UNIVERSITY OF GHANA BUSINESS SCHOOL (UGBS) PUBLIC LECTURE

(Under the Auspices of the Office of the Vice Chancellor)

RE-THINKING DEVELOPMENT FINANCING: MACROECONOMIC MANAGEMENT WHEN THE LOVE IS GONE

BY

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ACCRA, GHANA

SEPTEMBER 2, 2021

Introductory Remarks

Madam Ag. Vice Chancellor and Chairperson, Prof. Nana Aba Appiah Amfo
Governor of the Bank of Ghana, Dr. Ernest Addison
Faculty Members of the Business School and the University Community
Management and Colleagues of the Bank of Ghana
Invited Guests
Students
The Media
Distinguished Ladies and Gentlemen.

1. Permit me to thank the University of Ghana Business School and the organizers of this Public Lecture for this opportunity to speak on such an important subject of national interest. Let me also thank the Ag. Vice Chancellor for agreeing to sit in the Chair for this lecture. I am really grateful. I would also want to thank the Bank of Ghana, in particular, the Governor, for his blessings and continued support.

2. Before I get into the topic, I would like to also express my sincere gratitude to the Dean of the University of Ghana Business School, Prof. Justice Bawole, and in particular, Prof. Joshua Abor, for encouraging me to take up the appointment as the **Corporate Executive in Residence** (CEIR) for the past one year. It has indeed been a very fruitful year despite the challenges that came with the COVID-19 pandemic. While I did not get the opportunity to be physically present in residence due to the COVID protocols, I must say that the online lectures and virtual interactions I have had with both graduate and undergraduate students have been very engaging and rewarding. Sharing my experiences as a policy practitioner and interacting with the students, I believe it has been mutually beneficial. And, for this, I am truly grateful. All too soon, my tenure as CEIR has come to an end.

3. **Madam Chairperson**, when I was approached by the Business School to deliver this Public Lecture as part of my CEIR program, I kept thinking about an appropriate topic that will best suit our present circumstances as a country, especially regarding macroeconomic management and the challenges in dealing with one of the most difficult pandemics of our time—the COVID-19 pandemic. I also kept thinking of our economic management history from the Economic Recovery Program in the early 1980s, the Structural Adjustment Program, the numerous IMF stabilization programs that the country has gone through (totaling about 10 in all as at end 2019), the changing structure in the mode of our fiscal budget financing over the years which has shifted from the use of Aid and Grants (and here I am reminiscing the times of the Consultative Group meetings) to having access to borrow from the International Capital Markets.

4. But having access to resources from the International Capital Markets also meant that something had changed regarding macroeconomic management and how institutional investors viewed the country. I never imagined we would get to a point where the sentiments of market players really mattered in macroeconomic management in Ghana. I quickly came to one realization—that we have evolved as far as macroeconomic management was concerned and have arrived at that point where our actions should be one that fosters confidence, which then leads to generating non-debt creating resources to support development, create jobs, and reduce poverty.

5. **Distinguished Ladies and Gentlemen**, when I was about finishing my undergraduate program in 1993, one of my lecturers referred us to an article that had just been published by the World Development Journal in 1992 with a very catchy topic on "**Aid and the Dutch Disease: Macroeconomic Management When Everybody Loves You"**. The author was one Stephen Younger. As a young student about to graduate, I found this article very intriguing and what attracted me the most was the fact that, Ghana was at the center of that thesis. In that document, it is argued that abundant foreign exchange inflows coming from donors following Ghana's successful Structural Adjustment Program (SAP) in the late 1980s—**this is when the love began**—resulted in the appreciation of the real exchange rate and adversely affected the export sector. He further argued that since the government was the usual recipient of these external financing resources, it tended to crowd out the private sector if it increased aggregate demand for goods and services. This clearly created a kind of challenge for macroeconomic management—the Dutch Disease—which needed to be addressed.

6. Ladies and Gentlemen, the question is—**what happens after this love from the donor community is gone due to changes and shifts in the economic paradigm?** To what extent can Ghana finance its development when external aid that we depended on so much for infrastructure development are no longer available? It is against this backdrop that I have chosen the topic for this public lecture:

RE-THINKING DEVELOPMENT FINANCING:--MACROECONOMIC MANAGEMENT WHEN THE LOVE IS GONE.

7. My lecture today will highlight three interrelated issues associated with macroeconomic management in Ghana over the past 38 years. I will begin by providing a historical overview of our relationship with our external partners. Here, I intend to track Ghana's macroeconomic management and performance over the years and how it helped trigger large external resource flows and explain why such flows have dwindled in recent years. In the second part, I will discuss Ghana's transition away from donor flows to domestic and other revenue sources to sustain the development efforts.

8. The third discussion area will focus on re-thinking development financing and how domestic resource mobilization can be enhanced to support the country's infrastructural development needed to push the frontiers to achieve the Ghana Beyond Aid and the Sustainable Development Goals (SDGs) agenda. I will also briefly highlight accountability of Government on effective use of taxes and the role of the private sector and foreign direct investments (FDIs) in supporting infrastructure development, before I conclude.

I. Relationship with the International Community and External Partners

9. **Madam Vice Chancellor**, as far back as my memory takes me, our relationship with the international community dates back to 1957 when Ghana gained sovereignty and joined the Bretton Woods Institutions. Real financial transactions with these institutions started in the early 1980s when a majority of Sub-Saharan African (SSA) countries faced dire economic challenges driven by high fiscal and current account deficits, rising inflation, slow growth, and weak currencies—**a typical symptom of first generation crisis**. These were caused by both domestic economic mismanagement, poor governance, and external shocks such as the fall in most agriculture and commodity prices while oil price increased sharply. These economic imbalances worsened living standards, widened the inequality gap and increased poverty levels.

10. The response of the international donor community was to increase the level of aid and other external flows into Africa, in a bid to lift the continent out of poverty. Inasmuch as these provided some support, it was evident that policy inconsistencies and domestic economic mismanagement played a much stronger role in the region's economic woes. As a result, the Bretton Woods Institutions packaged what was later termed, the **Economic Recovery Program (ERP)** and the **Structural Adjustment**

Program (SAP) to address the economic imbalances, restore macroeconomic stability, and support economic growth. These were seen as a more structured path towards poverty alleviation. Consequently, several SSA countries signed on to these programs and implemented policy and structural reforms, and in the process attracted significant external resource inflows from the donor countries and the Bretton Woods Institutions.

11. Of course, Ghana signed on to these programs and became a star performer and thus benefitted substantially from such external financing support as it demonstrated strong commitment to macroeconomic and institutional reforms, which also coincided with the wave of governance reforms across the continent. The Economic Recovery Programme (ERP) in Ghana, introduced in the mid-1980s, aimed at reversing the economic decline by adopting a market-oriented approach and reducing extensively the role of government in the economy. To a large extent, these reform policies opened up the Ghanaian economy, although the success or otherwise of some of the policies implemented during the ERP/SAP have been subjected to debates in the economic literature, and the jury is still out there. But, the silver lining in Ghana's strong attachment to the IMF/World Bank programs at the time was the level of Official Development Assistance (ODA) that poured into the economy, reflecting dividends from strong policies and good governance.

12. Technically, the Official Development Assistance was a major source of medium- to long-term concessional financing from bilateral and multilateral sources, intended to support infrastructure and human capital development, and sometimes used as balance of payments support. As the Ghanaian economy regained some level of stability, such investments in infrastructure and human capital provided incentives for private sector development, and therefore played a catalytic role in promoting private sector-led economic growth and poverty reduction. At the peak in 2004, Ghana received about 16.0 percent of GDP in ODA and most key development projects were financed by donors. In fact, donor financing was about 28.6 percent of total revenue in 2004. Those were the times where the Consultative Group Meetings and the Multi-donor Budget Support Basket were central to resource mobilization for both budget support and project financing.

13. **Madam Chairperson**, the Macroeconomic Management challenge at that time for most countries, including Ghana, was how to manage donor interests in our economies and how to guide them in terms of areas of funding. Beyond the logistics of managing donors' participation, we were also confronted with a unique kind of challenge, the Dutch Disease—not from natural resources—but from excessive ODA flows. This is what Stephen Younger described in his paper in 1992 as

"…**Macroeconomic Management When Everybody Loves You**". In fact, Ghana was the darling of donors, and the poster child for the strict adherence to conditionalities under the SAP.

14. **Madam Chairperson**, then it came to a point in 2006 where Ghana was then referred to as a "**Matured Stabilizer**" and therefore needed to graduate from such reforms. While we all touted the need to graduate, on the back of which Ghana accessed the international capital markets for the first time in 2007, much attention was not given to the shift that could come with being a matured stabilizer; the paradigm shift in macroeconomic management that will come along with it. Being a matured stabilizer and becoming a **Frontier Economy** means moving away from being fed to now finding food to feed yourself. As stated clearly in the scriptures in **Hebrews 5:13-14**, being fed with milk is for children but as you mature, you eat solid food and chew bones. Which means that as Ghana became a matured stabilizer, we needed to move from being fed with milk to starting to eat solid food and chewing bones.

15. There is a whole new challenge between drinking milk and chewing bones. And this challenge is what I am characterizing as **Macroeconomic Management when the Love is Gone**—you are no longer fed with milk but rather solid food and bones. This requires a change in mindset and attitudes on both the part of the individual and also policy makers. We cannot use the same mindset for drinking milk to chew bones. On the macro level, it requires beginning to think about two key concepts—capacity (resources) and competencies. Do we have the resources to generate solid food? And if yes, do we have the competencies to deliver it? Unfortunately, in most of our discourse, the issue of resource availability has been ignored and all focus is on delivery.

16. Focusing on both resources and competence is much in line with our President's call for a Ghana Beyond Aid agenda. This call by Mr. President is indeed timely and appropriate, within our current circumstances, and as the data suggests, either we take bold, proactive, and decisive steps to "feed ourselves with solid food and chew bones" or the changing global dynamics would take us there anyway, but this time unprepared. Macroeconomic Management when the love is gone is indeed what defines Ghana Beyond Aid. It is a call to change our mindset and attitudes as a people.

II. Macro-Economic Performance and Trends in External Financial Inflows

17. **Distinguished Ladies and Gentlemen,** prior to 1981, political instability, clash of economic ideologies, policy inconsistencies, external shocks such as the 1970s high crude oil prices and declining export prices of Ghana's major exports (cocoa and gold), internal challenges and economic mismanagement accounted for the country's dismal economic performance. Economic growth was negative in each of the years of military takeover during the 1960s and 1970s, and inflation levels were persistently high during the late 1970 and early 1980s. By 1983, Ghana was experiencing stagflation: a situation of high inflation with negative real GDP growth rate. Real GDP growth rate was negative in 1981, 1982 and 1983 and inflation was at an average all-time high of 121 percent in 1983.

18. The ERP was needed to reverse the economic decline and restore macro-stability. The Structural Adjustment Program (SAP) followed the ERP in 1986. Policy reforms implemented included macroeconomic stabilization measures comprising prudent fiscal and monetary policies; exchange rate liberalisation policies; liberalization of interest rates; restructuring of the public sector and divestiture of state-owned enterprises as well as reforms in the financial sector, dubbed the Financial Sector Adjustment Program (FINSAP). These paved the way for the concessional financing from donors and the Bretton Woods Institutions, with some conditionalities.

19. Being the first country in SSA to implement the ERP/SAP, Ghana attracted significant ODA flows and much later Foreign Direct Investments (FDIs) as the investment climate improved. The ODA inflows were historically the main source of external financing flows for Ghana, rising from US$2.9 million in 1960 to US$1.4 billion in 2004. After peaking at US$1.8 billion in 2011, it thereafter declined to the current level of US$936 million in 2019. The rising level of the ODA inflows especially during the late 1980s reflected Ghana's commitment to the policy reforms by the IMF/World Bank, which were progressively continued during the 1990s. But these flows came with a high degree of inflexibility in the use of funds—that is donors and development partners directed how these resources were used, and in most cases, their areas of priorities were not exactly aligned with the objectives and priorities of the countries involved.

20. Other phases of the reform agenda during 1990-2000 included the completion of exchange rate reforms; trade liberalization; inflation control through monetary targeting; completion of the privatization process; and promoting efficient allocation of resources for growth. Policies to accelerate real GDP growth and the creation of a stable macroeconomic environment to support private sector-led growth were also implemented. Macro-stability and economic growth was restored during that period.

21. Post-2000, economic performance improved significantly. The successful transfer of power between two civilian regimes in January 2001 was a landmark event in Ghana, with significant ‘**democratic dividends**’, translating into additional external financing support from the donor community. Ghana also obtained external debt forgiveness under the Highly Indebted Poor Country (HIPC) initiative of the IMF/World Bank during the early 2000s. These impacted positively on further ODA inflows and fiscal performance. The fiscal deficit to GDP ratio was an average 2.7 percent during 2001–2008; before rising to 5.8 percent during 2009-2016. Fiscal consolidation during 2017-2019 resulted in a decline in the deficit to 4.4 percent of GDP before COVID-19 effects pushed it to the 11.7 percent of GDP recorded in 2020. The move to inflation targeting monetary policy, introduction of universal banking, and the open licensing policy to attract international banks during the 2000s contributed to further inflation control and promoted some competition in the banking sector.

22. The strong macroeconomic performance during the 2000s saw real GDP growth rate increasing steadily from 3.7 percent in 2000 to 7.3 percent in 2008. Growth declined to 4 percent in 2009 due to the adverse impact of the global financial and economic crises. Growth however, rebounded strongly thereafter and rose to 15.0 percent in 2011, driven by the then recently discovered and production of oil in commercial quantities. These developments impacted positively on per capita GDP, which led to the reclassification of Ghana by the World Bank, from a low income country to a lower-middle income country in July 2011.

23. **Ladies and Gentlemen**, the lower-middle income country status also meant that Ghana was to be weaned off these ODA concessional financing as these were targeted at Low Income Countries (LICs), and this explains why the level of ODAs has declined since 2011. The share of net ODA to GDP has fallen from a high of 16.0 percent of GDP in 2004 to less than 2.0 percent of GDP in 2019. Similarly, the share of grants in financing the budget has also declined from 30.1 percent in 2001 to 16.6 percent in 2019. These developments have created a fiscal resource gap, and presented policy makers with a different challenge to macroeconomic management. This calls for important policy decisions if we are to bridge this gap and finance infrastructure for development, since most ODAs were targeted at financing infrastructure and human capital development.

III. Domestic Revenue Mobilization to Finance Infrastructure Development

24. **Madam Chairperson**, the importance of infrastructure and human capital development as key drivers of economic growth and transformation are well known. Accordingly, the decline in ODA flows caused these sectors to suffer as efforts made to replace these funding sources to finance these sectors were at a slow pace. In the area of human capital development, the free Senior High School (SHS) introduced by the Government in 2017 is a novel programme aimed at ensuring free access to education for all children in recognition of the role education plays in fostering long-term economic growth and development, and poverty reduction.

25. Financing of the free SHS programme has definitely come at a cost to the fiscal authorities, but we know that this initiative has immense long-term benefits. The Finance Minister, just last month, disclosed in Parliament that the nation has spent about GH¢7.6 billion on the 'Free SHS' programme, with about GH¢4.2 billion (about 55 per cent) coming directly from Government revenue, and the remaining GH¢3.4 billion (about 45 per cent), from the Annual Budget Funding Amount (ABFA) – which is the amount of petroleum revenue allocated for spending in the budget. The long term sustainability of the free SHS programme will depend largely on the country's capacity to mobilize domestic revenue to continue to support this worthy and critical initiative.

26. Economic diversification and transformation would also require significant investments in infrastructure such as energy (generation, transmission and/or distribution of electricity); transportation (roads, rails, airports, ports and harbors); telecommunications; oil and gas; as well as mining and tourism infrastructure. These will be critical to boost the much needed inclusive growth, drive development, and help alleviate poverty. Infrastructure supporting social services such as health, education and sports and cultural centres, among others also remain critical and are vital for growth and development including improving on the quality of life.

27. **Madam Chairperson**, the Ghana Beyond Aid Charter and Strategy Document estimates that Ghana's infrastructure needs are about US$7 billion annually over the next 10 years. This is the kind of investment needed to push us into that upper middle income class. But there are constraints. And I must say that these are staggering numbers which will require a new paradigm shift in the way we finance development. How do we finance these projects to ensure improvement in living standards of Ghanaians?

28. As we think of how we finance these projects, we need to be conscious of the fact that we also faced a major constraint—an optimization problem requiring us to control total public debt exposure to ensure high debt levels do not constrain growth and poverty reduction efforts. **Madam Vice Chancellor, this is where we need a reality check on what it means and what it takes to "eat solid food and chew bones**". This is where I will focus on creating the capacity for government to deliver the public goods needed for the private sector to thrive. And with capacity I mean, defining creative ways of delivering fiscal space for financing development to close the staggering infrastructure deficit. I will focus on two options available to us:

29. **Madam Chairperson**, first, is the need to enhance efficiency of public spending, expenditure rationalization, and value for money projects that will deliver projects more efficiently.

30. No matter the efforts we make towards enhancing domestic revenue mobilization, we will continue to experience chronic fiscal deficits and a growing debt burden, if we do not take steps to rationalize our expenditure levels. The high levels of government spending required to close the huge infrastructure deficit and debt are limiting fiscal room for maneuver. This therefore calls for the kind of fiscal consolidation that involves both revenue-raising measures and expenditure-rationalization policies, with the aim of reducing the overall fiscal deficit to sustainable levels and achieving structural fiscal balance over the medium term. This is achievable when governments are efficient and serve as a catalyst for private-sector-led growth and development.

31. We therefore need to identify areas where spending is either wasteful, inefficient or does not deliver value for money, with the view to curtailing or eliminating them completely. Negotiation of government projects and contracts must be effectively handled and scrutinized to ensure that losses are minimized, and facilitate value for money considerations. I think we need a change in mindset when it comes to negotiating such state projects. We must ask ourselves these key questions: to what extent does the State benefit from such projects? and what are the feasibility studies and cost-benefit considerations that go into these? Technical, operational, financial and economic feasibility must be paramount in such decisions.

32. Another reason for efficiency in public spending is the fact that the level of tax compliance depends on citizen's perception of the utilization of such taxes. Thus, their acceptance and compliance are tied to the effective use of these resources. When citizens perceive that the tax system does not inure to their benefits, they are likely to want to evade or not comply with such tax obligations. But where revenues are used to finance productive spending programs, they are more likely to accept their tax obligations. The current Government has started reforms in this area; let us all support them to institutionalize these reforms.

33. Efficiency in expenditure also requires public financial management reforms that increase the efficiency and transparency of public spending, and this can be helpful in supporting tax reform efforts.

Professionalism and morale can be compromised unless government shows real commitment to efficient utilization of state resources. Conscious efforts are therefore needed to be made to ensure that we stamp out misapplication in the management of the public purse not only through punitive action but also by implementing recovery measures to ensure that the public purse is protected. And in this regard, we should all support the recent work being done by the Auditor General and the appointment of the new Special Prosecutor.

34. **Distinguished Ladies and Gentlemen**, the second option focuses on how we generate the needed capacity (resources) to deliver on the many supporting environment infrastructure for the private sector to lead the inclusive growth and development agenda. I intend to share with you some policy measures that I believe will help us raise additional funding domestically, that will give us the needed flexibility, unlike donor funding, to support infrastructure development in this country.

35. ***Raising the tax to GDP Ratio***: Ghana's tax revenue to GDP ratio is lower than Africa's average, which is also lower compared to other regions of the world. The tax to GDP ratio for Ghana has averaged 12 percent over the past two decades, and is lower than Africa's average of about 17 percent in 2017. This also falls short of the 25 percent of GDP needed to give fiscal comfort and to finance development projects under the SDGs. This clearly highlights the inadequacy in our tax effort, calling for new measures, in particular, targeting broadening the tax base, upgrading tax policies, and revenue administration systems to mobilize more domestic revenue.

36. To broaden the tax base will call for getting more people to honor their tax obligations and minimization of tax exemptions. Business support incentives for tax compliance should be introduced to instill the discipline in all tax payers to honor their tax obligations. It beggars to believe that a country of over 30 million, and with over 16 million active MoMo users (an indication of economically active persons), there are only 2.4 million individual tax payers. Does this really show we have the capacity to deliver? It is not going to be possible to meet our developmental needs with such a tax base, especially when the love is gone and donor assistance has dried up. It is for this reason that the recently launched Revenue Assurance and Compliance Enforcement (RACE) Initiative, is envisioned as a major transformational effort by the Government to block leakages and increase domestic revenue mobilization, widen the tax net, and ensure compliance with tax obligations. If implemented effectively and enforced, it is expected to enhance domestic revenue mobilization and anchor the needed social contract between the government and the citizens.

37. Also, the recent introduction of the Ghana Card has invariably expanded the tax base, in that, we now have data on more employees and entities that fall within the taxable bracket. The onus is on the Ghana Revenue Authority (GRA) to reach out and bring all these people and establishments into the tax net. As more people and entities are enrolled to pay tax, the **per-capita tax burden** could be reduced while raising the tax to GDP ratio from a larger base. As our tax to GDP ratio increases towards the Africa average and eventually to the 25 percent, the needed fiscal space to finance our infrastructural deficit will be created. And, this is one of the most sustainable (non-debt-creating) way of financing and closing our infrastructure gap.

38. ***Efficiency in Property-related Tax Collection*:** Another area is the need to devise more efficient means of collecting property taxes on residential and commercial properties in the country. Property tax collection in Ghana is administered by local government authorities, but hampered by lack of proper records and ineffective collection efforts. However, the fast-growing real estate sector has the potential to boost domestic revenue mobilization if efficient collection means are deployed to realize maximum taxes. The appeal of property-related tax is that property is not easily hidden from tax authorities and also often has sufficient benchmarks for valuation purposes.

39. Property taxes raised in many African countries are estimated to be less than 0.5 percent of GDP compared to 3 percent in OECD countries. Mauritius has made progress in boosting revenue from property taxes, compared to most African countries. For instance in 2018, 4.9 percent of revenue in Mauritius were from property taxes, significantly higher than the African average of 1.6 percent and close to the OECD countries' average of 5.3 percent. The prominence of property taxes in Mauritius stems from the multiplicity of property taxes in line with the various phases in the value chain process, and these taxes are levied and collected at the national level. These include land registration duties; land transfer taxes; capital gains tax; taxes on the transfer of leasehold rights in state land; stamp duties; among others. We can learn from Mauritius and ensure that we reap appropriate revenue on our assets. And the recent initiatives by the government to introduce the Ghana Card, the Digital Address System, and the Digitization of the Land Registry provide the needed framework to achieve this objective.

40. ***Taxing the Informal Sector***: **Madam Chairperson**, the large informal sector of the country has hindered the optimum realization of tax collection over the years. The introduction of the Tax Identification Number (TIN) and its subsequent replacement with the Ghana Card is expected to attract a wider base of Ghanaians into the tax bracket and help widen the tax net. The replacement of TIN numbers with the Ghana Card has increased the registered TIN numbers from some 5 million to over

15 million. This should help bring in a lot more people into the tax bracket, going forward, and facilitate the raising of revenue from the large informal sector. The informal sector comprises Micro and Small Enterprises, and will require a simplified and modified tax system to bring them into the tax fold. It is for this reason that the recent announcement by the Vice President of the introduction of a **Modified Taxation Regime** is very critical, and could unlock the binding constraint to tax collection in Ghana.

41. **Madam Chairperson**, permit me to share tax reforms measures in Georgia which has helped to enhance domestic revenue significantly. Georgia introduced a simplified tax regime for Micro Small and Medium Enterprises (MSMEs) in 2010, where businesses with a certain threshold in annual revenues and with very minimum employee threshold are designated as “micro” businesses and exempted from income tax. Firms with annual revenue within a certain range are designated as “small” businesses and have the option to be taxed based on revenue instead of profits, at a rate of 3 or 5 percent. This was one of many tax reforms that had been introduced in the country. A revised tax code passed in 2004 simplified the tax system, reduced rates, and eliminated a number of “nuisance’ taxes that had been generating little revenue. A flat rate of 20 percent replaced the progressive personal income tax rate. Corporate income tax was also at a flat rate of 15 percent. The revenue lost from lower tax rates was compensated by a broader tax base, better compliance and strict enforcement. By 2008, with a streamlined tax regime, Georgia’s tax revenue to GDP ratio had doubled to 25 percent. Other reforms included modernization of registration, filing and management of payment obligations; and making enhanced audit and verification part of the tax administration process. The Georgia example is clearly how we grow the private sector, with reduced tax burden, so over time, the booming private sector can also grow government revenue.

42. Of course, tax regimes must take into account country specifics, but lessons from Georgia and other countries on how best to tax the informal sector through formalization will support our efforts in this area. Guyana, Cambodia, Liberia and Georgia are noted as having used information management systems to boost revenue mobilization by computerizing the administration of taxes and customs, automating most processes including simplified e-filing, introduction of a one-stop internet portal as well as the introduction of tax identification numbers.

43. ***Royalties from Natural Resources***: **Ladies and Gentlemen**, Ghana is a country rich in natural resources, and these royalties from natural resources constitute much of the country’s non-tax revenue. However, Ghana’s non-tax revenue from these royalties are around a mere 4 percent of GDP compared with a country such as Botswana, where non-tax revenue, mostly from diamond exploitation royalties constitute significant portions of domestic revenue. These resources are non-renewable resources, and their exploitation degrades the climate and the environment, and therefore constrains sustainable development. Efforts to ensure that we maximize revenue from these natural resources should therefore be intensified.

44. **Digitization:** Efforts at the digitization of government's revenue collection and payment systems must be intensified to ensure that revenue leakages and wastes are curtailed, and corruption in this area is eradicated or minimized. Digitization as we know facilitates the capacity to process vast amounts of data and can be leveraged upon for effective tax administration. In addition to providing tax authorities with quick access to more reliable information, it also reduces the cost of tax administration to both administrators and taxpayers by eliminating the numerous manual processes involved.

45. Tax authorities in SSA are leveraging digitization and technologies to support tax administration. The use of online e-tax portals, mobile tax payments, and online reimbursement of value added tax credits by some countries can be learnt and implemented here. Research shows that simplified e-filing of tax obligations lowers tax compliance costs, improves tax collection and reduces tax fraud. In Kenya digitization has helped reduced direct interaction between tax officers and tax payers, and thereby deterred bribery. There is however the need to effectively develop the requisite infrastructure and ensure compliance and enforcement. And here, Ghana is also leading the way. I must commend the government for the bold initiative to introduce the **Ghana.Gov project**. We are already beginning to see the transformative effect of this purely homegrown initiative.

IV. Accountability by Government on Effective Use of Taxes

46. **Distinguished Ladies and Gentlemen**, efficient resource use is as important a clarion call as domestic resource mobilization. The need for resource mobilization must always be balanced with effective utilization of those resources. As we encourage more people to pay taxes, I see the need for us to enter into a kind of a **Social Contract** or a collective responsibility program on the part of the citizens to pay their taxes; and on the part of government to effectively use the tax resources to develop the country and to provide services that create the enabling environment for private sector to drive the transformation agenda. A stronger case for all of us to ensure we meet our tax obligations.

47. Application of external borrowed resources to finance tangible infrastructure projects. Following the decline in ODAs, Ghana has in recent times relied on the international capital markets to borrow to support its debt management strategy and to close the financing gap from various budgets. It is important that such external borrowings from the international capital markets are tied to or targeted at specific infrastructure projects. Ghana has been to the Eurobond market in 2007, 2013-2016 and 2017-2021, having mobilized about US$15.5 billion over the period. The long–term nature of these borrowings and its attendant debt implications, require that they are strategically invested in infrastructural projects which will yield returns in the long run to support repayment of such loans when they fall due.

The Role of the Private Sector in Supporting Infrastructure Development

48. The need to develop the private sector anchor to drive investment in infrastructure. In financing infrastructural development, there is the need to develop the private sector anchor to drive investment. We need to consider the appropriateness of using Public-Private Partnerships (PPPs) to drive private investment into infrastructure. Recognizing the huge costs and the long payback period in most infrastructure projects, and declining fiscal space of governments, collaboration between the government and the private sector to deliver such infrastructure projects is important. And to make such projects "pay for itself", for example, tolls and rates should be inflation-linked to ensure we always have full cost recovery.

49. Africa lags behind other regions of the developing world in private sector participation in infrastructure development (World Bank, Private Participation in Infrastructure Database). Once the key question of "**Can the Project be delivered as a Public-Private Partnership**" has been answered, other key issues such as affordability; risk allocation; and the bankability of the project must all be addressed. Developing bankable projects using Project Preparation Facilities (PPFs) will also help attract the private sector into infrastructure financing. A PPF may provide both technical and/or financial support to projects such as project feasibility studies; performing social and environmental impact assessments; and developing procurement documents; among others. The role of private investment and PPPs is therefore an indispensable way to address the financing gap and improve the quality of infrastructure, if Ghana intends to close the huge infrastructure gap.

50. Ensuring Stability in the Infrastructure Investment Climate. The long-term nature of infrastructure projects also requires that the investment climate is stable, if we want to attract the private sector. Changes in policies, renegotiation and sometimes cancellation of infrastructure investment agreements could undermine investor confidence. Requisite expertise and effective coordination among stakeholders are needed to ensure certainty and constancy in such long-term agreements, to enhance investor confidence.

51. **Risk–Mitigating Mechanisms and Proper Monitoring to Ensure Project Completion** To help improve the risk profile of infrastructure investment projects, government must provide seed funds for financing, for instance, infrastructure project preparation costs, which usually ranges between 5-10 percent of the total project costs. It is also important that we effectively monitor infrastructure projects to completion. The International Growth Centre, in a study on infrastructure delivery and management quality in Ghana, cited the reasons for non-completion of a number of infrastructure projects by district assemblies as political, poor planning, and in the main, lack of proper monitoring. It is estimated that the country loses as much as US$25 million a year to uncompleted projects.

The Role of Foreign Direct Investment (FDI)

52. Another area of interest in re-thinking development financing is the attraction of Foreign Direct Investments (FDIs) in supporting infrastructure development. Net FDI inflows into Ghana shot up from US$165.9 million in 2000 to US$3.9 billion in 2019, but was almost halved in 2020 to US$1.9 billion due to COVID-19 effects. In fact FDIs have increased significantly over the years, with its share of GDP climbing up from an average of 0.2 percent during the 1980s to 2.0 percent (1990s), 4.2 percent (2000s), and to 6.5 percent during the past decade (2010-2019) (***World Bank, World Development Indicators Database***). Ghana's average share during the past decade is higher than the SSA average of 2.3 percent of GDP; and also notably above such as Nigeria (1.0 percent of GDP), Uganda (3.1 percent of GDP), Tanzania (3.1 percent of GDP) and Kenya (1.7 percent of GDP). The steady increase in Ghana reflects reforms aimed at improving the enabling environment to attract such foreign investments.

53. Notwithstanding the COVID-19 impact, which contributed to the investment decline in 2020, UNCTAD projects FDI into Africa to increase in 2021, albeit marginally. As economic recovery firms up, new opportunities emerge due to global value chain (GVC) restructuring, as well as the finalization of the African Continental Free Trade Area (AfCFTA) agreement's Sustainable Investment Protocol, FDIs into Africa is expected to pick strongly from 2022 onwards. The importance of FDIs is that it is a non-debt creating way of financing infrastructure, and so there is the need to create the right investment climate that will help attract more FDIs. Indeed there is a lot of liquidity out there and we need to provide a safe, secured, transparent, and enabling environment to attract such liquidity.

Conclusion

54. **Madam Chairperson, Faculty Members, Students, Invited Guests, Distinguished Ladies and Gentlemen,** now to conclude, this lecture has sought to lay bare the development challenges we face as a country when the external sources of financing from official and bilateral sources evaporates. How do we manage an economy when the **Love from Official and Bilateral partners is Gone**? Infrastructure remains a key development priority to Ghana's sustainable economic growth, development, and poverty reduction agenda. With the recognition that the love is gone (ODA inflows have dried up), alternative sources of financing are required to close the gap, and the most sustainable and non-debt creating way to finance development is by enhancing domestic revenue mobilization and attracting foreign direct investments (FDIs). No one will do it for us; we have to do it ourselves.

55. Mobilizing domestic revenue is the right way to go to ensure that we are able to develop the requisite infrastructure for our socio-economic development. The establishment of the Ghana Infrastructure Investment Fund (GIIF) is a unique strategy to catalyze various sources of finance. Increasing fiscal and non-fiscal domestic resources will go a long way to enable us close the infrastructure gap.

56. I believe I have been able to convince most, if not all of you, that we have a collective duty to ensure that we collaborate to support government's efforts at enhancing revenue mobilization domestically. This calls for the need for a **Social Contract with Government**—where we commit to pay our taxes and government also commits to efficiently use these resources for the provision of public goods. Measures aimed at expanding the tax nets should be embraced, while efforts such as digitalization and using electronic channels of payments should be supported. Government's responsibility in ensuring that improved infrastructural and social services are enhanced from these revenue cannot be over-emphasized.

57. I have always noted that, the challenge may be tough, but it is not impossible. We can all achieve this if we collectively put our minds and efforts together to raise domestic resources to sustainably finance and close the huge infrastructure deficit. We should keep thinking **Big, Start Small, but we should Start Now** to address these challenges.

58. Most of these proposed measures are being considered by the various government agencies and we should be seeing some changes soon. This lecture is calling for support from all of us, especially the private sector to support the effort to generate the needed capacity (which is the resource availability) to deliver on the many projects we expect government to fix.

59. Madam Chairperson, Distinguished Ladies and Gentlemen, I wish to once again express my sincere gratitude to the organizers of this public lecture, and to you all.

60. I thank you all for your attention.