

***The African Development Bank Group***



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**Statement by**

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## Introduction

*Colleagues, Ladies and Gentlemen,*

It is with great pleasure that I welcome you all to this Kickoff meeting of yet another edition of the *African Economic Outlook* (AEO) -- one of the African Development Bank's most important annual publications.

Through its publication activities, the Bank seeks to inform and educate the public on current issues of economic and social development in Africa and to promote - through policy advocacy - issues that it deems crucial to more effective economic and public management in the continent. Through our collaboration with our partner institutions, notably, the OECD Development Centre and the United Nations Economic Commission for Africa, the Bank has come a step closer towards fulfilling this mandate, with the joint publication of the AEO.

Over the years, the *Outlook* has increasingly achieved its objective of broadening the knowledge base on African economies (and societies) and offering valuable support for policymaking, investment decisions and potentially, donors' interventions. In addition, progress has also been made towards the objective of capacity building through greater involvement of African experts and institutions. This also has the added benefit of reinforcing the ownership of the *Outlook* by Africans.

We are indeed heartened by the favorable responses we have received so far from our growing readership in the public and private sectors and in the development community in general. We therefore feel more encouraged to continue to improve the coverage and quality of *the Outlook* in the years ahead, so that it continues to serve as a dependable source of reference for those seeking reliable and informed country-based analyses of macroeconomic developments in Africa.

As was the case with last year's edition of the *Outlook*, next year's publication will also have as a backdrop, the continuing global financial and economic crisis, which has brought extreme economic challenges to our economies.

I believe that you will all agree with me that the impact of this crisis on Africa was initially underestimated, but with time our knowledge has increased and responses are being guided accordingly. In particular, I note that despite serious constraints faced by African governments to respond adequately to the crisis, efforts to respond appropriately have been bolstered by greater information sharing among the countries, much of it from key publications such as the *Outlook*. The regional institutions, including the African Development Bank, have played an important role in this process, especially through the work of the *Committee of Ten*.

### **The Crucial Role You All Play**

This Kickoff Meeting presents yet another opportunity for you, the experts from both the African Development Bank and its cooperating partners, to begin the very tightly-packed schedule of sharing gathering, cleaning, publishing, and finally, disseminating the key data that goes into the *Outlook*.

After the Kickoff, it is you, our experts, who will get down to processing of the various data you collect. And as has been the case in previous editions of the *Outlook*, this you will do not based not on your personal (or public) opinion, but on the sort of objectivity that buttresses our various publications.

To that end, I would like to acknowledge all the various other partners to this effort in addition to the OECD and UNECA. Whereas time considerations preclude me from going through the entire list, I would like to highlight several: *First*, we welcome a new research institute partner from Ghana: the Institute of Social and Economic Research,

represented here by Prof. Aryeetey. Likewise, I would like to recognize Mr. Prof. Ghazi Bholila from Tunis, who, though not really new to the *Outlook*, will be serving as an unaffiliated Country Note Authors for the first time. I would like to thank our colleagues from outside the ECON Complex: individuals from the Bank's various Operations Complexes (including, for the first time, several from our Field Offices), as well as those from Sector Departments such as OSGE and elsewhere in the Bank. On behalf of the AEO Bank staff from ECON, I welcome you all and thank you for the crucial role you play in making the *Outlook* possible.

### **A Timely Theme**

As you will hear from my other colleagues, the theme for the next *Outlook* revolves around domestic resource mobilization, fiscal governance and aid. I need not tell you how timely this topic is for our continent.

The average tax-to-GDP ratio in sub-Saharan Africa increased from less than 15 percent of GDP in 1980 to more than 18 percent in 2005. But virtually the entire increase in tax revenue in the region came from natural resource taxes, such as income from production sharing, royalties, and corporate income tax on oil and mining companies. Non-resource-related revenue increased by less than 1 percent of GDP over 25 years. Even in resource-rich countries, non-resource-related revenue has essentially been stagnant. Also, in many of Africa's low-income oil importers, domestic revenue mobilization has not kept pace with rising public spending. As a result, a growing share of current spending is financed by aid. For example, from 1997–99 to 2004–06, the share of spending financed by aid in recent years has increased from approximately 16 percent to 36 percent in Ghana, from 22 percent to 40 percent in Tanzania, and from 60 percent to 70 percent in Uganda.

It is not inappropriate for low-income countries to finance a rising share of their recurrent outlays from aid, one might argue. After all, these countries have pressing needs at this stage of their development, and increasing expenditures for infrastructure and human development would only promote growth over time. Although this argument has some merit, we know that policymakers in these countries still need to take into account a number of other considerations. Why? Well, several reasons:

- *First*, aid-financed projects give rise to additional spending, such as on operations and maintenance, which will need to be covered at least partly, if not wholly, from domestic resources.
- *Second*, strengthened revenue mobilization contributes to economic stability, particularly in countries dependent on external financial flows.
- *Third*, expanding domestic revenue could also help Africa address the challenges arising from globalization.
- *Fourth*, greater reliance on domestic revenues reduces the risk of Dutch disease, which occurs when the exchange rate appreciates as a result of capital inflows, making the country's exports less competitive.
- *Fifth*, taxation increases incentives for public participation in the political process and creates pressure for more accountability, better governance, and improved efficiency of government spending.
- *Sixth*, domestic revenue mobilization can help strengthen fiscal institutions. Stable and predictable revenue facilitates medium-term fiscal planning, which can help ensure that resources are allocated to priority sectors and that these allocations are effectively translated into outcomes.

The next *Outlook* will have something important to say about all of this, especially as it takes stock of progress made, challenges and possible new directions for domestic resource mobilization in Africa in the wake of the current economic crisis.

## **Conclusion**

*Ladies and Gentlemen,*

Let me conclude my brief remarks by noting that since the inception of the AEO project in 2001 on a collaborative basis with the OECD and UNECA, its production has benefitted from the generous support of the European Commission. It is our hope that this partnership will continue to grow strong, leading to continuous improvements in the production, quality, impact, relevance and the coverage of this publication. For instance, the next edition of the *Outlook* will cover 50 African countries, up from 35 in 2008 and even fewer at its inception. The EC's financial support is extremely crucial to this effort and we once again, wish to highlight that.

Thank you all again, and I wish you all a productive three days ahead.