United Nations
Economic Commission for Africa

Ninth African Development Forum

"Innovative financing for Africa's transformation"

Concept note

I. Introduction and background

1. The African Development Forum is a flagship biennial event of the Economic Commission for Africa that offers a multi-stakeholder platform for debating, discussing and initiating concrete strategies for Africa's development. The Forum is convened in collaboration with the African Union Commission, the African Development Bank and other key partners to establish an African-driven development agenda that reflects consensus and leads to specific programmes for implementation. The findings of current research and opinions on key development issues will be submitted to major development stakeholders at the Forum, to enable them to devise shared goals, priorities and programmes, and determine the environment in which they will be implemented.

2. The Forum brings together a large number of participants, including Heads of State and Government, policymakers of African member States, development partners, specialized agencies of the United Nations system, intergovernmental and non-governmental organizations, academia, civil society organizations, the private sector and eminent policy and opinion leaders. The Forum will consist of plenary and high-level parallel sessions and side events featuring keynote speakers, presenters and media representatives.

3. The theme of the Ninth African Development Forum is "Innovative financing for Africa's transformation", which stems from the recognition of the role of finance in attaining the structural transformation agenda premised on African-owned and African-driven developmental initiatives. The theme is underpinned by a new wave of thinking towards the United Nations development agenda beyond 2015, and builds on the outcomes of a number of regional and international efforts such as the High-level Panel of Eminent Persons on the development agenda beyond 2015, the twenty-sixth meeting of the NEPAD Heads of State and Government Orientation Committee, which was held in January 2012 in Addis Ababa, and the Seventh Joint Annual Meetings of the Economic Commission for Africa Conference of African Ministers of Finance, Planning and Economic Development and African Union Conference of Ministers of Economy and Finance, which was held in March 2014 in Abuja.

4. The Forum will offer a platform for prominent African stakeholders to share key information and participate in focused and in-depth discussions on issues relating to innovative financing mechanisms in four thematic areas: domestic resource mobilization, illicit financial flows, private equity and new forms of partnership. The Forum is also intended to enhance Africa's capacity to develop practical options for innovative financing mechanisms, as effective alternatives for funding transformative development on the continent. The Forum will be guided by evidence-based knowledge and information on the range and scope of options for leveraging opportunities for financing the sustainable development of Africa.

5. The Forum will, therefore, tackle the issue of leveraging innovative finance sources for this economic transformation, undergirded by industrialization and inclusive growth, which will generate jobs, improve socioeconomic conditions and provide resources to fund climate change adaptation initiatives. Sharing best practices, innovative policies, operational frameworks, evidence-based knowledge and information and participatory arrangements for effectively harnessing resources will be another focus of the Forum.

6. The theme for the Forum could not have been more timely, at a time when access to financing for development remains a critical challenge. Despite the positive growth outlook, Africa still faces an annual funding deficit of $31 billion for electrical power alone, while some donor countries have been falling short of their international commitments. In 2013, for instance, aid commitments by Development Assistance Committee donor countries accounted for 0.3 per cent of their gross national income, with only Denmark, Luxembourg, Norway and Sweden continuing to

exceed the 0.7 per cent target. In the medium term, aid budgets are likely to be affected owing to fiscal consolidation in the traditional donor countries. This trend, coupled with Africa’s increasing domestic investment and funding needs, calls for a discussion on the strategic importance of financing development in Africa and the roles to be played by stakeholders.

7. Domestic resource mobilization can play a pivotal role in financing the post-2015 sustainable development agenda of eradicating extreme poverty and minimizing socioeconomic disparities and environmental damage. The agenda could be very costly and run into billions of dollars, which official development assistance or private financing alone would be unable to finance. Tackling this issue would entail enhancing domestic resource mobilization by reforming subsidies, strengthening national procurement systems, minimizing illicit financial flows, improving expenditure efficiency, broadening the tax base, improving tax administration and closing loopholes.

8. Billions of dollars escape Africa annually through illicit financial flows. The annual average loss to the continent over the past decade is estimated at $50 billion. This stifles domestic savings and investment, drains hard currency reserves, reduces tax collection and consequently undermines Africa’s structural transformation efforts. To tackle the issue of illicit financial flows and the dynamics that drive them, transparency in revenue declaration and payments from multinational corporations would have to be improved, tax haven regulations and secrecy jurisdictions tightened and efforts to curb money laundering strengthened, as a way of retrieving diverted money and spending it on poverty reduction and economic growth activities.

9. Although foreign direct investment inflows have been rising, the continent still attracts only a small share of global equity funds, which are concentrated in a few countries and sectors such as business services and information and communications technologies. African countries must develop appropriate policies to attract private equity investment, particularly in sectors identified as key growth areas. Governments can help to alleviate information asymmetries by endorsing entities and individuals for creditworthiness and providing tax concessions in the early years of investment.

10. The infrastructural and technological chasm, coupled with the continued reliance on foreign investment finance assistance, and the widening resource gap of approximately $40 billion for mainly non-oil-exporting African economies, calls for a renewed approach to development finance, underpinned by innovative forms of international partnerships. Also, major shortcomings in the current donor-recipient relationship, such as, the inability to promote mutual accountability, the failure to redress the imbalances of existing multilateral trade and financial systems and the inability of current partnerships to deal with global challenges, such as climate change and financial instability further reinforce the need to forge new forms of partnership, which would lead to innovative sources of financing.

11. As Africa’s transformative agenda and climate change are strongly interrelated, climate finance and development finance must not be separated. It has been generally agreed that global emissions will peak by 2020 and fall by 50 per cent from 1990 levels by 2050. Mitigation costs in developing countries will amount to approximately €55 billion to €80 billion from 2010 to 2020. In addition to contributions from developing countries, developed countries are expected to finance an annual adaptation cost of €10 billion to €20 billion. Africa, however, has not benefited much from existing global mitigation financing mechanisms as only 2 per cent of clean development mechanism projects have been carried out. Yet, all predictions show that climate impacts will adversely affect key economic sectors, such as agriculture, water, energy and health, even though the continent has contributed the least to global warming, with less than 4 per cent of greenhouse gas emissions. In order to tackle climate change challenges effectively, Africa must devise ways of

attracting private sector financing while also building domestic finance mechanisms to supplement external funding.

12. The Forum will therefore highlight key aspects of the following thematic discussion areas:

(a) Domestic resource mobilization;
(b) Illicit financial flows;
(c) Private equity;
(d) New forms of partnerships;
(e) Issues in climate financing.

13. The focus on these issues will help to provide a wider platform for stakeholder participation and emphasize the critical issues in each of the above areas.

14. Gender and youth empowerment will be taken into consideration as cross-cutting issues in the discussion of all the areas mentioned above.

II. Objectives of the Ninth African Development Forum

15. The overall objective of the Forum is to promote sustainable development financing and propose options for innovative financing for economic transformation in Africa. The Forum will focus on policy options and strategies for mobilizing domestic resources by strengthening new partnerships for national development.

16. The specific objectives of the Forum are to:

(a) Discuss and present recommendations on traditional and innovative strategies to broaden the national tax base and better utilize domestic streams of capital to achieve socioeconomic transformation in Africa;
(b) Suggest measures to address regulatory and institutional issues affecting the mobilization of domestic resources in Africa;
(c) Deliberate on the challenges that the mismanagement and misunderstanding of illicit financial flows pose to Africa's development, and offer alternatives that can best support the financing of the continent;
(d) Identify priority actions and mechanisms for better and transparent harnessing of natural resource revenue for development;
(e) Discuss the role of the public sector in promoting private equity investments and private sector financing, and explore the barriers to successful public-private partnerships for finance and capacity development in Africa;
(f) Make suggestions on sovereign wealth fund strategies for resource mobilization, through feasible and plausible schemes such as sovereign wealth enterprises and the Strategic Development Sovereign Wealth Fund;
(g) Develop policy options to improve Africa's access to global climate finance and capitalize on innovative domestic climate finance opportunities;
(h) Identify the roles of various stakeholders for best practices in mobilizing resources within the continent.

III. Expected outcomes and output

17. The following outcomes are expected from the Forum:

(a) Better-informed stakeholders about the role of hidden resources in Africa's development;
(b) Deeper understanding among stakeholders on how to track, curb and retrieve illicit financial flows in Africa;
(c) Strengthened capacity of stakeholders to promote innovative research on resource mobilization on the continent and steps taken to implement innovative strategies, policies, programmes and tools to support Africa's transformation better;
(d) Strengthened partnerships for advocating the role of domestic resources in the transformation of the continent;
(e) Strengthened partnerships and better cooperation among stakeholders for private equity investments and resource mobilization for financing climate change;
(f) Strengthened coordination capacity and resource mobilization in the context of Africa's transformation.

18. The key outputs of the Forum will include:

(a) The Forum report;
(b) Issues papers;
(c) Policy briefs;
(d) A consensus statement;
(e) An indicative plan of action;
(f) Press releases;
(g) Web publications.

IV. Discussion themes, issues and topics

A. Domestic resource mobilization

19. The challenges that Africa faces in increasing domestic resource mobilization are multi-dimensional and rooted primarily in low public and private savings rates caused by a lack of access to appropriate savings instruments; poor interest rate management; narrow tax pools; complex administrative requirements; disproportionately favoured multinational companies with unnecessary concessions; tax evasion and corruption. Deficiencies in the growth and development of financial systems also inhibit resource mobilization. On the intermediary side, banks often discriminate against individuals and small businesses in favour of big corporations and specific sectors. In addition, capital markets have not matured sufficiently to aid the mobilization of idle domestic and external resources towards productive investments.

20. The impact of these characteristics is not to be underestimated. The gross domestic savings rate in Africa has been consistently lower than the gross domestic investment rate since 2008, restricting the independent allocation of domestic resources to investment in key sectors. Although tax revenues are the largest source of domestic resources, tax collection, as a share of gross domestic product (GDP), increased only marginally from 26.6 per cent in 2009 to 27 per cent in

2011, with many countries recording tax ratios below 10 per cent. With current estimates of the financing gap standing at approximately 6 per cent, it is clear that mobilizing sufficient, stable and predictable resources is still a source for concern.[1]

21. African countries must increasingly leverage domestic resources to bridge their financing needs. Policies that will broaden the existing narrow tax base, raise the level of savings and develop capital markets to attract foreign direct investment and utilize excess liquidity in the financial system are crucial to increasing domestic resource management.

22. The disincentive presented by high levels of external financing (including overseas development assistance) must be tackled by embarking on wide-reaching reforms to better capture currently unexplored or poorly managed resources. This includes curtailing illicit financial flows and establishing institutional capacity to tap into more innovative sources of financing, such as public-private partnerships, sovereign wealth funds and diaspora bonds.

23. The Forum will discuss:

(a) Tax-based expansion strategies, including the potential contribution by the informal sector, reducing tax exemptions or tax holidays for foreign investors, and tackling constraints to implementing policy;

(b) Design and implementation of appropriate national policies to encourage the development of innovative financial services for low-income populations, reduce excess liquidity in the intermediary sector and improve access and cost of credit, particularly for small and medium enterprises;

(c) The challenges to establishing well-functioning capital markets; identification, funding and implementation of corrective actions to overcome these barriers; and steps to establishing the regulatory and legal framework for using capital markets as a means of mobilizing resources for productive investments;

(d) Strategies African countries could adopt to better utilize innovative domestic sources of finance, such as public-private partnerships, sovereign wealth funds and diaspora bonds as solutions to potential implementation issues.

B. Illicit financial flows

24. Illicit financial flows from Africa are increasingly becoming a cause for concern, given the scale and negative impact of such flows on Africa’s development and governance agenda. According to estimates by ECA and others, annual illicit flows from Africa during the past decade could amount to $50 billion, exceeding official development assistance. Moreover, this estimate may very well fall short of the true situation, as there are no accurate data for all transactions and for all African countries.

[1] The 2001 New Partnership for Africa’s Development (NEPAD) Framework Document called for Africa to strengthen domestic resource mobilization. This was reaffirmed by the Monterrey Consensus of 2002, which emphasized the need to establish the internal conditions needed for mobilizing domestic savings and sustaining adequate levels of productive investment.

25. Illicit financial flows are a potential source of domestic resource mobilization for the continent, which, if tapped effectively, will have a positive impact on Africa's transformation agenda, especially in a global economic context where dependence on development aid is no longer an option.

26. Africa's determination to combat illicit financial flows is clearly reflected in the decision by the 2011 Conference of Ministers to establish the High-level Panel on Illicit Financial Flows from Africa, which was tasked with examining the nature of such flows and their impact on the continent's development. Moreover, ahead of the 2015 deadline for the Millennium Development Goals, there is emerging consensus that no post-2015 agenda can afford to ignore the issue of illicit financial flows and their impact on domestic resource mobilization. Indeed, recognition of the need to curtail and redirect illicit financial flows as an innovative source of financing for Africa's transformation has been included in the common African position on the post-2015 development goals.

27. Africa's relatively high growth since the turn of the century would have been even higher if potential investment resources were not leaving the continent illicitly. As illicit financial flows are hidden from African tax authorities, they undermine Africa's fiscal policy space and deny the continent additional tax revenues, which could be used to fund government programmes and enhance productivity, which in turn would increase the tax base to raise more revenue and fund development requirements. Secondly, as Africa seeks to mobilize more domestic resources to fund its development, illicit financial flows deny its financial systems and Governments the opportunity to use these resources through domestic resource mobilization schemes. In addition, illicit financial flows severely impact the continent's savings ratios and deny local investors access to financial resources for investments, job creation, enhanced productivity and economic growth.

28. Clearly, illicit financial flows are a serious threat to Africa, and they require a global and political solution. This is shown by the work on disparate components of the issue, undertaken at the regional level by the African Union and the regional economic communities, and at the global level by the Group of 20, the Organisation for Economic Co-operation and Development and the United Nations. Such work, however, needs to be coordinated and coherent in order to ensure consistency and success.

29. The Forum will discuss:

(a) The complex implications of curbing illicit financial flows, as an innovative means of financing development in Africa, currently and in the medium-term;
(b) Relevant policy options, from an African perspective, on the problem of illicit financial flows and the main challenges confronting these policies;
(c) The policy measures that have been undertaken to mitigate illicit outflows from Africa and their development impacts;
(d) Appropriate policy modalities, such as mobilizing support at the national, regional and global levels to tackle illicit financial outflows from Africa;
(e) The role of State and non-State stakeholders in curbing illicit financial flows from Africa.

C. Private equity

30. Companies and business ventures traditionally source funding from banks and public equity markets (or bonds and debt markets) on the stock exchange to finance their growth. Private equity constitutes an alternative to this. A growth-oriented company requiring funding can approach

private equity players who, after convincing themselves of the risk return potential, will provide a combination of debt (sourced from a bank) and equity (raised from institutional investors) to that company. The private equity investment horizon ranges between five and 10 years and fund managers are obliged to trade their equity shares at the end of that period, called “exiting”. One-third of the continent’s 54 countries are experiencing an annual GDP growth of more than 6 per cent. Africa’s growth story is attracting the global investment community as investors continue to search for growth markets with attractive rates of return. Private equity in Africa is responding to this attractive African investment climate.

31. Data from the leading firm, Preqin, which tracks private equity trends, shows that the second quarter of 2013 was one of the strongest private equity fundraising quarters in recent years, with 164 funds securing an impressive $124 billion in aggregate capital. Statistics for the past three years show significant investments made in the private equity industry. Investment deals in Africa are reported to have increased from $890 million in 2010 to $3 billion in 2011 (African Development Bank, 2012). According to estimates by the African Venture Capital Association, $1.14 billion was raised from institutional investors in 2012 for Africa-focused private equity funds. Indeed, there are 50 other funds currently on the market, targeting a similar aggregate amount. South Africa’s Ethos Private Equity is reported to have raised about $900 million – a very significant amount for an Africa-focused fund.

32. Despite the positive narrative around Africa as the next frontier for investments, investor perceptions of the cost of doing business in the continent is an area of concern. The continent’s sheer physical size, geopolitical fragmentation and weak infrastructure continue to make it an expensive location for doing business. Fundraising in the private equity industry is also a major challenge, owing to a lack of local investors in the private equity ecosystem. Another major constraint is the restrictions on capital flows between African countries and the rest of the world. Many countries are reluctant to open up their financial systems, which are often underdeveloped, making it difficult for capital to flow. Private equity is further constrained by delays in paperwork and lengthy reserve bank approval processes for fund transfers, high borrowing costs, high taxation rates, the lack of experienced and proven African fund managers, and the absence of institutional platforms that enable private equity players and Governments to engage in discussions on issues affecting the industry. Many countries are not conversant with the private equity industry and the scope of its operations in the country.

33. African Governments have a key role to play in promoting private equity, as an important potential source of investment for growth and development. Government intervention will be required to raise awareness and understanding of issues affecting the industry. An enabling environment should be created for attracting and retaining skilled managers with operational experience to foster growth in industry; and fund availability should be improved. Lastly, impact assessments should be improved, particularly for projects with potentially positive socioeconomic outcomes.

34. The Forum will discuss the following issues:

(a) Improving the availability of funds for the private equity industry: How can Governments design enabling yet prudent policies to encourage the use of contractual savings and public-private partnerships (including the private equity sector and development finance institutions) for private equity investments?

(b) Encouraging more impact investments: How can private equity firms extend their investment portfolios by investing in areas such as agriculture and small and medium enterprises?

(c) Enhancing the role of Governments: What policies should Governments enact to encourage local investors, foreign direct investment and the private equity industry to support national development efforts?

D. New forms of partnerships

35. Since the late 1990s, Africa has benefited from favourable economic growth, facilitated by improved macroeconomic fundamentals and expansion of all the main components of foreign financing (export revenues, foreign direct investments, remittances and official flows). However, investment as a share of GDP has climbed only gently (from 17 per cent in 2000 to 21 per cent in 2012). Development finance is a crucial challenge for the region, particularly in view of its infrastructural and technological gap. National accounting data reveal that Africa's growth acceleration has been accompanied by heightened reliance on foreign savings for investment financing, which has widened the resource gap, in particular for non-oil exporting African economies.

36. Against this backdrop, a new approach to development finance should be sought through innovative forms of international partnerships, ensuring that the mistakes of the past are not repeated. These include: the inability of the traditional donor-recipient logic to promote mutual accountability, enable authentic ownership of the development agenda, and deliver on the promises set out in Goal 8 of the Millennium Development Goals, especially with regard to the 0.7 per cent official development assistance target; the failure to redress the imbalances of existing multilateral trade and financial systems, with no end in sight for the Doha Development Round, and only a limited number of successful initiatives, such as debt relief in the financial sphere; and the limitations of the existing partnership in dealing with global challenges, such as climate change or financial stability, which intrinsically call for the application of the principle of common but differentiated responsibilities.

37. Looking ahead at the post-2015 development architecture, it is crucial that the new forms of partnerships capture the nuances of the evolved global economy. First and foremost, they should be consistent with the ongoing rebalancing of geopolitical and economic weight in favour of emerging and developing countries such as Brazil, China and India. Secondly, they should pay greater attention to advancing regional integration for Africa's own transformation prospects. Thirdly, the new partnerships should cater for the complexity of the evolving development finance landscape, which witnessed the emergence of new actors such as the development partners of the South and private philanthropic foundations, and innovative aid modalities, such as debt-conversion mechanisms.

38. The Forum will also discuss the following:

(a) Boosting intra-African trade and Africa's transformation;
(b) South-South cooperation and the scope for industrialization;
(c) Regional and South-South initiatives to enhance resource mobilization: stymieing illicit financial flows, cutting remittance costs and harnessing official flows;
(d) South-South coalitions to reform the multilateral trade and financial system.

E. Issues in climate financing

39. Africa, according to scientific consensus, is the continent most vulnerable to the impacts of climate change and least able to cope with them owing to, in part, its low level of economic development. Multiple predictions concur that the continent will experience increased drought and

flood episodes, frequent incidents of extreme events such as hurricanes, cyclones and sea level rise. These changes will have serious and adverse consequences for many development sectors in Africa and threaten the economies and livelihoods of many African countries. Recent research further highlights these risks and the urgency for solutions, considering that the current dynamic growth of the continent is mostly accredited to increased natural resource use and climate-sensitive rain-fed agriculture, vulnerable to seasonal variability and climate change.[2]

40. Given the potentially devastating implications of climate change on the lives and livelihoods of people, adaptation measures are being implemented throughout Africa at all levels. However, they are limited in scope because of the costs, low technical know-how, lack of technology and low levels of economic development. Adaptation costs for sub-Saharan Africa are projected to be between $14 billion and $15 billion a year and predicted to reach $70 billion by 2045, if no additional mitigation action is taken (United Nations Environment Programme, Adaptation Gap Report).

41. Significant financial resources are required to meet adaptation costs. There is growing concern that these costs will become unmanageable unless a significant reduction in greenhouse gas emissions is achieved to prevent temperatures from reaching the 2 degrees threshold. Meanwhile, negotiations for a new climate change framework have stalled, while the climate continues to change unabated.

42. In addition to slow negotiations, pledges made at Copenhagen by developed countries to provide the $100 million needed by 2020 to support the adaptation and shift of developing countries towards a low-carbon development path have not been honored. Adaptation funding has also plunged to an all-time low in recent times, owing to, in part, the reliance on a share of proceeds from the Clean Development Mechanism, the low price of carbon credits and the small proportion of public climate finance dedicated to adaptation.

43. Developed countries will have to continue support for building resilience to impacts of climate change in Africa. Governments must adopt innovative domestic financing mechanisms, from both the public and private sectors, to supplement international financing for climate change. External sources remain cumbersome and fraught with complex procedures that make fund access for most African countries very difficult. To respond to climate change and finance challenges on the continent, therefore, the African Union Commission, the Economic Commission for Africa and the African Development Bank established the Climate for Development in Africa Programme. The programme was endorsed by African Heads of State, with the main objective of building climate-resilient economies on the continent.

44. The consortium launched the ClimDev Special Fund, which is managed by the African Development Bank, at low transaction costs and simplified funding procedures. The Fund, which provides financial resources and grant incentives to countries, national agencies, regional bodies and other stakeholders, will greatly contribute to reducing the climate finance deficit on the continent. The Fund is an innovative funding framework for fast tracking access to the funding needed to build resilience to climate change. In addition, this type of funding targets payment for ecosystem services to ensure ecosystem integrity, which, in addition to its mitigation credentials, plays an essential supportive role in agriculture, energy, water and tourism.

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[2] Fifth IPCC Working Group Assessment Report.

45. On a positive note, climate change brings about opportunities for Africa to leapfrog the old technologies that had brought about global warming and opt for clean technologies for developing along low carbon pathways toward sustainable inclusive green economies development.

46. The Forum will discuss:

(a) Climate change growth opportunities for low carbon development;
(b) Enhancing Africa's capacity to gain access to global climate finance;
(c) Innovative domestic climate finance opportunities;
(d) Climate finance opportunities in the new global climate change framework.

V. Partnerships

47. The Forum is organized in close partnership with specialized agencies of the United Nations system, the private sector, civil society, natural resource stakeholders, non-governmental organizations and agencies with proven leadership and contribution to natural resource management and economic development.

VI. Participants

48. The Forum brings together a large number of participants, including Heads of State and Government, policymakers from African member States, development partners, specialized agencies of the United Nations system, intergovernmental and non-governmental organizations, academia, practitioners, civil society organizations, the private sector, eminent policy and opinion leaders and other concerned stakeholders.

VII. Format

49. Discussions and dialogue during ADF-IX will take place in the form of:

a) Pre-Forum meetings and workshops
b) Plenary sessions for setting the scene and reaching agreement on a consensus statement and indicative plan of action
c) Parallel break-out sessions, facilitated by keynote presentations and moderated interactive discussions/dialogue around focus sub-themes
d) Moderated high-level dialogue on governance and leadership response.

VIII. Work programme

50. Implementation of ADF-IX activities will be guided by the following pattern:

a) Pre-ADF events (Days 1-2)
b) ADF stage-setting plenary sessions (Day 3)
c) Sub-thematic breakout sessions (Day 4)
d) High-level dialogue and concluding consensus plenary sessions (Day 5)
e) Exhibitions and side events (Days 1-5)