Initiative for Policy Dialogue
Task Force on Africa
Pretoria July 9-10, 2009

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“Global Recession and Africa”

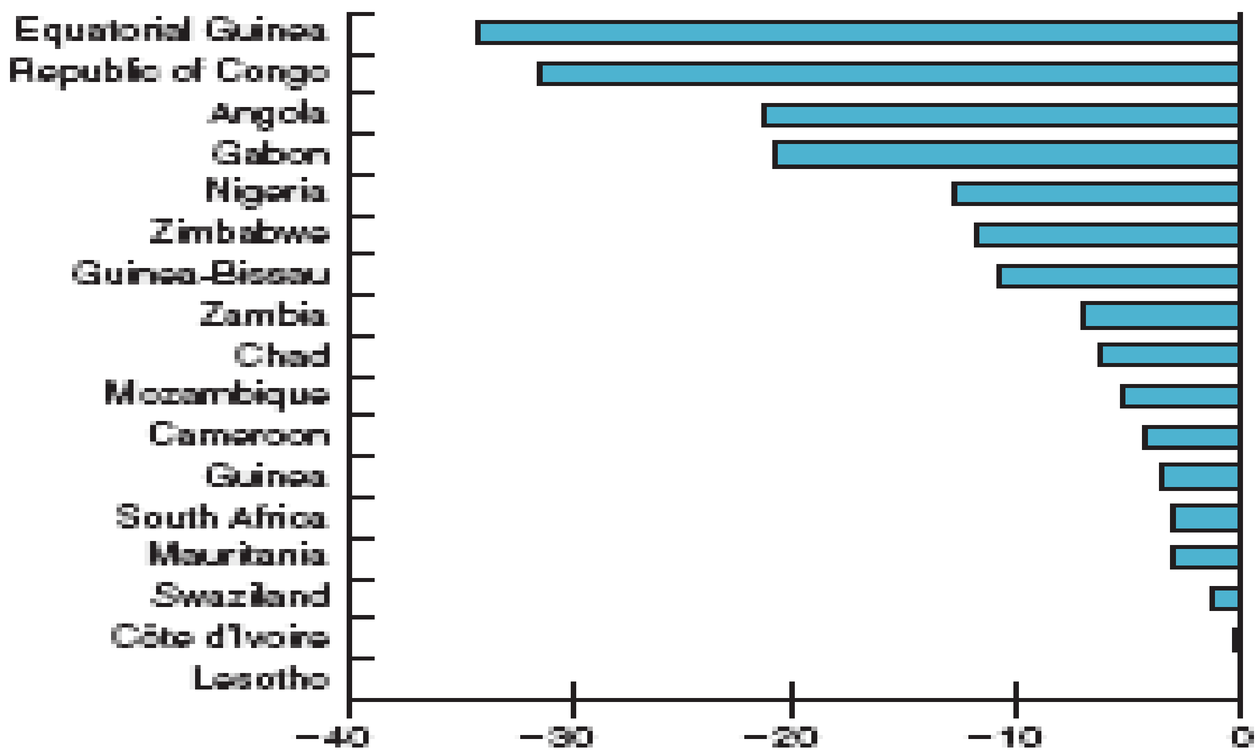
1

- Africa, along with other developing countries has been hit by decreased world trade (affecting both prices and volumes) and declining remittances; both brought about by recession in developed countries resulting from the financial crisis.
- These have slowed down African per capita income growth rates by at least 4 percentage points.

Figure A.20 Terms of trade losses since July have been significant in some countries as commodity prices plunged

Terms of trade impact of changes in international prices between July 2008 and May 2009

Percent of 2008 GDP

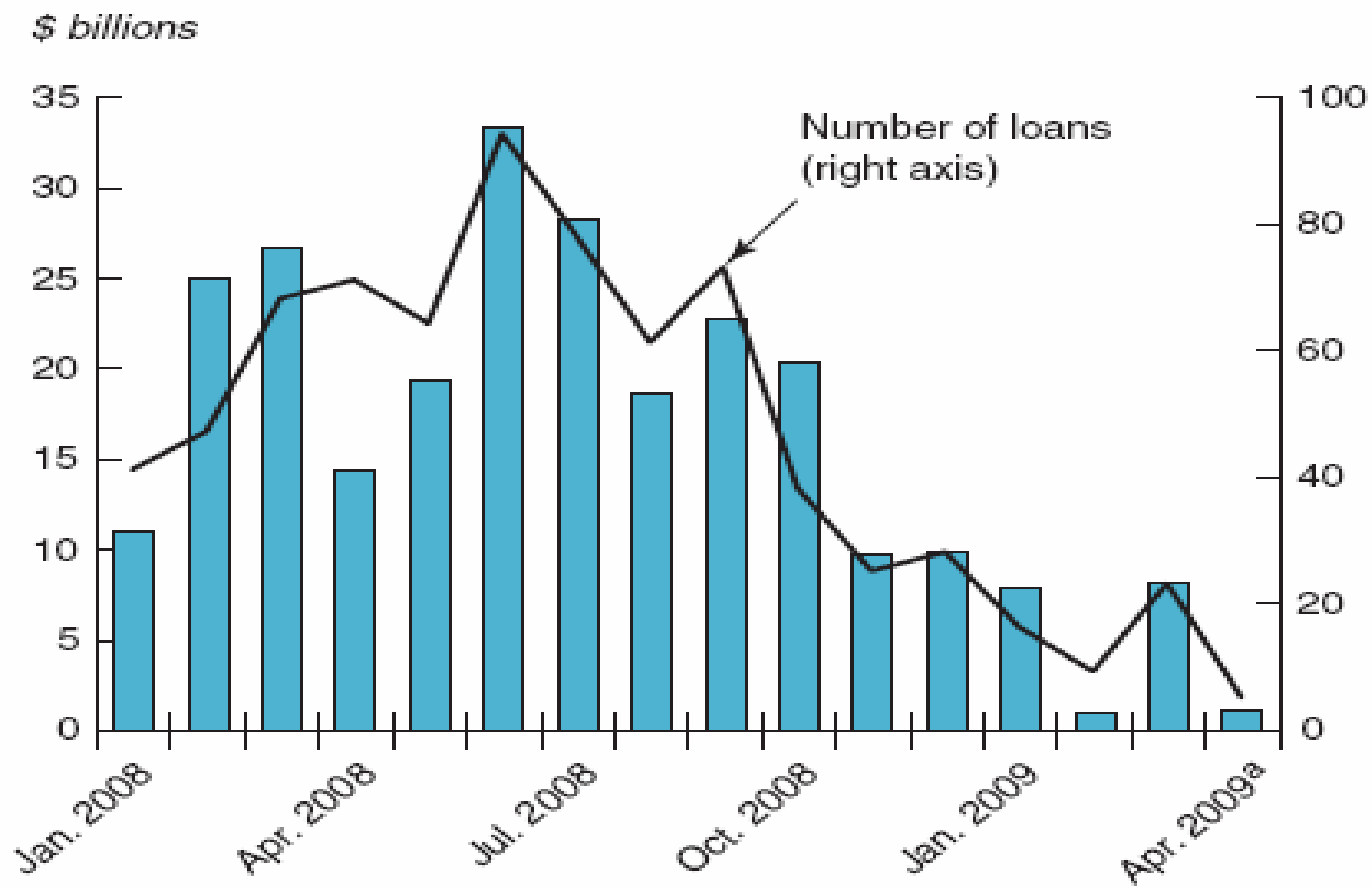


Source: World Bank.

2

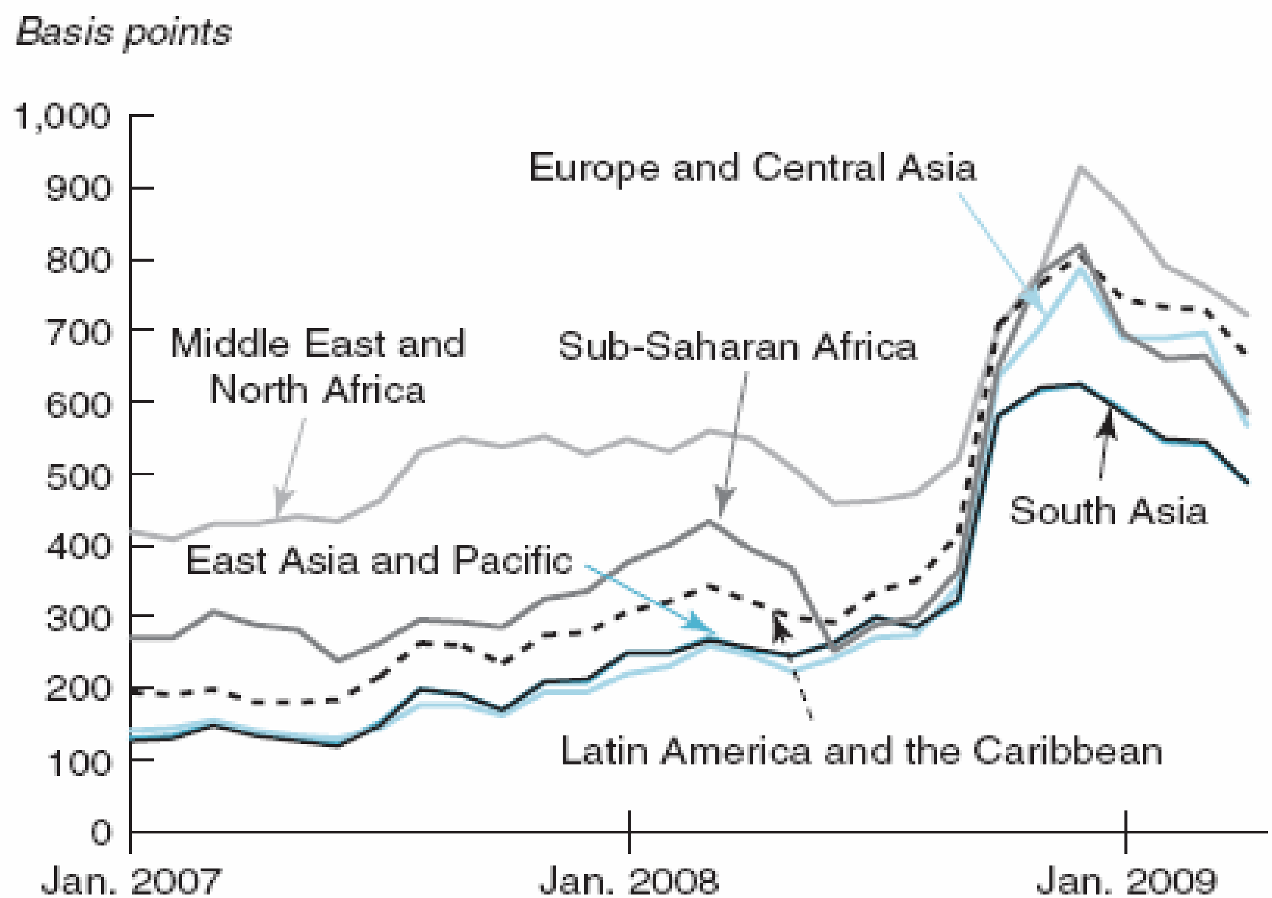
- The financial crisis itself has increased risk aversion enormously among northern investors; thus leading to both drying up of credit to Africa and an increased cost of what little capital is available.
- This alone may have lost Africa up to 2 percentage points of growth.

Figure 2.14 Syndicated bank lending to developing countries, January 2008–April 2009



Source: Dealogic Loan Analytics.
a. April 2009 data is until April 26, 2009.

Emerging market sovereign spreads



Sources: World Bank; JP Morgan-Chase; Thomson Datastream.

3

- None of this has been caused by imbalances in Africa (or elsewhere in the developing world) but has led to increased imbalances there. Some larger and middle-income countries have sufficient reserves and large enough domestic markets (including capital markets) to weather the storm and conduct counter-cyclical policies. Smaller or poorer countries cannot do this – nor can Africa as a whole.

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- there are three areas of finance where a more coherent counter-cyclical (and developmental) advance could be made:
  - (a) rethinking domestic development finance;
  - (b) restructuring development cooperation;
  - and (c) strengthening the fiscal base for public provision of infrastructure and social services.

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- On (a) it is important to move away from the MDG goals and absolute poverty targets; and towards job creation and inequality reduction as the basis for both growth and stability.
- A return to social development banking (not just microcredit) and addressing the issue of asset redistribution (urban and rural land particularly) and of access to public assets (tertiary education for instance).

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- On (b) the recent trend towards budgetary support is fundamental in strengthening African public sectors.
- “Vertical funds” and “smart solutions” should be rethought.
- The MDBs (including the World Bank, which is now effectively confined to Africa) should act together to provide market liquidity in public sector infrastructure bonds.

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- On (c) Africa has low tax rates and a reliance on trade and consumer taxes; both of which tend to be regressive; rather than on direct personal and corporate taxes which are progressive.
- This feature Africa shares with other developing countries and regional groups; and there has been little improvement over time.

Figure 2. Tax Structure by Region, Percentage of Total Tax Revenue, 1975–2002.

	Income Tax			Domestic Goods and Services			
	Total	Individual	Corporate	Total	General Consumption	Excises	International Trade
Africa							
1975-1980	28%	13%	15%	27%	12%	12%	34%
1986-1992	25%	13%	10%	29%	16%	11%	37%
1996-2002	30%	17%	11%	35%	21%	11%	32%

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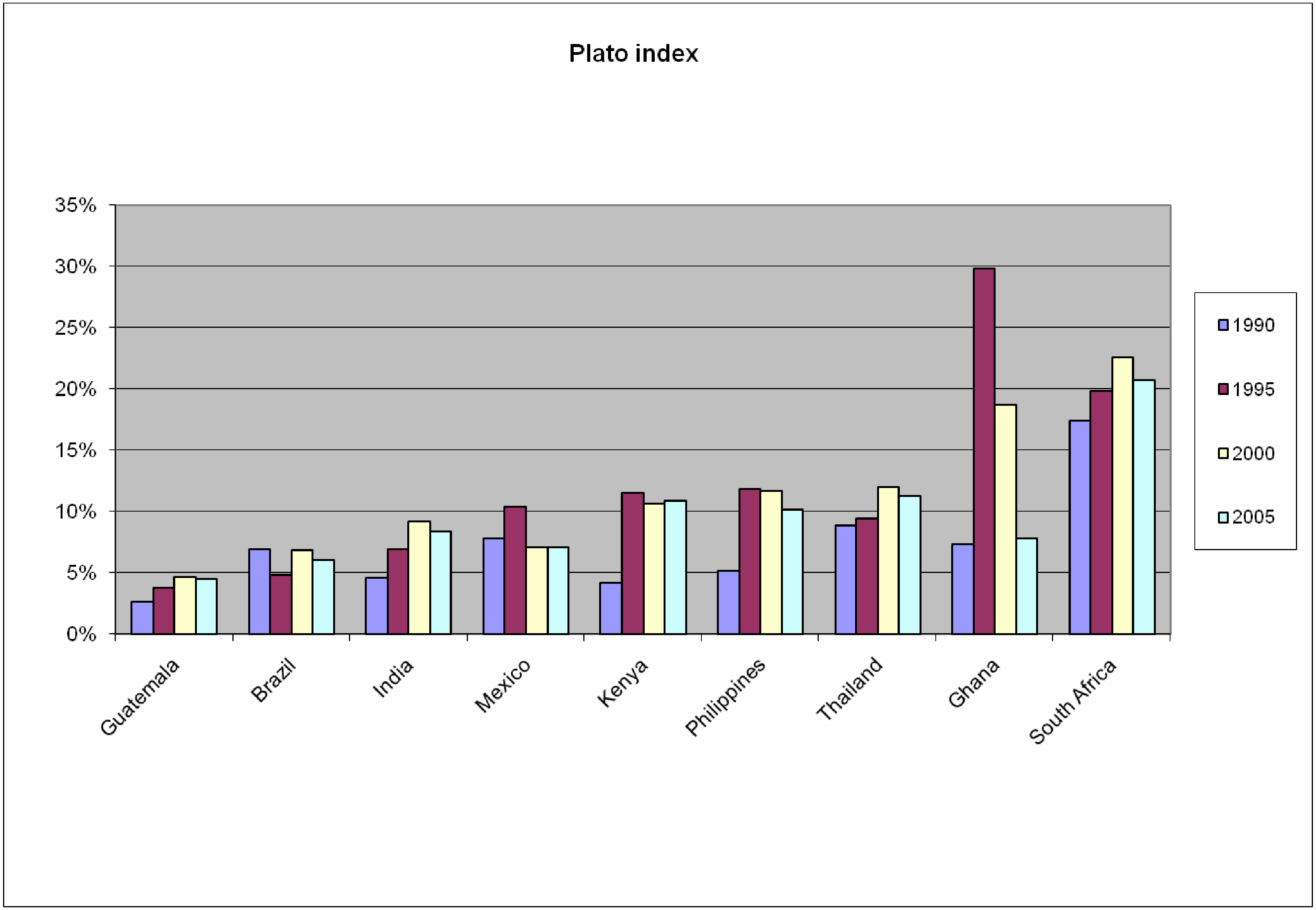
- The incidence of tax on the upper quintile of African populations (as measured by the Plato Index) is relatively high by international standards as compared to Asia and Latin America.
- Therefore the problem is one of the tax base rather than the tax rates.

The Plato Index

$$\Pi = \frac{t_d . T}{\alpha . Y_H}$$

where

Π	the Plato Index
T	Government Current Revenue / national income GNI
t_d	Direct tax revenue / government current revenue
α	Share of top quintile in gross household income
Y_H	Gross income of households/GNI


Plato index
35%
30%
25%
20%
15%
10%
5%
0%
Guatemala
Brazil
India
Mexico
Kenya
Philippines
Thailand
Ghana
South Africa
1990
1995
2000
2005

10

- The assets of African residents held abroad, and the effective income of foreign companies operating in Africa, must be subject to income tax – with the purpose of funding economic and social infrastructure.
- This argument was taken up by the Shadow G*n* in its Rome meeting in preparation for the current G8.

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- Major success in ensuring a commitment by the UK Government to strengthen this effort by
  - cooperation between tax authorities to trace assets
  - bear down heavily on tax havens
  - Move towards country reporting by transnational firms
- See DfID 2009 White Paper "Building a Common Future" (June 29 2009)

2.48 There is increasing concern that tax systems in developing countries are undermined by international banking secrecy, including in tax havens. ... the UK will work to ensure that the commitments on standards and sanctions are met, as well as the decision to develop proposals by the end of 2009 to make it easier for developing countries to benefit from the new co-operative tax environment.

2.49 The UK believes it is important for all jurisdictions to implement their commitments to the international standard for the exchange of tax information and will work in particular with its own Crown Dependencies and overseas territories to ensure that they can meet or exceed the agreed international standards.

2.50 Along with other members of the G20, the UK is ready to take action against jurisdictions that do not meet these international standards.

2.51 ...the Government is discussing with its international partners whether other initiatives, including country-by-country reporting of tax payments, could offer an effective and suitable means of advancing the tax transparency agenda.