



Economic Commission for Africa
Committee of Experts
 Thirty-fourth meeting

African Union
Committee of Experts
 First meeting

**Eighth Joint Annual Meetings of the African Union
 Specialized Technical Committee on Finance, Monetary
 Affairs, Economic Planning and Integration* and the
 Economic Commission for Africa Conference of African
 Ministers of Finance, Planning and Economic Development**

Meeting of the Committee of Experts
 Addis Ababa, 25–27 March 2015

Regional Consultation towards the third international conference of Financing for Development (FfD)

Chair's Summary of Proceedings

I. Introduction

1.1 The Resolution 68/279, adopted by the General Assembly of the United Nations on June 30 2014, *“calls upon the regional commissions, with the support of regional development banks and other relevant entities, to hold regional consultations, as appropriate, the outcome of which could serve as input to the preparations for the third International Conference on Financing for Development”*. It is in this context that the United Nations Economic Commission for Africa (ECA) and the African Union Commission (AUC) organized a Regional Consultation towards the third International Conference of Financing for Development (FfD). This consultation is a pre-event to the Eighth Joint Annual Conference of Ministers of the African Union Specialized Technical Committee on Finance, Monetary Affairs, Economic Planning and Integration and Economic Commission for Africa of African Ministers of Finance, Planning and Economic Development.

1.2 The pre-event, held on March 23 and 24 2015 is foreseen as an input to the FfD process negotiations in New York. Opening remarks were delivered by Dr. Abdalla Hamdok (Deputy Executive Secretary, ECA), Dr. Anthony Maruping (Commissioner, Economic Affairs, African Union Commission) as well as H.E Dr. Abraham Tekeste (State Minister of Finance and Economic Development, Federal Democratic Republic of Ethiopia).

* The Specialized Technical Committee replaces the Conference of African Ministers of Economy and Finance (CAMEF) and the Conference of African Ministers of Integration (COMAI). The Specialized Technical Committee brings together ministers of finance, monetary affairs, economic planning and integration.

1.3 Dr. Hamdok stated that it is important to:

- Channel domestic resources into productive and welfare-enhancing growth and leverage external resources so as to initiate and drive the transformation agenda.
- Retain financial resources on the African continent, notably by curbing Illicit Financial Flows (IFF).
- Focus on domestic resource mobilization as well innovative sources such as private equity and climate finance to fund sustainable development for Africa.
- Collectively articulate Africa's priorities in FfD and make specific recommendations on the commitments by member States and partners.

1.4 Dr. Maruping stated that it is important to:

- Support the implementation of Agenda 2063 and the outcome of the Post- 2015 Development Agenda.
- Develop a structured financing mechanism for financing sustainable development.
- Prioritize an African position on FfD, based on the Common African Position (CAP) as well as Agenda 2063.
- Adopt a bottom-up approach for consultations in the region in order to promote ownership among all stakeholders.

1.5 H.E Dr. Tekeste warmly welcomed participants to the meeting and said that the Federal Democratic Republic of Ethiopia is happy to host the third international conference on FfD in July 2015. He went on to indicate that it is important to:

- Ensure responsible and quality Foreign Direct Investment (FDI), diversified trade, higher literacy rate and well-developed infrastructure as well as inclusive finance for Africa's successful structural transformation.
- Set Africa's agenda and priorities in order to find traction into the FfD process.
- Speak in one voice to advance the continent's position at the third international conference on FfD and define concrete and measurable commitments that can be effectively tracked.
- Target Official Development Assistance (ODA) where it is needed the most and to secure time-bound commitments from donors as and the use of country systems.

II. Election of Bureau

The participants elected the Bureau as follows:

Chair: H.E Dr. Abraham Tekeste, State Minister of Finance and Economic Development, Federal Democratic Republic of Ethiopia

Co-Chair: Dr. Louis Kasekende, Deputy Governor, Central Bank of Uganda

Rapporteurs: Senegal, Sudan, the Central African Republic and Republic of South Africa

III. Presentation and Discussions

A. Sustainable development financing: a global agenda

3.1 Mr. Joseph Enimyu, Member of the Intergovernmental Committee of Experts on Sustainable Development Financing (ICESDF), delivered a presentation on “an overview of the Report of the ICESDF”. He indicated that the ICESDF Report is anchored in the Rio+20 Declaration on Sustainable Development. It builds on existing frameworks, specifically Millennium Development Goals (MDGs), Monterrey Consensus, as well as the Rio+20 sustainable development outcomes, which all emphasize national ownership. Mr. Enimyu explained that the report makes key proposals, which may inform Africa’s common position on FfD. In this regard, he emphasized that there is need to critically examine available financing sources. He also called for the active involvement of the private sector to promote sustainability.

3.2 Mr. Enimyu noted that African countries have to explore various policy options to support FfD, which includes equitable representation of African countries in negotiations, regional and international cooperation in tax administration, curbing IFF, sovereign debt management as well as monitoring and generating data.

3.3 Ms. Shari Spiegel, Chief, Policy Development and Analysis Branch, FfD Office, United Nations Department for Economic and Social Affairs (UN - DESA) delivered a presentation on “financing for sustainable development”. She informed the audience about the roadmap for the Addis Ababa third international conference for FfD and she indicated that the two remaining drafting sessions will be in April and June 2015.

3.4 Ms. Spiegel explained that the third international conference on FfD should arrive at a holistic financing framework for sustainable development, building on Monterrey Consensus and Doha Declaration. She also emphasized the need to have concrete deliverables. In addition, Ms. Spiegel explained that a robust follow-up process will also be required. Such a process includes that no country is left behind; there is strong regional involvement (e.g. platforms for peer learning); and an enhanced engagement with stakeholders. She also indicated that data and statistics are essential for effective Monitoring and Evaluation (M&E).

Discussions

3.5 The main points discussed were as follows:

- i. *Financing for development and financing for sustainable development*: There needs to be a distinction between financing for development and financing for sustainable development in the African context. In this regard, it is important to find the appropriate balance between sources of financing, as per the Monterrey Consensus, and Sustainable Development Goals (SDGs)-related processes and outcomes. Therefore, the Common But Differentiated Responsibilities (CBDR) should be one of the guiding principles for financing SDGs.
- ii. *Policy coordination*: In order to have effective FfD, there is need for policy coordination and ownership of development priorities by Governments and other stakeholders, such as the private sector and Civil Society Organizations (CSOs). Furthermore, policy coordination among development partners also needs to be consistent with Africa's policy priorities.
- iii. *ODA*: CBDR should be one of the guiding principles for negotiations. Moreover, flexibility in granting concessional financing for graduating countries is required.
- iv. *Sovereign debt management and restructuring*: New forms of Debt Sustainability Analysis (DSA) should be defined for African countries, especially for frontier countries. Moreover, African countries, especially those that graduate need to develop efficient mechanisms for managing their sovereign debt.
- v. *Capacity building and human development*: There is need for intensified financing in higher education, health, innovation and technology. In this regard, capacity building may be implemented through skills development, learning forums and exchange of experience among countries. For inclusive growth, investment in skills development as well as entrepreneurship for the youth is required.
- vi. *Role of regional and multilateral development banks*: National, regional and global development banks should intensify financing efforts in infrastructure development as well as emergency (humanitarian) interventions, such as the recent Ebola pandemic. Development banks should also support African countries in their efforts to address market failures as well as prevent future economic and financial crises, by setting up counter-cyclical financing mechanisms. Moreover, development banks should play a catalytic role in providing Lines of Credit (LoC) to support Small and Medium Enterprises (SMEs) in high-productivity sectors.

B. Africa's progress since Monterrey and financing the Post-2015 development agenda

3.6 Mr. Adam Elhiraika, Director, Macroeconomic Policy Division, ECA, delivered a presentation on "Africa's progress since Monterrey and financing the post-2015 development agenda". He indicated that to finance its development priorities, Africa has developed a financing framework that articulates key financing elements that are captured in Agenda 2063 and the CAP. Both these strategic frameworks prioritized Domestic Resource Mobilization (DRM) and trade as main sources of financing for structural transformation and sustainable development in Africa. Furthermore, these frameworks recognize the need for international public finance to leverage the capacity of African countries to mobilize and utilize domestic resources.

3.7 Mr. Elhiraika also highlighted the reasons why the outcomes of the intergovernmental negotiations on FfD are important for Africa. In this regard, he mentioned that the negotiations inform the means of implementation of the SDGs. He went on to emphasize that Africa has a huge potential to raise more domestic resources through taxation; public financial management; fighting IFF from Africa; developing financial systems; strengthening Private-Public Partnerships (PPPs); broadening the mandate of Central Banks; regionalization of African stock markets; building foreign reserves and using innovative sources of finance.

Discussions

3.8 The main points discussed were as follows:

- i. *International public finance*: There are limits to the levels of domestic resources that can be mobilized by the African continent given informality, poverty, unemployment, lack of diversity and dependence on subsistence agriculture. In this regard, there is need for development partners to respect their financial pledges in a timely manner, since the continent does not have the capacity to fully meet its financing requirements. It was highlighted that external resources should be allocated to Africa's priority sectors such as infrastructure and agriculture.
- ii. *Regional initiatives*: There is need to finance regional initiatives such as the New Economic Partnership for Development in Africa (NEPAD) and Agenda 2063, given the low share of domestic savings to GDP.
- iii. *Debt*: It is critical to allocate African countries' debt to productive investment, including infrastructure. Furthermore, within the multilateral debt re-structuring framework, Africa's voice should be taken into consideration. In addition, existing debt ratios should not be the criterion to be eligible for debt relief.
- iv. *Transparency and accountability*: A shared common responsibility is important among African countries and development partners. It is important to ensure an efficient use of public resources by establishing adequate governance institutions are in place. In addition, through accountability illicit capital outflows from Africa can be reduced and retained for productive investment.

C. Africa's priorities in Financing for Development

Mobilization and use of domestic resources

3.9 Mr. Logan Wort, Executive Secretary of African Tax Administration Forum (ATAF) and moderator of the session, outlined options for mobilizing domestic resources. First, he talked about the importance of strengthening Public Financial Management whilst introducing different funding options (such as sovereign funds). Second, he indicated that it is important to improve tax policy and framework by the digitalization of transactions, which however can also bring challenges in terms of financial leakages. Third, Mr. Wort explained that African countries should improve capacity for tax collection and administration. Lastly, he indicated that African countries should examine the broadening of the tax base, which could include property tax as well as addressing issues related to tax evasion, transfer mis-pricing and trade mis-invoicing.

3.10 The main points discussed were as follows:

- i. *Boosting growth*: In order to mobilize resources through taxation, robust inclusive growth and structural transformation through national and regional value chains are critical.
- ii. *Tax and fiscal issues*: Domestic Resources Mobilization (DRM) for development should be enhanced by tax reforms that are fair, efficient and transparent. In this regard it is important to broaden the tax base in African countries through revision of current tax exemptions, review of tax legislations, fighting tax fraud and addressing illicit financial outflows from Africa. In addition, there is need to have a tax framework for monitoring the extractive industries to ensure the responsible use of Africa's natural resources.
- iii. *Informal sector*: In order to mobilize resources through taxation, innovative mechanisms should also be used to formalize the informal sector. In parallel, financial inclusion is important.
- iv. *Mobilization of savings and access to credit*: The Central Bank has an important role to play in unlocking idle resources and channeling them into productive investment. It is useful to deepen the financial sector by providing working capital for Small and Medium Enterprises (SMEs), which enhance incomes, notably for the youth and women.
- v. *Innovative forms of DRM*: well-regulated innovative sources of finance such as pension funds should be implemented to mobilize greater levels of domestic resources.
- vi. *Political commitment*: Political will is required with respect to tax accountability as well as in the recovery of stolen assets.
- vii. *Private sector*: Innovative policies should be defined to encourage partnerships between the public sector and domestic private sector so as to address existing development challenges (e.g. infrastructure gaps), improve allocation of private

resources towards SDGs and productive investment. In addition, there is potential to increase DRM through the effective taxation of Multinational Corporations (MNCs), especially those involved in natural resources sector.

- viii. *Capacity building*: member States' capacity to choose and implement adequate DRM strategies should be enhanced. In addition, capacity of the civil society to make their governments accountable is required.

International private financial flows

3.11 Mr. Dotun Ajayi, Regional Manager of the West Africa, African Business Roundtable, noted that public and private capital flows to Africa have been on the increase from advanced economies and new emerging partners. He indicated that there are several linkages between all instruments of international private and public financial flows. Mr. Ajayi highlighted that gaps in financing can be met by both public and private sector funds, through international capital flows. It is therefore important to examine the factors that will increase the flow of capital into Africa. He emphasized the importance for member State to address their development objectives through a right combination of international public and private finance.

3.12 The main points discussed were as follows:

- i. *Remittances*: Regulations in both source and destination countries are key to reducing the cost of remittances, transactions and also reduce the informality through which remittances are made. Monitoring and tracking of these funds should be a priority to ensure that money is used to meet development projects. Diaspora bonds should be better structured and disbursed to meet development objectives. A human rights perspective to remittances should be adopted to ensure people-centered approach that recognizes the wellbeing of vulnerable groups.
- ii. *Foreign Direct Investment (FDI)*: In order to attract greater FDI flows, effective mechanisms should be established to ensure that investment treaties are fully aligned with long-term performance and sustainable development. In addition, disputes are settled in a manner that lower the burden on host countries and preserve their national interests.
- iii. *Innovative sources of financing*: Sources of financing, including philanthropy and voluntary contributions are also important also instruments through which capital can be mobilized. Africa can also tap into the various financial sources available, such as private equity, sovereign wealth and pension funds.
- iv. *Financial and monetary systems*: National financial institutions should define capital control measures. In addition a global governance system needs to be in place that can combat IFF and enhance domestic resource mobilization. Moreover, international reserve systems should allow African countries to borrow at lower interest rates.

Climate Financing

3.13 Ms. Alice Ruheza, Technical Advisor, Global Environment Finance Unit, UNDP noted that Africa is most vulnerable to climate change, but not responsible for CO₂ emissions. She provided key elements for discussions as follows: actual accessibility to regional climate funds; project preparation; the contribution of climate finance to development outcomes; the modalities for climate finance and meeting the costs of adapting to climate change.

Discussions

3.14 The main points discussed were as follows:

- i. *United Nations Framework Convention on Climate Change (UNFCCC)*: Climate finance has its own legally binding obligations and should therefore be treated separately at the third international conference for FfD. Indeed, climate finance should be discussed at the upcoming UNFCCC.
- ii. *International public finance*: There is need for development partners to fulfill their commitments to release climate finance to African countries.
- iii. *Climate finance governance and capacity*: African countries require support so as to improve their capacity in accessing climate finance, since it is currently challenging for them to access funds due to governance issues.

Trade partnerships, technology and innovation

3.15 Mr. Stephen Karingi, Director, Regional Integration and Trade Division, ECA, introduced the topic of discussion by noting that trade is one of the main sources of development finance. He highlighted the importance of trade diversification for trade financing and noted that intra-African trade is more diversified than Africa's trade with partners outside the region. He also noted that an issue to be discussed is how multilateral trading systems such as World Trade Organization (WTO) should take into account the concerns of developing countries, and what it is that we want to see in the context of trade partnerships that will give the best results for Africa to use trade for development financing. Strategies such as sequencing have implications on the type and level of diversification of trade outcomes. Lastly, he indicated that only countries that are able to innovate can successfully move up value chains.

Discussions

3.16 The main points discussed were as follows:

- i. *Trade and development*: It was indicated that the link between trade, growth and development is not automatic. However, it was also highlighted that trade is not neutral and needs to address issues of poverty, employment and the needs of marginalized groups. In this regard, African countries should improve the quality of goods that are traded through value addition. It is also necessary to formulate relevant policies that will boost trade.

- ii. *Trade facilitation*: A stronger call is required for the implementation of the Bali package, particularly in terms of trade facilitation agreements, combined with a well-articulated roadmap.
- iii. *Regional Trade Agreements*: It is important to promote intra-Africa trade by fast-tracking regional integration efforts. There is case for Continental Free Trade Area (CFTA) to be able to enable the global trading environment.

International public finance and sovereign debt

3.17 Mr. Adam Elhiraika, Director, Macroeconomic Policy Division, ECA, highlighted that in spite of declining levels, ODA still remains an important source of financing. He noted South-South cooperation, the emerging challenges of climate financing as well as accessibility and reliability of ODA. Mr. Elhiraika also noted that external debt as a percentage of GDP has been declining in Africa as a result of GDP growth, GDP re-basing and debt relief. At the same time, sovereign debt appetite has been driven by large public investments.

3.18 The main points discussed were as follows:

- i. *Debt sustainability*: Mechanisms should be established to resolve debt issues of Least Developed Countries (LDCs), whilst working towards sovereign debt restructuring. It was also indicated that debt sustainability of Middle Income Countries should be taken into account.
- ii. *ODA and development*: ODA needs to place emphasis on country ownership, predictability and alignment with the developmental needs of the recipient country. In this regard, development effectiveness of ODA can be improved if a programmatic and/or sectoral approach is adopted. Debt relief should not be categorized as ODA.

Systemic Issues

3.19 Mr. Yao Graham, Coordinator, Third World Network – Africa, highlighted the role of International Financial Institutions (IFIs), the UN, commodity regimes, cooperation on taxation and IFF. In this context, he underlined that the international financial environment should be better structured to finance SDGs.

Discussions

3.20 The main points discussed were as follows:

- i. *Special Drawing Rights (SDR)*: It was indicated that SDR should be re-examined to serve African countries.
- ii. *International regulatory frameworks*: The policies of advanced economies and regulatory reforms of standard setting bodies (e.g. FSB and Basel Committee) should not have unintended consequences for LDCs and undue burden on banking and financial institutions in African countries.
- iii. *African representation in international fora*: African countries need to be better represented in international fora. In this regard, it would be useful if the African

Union Commission (AUC) should have a permanent secretariat to advise on the G20 process.

- iv. *Financing for marginalized groups and youth*: Building stronger bridges between development, trade and finance should be expanded to take into account financing needs of marginalized groups and the youth as well as children's survival, health and cognitive development.

Monitoring, data and follow-up

3.21 Mr. Pali Lehohla, Statistician-General of the Republic of South Africa introduced the session by highlighting three issues, which are relevant for monitoring, data and follow up. These are industrialization, the question of employment, and the importance of measurements. He underlined the importance of measurement. He noted that it must be used to promote industrialization strategy in Africa. Benefiting from demographic dividend needs must be reflecting in Africa's negotiations on the post 2015 development agenda. He also underlined the role of accountability, good governance and data for measurements in African countries.

Discussions

3.22 The following points were discussed:

- i. *Data production and consumption*: Timely, relevant and regular gathering of data is required in order to monitor and evaluate progress of SDG outcomes. In this context, there needs to be an appropriate intergovernmental follow-up process. Africa should also catch up on the "data revolution". It was indicated that African countries should elaborate statistical indicators on financial issues. It is also important to improve the availability of sufficiently disaggregated financing data, including gender-disaggregated data as well as data on other means of implementation.
- ii. *Capacity building*: National Statistical Offices (NSOs) should be strengthened to undertake quality data collection and analyses. In addition, capacity building should be enhanced and promote sharing of experience and expertise by providing adequate financial support to enable African countries to increase collection and publication of high quality data, in support of the post-2015 development agenda.
- iii. *Transparency*: Greater transparency should be achieved by publishing timely, comprehensive and forward-looking information on development activities in an independent, standardized, open and electronic format.

Interaction with civil society

3.23 Ms. Doris Mpoumou, Director of Save the Children Fund, Liaison for AU and ECA noted that Civil Society Organizations (CSOs) identify key priorities, challenges and issues for FfD from a regional perspective. She explained that they also endeavor to propose recommendations for inclusion on FfD negotiations. Further, Ms. Mpoumou added that CSOs need to collaborate with Governments to put people at the center of the post-2015

development agenda, in line with the CAP. She highlighted that marginalized groups should be included in sustainable development.

Discussions

3.24 The main points discussed were as follows :

- i. *Development finance*: Although ODA is critical, there is need for Africa to focus on broadening its tax base and increasing its domestic savings in order to better fund pro-poor strategies as well as sustainable transformation.
- ii. *Combating Illicit Financial Flows (IFF)*: African countries should address the IFF challenge with concrete measures as recommended in the Report by the High-Level Panel on IFF from Africa. For instance, MNCs should be encouraged to report their profits to ensure that host countries benefit from economic activities. In addition, African countries should assess the provision of incentives and concessions granted to MNCs. In this context, private sector participation should be assessed against its contribution to priority development areas, accountability and social responsibilities.
- iii. *Regional and International cooperation*: a regional monitoring and accountability mechanism could be established to examine key FfD-related issues. Such a mechanism could be coordinated cross-regionally and could meet on an annual basis, prior to the Conference of Ministers.

Africa's specific issues

3.25 Mr. Admasu Nebebe, Director, UN Agencies and Regional Economic Cooperation Directorate, Ministry of Finance and Economic Development, Federal Democratic Republic of Ethiopia indicated that Africa has special needs, which need to be reflected in the FfD process. In this regard, he highlighted three areas, which have a multiplier effect on other economic sectors: agricultural transformation; industrialization through agro-industries and infrastructure development.

Discussions

3.26 The main points discussed were as follows :

- i. *"Africa rising narrative"*: It is important for this narrative to be expressed cautiously not to overplay the optimism, whilst presenting it within a structural transformation agenda.
- ii. *Agriculture*: Agricultural development in Africa should be expanded and with adequate investment, agricultural productivity can be easily improved to contribute in structural transformation. In this context, it would be important for there to be linkages between agriculture and industry.
- iii. *Strengthening of SMEs*: Access to finance for SMEs will facilitate the creation of productive employment and poverty eradication.