

Marrakech Consensus

ADF-IX Consensus Statement Marrakech, October 2014

Preamble

We, participants at the Ninth African Development Forum (ADF-IX), on the theme “**Innovative Financing for Africa’s Transformation**”,

Representing stakeholders from across the African continent, including Governments, academia, the private sector, civil society, women and children, the United Nations family and development partners, met in Marrakech, Morocco, from 12 to 16 October 2014, at the invitation of the Kingdom of Morocco, the United Nations Economic Commission for Africa and its strategic pan-African partners,

Noting the fact that African economies have been experiencing significant growth since the late 1990s, but that structural transformation continues to remain elusive, with as many as 38 African countries witnessing de-industrialization over the period 1995-2012,

Recognizing that the quest for development finance remains a crucial challenge for Africa in the post-2015 development agenda, particularly for non-resource-rich countries,

Conscious of the development opportunities, as well as the complexities, brought about by the growing significance of South-South economic linkages and alongside the rapidly evolving global economic and financial landscape,

Cognizant of the important role that a well organized and properly integrated African diaspora can play in the continent’s development, including through remittances and the leveraging of the numerous investment opportunities on the continent,

Aware of the central role that partnerships continue to play in Africa’s development and the need to renew and strengthen the continent’s existing partnerships, while also forging new and innovative ones, at both the global and regional levels,

Reaffirming our commitment to strategically engage traditional and emerging partners, with a view to supporting Africa’s transformation, addressing global development challenges and contributing to the establishment of a fair, inclusive and sustainable trade and financial system,

Conscious of the challenges and opportunities of private equity investment in Africa,

Recognizing that various forms of illicit financial flows (IFFs) constitute a huge drain on Africa’s financial resources and that this impacts negatively on the continent’s aspirations for structural transformation,

Determined to reverse and ultimately eliminate IFFs from Africa and to channel these vital resources towards strengthening the continent’s resource base and considerably reducing its dependence on external sources of finance,

Noting that African countries have been experiencing a major economic resurgence by virtually any measure of performance: average growth rates of 5 per cent and inflation in single digits coupled with an increasingly stable and predictable economic and political environment, and that the rate of return on investment in Africa today, even adjusting for the real and perceived business risks, is higher than in any other developing region,

Recognizing that many African countries are beginning to promote within national and regional economic transformation programmes, domestic policies that encourage private investments and initiatives,

Conscious of the need for greater levels of private investments, particularly from within Africa, to help create new jobs for the continent's growing population, develop a strong industrial sector, contribute to agriculture transformation, and participate in the exploration and development of its vast mineral and energy resources,

Aware of the significant role that private equity can play, including as an important source of investment for national growth and development, and Africa's transformation in general; as well as affirming our commitment to exploit various opportunities available to make Africa a preferred destination for private equity capital by enhancing the continent's investment attractiveness,

Recognizing that the current sources of funding are insufficient compared to the increased climate investment needs in Africa,

Acknowledging that climate finance should be derived from multiple sources of finance, including from domestic, public and private, as well as from bilateral and multilateral sources,

Noting that the scale up of climate finance provided by different funds and mechanisms is highly critical for enhanced adaptation and mitigation actions, and to support continuing development and the transition to low-carbon growth by African countries,

Acknowledging that the mobilization of climate funds is critical to support the Green Climate Fund towards a transition to a low emission and climate resilient development in Africa,

Recognizing that climate finance is currently not meeting Africa's expectations in the required scope to adequately address climate change in adaptation commensurate with the risks and vulnerability of the continent and particular stakeholder groups, such as women and young people,

Understanding the need for greater clarity, coordination and complementarities between existing climate finance mechanisms and significant improvement in access modalities of global funds,

Noting that innovative financing mechanisms, including from domestic sources, for climate change actions in Africa are required to expand the menu of options in climate finance, the Climate for Development in Africa (ClimDev–Africa) programme has established the Climate for Development Special Fund (CDSF) as a regional fund to improve access to climate funds,

Recalling all relevant declarations and programmes of the United Nations and major pan-African institutions, which have been endorsed by African countries, on the mobilization of financial resources for the continent's economic transformation and development,

Adopt the following consensus statement:

I. Unlocking domestic resource potential for Africa's structural transformation

1. Africa has significant challenges to overcome to close its financing gap and generate the necessary resources required to achieve sustainable and inclusive economic development on the continent. Endowed with abundant arable land, human capital and natural mineral wealth, Africa has the opportunity to raise significant resources domestically and attract foreign resources to finance its development agenda. Despite this, Africa has been unable to fully capitalize on its resource potential; taxation revenue is low, underpinned in several countries by weak administrations that do not fully exploit the existing domestic tax base and that grant ill thought-out tax concessions to high-value industries such as those in the extractive sectors and multinational corporations.

2. Despite reforms undertaken over the past decade, Africa's financial systems are still largely underdeveloped in a majority of countries and unresponsive to the needs of individuals, households, and small and medium sized enterprises, constraining the domestic savings rate and the availability and access to credit for productive investments. Similarly, the majority of capital markets on the continent are still in their infancy, with low capitalization and liquidity levels, as well as poor human, technological and institutional capacity. All these factors combined with poor public financial management present significant barriers to sourcing, mobilizing and allocating resources in a socially and economically beneficial manner.

Recommendations:

3. In order to address the current issues of domestic resource mobilization on the continent and improve the generation, sustainability and retention of these sources towards financing the development of the continent, **African countries should:**

(a) Reaffirm the value of the principles embodied in the 2002 Monterrey Consensus and the Doha Declaration on Financing for Development highlighting key actions to be taken to improve the mobilization of domestic resources for development; including emphasizing principles of national ownership in raising domestic resources by undertaking tax reforms that are fair, efficient and transparent, and that broaden the tax base based on equitable outcomes.

(b) Exploit the potential of the continent's extractive industries in a manner that ensures that current and future generations benefit from resource earnings. Mechanisms such as sovereign wealth funds need to be established and efficiently managed to reduce vulnerability to economic volatility and the allocation of proceeds to sustainable, inclusive development endeavours.

(c) Commit to using fiscal policies to address issues of poverty while strengthening the accountability, transparency and delivery of public financial management systems to improve the allocation of resources and provide the social and economic infrastructure necessary for sustainable, economic growth.

(d) *Improve the necessary internal conditions for increasing domestic savings* by adopting reforms that will remove or reduce barriers to savings and improve the national capacity and willingness to save. Providing incentives for financial institutions to improve access to saving products and services through innovative mechanisms will encourage saving on the continent.

(e) *Establish strong and efficient regulatory and enforcement frameworks* that will encourage the growth and utilization of contractual savings (e.g. pensions and insurance) that can be allocated towards long-term investment projects.

(f) *Develop innovative policies which will encourage partnerships* between the public and (domestic) private sector to address the existing infrastructure gaps, improve the allocation of private resources towards sustainable development goals and release capital for productive investments, particularly for small and medium enterprises; including improving access and diversification of financial products and services, which are more appropriate to their economies.

(g) *Explore ways to lower the cost of remittances and introduce diaspora bonds* to attract and channel foreign private finance towards productive investments in the economy; as well as urgently invest in improving human, institutional and technological capacity to address issues of taxation, increasing the level of savings, improving access to financial services and products.

II. Building global coalitions to combat illicit financial flows from Africa

4. Africa faces significant challenges in improving its domestic resource mobilization and a key element of this challenge is curtailing the massive illicit financial flows (IFFs) that derive from the proceeds of tax evasion and laundered commercial transactions; proceeds of criminal activities; and proceeds of theft of public resources, bribery and other forms of corruption. IFFs are a huge drain on Africa's resources and tax revenues, and they constrain the level of savings needed to address key development issues.

5. Research has established that IFFs are also detrimental to sustainable economic development, and peace and security on the continent in a number of other ways. For instance, IFFs exacerbate weak (or serves to weaken) governance structures as they provide an incentive for rent-seeking rather productivity maximization, undermining structures, institutions and legal mechanisms installed to detect and prosecute perpetrators of IFFs. They also reduce the effectiveness of governance efforts by encouraging the establishment of shadow financial systems such as tax havens, secrecy jurisdictions and trade mispricing, among others. This can work to undermine the progress made in improving macroeconomic management and, in fact, increase the debt burden. Further, IFFs also serve to increase Africa's dependence on external aid, reflected in many countries in the high proportion of Governments' budget provided by overseas development assistance, reducing ownership and autonomy of development plans and resources allocation. Overall, and perhaps the most damaging to growth and stability on the continent, IFFs facilitate and, in some cases, encourage armed conflict in the pursuit of "lootable" commodities. This serves to seriously undermine the stability and security of African countries, and jeopardizes sustainable development and rule of law.

6. It is clear that IFFs pose challenges for Africa; but these are not insurmountable. Tackling them will require political will and commitment at various levels to reform the structures, systems and practices which make IFFs so pervasive on the continent. More specifically, corruption, tax havens, financial secrecy jurisdictions and capacity constraints need to be tackled directly through dedicated investment, international cooperation and systems that provide deterrents and high penalties for perpetrators.

Recommendations:

7. In the light of the challenges and threats posed by IFFs to the maintenance of good governance, the rule of law, stability and security, and the effective harnessing of Africa's natural resources to realize economic transformation and sustainable development, African Governments **should strive to:**

(a) Strengthen institutional capacities to deal decisively and effectively with private sector practices aimed at facilitating tax evasion, in particular transfer pricing and trade mispricing, including by reinforcing the capacities of national judicial systems and law enforcement agencies to aggressively pursue and punish transgressors; **as well as** strengthen commitment to international measures against corruption and take anti-corruption and anti-criminal measures at the national, regional and global levels.

(b) Commit to developing appropriate and acceptable national and regional standards to prevent harmful competition to attract foreign direct investment in the extractive industries.

(c) Pursue mutually beneficial cooperation between source and destination countries of IFFs at the regional and international levels aimed at discouraging and curbing IFFs, and facilitating asset recovery and repatriation. This should include the adoption of further measures to improve access to tax information; as well as fully and freely making available, in a timely manner, data on trade pricing of goods and services in international transactions, in accordance with accepted coding system categories;

(d) Promote peer learning and research on the impact of IFFs on different sectors of economic activity and engage and sensitize the public on the negative effects of IFFs from Africa.

III. Private equity as a source of investing in Africa's growth and transformation

8. Africa is rapidly evolving and the regional story is also gaining more momentum, and broadening the market space especially for investors motivated by economies of scale. The continent's population is nearly 1 billion, representing a burgeoning consumer market with increasing demands. There is a growing middle income group and a high rate of urbanization in many countries. These demographic dynamics provide the potential for market-seeking and efficiency-seeking investments in areas other than natural resources.

9. Raising long term capital for investments is one of the biggest challenges facing African entrepreneurs and economic operators due to, inter alia, often high and uncompetitive rates offered by commercial banks. Furthermore, there is an urgent need for a massive capital infusion to finance a number of crucial projects in Africa in areas including infrastructure, with particular emphasis on the

Programme for Infrastructure Development in Africa (PIDA), mineral resources exploitation, agribusiness, industrial development and economic diversification in general. Investing in these opportunities can be a lucrative venture for potential private equity and other investors, while helping to create millions of much needed jobs for Africa's burgeoning population and lifting people out of poverty.

Recommendations:

10. In seeking to promote private equity as a potential source of investment for Africa's development and transformation, ***African countries should:***

(a) ***Improve the regulatory environment*** for the private equity industry to foster its growth through favorable tax policies, good regulations and flexibility in the free flow of funds. Governments should also enact policies that encourage local investors as much as foreign direct investment (FDI), including implementing protocols on the free movement of people and capital across the continent;

(b) ***Build closer rapport with private equity players:*** A number of African governments have little knowledge about the industry. Governments need to better understand what issues are affecting and impacting the industry, including political risk, by encouraging more engagement between private equity industry players and regulators;

(c) ***Encourage the investment of local African capital into private equity:*** Recent growth in long-term domestic savings, particularly pension funds, offers an opportunity to increase private equity investment across the continent. There is today approximately \$29 billion in pension fund assets that could be invested in private equity in Africa which remains untapped. Other sources of local capital (family offices, sovereign funds, high net worth individuals, the diaspora) can also be tapped both for investing and exiting private equity assets. Governments should explore co-financing and co-sharing opportunities with private equity investors, such as infrastructure financing (energy, telecommunications, water, etc.), and encourage the development of new products to channel these long-term savings into productive investment;

(d) ***Encourage more impact investments:*** Impact investments aim to deliver financial and social returns. Through investments in sectors as diverse as health care, education and agriculture, impact investment has the potential to address some of the key challenges of poverty reduction and improve people's lives. Governments should explore innovative partnerships with impact investors and the private sector in general, in order to harness this potential.

IV. Leveraging climate finance for Africa's adaptation and mitigation needs

11. Various international and regional assessments concur on the severity of Africa's vulnerability to climate change. Addressing the enormous climate-related challenges facing Africa requires both domestic and international sources of financing. One key concern in Africa is the allocation of funds between adaptation and mitigation actions. While in developed countries, the majority of climate finance is spent on mitigation, in most developing countries adaptation is a more pressing priority than mitigation. However, this is likely to change as some developing countries become middle-income countries and mitigation becomes an increasingly important priority for them. This is even more likely with growing private sector interest and an increasing share of mitigation funding, as nations develop

their institutions and the enabling environment, with regulations and incentives that encourage private sector investments.

12. In the case of Africa, the role of the private sector in climate finance is still very minimal and uncertain, especially as no good lessons or practical experiences have been drawn from the clean development mechanism, as a result of low participation rates from regions such as Africa. Furthermore, the price of carbon credits has been very volatile and currently stands at just \$1 to \$2 per ton of carbon dioxide for clean development mechanism projects.

13. Furthermore, less than one third of adaptation and mitigation funding approved for spending in Africa has been disbursed. Moreover, a significant percentage of climate finance in sub-Saharan Africa is directed towards mitigation activities, despite the fact that adaptation should be given funding priority because of the high vulnerability of many sub-Saharan countries.

Recommendations:

14. In the light of the severity of Africa's vulnerability to climate change, arising in part from its limited ability and capability (financial and otherwise) to deal with climate events and future impacts of climate change, including on its economic transformation agenda, ***African countries should strive to:***

(a) ***Foster the establishment of enabling policy environments*** that enhance resource mobilization and investments in climate change interventions for Africa's development and transformation

(b) ***Support human and institutional capacity building initiatives*** towards better access and absorption of climate finance at regional and global levels;

(c) ***Influence negotiation processes*** to ensure that critical work streams are designed to stimulate the funding of Africa's adaptation and mitigation programmes in the overall negotiations;

(d) ***Secure from the international community, the reduction of current barriers and funding asymmetries*** to ensure that African countries are not exposed to the vagaries of climate change and further subjected to climate risks due to the lack of adequate resources to manage climate impacts and climate proof critical sectors.

V. Harnessing new forms of partnership for Africa's transformation

15. Albeit still small-sized, Africa's regional market displays an encouraging dynamism (especially when compared to the current conjuncture afflicting many developed markets), while the composition of intra-African trade continues to be significantly more diversified than that of Africa's exports to the rest of the world. This provides the rationale to consider Africa's regional integration as the strategic springboard to diversify our economies, reach more efficient scales of production, leverage learning by doing, and ultimately improve the terms of our integration into the global market.

16. The sustained increase of labour costs in some of the world's manufacturing power-houses, coupled with the growing significance of South-South investment and knowledge flows, could create the opportunity for Africa's expanding labour force to engage in more sophisticated activities, thereby supporting industrialization and diversifying the continent's specialization pattern. Simultaneously,

unless properly managed, the continuous appetite for Africa's natural resources could reinforce the dependence on primary commodity exports. This provides the conceptual basis for engaging Southern partners in a more strategic way, making sure that South-South trade relations support greater value addition and foster the emergence of regional value chains.

Recommendations:

17. In seeking to forge more balanced partnerships with old and emerging actors, with a view of fostering inclusive and sustainable growth and improving the terms of the continent's integration into the global economy, ***African countries should:***

(a) ***Put regional integration at the core of their trade policy frameworks***, by actively pursuing the subregional and continentally-agreed integration agenda (notably with the establishment of the Continental Free Trade Area), as well as ensuring that multilateral and bilateral trade and investment agreements are in line with Africa's transformation agenda.

(b) ***Harness strategically South-South trade and investment linkages***, making sure that they support economic diversification, innovation and technology transfer, greater value addition, and foster the emergence of regional value chains.

(c) ***Leverage South-South Cooperation and innovative aid modalities***, thereby moving beyond the traditional donor-recipient dichotomy, and adopting a more flexible framework that reflects the reality of a multipolar world. In this context, Governments will be called upon to harness the potential synergies and complementarities across different actors – whether private or public, traditional donors or emerging development partners – at the global, regional and domestic level.

(d) ***Enhance the use of formal remittance channels and reduce the associated costs***, both along North-South and South-South channels, with the aim of freeing much-needed private resources for investment purposes, in both human and physical capital.

(e) ***Foster the emergence of viable regional and subregional financial hubs in Africa*** in an effort to overcome the constraints posed by the limited size of national financial sectors and the fixed costs associated with the setting up of adequate regulation and surveillance mechanisms.

VI. Call for action

18. Within the context of an increasingly strong positive narrative about Africa's prospects for social and economic transformation, the issue of mobilizing requisite financial resources, both domestic and external, is paramount. Therefore, the Ninth African Development Forum, on the theme "Innovative financing for Africa's transformation", could not be more timely and pertinent. The participants are of the conviction that the rich deliberations during the Forum have produced very important actionable recommendations for uptake by various stakeholders in Africa's development. We therefore call upon African Governments and all stakeholders, supported by their development partners, to ensure the effective implementation of all global and sector-specific actions contained in this consensus statement.

19. We agree that this consensus statement should feed into relevant national, regional and international processes on sourcing for financial resources to address various dimensions of Africa's economic transformation and development, as well as inform efforts to forge partnerships to reverse the tide of illicit financial flows from the continent.

VII. Vote of thanks

20. We are truly grateful to His Majesty King Mohammed VI of the Kingdom of Morocco for his high patronage and for the insightful Royal Message delivered on his behalf by H.E. Mr. Abdelillah Benkirane, Chief of the Moroccan Government.

21. In the same vein, we also wish to extend our sincere appreciation to His Excellency Mr. Alassane Ouattara, President of the Republic of Côte d'Ivoire; His Excellency President Macky Sall of the Republic of Senegal; and Prime Minister Jose Maria Pereira Neves of Cabo Verde for their presence at this Forum, and in particular for their inspiring contributions to the discussions.

22. We also wish to acknowledge the presence of many African ministers and other dignitaries, whose participation contributed in large measure to the success of the Forum.

23. We commend the United Nations Economic Commission for Africa, its strategic pan-African partners and the Government of the Kingdom of Morocco, alongside many other stakeholders, for successfully convening the Forum and for contributing to its resounding success. In particular, special thanks go to the many participants, from diverse backgrounds, from within the continent and beyond, who honoured the call to serve the continent in its quest for resources to facilitate the actualization of its economic and social transformation agenda.

24. Finally, we wish to express our profound gratitude to Government of Morocco, in particular the Ministry of Economy and Finance and the Ministry of Foreign Affairs and International Cooperation as well as the people of the Kingdom of Morocco, and especially the immensely hospitable people of our host city, Marrakech and its Wali.