

**PROGRESS AND PROSPECTS IN ACHIEVING THE MDGs
AND NEPAD IN WEST AFRICA:
WHAT FISCAL SPACE FOR SUCCESS**

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ACRONYMS

AfDB	African Development Bank
AU	African Union
DAC	Development Assistance Committee
ECOWAS	Economic Community of West African States
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
HIPC	Heavily Indebted Poor Country
HIV/AIDS	Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome
IMF	International Monetary Fund
MCA	Millennium Challenge Account
MDGs	Millennium Development Goals (MDGs)
MDRI	Multilateral Debt Relief Initiative
MTEF	Medium Term Expenditure Frameworks
NEPAD	New Partnership for Africa's Development
OAU	Organisation of African Unity
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
PFM	Public Financial Management
PRSPs	Poverty Reduction Strategy Papers
SSA	Sub-Saharan Africa
UEMOA	Union Économique et Monétaire Ouest-Africaine
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
VAT	Value Added Tax
WAMZ	West African Monetary Zone
WAMI	West African Monetary Institute
WB	World Bank

SECTION ONE

INTRODUCTION

Background

1. West African countries have all committed to the implementations of the Millennium Development Goals (MDGs) and New Partnership for Africa's Development (NEPAD). The MDGs are a set of eight development goals inherent in the Millennium Declaration adopted in September 2000 by Member States of the United Nations. These goals are the strive to eradicate extreme poverty and hunger, achieve universal primary education, promote gender equality and empower women, reduce child mortality, improve maternal health, combat HIV/AIDS and other diseases, and ensure environmental sustainability, and develop a global partnership for development – with the year 2015 as the target date. Likewise the New Partnership for African Development (NEPAD) on the other hand, is an initiative designed to reduce poverty, to put African countries on a path of sustainable development, to halt the marginalisation of Africa in the globalisation process and enhances its full and beneficial integration into the global economy, and to accelerate the empowerment of women. It was adopted in July 2001 at the 37th OAU Summit in Lusaka with a number of principles including good governance, building capacity for the competitiveness of African countries in the global economy, speeding up regional integration, and ensuring consistency with the MDGs among others.

2. The issue of financing has been a major constraint in achieving the MDGs and NEPAD for most African countries. The possibilities for increased domestic resource mobilization to meeting the objectives of these development initiatives tend to be limited by the extremely low levels of incomes and savings in the region. At the same time, international aid effort continues to face both political and fiscal challenges in donor countries making it increasingly difficult for Official Development Assistance (ODA) to be raised substantially to meet the resource requirements for Africa to achieve the MDGs and NEPAD. The situation is quite worrying in view of the declining trend in FDI flows to the continent in recent years.

3. Indeed, recognizing the magnitude of the financing requirement for poverty alleviation and sustainable development in developing countries including Africa, the MDGs and NEPAD stress the need to increase budgetary and non-budgetary resources, to streamline public spending and to combat capital flight as means of improving internally generated flows. They equally call for substantial external contributions in the form of debt relief, improved market access and increase in ODA and foreign direct investment. These strategies should in particular help to consolidate the public finances by providing governments with adequate fiscal space. In addition, the MDGs and NEPAD point to the establishment of good governance as an essential condition for the increase and use of financial flows to successfully alleviate poverty.

4. Recent developments in West Africa point to a seemingly inadequate commitment to the mobilization of the needed public resources to finance the two major development initiatives. A number of constraints continue to undermine domestic effort targeted at streamlining public finances for effective internal resource mobilization to fund capital expenditure requirements for the execution of these initiatives. Furthermore, the low incomes level and less developed public

bonds market pose a challenge to West African governments in their effort to fall on domestic savings for development financing.

5. In the midst of these difficulties in the mobilization of domestic resources, external financial assistance in the form of ODA continues to fall short of donor commitments. For instance, the allocated ODA to MDGs based on the commitments of the G8 between 2001 and 2015 was less than half of the required for the programme (United Nations, 2005). On debt, the recent toning down of the eligibility conditions that makes it easier for a greater number of countries to qualify for the HIPC initiative, many still find the initiative inadequate to keep the countries' debts at sustainable levels to enable them summon resources in pursuit of the poverty reduction objectives. The seemingly fear of some donors attempting to match their contributions under the HIPC programme with a corresponding reduction in ODA remains a great concern.

6. The pooling of resources and their use within a single framework is another challenge that hampers the operation of a viable fiscal space for the MDGs and the NEPAD financing. In fact, despite efforts made under the Medium Term Expenditure Frameworks (MTEF), the consolidation of resources – including ODA – and expenditures within a single budgetary tool is taking time to materialize on the part of both the internal and external actors. Particularly, in their dispensation of aid, many donors are yet to move away from the project approach and to adopt the budgetary support system as advocated by OECD/DAC.

7. Against the backdrop of the low levels of domestic financial resource flows and other structural constraints that will take time to overcome, the realization of the expectations of MDGs and NEPAD is undoubtedly conditioned on substantial external financial contributions in the form of grants and other concessional resources. In the light of the foregoing, the West African governments will have to redouble their resource mobilization efforts and subsequently strengthen their fiscal space if they are to make significant strides towards the MDGs and the NEPAD objectives.

Objectives of the Study

8. The study therefore seeks in a broader sense to take stock and to critically review the modalities and practices of the public financing of the MDGs and NEPAD programmes in West Africa. It consequently draws lessons and recommendations aimed at strengthening the fiscal space for effective implementation of these initiatives in the West African countries. The specific objectives of the study look at:

- The modalities, magnitude and effectiveness of internal public financing as well as the efficiency of the MDG and NEPAD-related expenditures;
- The external financial supports, their magnitude and effectiveness;
- The governance of fiscal space, including the relevance of the MTEFs, and the adherence and practices of countries and donors in this respect.

9. This culminates in policy recommendations for the increase and effective use of public resources in favour of the MDGs and NEPAD programmes in the countries of the sub-region.

10. The study is prepared to serve as a follow-up to a progress report on MDGs and NEPAD in the sub-region, which the ECA Office for West Africa (SRO-WA) submitted to its Eighth ICE

meeting held in 2005 in Ouagadougou, Burkina Faso. The participants in this meeting concurred that the resource gap was one of the major impediments to achieving the MGDS and NEPAD objectives, and called on the SRO-WA to conduct in-depth analysis that could guide the member States in their resource mobilisation efforts in support of these initiatives

Outline of the Report

11. The report is structured into four sections. The concept of fiscal space and the issue of public financing of the MDGs and NEPAD are discussed in section two after the introductory section. The third section presents an overview of progress, challenges and prospects of financing the MDGs and NEPAD in countries of West Africa. The concluding remarks and recommendation of the study are covered in section four.

SECTION TWO

FISCAL SPACE AND THE ISSUE OF PUBLIC FINANCING OF THE MDGs AND NEPAD

The Concept of Fiscal Space

12. Fiscal space is a broad concept that applies to the management of government budgetary resources. It is an emerging concept in current policy debate but the meaning appears to lack clarity. Fiscal space could be used to mean the ability of government to make available budgetary resources to achieve desired purpose. In a broader sense, it refers to the availability of budgetary room that allows a government to provide resources for a desired purpose without any prejudice to the sustainability of a government's financial position (Heller, 2005). World Bank (2006) puts it as the ability of government to undertake spending without impairing its solvency, i.e. without impairing its present and future ability to service its debt. Weighing various definitions, this paper defines fiscal space as *'the gap between the current level of resources and the maximum level of expenditures that a government can undertake without compromising its solvency'*. In a more restrictive manner, the concept can be interpreted as hard budget constraints and expenditure ceilings that are designed to ensure macroeconomic stability and availability of credit to the private sector. Within the context of the poverty reduction, it could be interpreted to cover support for higher levels of public expenditure on goods and services that are critical for growth, poverty reduction and realization of MDGs.

13. The main challenge facing public financial management of governments in developing countries including those in ECOWAS is how to find resources to finance pressing development needs. In this regard, the creation of fiscal space over a medium to long term becomes a crucial policy issue, which requires government attention. As Heller (2005) puts, it is imperative for governments to make sure that there is scope, whether in the context of available future budgetary resources or with the prospect of an increase in the revenue share, to respond to unanticipated fiscal challenges. Clearly, the availability of fiscal space for discretionary programmes becomes limited when government budget are tied up in non-discretionary programmes. By implication therefore, governments in developing countries could avoid the creation of limited or "negative" fiscal space in future budgets by ensuring that future budgetary resources are not exhausted by projected non-discretionary government expenditure commitments.

14. The approach to financing the MDGs and NEPAD advocated by some of the international organizations suggests much higher levels of public spending and the fiscal deficit excluding grants, over the next 10 years. It essentially involves estimating the input costs to meet MDG and NEPAD related targets in each individual sector, and then calculating the financing gap that must be funded by both domestic and external sources towards the realization of the targets. The funding gap in each sector is then added together to derive an estimate of the total requirement for additional resources. Estimates of the budgetary cost derived from this approach vary considerably, but all involve a substantial expansion in the size of the government budget. However, it is remarkable to note that a lot of the attention on meeting the financial requirements

of poor African nations has focused on external finance (Aryeetey, 2004). Undoubtedly, the MDGs and NEPAD require a substantial expansion of public expenditure on the basis of social services such as education and health financed by increased donor aid (UNDP, 2003). Yet the financing gap between needs and potential aid commitments still seems large. In this context therefore, the question is how much should governments of developing countries particularly ECOWAS members scale up expenditure programmes and where should needed funds be sourced?

15. Essentially, the emphasis on external resources and the difficulties in domestic resources mobilization requires some degree of investigation and review. Evidently, quite a bit of the recent development literature attribute Africa's relatively slow growth in the last three decades to slowness in capital accumulation, leading to increasing attention being paid to the apparently low saving rate in the region (World Bank 1994). Several other explanations have been provided for the difficulty in accumulating capital for consistent growth and poverty reduction in Africa¹. In Africa, Gross Domestic Savings averaged only 14 percent of GDP in the 1980s, compared to 23 percent for Southeast Asia and 35 percent in the Newly Industrialised Economies of Korea, China and Singapore (Aryeetey, 2004). Aside from being generally low, savings rates have shown consistent decline over the last thirty years in most African countries, seldom exceeding 15 percent of GDP and where rises have been seen, these have been very modest.

16. Africa and for that matter the ECOWAS countries, therefore need to develop a framework and strategy for closing their resource gap in order to achieve the MDGs and NEPAD objectives, which are consistent with halving poverty by 2015. While the closure of the resource gap requires effective action to mobilise domestic resources, there are indications that in the short and medium term, considerable attention will have to be paid to mobilising external resources. In other words, how much of budgetary room or fiscal space should governments in West Africa create towards achieving the objectives of MDGs and NEPAD?

Why the Need for Fiscal Space for MDGs and NEPAD?

17. The incentive for creating fiscal space is strengthened where the resulting fiscal outlays would boost medium-term growth and perhaps even pay for itself in terms of future fiscal revenue (Heller, 2005). Fiscal space is important to the extent that countries could receive significant flows of external resources dedicated to a specific sector and may require counterpart funding that may essentially "pre-empt" a share of the growth of future domestic budgetary resources.

18. Considerations about the potential to increase public spending on basic social services such as health and education within the context of the government's fiscal position are crucial for the achievements of MDGs and NEPAD. Of course, spending decisions in the health or educational sector have an important influence on the government's fiscal position. For example, a decision to hire and retain more teachers to the rural areas in order to meet the primary school enrolment target would generate upward pressure on the overall public sector wage bill. Thus, achieving MDGs and NEPAD goals and expenditure decisions will therefore influence fiscal space and vice versa.

¹ See Dollar and Kraay (2001), Demirgüç-Kunt *et al* (2001), Easterly and Levine 1997; Sachs and Warner (1997) Bloom and Sachs (1998), Collier and Gunning (1999) etc.

How is Fiscal Space Created?

19. In principle, there are several ways of creating fiscal space for development financing in general and additional MDGs and NEPAD spending in particular that reflect the government's budget position. The literature² identifies a number of ways by which fiscal space is created. These include improving the efficiency of public expenditure, increasing discretionary expenditure from debt reduction, mobilization of domestic revenue, external source, increase borrowing and seignorage.

Improving the efficiency of public expenditures

20. This requires the commitment of governments to reducing wasteful public expenditure as a matter of priority on the grounds that the elimination of waste in the government's budget would not only directly free up resources that can be devoted to productive public expenditures, but may also do so indirectly, by enhancing the government's credibility and thus its ability to borrow (World Bank, 2006). Reallocating expenditure from a lower to a higher value also improves the overall efficiency of public expenditure. Fiscal space can also be created in this context by improving technical efficiency by ensuring that resources are allocated to stated public spending goals at minimum cost.

Increase discretionary expenditure from debt reduction

21. Debt relief is a logical starting point for opening up fiscal space for many West African countries. The significance of recent initiatives to reduce or cancel low-income country public debt is to make more resource available for meritorious spending (HLF, 2005). Dramatic debt relief, if not outright debt cancellation, could make a marked difference in immediately freeing up resources to finance public investment that is critical to accelerating progress towards the MDGs.

Mobilisation of domestic revenues

22. Additional revenues can be raised through domestic resource mobilization by tax measures or by strengthening tax administration. Lower priority expenditures can be cut in order to make room for more desirable ones (Heller, 2005). However, taxation would only be welfare-enhancing for governments if the collection costs and the welfare costs of the distortions induced by higher levels of taxation or user charges are lower than the social benefits of the public spending. Thus, tax reforms that improve tax administration and reduce reliance on distortionary taxes will enhance the attractiveness of raising tax revenue as a way to generate fiscal space (World Bank, 2006).

Increase borrowing

² See Heller (2005), High Level Forum (2005) and World Bank (2006)

23. Governments can also finance higher levels of public spending by borrowing from domestic bond markets and foreign creditors. Exploiting a government's unused borrowing capacity, which is the difference between the maximum level of net debt that it can sustain (on the basis of the maximum present and future primary surpluses it can generate) and its current level of net debt creates fiscal space (World Bank, 2006). The maximum level of debt that a government can sustain can be increased by enhancing public sector fiscal credibility, enhancing the growth of the revenue base, and/or "locking-in" future fiscal resources. However, there are costs in terms of future debt service obligations and the potential crowding out of private sector borrowing. A sound fiscal principle is that over the economic cycle governments should borrow only to invest rather than to finance recurrent expenditure (Heller, 2005).

Seignorage

24. Seignorage is the net revenue derived from the issuing of currency. It arises from the difference between the face value of a bank note or coin and the cost of producing and distributing it. It is one of the means by which governments could raise revenue to finance additional public expenditure. However, the opportunities to generate seignorage revenues without causing inflation are very limited. Essentially, governments relying on seignorage as source of revenue will find it counter productive through its effect on inflation, which may have a damaging effect in the economy.

External Sources

25. Governments may also benefit from any fiscal space arising from the receipt of grants or aid from external sources. Aid will generate more fiscal space where donors have long-term financial commitments and can disburse aid in a predictable manner. Considering that grants allow new productive expenditures at no cost to the government solvency makes it an attractive way for recipient countries to finance productive public expenditures. However, the fiscal space that is generated by aid depends on the level, duration and predictability of donor funding, as well as on the type of aid.

Implications of Fiscal Space for Economic and Financial Stability

26. The concept of fiscal sustainability is quite critical in the creation of fiscal space. To ensure fiscal sustainability within the framework of creation of fiscal space requires an assessment of the country's capacity to finance higher expenditure in the short-term from current and future revenues or if debt financed, to generate revenue needed to service that debt (Heller, 2005). Essentially, the sustainability of higher expenditures for a long time could be undermined if fiscal space created in a particular year is not followed by the creation of similar fiscal space in future years to cover higher expenditure requirements. Fiscal space should not also be viewed strictly as an issue associated with a specific sector. According to Heller (2005), while the impetus for the debate over fiscal space may have emerged in terms of the perceived value of spending on health, education, or infrastructure, it is necessary to assess the scope for higher spending within the context of a comprehensive and forward looking fiscal and budgetary framework. Creating fiscal space from both internal and external source has significant implications for the economy.

Internal Resources

27. Mobilizing internal resources has been important for growth since the time of the industrial revolution, on the grounds that domestic investment that propelled this growth was financed through domestically generated savings. The situation is true today particularly, in the midst of declining external assistance in most developing countries in recent times. Despite the structural adjustment programmes, which began in the 1980s, there appears to be a significant gap between the demand for investment and the availability of domestic resources in Africa (Aryeetey, 2004). Clearly, developing countries can only overcome their dependency on rich donors when their governments are able to mobilize enough domestic resources to guarantee universal access to reasonable quality essential public goods and services (Roy and Heuty, 2005). Internal resources are basically mobilized through tax effort, domestic borrowing and money printing, all of which have some advantages and drawbacks.

Revenue Mobilisation

28. Government revenue from tax sources are considered a better option over borrowed sources on the grounds that they impose no further debt burden as well as on seignorage which may result in inflation. This suggests that in the quest to keep public finances stable in the short-run, these sources are to be favoured. However, internal revenue mobilisation through tax effort may have a distortionary effect on economic activities, which may undermine growth. Indeed, as World Bank (1981) and Bates (1981) argued African governments had tended to over-tax agriculture, thereby limiting its structural transformation and its ultimate contribution to long-run development. In fact, the basic starting points for achieving high domestic resource mobilisation include, among others, an effective tax system that enables governments to raise the necessary resources, and transparent and democratic (“participatory”) budgets that focus on the financing of key development tasks.

29. One key indicator in the assessment of a countries capacity to create fiscal space from taxation is the tax-GDP ratio. A low ratio suggests the existence of under-exploitation of revenue potentials of the country and therefore an existence of fiscal space while a high ratio implies otherwise. The level of taxation and tax system for achieving sustainable growth and poverty reduction is not a straightforward issue. The distortionary effect of tax on economic activity poses a challenge to the determination of optimal level of tax.

30. Generally, government revenue in most developing countries is quite low. According to Tanzi and Zee (2001), for all developing countries, tax revenue, as a ratio to GDP is only 18 percent on average compared to 38 percent for industrial countries. Indeed, the revenue-GDP ratio of many West African countries is well below this average. As reported in table 1, with the exception of Ghana all ECOWAS member countries realised tax revenue-GDP ratio of less than 20 percent in 2004. In addition, the revenue trend of many developing countries including those in West Africa is characterised by high volatility. Brun et al (2006) observe that volatility in government revenues ratios in many African countries are significantly higher than that observed in many developing countries due to high dependence on primary products.

31. Several factors have been cited to undermine effective domestic resource mobilization. Low incomes or poor growth performance are often given as reasons for low revenue (McKinley, 2005). Others have also attributed this to failure of institutional reforms over the last three decades. There is ample evidence that financial sector reforms of the last decade have not

resulted in significant resource mobilisation in most African countries (Aryeetey, 2004). In addition, the inception of the trade liberalisation policies in many developing countries in the 1990s, as part of the SAP which resulted in the removal of quantitative restrictions and generalised decrease in tariffs, partly account for the low revenue mobilisation in many countries that traditionally depended on revenue from international trade. A number of obstacles also exist in many developing countries that work against large increases in the contribution of direct taxes to total revenue. Direct taxation is strongly resisted especially by influential people because it is so visible and as a result entire categories of incomes and assets largely escape direct taxation (Brun et al, 2006). Many developing countries are also characterised by high tax evasion, which tend to undermine revenue mobilisation effort.

32. While low revenue-GDP ratio suggests an existence of unexploited revenue mobilisation potentials or fiscal space, high volatility of government revenues remains a big challenge in creating fiscal space from internal source. The existence of obstacles impeding revenue mobilization in many developing countries is an indication of the availability of space in internal resource. The institution of reforms in the tax system to reduce these bottlenecks will create a space for mobilization of domestic revenue to meet development needs of poor countries. Clearly, the implementation of the MDGs and NEPAD requires a stable government revenues levels in order to meet a large number of regular financial obligations. Therefore, volatility of government revenues levels has the potential to undermine the realisation of these goals.

33. In the wake of declining inflows of foreign assistance to developing countries in recent times, many developing countries will face great difficulty in halving income poverty by 2015 or reaching the overall MDG targets if pragmatic efforts are not made to exploit the existence of revenue space. Increasing the revenue share in GDP is a good option for countries with low tax shares. Obviously, for low-income countries, raising the tax share to a minimum of 15 percent is quite appropriate. International experience suggests that some increases beyond this are reasonable and desirable but this does not render the task easy, either on administrative or technical grounds (Heller, 2003). Any effort to enhance fiscal space through revenue mobilisation in developing countries needs to strengthen tax administration and public financial management, combat tax evasion through exchange of information among revenue agencies and increase the efficiency of public expenditure to improve tax compliance. Some have advocated for fiscal reform strategy for developing countries based on implementation of broad based taxes on domestic activities, such as incomes and consumption taxes, especially Value Added Tax (VAT). However, the seemingly regressive nature rather than 'revenue neutral' makes it relatively more expensive for the poor. Essentially, raising revenue as a vehicle of exploiting fiscal space should be mindful of potential distortions in economic activities and the effect on the poor.

Domestic Borrowing

34. Over the years, domestic borrowing as a financing option for public investment has been an important source of resource mobilization for growth and development in many developing and developed countries alike. It involves a transfer from the domestic private sector to the domestic public sector, without directly increasing a country's liabilities to the rest of the world. It can also increase the propensity to save to the extent that such borrowing reduces domestic consumption and facilitate reduction in inflation. Obviously, domestic borrowing for appropriate public investments with demonstrable returns in terms of socio-economic and human

development are regarded as perfectly acceptable in most developed countries (Roy and Heuty, 2005). However, the possible accumulation of debt associated with it and the macroeconomic implication makes some analysts consider it to be undesirable. Indeed, domestic borrowing implies the need to repay, thus raising the question of whether the return on the expenditure justifies the cost of borrowing, and perhaps even more strongly, if the spending will enhance government revenues to finance the repayment of the borrowing (Heller, 2006). The issue of potential crowding-out of private investment becomes inevitable especially when borrowing is excessive and drives up domestic interest rates.

35. Domestic debt can take two forms – either formal debt using issue of public bonds or accumulated payment arrears with government suppliers and employees. Theoretically, accumulation of payment arrears may be estimated as the difference between committed expenditure and payments made. Often, interest rate on this type of borrowing may be absent implying some sort of gain for the government and loss on the part of public who are the creditors particularly in times of inflation. This may not be sustainable and may create potential tension especially when the public becomes aware of the interest loss to them. Many governments of developing countries do not only issue public bonds as a means of borrowing to finance public investment but also as an instrument of monetary policy. Invariably, most internal government borrowing in developing countries passes through banks because financial markets are not well developed with limited financial instruments. This provides limited alternative for the private investor to borrow for investment when the government enters the market thereby crowding them out of the market. The situation is exacerbated by the limited involvement of households in trading in the financial market due to the slow growth of financial assets among households in developing countries on account of rising rate of poverty as well as structural and institutional factors.

36. The debt implication of government reliance on domestic borrowing for revenue mobilisation raises a critical concern about sustainability. If not properly managed, domestic borrowing can quickly lead to government's budget being overburdened with debt service obligation with no possibility for such borrowing to be forgiven by external donors through debt cancellation initiatives. This means that the cost of borrowing must be matched against the return on the investment to determine the feasibility of the action. It is important therefore for government to undertake an assessment of the net benefits of domestic borrowing to determine its optimal magnitude. A sound fiscal principle is that over the economic cycle governments should borrow only to invest rather than to finance recurrent expenditure (High Level Forum, 2005). Governments may choose to borrow without taking specific account of the direct returns from the particular expenditure item, but then must do so in the context of an assessment of the overall sustainability of a government's borrowing program, given the size of the government's existing obligations for debt service and principal repayments (Heller, 2005). Such assessments typically need to consider the economy's growth rate, the prospective interest rate environment, and the composition of existing debt (in terms of interest rates and maturity) among others (IMF, 2004).

Money Printing

37. Seignorage – printing money to finance additional government spending offers only a limited room for the creation of fiscal space. Using seignorage as a means of creating internal resources to finance public investment has not been a popular one due to its potential inflationary

effect. Heller (2006) contends that seignorage should be subordinated to the broader objectives of monetary policy viz. the creation of sufficient liquidity to support an economy's real growth, preferably on a relative non-inflationary basis. Countries that belong to currency unions however, are quite limited with the use of seignorage in the creation of internal resources. In West Africa, for instance member countries of the UEMOA do not have the opportunity to create internal resources through money creation by virtue of their membership of the currency union. In addition, the commitment to the macroeconomic convergence criteria by countries in the WAMZ acts as control mechanism against money printing.

38. Some people have advocated for higher rate of monetary creation as a mechanism for financing public expenditure on grounds of no interest cost and non-distortionary effect as may be observed in respect of borrowing and taxation respectively. However, the potential inflationary effect that may ensue plays a counter to this argument. Indeed, not only does high inflationary rate disproportionately hurt the poor because they are least able to adjust for the loss of their loss income, but it is also a deterrent to efficient investment policies. In addition, as inflation rises, the likely fall in the demand for money tend to reduce the amount of fiscal space that can be created through seignorage for any given level of inflation. In the normal course of growth, seignorage consistent with a modest single digit rate of inflation (perhaps in the order of 0.5-1.0% of GDP) is created annually, with the associated resources flowing to the government, usually in the form of profit remittances from the central bank (IMF, 2005)

External Resources

39. Remarkably, substantial attention on meeting the financing needs of poor nations have focused on external finance. The inability of many developing countries to design efficient tax policies and non-tax revenue generating strategies coupled with slow growth largely account for the seemingly excessive concentration of governments attention on external source for development financing. Many have in some cases argued that political independence of many SSA countries is threatened by their economic dependence on external sources.

40. For the achievement of MDG and NEPAD, it is believed that the main solution is a rapid and large infusion of external development finance. Thus, a 'big push' in Official Development Assistance (ODA) is critical for the realization of development goals of Africa and to extricate Africa from its 'poverty trap'. ODA can be either concessional loans or grants. For Africa, the Millennium Project favors grants since they do not increase external debt. There are other sources of external development finance beside ODA. These include commercial loans, portfolio investment and foreign direct investment. Private transfers, such as remittances from citizens living abroad can also be converted, in part, into domestic investment. Debt relief, on past commercial or concessional loans, can also free up public resources for financing development.

41. For most low-income countries, including those in West Africa, ODA remains a major source of external finance, and for the poor and least developed countries it remains the predominant source. On average, official flows account for about two-thirds of capital inflows into West Africa. Even with stronger efforts to mobilize domestic resources and attract private capital inflows, these countries will need a substantial increase in ODA to improve their prospects for achieving the MDGs (McKinley, 2005). The need for additional aid in Sub-Saharan Africa in particular to achieving MDGs and NEPAD goals cannot be downplayed. Roy and Heuty (2005) recommends the use of ODA for a "big push" large enough to break the self-

reinforcing cycle of poverty of developing nations. Such a drive would consist of a simultaneous deployment of resources to build infrastructure and provide for basic needs, so that the threshold level of infrastructure capital increases to a point where incremental applications of capital are able to make a real difference to growth. This would in turn enable savings rates to increase with discretionary income once basic needs have been met, thus starting a virtuous cycle of growth and private savings that creates conditions for sustainable human development. External resources are derived primarily from aid and grants, external borrowing, and debt relief each of which has implications for economic and financial stability.

Aid and Grants

42. Clearly, aid or grants can provide some fiscal space in contrast to borrowing, where debt sustainability considerations are relevant even when loans are on highly concessional terms (Heller, 2005). However, this is conditioned on a sustained and predictable flow since it creates the potential for a scaling up of expenditure that can be maintained in the future and reduces the uncertainty about the continuous flow of the grants. By implication, a commitment by external donors to provide a given flow of resources over a number of years, as opposed to the provision of the same amount of such resources over time but subject to uncertainty each year as to its provision would guarantee a greater fiscal space. Indeed, greater predictability and reduced volatility is enormously important in creating fiscal space. This is because aid volatility, which leads to instability, uncertainty and risk in the recipient country has a direct negative impact on long-term growth (Celasun and Walliser, 2005).

43. The contribution of aid to meeting the MDGs is based on two fundamental premises that: (i) aid raises economic growth thereby reducing poverty, particularly when growth process is pro-poor; and (ii) aid relaxes the budgetary constraints impeding development spending including pro-poor services and infrastructure. Recent arguments for doubling aid to Africa are premised on “boosting” public expenditure on vital areas such as health, education and infrastructure (Commission for Africa, 2005). However, the effectiveness of aid flows to developing countries has been a subject of debate in the literature. Aid is more effective in fostering growth and improving service delivery in countries with better policies and institutions. It is also more effective when it is aligned with the receiving country’s priorities, when it reduces transaction costs through coordination with other donors, when it is predictable, and when there is a clear focus on results. World Bank (2001) among other statistical researchers observe in general a positive growth effect of aid in countries that pursue good macroeconomic and trade policies, strong investments in health and education, good governance and less corruption with little or no positive growth effect in countries that pursue weak policies with high corruption. Aid yielded positive results in countries like Botswana where government placed a high priority on growth and development and committed to reducing corruption.

44. The economic and financial stabilisation implication of the creation of fiscal space through aid or grants depends on modalities of the aid or grant and the response of policy makers in the recipient countries. There is a great concern about how aid affects spending and fiscal behaviour more generally including tax effort and borrowing. External grants or aid may reduce the incentive of governments to improve their revenue mobilization efforts and may create dependency and rent-seeking effects within government bureaucracies. In effect, the fiscal space created in the short term may have a negative impact on available fiscal space in the future if it reduces domestic resource mobilization efforts. In contrast, Impulse response analysis show that

apart from inducing higher spending and reducing domestic borrowing, injections of aid have a pervasive impact on increasing tax effort of recipient country. In Ghana, it appears that aid has been associated with increased tax effort (Osei et al, 2005). This seems to be a caution against any presumptions that aid reduces tax effort. Indeed, it is expected that where countries are compelled to provide counterpart funding, aid tends to encourage domestic revenue mobilisation effort. On the other hand, it could discourage domestic revenue mobilisation effort of recipient nations if aid flows are not conditioned on the provision of counterpart funding.

45. Higher spending has also been found to be associated with external aid flows. Many countries have seen spending on infrastructure and social services such as health and education go up particularly when aid is geared towards poverty reduction. Commission for Africa (2005) provides evidence to show that aid has had a beneficial impact on investment and recurrent spending in SSA countries. Aid is normally conditioned on improved fiscal management and reduced domestic borrowing of recipient country to avoid crowding-out of the private sector. This may suggest that aid causes desirable policy response which Osei et al (2005) find otherwise. They argue that in Ghana, the presence or absence of aid did not directly alter public expenditure patterns but rather affected government borrowing from the domestic economy.

46. One other implication for aid flows into developing countries is the famous “Dutch” disease. The large government spending associated with aid may tend to create macroeconomic management problems that raise concerns of undermining prospects for long-term growth through “Dutch disease” in the form of real exchange rate appreciation and shrinkage of the tradable sector. Real appreciation of exchange rate arising from inflows of foreign currency in the form of aid or grants tends to make countries export less competitive and increase imports. However, Dutch disease syndrome associated with inflows of external aid and grant depends on how recipient countries manage the inflows.

47. While a theoretical argument can be made that an expansion in aid need not reduce the competitiveness of tradable, the empirical evidence is inconclusive (World Bank, 2006). Essentially, where recipient countries used large inflows of aid to build up reserves, thus avoiding pressures on real economy, there had been no “Dutch disease” effect. However, continuation of this trend would defeat the purpose of increased aid, and donor countries cannot be expected to provide resources primarily for the build up of reserves. Theoretically, managing effectively enlarged volumes of aid will require ensuring gains in productivity that offset pressures on nontradables but could pose a big challenge in practice. Heller (2005) finds that part of the difficulty relates to insufficient experience with aid inflows that would constitute a very substantial share of total GDP. Even if it does exist, Dutch Disease effects must be weighed against the long-term benefits of the associated spending, though these are not easy to measure in terms of the probability of successful outcome and social return”.

48. Nkusu (2004) analyses the Dutch disease model to put into context the concerns raised about the adverse effects of large aid flows on export growth. He finds that the symptoms of Dutch disease need not materialise in poor countries if they can draw on their idle productive capacity to satisfy the increased demand for nontradables that large ODA flows induce, and also ensure that ODA flows are directed towards easing supply bottlenecks that prevent them from producing at their full potential. In effect, it is important that increased spending arising out of external inflows is accompanied with improved institutions, so as to boost transparency and

efficiency and prevent outcomes that could be more painful than the perceived symptoms of the Dutch disease.

External Borrowing

49. For many developing countries, external borrowing can clearly provide some fiscal space but not without cost in terms of future debt obligations. Obviously, debt sustainability considerations are quite critical even when loans are on concessionary terms. External borrowing like domestic borrowing requires the need for repayment implying that debtor countries justify the investment in which the borrowed funds are put. Failure of debtor countries to realise sufficient returns to service the debt tend to create debt overhang. Many developing countries in the 1980s and 1990s after subscribing to the SAP contracted loans from multinationals and other sources to finance their development programmes. However, by the end of the century, many of these countries have accumulated high debt stocks with increasing interest rate to a level that has made it difficult to manage. This is confirmed by Aryeetey (2004) that since the 1980s, high debt stock and high interest rates have combined with increasingly adverse terms of trade to make debt service unmanageable. The apparent difficulty in managing external debt in many countries in Africa contributed to higher debt burden to the extent that many had to subscribe to the HIPC initiative for some respite.

50. Indeed, external borrowing offered some fiscal space for a number of developing countries to undertake infrastructural and other developmental projects, which facilitated the recovery from economic recession of a number of countries. There is however no evidence for now to suggest that external loans caused appreciation of real exchange rate and adverse terms of trade. In most countries, the concern was more of debt sustainability that became a critical issue on the international development agenda, as most countries have had to continuously deal with intractable external debt issues. Many considered the external debt of many African countries to be unsustainable considering the seemingly slow growth of many of these debtor countries making debt servicing quite difficult to comply. The introduction of debt relief facility, which emerged through the HIPC initiative to rescue many of these countries from debt trap, was therefore not surprising.

Debt Relief

51. Africa and for that matter West Africa has not witnessed much debt relief in spite of the assurances from rich nations in this area. In 1996, the HIPC initiative was launched to provide some kind of relief for debt trapped poor countries of the world. The original framework of the initiative was a comprehensive debt reduction programme from the donor community for heavily indebted countries that satisfied a number of policy criteria. It however received little enthusiasm among poor countries on account of perceived difficult conditions for eligibility. The revised version, dubbed enhanced HIPC initiative is however viewed as relatively flexible and is linked to the preparation and implementation of Poverty Reduction Strategy Papers (PRSPs) in the beneficiary countries. It sought to achieve external financial sustainability for poor and heavily indebted countries that to a considerable extent tasted economic reform in accordance with the World Bank/IMF policy prescription. It was meant to help reduce the debt overhang which remained a burden on all economic actors within the debtor countries and to provide some additional fiscal space for social and economic programmes. Indeed, the HIPC initiative process

and G-8 debt cancellation was fundamentally purported to create fiscal space for poverty reduction expenditures.

52. Many countries in West Africa are among the countries that have subscribed to the HIPC initiative and benefited from debt cancellation. Essentially, while the effect of debt relief on real exchange rate of beneficiary countries is quite minimal since it does not directly involve inflows of funds; its impact on fiscal space cannot be discounted entirely. Debt relief to some extent provided some level of leverage for many debt-trapped poor countries by relieving them of debt service obligations. Some increases in fiscal space have already emerged from the Multilateral Debt Relief Initiative (MDRI), freeing resources previously used for debt service (Heller et al, 2006). However, Weeks and McKinley (2006) argue that due to the associated policy conditionalities and other factors, HIPC debt relief will result in less fiscal space, rather than more and that projected G-8 debt relief will only marginally expand fiscal space. According to them, in Zambia, government has little leeway to choose its own fiscal policies, despite donor rhetoric about ‘national ownership’ of poverty reduction policies. This has contributed partly to the difficulty in creating enough fiscal space to meet the countries MDGs target. It is therefore important that external agencies become more flexible and take country’s peculiar conditions into consideration in the determination of policy conditionalities to enable the fully realise the goals of NEPAD and achieve all the MDGs targets by 2015.

Fiscal Space and MTEF

53. A number of initiatives including HIPC and debt cancellation to relieve many developing countries of their debt obligations coupled with the call for scaling up of aid is expected to allow for an expansion of fiscal space to facilitate growth and poverty reduction in particular, and the realization of the goals of NEPAD and MDGs in general. This may require a long-term view of fiscal policy that takes into account analysis of expenditure beyond one fiscal year with more detailed sectoral costing and performance measure.

54. Evolving from the PRSPs and in association with the IMF/WB, countries were expected to formulate Medium Term Expenditure Framework (MTEF) usually with three-year time horizon. MTEF is essentially a tool to encourage cooperation across ministries and planning over a longer horizon than the immediately upcoming fiscal year. It is a holistic approach that is deemed preferable to piecemeal, reactive, and short-term decision than ordinarily characterize budgeting. According to Holmes and Evans (2003) MTEF is a whole government framework for supporting a strategic and policy based approach to budget preparation with emphasis on a medium term fiscal framework, future costs of existing policy and sector strategies and is an integral part of the annual budget cycle. The appeal of MTEF lies in its potential to link the often competing short term imperatives of macroeconomic stabilisation with the medium and longer term demands on the budget to contribute to improved policy making and planning, and to the efficiency and effectiveness of service delivery. Given the prospects of a substantial expansion of foreign aid and more debt cancellation, developing countries are being encouraged to prepare ambitious spending programmes designed to achieve the MDGs that go beyond one year.

Box 1: Ghana’s Medium Term Expenditure Framework

The MTEF was introduced in Ghana with the 1999 budget in order to provide a methodology for costing objectives in detail and prioritizing them to fit within the available resources, both between and within sectors. It includes a budget for the upcoming year and indicative estimates for the succeeding two years.

It was one component of a broad programme of donor-supported assistance designed to improve Ghana's PFM. These included the introduction of a new computerised integrated financial management system; a computerised integrated personnel and payroll management system; civil service reform; a move towards output measures of budget assessment; and a decentralisation programme.

The credibility of the MTEF has been considerably weakened by the large divergences between budgets and outturns caused by weak macroeconomic management and external shocks. Progress was also impeded by the poor PFM system based on a joint WB-IMF assessment, which concluded that Ghana met only one of fifteen benchmarks, ranking it among the lowest and most in need of substantial upgrading. In spite of the considerable resources devoted to the MTEF and PFM reforms, many of the original objectives have yet to be achieved. A repeat review of the performance of the PFM systems in 2004 concluded that the figures for the MTEF's outer two years continued to be derived by applying uniform growth factors to both domestic and donor-financed spending respectively. The MTEF therefore did not reflect the detailed costing work that had been undertaken in priority sectors for ongoing and planned programmes nor did it reflect the detailed costing work that had been undertaken in priority sectors for ongoing and planned programmes, nor did it reflect changes in sector prioritization based on Ghana's Poverty Reduction Strategy.

The poor performance of the MTEF does not argue against a medium-term fiscal perspective. Rather, the MTEF concept needs to be further developed to make it a realistic strategic tool for planning and budgeting. In the short-term, this may mean simplifying the budget process that is presently designed as both a top-down process and a bottom-up process.

Heller S. Peter, Menachem Katz and others (2006)

55. Many developing countries over the past few years have adopted MTEF as a tool for planning and budgeting. There are a number of advantages inherent in the MTEF that make it preferable over the traditional budget system and provide avenues for the creation of fiscal space. The MTEF is known to enhance stability by letting national ministries know what resources will likely be available to them which allow government planning to be more credible and accurate. It also improves transparency and guarantees public discussion, encourages investment by making taxation, interest rates and government spending more predictable, and above all facilitate programme evaluation. The future prediction provides a baseline for assessing the effectiveness of the past years programmes. The longer-term expenditure plan clearly offers governments the opportunity to look ahead of time and to create the necessary revenue space for development purpose.

SECTION THREE

CURRENT SITUATION IN WEST AFRICAN COUNTRIES: PROGRESS, CHALLENGES AND PROSPECTS

Public Financing of the MDGs and NEPAD: Modalities and Constraints

56. The Millennium Declaration and the NEPAD recognize the extent of financing required to efficiently confront the most pressing issue of poverty in Africa and set the continent on course for sustainable development. The two initiatives stress the need to raise internal resources in terms of fiscal revenues and rationalizing public expenditures as a way of improving national resources, which admittedly are deemed insufficient. In this regard, many have called for a substantial increase in external financial assistance in the form of increased official development assistance, foreign direct investment, debt cancellation and improved access to international markets. In addition, an effort to establish good governance as a prerequisite for improving and utilizing external resource flows is deemed critical.

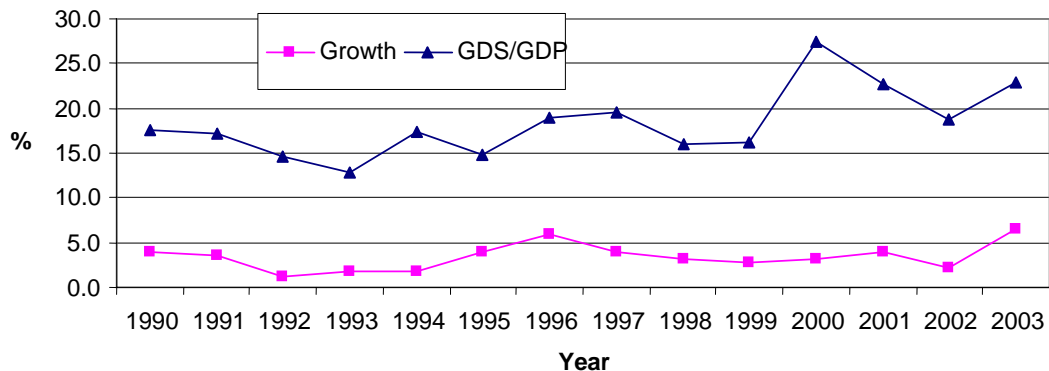
57. It is estimated that an additional US\$50 billion per year including US\$12 for primary education and US\$10 billion for health and US\$20 billion for poverty reduction is required within the MDGs framework (Robinson, 2003). It is also estimated that halving poverty by half by 2015 in Africa required growth rate of 8.2 percent³ and investment GDP ratio of 49 percent⁴ (Greenhill, 2003). In West Africa, Greenhill estimates that total cost of meeting goals 1 – 7 is US\$32.8 billion annually. Weighing it against the available internal and external resources translates into a resource gap of at least US\$17.5 billion for goal 1 and US\$3.7 billion for goals 2–7 per year. Preliminary estimates from Ghana also indicate a total cost of approximately US\$21 billion over a period of 10 years ending 2015 to achieve MDGs in the country (Gyan-Baffour, 2005). According to him, if about 60 percent of the country's investment budget were obtained from donor sources, then US\$1.3 billion would be needed from ODA and other external and local sources annually to fill the financing gap.

58. One critical constraint for the achievement of development goals of countries in West Africa within the framework of the MDG and NEPAD is finance. Given the low average savings rate and the snail pace with which domestic revenue has been increasing in the sub-region coupled with declining inflows of ODA, the realization of MDGs and NEPAD would depend to a large extent on the ability of countries to create adequate fiscal space. The slow growth performance of the sub-region, averaging 3.4 percent between 1990 and 2003 has largely accounted for low domestic resource mobilization as reflected in the Gross Domestic Savings, which has trended below 20 percent mark during the 1990s (figure 1). This has substantially undermined the domestic resource mobilization effort in the sub-region. For instance, the average ratio of tax revenue-to-GDP in the sub-region rose marginally from 14.8 percent to 15.5 percent between 2002 and 2004 (table 1).

³ According to DFID and ODA

⁴ UNCTAD, IDS

Figure 1: Trends in Real GDP Growth Rates and Gross Domestic Savings to GDP Ratio for West Africa 1990-2003 (%)



Source: Computed from Selected Statistics on African Countries, 2005, AfDB

59. At the same time, the flow of external financial resources into the sub-region has also been erratic over the years and trended downwards in recent times. The challenge confronting many countries in West Africa to adhere to good governance, eschew corruption and ensure peace, which are normally cited among the conditions for external assistance, could be blamed for the low inflow of external resources in the form of ODA and FDI. Hence, the adherence of countries to sub-region macroeconomic convergence schemes that impose budgetary norms and discipline in the allocation and use of public resources has implications for domestic public finance management.

Mobilisation of Internal Resources

60. Domestic revenue mobilisation continues to pose a big financing challenge to meeting the MDGs and NEPAD in the sub-region compelling many countries to rely largely on foreign source of financing. There are not enough savings in many West African economies to facilitate the required investment for growth and poverty reduction. While tax revenue remains low in most countries, the less developed financial system continues to hinder efforts of government in generating funds for investment through internal borrowing. Above all, the commitment of countries to achieving macroeconomic stability through tight monetary policy put restrictions on governments to rely on seignorage as an alternative source of internal resource mobilisation.

Government Revenue

61. Available evidence as reported in table 1 shows that domestic revenue generation is very low in the sub-region. The average government revenue net of grant as a percentage of GDP in West Africa stood marginally short of 30 percent in 2004 while average tax revenue-to-GDP ratio was only 15.5 percent, short of 4.5 percentage point below the minimum set out in the macroeconomic convergence mechanism. The 29.5 percent total revenue-to-GDP ratio is attributable mainly to Nigeria, the only country to register a rate (39.7 percent) higher than the average for the sub-region. Countries such as Guinea and Niger registered extremely weak revenue performance. The tax revenue mobilisation effort of most of the countries was however quite weak based on the ratio of tax revenue-to-GDP. As reported in table 1, only three countries namely Ghana, Senegal and Nigeria realised fiscal revenue as a percentage of GDP ratio equal or

above the sub-region average in 2004. The poorest performing countries in the mobilisation of tax revenue were Guinea and Guinea Bissau, which registered tax revenue of less than 10 percent of GDP.

62. Like many developing countries, indirect taxes remain a major source of tax revenue in the West African sub-region. As reported in table A in the appendix, with the exception of Nigeria where the share of direct taxes in total revenue rose above the share of indirect taxes after 1998, all member countries of ECOWAS recorded higher contribution of indirect tax to total revenue. Revenue from indirect taxes accounted for over 60 percent of total revenue of eleven countries in the sub-region in 2002. Related to the relevance of indirect tax is the strength of the contribution of international trade taxes. Incidentally, countries in West Africa generally rely heavily on import tariffs. In 2002, most member countries received over 30 percent of their total revenue from taxes on international trade (Ghana, Burkina Faso, Guinea, Nigeria and Senegal being the five exceptions with percentages below 30 percent). Clearly, heavy reliance on international trade taxes could undermine the countries' long-term international competitiveness

63. Generally, indirect taxes are favoured more than direct taxes. The strength of indirect taxes over direct taxes is largely justified on the grounds that they are more flexible and have less distortionary effect on incentives to work. They can also be used to change both the levels and pattern of demand in the economy to meet a variety of government policy objectives. One major criticism however is its regressive impact on the overall distribution of income in the economy.

64. The importance of non-tax revenue (excluding grants) in the sub-region appears to be quite strong judging from the estimated 14 percent difference between total revenue and total tax revenue as percentage of GDP in 2004 (table 1). The non-tax revenue component of total revenue was quite high in countries like Nigeria (24.2 percent), Cape Verde (12.2 percent), Guinea Bissau (9.6 percent) and Gambia (9.2 percent), all as a percentage of GDP.

Table 1: Fiscal, Monetary and Macroeconomic Developments in West Africa (as a % of GDP)

Country	Total Revenue NG			Tax Revenue			Total Expenditure		Fiscal Balance NG		Domestic Credit		Money Supply		Inflation		External Debt		
	2002	2003	2004	2002	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2002	2003	2004
Benin	16.3	16.6	15.7	14.4	14.9	14.9	21.2	21.2	-4.5	-5.4	9.5	10.4	21.5	21.5	1.3	0.1	48.1	40.3	44.8
Burkina Faso	11.5	12.2	12.9	10.7	11.0	11.9	19.7	22.5	-8.4	-9.5	15.0	14.9	20.7	20.1	-1.9	0.4	43.0	39.0	37.9
Cote d'Ivoire	18.0	16.6	17.5	15.2	14.6	15.2	19.6	17.8	-3.2	-0.4	18.4	18.9	27.6	27.5	-0.5	2.1	75.5	71.6	68.9
Guinea Bissau	15.3	12.1	17.2	8.4	9.2	7.6	35.5	33.7	-23.4	-16.5	12.8	14.2	71.3	69.5	0.5	1.3	378.9	396.0	337.2
Mali	16.2	17.1	18.0	13.2	14.2	15.0	22.6	26.1	-5.3	-7.9	16.6	15.4	31.0	30.5	-6.5	2.0	76.4	66.9	67.6
Niger	10.7	11.2	11.4	10.2	10.8	11.1	19.6	20.9	-10.6	-9.6	10.4	9.0	8.4	8.4	-3.2	0.3	77.7	69.8	63.0
Senegal	19.1	19.3	19.2	14.9	18.2	18.3	23.0	23.8	-3.5	-4.8	22.8	20.9	30.0	29.4	-0.1	0.3	65.6	59.4	46.6
Togo	12.6	16.8	14.2	18.1	15.1	13.6	14.9	15.6	1.9	-0.9	18.3	15.0	25.2	23.2	-1.7	-0.3	88.5	84.0	78.3
Gambia	14.8	15.9	22.4	12.3	13.9	13.2	24.5	28.5	-8.6	-6.1	27.5	25.5	49.9	46.4	11.1	9.5	154.9	144.6	155.0
Ghana	18.2	20.2	22.5	18.0	19.9	22.2	26.7	23.9	-6.5	-1.4	18.3	20.7	35.2	34.0	26.4	11.2	112.3	96.4	62.5
Guinea	12.0	11.6	10.0	11.3	11.0	9.6	24.5	21.4	-12.9	-11.4	11.2	16.6	13.2	16.1	18.3	23.5	49.0	55.0	65.0
Nigeria	39.5	39.8	39.7	14.9	15.0	15.5	42.9	42.9	-3.1	-3.2	3.7	3.6	22.3	22.1	23.8	23.5	67.3	57.0	60.0
Sierra Leone	15.4	15.2	14.9	14.8	14.6	14.3	33.1	32.4	-17.9	-17.5	22.0	19.0	24.1	20.0	5.8	8.8	14.0	14.0	14.0
Cape Verde	32.1	27.0	26.6	19.4	15.8	14.4	32.7	32.2	-5.7	-5.6	20.1	17.3	28.9	31.1	1.5	1.3	50.5	49.8	49.1
Liberia	14.6	13.9	13.2	14.1	13.7	12.9	14.9	14.2	-1.0	-1.0	16.8	16.5	30.3	30.0	11.2	8.8	497.6	507.8	518.2
ECOWAS	28.6	28.9	29.5	14.8	15.1	15.5	33.2	33.3	-4.2	-3.8	10.3	9.8	24.3	24.0	14.8	14.6	73.5	64.8	62.8

Source: IMF, and UEMOA, 2004

65. Essentially, the low revenue mobilisation effort coupled with high total expenditure translated into an average fiscal deficit net of grants of 3.8 percent of GDP in 2004. Four countries namely Ghana, Cote d'Ivoire, Nigeria and Liberia that managed to register fiscal deficit below the sub-region average managed to match expenditure with revenue. However, the high fiscal deficit registered by Guinea Bissau stems from high expenditure but low revenue while weak revenue effort of Guinea was the main cause of the high fiscal deficits recorded in 2004.

66. The obvious poor tax revenue performance of most countries in the sub-region is the result of combination of factors including weak tax administration, high incidence of tax evasion and the narrowness of the tax base among others. Invariably, information about taxpayers, resources and managerial ability of tax collection agencies are often inadequate. Tax agencies in most countries face a number of shortcomings in their operations including insufficient staff with appropriate skills, lack of sufficient and up-to-date equipment and facilities as well as lack of regular training for tax collection officers. These shortcomings largely account for the apparent ineffectiveness of revenue collection agencies in most countries in West Africa. Absence of incentives and motivation for revenue agencies tend to reduce commitment and encourage corruption and rent seeking behaviour of tax officials resulting in loss of revenue to the state.

67. High incidence of tax evasion could also be linked to weaknesses in tax administration. The problem of adequate and accurate information about the tax payers and lack of capacity of tax agencies to detect possible under-declaration of profits and incomes remains a critical challenge to tax revenue generation in the sub-region. Tax evasion is often high particularly in the informal sector where information and measurement is difficult and costly to obtain. The challenge of taxing profits and incomes of informal sector operators in West Africa accounts for the narrow tax base. Incidentally, these challenges come in the midst of implementation of a number of tax reform measures in many countries including the introduction of Value Added Tax (VAT), enhancement of tax administration and measures to broaden the tax base.

Internal Borrowing

68. Internal borrowing as a source of internal resource mobilisation does not seem to have been explored by ECOWAS countries. This might be due to the seemingly less developed nature of the financial system in the sub-region. In addition, the commitment of countries to reduce domestic borrowing to avoid possible crowding out of the private sector makes governments less enthusiastic in its domestic borrowing effort. Clearly, low outstanding domestic credit is partly a reflection of the desire of countries to reduce its borrowing and make funds available for the private sector. Many development analysts have raised concern about the neglect of the domestic financial system as a potential source of mobilising domestic resources to finance MDGs and NEPAD.

69. Indeed, financial sector development has the potential of enhancing savings mobilisation and domestic investment for growth and poverty reduction. However, many West African countries lack an appropriate financial sector that provides incentives for individuals to save and acts as an efficient intermediary to convert these savings into credit for borrowers. In spite of the financial liberalisation pursued by countries in the sub-region, the financial sector still remains

under-developed with few financial instruments changing hands. The restrictive monetary policy, which requires that interest rates be reduced, prevents government from offering attractive returns on its bonds to encourage high public patronage. In some countries, the lack of confidence in the financial system remains an obstacle to private savings mobilisation. For instance, the demonetisation exercise in the late 1970s and the investigation of the public's bank account by the military in the early 1980s in Ghana reduced significantly public confidence in the banking system and discouraged private savings mobilisation. The financial liberalisation experience of many low-income countries in recent years, although towards the right direction in certain cases, seems to suggest that transforming the financial structure of an economy is a complicated process which assumes a deep understanding of the entire set of interactions between financial sector reforms and the economy (Mavrotas, 2004).

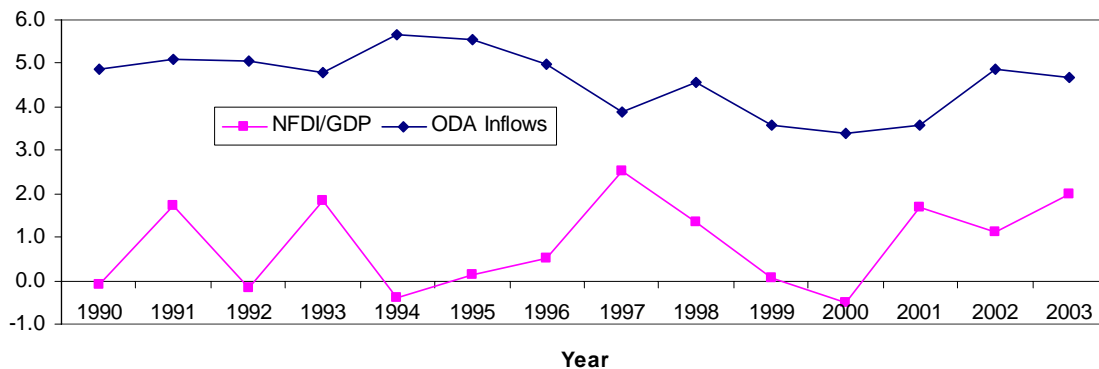
External Support and Fiscal Space

70. Undoubtedly, ODA funds large proportion of public spending in many low-income developing countries, particularly in countries recovering from conflict. In many SSA countries, the public investment budget is almost entirely funded by donors (Addison and Mavrotas, 2004). It is estimated that SSA accounted for 41 percent of the total ODA of US\$57 billion in 2002. It is reckoned that doubling ODA would suffice for annual development needs up to 2015. Generally, there has been greater enthusiasm to increase ODA allocations. Prior to Monterrey, the EU made a commitment of raising its ODA by 0.06 percent of Gross national Income to 0.39 percent. In addition, the US Government through the establishment of the Millennium Challenge Account (MCA) has pledged to increase its core development assistance by US\$5 billion annually.

71. In spite of these commitments, the trend in Official Development Assistance (ODA) to West Africa over the past decade does not appear to match the ambitions of the MDGs and NEPAD. The total flow of assistance into the sub-region consistently trended down from US\$5.7 billion in 1994 to US\$3.4 billion in 2000 before picking up marginally to 4.9 billion the following year (figure 2). The flow however has been uneven across countries. In terms of percentage of GDP, ODA flows have increased only in Ghana, Burkina Faso, Sierra Leone, and Cote d'Ivoire. The major beneficiary of the volume of ODA inflows into West Africa is Cote d'Ivoire with an average annual inflow of US\$775.5 million between 1990-2002 followed by Ghana (US\$634.8 million), and Senegal (US\$558.4 million). Gambia has been the least recipient of assistance with an average of US\$63.3 million over the period.

72. Generally however, there has been a decline in per capita official development assistance in all countries. Cape Verde remains the major beneficiary with a minimum per capita ODA of US\$173 in 2001 and a maximum of US\$335 in 1992 (table B in appendix). The least recipient country on per capita basis is Nigeria with an average per capita ODA of US\$2.08. It is estimated that at least half of net ODA to West Africa came from DAC donors, while multilateral donors accounted for a little under half with the little remainder emerging from non-DAC donors. Interestingly, in the 1990s, Japan emerged as one of the leading bilateral donors to Africa, having taken over that role from the traditional colonial powers in many countries (Aryeetey, 2004).

Figure 2: Trends in Inflows of ODA (bn of \$) and Net FDI as % of GDP, 1990-2003



Source: Computed from Selected Statistics on African Countries, 2005, AfDB

73. The declining trend in the official financial flow to finance MDGs in SSA and other developing countries have raised concerns about the need to encourage private financial flows one of which is Foreign Direct Investment (FDI). However, available data paints a gloomy picture about the inflows of FDI into SSA. The Foreign Direct Investments remain generally low in Africa in spite of the higher rate of profitability of foreign companies than in most regions of the world⁵. According to UNCTAD (2004), the stock of FDI in Africa declined from 2.6 percent of GDP in 1990 to 2.0 percent in 2003. In West Africa, five countries namely Benin, Guinea, Guinea Bissau, Niger and Sierra Leone experienced a decline in foreign direct investment between 1990 and 2002. Again, about two-thirds of ECOWAS member states recorded lower than average inflows of 2.4 percent for SSA. Generally, the flow of net FDI into the sub-region as a percentage of GDP has been highly erratic (in figure 2).

74. The distribution of FDI in West Africa is skewed in favour of few countries namely Nigeria, Cote d'Ivoire, Ghana and Senegal. Nigeria has consistently remained the main recipient of FDI inflows into the sub-region followed by Cote d'Ivoire, Ghana and Senegal in that order. Between 1993 and 2002, net FDI inflows into Nigeria increased consistently from US\$581 million to US\$1.95 billion at current prices. The oil and mining sectors are noted to be the main beneficiaries of FDI, though of late, there has been a surge in the flow of FDI into manufacturing and services sectors in West Africa.

75. On the eve of the millennium, many countries in the West African sub-region were saddled with heavy debt burden. The HIPC initiative which was first launched in 1996 presented an opportunity for countries to reduce their debt burden. Countries that took advantage of the debt relief initiative through HIPC have managed to reduce their debt burden particularly in relation to GDP. The external debt as a percentage of GDP declined from 73.5 percent to 62.8 percent between 2002 and 2004 and many countries in the sub-region witnessed this trend. As of July 2004, six countries – Benin, Burkina Faso, Ghana, Mali, Niger and Senegal had reached the completion point and the commitments in favour of reducing debt servicing were around US\$7.83 billion. In addition, four countries namely Gambia, Guinea, Guinea Bissau and Sierra

⁵ According to UNCTAD (1999), the yield rate of FDI since in Africa 1990 is about 29%, and it is higher than in all other regions since 1991, the rate of return increasing in some years from single to compound

Leone that have reached the decision point were expected to benefit from commitments of reduction in debt servicing of US\$ 2.63 billion. The progress of Liberia and Cote d'Ivoire to reach the decision was evidently retarded by the security, political and economic environment.

76. Interestingly, there has not been a substantial benefit from debt relief as expected. Available evidence show that apart from Ghana that saw its total outstanding debt reduced from US\$6.9 billion to US\$5.4 billion, all the countries in the sub-region saw their total outstanding debt increase (table C in appendix). In addition, only four countries (Benin, Ghana, Niger, and Gambia) experienced a decline in external debt servicing over the period. Incidentally, debt relief through HIPC initiative requires beneficiary countries to prepare and pursue a Poverty Reduction Strategy (PRS). Countries that have subscribed to the HIPC initiative have all committed to implement policies towards growth and poverty reduction. However, ownership of the PRS, which is critical to the success of the programme, still remains a contentious issue given the influence of donors in the preparation of the PRSP documents.

77. One critical challenge that confronts West African nations in the management of external inflows in the form of ODA, loans and debt relief is governance. Transparency in public resource management is a necessary condition for ensuring aid effectiveness. An apparent existence of corruption in public resource management continues to undermine effective utilisation of external resources in many West African countries. Furthermore, the inflows of external financial assistance and loans are normally characterised by multiple programmes, poor alignment with recipient's development agenda and volatility in aid flows. There are often duplication of projects and programmes by different donors towards the same objectives and goals. Lack of coordination and harmonisation of aid flows in many countries largely account for the poor execution of aid projects and programmes. The volatility in the disbursement of resources by donors contributes to the inability of governments in the sub-region to execute projects as planned.

Fiscal Space and the Convergence Programmes in West Africa

78. Following the Lome Summit of Heads of State and Government in 1999, countries in West Africa have committed to the attainment of monetary union. The summit adopted a double-track approach to monetary cooperation involving the continuation of the UEMOA track and the introduction of a fast track for non-UEMOA countries now constituted as West African Monetary Zone (WAMZ). The two monetary zones since then have put high premium on macroeconomic convergence by agreeing on parameters to move their member countries towards policy harmonisation and stability. The convergence criteria focus on price stability, sustainability of fiscal deficit, limiting of deficit financing by the central bank and maintaining sufficient levels of gross official foreign exchange reserves among others (see Box 2).

Box 2: Macroeconomic Convergence Criteria of Monetary Integration

Primary Criteria

- single digit inflation by 2000 and at most 5% by 2003 for WAMZ and 3% for UEMOA
- fiscal deficit (minus grant)/GDP ratio of at most 5% by 2000 and 4% by 2002 for WAMZ and 0% for UEMOA
- a ceiling on central bank financing of budget deficit of at most 10% by 2003 for WAMZ while UEMOA Council resolution (1998) wants it reduced to zero by 2002
- maintenance of official foreign reserves of at least 3 months of imports by 2002; and at least 6 months by 2003. This was however not included in the UEMOA scheme of criteria.

Secondary Criteria in support of the primary criteria

- prohibition of new domestic debt arrears and liquidation of all existing ones by end of 2003
- tax revenue to GDP ratio of at least 20% by 2003 for WAMZ and at least 17% by 2002 for UEMOA
- wage bill to total tax revenue ratio of at most 35%
- public investment as a ratio of total tax revenue to be at least 20%
- Maintenance of real exchange rate stability for WAMZ but not included in UEMOA scheme of criteria since it operates a pegged rate system.
- achievement of positive real interest rates particularly for WAMZ

Source: West African Monetary Institute (WAMI)

79. Clearly, the implementation of measures towards the realisation of macroeconomic convergence has some implications for the fiscal space of countries in the sub-region. Essentially, reducing fiscal deficit requires both expenditure restraining measures and intensification of internal revenue mobilisation effort through tax reforms. From the angle of internal resource mobilisation strategy to achieving a significantly low fiscal deficit has a positive implication for the creation of fiscal space. Available data show that most countries in the sub-region have enough space to raise sufficient tax revenue to meet their developmental expenditure on account of the low tax revenue-to-GDP. This suggests that the compliance of the secondary convergence criteria of achieving at least tax revenue-GDP ratio of 20 percent is in line with strategies towards the creation of fiscal space in the sub-region.

80. The adoption of expenditure restraining measures to contain fiscal deficit however, may have adverse effect on public spending on infrastructure, education and health, which could undermine the realisation of the MDGs and NEPAD. The wage-restraining criterion included in the secondary macroeconomic convergence criteria to support the realisation of the reduced fiscal deficit criteria has been difficult to attain by many countries due largely to opposition from labour unions. Constant agitation for higher wages by organised labour in many countries continues to constrain efforts of governments to control public wage bill. Thus the creation of fiscal space to finance MDGs and NEPAD in West Africa within an expenditure restraining strategy to meet the criterion of low fiscal deficit could be a difficult task. However, expenditure restraining measures through expenditure rationalisation measures and effective monitoring of public procurement as a strategy to reduce leakages could expand fiscal space in many countries in the sub-region. Many countries often lose a lot of fiscal resources through public procurement and unproductive expenditures. Obviously, fiscal space could be well enhanced if West African governments adopt expenditure rationalisation measures and tighten its procurement laws to avert corruption.

81. Furthermore, the objective of attaining inflationary rate of at most 5 percent could have mixed implications for fiscal space. The belief that inflation is a monetary phenomenon has been

the basis for the adoption of demand restraint strategies to combat the problem. Invariably, structural problems such as high cost of doing business, lack of access to land and other inputs of production, and public sector bureaucracies which hinder production are seemingly ignored. Indeed, restrictive macroeconomic measures tend to dampen aggregate demand, stifle growth and reduce government tax revenue. On the other hand, countries in the sub-region could achieve accelerated growth, reduce inflation and create fiscal space if they recognise the problem of inflation as a structural problem and tackle it from that perspective by adopting measures to reduce the structural bottlenecks that impede production.

82. In addition, the effort of governments to reduce domestic debt arrears in support of the achievement of the primary convergence criteria have the tendency to restrict public sector borrowing necessary to finance expenditures that are essential for poverty reduction. Thus, the prohibition of new domestic debt arrears and liquidation of all existing ones would significantly undermine the ability of countries to create fiscal space to finance MDGs and NEPAD. Incidentally, internal borrowing is one of the ways by which countries can create fiscal space. However, this depends on the rate of interest and the ability of government to borrow and pay back. In an attempt to offer attractive interest rates on government bonds tends to shift private financial resources away from the private sector, which is perceived as the engine of growth. The offer of high interest rate may also raise interest payment on government borrowing which may affect its ability to redeem the debts. Clearly, the creditworthiness and the ability to expand fiscal space through domestic borrowing are adversely affected if government is unable to honour its domestic debt obligation.

Governance of the Fiscal Space: opening a Pandora's Box?

83. There is a range of governance issues that lie at the centre of the debate over the creation of fiscal space in West Africa. Governance issues include measures aimed at improving public expenditure management and strengthening accountability mechanisms, to facilitate tax compliance on the part of citizens and reduce resource loss, which could result from corruption as well as to boost donor aid commitment. It also involves effective coordination of fiscal, monetary and exchange rate policies to avert possible macroeconomic problems. Essentially, fiscal transparency and accountability are required on the part of both government and donors in the mobilisation and allocation of public resources in general and the MDGs and NEPAD in particular. As a result of corruption and lack of transparency and accountability in public resource management, some countries in the sub-region have suffered loss of huge amounts of public resources. Obviously, in the absence of good economic governance, efforts to widen fiscal space could reinforce mismanagement and jeopardise the economic and financial stability of the countries.

84. The call for debt cancellation, and scaling up of aid by donors as well as intensifying domestic revenue mobilisation effort would allow for expansion of fiscal space for programmes to spur accelerated growth and poverty reduction. However, there are fundamental challenges West African countries face in relation to the efficient and prudent management of increased financial resources in line with the domestic development objectives. One critical challenge is the coordination of fiscal, monetary and exchange rate policies in order to absorb higher external inflows and neutralise the impact of aid volatility without compromising macroeconomic

stability. External inflows through aid and debt relief could pose challenges for the design a fiscal framework that facilitate a sustainable delivery of enhanced public services and strengthened infrastructure while still ensuring a credible commitment to fiscal prudence. There is however little evidence to indicate any adverse macroeconomic effect as a result of external inflows in West Africa. Countries such as Ghana have managed to utilise inflows of external assistance through debt relief and other means to sustain its macroeconomic stability.

85. Generally, fiscal authorities of West Africa face difficult challenges when there are uncertainties as to the timing, duration, magnitude, content and conditionality of aid. Uncertainty over the timing and levels of aid disbursements make budget planning difficult and potentially costly. In some instances, this is exacerbated by the large number of donors each with their own procedures and reporting requirements, and by the multiple sector managers with whom they interact. In addition, aid directed to the priorities of donors may not conform to the development needs and priorities of recipient countries, potentially diverting resources away from more important and higher yielding uses.

86. It is important that fiscal challenge of exploiting effectively the potential for additional fiscal space through external inflows has to be shared between donors and recipient governments. Actions by donors in terms of increased predictability, harmonisation, and alignment can make the task of recipient country's decision makers easier. As articulated in the Paris Declaration on Aid Effectiveness it is important that donor commitments focus on recipient country ownership, alignment with recipient country's priorities, harmonisation of donor efforts, management for results and mutual accountability. In addition, it is important that donors make greater effort to understand better how to translate the provision of aid into development outcomes. Donors should expeditiously provide reliable and complete information on flows of development assistance in order to facilitate their incorporation into the budget and the medium term fiscal plan.

87. On the part of recipient countries, greater commitment to fighting corruption and ensuring transparency and accountability in the management of public resources is crucial to ensuring aid effectiveness. One core action of recipient country is to focus on effort to strengthen the capacity to monitor and manage development funds. In addition, fiscal reporting needs to be strengthened through appropriate budgetary classification systems and computerisation to promote transparency and accountability. Above all, in order to access the overall resource availability and allocate resources in line with policy priorities, governments should integrate aid flows on both an ex anti and ex post basis, within the budget, so that they can be programmed alongside domestic resources. While focusing on the fiscal management of external resource inflows to meet the financing needs of the MDGs and NEPAD, it is important for ECOWAS to adopt fiscal strategies to improve internal resource mobilisation. This requires fiscal transparency, accountability and governance to encourage tax compliance on the part of citizens. Otherwise, efforts to expand the fiscal space without due regard to the governance issues could result in "the Pandora box".

SECTION FOUR

CONCLUSIONS AND RECOMMENDATIONS

88. The creation and expansion of fiscal space in West African countries have become necessary in recent times largely on account of the need to undertake ambitious spending programme required to achieve the MDGs targets and NEPAD. This is against the background of the dwindling external inflows into many developing countries including members of ECOWAS and low domestic resource mobilisation effort. The flow of ODA to West Africa has declined consistently over the last decade and coupled with low domestic revenue generation has raised a lot of concern about the need to create fiscal space to meet the financing needs of the two major development initiatives in the sub-region.

89. Generally, fiscal space could be created through prudent and efficient public expenditure management, raising tax revenue effort, increased domestic borrowing, seignorage and external sources. In West Africa however, due to low savings, undeveloped financial markets, and the need to avoid crowding out of the private sector, relying on domestic borrowing as a means of creating fiscal space may not be an easy option. In addition, seignorage is perceived as an inferior option of creating fiscal space on account of its inflationary effect. Against this background, it is quite clear that, the success of the MDGs and NEPAD is largely conditioned on the substantial external financial flows and domestic revenue mobilisation. However, fiscal development in most countries in West Africa indicates a low tax effort. In addition, lack of coordination and harmonisation has characterised the flow of external assistance into the sub-region. Indeed, poor alignment of aid with recipient country's development agenda and volatility of aid flows have been a major cause of aid ineffectiveness in many countries of West Africa.

90. In the quest of creating fiscal space to meet the financing requirements of MDGs and NEPAD, it is important that countries in West Africa in collaboration with the donor community, work harmoniously towards removing the obstacles that contribute to the ineffectiveness of external inflows. Moreover, strategies to improve domestic resources mobilisation through pragmatic tax measures coupled with expenditure rationalisation efforts, should be explored.

91. The urgent need for large multilateral support to meet the financing gap of the MDGs and NEPAD in West Africa essentially calls for the fast delivery of donors' commitments. While internal resource mobilisation is deemed important to creating fiscal space and reduce resource gap, the structure of West African economies would make this feasible only in the long-term. This therefore requires the urgent need to mobilise external resources to meet MDGs and NEPAD at least in the short and medium-term up to 2015. Clearly, the need to expand fiscal space through improved inflows of external assistance is a shared responsibility of countries in the sub-region as recipient countries and donors.

92. On the part of donors, it is important that they:

- ensure that all development assistance including ODA and debt relief that affects the development prospects of West African countries are consistent with MDGs and NEPAD. Thus, aid flows should as much as possible be tied to the MDGs and NEPAD – the two major development initiatives. Furthermore, donors should also ensure harmonisation of their effort to avoid duplication of projects in the same sector with the same objectives;
- facilitate recipient country ownership of programmes and projects generated out of the external resource flows. In other words, it is important that donors support recipient countries ownership by allowing them to exercise effective leadership over the design and implementation of development policies and programmes. Related to this point is the effort of donors to understand and appreciate the development needs of West African countries and for that matter align their programme assistance to the development priorities of recipient countries in the sub-region to produce a better outcome;
- make available complete and reliable information on flows of development assistance to facilitate their incorporation into the budget and the medium term fiscal plan of recipient countries. This would minimise the degree of volatility and unpredictability associated with external inflows and its effect on budget planning. Donor assistance should be provided primarily through direct budget support to facilitate proper coordination;
- make local capacity-building in public resource management a priority to promote effective design and execution of country assistance programmes.

93. On the other hand, West African countries, which are recipients of external inflows, should devote much effort in:

- fighting corruption and ensuring transparency and accountability in the management of public resources to ensure effective and prudent use of external assistance. In relation to this, fiscal reporting must be strengthened through appropriate budgetary classification systems and computerisation to promote transparency and accountability;
- investing in training of local public resource managers to strengthen local capacity to monitor and manage development funds;
- encouraging the establishment and the continuous adoption of medium term expenditure framework supported by accountable and transparent public finance systems;
- integrating external resource flows, within the budget so that they can be programmed alongside domestic resources. This would help countries in the sub-region to effectively access of the overall resource availability and allocate resources in line with policy priorities.

94. While emphasising the need external support, it is also important that governments of ECOWAS states particularly those with low tax-revenue to GDP ratio of below 20 percent step up their commitment to improving revenue mobilisation effort to hit the 20 percent mark through the following measures:

- governments should show great commitments to reducing waste in public expenditure management as a matter of priority to free up resources that can be devoted to productive

public expenditures and enhance the governments' credibility and thus its ability to borrow and attract increased external assistance;

- improve tax compliance of the public through transparent management of public funds;
- ensure the independence of the revenue authority and address the need to maintain incentives for staff within the service to raise their commitment and discouraging them from indulging in corrupt practices which could undermine revenue generation;
- broaden the tax base by reducing tax exemptions without compromising its effect on the poor and also rolling in people who have the capacity and ability to pay but are not covered due to exemptions or lack of proper records to assess their tax liability reducing tax exemptions;
- improve tax and customs administration by developing IT-related procedures and manpower upgrading with particular attention to accountability and anti-corruption measures.

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APPENDIX

Table A: Fiscal Development

Indicator	Country	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Govt. Revenue (excluding grants) a % of GDP	Benin	10.0	11.6	12.2	11.0	12.8	14.8	15.2	14.5	15.3	16.0	16.6	16.2	16.9
	Burkina Faso	13.2	14.0	12.5	11.0	10.3	10.3	11.3	11.9	13.1	13.7	11.8	11.2	11.9
	Cote d'Ivoire	24.0	22.7	22.3	16.6	18.3	20.1	19.8	19.4	18.4	16.4	16.4	17.0	17.5
	G. Bissau	19.0	14.5	9.7	10.4	12.4	12.7	12.5	15.3	15.4	11.4	16.9	15.9	15.6
	Mali	17.2	16.4	13.7	13.8	12.7	12.9	15.4	16.0	15.8	17.3	14.7	15.2	16.5
	Niger	10.2	8.1	8.9	7.3	6.0	7.2	7.8	8.4	9.1	8.8	9.3	9.6	10.6
	Senegal	16.7	18.9	17.7	16.6	14.9	16.4	16.6	16.9	16.8	17.3	18.1	17.8	18.9
	Togo	22.5	17.3	17.2	10.9	12.2	14.9	14.9	17.4	16.1	14.4	13.3	13.8	14.6
	Gambia	18.5	33.9	31.4	23.0	20.9	18.5	18.8	19.1	18.8	17.9	18.5	16.2	16.9
	Ghana	11.8	13.7	11.1	19.2	18.7	20.4	17.6	17.3	18.3	16.4	17.7	18.1	18.0
	Guinea	12.6	14.0	13.8	11.2	10.2	11.0	10.3	11.5	11.2	10.8	10.9	11.3	12.0
	Nigeria	20.4	17.0	13.6	25.5	18.5	22.6	19.7	20.0	16.2	29.3	45.4	48.7	40.2
	Sierra Leone	6.6	11.9	12.0	13.9	11.8	8.9	9.8	5.4	7.1	5.1	10.2	11.4	11.9
Cape Verde	---	---	---	23.5	23.4	23.9	20.7	24.3	22.4	26.4	20.8	20.6	22.5	
Indirect Taxes as a % of Total Revenue	Benin	---	---	---	72.0	55.6	54.3	56.0	63.8	63.1	64.4	67.2	65.5	64.8
	Burkina Faso	---	---	---	51.2	71.2	66.8	65.6	67.4	69.7	68.3	61.9	66.2	66.5
	Cote d'Ivoire	---	---	---	64.6	65.2	63.0	64.0	60.9	58.6	65.0	60.3	63.0	63.5
	G. Bissau	---	---	---	41.3	48.5	46.8	47.0	43.8	53.0	24.1	49.8	50.9	46.6
	Mali	---	---	---	66.9	68.0	64.6	65.3	66.9	74.7	74.1	78.1	74.3	71.3
	Niger	---	---	---	56.1	59.1	60.9	61.4	64.9	64.9	67.8	66.7	68.0	67.8
	Senegal	---	---	---	73.0	67.8	68.3	72.1	71.0	72.1	75.7	72.7	74.0	73.2
	Togo	---	---	---	49.8	50.4	50.0	57.2	53.4	63.3	65.7	67.0	65.8	64.5
	Gambia	---	---	---	74.0	70.7	70.6	71.2	68.3	68.1	65.1	64.9	60.9	60.1
	Ghana	---	---	---	53.7	68.7	54.5	63.9	59.9	62.2	63.5	62.5	64.2	65.4
	Guinea	---	---	---	86.2	84.1	84.6	82.6	83.5	83.7	82.5	81.2	78.9	78.2
	Nigeria	---	---	---	---	---	---	---	17.0	30.0	16.6	10.2	13.7	14.2
	Sierra Leone	---	---	---	69.0	70.7	76.9	78.4	73.2	76.8	91.3	73.8	85.0	85.6
Cape Verde	---	---	---	47.3	45.9	46.6	51.8	40.4	46.6	38.5	59.3	53.2	51.7	
Direct Taxes as a % of Total Revenue	Benin	22.0	19.4	21.4	29.6	30.9	28.5	26.9	23.5	23.6	21.1	20.7	22.5	24.0
	Burkina Faso	7.2	7.8	9.2	18.9	18.7	23.4	24.7	21.9	20.2	22.7	28.0	24.6	23.8
	Cote d'Ivoire	16.4	---	---	19.4	14.9	18.3	20.5	22.9	23.6	25.3	27.1	24.4	23.3
	G. Bissau	---	---	---	7.2	6.7	7.9	7.8	8.3	15.2	5.7	4.0	7.8	9.0
	Mali	---	---	---	13.1	15.2	18.4	18.5	18.0	21.0	16.0	17.2	21.9	19.9
	Niger	---	---	---	33.7	30.0	30.5	25.4	21.1	21.8	24.0	20.0	23.0	22.1
	Senegal	---	---	---	23.4	21.1	21.9	21.6	21.8	23.3	21.2	22.9	21.7	21.4
	Togo	9.2	7.3	---	30.9	40.1	41.4	30.5	22.6	22.3	25.6	23.1	19.1	21.3
	Gambia	12.8	---	---	16.2	17.7	19.4	19.9	21.1	22.3	23.0	22.5	25.3	26.5
	Ghana	---	---	---	14.8	17.5	17.4	21.7	24.8	24.0	27.3	29.3	30.8	31.7
	Guinea	---	---	---	6.9	8.8	9.1	10.9	9.7	9.7	11.2	9.8	11.6	12.4
	Nigeria	---	---	---	---	---	---	---	10.0	23.9	15.6	22.5	24.2	23.5
	Sierra Leone	31.4	30.2	33.9	21.7	21.4	15.9	17.0	13.2	17.9	35.7	29.3	32.0	32.2
Cape Verde	---	---	---	22.2	25.1	24.4	29.4	24.8	25.7	24.6	29.5	36.2	37.4	

Non-Tax Revenue (excluding grants) as a % of Total Revenue	Benin	20.0	22.6	17.1	18.1	13.7	17.6	17.0	12.7	13.4	14.5	12.1	12.1	11.2
	Burkina Faso	18.3	22.9	20.6	26.8	8.3	8.4	6.9	7.7	7.2	6.7	7.5	6.4	7.1
	Cote d'Ivoire	9.4	7.9	9.0	16.0	19.9	21.8	18.8	19.5	21.4	12.8	14.4	13.8	16.5
	G. Bissau	57.7	54.8	59.1	65.6	50.6	98.5	53.7	85.8	90.9	75.9	94.8	77.2	52.9
	Mali	13.8	8.2	7.9	20.1	15.4	16.2	16.1	14.5	4.3	9.9	4.8	3.8	8.8
	Niger	17.4	13.2	12.7	47.8	46.3	30.1	41.2	34.0	37.1	19.2	24.9	24.0	21.8
	Senegal	15.8	19.9	15.6	3.6	11.2	9.8	6.3	7.2	4.6	3.1	4.4	4.3	5.3
	Togo	18.0	12.7	25.4	17.4	8.3	7.7	11.0	8.4	9.1	8.5	9.9	15.1	14.2
	Gambia	6.4	0.0	0.0	18.6	16.4	9.8	8.9	10.6	9.7	12.0	12.6	13.7	13.4
	Ghana	8.3	9.9	9.6	31.5	13.8	28.2	14.4	15.2	13.8	9.2	8.2	5.0	2.9
	Guinea	6.1	20.0	7.2	6.8	7.1	6.3	6.5	6.8	6.6	6.3	9.0	9.4	9.3
	Nigeria	---	---	---	---	---	---	---	73.0	46.1	67.8	66.3	58.4	62.2
Sierra Leone	4.6	3.9	2.8	9.3	7.9	7.2	21.9	23.9	39.0	78.3	75.1	38.9	64.6	
Tax Revenue from International Trade as a % of Total Revenue	Benin	---	---	---	50.8	39.6	40.6	40.9	45.5	43.3	45.5	47.6	47.4	45.8
	Burkina Faso	---	---	---	36.4	54.0	48.4	28.2	27.6	25.7	23.4	17.4	17.2	16.3
	Cote d'Ivoire	---	---	---	26.3	39.0	38.9	39.6	36.5	34.4	38.4	31.6	33.9	36.4
	G. Bissau	---	---	---	11.8	12.7	19.5	14.1	36.7	34.8	44.3	26.6	33.6	40.7
	Mali	---	---	---	45.3	44.4	46.1	45.8	48.7	52.9	49.3	51.1	48.3	44.9
	Niger	---	---	---	41.3	41.5	43.2	46.7	47.7	50.9	46.8	49.3	48.6	48.5
	Senegal	---	---	---	27.6	26.3	26.5	29.4	25.2	24.1	21.0	12.9	17.8	17.6
	Togo	---	---	---	35.3	40.8	37.4	40.7	37.4	42.6	41.9	42.5	44.2	41.9
	Gambia	---	---	---	44.3	37.6	49.4	61.8	0.0	0.0	56.3	57.6	53.5	49.7
	Ghana	---	---	---	16.3	28.2	22.7	27.3	25.8	27.5	23.3	20.5	22.7	22.7
	Guinea	---	---	---	14.6	15.7	14.4	14.1	15.5	14.5	15.6	20.0	17.0	18.2
	Nigeria	---	---	---	---	---	---	---	11.6	14.0	9.3	5.9	8.4	9.3
Sierra Leone	---	---	---	39.2	38.1	45.7	48.7	39.4	54.7	66.0	54.0	55.4	50.7	
Cape Verde	---	---	---	41.2	40.5	41.6	45.7	36.2	41.1	34.7	47.9	45.8	43.3	

Source: World Bank African Data Base, World Bank, 2004, IMF, 2004, UEMOA, 2004

Table B: External Developments

Indicator	Country	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Official Development Assistance (US\$ Million)	Benin	268	266	270	288	256	280	288	221	205	211	239	273	220
	Burkina Faso	331	420	434	467	434	491	420	368	400	398	336	389	473
	Cote d'Ivoire	688	631	757	764	1594	1213	965	446	967	448	352	187	1069
	G. Bissau	129	115	107	94	175	119	181	124	96	52	80	59	59
	Mali	482	452	432	363	441	541	491	429	347	354	360	350	472
	Niger	396	373	365	344	377	274	255	333	292	187	211	249	298
	Senegal	818	635	670	500	640	666	580	423	501	535	423	419	449
	Togo	260	200	223	97	125	192	157	125	128	71	70	47	51
	Gambia	99	101	111	85	70	47	37	39	39	34	49	51	61
	Ghana	563	881	615	624	548	651	651	494	702	609	609	652	653
	Guinea	293	379	448	408	359	417	299	381	359	238	153	272	250
	Nigeria	258	262	262	290	190	212	190	200	204	152	185	185	314
	Sierra Leone	61	104	133	208	276	206	184	119	106	74	182	334	353
Cape Verde	108	105	119	117	122	117	117	111	130	137	94	76	---	
Liberia	114	158	120	123	64	124	173	76	72	94	68	37	52	
Official Development Assistance per capita (US\$/capita)	Benin	57	55	54	56	48	51	51	38	35	35	38	43	34
	Burkina Faso	37	46	47	49	44	49	41	35	37	36	30	34	40
	Cote d'Ivoire	58	52	60	59	118	87	67	30	64	29	22	10	65
	G. Bissau	127	109	99	84	151	100	148	99	74	39	59	42	41
	Mali	57	52	48	40	47	56	50	43	34	33	33	32	42
	Niger	52	47	45	41	43	30	27	34	29	18	20	23	26
	Senegal	111	84	87	63	79	80	68	48	56	58	45	43	46
	Togo	75	57	62	26	33	50	40	31	30	16	15	9	11
	Gambia	107	104	110	81	65	42	32	33	32	26	37	40	44
	Ghana	37	56	38	38	32	37	36	27	37	32	31	33	32
	Guinea	51	64	74	65	56	63	44	55	51	33	21	37	32
	Nigeria	3	3	3	3	2	2	2	2	2	1	1	1	2
	Sierra Leone	15	25	32	48	63	46	40	25	22	15	36	67	68
Cape Verde	316	301	335	323	326	307	298	277	316	323	216	173	201	
Liberia	47	63	47	47	24	45	62	26	24	31	22	12	16	

Net inflows of Foreign Direct Investment (FDI) Millions of US\$ Current prices	Benin	---	---	---	-7	8	4	-6	19	18	77	75	36	41
	Burkina Faso	---	---	---	9	25	14	14	8	1	9	24	12	11
	Cote d'Ivoire	---	---	---	24	-25	234	269	415	383	324	235	271	216
	G. Bissau	---	---	---	---	---	---	---	---	---	---	---	---	---
	Mali	---	---	---	-7	38	30	60	-14	-50	24	18	21	---
	Niger	---	---	---	0	0	0	0	0	0	2	18	30	4
	Senegal	---	---	---	-48	50	35	5	115	75	142	62	39	59
	Togo	---	---	---	2	6	5	24	19	1	---	---	---	---
	Gambia	---	---	---	9	6	7	9	9	12	7	2	5	7
	Ghana	---	---	---	106	128	83	70	36	45	63	65	88	50
	Guinea	---	---	---	6	11	25	17	45	49	34	-47	-58	31
	Nigeria	---	---	---	581	588	677	760	1539	1220	1473	1502	1796	1950
	Sierra Leone	---	---	---	18	17	-5	0	0	4	2	2	2	4
	Cape Verde	---	---	---	3	2	26	28	12	9	67	34	34	32
Liberia	---	---	---	---	---	---	---	---	---	---	---	---	---	
Net Aid from all Donors as share of recipient GDP	Benin	---	---	---	13.7	17.1	14.0	13.1	10.2	8.8	8.8	10.6	11.5	8.2
	Burkina Faso	---	---	---	19.9	22.0	19.9	15.1	14.1	14.3	14.2	12.9	14.1	15.1
	Cote d'Ivoire	---	---	---	6.9	19.2	11.0	7.9	3.8	7.6	3.6	3.3	1.6	9.1
	G. Bissau	---	---	---	39.9	74.2	46.7	66.8	46.3	46.6	23.4	37.3	29.7	29.2
	Mali	---	---	---	13.6	25.0	22.0	18.8	17.3	13.4	13.8	14.7	13.4	15.3
	Niger	---	---	---	21.4	24.1	14.6	12.8	18.0	14.0	9.3	11.7	13.2	13.7
	Senegal	---	---	---	9.2	17.6	14.9	12.5	9.7	10.8	11.3	9.7	8.9	8.9
	Togo	---	---	---	7.8	12.8	14.7	10.7	8.3	9.1	5.0	5.7	3.5	3.7
	Gambia	---	---	---	23.2	19.2	12.2	9.5	9.5	9.3	7.8	11.7	13.7	17.0
	Ghana	---	---	---	10.5	10.1	10.1	9.4	7.2	9.4	7.9	12.1	12.3	10.6
	Guinea	---	---	---	12.5	10.5	11.3	7.7	10.1	10.0	6.9	4.9	9.2	7.8
	Nigeria	---	---	---	1.4	0.8	0.8	0.5	0.6	0.6	0.4	0.4	0.4	0.7
	Sierra Leone	---	---	---	27.0	27.7	22.2	19.6	14.0	15.8	11.0	28.7	46.1	45.1
	Cape Verde	---	---	---	32.3	29.6	23.9	23.2	22.0	24.1	23.4	17.7	13.5	14.3

Source: World Bank African Data Base, World Bank, 2004, IMF, 2004, UEMOA, 2004

Table C: External Debt

Country	External Debt Outstanding			External Debt Service			External Debt Outstanding as a % of GDP			Debt Service as % of Export		
	2002	2003	2004	2002	2003	2004	2002	2003	2004	2002	2003	2004
Benin	1355	1437	1864	51.9	50.3	31.3	48.1	40.3	44.8	8.3	6.5	3.2
Burkina Faso	1397	1654	1954	58.3	65.2	83.2	43.0	39.0	37.9	20.0	17.1	15.7
Cote d'Ivoire	8853	10077	11128	1070.1	974.2	1059.9	75.5	71.6	68.9	18.6	15.3	13.6
G. Bissau	774	947	960	50.8	77.1	63.6	378.9	396.0	337.2	36.0	41.4	36.1
Mali	2513	2839	3318	79.4	87.2	108.7	76.4	66.9	67.6	8.8	9.1	9.0
Niger	1586	1687	1810	89.3	95.0	59.3	77.7	69.8	63.0	29.3	23.5	12.5
Senegal	3278	3815	3606	167.2	192.1	325.0	65.6	59.4	46.6	11.0	10.4	15.0
Togo	1281	1426	1614	70.4	96.0	97.3	88.5	84.0	78.3	13.0	11.1	9.5
Gambia	573	509	612	10.2	8.5	7.0	154.9	144.6	155.0	11.9	9.8	8.1
Ghana	6908	7347	5407	415.3	372.5	381.2	112.3	96.4	62.5	7.8	6.3	5.1
Guinea	1573	1997	2298	130.9	167.0	193.8	49.0	55.0	65.0	18.7	21.5	21.5
Nigeria	31019	32813	42436	1215.3	1371.0	1341.7	67.3	57.0	60.0	6.4	5.2	4.2
Sierra Leone	131	138	144	4.7	6.0	10.0	14.0	14.0	14.0	7.8	7.4	7.4
Cape Verde	321	414	467	6.0	6.9	8.1	50.2	49.8	49.1	17.0	18.4	19.9
ECOWAS	64525	70331	81128	3419.7	3569.0	3770.2	73.5	64.8	62.8	11.1	8.9	7.9

Source: UEMOA Commission, 2004; IMF 2004; ECOWIN; MINEFI