



United Nations  
Economic Commission for Africa

Third International Conference on Financing for Development

**Check against delivery**

*Side Event*

*On*

***“Increasing Africa’s Fiscal Space”***

**jointly organized**

**by**

**United Nations Economic Commission for Africa, Government of  
Ethiopia and Mckinsey & Company**

**Welcoming Remarks**

**By**

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Excellencies,  
Distinguished Guests,  
Ladies and Gentlemen,

Good morning.

It is my great pleasure and honor to welcome you all to this side event on “Increasing Africa’s Fiscal Space” organized in the margins of the third International Conference on Financing for Development.

Allow me to start by emphasizing the critical role of fiscal space in Africa’s vision to achieve inclusive and sustainable development. Indeed, Africa is known to possess vast amount of exploitable natural resources. Proven stocks of extractable energy resources on the continent (oil, natural gas, coal, and uranium) are estimated at between US\$13 and US\$14.5 trillion. An estimated US\$1.671 trillion of potential wealth and additional production potential were identified in the following key sectors - agriculture, water, fisheries, forestry and tourism. For these opportunities to be realized, sound macroeconomic framework, careful development planning, debt sustainability and fiscal responsibility have to be in place.

Recently, Africa has stepped up its policy initiatives aimed at addressing the financing gap to realize its transformation agenda and sustainable development objectives. These initiatives include the work of the Planning and Coordination Agency of the New Partnership for Africa’s Development (NEPAD), the Ninth African Development Forum, the High-Level Panel on Alternative Sources of Financing, the African Union and the High-Level Panel on Illicit Financial

Flows. However, the realization of the objectives set out in these initiatives will depend on how national development planning frameworks and their policy instruments are geared towards securing the fiscal space to finance national development strategies.

In the last decade, many African countries have adopted long-term national visions for development to address the de-industrialization associated with the Structural Adjustment Programmes of the 1980s and 1990s, and to embark on structural transformation efforts as well as an inclusive and sustainable development trajectory. Governments through effective development plans can expand the fiscal space through the following fiscal instruments: domestic revenue mobilization, deficit financing via domestic and external borrowing and reprioritization and enhancing the efficiency of expenditures. A dynamic approach to the expansion of the fiscal space requires a better understanding of the long-term effects of fiscal expansion on economic growth and inclusive development. It is therefore essential to carefully define the policy assumptions underlying the planning framework, the time frame within which the different measures take effect and whether the policy actions designed to tap into the different sources of fiscal space are endogenous or exogenous to domestic policy-making.

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Domestic resource mobilization will undoubtedly continue to underpin development financing in Africa. It is particularly important to note that since the

turn of the century, the two main sources of Domestic resource mobilization—tax and savings—have both increased across all levels of development and all economic groupings in Africa. In upper-middle income countries, the tax to GDP ratio has increased from 23.6 per cent in 2000 to 26.8 in 2015, and it is expected, according to ECA estimates, to increase to 29 per cent in 2020 if the current rate is sustained. In low-income countries the tax to GDP ratio has increased from 12.5 per cent in 2000 to 14.8 per cent in 2015. The positive trends identified above can be sustained through better capacities to implement effective tax reforms, curb tax evasion and avoidance; improvements in tax administration and collection; and addressing leakages stemming from illicit financial flows. Enhancing the role of anti-corruption units in revenue authorities, tax tribunals and the specialized tax audit units to handle ‘mega-projects’, financial institutions and extractive industries, is also a priority intervention.

This goes without saying that there are some key considerations to fiscal and debt sustainability in the face of rising growth and public investment expenditures. First, Governments need to assess the sustainability of their country’s current debt burden and analyze the consequences of any expansion of sovereign borrowing (i.e. from non-concessional loan sources at market rates) for future fiscal sustainability. Second, governments need to consider any expansion in borrowing within the context of a comprehensive medium-term strategy for sovereign debt management. Third, governments need to explore the scope for utilizing domestic credit markets as a source of long-term financing. Finally, in accessing international capital markets, African Governments need to consider the fundamental objectives of any sovereign bond issuance; the absorptive capacity of both the domestic macroeconomy and the infrastructure sector itself; and a government’s capacity to manage the exchange rate risk associated with

substantial holdings of foreign currency denominated liabilities, should also be considered.

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The quality and predictability of external financing are critical to the expansion of the existing fiscal space in Africa. International public and private flows complement domestic resources and help mobilize additional resources for priority areas defined by African countries. Official Development Assistance (ODA) remains essential both as a complement to other sources of financing and as a catalyst for development. However, developed countries are still far from achieving the longstanding goal of mobilizing 0.7% of donors' GNI in ODA.

It is also important to recognize that the quality of aid is as important as its volume. Project proliferation and donor coordination remains a problem, as does the unpredictable nature of aid. African countries therefore need to take the lead in requiring that donors streamline and coordinate their activities within national development strategies.

Inflows of private capital to Africa, which also supplement fiscal revenues of the region, have significantly changed in the last decade and a half. The continent is frequently described as the investment destination offering the highest returns in the world. FDI to Africa increased from US\$ 9.9 billion in 2000 to approximately US\$ 58 billion in 2015. In addition, remittances have increased from US\$ 31 billion to US\$ 66 billion over the same period.

Africa has also been taking advantage of the opportunities offered by South-South financing, which has been on the rise, particularly financing from the BRICS group of countries. This shift has been notable both in inter-governmental lending and in private sector lending. China has been active in making financing available to governments including for commodity extraction and infrastructure. Brazil's national development bank, BNDES, established its first office in Africa in 2013. India has recently stepped up collaboration between its Ex-Im bank and the African Development Bank, and the new BRICS development bank has the potential to increase the role of emerging economies in Africa.

It should also be noted that innovative sources of financing including private equity and new forms of public-private partnerships (PPPs) that encourage a more active role for domestic private sector are equally important in expanding the base for fiscal space in Africa. One of the critical tasks is to identify incentives for private investment in priority areas, alongside agreeing the ground rules for these alternative sources of finance. Innovative policies should therefore be defined to improve the allocation of private resources towards productive investments and sustainable development.

Innovative policies should therefore be defined to address existing development challenges, such as infrastructure gaps and improving the allocation of private resources towards productive investments and sustainable development. For example, whilst PPPs have the potential to be more efficient in operation and can solve some financing problems, there is also a risk that the current enthusiasm for "catalyzing" the private sector will lead to PPPs being used where traditional public sector investment would have been more suitable. This is especially

likely in sectors where there is no natural source of revenue from private paying customers, and the public sector is the ultimate source of revenues for the private firms.

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Transparency and accountability in revenue generation and expenditure management are critical for successful economic transformation. In concrete terms, this will enable the African citizenry to be fully informed of available financial resources and their budgetary allocation. Commendable efforts have been made to improve transparency and accountability in African countries. However, too many countries, including mineral rich ones, have significant shortfalls in the transparency and accountability of budgetary revenues and expenditures. Thus, there is still need for reforms in key areas, including taxation; public procurement; and Parliamentary oversight. This is even more important for mineral-rich African countries.

The widespread problem of tax evasion by Multinational Corporations in extractive industries is a continued threat to Africa's sustained development. There are huge amounts of untapped illicit money flowing out of Africa, estimated as high as US\$ 50 billion per annum. A recent study indicates that a 0.44% annual increase in the tax to GDP ratio could mobilize additional public revenues of US\$ 22.5 billion each year. With regards to public procurement, corruption is estimated to affect around 70% of contracts in Africa and inflates

contract costs by about 20% to 30%. At the same time, African countries have lost an estimated US\$ 20 to US\$ 30 billion to bribes in public procurement.

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To address these governance challenges, African countries need to invest in institutional capacities that lead to an expansion of their fiscal space. Africa also needs to ensure global cooperation and coordination to enhance Africa's fiscal space by stemming tax evasion, encouraging tax information exchange and reversing the proceeds of illicit financial flows (IFFs). Illicit financial flows are not only an African problem but rather a matter of global governance. This calls for a wide range of actions including at the level of the global financial architecture to prevent tax evasion, encourage tax information exchange, and reverse the proceeds of IFFs that drain African resources. A number of initiatives are emerging at the global level particularly in the OECD, G8 and G20. However, there remain gaps in global governance relating to illicit financial flows because the measures that have been taken or that are being contemplated do not have Africa in mind.

There is still great scope for international cooperation to enhance support for local capacity building to expand the fiscal space in African countries. Most African countries lack the means to verify quantities of natural resources uplifted, relying instead on exporter declarations. Self-regulation is paramount and African countries often resort to a variety of incentives to encourage accurate reporting. Tax treaties between developed and African countries are often on unfavorable



terms, and African countries risk making unbalanced concessions with regards to double taxation agreements. Developed countries therefore need to analyze the impact of their own tax regimes on African countries.

In closing, I wish to re-emphasize the critical role of fiscal space in Africa's vision to achieve inclusive and sustainable development. However, for this vision to be realized a special attention needs to be paid to the issue of economic governance both at home and at the global level as well as the careful attention to the key issues related to fiscal and debt sustainability in the face of rising growth and public investment expenditures.

With these few remarks, allow me to wish you stimulating and fruitful deliberations as well as a very good stay in Addis Ababa

Thank you very much.