Joint African Union Commission- Economic Commission for Africa elements paper for the regional consultation on financing for development
10 March 2015

1. Introduction

1.1 The outcomes of the Third International Conference on Financing for Development will have important implications for the implementation of the post-2015 development agenda and for Africa's development financing needs over the next decade and a half. The Conference seeks to, among other things, assess the progress made in the implementation of the Monterrey Consensus of the International Conference on Financing for Development and the Doha Declaration on Financing for Development, and to reinvigorate and strengthen the financing for development follow-up process.

1.2. The event will take place at a time when the narrative on Africa's development prospects is changing from one of unbridled pessimism to one of guarded optimism. The optimism about Africa is attributable to a sustained average growth rate of approximately

African economies remain largely agrarian and heavily dependent on natural resource and commodity exports, making them vulnerable to commodity price fluctuations.

2. Towards structural economic transformation

2.1. Considering that the benefits of growth in Africa have not trickled down to large segments of the population, that a dependence on natural resources comes with limitations, that the rates of underemployment and unemployment remain alarmingly high, and that access to quality health care and educational services remain limited, both the African Common Position on the Post-2015 Development Agenda and the African Union Agenda 2063 have identified key priority areas of action that should pave the way for inclusive and sustainable structural economic transformation.

2.2. Launched at the twenty-first ordinary session of the Assembly of the African Union, Agenda 2063 outlines Africa's development priorities over the next 50 years, and will be implemented through five 10-year plans. The Agenda is anchored on seven aspirations: a prosperous Africa based on inclusive growth and sustainable development; an integrated continent, politically united and based on the ideal of pan-Africanism and Africa's renaissance; an Africa of good governance, democracy, respect for human rights, justice and the rule of law; a peaceful and secure Africa; an Africa with a strong cultural identity, common heritage, shared values and ethics; an Africa where development is people-driven, unleashing the potential of women and young people; and Africa as a strong, united and influential global player and partner.

2.3. The aspirations and priorities of the Agenda are echoed by the African Common Position on the Post-2015 Development Agenda, the continent's blueprint for the intergovernmental negotiations on the new global agenda. The Common Position comprises 6 pillars: structural economic transformation and inclusive growth; science technology and innovation; people-centred development; environmental sustainability, natural resources management and disaster risk management; peace and security; and finance and partnerships.

2.4. Both Agenda 2063 and the Common Position advocate a robust, inclusive structural transformation that leverages the continent's natural resource endowments. Specific priorities include the transformation of the agricultural sector to make it more productive and sustainable; infrastructure development; investment in science, research, technology and innovation; investment in human capital through improved health and education service delivery; investment in the greening of Africa's economies and the enhancement of their resilience to climate change, including by leveraging the continent's vast untapped renewable-energy potential;

per cent of new labour market entrants; the output of technology-driven firms as a share of the total manufacturing output will rise above 50 per cent; and Africa will be a high-end player in global value chains.

3. Africa's priorities for structural transformation

3.1 The financial implications of Africa's transformation agenda are substantial. The infrastructure gap alone is estimated at around $100 billion per year, with climate financing accounting for additional costs. A framework has been developed to finance the continent's development priorities. The key elements of this framework are captured in both Agenda 2063 and the Common Position.

3.2 The Economic Commission for Africa has undertaken preliminary work to determine the additional financial resources that will be required to reduce poverty and inequality in Africa by half, assuming that savings, foreign direct investment and official development assistance stay at their 2014 level (ECA, 2015e). Under different scenarios, the additional financial resources required ranges from $48 billion and $246 billion per year between 2015 and 2030. The higher figure of $246 billion applies when the target is to halve poverty and inequality simultaneously, while the lower figure of $48 billion applies when the resources required are only to halve poverty by 2030, with inequality remaining constant. If remittances are successfully channeled towards investment, the additional financing resources required should be between $6.5 billion and $204.6 billion per year.

3.3. Both the Common Position and Agenda 2063 prioritize domestic resource mobilization and trade as the main source of financing for structural transformation and sustainable development in Africa, but also recognize the need for external sources of finance. In this context, the Common Position advocates collaboration between Africa and its strategic partners to address all aspects of the sustainable development challenges that Africa faces.

4. Global processes in development financing

4.3. The Consensus also paid special attention to gender-sensitive, people-centred development and issued a call to mainstream the gender perspective into development policies at all levels and in all sectors.

4.4. The Doha Declaration on Financing for Development reinforced the Monterrey Consensus by reemphasizing national ownership and the meeting of official development assistance targets; acknowledged the importance of emerging issues in development finance, such as climate change, commodity price fluctuations and the need to strengthen international cooperation on tax issues.

4.5. Although African Governments have applauded and reiterated their commitment to the principles endorsed at both the Monterrey and Doha meetings, the decade following the Monterrey meeting highlighted some fundamental gaps in development financing, particularly for African countries pursuing structural transformation. The most notable of these gaps was the need for a framework to track and monitor overall resource mobilization efforts and resource flows to target development areas, taking into account the heterogeneity of developing countries.

4.6. The Monterrey and Doha principles were developed ex post and specifically for internationally agreed development goals, with limited focus on economic growth and transformation. As a result, the principles overlooked key enablers of transformation and achievement of internationally agreed development goals, such as quality of service delivery, infrastructure, peace and security, and the efficacy of global cooperation frameworks.

4.7. In a bid to assist countries in implementing the global development agenda, the General Assembly, in its resolution 68/204, requested the President of the Assembly to convene inclusive and transparent intergovernmental consultations, with the participation of major stakeholders involved in the financing for development process. Those consultations will be held between January and June 2015 and would be co-facilitated by the Permanent Representatives of Guyana and Norway to the United Nations and would include a series of substantive informal sessions and informal interactive hearings with civil society and the business sector, and drafting sessions on the outcome document.

4.8. The outcomes of the intergovernmental negotiations on financing for development will be relevant to Africa for two reasons. First, they will inform the means of implementation of the sustainable development goals. Second, they will determine the extent to which the aspirations of Agenda 2063 and the African Common Position could be realized.

4.9. The negotiations leading up to the Third International Conference on Financing for Development have so far resulted in a number of proposals that should inform Africa's position on financing for development. These proposals include a renewed commitment by the world's rich countries to devote 0.7 per cent target of their gross national income to official development assistance; capacity-building for tax administration; combating of tax evasion, corruption and illicit financial flows, including through the automatic exchange of information; the removal of trade-distorting measures; greater market access; a fairer trading system and the conclusion of the Doha round; the preeminent role of public finance over private financing for development purposes; and the importance of improving access to transparent and gender-disaggregated data in order to support women's empowerment.

5. Domestic resource mobilization

5.1. To realize its major objective of structural transformation based on inclusive growth and sustainable development, Africa has stepped up its policy initiatives aimed at addressing the financing gap by relying more on public and private domestic resources, including the work of the Planning and Coordination Agency of the New Partnership for Africa's Development (NEPAD), the Ninth African Development Forum, the High-Level Panel on Alternative Sources of Financing, the African Union and the High-Level Panel on Illicit Financial Flows, and the recently adopted African Common Position on the Post-2015 Development Agenda.

5.2. This emerging African position moves the debate on financing the continent's development away from the narrow focus of the Monterrey Consensus on the supply of funding by linking development financing to the broader issues of structural transformation, underpinned by capable, inclusive and accountable institutions at the national, regional and global levels.

5.3. The critical importance of domestic resource mobilization has been attributable to the following reasons: (i) reliance on domestic resources reinforces a country's ownership of public policy and strengthens accountability; (ii) domestic resources can spur a more effective use of development financing; (iii) external resources are not only unpredictable and erratic, but would not be sufficient to meet Africa's development financing needs; (iv) most donor countries have failed to live up to their long-standing commitments.

5.4. Tax revenue is playing an increasingly impor incluasin toom t.9(e) $331 blici incl

Accordingly, at their caucus meeting held in March 2013, the governors encouraged central banks to work together to solve the social problems resulting from this failure, suggesting that these banks must have a role to play in the continent's development. Programmes aimed at improving access to finance, promoting financial inclusion and fostering targeted interventions in the economy must be considered.

5.16. Stock market capitalization in Africa increased from $300 billion in 1996 to $1.2 trillion in 2007, but secondary financial markets on the continent remain largely underdeveloped (NEPAD and ECA, 2014). The region's stock markets are thin and illiquid. Issues of human, technological and institutional capacity are persistent, and risk countries have restrictions on how and where funds can be invested, which ultimately limits investment returns (ECA 2014a).

Desirable actions

5.22. African Governments should:

Make additional resources available for sustainable development by reforming the tax systems, ensuring fair and equitable taxation, eliminating harmful subsidies and unproductive practices, facilitating the participation of all stakeholders, and generating new revenue from sources such as royalties, income tax, land tax and leases.

Make effective use of the resources mobilized by strengthening their institutions, improving governance, tax administration and the management of revenue from commodities and the extractive industries, discouraging tax avoidance and tax evasion, making more cost-effective expenditure, curtailing

development and natural resource endowment. The size of inflows also typically varies by economic sector, and each type of inflow has specific strengths and weaknesses; some can be easily allocated to specific developmental goals, while others cannot.

6.3. Accordingly, no single set of policy measures can be applied uniformly across countries to maximize international inflows. The effectiveness of any policy measure would depend on economic conditions in the country, the degree of readiness and the ability of individual countries to attract various types of (particularly in the case of private) international development finance. Nevertheless, recent positive trends in international resources for development suggest that these resources represent a potentially significant and viable source of development financing.

Remittances

6.4. Since 2000, remittances have surpassed foreign direct investment as the largest external source of international inflows to Africa and are the most important external source of inflows for lower-middle-income countries in Africa, increasing from $60 billion in 2012 to $62.9 billion in 2013 (ECA, 2014b). Reducing the cost of sending remittances (both within Africa and into Africa from abroad) and developing financial instruments to channel such flows into development programmes and projects would optimize their developmental impact. Remittances routed through informal channels remain unquantifiable yet could be significant. Introducing new and alternative avenues for money transfer could also enhance financial inclusion and encourage the use of formal channels, which would in turn improve the measurement and reach of remittances and the assessment of their developmental impact.

Desirable actions

6.5. African Governments should:

Make a commitment to and set targets for reducing the cost of sending remittances within Africa through measures such as technological diversification, increased competition in the remittance service market and delivery of information on available investment instruments.

Make a commitment to develop innovative ways of mobilizing remittances, including through the introduction of diaspora bonds.

Make a commitment to and set targets for improving collaboration in the collection of data on remittances, including by sharing lessons learned in enhancing the developmental impact of remittances.

6.6 The international community should:

Make commitments to support the efforts of African countries to enhance financial inclusion and develop new and alternative technologies and formal avenues for money transfer, including by having developed countries honour their pledge to reduce the global average cost of sending remittances by 5 per cent by 2015, and by developing and disseminating initiatives like the

particularly for countries most in need. Financing flows for global public goods should constitute additional official development assistance and the global goals of poverty eradication and sustainable development will need to be closely aligned with Africa's structural transformation priorities. Aid for trade has the potential to be an important source of development finance, particularly since it could help to raise funds for African countries. However, aid for trade has several limitations, including the difficulty for some African countries to obtain such aid; its unpredictability and narrow scope; the need for enhanced donor coordination and alignment with the strategies and priorities of recipient countries, and the increased focus on trade capacity-building in developing country countries.

6.14. These limitations call for reforms to aid for trade governance. For instance, the creation of a global vertical aid-for-trade fund would help to reduce the burden on recipient countries to work with multiple donors and also lead to improved accountability, monitoring and evaluation of aid for trade. Such a fund, which could be operated using a conventional classification of aid for trade and its own monitoring system, could address many of the problems associated with the current classification of aid for trade. In addition, channeling aid for trade through an existing fund, such as the Africa Trade Fund of the African Development Bank, would simplify the donor landscape.

6.15. Similarly, the climate finance architecture is too complex. Insufficient resources to meet the African and global climate challenge are spread thinly across many small funds, with overlapping remits. In addition to national capacity-related constraints, African countries also currently face a number of difficulties in accessing climate funds, some of which have cumbersome and complex access procedures. More financial resources need to be mobilized for the climate finance architecture to support climate mitigation and adaptation activities and the policy, regulatory and enabling environments to encourage large-scale investments (Overseas Development Institute (ODI), 2014).

Desirable actions

6.16. African Governments should:

Make a commitment to and set targets for enhancing public sector financial management and development planning, in order to facilitate the disbursement of aid and the implementation of developmental projects.

6.17. The international community should:

Should recommit to meeting internationally agreed targets, including the 0.7 per cent official development assistance-to-gross national income target to all developing countries, at least from OECD countries, and the target of 0.15 to 0.20 per cent to least developed countries, and establish a mechanism for monitoring the achievement of such targets.

Establish specific targets and indicators for the alignment of official development assistance with African development priorities, and in its particular structural transformation priorities, along with a mechanism to monitor aid effectiveness.

Establish a transparent system of measuring and accounting for official development assistance that prioritizes country-programmable aid and supports the efforts of countries to mobilize domestic resources.

Make a commitment to and set targets for mechanisms to monitor the impact of public funds channelled through private sector actors.

Make a commitment to and set targets for assistance to African countries to enhance their aid absorptive capacities.

Follow up on and monitor existing and future commitments concerning climate finance.

Make a commitment to and set targets for reducing current barriers and funding asymmetries in climate finance and achieving a more appropriate balance in the allocation of funding between adaptation and mitigation actions in Africa.

7. Technical cooperation

7.1. To better support Africa's developmental efforts, it is imperative that the post-2015 global partnership be consistent with the ongoing rebalancing of geopolitical and economic weights in favour of developing countrie

7.4. South-South cooperation also offers a promising platform for identifying common interests and coordinating positions on the management of global issues of common

8.3. Reaping the benefits of international knowledge transfer depends mainly on the

Provide public financial support and offer special grants, loans and guarantees for start-ups and new firms and subsidies and tax incentives for pilot projects and trials, and encourage foreign and large domestic firms to invest in laboratories, train and sponsor local students and work with national institutions to bring desired products, services and processes to market.

Harness domestic and international resources to develop domestic absorptive capacity and stimulate existing institutions to become more entrepreneurial.

Promote innovation in a number of sectors that are keys to the continent's structural transformation and sustainable development.

Seek ways of using foreign direct investment to build a sound technological and industrial base, improve standards and speed up the adoption of modern business management practices.

Fund universities, colleges and research and development institutions to serve as hubs for developing, adapting and diffusing technology in industry.

Foster innovation and capacity by adopting coherent national science, technology and innovation strategies and increasing investments in science, technology and innovation.

Provide sufficient financing for innovation, in particular for sustainable technologies.

8.6. The international community should:

Scale up official development assistance for science and innovation, in order to support research and development, technology diffusion, and national innovation funds and centres in Africa.

Build on the Istanbul Plan of Action, and make fully operational its technology building is guided by the Capacity Development Strategic Framework, adopted at the fourteenth ordinary session of the Assembly of the African Union, held in February 2010.

9.2. Globalization has provided African countries with

10.2. Africa has increased remarkably its participation in international trade in the post-Monterrey period (i.e. 2002-2012): exports and imports expanded more than fourfold over that period, increasing the continent's share of world total trade from 2.1 per cent to 3.3 per cent. [1]

10.3. Despite the sharp rise of financial inflows to the African continent (especially in terms of foreign direct investment and remittance flows), international trade continues to play a pivotal role in generating net inflows of financial resources to cover the foreign exchange gap. With the notable exception of oil exporters, however, most African countries have continued to run structural deficits in their trade balance; accordingly, even during a boom phase, capital accumulation is largely covered by external financial resources.

10.4. With a view to enhancing the contribution of trade to Africa's transformation agenda, one of the strategic priorities for the continent is to strengthen its regional integration. Though still limited to 12-13 per cent of total (officially recorded) exports, intra-African trade is considerably more diversified than Africa's exports to the rest of the world. Manufactured goods, in particular, accounted for 40 per cent of total intra-African goods traded in 2010-2012, but only 13 per cent of total goods traded with the rest of the world (ECA and AUC, 2014). Moreover, in light of cost discovery and trade standard compliance procedures, proximate markets are likely to be easier to penetrate for African small and medium-sized enterprises than standard-intensive markets in developed economies. There are hence good reasons to believe that the regional markets may offer a broader scope to support Africa's structural transformation efforts.

10.5. The establishment of the continental free trade area could result in net trade creation, with a considerable boost (+52.3 per cent) to intra-African trade (Mevel and Karingi, 2012). If the establishment of the continental free trade area was complemented based on trade facilitation measures capable of doubling the efficiency of customs procedures and port handling, not only would Africa's exports expand further, with the share of intra-African trade reaching nearly 22 per cent, but the sophistication of African exports would also be further enhanced, with a significant expansion of trade in industrial products.

10.6. Moving to the multilateral sphere, given the persisting stalemate of the Doha Development Round, the "universal, rule-based, open, non-discriminatory and equitable multilateral trading system" called for in the Monterrey consensus (paragraph 26) remains unfinished business. Notwithstanding the conclusion of the Trade Facilitation Agreement at the Ninth Ministerial Conference of the World Trade Organization, held in 2013, Africa's strategic priorities remain largely unaddressed. This is true for the negotiations on agriculture – where distortions and restrictions in international markets remain to be redressed – and on non-agricultural market access, services and the stre9rces. m was trumpeted as a response to Africa's strategic needs – remains basically a promise based on provisions that are not yet operational (as is the case with the "services waiver"), or on best-endeavour clauses (as in the cases of duty-free, quota-free market access, voluntary preferential rules of origin, and the cotton issue).

10.7. Looking ahead, since most African countries traditionally enjoy preferential market access in a number of developed and developing countries, they will inevitably have to cope with some degree of preference erosion, which could stem from completely exogenous trade liberalization processes. This is the case with "mega-regional" trade agreements, or the extension of duty-free, quota-free treatment for all least developed countries in markets where African countries benefit from a significant preference margin vis-à-vis other least developed countries (exemplified by the African Growth and Opportunity Act in the United States of America). Appropriate industrial policy frameworks can undoubtedly go a long way to support African producers, with the ensuing adjustment costs, but the international community could also facilitate this process through dedicated technical assistance and targeted aid for trade.

10.8. It is imperative for Africa to address not only the issue of preference erosion, but also those of tariff peaks and tariff escalation, which can have a significant downward impact on trade opportunities, given the typically narrow export base and limited value addition of the export basket. Over the longer term, additional "offensive interests" for Africa in multilateral trade negotiations may include the reduction and harmonization of non-tariff barriers; measures related to environmental goods; the containment and management of the volatility of commodity prices in the context of the financialization of commodity markets; and issues related to competition, oligopolistic practices and

Bring to a successful conclusion the Doha Development Round, addressing in a fair and balanced manner Africa's strategic priorities, particularly in the area of agriculture, non-agricultural market access, services and special and differential treatment.

Tackle Africa's specific concerns related to tariff peaks, tariff escalation and preference erosion.

Address other emerging strategic priorities – whether or not they are included in the Doha mandate – such as the reduction and harmonization of non-tariff barriers; measures related to environmental goods; the volatility of commodity prices; and issues related to competition, oligopolistic practices and dominant positions in global value chains.

11. External debt

11.1. A large volume of development finance, including external bo friendly might not be the best way forward. Any global agreement should therefore strike the right balance to be fair to both sides (ECA, 2015d).

11.6. Unsustainable debt levels might be an outcome of poor macroeconomic management and a feature of structural economic malfunctioning. Most African countries have benefited from instruments such as the Heavily Indebted Poor Countries Initiative and the Multilateral Debt Relief Initiative owing to the sensible policies they have adopted.

12.2. As articulated in the report of the Intergovernmental Committee of Experts on Sustainable Development Financing to the sixty-ninth session of the General Assembly, coherence, and resilience to global shocks, including strengthening the use of Special Drawing Rights in the global reserve system and allowing developing countries to use their foreign exchange surplus to finance their sustainable development strategies.

Make a commitment to and set targets for facilitating broader representation of African countries in all international dialogues and decision-making processes, particularly those underpinning the work of multilateral financial institutions, including the International Monetary Fund, and improving the framework for sovereign debt restructuring to encourage fair burden-sharing.

Make a commitment to and set targets

development goals; and follow up on the recommendations of the Third International Conference on Financing for Development.

13.6. The international community should:

Make a commitment to and set targets for capacity-building and financial support for the provisions included in technical cooperation agreements with African countries concerning the collection of high-quality, timely and reliable data.

Make a commitment to and set targets for coordinated efforts to improve the monitoring of key sustainable development goals, official development assistance flows and their impact, and financing for development flows, with data disaggregated by sector, geographic location and type.

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Annex 1

Figure 1
Tax by level of development

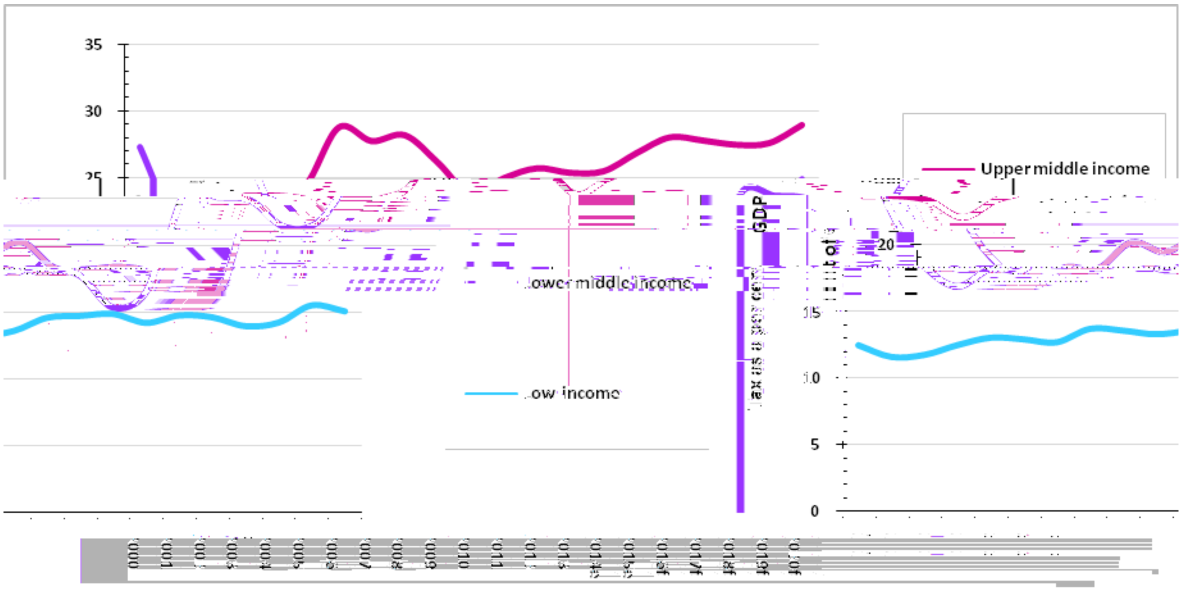

Figure 2
Domestic savings by level of development

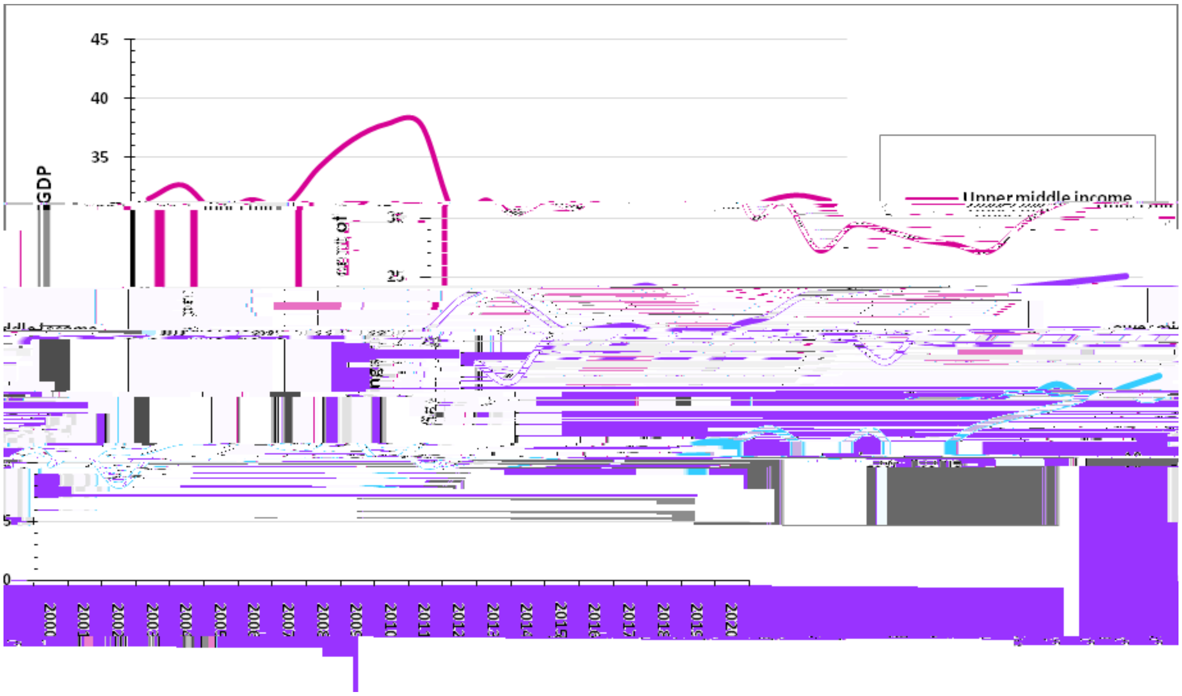

Figure 3
External debt by the level of development in Africa (N=50)