United Nations
Economic Commission for Africa

Caucus of Central Bank Governors

Statement

by

Carlos Lopes

**Under-Secretary-General of the United Nations and
Executive Secretary of the Economic Commission for Africa**

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Your Excellency Dr. NkosazanaDlamini-Zuma, Chairperson of the African UnionCommission,
Your Excellency Dr. Donald Kaberuka, President of the African Development Bank,
Mr. TeklewoldAtnafu, Acting Governor of the National Bank of Ethiopia,
Ministers, Governors and Distinguished Participants,

Ladies and Gentlemen,

I welcome you to the Economic Commission for Africa for the second Caucus of Central Bank Governors.I would like to take this opportunity to express my gratitude tothe National Bank of Ethiopia for hosting this secondcaucus, and to the Bank of Nigeria for hosting the first caucusin Abuja last year. The Caucus provides a unique opportunity for Governors to engage in a structured dialogue on emerging issueson the continent and how they impact on Africa's transformation agenda.

2015 is a crucial year for Africa.The third International Conference on Financing for Development will be held here in Addis Ababa,in July.This will be followed by the adoption of the post-2015 development agenda in New York, in September. Finally,attentions will converge on the Paris climate change Conference of the Parties, in December.These events offer opportunities for Africa to plead its cause. And for that to be possible, the central thread is going to be how we deal with financing our proclaimed common desire for real economic transformation. This is not easy. And that is the reason this week of meetings is crucial to mature a focused position. The role of the central banks, articulated so well in Abuja, is going to be crucial for meaningful and sound inputto emerge.

Before I discuss the nature of the engagement, allow me to briefly situate the discussions in the context of the continent's socioeconomic performance.

We all take pride in the remarkable growth of the continent over the last decade, and the strong resilience shown during, and in the aftermath of, the financial crisis of 2008–2009.Africa continues to exhibit positive growth, despite the anaemic global recovery. Real GDP growth edged upward from 3.7 per cent in 2013 to 3.9 per cent in 2014, and the outlook for 2015 and 2016 is even brighter, with growth rates projected at 4.5 per cent and 4.8 per cent respectively.Growth has been underpinned by private consumption fuelled by continued growth in the size of the middle class; an increase in gross capital formation, supported by improved governance and macroeconomic management; growing urbanization; diversified trade and investment ties with emerging economies; and tighter regional integration and trade partnerships in the region.

The continent has also made acceptable progress in reducing extreme poverty, placing more girls and boys in school and reducing maternal and child deaths. Fewer Africans die of malaria, tuberculosis and HIV/AIDS today. Overall, the extreme poverty ratewas 39.63 per cent in 2011as against 45.81 per cent in 1990.In this respect, it is important to acknowledgethat North Africa and Southern Africa have halved extreme poverty.

We have come this far despite our difficult initial conditions or starting points, and we can do much better. The continent has aunique opportunity to move to the next level by translating growth into job creation, wealth creation and reduced inequality. Human development through socioeconomic transformation remains an issue for African economies. Diversification is a work in progress.

Ladies and Gentlemen,

As articulated in the commonAfrican position on the post-2015 development agenda, as well as inthe aspirations being captured inAgenda 2063, we all agree that structural transformation is key. But we are also aware that structural transformation is a huge undertakingthat requires financial investment based on African strategic and innovative thinking to be funded.

It is therefore opportune to enquire where we areonfinancing.

Africa’s financing has improved remarkably since the turn of the millennium. Onthe domestic front, both domestic savings and tax revenues have increased significantly over the last ten years. Africa’s average tax-to-GDP ratio exceeded 27 per cent in 2013. Both sovereign wealth funds and sovereign bond issuance have grownrapidly in Africa.The banking system has expanded, with its liquid assetsreaching 32 per centof GDP in 2012.

With growing stock exchanges, pension funds and insurance funds, the domestic financial system, particularly in the wealthiest economies, is now rapidly converging with thatof more advanced economies in terms of structure and sophistication. Therefore, domestic resource mobilization will continue to underpin Africa’s efforts to finance its development priorities over the next 15 years. Controlling the financeis the key to fulfilling our aspirations.

Moreover, we have also been able to attract unprecedented levels of remittances, FDI and ODA in recent years. This positive outcome can be attributed to your contribution inimproving the business environment,which has contributed to dispelling some of the negative perceptions about the investment climate in Africa.

In fact, remittances have replaced FDIas the largest source of external flows to Africa. In 2014,theyaccounted for about 4.5 per cent of GDP and are expected to increase further to 4.6 per cent of GDP in 2015.

Comparatively, FDIincreased from $57.2 billion in 2013 to $61.1 billion in 2014 and is projected to grow to $66.9 billion in 2015, accounting for 4 per cent, 4.1 per cent and 4.3 per cent, respectively, of GDP.

The importance of aid is declining fast, although it remains animportant source of external public finance for many countries.Its share of GDP has declined in recent years, to an average of3.8 per cent.

Where it still hurts, and compounds the impacts of our dependency, is that Africa’s share of global merchandise exports is low, declining marginally from 3.5 per cent in 2012 to 3.3 per cent in 2013 from the never-again-attained4.9 per cent high point of the 1970s.

Notwithstanding the positive trends in financing sustainable development in Africa, both domestic and external resource mobilization remain far below the continent’s financing needs. Without factoring in Africa’s own development goals, ECA estimated Africa’s financing gap at above 6 percent of GDP in 2013.

Our tax revenue is always outpaced by escalating public expenditure, needed to build infrastructure, develop human capital, modernize agriculture and deliver other basic public goods. That is the main reason we see continuous fiscal deficits, especially in oil-importing African countries.

Similarly, while gross domestic savings in Africa reached a decade-high level of 24.2 per cent of GDP in 2006, they have moderated in the aftermath of the 2008–2009 financial crisis. Private savings are constrained by underdeveloped financial markets and weak intermediation capacities.

The banking system in Africa remains shallow and lacks adequate financial products to attract private savings, as a large proportion of Africa's population is either underbanked or unbanked, and the pace of financial inclusion remains slow.

Ladies and Gentlemen,

Africa has been fairly resilient to the direct effects of the global financial crisis, however it has not been insulated from the spillover effects of the crisis, particularly the global economic slowdown. The ability of Africa to have a greater voice and greater participation in international financial institutions and in financial standard- and norm-setting bodies is therefore vital.

It is against this backdrop that thethird International Conference on Financing for Development provides us with a unique opportunity to develop a global financial architecture that is supportive of our development priorities. Allow me to propose somepriorities that we should consider for the intergovernmental negotiations:

First, African countries must enhance **domestic resource mobilization**as the main vehicle for financing Africa's structural transformation.Tax reforms and the elimination of harmful subsidies and unproductive expenses are important strategiesin this context. The focus on domestic resources is critical for reinforcing African countries' ownership and for strengthening accountability.Domestic resource mobilization is a strategic rampart against possible unpredictable, erratic and insufficient external resources.

Second, developed countries must also commit to supporting the strengthening of Africa's capacities to curb **illicit financial outflows**. This will invariably require collaboration in strengthening tax administration units, greater international tax cooperation, and a review of international structures and regulations such as theanti-money laundering laws and Basel III, whichhave curbed remittances to countries such asSomalia and have reducedthe incentives for banks to undertake long-term investments in areas such as infrastructure, which are of priority to Africa.

Third, global cooperation and collaboration is required to reduce costs and barriers to **remittances** and to broaden their developmental impact, including through diaspora bonds; and to diversify the destination of **FDI,** including through more progressive and responsible global reporting on Africa'ssocioeconomic developments.

As taxation systems are a central part of the reforms to be implemented, African governments should also adopt a regional approach to courting FDI so as to minimize wasteful tax competition among African countries.

Finally, we need to change the way we deal with **aid,** to transform it into a tool to unleash domestic resource capacities rather than to deliver traditional outcomes. It is more important to resolve the better use of central bank reserves than to have a sectoral support programme. It is more strategic to help African countries master intellectual property that will enhance industrialization prospects than to have a catalogue of conditionality for a project approval.

A number of weak economies will still require ODA to stabilize their public needs. But their number is diminishing, and as was demonstrated by the case that ECA made for the countries worst affected by Ebola, macro measures, in the aforementioned case, such as debt cancellation, are more effective.

Honorable Governors,

Ladies and Gentlemen,

My contribution builds on our discussion in Abuja which, as you may recall, recognized the need to develop timely strategies to tackle the urgent issue of inclusive growth through the equitable allocation of resources.

It acknowledges the narrow mandate of central banks, with their focus on price and financial system stability. We agreed on the need for central banks to promote economic transformation.We acknowledged that this required extending the mandate of central banks to include critical developmental roles with effective support to the fiscal authorities, within a macroeconomic policy framework that focuses on structural transformation.

What is needed to make the most of central banks’ potential in financing Africa’s development in the post-2015 era?

The pertinence of this question stems from the fact that US$ 1 trillion of capital has not been put to work to finance Africa’s transformation. US$ 1 trillion dormant in the coffers of pension funds, central banks, commercial banks and other holders of remittances in Africa. It is primarily you who can put this money to work!