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Monsieur le Président, Your Excellencies, Distinguished Ministers and Participants to this Conference

I am Jean-Philippe Stijns, Economist with the Africa Desk of OECD Development Centre and I would like to start by thanking the organisers for the honor to speak about our work.

The OECD Development Centre plays a bridge function between OECD and non-OECD countries. The Centre has 4 African member countries: Egypt, Mauritius, Morocco and South Africa. Senegal will join soon.

We have 9 years of experience producing the *African Economic Outlook* in partnership with the African Development Bank and the UN Economic Commission for Africa and with the financial support of the European Commission and the ACP group. The *AEO* came from the recognition that there was a missing tool for information and for decision making. It offers an analysis of macro-economic, structural, social and political trends as well as 2-year economic forecasts. The *AEO* is also a website, www.africaneconomicoutlook.org that features the entire publication for free in an interactive format with data available for download.

The 2010 edition was launched in Abidjan on May 24th. It documents two key issues: first, it assesses the impact of the global crisis and the expected recovery of African economies. Secondly, it analyses the effectiveness of tax systems across the continent.

Mr. President, let me first summarize the African Economic Outlook's macroeconomic overview.

The story is about several years of unprecedented stable growth which was almost brought to a standstill in 2009 by the global crisis and the recession in OECD countries. New factors of resilience meant, however, that the continent kept growing in 2009 and is expected to grow faster in the coming years. Since 2004, the continent has witnessed an acceleration of growth, up to 6% annually between 2006 and 2008.

The continent grew at 2.5% in 2009 and gross domestic product is expected to rebound by 4.5% this year and by 5.2% next year**.** This rebound is, of course, welcome but it is important to keep it in perspective. It compares with growth in India which is expected to be on the order of 6-7% and 7-9% in China. However, it compares favorably with Brazil.

Clearly the crisis has had a differentiated effect on countries. For example, Southern Africa was hit hardest and went into recession, contracting by 1.1% last year. Gross domestic product is expected to rebound by 3.4% this year and by 4.3% next year. East Africa is expected to fare best amongst sub-regions, because of the importance of the agricultural sector and the fact that this sector was less affected by the crisis. In addition, intra regional integration is boosting trade and investment in East Africa, and the GDP levels were slightly lower to start with. Northern, Central and Western Africa are closer to average figures for the continent.

Financial contagion cannot be designated as the main culprit for the economic slowdown in Africa, although there was a drop in FDI by more than one third, from US 90 billion to less than 60 billion. The main channel was the drop in trade volumes and commodity prices. These channels of transmission in fact revealed some of the continent's structural challenges.

Indeed, Foreign Direct Investment in Africa is still largely commodity-driven with South Africa, North Africa, Angola and Zambia standing out even though FDI in banking and telecom is growing in importance. There has also been a fall of remittances which had risen to 2 to 3% of GDP on average and had helped private consumption.

The positive side of this story is that resilience factors demonstrate new strengths. Some countries have kept growing at 3-7% in 2009. A growing share of trade and investment come from emerging, fast growing economies. There have been improvements in macro policies with inflation coming under control and improved fiscal balances supported by debt relief. There has also been an improvement in the business environment, notably in Rwanda, that combined with good agricultural crops in several countries (esp. North and Southern Africa). As a result, several countries were able to implement countercyclical policies, *i.e.* let their fiscal deficits grow and ease their monetary policy.

There are challenges ahead both in terms of short term risks and remaining structural concerns. There are lingering concerns about the strength of the recovery. Policy-makers around the world are still finding it challenging to time the exit from counter cyclical policies. And although African countries are trading with an increasing array of partner countries, they are increasingly specialising in terms of the range of the products they export.

Mr. President, let me now move on to the conclusions of the thematic chapter of the *African Economic Outlook*. This year the *AEO*'s theme was "Public Resource Mobilisation and Aid" aka Taxation and Development. In this study, we review the recent trends and levels of various types of taxes across the African continent. We also analyse short- and longer-term policy options to improve tax collection, both in quantitative and qualitative terms.

Let's start by reminding ourselves why taxation matters for development and is so critical. First, it is necessary to have states be accountable to their citizens and firms, not primarily to donors and to foreign investors. Second, tax collection increases the country's ownership of its development policies and offers it fiscal space. Third, it helps to reduce dependence on aid and in particular aid dependence. And fourth, it also has the potential to increase aid effectiveness.

In terms of recent trends, tax collection ratios have been on the rise since the mid 90s. If the continent was a single country, it would already be pretty much free from development assistance. But these encouraging aggregate trends hide important differences amongst countries and a very high degree of aid dependence for many countries. Africa collects USD 441 of taxes per person per year while it receives USD 41 of aid per person per year. In other words, aid represents less than 10% of collected taxes on the continent as a whole. Aid exceeds tax revenues in a quarter of the countries, is larger or equal to half the tax revenues in half the countries, and exceeds 10% of tax revenues in about two thirds of countries. And yet, in nearly one third of African countries aid already represents less than 10% of taxes.

In fact, in Africa, Upper Middle Income Countries collect taxes close to OECD countries in terms % of GDP, above 30% of GDP. The level for Lower Middle Income Countries is comparable to those of other developing and emerging countries, above 20%. Lower Income Countries still collect very small amounts, between 10 and 15% of their GDP. The underlying trends are not nearly as encouraging, unfortunately. Most of the increases observed are driven by taxes on resource-related revenues with trade taxes down and VAT slightly up. Some of the key challenges to going forward are: the informal nature of the economy in many countries, administrative capacity constraints, and an undiversified tax mix with resources-related taxes distracting countries from collecting more politically demanding forms of taxes.

When it comes to the way forward, we should distinguish short-term policy-options from medium- and longer-term policy options. In the short-term, policy options are often conditioned by stringent lack of administrative capacity. Therefore, in the short-run, strategies towards more effective, efficient, and fair taxation in Africa typically lie with deepening the current tax base in an administratively feasible way. Policy options include removing tax preferences, particularly on multinationals, and taxing extractive industries more fairly and more transparently. The international community has a key role to play in enhancing administrative capacity, while southern partners should provide peer learning opportunities and share best practices. Development partners should start investing today in the administrative capacity of African countries to enable them to put in place more progressive forms of taxation tomorrow, such as a personal income tax.

Indeed, in the longer-term, the capacity constraints of African tax administrations must be released to open up policy space and allow for the generation of tax revenues through a more balanced tax mix. A wide tax base is more stable because it relies on a diversified set of tax revenues. It is also more efficient by helping to keep the tax burden mild on each type of taxpayer and each type of economic activity. Additionally, it engages a wide range of stakeholders in the national political process. The AEO identifies urban property taxes as a tax policy instrument that can be made administratively feasible with the aid of development partners. It is progressive and can scale up with Africa's explosive pace of urbanisation and the corresponding need for urban infrastructure.

The quality of taxation matters as much as the quantity raised by taxes. Eventually, the capacity to raise taxes is conditioned on the vitality of the private sector; hence the importance of a tax system that does not stifle private sector growth. Ideally, taxes should be levied at low and relatively flat rates on bases that have been broadened through the elimination of exemptions and other loopholes. Lower, simpler taxes are not only easier to collect and administer but are a more effective policy to stimulate the development of the private sector.

Clearly, there is a growing interest on behalf of Africa's emerging partners in its natural resource base. This growing interest is not unrelated to the rise of commodity prices, the resulting increase in resource-related taxes and hence the overall increase in collected taxes on the African continent over the last decade. Indeed, the growing diversity of Africa's partners improves the continent's bargaining position.

However, these new economic partnerships also come with challenges as African countries often lack consistent engagement strategies aimed at generating sustainable and broad-based development dividends.

This is precisely going to be the topic of the 2011 edition of the African Economic Outlook. This year's edition welcomes the participation of a new AEO partner the UN Development Program and an additional country to be covered after years of interruption, Zimbabwe, bringing the Outlook's coverage of the African continent to 51 countries. The report is to be launched is Lisbon in early June 2011 during the annual meetings of the African Development Bank.