Uganda National Dialogue on Financing for Development

Keynote Speech

by

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Ladies and Gentlemen,

During a recent flight to Entebbe, I was flipping through the pages of a report on the Sustainable Development Goals when a gentleman next to me asked with keen interest: “What are these sustainable development goals that I keep hearing about”? He appeared to be a well-educated and knowledgeable man. I looked him squarely in the face and struggled to find the simplest way to communicate this new agenda in a form that would interest rather than confuse him.

Suddenly it dawned on me that what I and many of my colleagues had taken for granted was not easily understood by even the well-educated. Imagine how much more challenging it would be for the person on the street. After what seemed like an eternity, I said to him: “it is about people, planet and prosperity”. I had obviously made this up recollecting aspects of the ongoing intergovernmental negotiations on the post 2015 development agenda.

I explained that the three “Ps” represent the three dimensions of the Sustainable Development Goals. The focus on people represents the prioritization of human-centered development with the aim of achieving social sustainability; the planet represents environmental sustainability while prosperity underlines economic sustainability. His eyes glowed with interest and I knew I had peaked his interest. But I also realized that I had to brace myself for more questions. The plane ride was going to promising…

Distinguished guests,

I recount this story to illustrate the challenge of communication that this new agenda places on all of us; you cannot successfully implement what you cannot communicate.

It is true that the continent has played an important role in shaping the content of the new agenda as well as its financing priorities. Nevertheless, with 17 goals and 169 targets to be implemented within the framework of sustainability, a lot more work is needed at the global, regional and national levels to ensure that such a wide agenda is internalized and customized to the specific needs and peculiarities of the local environments and contexts.

Adapting the SDGs to our regional and national development plans and visions priorities and circumstances will be vital for resource mobilization and implementation. It is only when we have clarity about our development vision and objectives that we can design appropriate programmes and bankable projects.

Distinguished guests,

Uganda has a strong tradition of development planning dating back to the era of Poverty Reduction Strategies. Your first Poverty Eradication Action Programme was acclaimed for its inclusiveness and people centered focus.

Your vision 2040 embraces the key elements of economic, social and environmental sustainability. I am particularly impressed by your aspiration to: reduce by 2040 the percent of people living below the poverty line to 5 percent; increase the export share of manufactured goods from 4.2 percent to 40 percent; substantially increase technological uptake and diffusion, increase expenditure on research and development; reduce inequality and increase manufacturing employment to 50 percent while increasing wetland and forest cover.

These aspirations are central to the SDGs and the financing framework that underpins it. But they also underscore the balancing act that all countries, including yours, have to grapple with; increasing economic and social well-being without unduly and irreparably harming the environment.

How do we ensure prosperity for our people without endangering the planet? Can we ensure prosperity without marginalizing some sections of society? What kind of investments are needed to achieve these objectives and how can resources, financial and otherwise, be mobilized to finance such investments. What kind of institutions and capacities are needed to facilitate this process? Are our current institutional mechanisms fit for purpose?

Ladies and gentlemen, effective development planning frameworks are key. Plans require the necessary capacities to evaluate the impact of policy measures on the three dimensions of sustainability. We must invest in strengthening capacities for the use of planning tools to evaluate ex ante the likely impact of policy choices.

There will undoubtedly be trade-offs in policy choices, at least in the short run. One should not be deterred by these trade-offs. Instead there is a need to anticipate them, understand their implications, effectively communicate them to stakeholders, and design appropriate strategies to manage them.

In this context, the sequencing of policies will be of utmost importance. For instance, the transition from fossil fuel dependent economies, to diversified and renewable energy-driven economies, may entail increased exports of fossil fuels in the short term as countries mobilize resources to finance investments in economic diversification and renewable energy. It will also require putting in place appropriate institutions and capacities and striking the right partnerships to leverage national efforts.

Distinguished guests,

Allow me to expand on the issue of resource mobilization and to highlight the commitments taken by the Addis Ababa Action Agenda in support of Africa's effort.

Currently, in order of magnitude, remittances, Foreign Direct Investments and Official Development Assistance constitute the largest source of external inflows to Africa.

Remittances to Africa amounted to $67 billion in 2014 surpassing Foreign Direct Investments. Nevertheless, the volume of remittances and their impact on development would be higher if the costs associated with remittance transfers were lower and if the investment opportunities in the recipient countries were improved. For instance, a study estimates that the continent's diaspora remittances have the potential to raise up to US$10billion annually through securitization.

In this context, the commitment in the Addis Ababa Action Agenda to reduce the average cost of remittances to 3 percent of the value of the transfer and to ensure that costs do not exceed 5 percent in high cost corridors is a step in the right direction. But it is a very timid one given that the target date is only 2030 and many regions already pay less than 1,5 per cent, against Africa's 5 per cent average.

Foreign Direct Investment can serve as an important source of industrial development and job creation. Flows to Africa have been rising driven by international and regional market-seeking and infrastructure investments. In 2014 such flows amounted to around $55bn. FDI flows to Africa in the past were concentrated in a few countries and sectors, particularly the extractive sectors with limited employment effects. Fortunately this is changing fast and many more countries and sectors are benefiting, particularly services.

Indeed, Uganda and Tanzania attracted 90 per cent ($3.4bn of the $3.9 bn) of FDI to East Africa in 2012. These investments were concentrated in the energy sector.

To enhance the developmental impact of FDI, development partners have committed, in the Action Agenda, to incentivize the private sector to adopt sustainable practices, diversify their investments and foster long-term quality investment.

Diversifying the destinations and sectors of FDI will not only be beneficial for jobs creation but it will also be helpful in reducing illicit financial outflows. FDI particularly in the extractive sectors has been associated with high levels of illicit financial outflows which are estimated to cost the continent about $60 billion annually.

The Addis Ababa Action Agenda contains commitments to substantially reduce illicit financial flows by 2030 and facilitate the return of stolen assets. To this end, the Agenda includes measures to strengthen international cooperation to eliminate safe havens that create incentives for the transfer abroad of stolen assets. It also resolves to: enhance transparency in all financial transactions to reduce the incidence of tax avoidance and evasion, and ensure that all companies, including multinationals, pay taxes to the governments of countries where economic activity occurs and value is created. ECA has supported the Illicit Financial Flows from Africa Commission, chaired by President Mbeki. I was happy to serve as Vice- Chair. Our findings show this is an Africa problem with global solutions. The AAAA does not cover the level of detail required for real action to take place.

Official Development Assistance (ODA) continues to be a key source of development financing particularly for least developed countries. ODA however is unpredictable and flows to LDCs declined by as much as 16 percent in 2014.

Moreover, as we know only a handful of development partners have met their commitment to provide 0.7 percent of GNI as aid to developing countries. This is another area where the Addis Ababa Action Agenda falls short. Even though the Agenda commits to reverse the decline in ODA to LDCs it makes no new commitments on ODA, nor does it commit to ensure that ODA will not be double counted as climate financing. This is a real danger that I like to call as greening of ODA. This is a greening that is not the interest of Africa that traditionally has benefited little from previous environmental funds and may suffer yet again from the lack of clarity.

So, although ODA will continue to be an important source of financing for the poorest African countries, it is not likely to be a reliable source of development financing. So where does this leave us?

Ladies and gentlemen,

Domestic resources are an important yet undervalued contribution to Africa's development financing. Tax revenue is the second only to export earnings in terms of development financing in Africa and dwarfs the annual combined total of remittances, FDI and ODA. For instance, in 2012 the continent generated US$527 billion from domestic taxes.

If properly managed and empowered, autonomous revenue agencies, could generate remarkable results as amply demonstrated by the South African Revenues Service (SARS). Scaling up domestic resource mobilization will however require: investments in tax administration; expanding the tax net to rope in tax eligible informal sector entities; and stemming the tide of illicit financial outflows.

In this regard, fulfilling the Addis Ababa commitment to enhance revenue administration through modernized, progressive tax systems, improved tax policy and more efficient tax collection will be useful in leveraging revenue mobilization in Africa.

Public pension fund assets, international reserves, earnings from extractive sectors and domestic savings constitute other important sources of development financing. Minerals and mineral fuels are estimated to generate more than

US$168billion annually and international reserves held by its Central/Reserve Banks amount over US$500 billion.

Africa's Private Equity Market is yet another source of development financing that has not been fully exploited. It is currently worth about US$30billion. In 2014, 24 companies listed on bourses from Tunisia to South Africa, raised $1.7 billion, up from $0.8 billion in 2013.

Strengthened regulatory structures have played a catalytic role in this context. Take for instance, Rwanda's relatively young stock exchange which has attracted high investment inflows because of its strong regulatory structures. Let us not forget that the Johannesburg Stock Exchange has a capitalization of over 1 trillion dollars, more than São Paulo or Moscow.

Standardized clearing and settlements processes will also help to drive secondary market trading and boost liquidity by improving efficiency, cutting cost and eliminating risk.

The next stage of evolution in African securities markets may well be the development of interoperability or linkages between different exchanges using international standards. The continent already has two regional exchanges, based in Abidjan and Libreville which can be linked to scale up their financing capacity.

Distinguished guests

Governments bear the primary responsibility for national development but leveraged by strategic partnerships, national efforts can be considerably scaled up to expedite the development process particularly in the area of science, technology and innovation.

The creation, development and diffusion of new innovations and technologies and associated know-how, including the transfer of technology, are powerful drivers of economic growth and sustainable development. Building our capacities for science, technological and innovation will be necessary for the transition to renewable energy, the design of resilient infrastructure and the enhancement of our productive capacities and global competitiveness.

In this context, the commitment by development partners to create a technology facilitation mechanism to, among others, enhance access to information, knowledge and experience, as well as best practices and lessons learned, on science, technology and innovation (STI) facilitation initiatives and policies is a welcome development.

But getting the most out of our investments and partnerships requires that our institutions are fit for purpose. In other words they must be oriented to delivering the outcomes which we desire. Recognizing the complexity of achieving development outcomes, we promote strong industrial policies which aim to ensure integrated approaches to policy implementation.

We must invest time and resources to evaluate the appropriateness and relevance of institutions in the context of structural transformation priorities. We must therefore adopt a multi-pronged approach to development financing that holds development partners accountable for their ODA commitments and climate financing responsibilities while at the same time spares no effort to mobilize our own resources for development financing. We cannot and must not allow our development agenda to be held hostage by the vicissitudes of external financing.

Ladies and gentleman;

The past 15 years have been a journey of change for the continent. Despite starting at the lowest point on the MDG targets, African countries have done exceptionally well thanks to political determination and tremendous efforts. While not all of the Goals have been met, Africa can celebrate achieving some significant targets, such as halving the prevalence of underweight children under the age of 5 and considerably reducing the number of AIDS and malaria-related deaths. Africa has also experienced strong economic growth averaging 5 percent per annum, consistently outperforming global economic trends.

Notwithstanding these gains, many hurdles remain to be overcome if the continent is to get ahead and stay ahead. One of the most pressing is harnessing the energy and talent of its people, particularly its youth and women, as well as closing the growing inequality gap and reducing income poverty and unemployment. Challenges such as these are holding back the continent’s productive potential.

Indeed, 8 of the world's top 10 best performing countries are in Africa. But growth on its own is simply not enough. A compelling change is required – one that will transform the continent and put it on a path of transformative growth, in line with the vision set out in Agenda 2063. Africa needs a policy paradigm that will generate jobs and livelihoods, empower its women, and equip its youth with essential skills. This is vital for poverty reduction, social cohesion, political stability and productive growth.

Sustainable development will depend on economic structural transformation, with a strong industrial and agricultural base supported by infrastructure, investment in people and protection of the planet. The impact of unsustainable practices is often felt most by women, youth and the most vulnerable, who are at the forefront of the water, food and energy nexus. Economic growth will only help to further social progress if the environment is protected. Only then can the continent compete fairly in the global market, increase its share of the world's wealth and deliver tangible benefits for its people.

The continent's priorities in the African common position on the post-2015 development agenda and in Agenda 2063 have found congruence with the proposed sustainable development goals. These instruments will remain mere rhetoric, however, if the continent does not foresee the necessary means to turn this vision into reality. The real change required is to rise to the challenge with adequate, predictable and sustainable financing to drive this opportunity for powerful transformation.

The financing requirements for sustainable development in Africa are high but a policy paradigm will allow us to shift and unlock resources to finance this transformation. With declining development aid and the changing ecology of global development finance, there is consensus that aid must complement rather than be a substitute for Africa's development aspirations, as was the case in the past. The solution lies in exploring innovative sources of financing. These can be leveraged from new partnerships, innovative instruments for domestic resource mobilization, the private sector and sources of climate finance.

Ladies and gentleman,

Africa is ready. It already has the means; what it needs now is the leadership, ambition and will to deliver transformation to the people of Africa.

I thank you for your attention.