Ghana

STATEMENT DELIVERED AT THE UN FINANCE FOR DEVELOPMENT

[FfD] CONFERENCE HELD IN ADDIS ABABA

July 13-16, 2015

Mr. Chairman; your Excellences Heads of State and Governments; the High Table Panel; colleague Ministers, distinguished guests:

1. It is an honour for me to join this august gathering from the public and private sectors to deliberate on the theme, "Financing for Development", in the context of the transition from the MDGs to SDGs. Let me take the opportunity to thank our hosts, the government and people of the Federal Republic of Ethiopia, for their warm welcome and hospitality.

2. During a recent launch of the International Monetary Fund's (IMF's) World Economic Outlook (WEO) for Sub-Saharan Africa (SSA) in Ghana, I observed that there was keen interest in the potential and sustainability of an "African Rising" in major regional and global fora on development economics and finance. I cited this Conference among them.

3. I also cited the Addis Ababa meeting which deliberated on Africa's Agenda 2063, the 50-year inclusive-growth development plan to be implemented by member-states in five (5) 10-year national development plans. The plan was prepared and launched under the joint auspices of the African Union (AU); the UN's Economic Commission for Africa (ECA); and the African Development Bank (AfDB).

4. Mr. Chairman, as we deliberate and prepare for the transition from MDGs to SDGs, I wish to draw attention to the experience of countries which, during this period, have been going through their

own transition from Developing Country to Lower Middle-Income Country (LMIC) status. Their experience is described as abrupt and disruptive, due mainly to viewing the transition to LMIC status as a mathematical factor (GDP divided by population equal to per capital income above US$1,000).

5. Mr. Chairman, this cynical and pessimistic view of new LMICs arises mainly from the absence of a transition plan. Nonetheless, permit me to state strongly that—as implied in the draft Declaration and acknowledged by institutions such as the World Bank—the transition to LMIC status provides a unique opportunity to make this phenomenon a reality for many countries under Agenda 2063, SDGs and FfD. This is because, to believe in the goals for these plans is to set a goal of literally growing many more LMICs.

6. Permit me to share Ghana's experience, as one of Africa's freshly-minted transition stories—its current 5-year path since becoming a Lower-Middle Income Country (LMIC) in 2010. The awakening was the result of two major events in our economic history:

   a. Firstly, in 2010, Ghana rebased its GDP and the increase by about 60 percent instantly made it an LMIC ahead of its own 2015-to-2020 original medium-term target. A population census that same year did not change the per capita income and, therefore, the new economic status of the country.

   b. Secondly, 2012 was Ghana's first full year of exporting crude oil in modest quantities (a process that started from late 2011). A paradox or irony is that the overestimation of crude oil exports by about 17,000 bpd (73,000 and not 90,000 bpd) contributed to the second largest fiscal deviation in 2012. Among others, it started to reverse the fortunes of the

country—after nearly a decade of 7 percent annual GDP growth.

c. Other contributing factors to the fiscal and current account deficits were policy-based, notably, overruns in wages and subsidies. However, the situation was worsened—in the ensuing years of fiscal correction—by further exogenous factors, including a 3-commodity (gold, cocoa and crude oil) price shock; and 2-year plus disruption in supply of gas from the West African Power Pool (WAPP).

7. These latter factors reminded us that the economy remained vulnerable to external shocks and policy slippages and may not shed its developing country features soon. Indeed, they led Ghana into its current IMF Program, which builds on an earlier attempt in 2013 to launch the country's own Home-Grown Austerity Program. Ghana was not prepared adequately for the transition but it does not regret it either; currently the signs clearly point to a return to strong inclusive-growth over the near term. What Ghana needs is assistance to enter a modest gas-era and to use it to implement a more **diversified and value addition plan** to support power and industrial production; as well as continuing growth of the agricultural and services sectors.

8. Mr. Chairman, ladies and gentlemen, the question is what is in the FfD tool-kit to make Ghana and other countries realize their dreams. This question is also relevant for consolidating the "Africa Rising" story because it is about sustainable development and finance. Ghana has given some thought to the issue, with assistance from the World Bank and African Development Bank. In particular, among others, these banks and other developing partners are assisting the country in the following strategic initiatives.

a. **Financing infrastructure and development**. We have legislated and set up the Ghana Infrastructure Investment Fund (GIIF) from a share of petroleum revenues to leverage the markets for more efficient borrowing. This is to stop the practice of financing the domestic capital budget from the short-end of the markets, as part of financing the budget deficit.

b. **Access to the capital markets**: Ghana is a B-rated country that issues sovereign bonds to support its refinancing and capital expenditure programs. The market view is very short and can damage the sovereign brand easily. Hence, the expertise needed in a FfD context is managing market risks and perceptions in, and leveraging the GIIF or Sovereign Wealth Funds (SWF) to borrow efficiently.

c. **Shift from sovereign-to-project guarantees (and insurance)**: "Bankability" appear to be the new *cliché* in effort to move to a new self-financing model (especially in PPPs) that will see projects rather than the sovereign backstop commercial loans. There appears to be a reluctance among even the development finance institutions (DFIs) to vacate the comfort zone provided by sovereign guarantees.

   While welcoming the emphasis that the Africa50 Fund is putting on project preparation, attention should also be given to subsequent operational, management, and financial practices to generate revenues from commercial projects, in particular, to pay for loan facilities (through Escrow and on-lending loan arrangements as the first recourse to repayment).

d. **Domestic revenue mobilization**: Many developing countries conducted the first round of revenue administration reforms as part of structural adjustment or economic recovery programs. These culminated in tax policy and legislation alignments; setting up specialized Revenue Authorities; and streamlining tax process (mainly through debt management, audits and electronic methods). Steps have been taken to integrate domestic tax administration and segment tax offices to serve the needs of large, medium and small taxpayers.

Hence, besides the widening of tax basis, domestic resource mobilization, as part of FfD, must put the focus on advanced tax tools (such as transfer pricing laws, regulations and audits) for enforcing tax compliance, conducting audits, and monitoring the **substantial illicit flows** from developing countries. There is need to strengthen the associated Double Taxation Agreement (DTAs) and exchange of information initiates to make them mutually beneficial to developing and advanced economies.

This is the context in which we must view the call for enhances to the UN Special Expert Tax program. The revenue mobilization agenda should curtail the excessive tax incentives that are granted to attract investments as well as the waiver of taxes on all forms of bilateral and multilateral ODA-sponsored expenditures—even if they are commercial in nature or benefit individuals. This is also a call for the examination of tax expenditures as part of the tax agenda.

e. **Public financial management (PFM):** The efficient use of tax and non-tax revenue resources is key to sustaining development as well as promoting transparency and

accountability. Hence, PFM reforms must complement domestic resources mobilization; especially in right-sizing the civil and public services; ensure judicious spending on social intervention programs in ways that do not lead to excessive subsidies; and investing in quality infrastructure.

In this regard, the SDG must stress payroll and human resource management; deepening of domestic capital markets; procurement processes; internal countries; and project selection practices.

f. **Building budget, price, and reserve buffers:** We support the view that the SDG and FfD frameworks must include mechanisms for setting up advance financial instruments such as stabilization funds (budget); sinking funds (amortization and debt management); swaps (reserve management); as well as hedges and futures (fluctuation in commodity prices). Where necessary, for resource-rich countries, these mechanisms should include generation or heritage funds—in anticipation of dwindling long-term flows from natural resources.

g. **Export-led growth; trade finance and guarantees**: Many developing and transition economies are heavily dependent on imports for raw materials, semi-finished products and consumables. Lately, they have also become targets for several EXIM Banks that aggravate this dependency and lead to BOP and current account crisis. The export-led strategies for African countries must include financial tools such as export credits and guarantees, especially for SMEs. These are necessary for taking advantage of policies such as AGOA and

EPA. It is in this context that Ghana has launched an initiative to set up an EXIM bank to promote its non-traditional exports.

h. **Grant, aid or development assistance**: These will remain important in the mix because parts of LMICs remain vulnerable; it will take time to develop the tools I have enumerated above; but, above all, we should not make the transition from MDG to SDG as abrupt and disruptive as the transition from a developing country to LMIC. In this regard, it is important that "blending" proposals do not undermine less costly ODA or channel funds to subsidize otherwise expensive commercial bank loans.

The continuing use of ODA to support social infrastructure and intervention programs in targeted manner remains paramount—especially its use to support health, education and SME development programs. Ultimately, the process of inclusive growth enjoins developing countries, LMIC and development partners to channel resources into social intervention.

i. Socail Intervention Programmes: It is our commitment to continue the pursuit of vigorous social intervention programs in health, education and SME development. This is to ensure an all inclusive growth as part of **critical** development agenda for the medium term.

9. It is necessary for countries in transition and with access to capital markets to monitor global financial trends and development. These include growth and central bank interest rate and credit moves that

affect access to capital and the cost of loanable funds (e.g., quantitative easing and tapering).

10. Mr, Chairman, in conclusion, permit me to state as Ghana returns to strong growth in the near term (on account of ongoing fiscal corrections and Phase II oil and gas), it will be revisiting the relatively short cycles which has seen it moved from debt distress and HIPC (2002 to 2007) to an overlapping strong annual average growth rates of about 7 percent (2006 to 2012). While it is true that new natural resources (i.e., oil and gas) contributed to this growth (and the latter headwinds), the period of growth was led by a services sector that overtook agriculture and remains the largest sector of the economy.

11. At the end of 2012, Ghana was hit by the policy-based and exogenous factors that I discussed earlier. It is important to note that the period from 2002 to date, which saw both good and bad fortunes for Ghana also covers Monterey (2002) to Doha (2008)—and now Addis Ababa (2015). Hence, Ghana and many African countries look to the SDG and FfD to help achieve our LMIC goals through the use of financial and economic tools to minimize the volatilities that affect this endeavour.

12. Mr. Chairman, I thank you for the opportunity.