United Nations
Economic Commission for Africa

Caucus of Central Bank Governors

Statement

by

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Your Excellency Dr. Nkosazana Dlamini-Zuma, Chairperson of the African Union Commission,

Your Excellency Dr. Donald Kaberuka, President of the African Development Bank

Mr. Teklewold Atnafu, 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's Governors. I would like to take this opportunity to express my gratitude to the National Bank of Ethiopia for hosting this second caucus and to the Bank of Nigeria for hosting the first one in Abuja, last year. The Caucus provides a unique opportunity for Governors to engage in a structured dialogue on emerging issues in the continent and how they impact Africa's transformation agenda.

2015 is a crucial for Africa. The third Conference on Financing for Development to be held here in Addis Ababa, in July 2015, will be followed by the adoption of the post 2015 development agenda in New York in September 2015, and finally the attentions will converge to the Paris Climate Change Conference of the Parties in December 2015. 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 so well articulated in Abuja is going to be crucial for meaningful and sound input to be articulated.

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

We all take pride in the remarkable growth of the continent in 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 anemic 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 than ever. Overall extreme poverty rate was 39.63% in 2011 against 45.81% in 1990. In this respect, it is important to acknowledge North and Southern Africa having 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 the unique opportunity to move to the next level by translating growth into job creation, wealth creation and reduced inequality. Human development through socio-economic transformation remains an issue for African economies. Diversification in work in progress.

Ladies and gentleman,

As articulated in the Common African Position on the post-2015 development agenda and the aspirations document of Agenda 2063, we all agreed that structural transformation is key. But we are also aware that structural transformation is a huge undertaking requiring financial investment based on African strategic and innovative thinking to be funded.

It is thus opportune to enquire where we are on financing.

Africa's financing has improved remarkably since the turn of this century. On the domestic front, both domestic savings and tax revenues increased significantly over the last decade.

Africa’s average tax-GDP ratio exceeded 27% in 2013. Both sovereign wealth funds and sovereign bond issuance have grown rapidly in Africa.
The banking system expanded, with its liquid assets reaching 32 percent of GDP in 2012.

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

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

In fact, remittances have replaced foreign direct investment as the largest source of external flows to Africa. In 2014 it accounted for about 4.5 per cent of GDP and is expected to further increase to 4.6 per cent of GDP in 2015.

Comparatively, foreign direct investment increased 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.

Aid importance is declining fast, although it remains an important source of external public finance for many countries even though its share of GDP has declined in recent years to an average 3.8.

Where it still hurts and compound 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 attained again 4.9 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 and modernize agriculture, in addition to the delivery of 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 2008-09 financial crisis. Private savings are constrained by underdeveloped financial markets and weak intermediation capacities. The banking system in Africa remains shallow and lack adequate financial products to attract private savings, as a large proportion of Africa's population is either under banked 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 greater voice and participation in international financial institutions and in financial standard and norm-setting bodies is therefore vital.

It is against this backdrop that the Third International Conference on Development Financing provides us with a unique opportunity to develop a global financial architecture supportive of our development priorities. Allow me to propose some priorities 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, elimination of harmful subsidies and unproductive expenses are important strategies in 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 support the strengthening of Africa's capacities for curbing **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 like anti-money laundering laws and Basel III that have curbed remittances to countries like Somalia and reduced 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 broaden their developmental impact including through diaspora bonds; and diversify the destination of **FDI** including through more progressive and responsible global reporting on Africa's socio-economic developments.

Taxation systems being 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 delivering traditional outcomes. It is more important to resolve the better use of Central Bank Reserves than having a sectoral support programme. It is more strategic to help Africa master intellectual property that will enhance industrialization prospects than having a catalogue of conditionality for a project approval.

A number of weak economies will still require ODA to stabilize their public needs. But, the number is diminishing and, as demonstrated with the case ECA made for the Ebolamost affected countries, macro measures, like in the aforementioned case, 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 for developing timely strategies to tackle the urgent issue of inclusive growth through equitable allocation of resources.

It acknowledges the narrow mandate of Central Banks, with a focus on price and financial system stability. We agreed on the need for Central Banks to promote. 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 USD 1 trillion of capital has not been put to finance Africa's transformation. USD 1 trillion dormant in the coffers of pension funds, central banks, commercial banks and other holders of remittances in Africa. It is primarily you that can put this money at work!