains are vital to accelerate economic growth and social development. They provide capital to reinvest and are indispensable for raising wages and improving working conditions. Governments should therefore make productivity improvement, technology and innovation a cornerstone of their policies to promote enterprise development.

- The African continent's latent development could greatly benefit from technological and environmental progress. The key to harnessing this potential lies however in the inclusivity of its economic and labour policies, institutions and enterprises. In doing so, it should take advantage of the lessons learned from development trajectories within and outside the continent, in order to ensure that the need economic transformation guarantee rather than hamper social progress, sustainable development and equality of women and men.