



ADF Today

Ninth
African
Development
Forum

Neuvième
Forum pour le
développement
de l'Afrique



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DUARTE: FOCUS ON INSTITUTIONS FOR DEVELOPMENT

Governance and institutional reform are central to Africa's solutions to asset flight and inequality, says Cabo Verde's finance minister.

POLITICAL COMMITMENT AND STRONG INSTITUTIONS are the key to managing Africa's looming challenges of economic inequality, illicit financial flows and climate change, according to the finance minister of Cabo Verde, Cristina Duarte.

Duarte has announced her candidacy for the presidency of the African Development Bank when the institution's current head, Donald Kaberuka, steps down next year, and is keen to use her home country's experiences to promote development around the continent.

Speaking on the sidelines of the United Nations Economic Commission for Africa's African Development Forum in Marrakech, Duarte says that the solutions to problems—such as rising inequality amongst some of the continent's fast-growing economies—are well known.

"To address economic inequality is not a technical is-

sue. Everybody knows how to do it. It is more a question of political will to do it and to accept today that Africa needs to adopt cross-border good governance, accountability and transparency," she says.

"The first step is to get the basics done. Don't start reasoning on more complicated issues if you don't have the basics: macroeconomic consolidation, public cost stability, social stability. You are supposed to invest in education and in health... [Tackling] inequality is political will, it's good governance, it is commitment."

These principles of transparency and good governance are "little by little... entering into our DNA," she adds.

Cabo Verde, which is a small, island nation without many natural resources, has achieved middle income status and begun to rise up the World Bank's Doing Business rankings after a number of reforms to its regulations and

“Tackling inequality is political will, it’s good governance, it is commitment.”

business environment. Strong institutions and investments in institutional capacity have underpinned its development and laid the foundations for future growth, Duarte says. This should mean that the country can avoid the so-called “middle income trap”, where countries achieve a certain level of development but are unable to move beyond it due to a lack of differentiation or specialisation.

“The World Bank has been warning us about this middle income trap,” she says. “My response to them is very clear. One of our competitive advantages in avoiding the middle income trap is exactly what we have been doing to reach the middle income [status]. You need to be consistent from a public policy standpoint. Sometimes this is what is missing a little bit in Africa. When you believe that this is your vision, just stick to that and you will find an exit.”

The same is true of curtailing the continent’s problems

with illicit financial flows. Billions of dollars are lost annually, which Duarte also attributes to poor institutions.

“If you have a dysfunctional country: no enforcement law, no regulatory framework, you have not invested in institutions, believe me, the private sector by itself will not be the driver in terms of fighting illicit financial flows. In order to fight illicit financial flows, in my opinion, we need to build on institutions.”

This process of institutional reform and improvement will not be quick, Duarte says, but it will bear fruit in the end.

“In order to have strong institutions you have to have strong human capital. In order to have strong human capital you need to start investing, because it’s a long process,” she says. “In Cape Verde we started universal education in 1975. Cape Verde is close to the Millennium Development Goal [on primary education]. You cannot build institutions in one day.” — PG

AFRICA NEEDS TO UNDERSTAND EXCLUSION

African nations need to better understand the dynamics of social development and inclusion according to Takiwa Manu, head of social development policy at the United Nations Economic Commission on Africa. Earlier this year, UNECA launched the African Social Development Index, ASDI, which tracks indicators of exclusion and poverty, allowing the think-tank to, for example, ascribe a GDP value to hunger. “If people are not doing well, a country cannot be doing well, because people are our greatest assets,” she said. — AYK

Côte d’Ivoire looks to PPPs for development

Public-private partnerships are a pillar of the West African country’s resurgence, says President Alassane Ouattara.



CÔTE D’IVOIRE HAS SET ITSELF A TARGET OF BECOMING an emerging market in 2020, according to its president, Alassane Ouattara, who wants to drive private sector investment in the country, which is recovering from decades of political turmoil.

“This goal is within reach,” he says on the sidelines of the African Development Forum in Marrakech. “Since 2012, we have a strong growth rate of around 10 per cent.”

Improvements to the business climate, achieved by streamlining the country’s investment code and pushing through structural and sectoral reforms, led to the country being ranked by the World Bank among the top-10 global reformers in the 2014 Doing Business report.

“We have invested heavily in infrastructure, agriculture, health, energy, information technology and communication,” Ouattara says. “Our countries must encourage the financing of major projects, job providers, public-private partnerships.”

Around 60 per cent of planned investments in Côte d’Ivoire are public-private partnerships, Ouattara says, making them a key element of the country’s reconstruction and its future growth. The country’s investment-to-GDP ratio should rise from 9 per cent in 2012 to 16 per cent in 2015, he says, while incomes for farmers have risen more than 20 per cent.

Côte d’Ivoire defaulted on more than \$2 billion of bonds shortly after the 2010 elections, which descended into violence after the incumbent, Laurent Gbagbo, refused to yield power to Ouattara, who had been declared the winner. However, this year the international capital markets showed that they have new confidence in the West African country—the world’s largest cocoa exporter. In July, the country sold \$750 million worth of eurobonds in an auction that was several times oversubscribed. — JF & PG

Morocco, Egypt lead in Diaspora investments

North African countries are developing policies to increase investments from their expatriate populations.



“Even after the 25th January revolution, when most of the foreign exchange sources dropped down dramatically, remittances continued increasing.”

AFTER WORKING FOR MORE THAN 40 YEARS AS an expatriate in Addis Ababa, Mohamed Timoulali returned home to Morocco in June. Rather than retire, he launched an IT consultancy, taking advantage of decades of savings and remittances he made during his years abroad.

“While I had a good job, I was able to prepare myself to return home. During the many tears I spent outside [Morocco], I sent money home, Timoulali says. “I was able to build a house and pay for my children’s education and I have been able to invest in other sectors too. My consultancy has recruited some technicians. There are many opportunities.”

Timoulali, a former IT policy adviser, is one of a number of Moroccan expatriates who have either remitted money back home for or returned to invest in the country’s development.

More than 5 million Moroccans are estimated to be living and working overseas in Europe, mostly in North America and the Middle East. Combined, they send home more than \$6.5 billion. Anis Birou, Morocco’s minister for Moroccans living abroad and migration affairs told a side meeting at the Africa Development Forum in Marrakech that the contribution of expatriates has often been overlooked by policymakers, but the country is now instituting a number of programmes aimed at facilitating more remittances and directing them into investment.

A government fund will offer grants to back Diaspora-

backed projects up to \$625,000, while two initiatives: “Where Are You?” and “It is Your Morocco” to identify talented Moroccans overseas and encourage them to use their skills and education in research programmes back home.

The private sector has joined in the search for the Diaspora opportunity too. A local bank, Banque Populaire, now offers low cost saving accounts schemes for Moroccans in the Diaspora which have a higher yield than local accounts.

The story is similar across the region. A 2013 study jointly by the Economic Commission for Africa (ECA) and the Economic and Social Commission for Western Asia (ESCWA) found that 6 million expatriate Egyptians send home \$19 billion a year. The World Bank estimates that global remittances reached more than \$500 billion in 2014 and will hit \$700 billion by 2016.

However, so far the bulk of the remittances are channelled into consumption, health and education. Only 10 per cent of Egypt’s remittances are currently used for investment. Even so, says Mona Esam Fayed, assistant professor in economics at the University of Cairo, these flows of money have supported families throughout the country’s years of crisis.

“Besides being an important source of foreign exchange, they [remittances] constitute a big share of the income of people living in Egypt,” Fayed says. “Even after the 25th January revolution, when most of the foreign exchange sources dropped down dramatically, remittances continued increasing,” she says.

Until this year, the Egyptian government offered dollar-denominated certificates of deposit for Egyptians living abroad, offering a 4 per cent interest rate for three years, although these were discontinued during the country’s renewed unrest.

The experience of North Africa could be instructive for sub-Saharan countries that are looking to mobilise additional financial resources for investment. However, high transaction costs—estimated at more than 7 per cent—are slowing the flow. The World Bank estimates that a small reduction in transaction costs to 5 per cent could unlock up to \$16 billion for developing countries.

— BB

NUMBERS

5
million

Moroccans live overseas.

\$19
billion

Is remitted by Egyptian expats.

\$500
billion

Will be remitted globally in 2014.

Tracking Africa's stolen billions

Illicit financial flows are a major drain on Africa's resources for development. International coordination is needed to slow the flow of stolen assets.

LAST WEEK, TEODORIN NGUEMA OBIANG, THE SECOND vice president of oil-rich Equatorial Guinea, was ordered by a US court to sell \$30 million worth of property, including luxury cars, real estate and his collection of Michael Jackson memorabilia. The US believes that Obiang, the son of Equatorial Guinea's president, obtained the money through the proceeds of corruption.

The case is the first of its kind in the US and could, some observers say, mark a milestone in the fight against African capital flight and illicit financial flows, which cost the continent between \$50 and \$148 billion per year, according to the United Nations Economic Commission for Africa. The wide spread of the estimated cost of illicit financial flows is an illustration of just how difficult it is to track and identify where money escapes, but even at its lower bound, the number is the same order of magnitude as the foreign aid that flows into the continent.

The capital lost to illicit financial flows could be vitally important to development in countries that are trying to improve their mobilisation of domestic resources for investment in infrastructure and services. Slowing, stopping and reversing these illegal flows requires convincing and coordinating a complex mix of international, local and private sector actors whose interests are not always aligned.

The majority of illicit flows occur at the point of trade. Exporters under-report the value of their goods and overestimate the value of imports to avoiding paying duties; others disguise profits by using complicated webs of trust companies and service companies based in tax havens and offshore financial centres.

"Trade transactions are the area where you normally have very serious capacity problems and widespread corruption," says Charles Abugre Akelyira, a Ghanaian economist and the African regional director of the United Nations' Millennium Campaign. "As long as your customs services and the management of your customs regime is not strong or easily manipulated, it's very easy for large corporations to take advantage of."

The use of anonymous trust companies shields individuals responsible for illicit capital flows from attention or prosecution. Added to this, weak corporate governance codes have created space for transnational corporations to operate with a degree of impunity, Akelyira says.

"This laxity of corporate governance was largely created in the 1980s, 1990s structural adjustment programmes. They date back to this period where, under the weight of indebtedness, the international financial institutions basically pushed these governments to dismantle strong corporate governance regimes in the name of encouraging private sector investments and expanding the market," he says. "In that sense, governments or the elites that run the state also found a way to arrange these corporate governance structures around their petty personal advantages.

"If you want to see that's what is actually facilitating this and making it difficult to keep a handle on these illicit flows, you have to take a look at the corporate gov-



Teodorin Obiang; the City of London



"The concrete evidence of political will is proactive action from financial centres."

ernance regimes, the company codes in these countries, and their reluctance to tighten these codes in order to make clear who are behind these companies.”

The structure of many African economies, where natural resources are extracted and shipped out with minimal processing, lends itself well to systemic abuse. Resource exports happen in bulk, while the imports of equipment and services tend to be capital intensive. Added to this, Akelyira says, is the tangled relationship between power, politics and resources.

“The politics of natural resource extraction means that it is difficult for governments to take a strong hand in managing the governance of natural resource import and export transactions,” he says.

Capital that leaves the continent illegally tends to end up in the international financial system, usually in banking centres known for their secrecy. There has been, however, a recent shift towards pressuring these havens

to open up to scrutiny. The G8, G20 and Organisation of Economic Cooperation and Development have all made commitments to try to reduce the impact of illicit financial flows and tax evasion.

Akelyira is cynical as to their motives. “The Europeans and Americans, under the weight of the financial crisis, started to discover how this systematic network is creating fiscal crises in their countries, and they have started to claw back on some of these,” he says. “But they are not clawing it back globally and systematically. In order to bring discipline to corporate transactions globally, because some of them also do benefit from these flows of funds.

“It’s a very selective attempt to address the systematic nature of these largely illegal and mostly immoral ways which money is moving around the world.”

Despite high profile successes, such as the Obiang case, and the return last year of \$700 million in assets siphoned out of Nigeria to Switzerland by the Sani Abacha administration, the proceeds of illicit financial flows are hard to recover.

A report by the World Bank’s Stolen Asset Recovery (StAR) programme found that, while nearly \$1.4 billion in suspected corrupt assets were frozen in OECD countries between 2010 and 2012, less than \$150 million was returned.

Jean Pesme, StAR’s coordinator, says that while there has been a step up in attention in financial centres, meaningful action is still slow.

“You are seeing an evolution, where [enforcement] is much less patchy than it was 10 years ago,” he says. “We see a change in the approach, but again we are a long way to go before it translates to actual recovery. Although we’ve seen some change in trends and patterns, it’s still uneven, it’s still only a handful of countries.

“Some countries are very committed. Some countries are doing a lot of work, but not necessarily in a proactive way, more in a reactive way, when they are asked. They are providing assistance but they do not proactively go after corrupt assets. Some countries are less present in the discussion.”

Pesme says that there is a need for improved day-to-day coordination between financial centres and countries affected by illicit financial flows, but that sometimes unilateral action, such as that taken by the US against Obiang, is necessary.

“In criminal justice, usually you wait for the affected countries to ask you something,” he says. “But financial centres can be proactive, they don’t need to wait for the affected countries to ask them for assistance. They can open money laundering cases, they can use non-conviction based forfeiture. The concrete evidence of political will is proactive action from financial centres.” — PG

NUMBERS

\$1.8
trillion

May have been lost
between 1970-2008

\$50
billion

Is lost each year—
more than Africa
receives in aid

\$31
billion

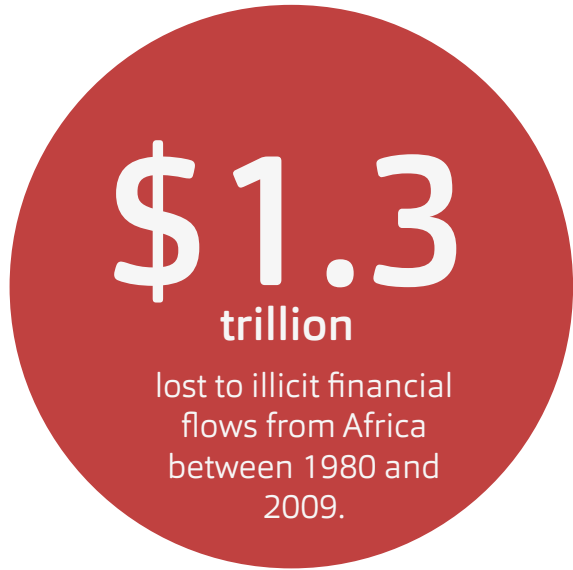
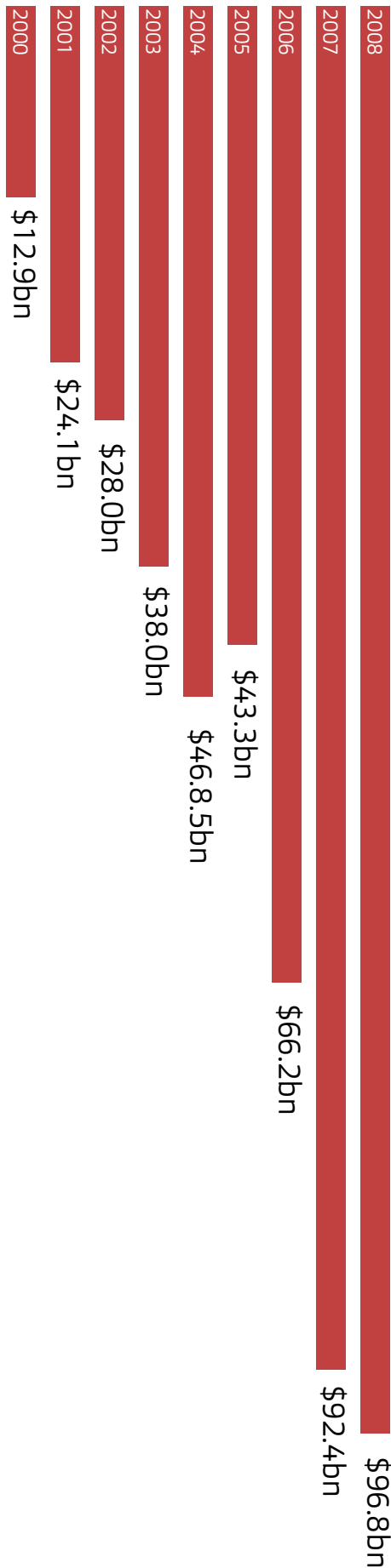
Africa’s infrastructure
financing gap



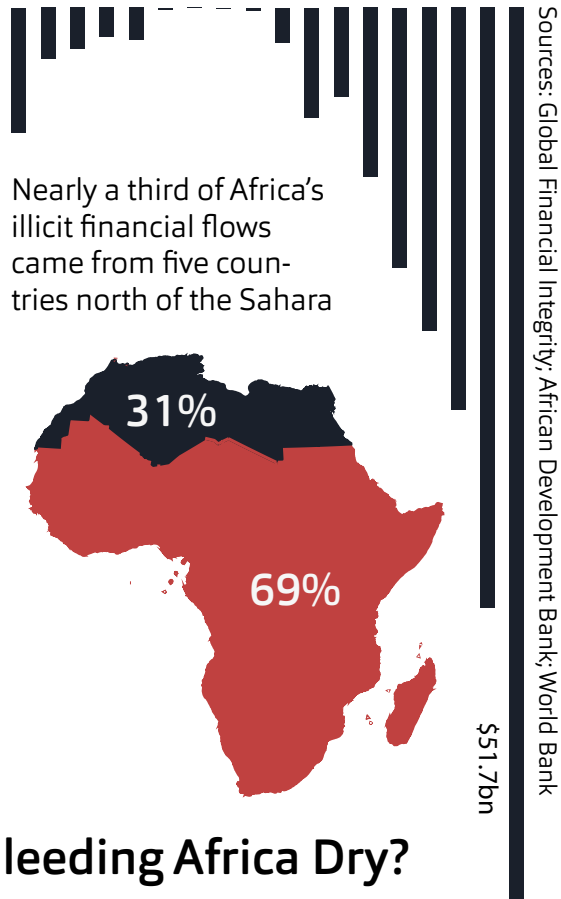
“The politics of natural resource extraction means that it is difficult for governments to take a strong hand in managing the governance of natural resource import and export transactions.”

Zurich; Sani Abacha

Illicit financial flows from Africa



Nigeria alone lost **\$188bn** between 1990 and 2008



Bleeding Africa Dry?

Despite huge improvements in governance and security since the 1980s, illicit capital flight from African countries has actually accelerated. Research shows that resource exporting nations are the worst affected.

ADF Roundup



INNOVATIVE POLICIES NEEDED FOR AFRICA

Inclusive, innovative policies are necessary to propel Africa beyond its current, resource-focused development models, according to a high level plenary panel at the African Development Forum in Marrakech yesterday. "We are talking about good growth in Africa but unfortunately we are not creating enough jobs nor have we educated more people," Juan Somavia, special adviser to the UN Secretary-General on interregional policy cooperation, said. "If our unfortunate list is big then there is something wrong with that development model."

Somavia noted that the value of capital seems to have trumped the value of people, but also that these exclusionary ideologies had been politically and ideologically weakened by the financial crisis. He emphasised that Africans will not get out any crisis with the same processes that created these multiple crises in the first place.

Carlos Lopes, the executive secretary of the United Nations Economic Commission for Africa added that there was a real need to move beyond the historical economic basis for Africa's growth, and to look deeper than GDP statistics. He highlighted that the resource industries, for example, contribute just one per cent of the continent's jobs.

DOMESTIC RESOURCE MOBILISATION

Alternative forms of financing, including crowdfunding, microfinance, climate finance and private equity could grow in Africa as governments and enterprises look for new ways to mobilise domestic resources for investment and development, a panel at the African Development Forum was told on Tuesday. However, the structure of African economies—including the large informal sector and dependence on natural resources—remains a barrier to increasing tax revenues and mobilising resources, could be a block on rapid increases in tax collection. The informal economy accounts for around 20-40 per cent of African countries' wealth, and around 70 per cent of the continent's population works in the informal sector.

A second panel looking at tax noted that one barrier to domestic resource mobilisation has been a lack of trust in political establishments. Strengthening the social charter, the panel was told, would improve willingness to pay taxes.

PRIVATE EQUITY

Sustained economic growth in Africa has created a thriving market for private equity, but there are still many challenges for the industry on the continent, a plenary session at the ADF was told yesterday. There are still relatively few established fund managers that can absorb large quantities of international capital, while institutional investors and policymakers are yet to be convinced by the asset class, panellists said. The lack of viable exit routes onto stock markets continues to concern some investors, the panel found.

Another panel during the day discussed the emerging asset class of 'impact investing', which marries venture capital and private equity with development outcomes. Africa needs investors who have a social conscience, James Brice, the CEO of Environmental Business Strategies, told the audience.

"Understanding one's impact should not be exclusive or separate to enhancing one's financial return," he said. "Looking after the environment, creating more jobs, protecting your workers, and adhering to good governance principles has demonstrated a positive upside to financial return as opposed to detracting from it."

TODAY Wednesday, 15 October 2014

10.00 am – 6.00 pm	Exhibition (Full day)
9.30 am – 11.00 am	Plenary session 4: ILLICIT FINANCIAL FLOWS Roundtable discussion on illicit financial flows: an African problem with a global solution <i>Atlas</i>
11.00 – 11.30 am	Coffee Break
10.10 – 11.30 am	Plenary session 5: NEW FORMS OF PARTNERSHIP Roundtable discussion on new forms of partnership: renewed partnerships for the development of Africa in a multipolar world <i>Atlas</i>
1.00 – 2.30 pm	Lunch Break
2.30 – 4.00 pm	Plenary session 6: ISSUES OF CLIMATE FINANCING Roundtable discussion on the issue of climate financing for Africa <i>Atlas</i>
4.00 – 4.30 pm	Coffee Break
4.30 – 6.00 pm	Parallel thematic breakout sessions
	A. Illicit financial flows and governance of natural resources <i>Orangeriaie</i>
	B. Capacity enhancement to curtail illicit financial flows <i>Oliveraie</i>
	C. Regional value chains, South-South trade, and development prospects in Africa <i>Palmeraie</i>
	D. Going beyond the donor-recipient dichotomy: what is the role of emerging actors and the African private sector? <i>Roseiraie</i>
	E. New partnerships and emerging sources of development finance <i>Atlas</i>

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